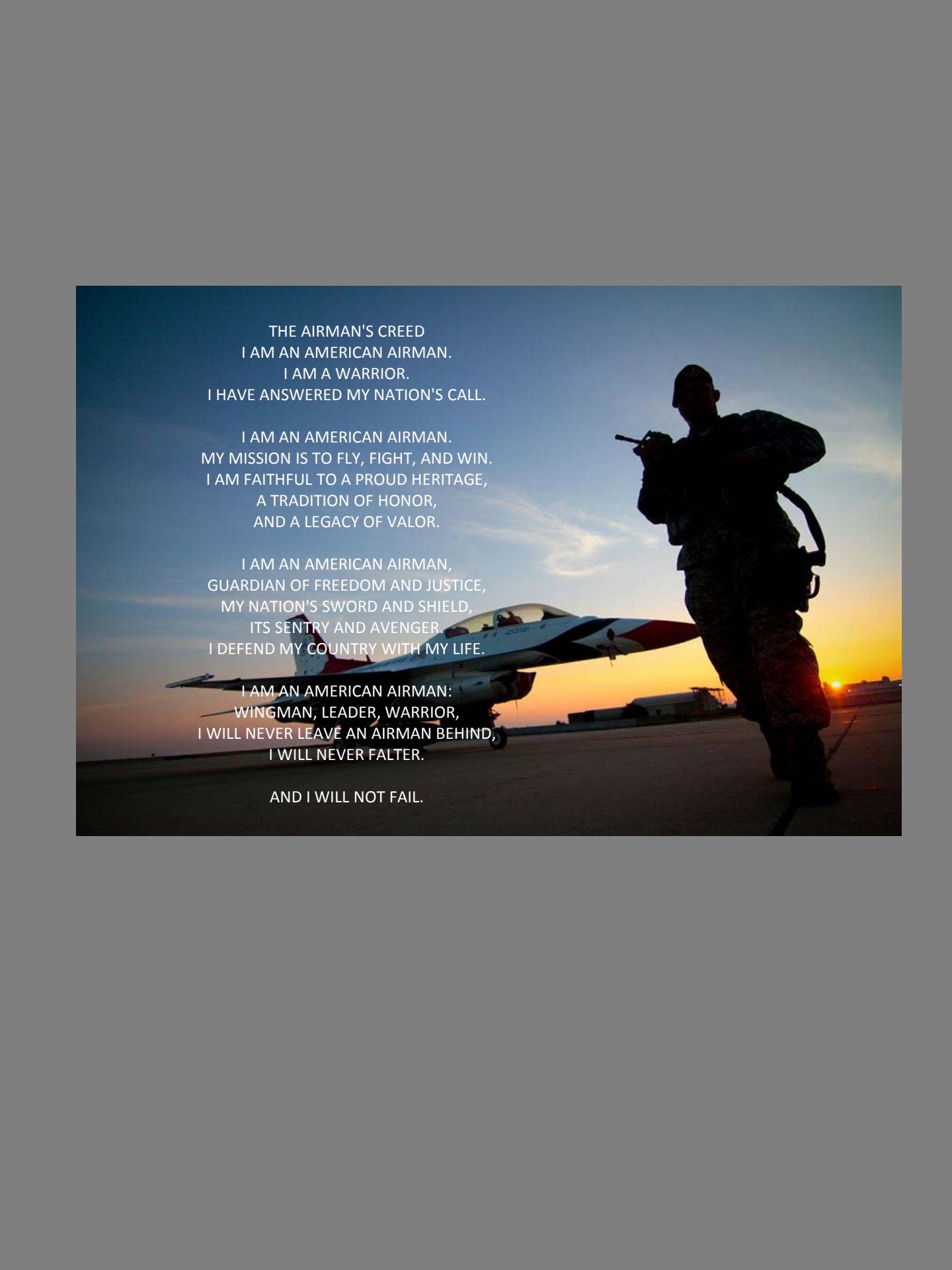


United States Air Force
Schedule of Budgetary Activity
FY 2015





THE AIRMAN'S CREED
I AM AN AMERICAN AIRMAN.
I AM A WARRIOR.
I HAVE ANSWERED MY NATION'S CALL.

I AM AN AMERICAN AIRMAN.
MY MISSION IS TO FLY, FIGHT, AND WIN.
I AM FAITHFUL TO A PROUD HERITAGE,
A TRADITION OF HONOR,
AND A LEGACY OF VALOR.

I AM AN AMERICAN AIRMAN,
GUARDIAN OF FREEDOM AND JUSTICE,
MY NATION'S SWORD AND SHIELD,
ITS SENTRY AND AVENGER.
I DEFEND MY COUNTRY WITH MY LIFE.

I AM AN AMERICAN AIRMAN:
WINGMAN, LEADER, WARRIOR,
I WILL NEVER LEAVE AN AIRMAN BEHIND,
I WILL NEVER FALTER.

AND I WILL NOT FAIL.

Table of Contents

Message from the Principal Deputy Assistant Secretary of the Air Force for Financial Management and Comptroller	1
Management Discussion and Analysis	
Air Force Heritage	2
Air Force in Action—FY 2015	4
Air Force Structure	5
Air Force Resources	10
Management Assertions	11
Analysis of the SBA	13
General Fund Schedule of Budgetary Activity	
Schedule of Budgetary Activity.....	16
Notes to the Schedule of Budgetary Activity.....	17
Report of the Independent Auditors.....	22
Management's Response.....	43



November 2015

**Message from the Principal Deputy
Assistant Secretary of the Air Force
for Financial Management and Comptroller**



I am pleased to present the Fiscal Year (FY) 2015 Schedule of Budgetary Activity (SBA). FY 2015 was pivotal for the Air Force as we underwent our first SBA audit. As is typical for an organization of our size undergoing an initial audit, we received a disclaimer of opinion on this year's SBA. However, the SBA audit provided an opportunity for us to validate our Financial Improvement and Audit Readiness (FIAR) strategy and the corrective actions we've implemented. Our auditors also identified opportunities for improvement and we are addressing these findings.

Audit readiness is an enterprise-wide priority. Steady progress continues as Airmen from all functional areas are engaged. Cost-effective remediation efforts are being designed and implemented with a focus on ensuring lasting compliance. We continue to deploy the new Defense Enterprise Accounting and Management System (DEAMS) which will yield substantial long-term improvements.

Accountability is a foundational precept of the Air Force. The transparency afforded by having auditable financial statements further demonstrates our commitment to responsible financial management. The FY 2015 SBA audit attests to the Air Force's commitment to responsible financial management and accurate financial information, implementing process and system improvements, and ensuring sound leadership oversight.

Our financial managers are our leaders in achieving audit readiness. We are fully committed to developing the expertise of our personnel to support decisions with credible budgetary and financial information. Over 3,000 Air Force financial managers have earned their DoD FM Certification, which provides a force multiplying impact as the Air Force maximizes scarce financial resources toward audit readiness.

As we look back at the many FIAR accomplishments achieved during 2015, we look forward to continued progress in 2016 as we move closer to our goal of full financial statement auditability.

A handwritten signature in black ink, appearing to read "Doug Bennett".

Douglas M. Bennett

Management Discussion and Analysis

Air Force Heritage

70th Anniversary of the Conclusion of World War II



The Air Force is observing the 70th anniversary of the conclusion of World War II. The Army Air Forces (AAF) played a significant role in bringing about victory in both the European Theater of Operations and in the Pacific. In September 1939, when Germany commenced World War II in Europe with its invasion of Poland, the Army Air Corps had 26,000 personnel and fewer than 2,000 aircraft. In June 1941, the Department of War created the Army Air Forces and in March 1942 the AAF became one of the three autonomous commands into which the Army was divided (The Army Ground Forces and the Services of Supply were the other two commands). At its peak strength in March 1944, the AAF had 2.4 million Airmen which represented 31 percent of U.S. Army forcesⁱ. In addition, the AAF employed 422,000 civilians. AAF personnel stationed overseas reached 1,224,000 in April 1945 with 610,000 deployed against Germany, 440,000 against Japan and the remainder assigned to air transport duties at various locations around the globeⁱⁱ.

By V-J Day, the AAF had taken delivery of 158,880 airplanes, including 51,221 bombers and 47,050 fighters. The maximum aircraft strength at any one time was 79,900, which was achieved in July 1944. The combat air forces dropped 2,057,000 tons of

bombs on enemy targets, 75 percent of it against Germany and fired 459,750,000 rounds of ammunition.ⁱⁱⁱ Nearly 2.4 million combat missions were flown, 1.7 million of which were flown against Germany. Personnel casualties of 122,000 included 40,000 killed in action and aircraft combat losses totaled 23,000 planes. The monetary cost of this effort was \$38.345 billion, over 10 percent of the total direct costs of the war.^{iv}

By the last year of the war, strategic bombing campaigns had destroyed the war economies of Germany and Japan. The war was culminated by the dropping of two atomic bombs on Japan. After the war, the Army Air Forces were demobilized and the number of personnel and aircraft were greatly reduced. In September 1947, in recognition of the prominent role air power would play in the atomic age, the Department of the Air Force was created and the Air Force became an independent service.



Air Force Core Missions

The mission of the United States Air Force is to fly, fight and win in air, space and cyberspace. This mission can be divided into five responsibilities:

Air and Space Superiority: Air superiority has provided our Nation with a decades-long asymmetric advantage. General Jimmy Doolittle said, "The first lesson is that you can't lose a war if you have command of the air, and you can't win a war if you haven't." Air superiority allows the U.S. and its allies the freedom to operate in contested environments by protecting the Joint Forces' ability to attack as well as protect the Joint Forces from attack. Not since April 15, 1953, has an enemy combat aircraft killed a service member in the American ground forces.

Space continues to be a contested environment. As more commercial and government entities take advantage of space, the Air Force remains committed to improving space situational awareness. Space superiority is critical to U.S. national defense. Every day over 15,000 Airmen work to ensure space superiority. For example, the Global Positioning System (GPS) enables precision guided munitions employment by all services minimizing collateral damage. Air Force military satellite communications systems, including Advanced Extremely High Frequency and Wideband Global SATCOM satellites, provide wideband and protected communications to deployed forces. This provides the command and control needed by joint force commanders around the world.

Source:<http://www.af.mil/News/ArticleDisplay/tabid/223/Article/466893/air-and-space-superiority.aspx>

Intelligence, Surveillance, and Reconnaissance (ISR): Air Force ISR is about helping leaders make informed decisions to maintain deterrence, contain crises, or achieve success in battle. Through a mix of aircraft, satellites, and other technologies that collect, exploit, and disseminate critical information, Air Force ISR gives policymakers the ability to minimize uncertainty about our adversaries and their capabilities. Air Force ISR provides information to decision makers through five core capabilities: Battlespace characterization; collection operations to find, fix and track; targeting; production of intelligence mission data; and intelligence support to weapon system design and acquisition. Our 34,000 ISR Airmen identify and assess adversary targets and vulnerabilities from hideouts to bunkers to mobile launchers with greater accuracy than ever seen in the history of warfare.

Source:<http://www.af.mil/News/ArticleDisplay/tabid/223/Article/466894/intelligence-surveillance-and-reconnaissance.aspx>

Rapid Global Mobility: The Air Force's air mobility Airmen provide swift deployment and the ability to sustain operations by delivering essential equipment and personnel for missions ranging from major combat to humanitarian relief operations around the world. Airlifters provide the capability to deploy American armed forces anywhere in the world and keep them supplied. Air refuelers are the lifeline of global reach, increasing range, payloads and flexibility. Air Force tankers can also refuel Navy, Marine and NATO aircraft and have an inherent cargo-carrying capability.

The Air Force is saving lives with unprecedented survival rates because our highly skilled aeromedical transport teams swiftly evacuate combat casualties. The Air Force's ability to evacuate wounded troops promptly from the battlefield to emergency rear-area field hospitals and the first-response medical aid provided en route by pararescue forces or critical care air transport teams have set a new standard for the survival of wounded warriors. Servicemen and women who likely would not have survived in past conflicts now return home to their families.

Source:<http://www.af.mil/News/ArticleDisplay/tabid/223/Article/466896/rapid-global-mobility-delivery-on-demand.aspx>

Global Strike: The Air Force's nuclear and conventional precision strike forces can credibly threaten and effectively conduct global strike by holding any target on the planet at risk and, if necessary, disabling or destroying it promptly—even from bases in the continental United States. These forces possess the unique ability to achieve tactical, operational, and strategic effects all in the course of a single combat mission. Global strike missions include a wide range of crisis response and escalation control options, such as providing close air support to troops at risk, interdicting enemy forces, inserting special operations forces, and targeting an adversary's vital centers.

Strengthening the nuclear enterprise remains the number one mission priority within the Air Force. The Air Force continues its actions to deliver safe, secure, and effective nuclear capabilities within its Nuclear Deterrence Operations (NDO) portfolio. The Air Force's intercontinental ballistic missiles and heavy bombers provide two legs of the Nation's nuclear triad. Dual-capable fighters and bombers extend deterrence and provide assurance to allies and partners. The Air Force continues its efforts to further the skills and leadership of its NDO-Airmen, institutionalize improvements and capitalize on gains made since the Air Force began reinvigorating the nuclear enterprise in 2008.

Source:<http://www.af.mil/News/ArticleDisplay/tabid/223/Article/466897/global-strike-any-target-any-time.aspx>

Command and Control: The Air Force provides access to reliable communications and information networks so that the joint team can operate globally at a high tempo and level of intensity. Air Force command and control systems give commanders the ability to conduct highly coordinated joint operations on an unequalled scale using centralized

command, distributed control, and decentralized execution.

The capability to deliver airpower is intimately dependent on the ability to operate effectively in cyberspace, a domain in and through which we conduct all of our core missions and which is critical to many of our command and control systems. Operations in cyberspace can magnify military effects by increasing the efficiency and effectiveness of air and space operations and by helping to integrate capabilities across all domains.

Source: <http://www.af.mil/News/ArticleDisplay/tabid/223/Article/466932/command-and-control-total-flexibility.aspx>

Air Force in Action--FY 2015

Operational Tempo

The Air Force is active in the fight against the Islamic State of Iraq and the Levant (ISIL). We executed nearly 70 percent of the air strikes and flew more than 48,000 sorties supporting operations in Iraq and Syria^v. The U.S. is now one year into Operation Inherent Resolve. The Air Force is committed to a multi-year fight requiring political, economic, and military actions. We've made good progress with our strategy of deny, disrupt, and ultimately defeat. American airpower has denied ISIL advances and has completely disrupted their tactics, techniques, and procedures.

During the last year, the Air Force responded to an Ebola outbreak in West Africa, provided humanitarian relief in Nepal, and maintained ongoing commitments in Afghanistan and in the Pacific. The Air Force announced an upcoming training exercise that will involve an F-22 Raptor deployment to Europe giving allies the opportunity to train and operate in multiple types of scenarios.

Nuclear Enterprise Management

Proper management of the nuclear enterprise remains the Air Force's top priority. The Air Force recently elevated the Air Force Global Strike Command (AFGSC) position from a three-star general position to a four-star general position. In addition, the billet of Assistant Chief of Staff for strategic deterrence and nuclear integration will be increased from a two-star billet to a three-star billet. The Air Force is increasing manning levels by 1,100 Airmen to provide more stable schedules for those Airmen performing alert duty.^{vi}

During FY 2015, the AFGSC established the School for Advanced Nuclear Studies (SANDS).^{vii}

AFGSC officers, civilians, and joint officers will complete a master's degree in operations management from the Air Force Institute of Technology. Students will also take classes in research design, operations management, leadership, and weapons effects. The curriculum is designed to increase nuclear deterrence and assurance skills.

Airmen Diversity

In March of this year, Secretary James outlined nine proposals to increase opportunities for women, minorities and enlisted Airmen. The junior enlisted force is diverse but the percentage of women and minorities in senior noncommissioned officer ranks has declined. Officers and civilians also have declining representation of women and minorities in the senior ranks and women leave the service at twice the rate of men during the middle of their careers.^{viii}

The Secretary plans to change the Air Force's rules so new mothers will have a full 12 months at home before being deployed. The Post-Pregnancy Deployment Deferment is now six months. Commanders have the ability to increase the six-month deferment on a case-by-case basis; however, the Secretary is advocating for a standard 12-month period. The Secretary is also calling for increased Officer Training School slots for enlisted personnel and the waiver of height restrictions for flight training candidates.

Cybersecurity

In March 2015, Air Force Chief of Staff General Mark Welch established the Task Force Cyber Secure. The task force functions to protect the Air Force and those organizations that support the Air Force from cyber-attack. The task force has three principle objectives:

- Identify cyber threats that could undermine core Air Force missions
- Develop plans to mitigate cyber threats
- Make recommendations for investment priorities to counter cyber threats

The task force will work to synchronize and maximize resources at the corporate level in order to establish a foundational, consistent enterprise-wide approach in the future^{ix}

Acquisition Excellence

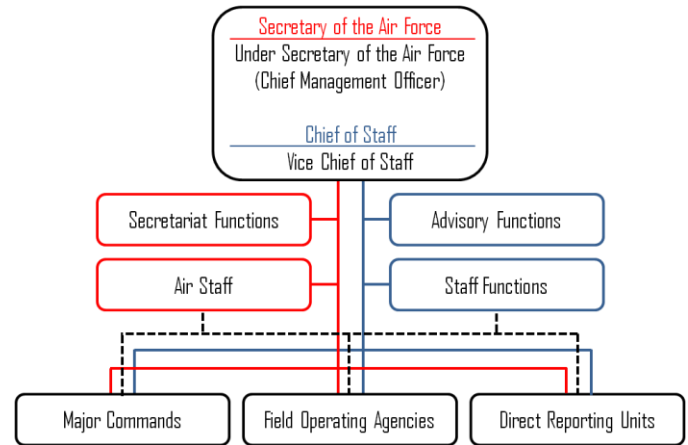
The Air Force continues to prioritize three acquisition programs: the F-35 Lightning, the KC-46A Pegasus, and the long-range strike bomber. The Air Force is focused on reducing the per unit cost of the F-35. The deployment of the F-35 has been somewhat difficult because the aircraft was simultaneously designed and built and has 24 million lines of software code.^x Despite these challenges, the F-35 has met many milestones. The F-35 has flown over 30,000 flight hours and completed 65 percent of its test program. Two hundred pilots and 1,800 maintainers have been trained. The F-35 program supports 129,000 jobs in 45 states and Puerto Rico.^{xi}

The Air Force will soon award the contract for the Long-Range Strike Bomber. The average age of the bomber force is now 39 years. The Long-Range Strike Bomber will replace the B-52 and the B-1. The B-52 was designed in the late 1940s and first built in the early 1960s. The B-1 was deployed in the 1980s. “The idea that we would run a Formula One or a NASCAR race with a car built in 1962 is ridiculous, but we’re going to war with airplanes built in 1962,” Air Force Chief of Staff Gen. Mark Welsh said “We have got to modernize the Air Force. The bomber will be deployed in the mid-2020s”.^{xii}

Boeing is obligated to deliver 18 KC-46A Pegasus aircraft by August 2017. The Pegasus is primarily designed to conduct mid-air refueling, but can also transport passengers, patients, and cargo. The aircraft is designed to not only refuel U.S. aircraft, but coalition aircraft as well.^{xiii} These advanced aircraft will help the U.S. maintain air superiority, perform precision strike missions, and extend global reach for many years to come.

Air Force Structure

The command line of the Air Force flows from the President and the National Command Authority to the Secretary of Defense and the Department of the Air Force. The Air Force is headed by the Secretary of the Air Force (SECAF), with the Chief of Staff reporting to the Secretary (see Figure 1). Immediately subordinate to the departmental headquarters are the Major Commands (MAJCOMs), Field Operating Agencies (FOAs), Direct Reporting Units (DRUs), and the Auxiliary.



Major Command Structure

Most units of the Air Force are assigned to a specific major command (MAJCOM), led by a general officer. MAJCOMs have extensive functional responsibilities as will be shown on the following pages. They may be subdivided into Numbered Air Forces (NAF) with each responsible for one or more wings or independent groups.

Wings are the primary units of the working Air Force and are responsible for maintaining an Air Force base or carrying out a specific mission. Wings may be commanded by a general officer or a colonel. A wing may have several squadrons in more than one dependent group. Wings typically contain an operations group, a maintenance group, a mission support group and a medical group.

The majority of individual officers and Airmen are assigned to a squadron, which may be composed of several flights. Additionally, there are other types of organizations in the Air Force structure such as centers, field operating agencies and direct reporting units.



Paratroopers jump from a C-130



An F-22 Raptor flies over Alaska

Air Combat Command (ACC)



Mission: Air Combat Command is the primary provider of combat forces to America's warfighting commanders.

Responsibilities: To support global implementation of national security strategy, ACC operates fighter, bomber, reconnaissance, battle-management, and electronic-combat aircraft. It also provides command, control, communications and intelligence systems, and conducts global information operations.

As a force provider and Combat Air Forces lead agent, ACC organizes, trains, equips and maintains combat-ready forces for rapid deployment and employment while ensuring strategic air defense forces are ready to meet the challenges of peacetime air sovereignty and wartime air defense. Additionally, ACC develops strategy, doctrine, concepts, tactics, and procedures for air and space-power employment. The command provides conventional and information warfare forces to all unified commands to ensure air, space and information superiority for warfighters and national decision-makers. The Command also has responsibility for inland search and rescue operations in the 48 contiguous states. ACC numbered air forces provide the air component to the Central, Southern and Northern Combatant Commands. ACC also augments forces to the European, Pacific, and Strategic Combatant Commands.

Command Personnel: 143,000

Source: <http://www.acc.af.mil/library/factsheets/factsheet.asp?id=2361>

Air Education and Training Command (AETC)

Mission: Recruit, train and educate Airmen to deliver airpower for America.



Responsibilities: With a Vision of forging innovative Airmen to power the world's greatest Air Force, the command recruits, trains, and educates Airmen from over 1,200 locations worldwide to sustain the combat capability of the Air Force and the Combatant Commanders. The command must effectively develop Airmen through basic military training, technical and flying training, officer and reserve officer training, graduate and professional continuing education, and professional military education. AETC's role makes it the First Command to touch the life of every Airman.

Command Personnel: 62,000

Source: <http://www.aetc.af.mil/About/FactSheets/Display/tabid/140/Article/261000/air-education-and-training-command.aspx>

Air Force Global Strike Command (AFGSC)



Mission: Develop and provide combat-ready forces for nuclear deterrence and global strike operations ... *Safe, Secure, Effective*, to support the President of the United States and combatant commanders.

Responsibilities: Organize, train and equip the Air Force's three intercontinental ballistic missile wings, the Air Force's entire bomber force, to include B-52, B-1 and B-2 wings, the Long Range Strike Bomber program, and operational and maintenance support to organizations within the nuclear enterprise.

Command Personnel: 31,000

Source: <http://www.af.mil/AboutUs/FactSheets/Display/tabid/224/Article/104462/air-force-global-strike-command.aspx>

Air Force Materiel Command (AFMC)



Mission: Deliver and support agile war-winning capabilities.

Responsibilities: AFMC delivers war-winning expeditionary capabilities to the warfighter through development and transition of technology, professional acquisition management, exacting test and evaluation, and world-class sustainment of all Air Force weapon systems. From cradle-to-grave, AFMC provides the work force and infrastructure necessary to ensure the United States remains the world's most respected Air and Space Force.

Command Personnel: 80,000

Source:<http://www.af.mil/AboutUs/FactSheets/Display/tabid/224/Article/104481/air-force-materiel-command.aspx>

Air Force Reserve Command (AFRC)



Mission: To provide combat ready forces to fly, fight, and win.

Responsibilities: The AFRC augments the active component. The AFRC is extremely cost effective, providing approximately 14% of the total force for about 4% of the manpower budget, and retains valuable military expertise and mission continuity on a ready-now, but called-up as needed basis. Reservists support nuclear deterrence operations, air, space and cyberspace superiority, command and control, global integrated intelligence surveillance reconnaissance, global precision attack, special operations, rapid global mobility and personnel recovery. They also perform space operations, aircraft flight testing, aerial port operations, civil engineering, security forces, military training, communications, mobility support, transportation and services missions.

Command Personnel: 67,100

Source:<http://www.afrc.af.mil/AboutUs/FactSheets/Display/tabid/140/Article/155999/air-force-reserve-command.aspx>



A C-130 flown by an Air Force Reserve crew flies over Charleston, SC

Air Force Space Command (AFSPC)



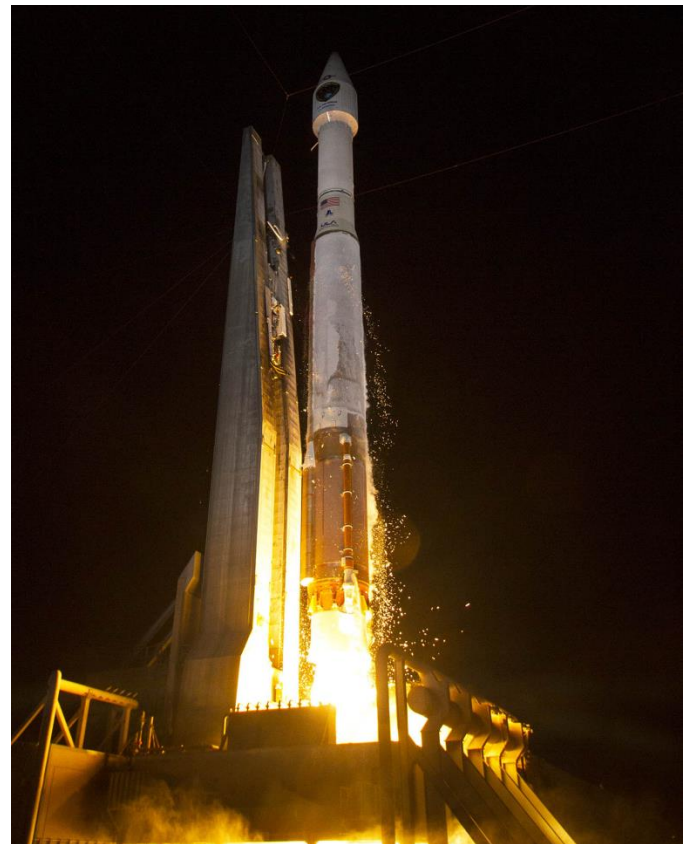
Mission: Provide resilient and affordable space and cyberspace capabilities for the Joint Force and the Nation.

Responsibilities: Organizing, equipping, training and maintaining mission-ready space and cyberspace forces and capabilities for North American Aerospace Defense Command, U.S. Strategic Command and other combatant commands worldwide. AFSPC oversees Air Force network operations to provide capabilities in

cyberspace, manages a global network of satellites, and is responsible for space system development and acquisition. It executes spacelift operations to launch satellites with a variety of expendable launch systems and operates to provide space capabilities in support of combatant commanders. AFSPC provides positioning, navigation, timing, communications, missile warning, weather and intelligence warfighting support. AFSPC operates sensors that provide direct attack warning and assessment to U.S. Strategic Command and North American Aerospace Defense Command.

Command Personnel: 38,000

Source:<http://www.afspc.af.mil/library/factsheets/factsheet.asp?id=3649>



An Atlas V rocket carrying a GPS satellite is launched from Cape Canaveral

Air Mobility Command (AMC)



Mission: Provide global air mobility ... right effects, right place, right time.

Responsibilities: AMC Airmen — active duty, Air National Guard, Air Force Reserve and civilians — provide airlift and aerial refueling for all of America's armed forces. They also provide aeromedical evacuation and Global Reach laydown. The command has many

special duty and operational support aircraft and plays a crucial role in providing humanitarian support at home and around the world.

Command Personnel: 93,350

Source: AMC Snapshot 1 Apr 2015



A KC-135A refuels an F-15E Strike Eagle over North Carolina

Air National Guard (ANG)



Mission: The Air National Guard has both a federal and state mission. This dual mission, a provision of the U. S. Constitution, results in each

guardsman holding membership in the National Guard of his or her state and in the National Guard of the United States.

Federal Mission: Maintain well-trained, well-equipped units available for prompt mobilization during war and provide assistance during national emergencies, such as natural disasters or civil disturbances. During peace, the combat-ready units and support units are assigned to Air Force major commands to carry out missions compatible with training, mobilization readiness, humanitarian and contingency operations. ANG provides almost half of the Air Force's tactical airlift support, combat communications functions, aeromedical evacuation and aerial refueling. In addition, ANG has total responsibility for air defense of the entire United States.

State Mission: When ANG units are not mobilized or under federal control, they report to the governor of their respective state, territory or the commanding general of the District of Columbia National Guard. Under state law, ANG provides protection of life and property, and preserves peace, order and public safety through emergency relief support during natural disasters, search and rescue operations, support to civil defense

authorities, maintenance of vital public services and counterdrug operations.

Responsibilities: The Air National Guard provides tactical airlift, air refueling tankers, general purpose fighters, rescue and recovery capabilities, tactical air support, weather flights, strategic airlift, special operations capabilities and aeromedical evacuation units. The ANG also provides support units, which are essential to the Air Force mission, to include air traffic control units, combat communications squadrons, civil engineering, communications flights and squadrons, weather flights, aircraft control and warning squadrons, a range control squadron, and electronic security unit.

Command Personnel: 105,000

Source: <http://www.af.mil/AboutUs/FactSheets/Display/tabid/224/Article/104546/air-national-guard.aspx> and FY 16 Air Force Budget Overview Book

Pacific Air Forces (PACAF)

Mission: Provide Pacific Command integrated expeditionary Air Force capabilities to defend the homeland, promise stability, dissuade/deter aggression, and swiftly defeat enemies.



Responsibilities: PACAF's area of responsibility extends from the west coast of the United States to the east coast of Africa and from the Arctic to the Antarctic, covering more than 100 million square miles. The area is home to 50 percent of the world's population in 36 nations and over one-third of the global economic output. The unique location of the strategic triangle (Hawaii-Guam-Alaska) gives our nation persistent presence and options to project U.S. airpower from sovereign territory.

Command Personnel: 46,000

Source: <http://www.pacaf.af.mil/Info/FactSheets/Display/tabid/420/Article/248963/pacific-air-forces.aspx>

U.S. Air Forces in Europe-Air Forces Africa (USAFE-AFARFICA)



Mission: As the air component for both U.S. European Command (USEUCOM), and U.S. Africa Command (USAFRICOM), USAFE-AFAFRICA executes the Air Force, USEUCOM and US AFRICOM missions with forward-based airpower and infrastructure to conduct and enable theater and global operations.

Responsibilities: USAFE-AFAFRICA directs air operations in a theater spanning three continents,

covering more than 19 million square miles, containing 105 independent states, and possessing more than a quarter of the world's population and more than a quarter of the world Gross Domestic Product. USAFE-AFARICA has transitioned to an Air Expeditionary Force with a mobile and deployable mix of people and resources that can simultaneously operate in multiple locations. Its role in Europe and Africa has expanded from warfighting to include humanitarian and peacekeeping operations, as well as other non-traditional contingencies throughout the area of responsibility. In peacetime, USAFE-AFAFRICA trains and equips U.S. Air Force units pledged to the North Atlantic Treaty Organization and to the peace and stability of African states.

Command Personnel: 35,100

Source:
<http://www.usafe.af.mil/library/factsheets/factsheet.asp?id=20493>

Air Force Special Operations Command (AFSOC)



Mission: Organize, train and equip Airmen to execute global special operations... We are America's Air Commandos.

Responsibilities: Air Force Special Operations Command provides Air Force special operations forces (SOF) for worldwide deployment and assignment to regional unified commands. The command's SOF are composed of highly trained, rapidly deployable airmen, conducting global special operations missions ranging from precision application of firepower, to infiltration, exfiltration, resupply, and refueling of SOF operational elements. The command's special tactics squadrons combine combat controllers, special operations weathermen, pararescuemen, and tactical air control party with other service SOF to form versatile joint special operations teams.

The command's core missions include battlefield air operations; agile combat support; aviation foreign internal defense; information operations; precision aerospace fires; psychological operations; specialized air mobility; specialized refueling; and intelligence, surveillance and reconnaissance.

Command Personnel: 19,500

Source:<http://www.afsoc.af.mil/AboutUs/FactSheets/Display/tabid/140/Article/162540/air-force-special-operations-command.aspx>



A CV-22 Osprey takes flight

Direct Reporting Unit (DRU)

A DRU is a subdivision of the Air Force that is directly subordinate to Headquarters Air Force, separate from any MAJCOM or FOA because of a unique Test and Evaluation Center.

Civil Air Patrol (CAP)

Mission: Support America's communities with emergency response, aerospace education and cadet programs.



Responsibilities: CAP conducts nearly 90 percent of the inland search and rescue missions authorized by the Air Force Rescue Coordination Center. CAP flies a wide range of other operations daily, including aerial reconnaissance missions for the Drug Enforcement Administration, supporting counterdrug operations. They also execute serial target missions to maintain combat readiness of the air defense assets, conduct special-use airspace surveys and fly orientation flights for AFROTC and AFJROTC cadets.

Personnel: 50,000

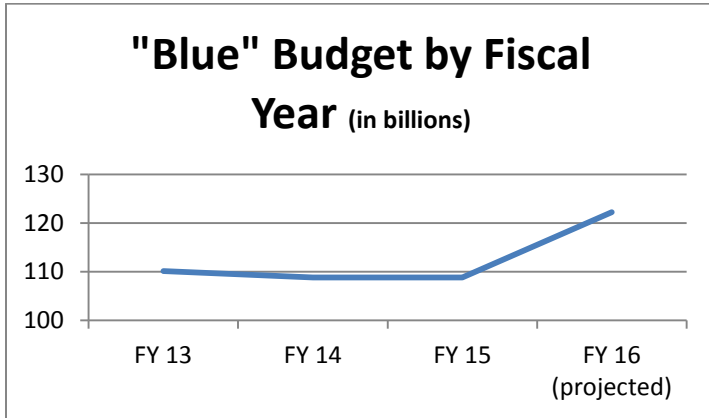
Source:http://www.gocivilairpatrol.com/about/from_the_national_commander/

Field Operating Agency (FOA)

A FOA is a subdivision of the Air Force that carries out field activities under the operational control of a Headquarters U.S. Air Force functional manager. FOAs perform field activities beyond the scope of any of the MAJCOMs. Examples of FOAs include the Air Force Audit Agency, Air Force Civil Engineer Center, Air Force Financial Services Center, Air Force Services Agency, and Air Force Weather Agency, among others.

Air Force Resources

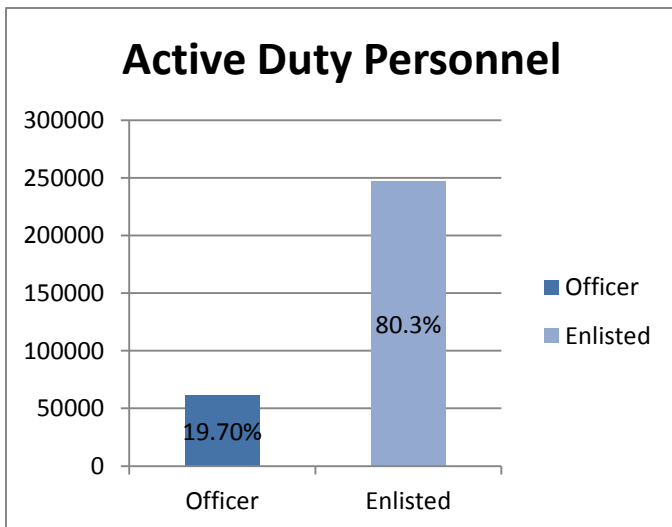
Budget: The Air Force “Blue” budget are the funds directly controlled by Air Force management.



Source: U.S. Air Force FY 2016 Budget Overview Pocket Guide

Personnel: The Air Force consists of 308,000 active duty, 67,100 reserve, 105,000 guard and 179,900 civilian personnel. Aerospace power is a proven necessity for victory on land, sea, air, space, and cyberspace. The foundation for this is our people. The reserve component (Air Force Reserve and Air National Guard) has become more important than ever in sustaining worldwide operations. These warriors make possible the successful accomplishment of Air Force missions.

Source: U.S. Air Force FY 16 Budget Overview Book Pocket Guide



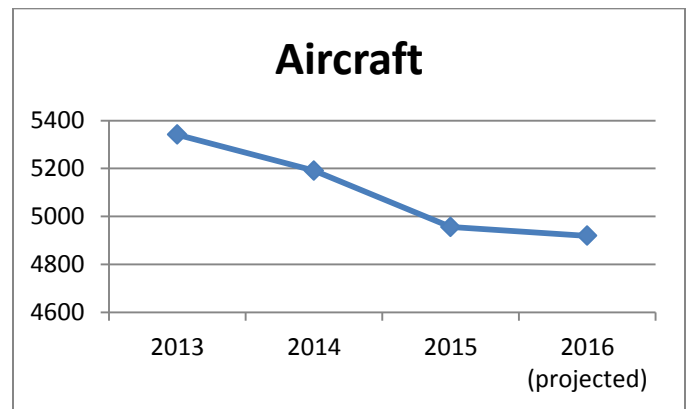
The Air Force has 12,920 pilots, 3,413 navigators and 1,443 air battle managers in the grade of lieutenant colonel and below. The Air Force has 23,966 nonrated line officers in the grade of lieutenant colonel and below.

Source: <http://www.afpc.af.mil/library/airforcepersonnel demographics.asp>

Bases: The Air Force is a global force with facilities in the United States and around the world. The Air Force has 65 major bases in the continental United States and another 14 major bases outside the continental United States. In addition, the Air Force has 77 minor bases worldwide.

Source: U.S. Air Force FY 16 Budget Overview Book Pocket Guide

Aircraft: The Air Force has 4,956 aircraft. Flying the most technologically advanced aircraft in the world helps us maintain air superiority, provides global mobility, and gives us precision strike capability.



Source: U.S. Air Force FY 16 Budget Overview Book Pocket Guide



F-16s fly in formation

Management Assertions

Limitations of the Schedule of Budgetary Activity (SBA)

The SBA has been prepared to report the financial position and results of operations of the entity, pursuant to the requirements of 31 U.S.C. 3515(b). While the SBA has been prepared from the books and records of the entity in accordance with GAAP for Federal entities, the formats prescribed by OMB, and OUSD guidance, the SBA is in addition to the financial reports used to monitor and control budgetary resources, which are prepared from the same books and records. The SBA should be read with the realization that it is for a component of the U.S. Government, a sovereign entity.

Anti-Deficiency Act Cases

Section 1341, title 31, United States Code (31 U.S.C. § 1341 [1990]), limits the Air Force and its agents to making or authorizing expenditures or obligations that do not exceed the available appropriations or funds. Additionally, the Air Force or its agents may not contract or obligate for the payment of money before an appropriation is made available for that contract or obligation unless otherwise authorized by law. As required by 31 U.S.C. § 1517 (2004), DoD and its agents are prohibited from making or authorizing expenditures or obligations exceeding an apportionment or the amount permitted by prescribed regulations. According to 31 U.S.C. § 1351 (2004), if an officer or employee of an executive agency violates the Antideficiency Act, the head of the agency must report immediately to the President and Congress all relevant facts and a statement of actions taken. During FY 2015, the Air Force reported no Antideficiency Act violations.

DoD Regulation 7000.14-R, "Financial Management Regulation," volume 14, chapter 7, "Antideficiency Act Report," limits the time from identification to reporting of Antideficiency Act violation to 15 months. Three investigations of potential Antideficiency Act violations have been open for more than 15 months.

Internal Controls and Material Weaknesses

The objectives of the Air Force's system of internal controls are to provide reasonable assurance of:

- Effectiveness and efficiency of operations
- Reliability of financial reporting
- Compliance with applicable laws and regulations
- Financial information systems are compliant with the Federal Financial Management Improvement Act of 1996 (FMFIA)

The Air Force implements its internal control program at all levels and endeavors to improve the efficient and effective use of resources. Effective internal controls increase accountability and transparency.

Internal control evaluations are performed to determine whether internal controls measures are in place and operating effectively. After review, if management detects a control weakness, the cause is determined and a corrective action plan is implemented. If the weakness is deemed to be material, the progress of the corrective action to remedy the material weakness is monitored through the Air Force weakness tracking system. This system tracks all corrective actions and identifies responsible personnel and completion dates. Tracking continues from the first report of the weakness and until the weakness is resolved. The weakness is considered closed only after corrective actions are confirmed to be effective.

Source: FY 2015 Air Force Statement of Assurance

Operational Material Weaknesses: The Air Force provided a qualified statement of assurance that operational internal controls meet the objectives of FMFIA with the exception of three unresolved material weaknesses:

- Enterprise Information Protection Capability
- Air Force Audit Follow Up Program
- Segregation of Duties in the Defense Travel System

Financial Reporting Material Weaknesses: The Air Force provided a qualified statement of assurance that internal controls over financial reporting were operating effectively, with the exception of 5 General Fund material weaknesses applicable to the SBA:

- Lack of an Integrated Financial System
- Unsupported Journal Vouchers

- Failure to Eliminate Intragovernmental Transactions
- Failure to Reconcile Net Costs to Budget
- Failure to Validate Accounts Payable Balances

Source: FY 2015 Air Force General Fund Engagement Letter

Integrated Financial Management System

(IFMS) Material Weakness: The unified group of Air Force financial systems does not substantially meet the Federal Financial Management Improvement Act, Office of Management and Budget Circular A-123, Appendix D and the Department of Defense Financial Management Regulation Volume 1, Chapter 3, requirements for compliance under the FMFIA.

Progress Towards Auditability

The CFO Act of 1990 requires that large federal agencies have their financial statements audited. During FY 2015, the Air Force made significant progress towards our goal of publishing auditable financial statements by September 30, 2017. We have implemented the Financial Improvement and Audit Readiness (FIAR) plan provided by the Office of the Under Secretary of Defense (Comptroller/Chief Financial Officer) [OUSD (C)].

OUSD's efforts have focused on a four wave approach to audit readiness. Wave 1 (Appropriations Received) and Wave 2 (Statement of Budgetary Resources) have been completed. The Air Force continues their efforts in Wave 3 and 4 and are dedicated to reaching full financial statement auditability by the end of FY 2017.

Wave 3-Existence and Completeness (E&C) of Mission Critical Assets

The Air Force has asserted to the Existence and Completeness of Military Equipment (which includes aircraft, satellites, and inter-continental ballistic missiles), cruise missiles, spare engines, uninstalled missile motors, and aerial targets/drones. The DoD Inspector General issued an unqualified examination opinion in June 2012 on these assets recorded in the Reliability and Maintainability Information System (REMIS). We asserted to the audit readiness of the \$15 billion of munitions owned and possessed by the Air Force in FY 2014. The DoD Inspector General issued a qualified opinion in July 2015. We also asserted to the E&C of Support General Equipment in August 2015. The value of this assertion was \$32.7 billion. The assertion package is currently being reviewed

by OUSD (C) and will soon be under examination. We plan to assert to the audit readiness of Real Property in early 3rd quarter of 2016. The Air Force will also assert to the E&C of base possessed spare parts in November 2015.

The Air Force expects to demonstrate accountability for all assets on the Balance Sheet by June 2016.

Wave 4-Full Financial Statements Audit

The Air Force continues to improve our control environment over business processes in support of audit readiness of all four principle financial statements. Our financial improvements focus on ensuring that assets are accurately valued using a method approved by the DoD Financial Management Regulations and the Federal Accounting Standards Advisory Board. The Air Force must ensure that supporting documentation exists to validate it has rights to assets and obligations to pay liabilities included in the financial statements. We are also working to ensure that accounts are described and classified in the financial statements in accordance with Generally Accepted Accounting Principles and disclosures are correct, complete and communicated clearly. Although challenges - such as antiquated legacy systems and unsupported journal vouchers - remain, we continue to make improvements to ensure sufficient evidential support exists to assert to full audit readiness by September 2017.

Defense Enterprise Accounting and Management System (DEAMS)

The Air Force is deploying the Defense Enterprise and Accounting Management System (DEAMS) as part of our effort for FFMA compliance. DEAMS is an enterprise resource planning system designed to manage the Air Force General Fund and elements of the Transportation Working Capital Fund. DEAMS uses the Oracle e-Business Suite to meet federal financial system requirements and comply with federal accounting standards. SAF/FM declared DEAMS Initial Operational Capability in May 2015 and deployments continue throughout the Air Force.

In October, FY 2015, DEAMS successfully completed deployment to all Air Combat Command and Air Education and Training Command locations. The program also completed deployment to 11 Air Force Reserve Command locations and 33 Air National Guard Geographically

Separated Units on June 1, 2015. DEAMS is now deployed to over 6,200 users.

DEAMS will improve Air Force auditability by sharing financial data, automating the processing of transactions between business partners, eliminating manual processes, and reducing offline processing. In addition, DEAMS has adopted the Standard Financial Information Structure which allows information to be shared seamlessly with other DoD components and enables consistent reporting for Congress, Office of the Secretary of Defense and Air Force senior leaders which will further advance the Air Force's efforts of publishing auditable statements.

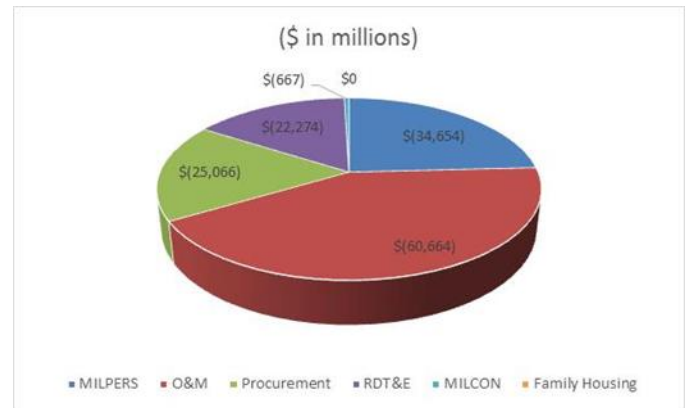
Analysis of Schedule of Budgetary Activity

The General Fund is the fund into which most receipts of the United States Government are deposited. Exceptions include receipts from specific sources required by law to be deposited into other designated funds and receipts from appropriations made by Congress to carry on the general and ordinary operations of the Government. The Notes to the SBA provide more detail on the appropriations.

The major appropriations in the Air Force General Fund and their uses are introduced below. Information is presented by obligations and outlays to the appropriations.

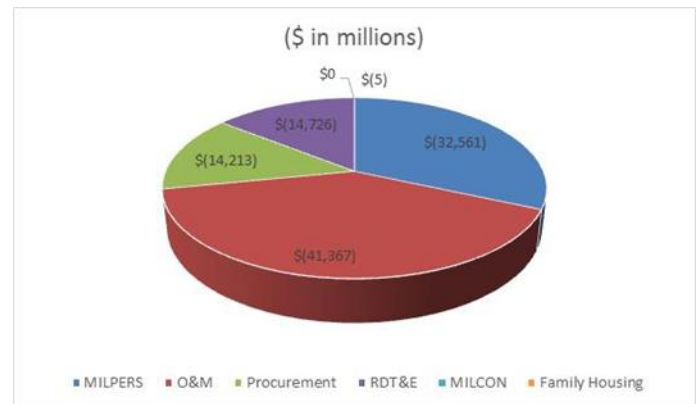
The SBA is also analyzed by business processes/assessable units for obligations and outlays.

Obligations by Appropriations



Source: FY 2015 4th Quarter QDD

Outlays by Appropriations



Source: FY 2015 4th Quarter QDD

Military Personnel (MILPERS)

This appropriation provides funding for the care and payroll of our Airmen. It includes all direct military compensation for active duty, reserve, guard, and retired personnel, including regular pay, allowances, and bonuses.

Operations & Maintenance (O&M)

This appropriation funds readiness programs critical to prepare forces to conduct combat operations. These include day-to-day operating costs such as flying hours, space operations, depot maintenance, training, spare parts, facilities, base operations and civilian pay.

Procurement

This appropriation provides for purchase of aircraft, missiles, vehicles, electronic and telecommunications equipment, satellite and launch equipment, and base maintenance and support equipment. The Air Force balanced modernization

efforts with recapitalization efforts to invest in future capabilities needed for a high-end fight.

Military Construction

The Military Construction appropriation funds large scale facility construction projects supporting Total Force Airmen.

Research, Development, Test and Evaluation (RDT&E)

The RDT&E appropriation funds basic and applied scientific research as well as future weapon systems development, test and evaluation. Basic research involves the scientific study and experimentation related to long-term national security, while applied research is the systematic study to understand the means to meet a recognized and specific national security requirement.

Military Family Housing (MFH)

The Military Family Housing appropriation funds the Air Force’s effort to provide quality homes to Airmen and their families in government-owned and leased units. The Air Force uses the Family Housing Master Plan as a guide to investment planning and programming for military construction, operations and maintenance, and military family housing privatization.

Base Realignment and Closure (BRAC)

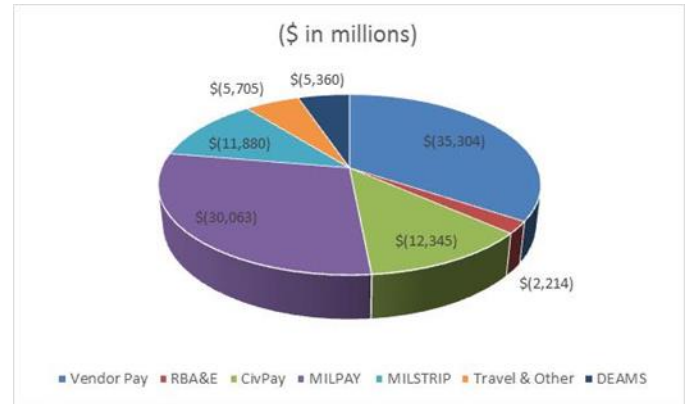
The law authorizes Base Realignment and Closure accounts to fund one-time costs that are a result of BRAC-directed actions.

Obligations by Assessable Unit



Source: FY 2015 4th Quarter QDD

Outlays by Assessable Unit



Source: FY 2015 4th Quarter QDD

Military Pay

The Military Pay assessable unit consists of the business processes and transactions related to pay and benefits (basic pay and entitlements) for Active Duty Airmen, the Air Force Reserve (AFR) and the Air National Guard (ANG).

Civilian Pay

The Civilian Pay assessable unit consists of the business processes and transactions related to pay and benefits for the AF civilian workforce

Travel and Other

The Travel and Other assessable unit consists of the processes and transactions associated with temporary and Permanent Change of Station (PCS) travel as well as miscellaneous purchases.

Vendor Pay

The Vendor Pay assessable unit includes the processes through which Air Force acquires goods and services via contract – both complex long-term contracts and non-complex, shorter duration contracts.

Reimbursable Authority and Execution (RBA&E)

The RBA&E assessable unit encompasses the business functions necessary to accept and process customer orders for goods and services. In this scenario, the Air Force agrees to provide goods or services and the customer agrees to reimburse Air Force for the cost of these goods or services.

MILSTRIP

The MILSTRIP assessable unit process covers the business processes and transactions related to obtaining Fuel, General Supplies, Medical Logistics, Food, and Clothing.

DEAMS

The DEAMS assessable unit covers numerous payroll-related and non-payroll related transactions recorded in the Defense Enterprise Accounting and Management System. Unlike transactions recorded in the legacy systems, DEAMS transactions are not separated by business process.

ⁱ Craven, Wesley Frank and James Cate. 1948. The Army Air Forces in World War II. University of Chicago Press, p. 32.

ⁱⁱ *ibid*

ⁱⁱⁱ Craven, Wesley Frank and James Cate. 1948. The Army Air Forces in World War II. University of Chicago Press, p. 33.

^{iv} *Ibid*.

^v Haux, Hailey. *Air Force Senior Leaders Give State of the Air Force Address*. August 24, 2015.

^{vi} AFSEC Public Affairs. *Air Force recommends four-star for Global Strike Command*. May 28, 2015.

^{vii} Thomas, Joe. *AF Global Strike Command Establishes School for its Best, Brightest*. August 04, 2015.

^{viii} Losey, Stephen. *Air Force Secretary's Diversity Plan Will Mean Quotas, Critics Say*. The Air Force Times, March 9, 2015.

^{ix} AFSEC Public Affairs. *The Air Force Stands Up Task Force Cyber Force*. March 31, 2015.

^x Sisk, Richard. *Air Force secretary: The F-35 Has a Wide Range of Problems*. Military.com July 29, 2015.

^{xi} www.F35.com/about/fast-facts

^{xii} Seligman, Lisa; Aaron Mehta and Andrew Clevenger. *As Industry Awaits Bomber Contract, New Details Emerge*. Defense News, September 8, 2015.

^{xiii} www.Boeing.com/defense/kc-46a-pegasus-tanker/

Department of Defense
Department of the Air Force General Fund
SCHEDULE OF BUDGETARY ACTIVITY
For the year ended September 30, 2015
(\$ in Thousands)

	2015-unaudited
Budgetary Resources:	
Other changes in unobligated balance (+ or -)	<u>645,710</u>
Unobligated balance from prior year budget authority, net	645,710
Appropriations (discretionary and mandatory)	153,320,857
Spending Authority from offsetting collections (discretionary and mandatory)	<u>9,124,934</u>
Total Budgetary Resources	<u><u>163,091,501</u></u>
Status of Budgetary Resources:	
Obligations Incurred (Note 2)	143,324,954
Unobligated balance, end of year	
Apportioned	<u>19,766,547</u>
Total unobligated balance, end of year	<u>19,766,547</u>
Total Budgetary Resources	<u><u>163,091,501</u></u>
Change in Obligated Balance:	
Unpaid obligations:	
Obligations incurred	143,324,954
Outlays (gross) (-)	<u>(102,871,981)</u>
Unpaid obligations, end of year	40,452,973
Uncollected payments:	
Change in uncollected payments, Fed sources (+ or -)	(1,791,197)
Uncollected payments, Fed sources, end of year (-)	<u>(1,791,197)</u>
Obligated balance, end of year (+ or -)	<u><u>38,661,776</u></u>
Budget Authority and Outlays, Net:	
Budget authority, gross (discretionary and mandatory)	162,445,791
Actual offsetting collections (discretionary and mandatory) (-)	(7,333,737)
Change in uncollected customer payments from Federal Sources (discretionary and mandatory) (+ or -)	<u>(1,791,197)</u>
Budget Authority, net (discretionary and mandatory)	<u><u>153,320,857</u></u>
Outlays, gross (discretionary and mandatory)	102,871,981
Actual offsetting collections (discretionary and mandatory) (-)	(7,333,737)
Outlays, net (discretionary and mandatory)	<u>95,538,244</u>
Agency Outlays, net (discretionary and mandatory)	<u><u>95,538,244</u></u>

The accompanying notes are an integral part of the Schedule.

SBA Note 1.	Significant Accounting Policies (Related to the Schedule of Budget Activity)
--------------------	---

1.A. Reporting Entity and Major Components

The United States Air Force was created on September 18, 1947, by the National Security Act of 1947 and operates under the direction, authority, and control of the Secretary of the Air Force. The Air Force's overall mission is to deliver sovereign options for the defense of the United States of America and its global interests to "Aim High...Fly, Fight, Win" in air, space, and cyberspace. The Air Force carries out its mission by adhering to a strategic framework of Core Values consisting of Integrity First, Service Before Self, and Excellence in All We Do. In addition, the Air Force is committed to providing Global Vigilance, Global Reach, and Global Power, while defending and protecting the United States.

Most units of the Air Force are assigned to a specific major command (MAJCOM). The Air Force MAJCOMs are as follows: Air Combat Command, Air Education and Training Command, Air Force Global Strike Command, Air Force Materiel Command, Air Force Reserve Command, Air Force Space Command, Air Mobility Command, Air National Guard, Pacific Air Forces, U.S. Air Forces in Europe-Air Forces Africa, and Air Force Special Operations Command.

There were no significant changes in the Air Force organization during FY 2015.

The Defense Accounting and Finance Service- Columbus is the primary processor of Air Force General Fund accounting data and the compiler of the financial statements.

1.B. Accounting Principles

The General Fund Schedule of Budgetary Activity (SBA) presents a subset of activity and elements of the Statement of Budgetary Resources (SBR). The SBR has been prepared to report the financial position and results of operations of the Air Force, as required by the Chief Financial Officers Act of 1990, expanded by the Government Management Reform Act of 1994, and other appropriate legislation. The SBA has been prepared from the books and records of the Air Force in accordance with U.S. generally accepted accounting principles (USGAAP), other than the accrual as noted in Note 3, promulgated by the Federal Accounting Standards Advisory Board; the Office of Management and Budget (OMB) Circular No. A-136, "Financial Reporting Requirements"; OMB Circular No. A-11, "Preparation, Submission, and Execution of the Budget"; and the Department of Defense (DoD), Financial Management Regulation (FMR).

The SBA is a financial schedule for general funds that presents the current-year activity for the current-year FY 2015 appropriations. The accompanying SBA accounts for all budgetary resources for which the Air Force is responsible as defined in Note 1.C. The SBA is presenting current-year budget activity reported on the entity's SF-133s, starting with new appropriations received and including outlays.

For financial reporting purposes, DoD policy requires the recognition of operating expenses in the period incurred. Current financial and nonfinancial feeder systems were not designed to collect and record financial information on the full accrual accounting basis, however estimates are made for major items such as military payroll and major weapon system acquisitions.

The Air Force cannot accurately identify intragovernmental transactions by customer because the Air Force's systems do not track buyer and seller data at the transaction level. Generally, seller entities within the DoD provide summary seller-side balances for revenue, accounts receivable, and unearned revenue to the buyer-side internal DoD accounting offices. In most cases, the buyer-side records are adjusted to agree with DoD seller-side balances and are then eliminated. The DoD is implementing replacement systems and a standard financial information structure that will incorporate the necessary elements to enable DoD to correctly report, reconcile, and eliminate intragovernmental balances.

1.C. Appropriations and Funds

The Air Force receives appropriations and funds as general funds. The Air Force uses these appropriations and funds to execute its missions and subsequently report on resource usage.

General funds are used for financial transactions funded by congressional appropriations, including personnel, operation and maintenance, research and development, procurement, and military construction.

The following is a list of the major Air Force account numbers and titles reported on the SBA:

AF Account Number	Title
57 * 0740	Military Family Housing (Construction), Air Force
57 * 0745	Military Family Housing, Operations and Maintenance (O&M), Air Force
57 * 1007	Medicare Eligible Retiree Health Fund Contributions, Air Force
57 * 1008	Medicare Eligible Retiree Health Fund Contributions, Air Force Reserve
57 * 1009	Medicare Eligible Retiree Health Fund Contributions, Air National Guard
57 * 3010	Aircraft Procurement, Air Force
57 * 3011	Procurement of Ammunition, Air Force
57 * 3020	Missile Procurement, Air Force
57 * 3080	Other Procurement, Air Force
57 * 3300	Military Construction, Air Force
57 * 3400	Operations and Maintenance (O&M), Air Force
57 * 3500	Military Personnel, Air Force
57 * 3600	Research, Development, Testing, and Evaluation (RDT&E), Air Force
57 * 3700	Personnel, Air Force Reserve
57 * 3730	Military Construction, Air Force Reserve
57 * 3740	Operations and Maintenance (O&M), Air Force Reserve
57 * 3830	Military Construction, Air National Guard
57 * 3840	Operations and Maintenance (O&M), Air National Guard
57 * 3850	Personnel, Air National Guard

1.D. Basis of Accounting

Other than the accrual noted in Note 3, the Air Force has made all accruals in accordance with USGAAP. The DoD is determining the actions required to bring its financial and processes into compliance with USGAAP. One such action is the current revision of accounting systems to record transactions based on the U.S. Standard General Ledger (USSGL).

The USGAAP for federal entities are the standards prescribed by the Federal Accounting Standards Advisory Board (FASAB) and recognized by the American Institute of Certified Public Accountants (AICPA) as federal GAAP. These statements are, therefore, different from financial reports prepared pursuant to other OMB directives that are primarily used to monitor and control the use of budgetary resources.

The SBA is comprised of the following lines:

- a. Other changes in unobligated balance: This line is comprised of non-expenditure transfers. The \$645.7 million is due to cash transfers of prior year balances from Air Force Working Capital Fund.
- b. Appropriations: This line represents current year appropriated funding specified in appropriations acts or in substantive laws authorized by Congress that become available for obligation on or after October 1 as well as transfers of current year authority.
- c. Spending authority from offsetting collections: This line item is comprised of budget authority that is financed by collections authorized by law to be credited to an appropriation. Offsetting collections consist of advances, reimbursements, and other income.
- d. Obligations incurred: This line represents the amounts of orders placed- unpaid and prepaid, contracts awarded, services received- unpaid and paid, and similar transactions during the fiscal year that will require future payments.
- e. Apportioned: This category includes unobligated funds that have been apportioned for Air Force use from OMB on the SF-132 Apportionment schedule.
- f. Outlays: This line consists of all disbursements that occurred during the accounting period.
- g. Change in uncollected payments, Fed sources: This line is comprised of the amount of increase and decrease in unfilled customer orders and accounts receivable from federal sources that occurred from the beginning of the fiscal year to the end of the fiscal year.
- h. Budget authority, gross: This line represents current year appropriated funding as well as any unobligated balance from prior year budget authority.
- i. Actual offsetting collections: This is the amount of reimbursements from other federal government accounts and other collections credited to the account from the beginning of the fiscal year to the end of the reporting period.

1.E. Allocation Transfers

The Air Force is a party to allocation transfers with other federal agencies as a transferring (parent) entity or receiving (child) entity. An allocation transfer is an entity's legal delegation of authority to obligate budget authority and outlay funds on its behalf. Generally, all financial activity related to allocation transfers (e.g. budget authority, obligations, outlays) is reported in the financial statements of the parent entity.

The Air Force, as the parent, is a transferring entity to the Department of Transportation (DoT). This financial activity is included on the Air Force's SBA.

The Air Force, as the child, receives allocation transfers from the following agencies: Department of Agriculture (Forest Service) and the DoT (Federal Highway Administration), and thus are not included on the Air Force's SBA.

SBA Note 2.	Apportionment Categories of Obligations Incurred: Direct vs. Reimbursable Obligations
--------------------	--

As of September 30	2015			
	Apportionment Category A	Apportionment Category B	Exempt From Apportionment	Total
Obligations Incurred - Direct	\$ 89,802,032	\$ 44,924,189	\$ 0	\$ 134,726,221
Obligations Incurred - Reimbursable	\$ 5,516,041	\$ 3,082,692	\$ 0	\$ 8,598,733
Total Obligations Incurred	\$ 95,318,073	\$ 48,006,881	\$ 0	\$ 143,324,954

The table depicts the different means of apportioning Air Force General Funds: (1) Category A includes funds that are apportioned quarterly, (2) Category B includes funds that are apportioned by activity or project, and (3) The Exempt from Apportionment amount includes those funds that are not subject to apportionment. The amounts of direct and reimbursable obligations incurred are stated in the above table.

SBA Note 3.	Undelivered Orders at the End of the Period
--------------------	--

As of September 30 (Amounts in thousands)	2015
--	------

Net Amount of Budgetary Resources Obligated for Undelivered Orders at the End of the Period	\$	36,079,975
---	----	------------

Undelivered Orders include obligations that have been issued but are not yet drawn down and goods and services ordered that have not been received.

Due to financial and nonfinancial systems limitations, the Air Force is unable to properly accrue for certain non-major weapon system acquisitions, therefore this balance includes unpaid delivered orders which should have been excluded.

SBA Note 4.	Legal Arrangements Affecting the Use of Unobligated Balances
--------------------	---

Legal limitations and time restrictions on the use of unobligated appropriation balances such as upward adjustments are provided under Public Law. No other restrictions apply.



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

November 20, 2015

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (COMPTROLLER)/
CHIEF FINANCIAL OFFICER
ASSISTANT SECRETARY OF THE AIR FORCE (FINANCIAL
MANAGEMENT AND COMPTROLLER)
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING SERVICE

SUBJECT: Transmittal of the Disclaimer of Opinion on United States Air Force General
Fund Schedule of Budgetary Activity for 2015 (Report No. DODIG-2016-025)

We contracted with the independent public accounting firm of Ernst and Young LLP, to audit the FY 2015 United States Air Force General Fund Schedule of Budgetary Activity (Schedule). The contract required Ernst and Young 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. The Independent Auditor's Report from Ernst and Young is attached.

Ernst and Young's audit resulted in a disclaimer of opinion. Ernst and Young's report does not make an opinion on the Schedule because the Air Force could not provide sufficient appropriate audit evidence for, or make sufficient representations to, the facts and circumstances that support account balances and disclosures and, therefore, cannot represent to the existence, completeness, or accuracy of the Schedule. Ernst and Young's separate report on internal controls discusses three material weaknesses related to the Air Force. The three material weaknesses identified by Ernst and Young relate to financial reporting, oversight and monitoring of internal controls, and financial information systems. Finally, Ernst and Young's separate report on Compliance and Other Matters discusses Air Force noncompliance with the Federal Financial Management Improvement Act and the Federal Managers' Financial Integrity Act.

In connection with the contract, we reviewed the Ernst and Young report and related documentation and discussed the audit results with Ernst and Young representatives. Our review, as differentiated from an audit in accordance with GAGAS, was not intended to enable us to express, and we do not express, an opinion on the Air Force Schedule for FY 2015, conclusions about the effectiveness of internal control, conclusions as to whether the Schedule substantially complied with the "Federal Financial Management Improvement Act of 1996," or conclusions on whether the Schedule complied with laws and regulations. Ernst and Young is responsible for the attached auditor's report, dated November 20, 2015, and the conclusions expressed in the report. However, our review disclosed no instances in which Ernst and Young 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

Attachments: As stated



Ernst & Young LLP
8484 Westpark Drive
McLean, VA 22102

Tel: +1 703 747 1000
Fax: +1 703 747 0100
ey.com

Report of Independent Auditors

The Secretary of the United States Air Force and the
Inspector General of the Department of Defense

Report on the Schedule of Budgetary Activity

We were engaged to audit the accompanying General Fund Schedule of Budgetary Activity (the “Schedule” or “SBA”) of the United States Air Force (“USAF”) for year ended September 30, 2015, and the related notes to the Schedule.

Management’s Responsibility for the Schedule

Management is responsible for the preparation and fair presentation of the Schedule in conformity 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 the Schedule that is free of material misstatement, whether due to fraud or error.

Auditor’s Responsibility

Our responsibility is to express an opinion on the Schedule based on conducting the audit in accordance with auditing standards generally accepted in the United States, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and U.S. Office of Management and Budget (“OMB”) Bulletin No. 15-02, *Audit Requirements for Federal Financial Statements*. Because of the matter described in the Basis for Disclaimer of Opinion paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for Disclaimer of Opinion

The USAF was unable to provide sufficient appropriate audit evidence for, or make sufficient representations to, the facts and circumstances that support account balances and disclosures and, therefore, cannot represent to the existence, completeness, or accuracy of the Schedule. As a result, we cannot determine the effect of the lack of sufficient appropriate audit evidence and such representations on USAF’s budgetary activity for year ended September 30, 2015.



Disclaimer of Opinion

Because of the significance of the matter described in the Basis for Disclaimer of Opinion paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the Schedule.

Basis for Accounting

As described in Note 1.B, the Office of the Under Secretary of Defense (Comptroller) (“OUSDC”) issued the Financial Improvement and Audit Readiness (“FIAR”) Guidance Supplement (the “Guidance”) with instructions for preparing the SBA. The SBA presents current year budget activity starting with new appropriations received in Fiscal Year 2015. The Schedule, which is less in scope than a Statement of Budgetary Resources (“SBR”), is not intended to be a complete presentation of USAF’s budgetary resources. Our opinion is not modified with respect to this matter.

Required Supplementary Information

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

Other Information

The Message from the Principal Deputy Assistant Secretary of the Air Force for Financial Management and Comptroller, as listed in the Table of Contents, has not been subjected to the auditing procedures applied in the engagement to perform an audit of the Schedule, and, accordingly, we do not express an opinion or provide any assurance on it.

Restriction on Use

This report is intended solely for the information and use of management of USAF, the Department of Defense Office of Inspector General, the OMB, the Government Accountability



Office and Congress and is not intended to be and should not be used by anyone other than these specified parties.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we also have issued our reports dated November 20, 2015 on our consideration of USAF's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. Those reports are an integral part of an engagement to perform an audit in accordance with *Government Auditing Standards* in considering USAF's internal control over financial reporting and compliance.

Ernst + Young LLP

November 20, 2015



Report of Independent Auditors on Internal Control Over Financial Reporting Based on an Audit of the Schedule Performed in Accordance with *Government Auditing Standards*

The Secretary of the United States Air Force and the
Inspector General of the Department of Defense

We were engaged to audit, 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 the Office of Management and Budget (“OMB”) Bulletin No. 15-02, *Audit Requirements for Federal Financial Statements*, the Schedule of Budgetary Activity (the “Schedule” or “SBA”) of the United States Air Force (“USAF”) for the year ended September 30, 2015, and the related notes to the Schedule and have issued our report thereon dated November 20, 2015. That report states that because of matters described in the Basis for Disclaimer of Opinion paragraph, the scope of our work was not sufficient to enable us to express, and we do not express an opinion on the SBA for the year ended September 30, 2015 and the related notes to the Schedule.

Internal Control Over Financial Reporting

In connection with our engagement to audit the Schedule of USAF, we considered USAF's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the Schedule, but not for the purpose of expressing an opinion on the effectiveness of USAF's internal control. Accordingly, we do not express an opinion on the effectiveness of USAF's internal control. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 15-02. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982 (“FMFIA”), such as those controls relevant to ensuring efficient operations.

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



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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. As described below, we identified certain deficiencies in internal control that we consider to be material weaknesses.

Material Weaknesses

During the current Fiscal Year (“FY”) 2015, USAF management worked to implement corrective actions designed to remediate significant long-standing internal control deficiencies and improve its overall financial reporting and oversight process in preparation for its initial audit of the SBA. USAF’s audit readiness activities have focused on documenting and improving business processes, identifying control gaps and deficiencies in the existing process, developing and implementing corrective action plans to remediate such deficiencies and identifying compensating and/or mitigating controls. The scope of the identified and required changes to policies and practices within USAF is significant. During our engagement, we noted multiple deficiencies which were consistent with management’s assessment and corrective action plans. All of the corrective action plans should continue on as rapid a timeline as possible.

FINANCIAL REPORTING

We reviewed each finding individually as well as in aggregate. Based on our review, we have identified three deficiencies which, when aggregated, result in a material weakness related to financial reporting. The deficiencies relate to the following areas:

- Inability to validate the completeness of transactions underlying the Schedule
- Unsupported trading partner adjustments
- Lack of timely financial reporting

These deficiencies are summarized further below.

(a) Inability to validate the completeness of transactions underlying the Schedule

To assure that the entire population of financial transactions has been recorded on the Schedule, it is necessary to reconcile feeder systems to the GAFS-R general ledger system. The USAF has a complex systems environment consisting of multiple non-integrated systems that use non-standard data. The systems environment is composed of legacy mainframe and standalone



systems along with a new ERP system that is currently being deployed. These systems are not integrated and require numerous manual workarounds.

The lack of an integrated system prevents management from obtaining timely, accurate and reliable information on the results of its business operations. USAF continues to rely on both manual re-entry of data into multiple systems and complex system interfaces that are not reconciled. The lack of integration prevents information/data from processing without significant manual intervention.

The USAF has undertaken significant system reconciliation efforts in order to mitigate the IT weakness described above and covered in further detail under the Financial Information Systems material weakness section of this letter. Reconciliations should be performed at the transaction level and include all systems that directly or indirectly supply financial data to GAFS-R. The opening portion of this effort is to reconcile the systems such as GAFS-BQ, MAFR, and DEAMS to GAFS-R. USAF management employs numerous reconciliation tools which USAF and its central processor, Defense Finance and Accounting Service (“DFAS”), use to identify differences between various systems and/or modules and to ensure the completeness of transactions within the SBA. The USAF reconciliation processes, however, currently are not effectively designed to mitigate deficiencies over data that is directly transmitted to GAFS-R and/or its modules.

The following deficiencies in the control environment, which prevent the validation of the completeness of transactions, were identified:

- Many of the reconciliations were newly implemented and not in place during the entire fiscal year.
- Lack of timely and/or complete reconciliations. For example, the reconciliation between DEAMS and GAFS-R is not currently performed through the end of the fiscal year and will not be completed until after the close of the fiscal year.
- Reconciliations between certain feeder systems and GAFS-R are not directly reconciled to the source of the data.

(b) Unsupported trading partner adjustments

In Note 1 of the SBA and in the Accounts Payable and Receivable material weakness of the FY 2015 Air Force Statement of Assurance, USAF self-identified a material weakness related to trading partner adjustments/eliminations. DFAS personnel stated that they are following the Department of Defense (“DoD”) Financial Management Regulation (“FMR”) guidance (Volume 6b Chapter 13) that states: “For intra-DoD accounts receivable, revenues, and advances from others (unearned revenue) it is presumed that the amounts reported by the seller are more accurate than the corresponding amounts reported by the buyer.” As a result, DFAS and DoD reporting entities use information from the DoD reporting entity making sales, or providing



services (“seller-side”), to another DoD reporting entity who would be the recipient and purchaser of those goods or services (“buyer-side”) as the basis for reporting most of its intra-DoD balances. For DoD reporting entities that are not waived from elimination adjustments, intra-DoD accounts payable, expenses, advances, and assets (where the information is available) must be adjusted to match the seller records.

In accordance with DoD guidance, DFAS-Indianapolis obtains the seller-side data from USAF’s trading partners in order to make their adjustments. DFAS-Columbus compares the seller-side data obtained from DFAS-Indianapolis and compares it to the GAFS trial balance data at the appropriation level by trading partner. That difference is the basis for the adjustments. There is no reconciliation at the agreement or document level to the trading partner adjustments that are being made. Trading partner adjustments are recorded in DDRS-AFS as “top-side” adjustments and are identified as “unsupported” by DFAS.

(c) Lack of timely financial reporting

The USAF did not provide a reconciled financial reporting package to the auditor in a timely manner. While portions of the financial reporting package were received at earlier dates, we did not receive all necessary aspects to complete our review of the Schedule until November 10, 2015. For example, USAF utilizes the Quantitative Drill Down (“QDD”) as a form of trial balance. The QDD is tied out to the SBA to validate the completeness and accuracy and also used to produce certain data for the Management Discussion and Analysis section of the SBA reporting package. The USAF did not complete the Fourth Quarter QDD until November 10, 2015.

The delayed delivery of a reconciled reporting package increases the likelihood of USAF not detecting potential material misstatements timely or meeting OMB Circular A-136 reporting requirements.

Recommendations:

EY recommends that USAF consider the following corrective actions related to the conditions described above:

- Inability to validate the completeness of transactions underlying the Schedule
 - Maintain up-to-date listing of financial feeder systems to determine that all necessary reconciliations are performed.
 - Continue to implement and develop feeder system reconciliation processes for the identified systems to support completeness of the SBA.
 - Improve timeliness of reconciliations being performed to support financial reporting.
 - Perform timely follow-up of variances identified in reconciliations.



- Unsupported trading partner adjustments
 - Evaluate trading partner adjustments, prioritize based on dollar value and risk and begin a reconciliation process at the document level.
 - When implementing DEAMS, take into consideration requirements for reconciling trading partner adjustments and evaluate how to incorporate those needs into the new system.
 - Implement document level reconciliations with USAF trading partners and develop a process for resolving differences at the document level.
 - USAF/DFAS coordinates with the Office of the Under Secretary of Defense (Comptroller) to address the trading partner adjustment weakness at the Department level and devise next steps towards remediation such as updating the DoD FMR.

- Lack of timely financial reporting
 - Evaluate the current process for creating QDD files and identify areas to create efficiencies through automation of the process.

OVERSIGHT AND MONITORING OF INTERNAL CONTROLS

Internal Control is a process affected by those charged with governance, management, and other personnel that is designed to provide reasonable assurance about the achievement of the entity's objectives with regard to the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. OMB Circular No. A-123, *Management's Responsibility for Internal Control*, Appendix A, ("Circular A-123") also emphasizes management's responsibility for establishing and maintaining effective internal control over financial reporting.

We reviewed each finding individually as well as in aggregate. Based on our review, we have identified three deficiencies which, when aggregated, result in a material weakness related to the oversight and monitoring of internal control. The deficiencies relate to the following areas:

- Inability to maintain adequate documentation evidencing performance of the relevant controls and/or provide documentation in a timely manner
- Incomplete or inaccurate narrative descriptions
- Other oversight and monitoring

These deficiencies are summarized further below.



(a) Inability to maintain adequate documentation evidencing performance of the relevant controls and/or provide documentation in a timely manner

During our audit we noted certain control deficiencies and underlying causes that were similar and pervasive throughout the USAF processes for which internal controls were tested. These processes tested included Vendor Pay, Military Standard Requisitioning and Issue Procedures (“MILSTRIP”), Mechanization of Contract Administration Services (“MOCAS”), Travel, and Reimbursable Budget Authority and Execution (“RBA&E). Although there were numerous conditions and exceptions noted in the results of our testing, the majority of the internal control deficiencies were comprised of the following:

- Lack of supporting evidence for approvals and proper authorization of purchase request documents, obligations support and disbursement support.
- Lack of accurate and complete documentation provided to the auditor to support funds used for obligations, obligation support, and disbursement support.
- Lack of consistent implementation of documentation standards at USAF for maintaining complete records.
- Improper documentation, management and retention of supporting documentation (i.e. support agreement, customer order/acceptance, delegation of authority, customer voucher).
- Inability to provide supporting documentation to auditors in a timely manner.

USAF’s inability to provide adequate support for authorization and approval of transactions, or adequate evidence that supports valid obligations and disbursements, increases the risk of a misstatement that could impact the Obligations Incurred line item on the SBA. Furthermore, without such supporting documentation and proper audit trail, there is an increased risk of noncompliance with applicable laws and regulations.

(b) Incomplete or inaccurate narrative descriptions

In accordance with Circular A-123, USAF should have a thorough understanding of the specific processes and document flow involved in each class of transactions. Thorough understanding of the processes and document flow will help in understanding where errors could occur and the controls necessary to adequately mitigate such risks. During our walkthroughs and site visits, we noted instances where USAF-prepared process narratives were either incomplete or inaccurate, including a lack of consideration for base-level controls as applicable. The narratives identify controls by Major Command (“MAJCOM”) and may not adequately capture base-level processes and controls.



Below are some incomplete or inaccurate descriptions that were identified in our review of USAF process narratives:

- Wing Refueling Document Control Officer (“WRDCO”) roles and responsibilities were described in the MILSTRIP process narrative, however this key control was non-existent in some bases visited.
- RBA&E narrative does not cover the collection process in detail, missing the initiation, processing and recording of collection. Furthermore, the narrative does not cover the process where USAF is the grantor.
- USAF has not developed a narrative or flowcharts for its Governmentwide Treasury Account Symbol (“GTAS”) process (financial reporting). GTAS replaces previous trial balance reporting systems as the primary means of reporting agency trial balance data. EY obtained and inspected USAF’s GTAS standard operating procedures (“SOP”) noting that the document was incomplete and not finalized.

Without complete and accurate process documentation, USAF is not able to completely evaluate internal control at the process, transaction, or application level.

(c) Other oversight and monitoring

For several business processes, including financial reporting, military and civilian payroll, and MOCAS, USAF relies on a service organization (i.e., DFAS) for initiation, authorization, processing, recording and/or reporting of information that affects financial reporting of the SBA. The service organizations are subject to separate examination engagements on the service organization’s system and the suitability of the design and operating effectiveness of the service organization’s controls to achieve stated control objectives for various business processes. USAF’s service providers design processes and related controls with the assumption that Complementary User Entity Controls (“CUECs”) would be placed in operation by user entities (i.e., USAF). The application of these controls by user entities is necessary to achieve certain control objectives within the service organization reports. While USAF does map these CUECs to processes, management does not currently monitor or test the effectiveness of CUECs. This lack of management control processes prevents our reliance on the electronic audit evidence from service organizations.

Recommendations:

EY recommends that USAF consider the following corrective actions related to the conditions described above:



- Inability to maintain adequate documentation evidencing performance of the relevant controls and/or provide documentation in a timely manner
 - Evaluate current and specific processes / policies and procedures against practices in the field to identify root cause of conditions noted. Identify key gaps and inconsistencies in current procedures versus field implementation.
 - Perform updates to policies, procedures, desk guides, and/or accounting manuals to completely and accurately reflect current key travel processes as well as provide clarification/updates to areas where differences between policy and implementation are noted.
 - Provide training and implementation guidance on any current and/or new/updated procedures where issues were noted to ensure consistent application of procedures.
 - Increase communication between Secretary of Air Force/Financial Management team (“SAF/FM”) and process owners to ensure sufficient, complete documentation is provided as part of documentation requests.
 - Implement an on-going monitoring process of field implementation compared to procedures to ensure consistent application and understanding of key processes and transactions.
 - Evaluate individual issues identified in the conditions above and perform corrective action, as needed, to ensure identified samples have required supporting documentation and are provided to the auditor in a timely manner.

- Incomplete or inaccurate narrative descriptions
 - Document internal controls consistently and at the level at which the specific internal control is performed.
 - Evaluate current process narratives, policies and procedures against practices in the field to identify root cause of conditions noted. Identify key gaps and inconsistencies in current documentation versus field implementation.
 - Perform updates to process narratives, policies and procedures to completely and accurately reflect current key financial processes.
 - Provide training and implementation guidance to the field on any updated process narratives and procedures to ensure what the field is executing is consistent with the documented processes.
 - Evaluate options to utilize process narratives as a part of current internal controls review, such as the Manager’s Internal Control Program Procedures, or other controls review. The process narratives can be used as a tool to document the current control environment, evaluate potential weaknesses and design control objectives to prevent or detect the weaknesses. This will help bridge the gap between what is documented and what is implemented in the field.

- Other oversight and monitoring
 - Test the operating effectiveness of CUECs to ensure greater oversight of activities that have been serviced-out to third-party service providers.



FINANCIAL INFORMATION SYSTEMS

Information management security and configuration controls are fundamental to the integrity of all information systems. Such controls can help manage risks such as unauthorized access, changes to critical data, and preventing compromised data.

While USAF has been working towards implementation of a new Enterprise Resource Planning (“ERP”) system (DEAMS) and processing environment intended to provide a comprehensive entity-wide resource planning system, our assessment of the Information Technology (“IT”) controls and the computing environment identified deficiencies which collectively constitute a material weakness in the design and operation of information systems controls. We reviewed each finding individually as well as in aggregate. Based on our review, we have identified four deficiencies which, when aggregated, result in a material weakness related to the oversight and monitoring of internal control.

The deficiencies relate to the following areas:

- Access controls / user access
- Configuration management / change controls
- Segregation of duties controls
- Interface controls

(a) Access controls / user access

Access controls include those related to protecting system boundaries, user identification and authentication, authorization, protecting sensitive system resources, audit and monitoring, and physical security. When properly implemented, access controls can help ensure that critical systems assets are physically safeguarded and that logical access to sensitive computer programs and data is granted to users only when authorized and appropriate. Weaknesses in such controls can compromise the integrity of sensitive data and increase the risk that such data may be inappropriately used and/or disclosed.

The identified access control weaknesses that represent a significant risk to the USAF financial management information systems environment include the following:

- Access was not restricted to authorized users and was not assigned in accordance with the principle of least privilege.
- Lack of policies and procedures for account authorization, provisioning, and termination.
- Lack of monitoring and auditing security violations and sensitive user activities, including activities of database administrators (“DBAs”); violation logs were not documented, not being performed, or not configured appropriately within systems.



- Audit logging information was not protected against unauthorized access and modification.
- Lack of concurrent session limits and session inactivity parameter documentation.
- Lack of enforcement for procedures related to monitoring unused IDs, locked IDs, terminated users, or access re-certifications.
- Lack of procedures for handling lost or compromised passwords; in some cases, password complexity and password reuse requirements were not being enforced.
- Lack of encryption for sensitive information such as Personally Identifiable Information (“PII”) while data at rest.

(b) Configuration management / change controls

Configuration management involves the identification and management of security features for all hardware and software components of an information system at a given point and systematically controls changes to that configuration during the system’s life cycle. By implementing configuration management controls, USAF can ensure that only authorized applications and software programs are placed into production through establishing and maintaining baseline configurations and monitoring changes to these configurations. Weaknesses in such controls can compromise the integrity of sensitive data and increase the risk that such data may be inappropriately used and disclosed.

The identified change control weaknesses that represent a significant risk to the USAF financial management information systems environment include the following:

- Lack of a segregated environment; developers have access to the production environment.
- Lack of review, approval, and documentation for configuration changes.
- Lack of baseline and compliance audits.
- Lack of review and monitoring of third party execution; management relies on Defense Information Systems Agency (“DISA”) to perform many aspects of the change management functions for the relevant applications.
- Documented policies and procedures did not address the process to implement emergency changes.

(c) Segregation of duties (“SoD”) controls

An effective control environment guards against a particular user having incompatible functions within a system. Segregation of duties controls provide policies, procedures, and an organizational structure to prevent one or more individuals from controlling key aspects of computer-related operations and thereby conducting unauthorized actions or gaining unauthorized access to financial management information systems.



The identified SoD weaknesses that represent a significant risk to the USAF financial management information systems environment include the following:

- Access rights and responsibilities within at least ten applications were not appropriately restricted to independent users and assigned in accordance with segregation of duties policies and regulatory requirements.
- Users were assigned access to allow them to perform both administrator and end-user functions.
- Developers were granted inappropriate access to make modifications directly to the production environment and delete system files within application modules.
- DBAs assigned to track user access and monitor sensitive transactions were able to modify activity logs, including audit logs for their own activity.
- Lack of comprehensive policies and procedures to address potential SoD conflicts within the applications.
- Lack of controls to prevent assigning conflicting roles during the access provisioning process, and for known conflicts where SoD concerns were identified, lack of documentation for business rationale and subsequent monitoring of a user's activity.
- In both access provisioning and user activities, personnel were responsible for conflicting roles across functions. Multiple systems had a significant number of administrator users (i.e. DBAs, developers) able to complete an entire functional process by inputting, processing, and approving transactions.

(d) Interface controls

Interface controls consist of those controls over the timely, accurate, and complete processing of information between applications on an ongoing basis. Weaknesses in interface controls increase the risk related to data discrepancies, inability to determine data transfer completeness, timeliness, and accuracy of data transmitted that ultimately impact the reliability of data transfer between financial management information systems.

The identified interface control weaknesses that represent a significant risk to the USAF financial management information systems environment include the following:

- Lack of consistent validation checks across interfaces to prevent the processing of duplicate or inaccurate data.
- Lack of reconciliations between source and target systems to ensure completeness and accuracy of processing.
- Lack of tracking interface processing activities to support subsequent auditing and monitoring; lack of error reporting for failed interface processing activities.
- Logs of interface files are not protected from unauthorized access and modification prior to processing.



- Interface agreements are not reviewed on a periodic basis to ensure they are accurate.

Recommendations:

The USAF should implement controls to address deficiencies in access controls, configuration management, segregation of duties, and interface procedures to include:

- Access controls / user access / segregation of duties
 - Implement monitoring and review activities of users with powerful access privileges; eventually segregate such production access and ability to create accounting transactions from the development function.
 - Document and follow procedures related to user account management and segregation of duties, including the entire life cycle from access provisioning to recertification, inactivity restrictions, and termination procedures.
 - Implement stronger password controls and restricting user access to programs and data to the minimum level required by the user's responsibilities, to include encrypting sensitive data.
 - Segregate roles and where conflicting roles are required or unavoidable, document business rationale and monitor activities of users.
- Configuration management / change controls
 - Segregate development and production environment access.
 - Review, approve, and monitor configuration change completeness and accuracy, including baseline and compliance audits; document differences to the process for expedited or emergency changes.
 - Review changes and execution procedures completed by third-parties and contractors.
- Interface controls
 - Implement stronger systemic checks for completeness and accuracy of interface file processing, to include tracking and logging procedures and protection from unauthorized access.
 - Test system interfaces in an end-to-end manner for USAF to gain reasonable assurance that the ERP will be capable of providing the intended functionality.

USAF's Response to Findings

USAF's response to the findings identified in our engagement as described above are included in its letter dated November 20, 2015 which has been included at the end of this report. USAF's response was not subjected to the auditing procedures applied in the engagement to audit the financial statements and, accordingly, we express no opinion on it.



Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and the result of that testing, and not to provide an opinion on the entity's internal control. This report is an integral part of an engagement to perform an audit in accordance with *Government Auditing Standards* in considering the entity's internal control. Accordingly, this communication is not suitable for any other purpose. This report is intended solely for the information and use of management of USAF, the Department of Defense Office of Inspector General, the OMB, the Government Accountability Office and Congress and is not intended to be and should not be used by anyone other than these specified parties.

Ernst & Young LLP

November 20, 2015



Ernst & Young LLP
8484 Westpark Drive
McLean, VA 22102

Tel: +1 703 747 1000
Fax: +1 703 747 0100
ey.com

Report of Independent Auditors on Compliance and Other Matters Based on an Audit of the Schedule Performed in Accordance with *Government Auditing Standards*

The Secretary of the United States Air Force and the
Inspector General of the Department of Defense

We were engaged to audit, 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 the Office of Management and Budget (“OMB”) Bulletin No. 15-02, *Audit Requirements for Federal Financial Statements*, the Schedule of Budgetary Activity (the “Schedule” or “SBA”) of the United States Air Force (“USAF”) for the year ended September 30, 2015, and the related notes to the Schedule and have issued our report thereon dated November 20, 2015. That report states that because of matters described in the Basis for Disclaimer of Opinion paragraph, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the SBA for the year ended September 30, 2015 and the related notes to the Schedule.

Compliance and Other Matters

In connection with our engagement to audit the Schedule, 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 Schedule amounts, and certain other laws and regulations specified in OMB Bulletin No. 15-02, including the requirements referred to in the Federal Financial Management Improvement Act of 1996 (“FFMIA”) (P.L. 104-208). However, providing an opinion on compliance with those provisions was not an objective of our engagement, and accordingly, we do not express such an opinion. We limited our tests of compliance to these provisions and we did not test compliance with all laws and regulations applicable to USAF.

The results of our tests of compliance with laws and regulations described in the second paragraph of this report disclosed instances of noncompliance and other matters that are required to be reported under *Government Auditing Standards* and OMB Bulletin No. 15-02, as described below. Additionally, if the scope of our work had been sufficient to enable us to express an opinion on the Schedule, other instances of noncompliance or other matters may have been identified and reported herein.

Under FFMIA, we are required to report whether USAF’s financial management systems substantially comply with federal financial management systems requirements, applicable federal accounting standards, and the United States Standard General Ledger (“USSGL”) at the transaction level. To meet this requirement, we performed tests of compliance with FFMIA



Section 803(a) requirements. The results of tests disclosed instances in which USAF's financial management systems did not substantially comply with federal financial management systems requirements or the USSGL.

(a) Federal financial management system requirements

As referenced in Fiscal Year ("FY") 15 USAF Statement of Assurance, the USAF self-identified that financial systems and financial portions of mixed systems do not substantially meet FFMIA or OMB Circular A-123, *Management's Responsibility for Internal Control* ("Circular A-123") Appendix D.

EY confirmed this material weakness as part of the Financial Information Systems material weakness, contained in the *Report of Independent Auditors on Internal Control Over Financial Reporting Based on an Audit of the Schedule Performed in Accordance with Government Auditing Standards* ("Report on Internal Control"), where we identified noncompliance with federal financial management system requirements for multiple systems. Weaknesses identified include those associated with user access, configuration management/change controls, segregation of duties and interfaces. These financial system deficiencies prevent USAF from being compliant with federal financial management system requirements and inhibit USAF's ability to prepare complete and accurate financial reporting.

(b) Noncompliance with USSGL posting logic at the transaction level

As referenced in the FY 15 USAF Statement of Assurance, USAF self-identified that the design of legacy financial systems does not allow USAF to comply with USSGL at the transaction level. EY identified the following noncompliance:

- Delivered Order transactions are not recorded in accordance with the USSGL. USAF's accounting entry uses additional accounts that are not listed in the USSGL posting logic, although the transaction ultimately is recorded correctly. The extra posting step, however, increases the risk of misstatement due to incorrect or errant postings and prevents the tracing of transactions through the budgetary accounts.
- Budgetary and proprietary transactions are not posted utilizing single lines of the posting logic. Each transaction is posted by separate posting logic lines for budgetary and proprietary accounting. This prevents budgetary to proprietary reconciliation at the transaction level.
- During our testing of collected funds, we noted numerous instances where transactions identified as an advance by USAF were incorrectly recorded. For these specific transactions, USAF posted the advanced collection to USSGL 4252 instead of USSGL 4222 (Unfilled Customer Orders with Advance). While these accounts roll up to the same line item on the SBA, USAF is improperly recognizing revenue and incorrectly recording collections.



In addition, as referenced in the FY 15 USAF Statement of Assurance, USAF self-identified that financial systems and financial portions of mixed systems do not substantially meet the requirements for compliance under the Federal Managers' Financial Integrity Act ("FMFIA").

The USAF was not able to provide evidence that they are in compliance with all aspects of Circular A-123. The USAF provided a FY 2015 Statement of Assurance, however there was no evidence that each process identified by USAF completed an organizational risk assessment, identified relevant risks related to the financial statement assertions, documented the internal control standards as it relates to those assertions, performed internal control testing, and reported and tracked control deficiencies at the control level. Based on the evidence received, EY notes that USAF has an established internal control program; however, USAF is unable to provide any evidence that the extent of testing and review performed is sufficient to meet the requirements of FMFIA.

USAF's Response to Findings

Our Report on Internal Control dated November 20, 2015 includes additional information related to the financial management systems and internal controls that were found not to comply with the requirements, relevant facts pertaining to the noncompliance with FFMIA and FMFIA, and our recommendations to the specific issues presented. It is our understanding that management agrees with the facts as presented and that relevant comments from USAF's management responsible for addressing the noncompliance are provided in their letter dated November 20, 2015. We did not audit management's comments and accordingly, we express no opinion on them. Additionally, USAF is updating its corrective action plans to address these issues.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of compliance and the result of that testing, and not to provide an opinion on the entity's compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's compliance. Accordingly, this communication is not suitable for any other purpose. This report is intended solely for the information and use of management of USAF, the Department of Defense Office of Inspector General, the OMB, the Government Accountability Office and Congress and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads 'Ernst & Young LLP'.

November 20, 2015



United States Air Force

DEPARTMENT OF THE AIR FORCE
WASHINGTON DC

OFFICE OF THE ASSISTANT SECRETARY

November 20, 2015

Mr. John Short
Partner, Ernst & Young LLP
8484 Westpark Drive
McLean, VA 22102

Dear Mr. Short,

We would like to thank Ernst & Young, LLP (EY) for your efforts in the fiscal year (FY) 2015 Schedule of Budgetary Activity (SBA) audit. We appreciate the professionalism exhibited by your staff and EY during the audit.

We appreciate the opportunity to comment on the draft reports you provided. We generally concur with the findings identified in the Report on Internal Control. The final reports will be included in our FY 2015 SBA Report. In response to your reports, we will prepare corrective action plans to address the identified findings.

Our senior leadership is committed to auditability and the Air Force Executive Steering Committee will oversee this effort. Air Force will continue to work to enhance our system of internal control and ensure the reliability of the Air Force SBA. We look forward to continued collaboration with EY to improve our stewardship of taxpayer funds.

Sincerely,

A handwritten signature in black ink, appearing to read "D. M. Bennett", with a long horizontal flourish extending to the right.

Douglas M. Bennett
Principal Deputy Assistant Secretary
(Financial Management and Comptroller)

This Page Left Intentionally Blank

