Department of the Air Force

Agency Financial Report

Fiscal Year 2021

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Frank Kendall

Message from the Secretary of the Air Force

For the Fiscal Year 2021 Agency Financial Report

8 November 2021

On behalf of the Airmen and Guardians serving in our nation's Air Force and Space Force, I am proud to present our Agency Financial Report for Fiscal Year (FY) 2021. This report is a transparent, honest, and in-depth review of the Department of the Air Force's (DAF) finances and operations and demonstrates to American taxpayers how their hard-earned dollars have been used to advance our air, space, and cyberspace missions.

The DAF has undergone four full financial statement audits and continues to make progress in reducing our material weaknesses, a complete description of which can be found in the Analysis of Systems, Controls, and Legal Compliance section and within the Reports of the Independent Public Accountant. The DAF service members and civilians fully appreciate the impact our accomplishments will have on improving the reliability, quality, and completeness of our financial and performance data to move the DAF closer to a clean audit opinion. As such, we are developing and deploying new tools to better track and report on progress, updating procedures to help us respond to auditor requests with greater speed and confidence, and proactively implementing corrective action plans to meet our audit remediation timelines.

FY 2021 marked an important maturation point for the DAF's audit efforts. The rollout of an Integrated Master Schedule is operationalizing our audit strategy and driving a methodical, disciplined approach to track progress and produce on-demand metrics that demonstrate risks, issues, and remediation requirements. This strategy will unite our team and help us focus our attention and resources to the specific tasks most critical to helping us achieve significant objectives.

In addition to our audit goals, we remain steadfast in our commitment to take care of our people. We are one team; without our brave Airmen and Guardians, there is no DAF. Ensuring they have the support they need in an environment that promotes equality, respect, and growth is essential to the DAF's vitality and mission success. It will take all of us doing everything we can to deter or, if necessary, win conflicts in air and in space against our strategic competitors. Making the right choices—including recruiting and retaining a healthy and motivated team and ensuring they are well organized, trained, and equipped to meet the full range of missions—is essential to our continued success in meeting national security and defense objectives.

Frank Kendall

MANAGEMENT'S DISCUSSION AND ANALYSIS

A U.S. Air Force MC-130H Combat Talon II aircraft loadmaster assigned to Special Operations Command Central observes a U.S. Marine Corps MV-22 Osprey assigned to the 15th Marine Expeditionary Unit, as they receive fuel during a tiltrotor air-to-air refueling, or TAAR, over an undisclosed location. (Photo credit: Staff Sgt. Trevor T. McBride)

OVERVIEW

Created in 1907 as a functional component of the United States (U.S.) Army, the U.S. Air Force ("Air Force") is the fifth branch of the U.S. Armed Forces. The Department of the Air Force (DAF) was established 40 years later, becoming one of three military departments within the Department of Defense (DoD). On December 20, 2019, as part of the Fiscal Year (FY) 2020 *National Defense Authorization Act*, the United States Space Force (USSF) became the sixth branch of the U.S. Armed Forces, established as a Military Service within the DAF. For FY 2021, the USSF is reported as part of the DAF GF financial statements.

As a steward of government resources, the DAF prepares its Agency Financial Report every FY to convey its financial position and performance results to taxpayers. It demonstrates commitment to the DAF's core missions, accountability, and stewardship over the resources entrusted to the DAF by members of Congress, the President of the United States, and the public. The report includes the following sections:

Management's Discussion and Analysis—This section contains a narrative composed of the overview, mission, and organization of the DAF; a high-level discussion of performance goals, objectives, and results over the past FY; an analysis of the financial statements; an analysis of systems, controls, and legal compliance; and forward-looking information. Information for the DAF General Fund (DAF GF) and the DAF Working Capital Fund (DAF WCF) are included within this section.

Financial Section—This section includes a message from the Chief Financial Officer, the report of the independent auditor, management response letter, principal financial statements (Consolidated Balance Sheet, Consolidated Statement of Net Cost, Consolidated Statement of Changes in Net Position, and Combined Statement of Budgetary Resources), associated notes, and Required Supplementary Information. This information is presented separately for the DAF GF and the DAF WCF. The DAF GF captures core DAF administrative and operational tasks. Comparatively, the DAF WCF captures business-like acquisition and repair activities primarily funded through sales revenue, rather than Congressional appropriations.

Other Information Section—The final section is composed of the summary of the financial statement audit and management assurances, the results of the DAF's biennial review of user fees, and the glossary of acronyms.

KENDALL BECOMES 26TH SECRETARY OF THE AIR FORCE

In April, President Joe Biden nominated Mr. Frank Kendall III to be the 26th Secretary of the Air Force, succeeding Ms. Barbara M. Barrett. Three months later on July 28, Mr. Kendall—a dedicated public servant with 40 years of experience in engineering, management, defense acquisition, and national security—was sworn in, appointing him as the civilian leader responsible for organizing, training, equipping, and ensuring the welfare of nearly 700,000 Airmen, Guardians, and their families.

A distinguished graduate from the U.S. Military Academy at West Point, Mr. Kendall served 10 years in the Army and holds a master's degree in Aerospace Engineering from California Institute of Technology, a Master of Business Administration degree from C.W. Post Center of Long Island University, and a Juris Doctor degree from Georgetown University Law Center.

During his confirmation hearings, Mr. Kendall echoed Secretary of Defense Lloyd Austin's priorities of taking care of our people, mission performance, and building teams.

In his role as Secretary, Mr. Kendall will oversee the transformation of the Air Force as it positions itself to deal with growing threats from Russia and China and the growth of the nascent United States Space Force, while also ensuring that Airmen and Guardians have the tools, training, and support they need to accomplish the mission.

Secretary of the Air Force the Honorable Frank Kendall speaks at the 36th Space Symposium in Colorado Springs, Colorado. (Space Foundation courtesy photo)

MISSION

In accordance with the 2018 National Defense Strategy, the DAF must build a more lethal and ready force, strengthen alliances and partnerships, and deliver greater, more affordable performance. The DAF requires the right size and mix of agile capabilities to compete, deter, and win in a more competitive and dangerous international security environment than the U.S. has encountered in generations. As part of the joint team, the DAF's first responsibility is to integrate air and space capabilities across domains.

The Air Force's mission statement is *to fly, fight, and win... airpower anytime, anywhere*. To achieve that mission, the Air Force has a vision: *With a Total Force of more than 689,000 personnel, Airmen work to support all aspects of airpower, which includes five core missions: air superiority; global strike; rapid global mobility; intelligence, surveillance, and reconnaissance; and command and control. Airpower also requires people and resources dedicated to unit readiness, base infrastructure, and talent management.*

The United States Space Force (USSF)'s mission statement is: *The USSF is responsible for organizing, training, and equipping Guardians to conduct global space operations that enhance the way our joint and coalition forces fight, while also offering decision makers military options to achieve national objectives.* Additional USSF responsibilities include developing Guardians (service members in the USSF), acquiring military space systems, maturing the military doctrine for space power, and organizing space forces to support the Combatant Commands.

The DAF consistently executes against five core missions:

1 Air Superiority... *freedom from attack and the freedom to attack*

Air superiority ensures that advantages of the other DAF core missions, and the formidable capabilities of sister services, are broadly available to combatant commanders. It includes the ability to control the air, so that U.S. military forces are not concerned about being attacked, while ensuring that joint forces have the freedom to attack in the air, on the ground, and at sea. Air superiority has provided decades-long asymmetric advantages and is essential to the overall mission.

America's freedom to operate effectively across the spectrum of conflict rests not only on the DAF's ability to dominate in the air, but also on its ability to exploit space. The DAF provides critical capabilities that enhance the military's ability to navigate accurately, see clearly, communicate securely, and strike precisely. Joint, interagency, and coalition forces depend on the DAF space operations to perform missions every day, on every continent, in the air, on land, and at sea. In a dangerous and uncertain future, the ability to access and exploit space, even when others try to deny it, is vital to the nation's security.

An F-22 Raptor from the 422nd Test and Evaluation Squadron flies over Nellis Air Force Base, Nevada, during exercise Orange Flag. (Photo credit: Kyle Larson)

2 Global Strike… *any target, any time*

The DAF's nuclear and conventional precision strike forces can deter, credibly threaten, and effectively conduct global strikes by holding any target on the planet at risk and, if necessary, disabling or destroying it promptly—even from bases within the continental U.S. These forces possess the unique ability to achieve tactical, operational, and strategic effects all in 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, or targeting an adversary's vital centers. Whether employed from forward bases or enabled by in-flight refueling, a global strike derives from a wide range of systems that include bombers, missiles, special operations platforms, fighters, and other DAF aircraft.

A U.S. Air Force B-2 Spirit assigned to the 509th Bomb Wing, conducts aerial refueling operations with the 100th Air Refueling Wing during a Bomber Task Force mission over the Atlantic Ocean. The stealth bombers integrated with Royal Norwegian Air Force F-35A Lightning II aircraft enhancing bomber interoperability with partners and allied nations. (Photo credit: Staff Sgt. Rachel Maxwell)

3 Rapid Global Mobility… *delivery on demand*

American power can be projected quickly to anywhere on the face of the earth because of the DAF's ability to rapidly deploy warfighters and essential equipment at any time. Air mobility sustains operations ranging from major combat to humanitarian relief around the world. Beyond moving cargo and equipment, the DAF's rapid global mobility is linked to unprecedented survival rates because of the highly skilled aeromedical transport teams who swiftly evacuate wounded personnel back to safety. The combination of speed, range, flexibility, and responsiveness is what differentiates air mobility operations from other forms of transport and is critical to multi-modal operations contributing to a higher pace for Joint All-Domain Operations. Mobility forces also provide in-flight refueling, which is a unique DAF capability and the linchpin to joint power projection at intercontinental distances.

An Afghan child sleeps on the cargo floor of a U.S. Air Force C-17 Globemaster III, kept warm by the uniform of a C-17 loadmaster, during an evacuation flight from Kabul, Afghanistan. (U.S. Air Force courtesy photo)

4 Intelligence, Surveillance, and Reconnaissance… *eyes and ears on adversaries*

The DAF conducts intelligence, surveillance, and reconnaissance (ISR) missions to analyze, inform, and provide joint force commanders with the knowledge needed to achieve decision advantage. ISR helps maintain deterrence, contain crises, and achieve success in battle. Through a mix of aircraft, satellites, and other technologies that collect, exploit, and disseminate critical information, the DAF ISR gives policymakers the ability to minimize uncertainty about adversaries and their capabilities. It does so by strengthening deterrence, making adversaries act more cautiously, providing intelligence that gives commanders a decision-making advantage, and delivering real-time information on which joint, interagency, and coalition operations rely on to fight effectively and win. Globally integrated ISR allows American forces to carry out functions that were previously performed under much greater danger and at a higher cost.

Senior Airman Levi, 432nd Aircraft Maintenance Squadron crew chief, checks out the multi-spectral targeting system on an MQ-9 Reaper at Creech Air Force Base, Nevada. (Photo credit: Senior Airman William Rio Rosado)

5 Command and Control… *total flexibility*

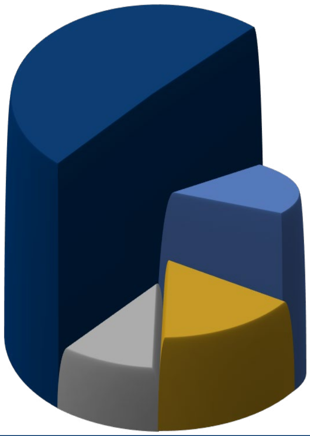
Airmen and Guardians employ the DAF's other four interdependent and enduring core missions through robust, adaptable, and survivable command and control systems. The DAF provides access to reliable communications and information networks so that the joint force can operate globally at an up-tempo level of intensity. The DAF command and control systems give commanders the ability to conduct highly coordinated joint operations on an unequaled scale and at any time, using centralized command, distributed control, and decentralized execution. The capability to deliver airpower is intimately dependent on the ability to operate effectively in cyberspace. This cyberspace arena is where all core missions are conducted and is critical to the DAF's command and control systems. Providing the right information to the right person at the right time is essential to the American warfighting advantage.

Maj. Emily Yturralde, an Air Force Reserve pilot assigned to the 728th Airlift Squadron, receives fuel from the newest tanker in the Air Force fleet, a KC-46 Pegasus. The tanker aircraft is assigned to the Air Force Reserve's 916th Air Refueling Wing at Seymour Johnson Air Force Base, North Carolina. Yturralde, who flies the C-17 Globemaster III, was part of a squadron mission that honored women in aviation during Women's History Month. (Photo credit: Maj. Candice Allen)

ORGANIZATIONAL STRUCTURE

The Total Force of the DAF consists of approximately 696,500 active duty (including enlisted and officers) Airmen and Guardians, Air National Guard (ANG), Air Force Reserve, and Civilian personnel. This combined strength allows the Total Force to accomplish a variety of missions with varying requirements—all while operating as one DAF.

Figure 1. DAF Total Force



TOTAL	696,500
ACTIVE DUTY AIRMEN AND GUARDIANS	333,000
CIVILIANS	184,400
AIR NATIONAL GUARD	108,500
AIR FORCE RESERVE	70,600

The majority of the Total Force consists of active duty officers, enlisted Airmen, and Guardians. The reserve component is made up of the Air Force Reserve (see the Air Force Reserve Command in the United States Air Force Field Organizations section below) and the ANG. The ANG 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 U.S. Civilian personnel are indispensable to the management, operation, and continuity of the DAF. Civilians serve in leadership roles throughout the DAF, around the globe, and across organizational levels. The DAF employs civilians in a full range of occupations and services providing stability with the ability to support multiple commanders over years of service. Another major component of the DAF is the Civil Air Patrol. Although not included in the Total Force count, the Civil Air Patrol is a Total Force partner and auxiliary of the DAF. The Civil Air Patrol is America's premier public service organization for carrying out emergency services and disaster relief missions nationwide. The Civil Air Patrol's vigilant citizen volunteers are there to search for and find lost individuals, provide comfort in times of disaster, and work to keep the homeland safe.

UNITED STATES SPACE FORCE MAKES HISTORY AT BASIC MILITARY TRAINING

History was made on 10 December 2020 at Joint Base San Antonio-Lackland, Texas, when the first seven Guardians to enlist directly into the United States Space Force (USSF) graduated from Basic Military Training. The five men and two women were among the recruits who completed seven-and-a-half weeks of training.

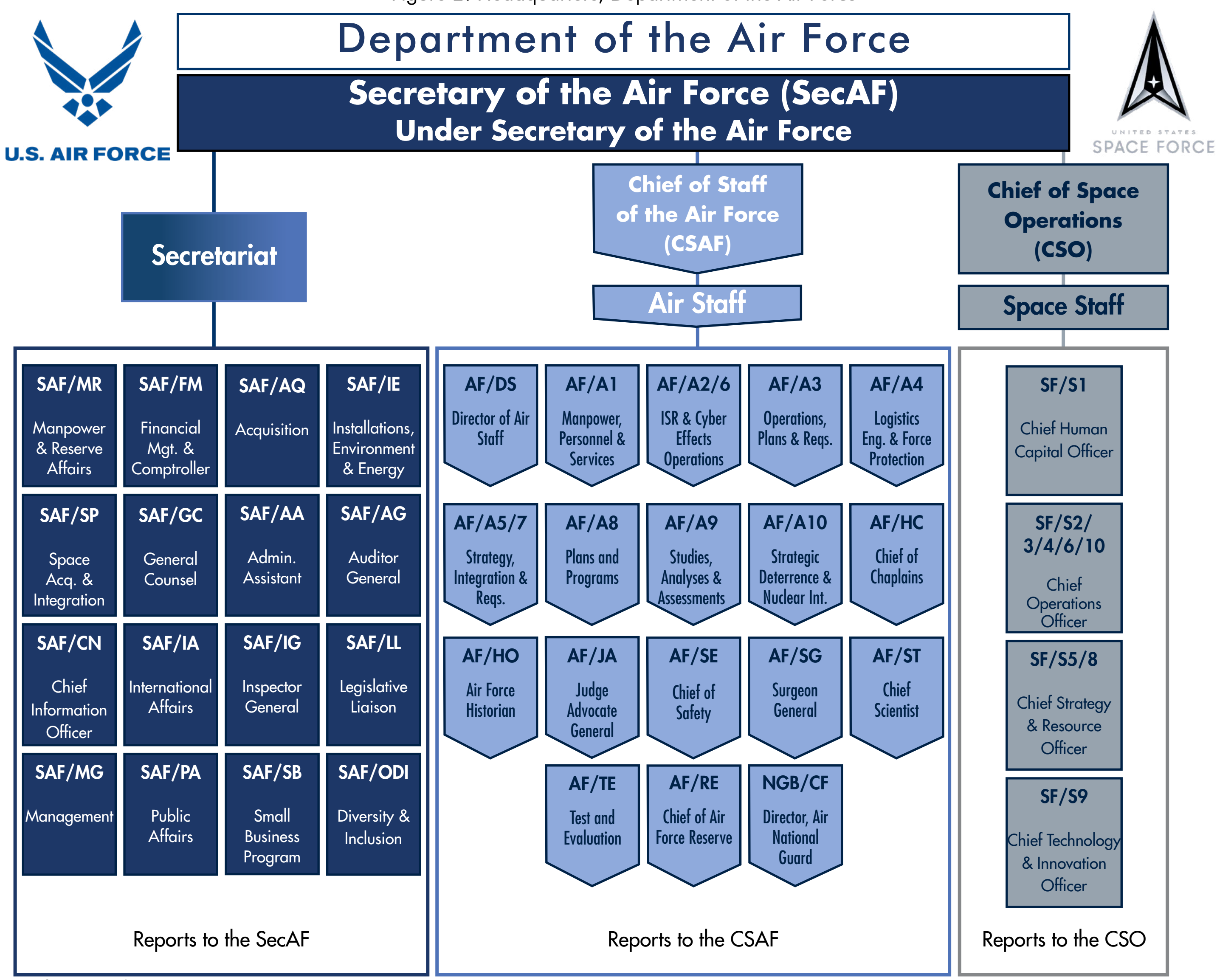
Speaking to the graduates before administering the Oath of Enlistment, Chief of Space Operations General John W. "Jay" Raymond noted the historic significance of this graduation ceremony as it was the first to send seven "of our nation's finest directly into the new United States Space Force."

The USSF planned to recruit approximately 300 enlisted members through the end of FY 2021. That number will continue to increase over time as processes for recruiting and training are solidified.

Basic military training trainees take the Oath of Enlistment during their basic military training graduation ceremony at Joint Base San Antonio-Lackland, Texas. (Photo credit: Sarayuth Pinthong)

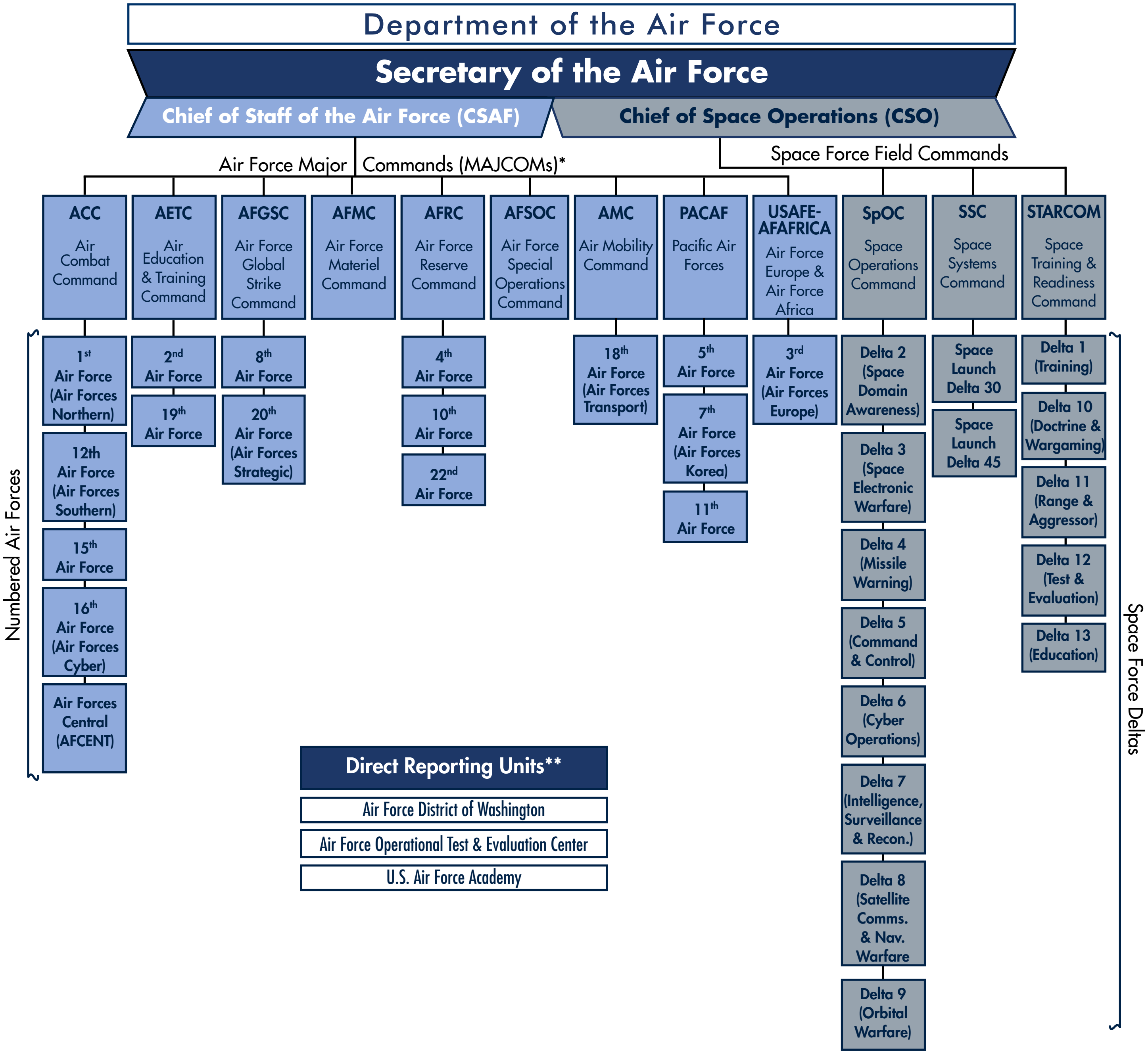
Senior Airman Alexis Hill, the youngest Airman present, Air Force Chief of Staff Gen. CQ Brown, Jr., Secretary of the Air Force Frank Kendall, Chief Master Sgt. of the Air Force JoAnne S. Bass and Gen. John E. Hyten, vice chairman of the Joint Chiefs of Staff, cut the cake during the Air Force's 74th birthday celebration at the Pentagon in Arlington, Virginia. (Photo Credit: Eric Dietrich)

Figure 2: Headquarters, Department of the Air Force



As of 30 September 2021

Figure 3: DAF Command Structure



*Air Force MAJCOMs will directly support CSO until maturity of Space Force elements
**Direct Reporting Units report to the CSAF and directly support CSO
As of 30 September 2021

Air National Guard C-130, MAFFS 9, out of Reno, Nevada, drops retardant on the Beckwourth Complex Fire near Frenchman Lake in Northern California. Many resources, including the three Air National Guard C-130s—two from Nevada and one from California assisted in battling the fire. (Photo Credit: Senior Master Sgt. Paula Macombe)

THE DEPARTMENT OF THE AIR FORCE

The DAF consists of three entities: The Office of the Secretary of the Air Force (the Secretariat), which includes the Secretary of the Air Force (the Secretary) and the Secretary's principal staff; the Air Staff, which is headed by the Chief of Staff of the Air Force (the Chief); and the United States Space Force (USSF), which is headed by the Chief of Space Operations (CSO). The Secretariat, Air Staff, and USSF help the Secretary, the Chief, and the CSO direct the DAF's mission. The Secretary has overall responsibility for the Air Force and USSF, under the guidance and direction of the Secretary of Defense.

The Secretariat. The Secretary is appointed from civilian life by the President of the United States with the advice and consent of the Senate and reports to the Secretary of Defense. To assure unit preparedness and overall effectiveness of the DAF, the Secretary is responsible for—and has the authority to conduct—all affairs of the DAF. This includes training, operations, administration, logistical support and maintenance, and welfare of personnel. The Secretary's responsibilities include research and development, and any other activity prescribed by the President of the United States or the Secretary of Defense. The Secretary exercises authority through civilian assistants and the Chief, but retains immediate supervision of activities that involve vital relationships with Congress, the Secretary of Defense, other governmental officials, and the public.

The Chief of Staff of the Air Force. The Chief is appointed by the President of the United States with the advice and consent of the Senate and typically serves a four-year term. The Chief serves as a member of the Joint Chiefs of Staff (JCS) and the Armed Forces Policy Council. In the JCS capacity, the Chief is one of the military advisers to the President of the United States, the National Security Council, and the Secretary of Defense. The Chief is also the principal adviser to the Secretary regarding the Air Force. The Chief presides over the Air Staff, transmits Air Staff plans and recommendations to the Secretary, and acts as the Secretary's agent in carrying out such plans and recommendations. The Chief is responsible for the efficiency of the Air Force, the preparation of its forces for military operations, and for activities assigned to the Air Force by the Secretary of Defense. In addition, the Chief supervises the administration of the Air Force personnel assigned to unified organizations and specified commands, and also supervises support of these forces assigned by the DAF as directed by the Secretary of Defense.

The Chief of Space Operations. The CSO is appointed by the President of the United States with the advice and consent of the Senate and typically serves a four-year term. The CSO serves as a member of the JCS. In the JCS capacity, the CSO is one of the military advisers to the President of the United States, the National Security Council, and the Secretary of Defense. The CSO is also a principal adviser to the Secretary regarding Space Operations. The CSO presides over the USSF, transmits the Office of the CSO plans and recommendations to the Secretary, and acts as the Secretary's agent in carrying out such plans and recommendations. The CSO is responsible for the efficiency of the USSF, the preparation of its forces for military operations, and for activities assigned to the USSF by the Secretary of Defense. In addition, the CSO supervises the administration of USSF personnel assigned to unified organizations and specified commands, and also supervises support of these forces assigned by the DAF as directed by the Secretary of Defense.

FIELD ORGANIZATIONS

Direct Reporting Units (DRUs), Field Operating Agencies (FOAs), Major Commands (MAJCOMs), and their subordinate elements constitute the field organizations that carry out the DAF mission. DRUs have specialized and restricted missions and are directly subordinate to the Chief or to his or her representative on the Air Staff. Currently, the DAF has three DRUs: the Air Force District of Washington, the Air Force Operational Test and Evaluation Center, and the U.S. Air Force Academy.

FOAs are a subdivision of the DAF and are directly subordinate to a Headquarters Air Force functional manager. FOAs perform field activities beyond the scope of any MAJCOM, and their activities are unique and associated with the DAF-wide mission. Currently, the DAF has more than 20 active FOAs. While DRUs, FOAs, and MAJCOMs all directly report to the Air Force Chief of Staff and directly support the CSO, DRUs and FOAs are assigned focused missions that are restricted in scope when compared to the mission of a MAJCOM.

For more information about DRUs and FOAs, go to: https://www.afhra.af.mil/Information/Organizational-Records/DRU-and-FOA/

Currently, there are nine active MAJCOMs that are assigned specific responsibilities on a functional basis in the U.S., as well as on a geographic basis overseas. MAJCOMs accomplish DAF worldwide activities and further organize, administer, equip, and train their subordinate elements to accomplish assigned missions. MAJCOM headquarters have a full range of functional staff, excluding functions that have been centralized elsewhere for DAF-wide execution.

Within MAJCOMs, the organizational structure has two schemes: unit and non-unit. Unit organizations are hierarchically organized by numbered air force, wing, group, squadron, and flight. Non-unit organizations are hierarchically organized by center, complex, directorate, division, branch, and section. The basic unit for generating and employing combat capability is the wing, which has always been the DAF's primary war-fighting instrument. Composite wings operate more than one kind of aircraft and may be configured as self-contained units designated for quick air intervention anywhere in the world. Other wings continue to operate a single aircraft type, ready to join air campaigns anywhere they are needed. Air-base and specialized-mission wings, such as training, intelligence, and test, also support the DAF mission. Within the wing, operations, logistics, and support groups are the cornerstones of the organization.

Finally, there are lead and component MAJCOMs. A lead MAJCOM consolidates responsibilities for a particular function in a single MAJCOM, supporting the entire DAF (as applicable). A component MAJCOM is the DAF component to a Unified Combatant Command. Each of the active MAJCOMs, along with their respective mission, vision statements, and functional responsibilities, are described below.

Air Combat Command (ACC)

Mission: Organize, train, and equip combat ready Airmen to control and exploit the Air on behalf of the joint force

Vision: Warrior Airmen, committed to excellence, trained and ready to fly, fight, and win...Anytime, Anyplace

As the lead command for fighter, command and control, intelligence, surveillance and reconnaissance, personnel recovery, persistent attack and reconnaissance, electronic warfare, and cyber operations, ACC is responsible for providing combat air, space, and cyber power and the combat support that assures mission success to America's warfighting commands.

For more information about ACC, go to: https://www.acc.af.mil/

Air Education and Training Command (AETC)

Mission: Recruit, train, and educate exceptional Airmen

Vision: The First Command: Developing Airmen of character - the foundation of a lethal force

AETC's mission begins with the recruitment of quality men and women with the right skills, at the right time, in the right numbers to sustain the combat capability of the DAF. AETC provides basic military training, initial and advanced technical training, flight training, and professional military and degree granting professional education.

For more information about AETC, go to: https://www.aetc.af.mil/

Air Force Global Strike Command (AFGSC)

Mission: Airmen providing strategic deterrence, global strike, and combat support… Anytime, Anywhere!

Vision: Innovative leaders providing safe, secure, and effective combat-ready forces for nuclear and conventional global strike… today and tomorrow!

AFGSC provides nuclear and conventional global strikes, a key component of strategic deterrence. AFGSC is responsible for the nation's three missile wings; the DAF's entire bomber force, to include B-52, B-1, and B-2 wings; the Long-Range Strike Bomber program; the DAF Nuclear Command, Control and Communications systems; and operational and maintenance support to organizations within the nuclear enterprise.

For more information about AFGSC, go to: https://www.afgsc.af.mil/

Air Force Materiel Command (AFMC)

Mission: Powering the world's greatest Air Force…We develop, deliver, support, and sustain war-winning capabilities

Vision: One AFMC – Collaborative, innovative, trusted, and empowered… indispensable to our Nation, disruptive to our adversaries

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 DAF weapon systems. From cradle to grave, AFMC provides the work force and infrastructure necessary to ensure the U.S. remains the world's most respected air force.

For more information about AFMC, go to: https://www.afmc.af.mil/

Air Force Reserve Command (AFRC)

Mission: Provide Combat-Ready forces to Fly, Fight, and Win

Vision: Reserve Citizen Airmen – An agile, combat-ready force answering our nation's call... Always there!

AFRC provides citizen airmen to defend the U.S. and protect its interests through aerospace power. Reservists support nuclear deterrence operations; air, space, and cyberspace superiority; command and control; global integrated intelligence surveillance reconnaissance; global precision attacks; special operations; rapid global mobility; and personnel recovery. AFRC also performs space operations, aircraft flight testing, aerial port operations, civil engineering, security forces, military training, communications, mobility support, transportation, and service missions.

For more information about AFRC, go to: https://www.afrc.af.mil/

Air Force Special Operations Command (AFSOC)

Mission: Provide the Nation's specialized airpower, capable across the spectrum of conflict … Any Place, Any Time, Anywhere

Vision: Air Commandos … Ready Today, Relevant Tomorrow, Resilient Always

AFSOC provides Air Force Special Operations Forces (SOF) for worldwide deployment and assignment to regional unified commands. The Command's SOF are comprised 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.

For more information about AFSOC, go to: https://www.afsoc.af.mil/

Air Mobility Command (AMC)

Mission: Rapid Global Mobility... Right Effects, Right Place, Right Time!

Vision: Air Mobility Warriors - Projecting Decisive Strength Across Contested Domains and Delivering Hope... Always

AMC is composed of a Total Force effort to execute rapid global mobility and enable global reach—the ability to respond anywhere in the world in a matter of hours. This is accomplished through AMC's four core mission areas: airlift, air refueling, air mobility support, and aeromedical evacuation.

For more information about AMC, go to: https://www.amc.af.mil/

Pacific Air Forces (PACAF)

Mission: To deliver agile air, space, and cyberspace capabilities in support of United States Indo-Pacific Command's objectives, uniting allies and partners to enhance regional stability and security

Vision: A lethal, innovative, and interoperable force upholding a free and open Indo-Pacific with decisive advantage from cooperation to conflict

PACAF delivers rapid and precise air, space, and cyberspace capabilities to protect and defend the U.S., its territories, and its allies and partners. PACAF provides integrated air and missile warning and defense, promotes interoperability throughout the area of responsibility, maintains strategic access and freedom of movement across all domains, and is postured to respond across the full spectrum of military contingencies in order to restore regional security.

For more information about PACAF, go to: https://www.pacaf.af.mil/

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

Mission: To forward project power across air, space, and cyber domains, defend United States interests, demonstrate warfighting readiness, and forge strong partnerships in support of United States European Command (USEUCOM) and United States Africa Command (USAFRICOM) campaign objectives

Vision: The preeminent forward-based air force – lethal, agile, highly respected, and always ready – a fully engaged partner

USAFE-AFAFRICA is the air component for two DoD unified commands—USEUCOM and USAFRICOM. USAFE-AFAFRICA executes the DAF, USEUCOM, and USAFRICOM missions with forward-based airpower and infrastructure to conduct and enable theater and global operations.

For more information about USAFE-AFAFRICA, go to: https://www.usafe.af.mil/

UNITED STATES SPACE FORCE STRUCTURE

The USSF is tasked with organizing, training, equipping, and presenting forces capable of preserving America's freedom of action in space; enabling Joint Force lethality and effectiveness; and providing independent options – in, from, and to space. The USSF organizational structure consists of USSF Headquarters (Pentagon), Field Commands (FIELDCOMs), Space Deltas, Garrisons, and Squadrons. Currently, there are three FIELDCOMs which are assigned specific responsibilities discussed further below. Within FIELDCOMs, Space Deltas focus on executing complex missions to empower rapid decision-making, Garrisons focus on providing installation support functions to the Deltas, and Squadrons provide specific operational or support capabilities.

Each of the FIELDCOMs, along with their respective mission, vision statements, and functional responsibilities, are described below:

Space Operations Command (SpOC)

Mission: Protects America and our allies in, from, and to space… now and into the future

Vision: America's Space Warfighters—Always Ready, Always Innovative, Always Above

In FY 2021, the DAF activated SpOC, which is comprised of Headquarters (HQ) SpOC and SpOC West. HQ SpOC was established from the former Air Force Space Command and is responsible for the preparation, generation, and sustainment of combat-ready intelligence, cyber, space, and combat support forces. SpOC West was established from the former 14th Air Force and is charged with conducting, integrating, and assessing global space operations in order to deliver combat-relevant space capabilities to combatant commanders, coalition partners, the joint force, and the nation. Under SpOC's purview are eight Deltas and two Garrisons. The eight Deltas focus on missions that serve a variety of functions, from space battle management and strategic missile warning, to cyber operations, supporting communication capabilities, and deterring and defeating adversary threats in space. The Buckley Garrison and Peterson-Schriever Garrisons focus on providing installation support functions, missile warning capabilities, surveillance operations, communication missions, and enable support and execution of the eight functional space mission deltas.

For more information about SpOC, go to: https://www.spoc.spaceforce.mil/

Space Systems Command (SSC)

Mission: Pioneer, develop, and deliver sustainable joint space warfighting capabilities to defend the nation and its allies and disrupt adversaries in the contested space domain

Vision: To become the premier global source for resilient joint space warfighting capabilities

In FY 2021, the DAF re-designated the Space and Missile Systems Center as SSC. SSC is responsible for developing, acquiring, equipping, fielding, and sustaining lethal and resilient space capabilities for warfighters. As part of fielding, the command is responsible for launch operations, on-orbit checkout, developmental testing, sustainment and maintenance of military satellite constellations and other DoD space systems. Under SSC's purview are Space Launch Deltas 30 and 45 and the Los Angeles Garrison. The Space Launch Deltas support launch activities including mission assurance, spacecraft processing, and various airfield operations.

For more information about SSC, go to: https://www.ssc.spaceforce.mil/

Space Training and Readiness Command (STARCOM)

Mission: STARCOM will prepare the USSF to prevail in competition and conflict through innovative education, training, doctrine, and test

Vision: *Prepare* every Guardian, *Develop* superior space capabilities, and *Deliver* warfighting solutions

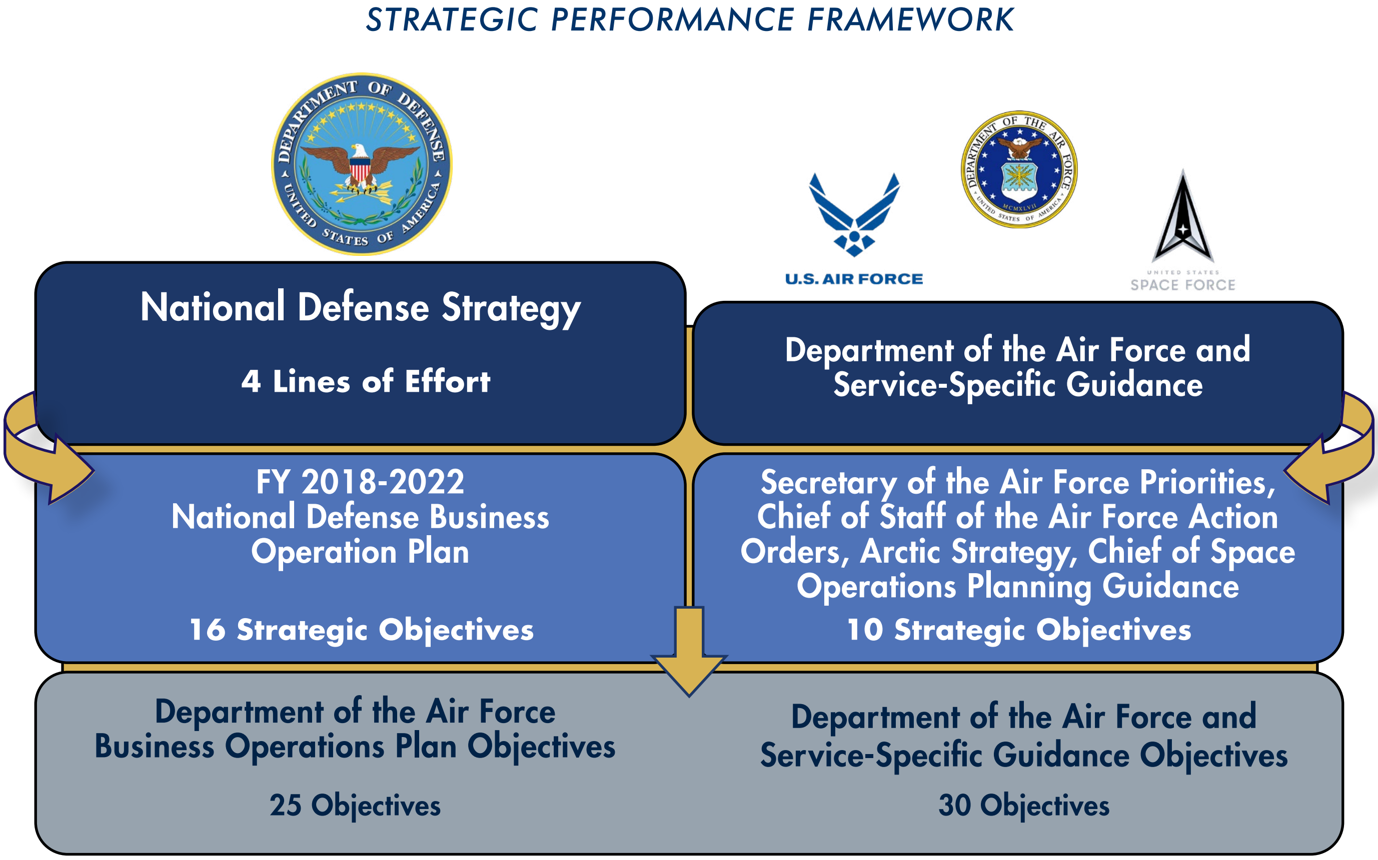
In FY 2021, the DAF activated the third command of the USSF, STARCOM. STARCOM prepares combat-ready USSF forces to fight and win in a contested, degraded, and operationally-limited environment through the deliberate development, education, and training of space professionals; development of space warfighting doctrine, tactics, techniques, and procedures; and the test and evaluation of USSF capabilities.

STARCOM's five goals are: 1) Build the USSF training enterprise, 2) Develop a domain-focused education enterprise, 3) Develop space doctrine and tactics, 4) Build the test and range infrastructure, and 5) Develop and reinforce Space Force culture. STARCOM will accomplish its goals through the missions of its five subordinate Deltas which are organized around specific functions including training and developing Guardians, developing USSF doctrine and tactics and supporting wargaming efforts, providing adversary support in the form of Space Aggressors and Space Range operations, testing and evaluating USSF capabilities, and educating and developing USSF forces.

For more information about STARCOM, go to: https://www.starcom.spaceforce.mil/

PERFORMANCE GOALS, OBJECTIVES, AND RESULTS

Figure 4. Strategic Performance Framework



The DAF is facing an increasingly complex global security environment marked by the reemergence of long-term strategic competition, rapid technological changes, and new concepts of warfare. To outpace these challenges, the DAF created a Business Operations Plan (DAFBOP). The DAFBOP established prioritized strategic objectives along with specific initiatives on how to reform business operations in support of the four lines of effort (LOEs). Three of these were originally defined in the 2018 National Defense Strategy (NDS) and a fourth was added in July 2019 by former Secretary of Defense Dr. Mark T. Esper. The four NDS LOEs are:

Figure 5. Four NDS LOEs

The DAFBOP and related business operation objectives are agile, adaptable, and continuously improved. The DAFBOP has continued to evolve and adjust for changes in the DAF's strategic direction, since it was first published in January 2019. The *Performance Goals, Objectives, and Results* section reflects the most current DAF business operations objectives, associated accomplishments, and challenges.

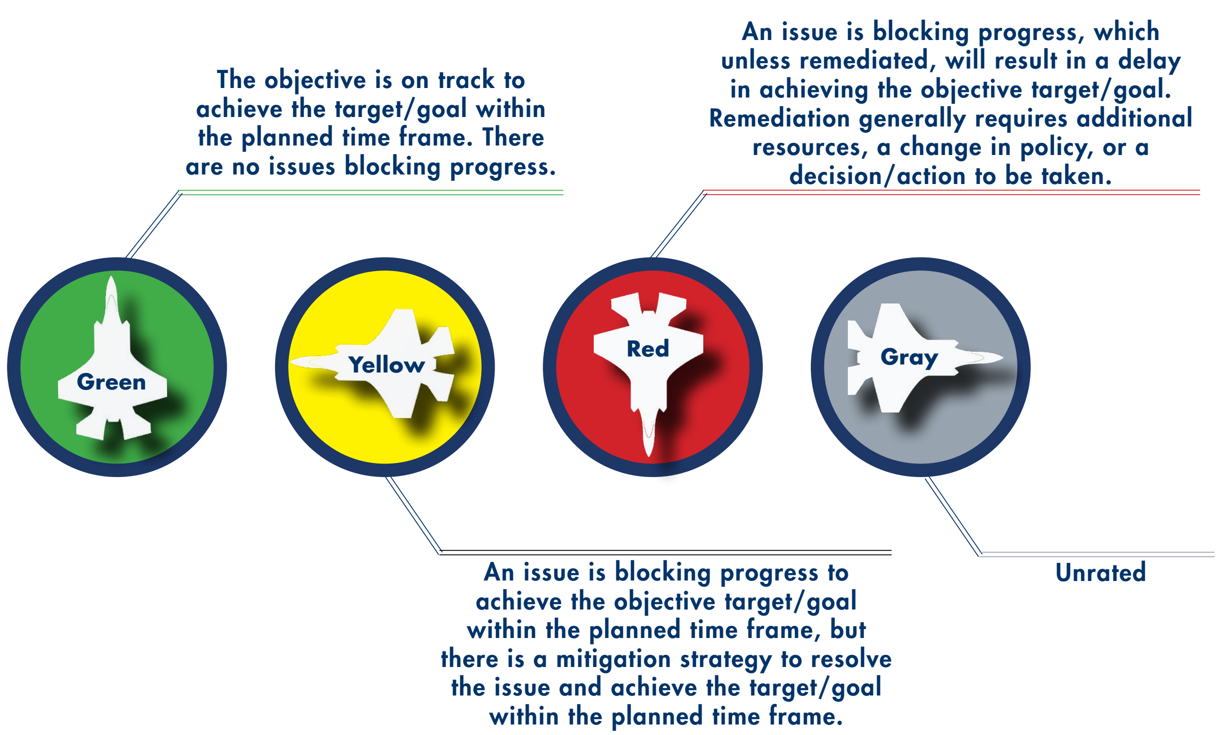
The business operations objectives are partially driven by the following DAF priorities:

1. **Build the United States Space Force (USSF)**
   Prioritize and field the newest branch of the Armed Services
2. **Modernize the Air and Space Forces We Need**
   Build a lethal and ready force
3. **Grow Strong Leaders and Resilient Families**
   Create a culture of trust that values every individual and his or her family
4. **Strengthen Our Allies and Partners**
   Deepen and develop all alliances and partnerships

Each DAF business operations objective is aligned to a strategic objective in one of the following: the FY 2018 – FY 2022 National Defense Business Operations Plan (NDBOP), Secretary of the Air Force Priorities, Chief of Staff of the Air Force Action Orders, Arctic Strategy, or Chief of Space Operations' Planning Guidance. The FY 2018 – FY 2022 NDBOP, published by the DoD Chief Management Officer, is a supplement to the NDS and is structured to directly contribute to the NDS LOEs. The Secretary of the Air Force Priorities, Chief of Staff of the Air Force Action Orders, Arctic Strategy, and Chief of Space Operations' Planning Guidance are Air Force and USSF service-specific guidance that further advance the DAF's efforts in supporting the NDS. All of the business operations objectives are aligned to an NDS LOE to support the NDS.

The DAF uses a color-coded system to assess progress made on the DAFBOP objectives and activities throughout the year. The below graphic displays this color-coded system. As of September 30, 2021, over 99% of the current DAFBOP rated objectives and activities were assessed as a yellow-coded status or better.

Figure 6. DAFBOP Color-coded Assessment



BUSINESS OPERATION PLAN OBJECTIVES AND ACCOMPLISHMENTS

The DAF is committed to continuously improving business operations to sustain the warfighter in line with the four LOEs identified in the NDS. As a result of a sustained focus on optimizing management practices to generate higher states of operational readiness the DAF has made significant progress in implementing the 55 (25 DAFBOP objectives and 30 DAF and Service-Specific Guidance Objectives) business operations objectives and achieved the selected accomplishments included below in support of the four NDS LOEs.

NDS Line of Effort 1

Rebuild Military Readiness as We Build a More Lethal Joint Force

The reemergence of long-term strategic competition in a volatile global security environment, coupled with an extended period focused on counterterrorism, has led to the imminent need to increase readiness and effectiveness. Mission success is enabled by the DAF's ability to seek innovative approaches, integrate new capabilities, adapt warfighting tactics, and reform business practices. The DAF is focused on transformative efforts in the areas of modernization, mission support, and readiness to ensure the delivery of agile and effective support to the warfighter.

Department of the Air Force Business Operations Plan Objectives

The DAF developed 28 business operations objectives to rebuild military readiness and to increase lethality. To meet these objectives, the DAF is investing in connecting the joint force, generating combat power, and conducting logistics under attack. The erosion of military capabilities has impacted all domains – air, land, sea, space, and cyberspace. To prevail against adversaries, military services and joint staff must be prepared to employ a Joint All-Domain Command and Control System where activities are synchronized among the military services, thereby requiring adversaries to defend their forces across all domains. The DAF is also focused on maintaining its dominance in space, as space capabilities have become a cornerstone of deterrence in every domain. Key objectives to rebuild military readiness include modernizing capabilities, developing critical technologies, preparing for Arctic operations and sustaining its defense, delivering innovative space capabilities, enhancing unit and personnel readiness, providing relevant and realistic training, and increasing the retention of professionals.

Select Department of the Air Force Business Operations Plan Accomplishments

- The activation of the Space Operations Command, the Space Systems Command, and the Space Training and Readiness Command enables the USSF to generate and sustain warfighting capabilities; helps identify, prototype, and field innovative, space-based solutions to deliver swift and responsive space capabilities; and aligns education, training, and test and evaluation units under one command.

- The DAF made progress on implementing a new force generational model, which will aid in training and developing Airmen and assessing readiness and capacity limits. Once fully implemented, the new model will provide predictability and sustainability for the DAF's forces, which will increase its ability to achieve long-term, high-end readiness.

- The Advanced Battle Management System, the DAF's contribution to digitally connect all elements of the U.S. military in support of the Joint All-Domain Command and Control, moved into an operational phase and will soon be in the hands of warfighters.

U.S. Space Force 1st Lt. Stephen Pitre, 1st Range Operations Squadron range engineer, wears an Inspiration4 patch on his uniform in support of the Inspiration4 launch inside the Morrell Operations Center at Cape Canaveral Space Force Station, Florida. Pitre was part of a team of Guardians, Department of Defense civilians, and U.S. Coast Guardsmen who supported the launch. (Photo Credit: Tech. Sgt. James Hodgman)

- The DAF unveiled its newest modernized fighter, the F-15EX Eagle II, allowing the DAF to sustain and support its warfighters.
- The DAF conducted field tests of the Air Launched Rapid Response Weapon, which, when fully operational, will be the nation's first hypersonic weapon. It will increase the DAF's strike capabilities by holding high-value and time-sensitive targets at risk from stand-off distances.
- The DAF added a new division to the Air Force Civil Engineer Center to modernize efforts and centralize its support of its nuclear infrastructure portfolio.
- The DAF activated the 350th Spectrum Warfare Wing to equip and optimize fielding capabilities, thereby giving the U.S. and its allies a sustainable, competitive advantage over adversaries in the electromagnetic spectrum.
- In support of the Defense Arctic Strategy, the DAF established a first-tier missile defense capability in the Arctic Region. This capability—coupled with plans to increase the size of the existing Air National Guard squadron by adding an active-duty component at Eielson Air Force Base, Alaska—will help address the new and emerging threats in the Asia-Pacific region.

Department of the Air Force Business Operations Plan Challenges

The DAF's ability to meet the objectives supporting the first LOE is challenged by nation-states increasing their military capabilities to outmatch the U.S., vulnerabilities of proliferated technology and weapons, and lack of adequately trained personnel. To mitigate these challenges, the DAF is investing in cutting-edge technology and updating its command and control infrastructure to allow better information sharing and decision management. It is also investing in modeling and synthetic simulation environments to ensure both joint warfighters and operational platforms are ready, and transforming appraisal and talent management systems to better support and develop Airmen and Guardians.

The AC-130J is a highly modified C-130J aircraft that contains many advanced features, such as an advanced two-pilot flight station with fully integrated digital avionics. (Photo Credit: U.S. Air Force)

NDS Line of Effort 2:

Strengthen Alliances As We Attract New Partners

Security cooperation is vital to the nation's prosperity and collective defense. The DAF's network of partners, allies, and emerging security partners is fundamental to helping the U.S. deter aggression, contain threats, and protect the nation's security. The DAF is committed to working alongside allies and international partners to increase global defense capabilities and capacity. The DAF is establishing the organization, policies, and practices to make alliances and partnerships central to the way the DAF does business.

Department of the Air Force Business Operations Plan Objectives

Alliances and partnerships are crucial to the DAF strategy and are the focus of the seven business operations objectives included in the second LOE. Key objectives to strengthening the DAF's alliances include reforming the security cooperation enterprise, enhancing intelligence community integration, expanding commercial and joint partnerships, and cooperating with allies and partners in Space and in the Arctic.

Select Department of the Air Force Business Operations Plan Accomplishments

- The DAF opened a new production line to support the growing demand for the F-16 Fighting Falcon from partner nations.
- Close cooperation with the National Aeronautics and Space Administration and the Department of State ensured a unified U.S. voice in discussions with foreign governments about responsible behavior in space.
- The DAF's partnership with the North Atlantic Treaty Organization (NATO) to further integrate space capabilities and knowledge led to the stand-up of the first NATO Space Operations Center within the NATO Air Command.
- The DAF signed a hosted payload agreement with a foreign partner, which allowed the DAF to accelerate a space capability by two years and realize a cost reduction of more than $900.0 million.
- The DAF participated in the Arctic Challenge Exercise 21, an exercise dedicated to planning, executing, and evaluating large force deployments for multinational air operations. Through its participation in the training, the DAF deepened defense cooperation with its Arctic allies.
- The DAF conducted experiments alongside the U.S. Northern Command, the Joint Artificial Intelligence Center, and the Undersecretary of Defense of Intelligence and Security to rapidly develop the capabilities required to increase deterrence options in competitions and crisis through a data-centric, software-based approach.

Top: Aircrew from the 210th Rescue Squadron land in their HH-60G Pave Hawk during combat search and rescue training in south-central Alaska. (Photo credit: Senior Airman Kelly Willett)

Bottom: Multi-capable Airmen of the 644th Combat Communications Squadron prepare to assist an emergency airlift with the Guam Army National Guard medical helicopter during exercise Dragon Shield at Northwest Field, Guam. (Photo credit: Staff Sgt. Ryan Brooks)

Department of the Air Force Business Operations Plan Challenges

Adversarial nations and regimes seek to undermine U.S. relationships with foreign security partners by investing in partners' infrastructure and providing military aid. To mitigate this threat, the DAF will continue to foster greater cooperation with partners and allies by investing in mutually beneficial agreements. The DAF, along with other military agencies, will work collaboratively with other federal agencies to address areas of economic, technological, and informational vulnerabilities.

NDS Line of Effort 3:

Reform the Department's Business Practices for Greater Performance and Affordability

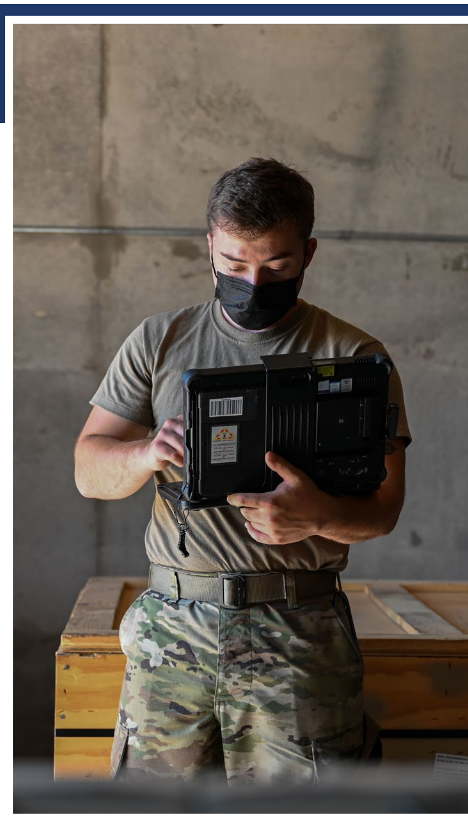
The DAF must reform business operations to generate lasting institutionalized resources to support the mission. This will allow the DAF to rehabilitate outdated business practices, prevent a drain on scarce resources, and facilitate the DAF's ability to anticipate and adapt. The DAF is placing a renewed emphasis on performance and accountability across its management approach and promoting a culture of innovation, agility, and accountability. The DAF recognizes that innovative business reform will deliver greater organizational agility and free up resources to reinvest in greater readiness to support the warfighting mission.

Department of the Air Force Business Operations Plan Objectives

The DAF developed 15 business operations objectives to reform business practices to enable greater performance and affordability. The DAF continues to optimize organizational structures to reduce unnecessary layers of bureaucracy and enable more efficient and effective decision-making. Other key business reform objectives under the third LOE include prioritizing financial improvement and audit remediation requirements, improving and strengthening business operations, leveraging enterprise or shared services, harnessing the power of data and analytics to improve decision-making and mission success, leading and executing digital enablement and transformation efforts in USSF, and conducting business at the speed of relevance to ensure cost-effective modernization.

Select Department of the Air Force Business Operations Plan Accomplishments

- An updated release of the DAF's enterprise financial management system resulted in improved business intelligence reporting, a more suitable environment for control automation, and the potential to integrate future defense business systems.
- The Space Warfighting Analysis Center (SWAC) was established under the USSF Space Operations Command and is pioneering analysis, modeling, wargaming, and experimentation to generate new operational concepts and force design options. The SWAC integrates domain expertise with unique analytic tools, datasets, and intelligence to develop operational architecture options to fulfill space missions.
- The DAF established the Digital Transformation Office to focus on creating a digital governance structure and facilitate ongoing and new digital acquisition transformation activities.
- The DAF stood up an Enterprise IT-as-a-Service (EITaaS) Security Operations Center (ESOC), which uses data-centric and commercial software tools to provide a platform to defend commercial IT networks and EITaaS systems and devices. The ESOC is increasing the automation of tasks, thereby enabling Airmen and Guardians to focus on critical security incidents.
- The DAF created an integrated master schedule to enable exception-based reporting that enhances objectivity, accountability, consistency, and transparency in audit remediation tracking and reporting.



Airman 1st Class Craig Saylor, 377th Maintenance Squadron stockpile management crew chief, inputs data into Disconnected (DISCON), a new mobile inventory application, at Kirtland Air Force Base (KAFB), New Mexico. KAFB is one of three bases to begin using DISCON to help streamline the munitions inventory process. (Photo credit: Airman 1st Class Karissa Dick)

- Through the DAF's Category Management Program, the DAF developed a Category Intelligence Report for Information Technology Asset Management, which will result in a projected cumulative cost avoidance of $500.0-$800.0 million in the next five years.

Department of the Air Force Business Operations Plan Challenges

The inability to modernize business architecture poses challenges to efficient, informed decision-making. To mitigate this risk, the DAF is engaged in transforming processes to support operationally relevant capabilities. Additionally, potential improper accounting practices (e.g., incomplete data and inaccurate recording of financial transactions), coupled with potential control gaps over financial reporting, may result in material misstatements to the DAF's financial statements. The DAF developed an audit strategy to mitigate these challenges, which includes, but is not limited to, strengthening the internal control environment over financial reporting; monitoring third-party services providers; and modernizing accounting systems to increase financial data accessibility and reliability.

NDS Line of Effort 4

Take Care of Military Personnel and Their Families to Enable Increased Readiness

The DAF enhances the peaceful instruments of diplomacy, sustains instruments of deterrence, and ensures credible consequences for aggressions: achievements that would not be possible without dedicated Airmen and Guardians. They are the DAF's greatest strategic asset. As such, the DAF remains dedicated to taking care of its people by tackling challenging issues such as the Coronavirus pandemic, mental health, and physical well-being head-on.

Department of the Air Force Business Operations Plan Objectives

The DAF developed five business operations objectives to provide the best environment for its people. The DAF will focus on increasing diversity and inclusion, developing and employing talent, building and fortifying resiliency, supporting families, and empowering Airmen and Guardians through a culture of dignity and respect.

Select Department of the Air Force Business Operations Plan Accomplishments

- The DAF implemented a Rated Diversity Improvement Strategy, which centers on attracting, recruiting, developing, and retaining a diverse-rated corps.
- The USSF created the Human Capital Office to establish a new strategy for unified talent management for all Guardians to create an inclusive and team-centric culture.
- The DAF established task force Operation Arc Care to review and strengthen resilience programs that will improve the quality of life for Airmen, Guardians, and family members.
- The DAF developed a new flexible talent management policy, which gives eligible officers the ability to opt out of promotions in certain circumstances and apply for other opportunities. This new policy aids the DAF in building and retaining personnel with the necessary attributes to compete, deter, and win in the high-end fight.
- The DAF is developing the Air Force Integrated Personnel and Pay System to streamline human resources and financial management processes, thereby enabling more accurate and timely delivery of pay, entitlements, allowances, and benefits.

U.S. Air Force Academy Class of 2021 graduates toss their service caps as the U.S. Air Force Thunderbirds fly overhead during the Academy's graduation ceremony in Colorado Springs, Colorado. (Photo credit: Trevor Cokley)

- The DAF is continuing its dedication to Airmen and Guardians and their families through the development of a Child and Youth Facilities Master Plan, which sets the strategic direction and functional prioritization for child and youth facility planning efforts. Through building safe and operational childcare facilities at Air and Space Force installations, the DAF is helping Airmen and Guardians balance the demands of mission and family life.

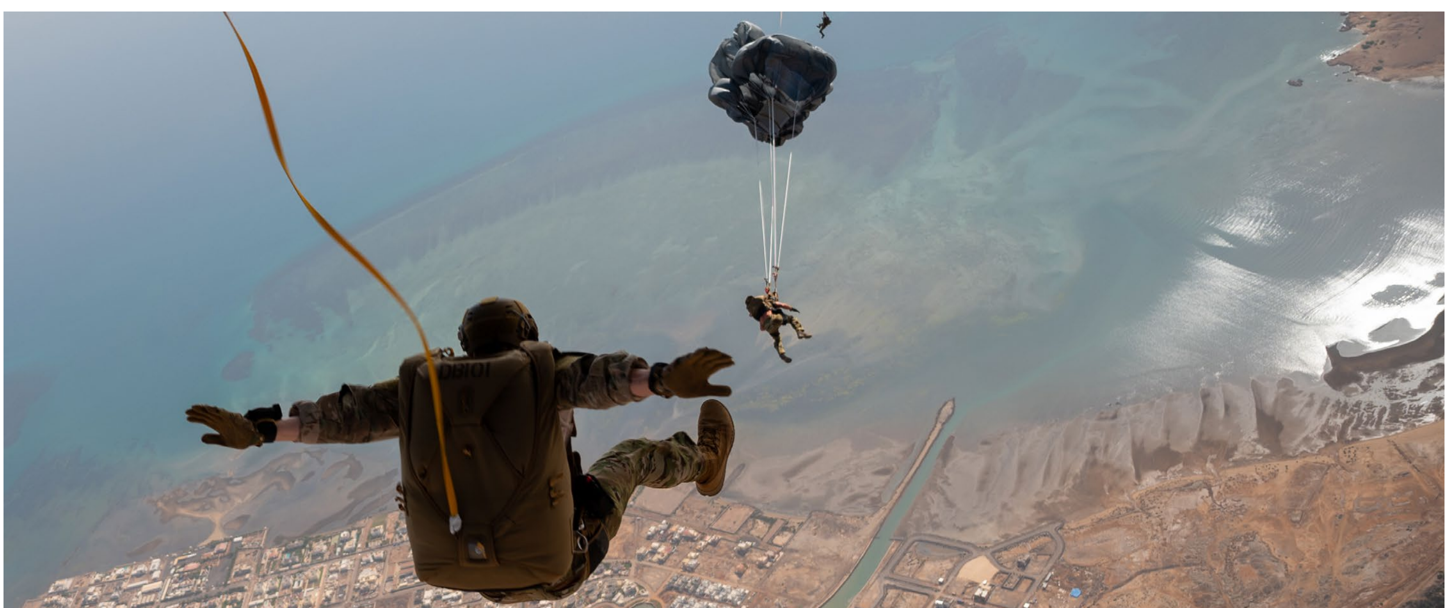
Department of the Air Force Business Operations Plan Challenges

The inability to retain forces, recruit diverse personnel, and adequately support Airmen and Guardians—both on a professional and personal level—could impact the DAF's ability to conduct operations successfully. To mitigate this threat, the DAF will continue to support its personnel by removing barriers to service; increasing diversity recruiting; and investing in greater quality of life initiatives such as housing, childcare, health care, and family support programs. The DAF is also committed to developing programs to combat sexual assault, suicide, and personal violence.

GOVERNANCE AND ACCOUNTABILITY

The DAF is committed to continuously monitoring performance and ensuring accountability for its operations and related activities through the DAF Governance Construct which consists of the Executive Leadership Team (ELT) and the Strategic Integration Forum (SIF). The ELT is chaired by the Under Secretary of the Air Force, the Vice Chief of Staff of the Air Force, and the Vice Chief of Space Operations. It is the principal governance body for deciding and implementing strategic management actions affecting the DAF. The SIF is a decision-support forum for streamlining and simplifying coordination and developing a common operating picture on critical cross-cutting issues. The chair of the SIF will vary depending on the specific decision at hand, but it will be a decision owner at the 2 or 3 Star level.

Continually, the Air Force Chief Management Officer updates the DAFBOP to consider new external and strategic factors. Business operations objective owners are responsible for evaluating progress toward achieving intended outcomes. Every quarter, business operations objective owners report progress on activity completion and adjust activities as needed to account for emerging issues, significant business operations improvements, and accomplishments. As prescribed by the Office of Management and Budget Circular A-136, *Financial Reporting Requirements*, the DAF is currently unable to link performance goals to cost categories or responsible segments in the Statement of Net Cost and the Statement of Budgetary Resources but is working with the Office of the Under Secretary of Defense and other DoD Agencies to develop a future solution.



Pararescue Airmen perform static line and military free-fall jumps from a Marine Aerial Refueler Transport Squadron-234 KC-130J over Djibouti. The airborne personnel maintain jump proficiency to support personnel recovery and combat search and rescue, and to rapidly deploy to austere locations within the area of responsibility. (Photo credit: Tech. Sgt. Daniel Asselta)

U.S. Air Force

est. 1953

The Thunderbirds perform for people all around the world to display the pride, precision, and professionalism the U.S. Air Force represents. Through air shows and flyovers, they aim to excite and inspire.

Thunderbirds

In addition to showcasing the elite skills all pilots must possess, the Thunderbirds demonstrate the incredible capabilities of the Air Force's premier multi-role fighter jet, the F-16 Fighting Falcon.

12 Officers

120+ Enlisted

7 Types of jets flown since 1953

8 Experienced Pilots

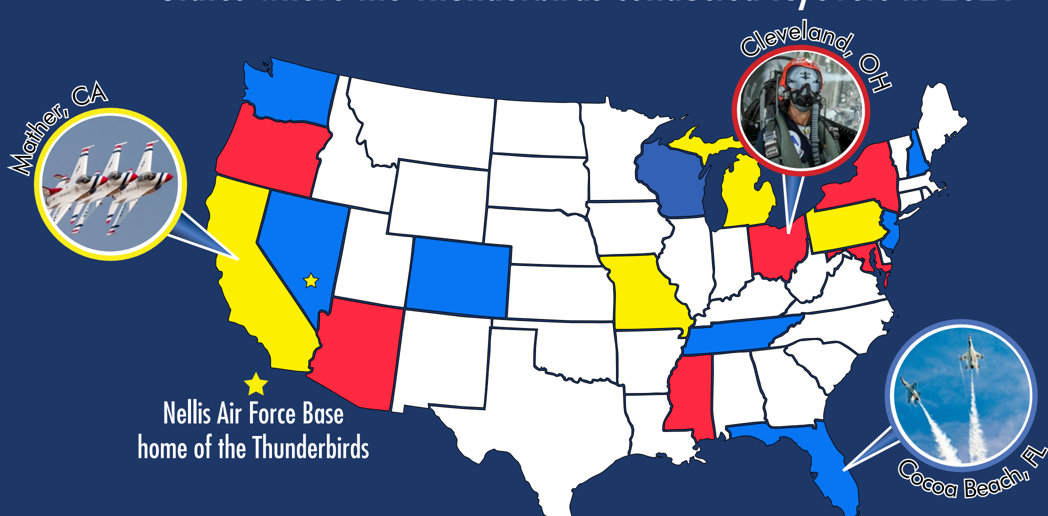
- **6** Demonstration Pilots
- **1** Operations Officer
- **1** Advance Pilot Narrator

4 Support Officers
Flight Surgeon
Executive Officer
Maintenance Officer
Public Affairs Officer

30 Career Fields Represented

1983 The year the F-16 Fighting Falcon debuted

States where the Thunderbirds conducted Flyovers in 2021



Use your phone to scan this QR code, which will take you to a video history of the Thunderbirds.

You can learn more about the Thunderbirds and their incredible mission here.

ANALYSIS OF FINANCIAL STATEMENTS

The accompanying financial statements and related note disclosures represent the DAF's enduring commitment to fiscal accountability and transparency. The DAF made progress toward improving the quality and timeliness of financial reporting through business transformation initiatives, financial systems enhancements, and expansion of the internal control program. However, due to continued limitations of financial and non-financial systems and management processes, the DAF is unable to implement all elements of Federal Generally Accepted Accounting Principles (GAAP) and Office of Management and Budget (OMB) Circular A-136, *Financial Reporting Requirements*. These limitations prevented the Independent Public Accountant from issuing an opinion on the FY 2021 DAF financial statements.

The DAF is organized into two reporting entities: the DAF GF (including the United States Space Force) and the DAF WCF. Each reporting entity has a separate set of financial statements and accompanying note disclosures comprised of the following:

- Consolidated Balance Sheet (BS)
- Consolidated Statement of Net Cost (SNC)
- Consolidated Statement of Changes in Net Position (SCNP)
- Combined Statement of Budgetary Resources (SBR)

GENERAL FUND

The DAF GF supports the core missions and overall operations of the DAF. The DAF GF is financed primarily by enacted congressional appropriations in the following five major appropriation categories:

- Military Personnel
- Operations and Maintenance
- Procurement
- Research, Development, Test, and Evaluation
- Military Construction

Financial Position

Figure 7. DAF GF Financial Position (in millions)

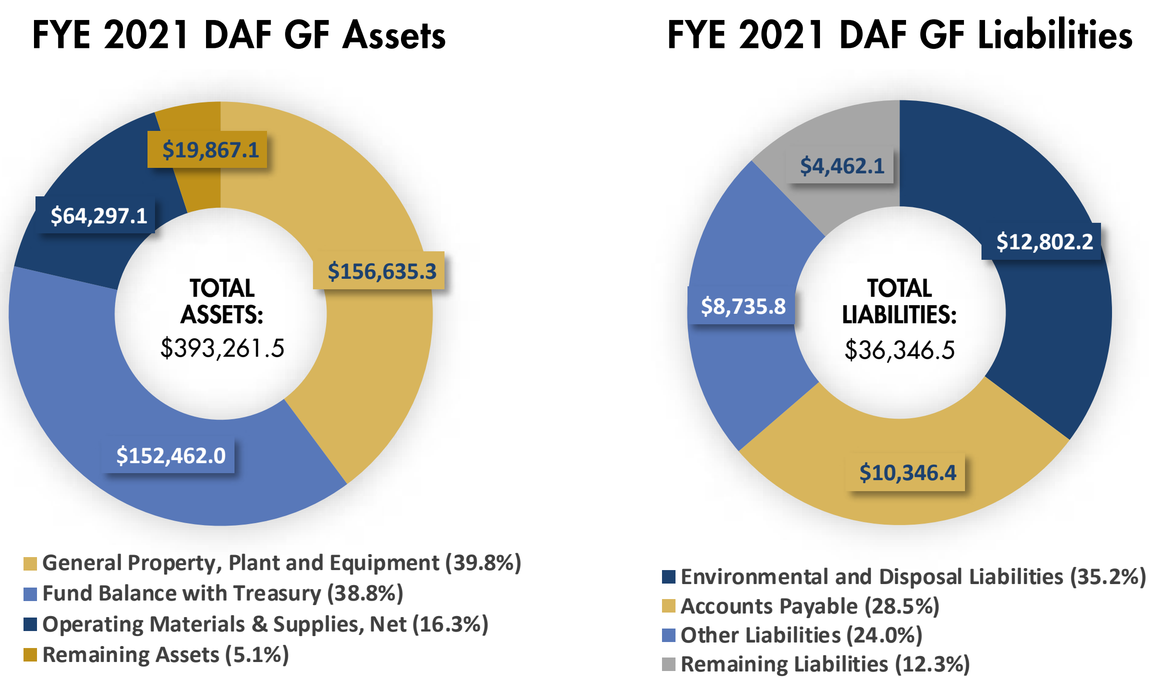
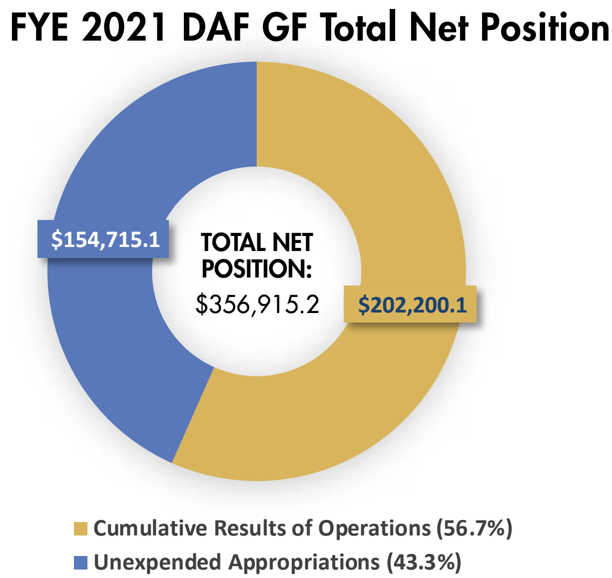


Figure 8. DAF GF Financial Position (in millions)



The Consolidated BS reports the DAF GF's amounts of future economic benefits owned or managed by the DAF GF (assets) against the amounts owed (liabilities) and the amounts that comprise the difference (net position). The DAF GF continued to report a positive Net Position on its Consolidated BS, the difference between Total Assets of $393.3 billion and Total Liabilities of $36.3 billion. The DAF GF's largest asset is General Property, Plant, and Equipment at $156.6 billion or 39.8% of Total Assets followed by Fund Balance with Treasury and Operating Materials and Supplies, Net representing an additional 55.1% of Total Assets. Significant DAF GF liabilities include Environmental and Disposal Liabilities of $12.8 billion and Accounts Payable of $10.3 billion for a combined total of approximately 63.6% of Total Liabilities.

The Consolidated SCNP represents the total Net Position, which is composed of Unexpended Appropriations and Cumulative Results of Operations. Unexpended Appropriations was $154.7 billion and Cumulative Results of Operations was $202.2 billion for a total Net Position of $356.9 billion.

Results of Operations

Figure 9. DAF GF Results of Operations (in millions)

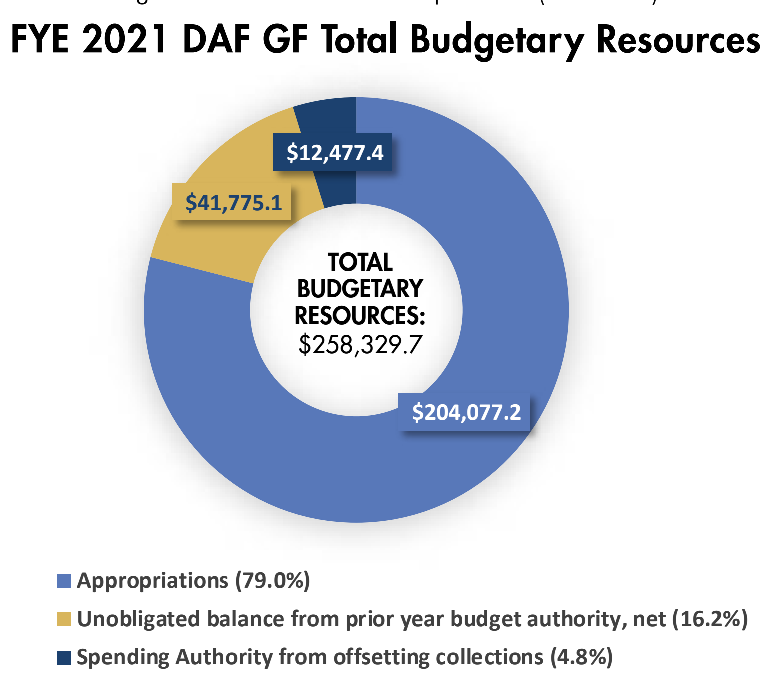
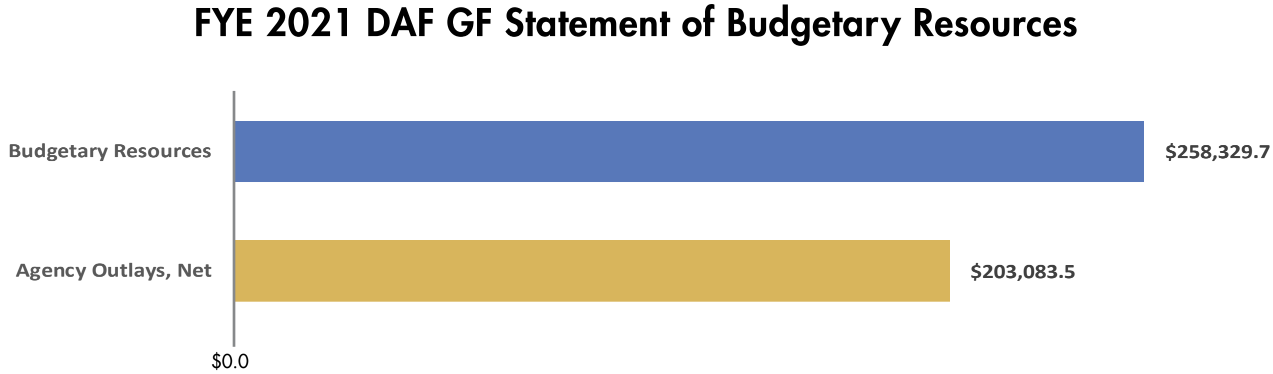


Figure 10. DAF GF Results of Operations (in millions)



The Combined SBR provides information on the budgetary resources available to the DAF GF. The DAF GF's resources consist primarily of funds received from two sources: appropriations from Congress for the current FY and unobligated balances from prior FYs. The DAF GF's Budgetary Resources and Net Outlays were approximately $258.3 billion and $203.1 billion at FYE 2021. The enacted appropriations of $204.1 billion represent 79.0% of total budgetary resources. The DAF GF obligated $218.6 billion of the $258.3 billion Total Budgetary Resources in FY 2021. The remaining $39.7 billion or 15.4%, of available funding remained unobligated as of the end of FY 2021.

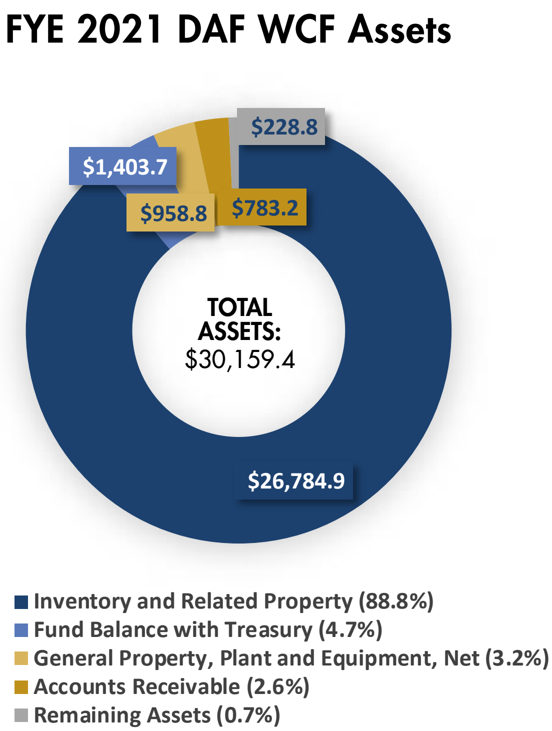
The Consolidated SNC represents the net cost of programs and organizations of the DAF GF supported by appropriations or other means. It provides gross and net cost information related to the amount of output or outcome for a given program or organization administered by a responsible reporting entity. The DAF GF Net Cost of Operations was $200.5 billion in FY 2021.

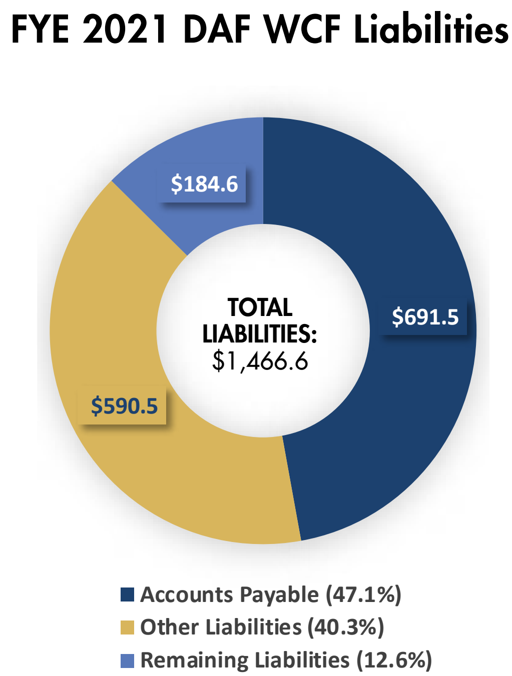
WORKING CAPITAL FUND

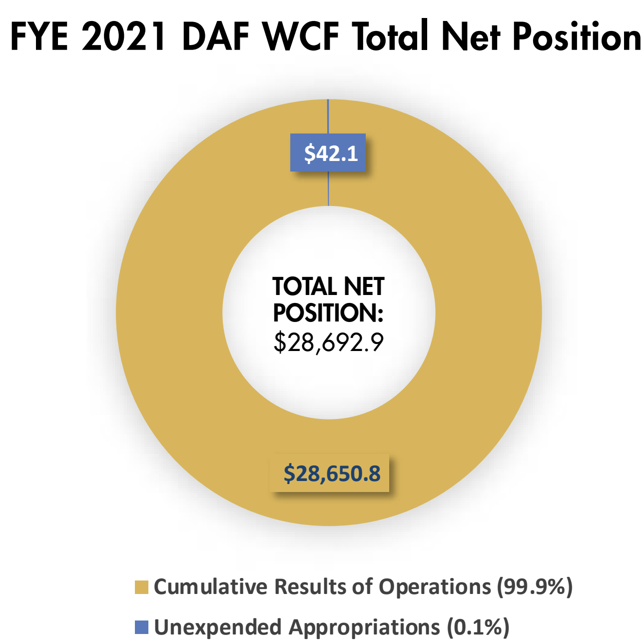
The DAF WCF activities provide maintenance services, weapon system parts, and base and medical supplies in support of the DAF core functions. The DAF WCF is designed to be a self-sustaining, "business-like" activity that generates revenue from providing goods and services. It is integral to readiness and sustainability of DAF's air and space assets and its ability to deploy forces around the globe in support of Overseas Contingency Operations and National Military Strategy requirements. Directly and indirectly, the DAF WCF activities provide warfighters the key services needed to meet mission capability requirements.

Financial Position

Figure 11. DAF WCF Financial Position (in millions)





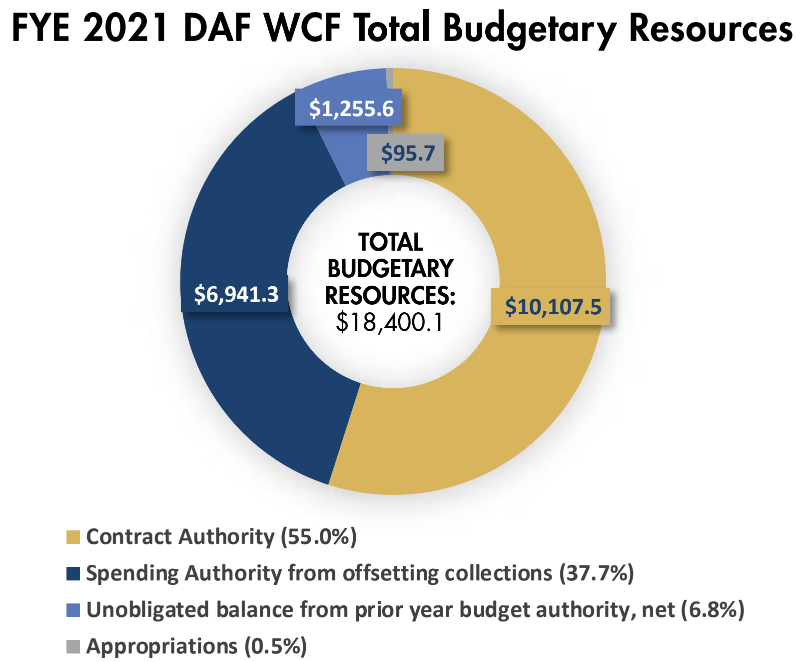


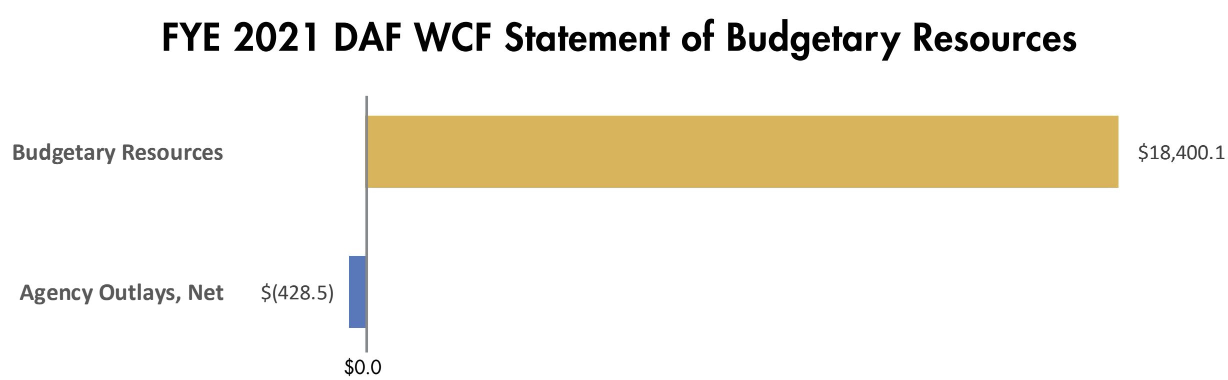
The Consolidated BS reports the DAF WCF's amounts of future economic benefits owned or managed by the DAF WCF (assets) against the amounts owed (liabilities) and the amounts that comprise the difference (net position). The DAF WCF continued to report a positive Net Position on its Consolidated BS, the difference between Total Assets of $30.2 billion and Total Liabilities of $1.5 billion. Inventory and Related Property represents the DAF WCF's largest asset at $26.8 billion or approximately 88.7% of Total Assets, while Accounts Payable represents the DAF WCF's largest liability at $691.5 million or approximately 47.1% of Total Liabilities.

The Consolidated SCNP represents the total Net Position, which is composed of Unexpended Appropriations and Cumulative Results of Operations. Unexpended Appropriations was $42.1 million and Cumulative Results of Operations was $28.7 billion for a total Net Position of $28.7 billion.

Results of Operations

Figure 12. DAF WCF Results of Operations (in millions)





The Combined SBR provides information on the budgetary resources available to the DAF WCF. The DAF WCF's Budgetary Resources are a culmination of unobligated balances from the prior year budget authority, appropriations, contract authority, and spending authority from offsetting collections. The DAF WCF's Budgetary Resources and Net Outlays were approximately $18.4 billion and $(428.5) million at FYE 2021. The DAF WCF's resources from Contract Authority and Spending Authority from offsetting collections represent $17.0 billion or approximately 92.4% of total budgetary resources. The DAF WCF obligated $17.2 billion of the $18.4 billion Total Budgetary Resources in FY 2021. The remaining $1.2 billion or approximately 6.5%, of available funding remained unobligated as of the end of FY 2021.

The Consolidated SNC represents the gross cost incurred by the DAF WCF to conduct its operations less any exchange revenues earned from its activities. The DAF WCF Net Cost of Operations was $(135.8) million in FY 2021.

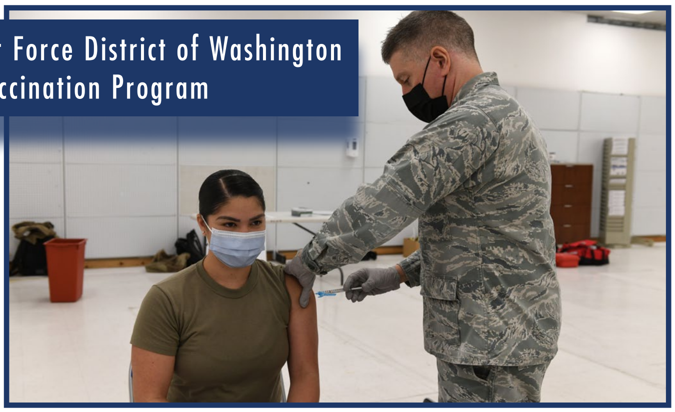
CORONAVIRUS DISEASE 2019 RESPONSE FUNDING

On March 11, 2020, the World Health Organization declared Coronavirus Disease 2019 (COVID-19) a pandemic. In response to the impacts of COVID-19, the President of the United States signed multiple bills into law to assist with preventing the spread of the virus and to mitigate the negative economic impacts. One of these laws, the *Coronavirus Aid, Relief, and Economic Security* (CARES) Act (H.R. 748-240; Public Law 116-136), signed on March 27, 2020, provided supplemental appropriations to the DAF. Of the total $1.7 billion CARES Act funds received and reprogrammed in FY 2020, $1.6 billion was obligated with the remaining unobligated balance of $100.3 million carried forward to FY 2021. The DAF did not receive any additional appropriations for FY 2021. Throughout FY 2021, the DAF disbursed $326.4 million, which was used for base support, operation support programs and various administrative and personnel costs. Please refer to the DAF GF Footnote 27, COVID-19 Activity for additional information on the impacts of COVID-19.

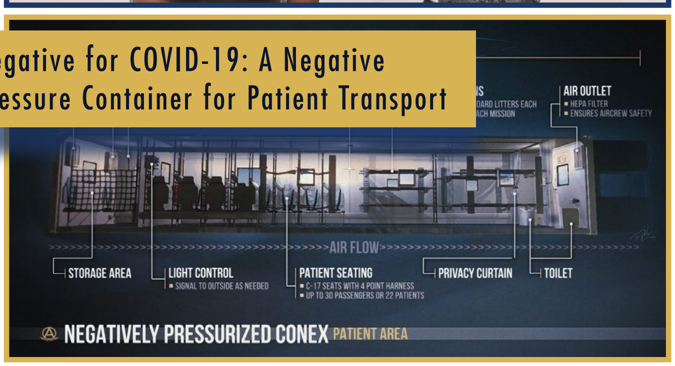
Total Force Responds to COVID-19

From Civil Air Patrol's on-going humanitarian response, to the Air Force Reserve's deployment of medical personnel with testing kits and ventilators, and the active-duty Air Force and Air National Guard's support of the Federal Emergency Management Agency's vaccination operations, the DAF's response to the COVID-19 pandemic has been vast, swift, and strategic.

Click the images (online version only) below for a closer look at how the Total Force has dedicated manpower, airpower, and resources to fight the COVID-19 pandemic over the last year.


Air Force District of Washington Vaccination Program


US sends medical supplies to India by way of 60th Air Mobility Wing



Negative for COVID-19: A Negative Pressure Container for Patient Transport


Nevada Air Guard's 'Baby Doc' a Leader in Pandemic Battle


First AF's 64th AEG Airmen support COVID-19 Response in 30 States


Civil Air Patrol Completes Full Year of COVID-19 Support

LIMITATIONS OF THE FINANCIAL STATEMENTS

The principal financial statements are prepared to report the financial position, financial condition, and results of operations, pursuant to the requirements of 31 U.S. Code, § 3515(b). The statements are prepared from records of federal entities in accordance with GAAP published by the Federal Accounting Standards Advisory Board and the formats prescribed by OMB. Reports used to monitor and control budgetary resources are prepared from the same records. Users of the statements are advised that the statements are for a component of the U.S. Government. The DAF is unable to fully implement all elements of GAAP and OMB A-136, due to limitations of financial and non-financial management processes and systems that support the financial statements. Additional effort toward full compliance with GAAP for the accrual method of accounting is encumbered by various system limitations and the nature of the DAF activities.

Capt. Brittany Dippel, 36th Fighter Squadron F-16 Fighting Falcon pilot, prepares for flight at Osan Air Base, South Korea. Prior to takeoff, pilots perform pre-flight inspections to ensure their aircraft are safe, serviceable, and ready to fly. (Photo credit: Airman 1st Class Nicole Molignano)

ANALYSIS OF SYSTEMS, CONTROLS, AND LEGAL COMPLIANCE

The DAF's Commanders and Managers are responsible for ensuring the integrity of their systems and controls, as well as compliance with applicable laws and regulations. A key element of this responsibility is adherence to the requirements of the *Federal Financial Management Improvement Act of 1996* (FFMIA) and the *Federal Managers' Financial Integrity Act of 1982* (FMFIA) for internal controls addressing financial and non-financial reporting, financial systems, and operations. Accessible financial information and effective internal controls increase accountability and transparency, thereby enhancing public confidence in the DAF's stewardship of public resources. The DAF continues to design and implement internal control activities to improve the integration of business processes, systems, and financial reporting to eliminate errors that could lead to misstatement or noncompliance with laws and regulations.

MANAGEMENT ASSURANCES

The DAF performed its annual assessment of risks and internal controls in accordance with the Office of Management and Budget (OMB) Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*, and the Government Accountability Office (GAO)-14-704G, *Standards for Internal Control in the Federal Government* (the Green Book). Based on the results of this assessment, the DAF achieved the following management assurance levels as of September 30, 2021:

- Internal Controls over Reporting (ICOR) – reasonable assurance, except for 20 material weaknesses
- Internal Controls over Operations – reasonable assurance, except for 14 material weaknesses
- Internal Controls over Financial Systems – reasonable assurance, the DAF internal controls over financial systems conform to the objective of FFMIA and OMB A-123, Appendix D, except for two material weaknesses
- Entity Level Controls, including fraud – reasonable assurance, except for one material weakness that is already included in the ICOR material weakness, *Oversight and Monitoring of Internal Control*.

Refer to the Other Information section of the Agency Financial Report (AFR) for the listing of material weaknesses identified by the Independent Public Accountant (IPA). In its financial statement audit, the IPA does not report on deficiencies (including material weaknesses) in internal control over operations. However, the DAF management does report material weaknesses in internal control over operations. Note that differences may exist between the material weaknesses identified by the IPA and those identified by DAF management; these differences are a function of timing between the Statement of Assurance issuance and the date of the Auditor's Report. The DAF concurs with the material weaknesses identified by the IPA which are consistent with those identified by DAF management after consideration for current year material weakness downgrades.

INTERNAL CONTROLS GOVERNANCE

In FY 2021, the DAF leveraged the new governance construct, the Strategic Integration Forum (SIF), to convene the Risk Management Council and Senior Management Council to provide oversight of enterprise risk management and internal control activities over operations. Risk Management Council responsibilities focus on approving the DAF Enterprise Risk Profile and holding enterprise risk owners accountable for driving enterprise risk management efforts. Primary responsibilities of the Senior Management Council include monitoring deficiencies in internal control in accordance with OMB A-123 and the Green Book to oversee the timely implementation of corrective actions related to operational material weaknesses. The DAF continued to leverage the Executive Steering Committee (ESC) to fulfill the role of the Senior Assessment Team (SAT) in FY 2021. In its role as the SAT, the ESC assesses the implementation progress of corrective action plans (CAPs) for financial reporting and financial systems material weaknesses. Additionally, the DAF is designing an Enterprise Governance, Risk, and Compliance tool to streamline and automate the OMB A-123 program. It will serve as the official repository for objectives, risks, controls, tests of controls, conclusions, deficiencies, and CAPs.

INTERNAL CONTROL OVER REPORTING

In FY 2021, the DAF continued to improve the quality of its business process documentation to include risks and internal controls over reporting. The DAF self-assessed key internal controls within its business processes and evaluated the results of external audits, identifying 20 total uncorrected material weaknesses, comprised of 11 DAF GF and 9 DAF WCF material weaknesses.

The tables below include the 20 material weaknesses in internal control over reporting, along with the corresponding corrective actions.

Table 1. Fiscal Year 2021 Material Weaknesses in Internal Control over Reporting

Uncorrected DAF GF Internal Control over Reporting Material Weaknesses			
Internal Control Reporting Category	Title of Material Weakness	Summary of Corrective Actions	Targeted Correction Date
Budget-to-Report	Accumulating and Preparing Financial Statements	Enhance or establish controls and processes over the AFR compilation, the assessment and implementation of federal accounting standards, and the quarterly financial statement variance analysis.	FY 2024
Multiple	Oversight and Monitoring of Internal Control	Continue assessment of the entity-level control environment through processes that evaluate design and test operational effectiveness of controls. Implement an OMB A-123 Enterprise Risk Management Framework. Design and implement a service provider monitoring process.	FY 2021
Acquire-to-Retire	Property and Materials Held by Others	Implement an accountable property system of record (APSR) to financially report contractor managed and/or possessed property not currently in a government APSR. Execute contract modifications, when necessary, to enforce contract oversight and vendor reporting requirements.	FY 2026
Plan-to-Stock	Operating Materials and Supplies (OM&S)	Improve the process to value and record newly acquired OM&S and enhance procedures to record ongoing OM&S activities.	FY 2026
Acquire-to-Retire	Real Property	Obtain documentation to support baseline valuation using deemed cost. Implement procedures to record actual cost of Real Property, facility construction-in-progress (CIP) and depreciation. Complete transition from legacy APSR Information Technology (IT) systems to Next Generation IT systems.	FY 2025
Budget-to-Report	Integration and Reconciliation of Financial Systems	Develop and implement an integrated financial management system to meet federal system requirements, comply with federal accounting standards, post transactions, and report in compliant formats.	FY 2026
Budget-to-Report	Fund Balance with Treasury (FBwT)	Perform historical trend analysis to determine estimated amounts for quarterly accrual journal voucher (JV) entries to enhance the accuracy of the non-FBwT side of the undistributed JV entries. Enhance DAF monitoring over the Consolidated Cash Accountability System reconciliation through reperformance. Develop, implement, and monitor policies and procedures that mitigate the underlying root cause of variances at a voucher detail level.	FY 2022
Budget-to-Report	Contingent Legal Liabilities	Design and implement controls and procedures to address gaps in financial statement assertions including assessment for likelihood and estimate of loss.	FY 2021
Acquire-to-Retire	Other General Equipment	Develop and implement policies and procedures to account for full costs of new acquisitions, including CIP, for accurate financial statement reporting.	FY 2024

Uncorrected DAF GF Internal Control over Reporting Material Weaknesses			
Internal Control Reporting Category	Title of Material Weakness	Summary of Corrective Actions	Targeted Correction Date
Procure-to-Pay	Accounts Payable, Expenses/ Gross Costs and Accounting for Contract Financing Payments (CFP)	Reconcile material budgetary and proprietary accounts, document and establish process to verify balances, monitor and test controls, and implement system change requests to post CFP to the proper financial statement line item.	FY 2023
Acquire-to-Retire	Military Equipment (ME)	Correct errors in reporting the ME balances on the financial statements. Implement a process to account for and capture aircraft modification CIP on the financial statements.	FY 2022

Uncorrected DAF WCF Internal Control over Reporting Material Weaknesses			
Internal Control Reporting Category	Title of Material Weakness	Summary of Corrective Actions	Targeted Correction Date
Budget-to-Report	Fund Balance with Treasury	Implement procedures to include supporting documentation in each DAF WCF JV package that reconciles FBwT to reported treasury activity.	FY 2022
Budget-to-Report	Accumulating and Preparing Financial Statements	Develop and implement a more comprehensive oversight program to include a robust data analytics environment. Routinely perform data analysis, ensuring identification, and resolution of potential unusual transactions and balances.	FY 2023
Acquire-to-Retire	General Property, Plant, and Equipment	Perform General Equipment risk assessment, design and implement effective control activities, evaluate control gaps, maintain sufficient documentation, and monitor controls.	FY 2021
Order-to-Cash	Earned Revenue	Perform revenue risk assessments, validate design and effectiveness of control activities, evaluate control gaps, maintain sufficient documentation, and monitor control sustainment activities.	FY 2024
Multiple	Oversight and Monitoring of Internal Control	Implement and execute the DAF WCF's OMB A-123 program. Develop and maintain supporting documentation for the Statement of Assurance as evidence that the DAF WCF identified assessable units, developed CAPs, and tracked progress toward remediation.	FY 2022
Budget-to-Report	Integration and Reconciliation of Financial Systems	Develop and implement an integrated financial management system to meet federal system requirements, comply with federal accounting standards, and post transactions, and report in compliant formats.	FY 2028
Plan-to-Stock	Inventory Held by the DAF Working Capital Fund	Improve depot, base, and medical/dental inventory count procedures; controls over inventory transactions; and in-transit inventory accountability.	FY 2025
Plan-to-Stock	Inventory Held by Others	Implement internal controls related to the review of Defense Logistics Agency (DLA) managed inventory balances recorded by the DAF. Develop a process to routinely monitor inventory variances between DLA and the DAF WCF and adjust the two sets of records to the actual inventory on hand. Address issues with inventory held by contractors and other defense organizations.	FY 2025
Procure-to-Pay	Accounts Payable, Expenses/ Gross Costs and Accounting for Contract Financing Payments	Reconcile material budgetary and proprietary accounts, document and establish a process to verify balances, monitor and test controls, and implement system change requests to post CFP to the proper financial statement line item.	FY 2023

INTERNAL CONTROL OVER FINANCIAL SYSTEMS

The DAF is committed to improving financial and financial feeder IT systems across the enterprise and has established a goal of achieving a modernized, sustainable, and audit-compliant portfolio of its financial systems, including feeder systems and applications, as efficiently and cost-effectively as possible. The DAF continues to make progress toward effective internal controls, standardized business processes, integrated financial/feeder systems, and a workforce marked by human capital leading practices.

In FY 2021, the DAF developed an enterprise IT roadmap that tracks the audit remediation activities for Financial Improvement and Audit Remediation (FIAR) systems. The roadmap guides the DAF's remediation and IT modernization efforts while ensuring that relevant FIAR systems comply with Standard Financial Information Structure and Standard Line of Accounting requirements. The DAF will continue to implement an audit strategy to proactively identify and remediate the most significant risks and deficiencies impacting material financial statement line items and key IT systems. In accordance with applicable requirements and standards (e.g., FFMIA and Federal Information System Controls Audit Manual (FISCAM)), the DAF targeted high priority IT systems (DAF owned and third-party) by conducting proactive internal control assessments to ensure Notices of Findings and Recommendations (NFRs) and Self-Identified Deficiency conditions are identified, remediated, and do not reoccur. For example, the DAF analyzed, assessed, and completed IT control testing based on FISCAM for 10 DAF systems.

The DAF submitted 104 IT NFRs to the IPA for closure, with more than half pertaining to access controls, a primary Secretary of Defense priority. Remediating access control deficiencies helps to safeguard sensitive data from unauthorized access and misuse. In addition, the DAF continues to implement CAPs to improve the monitoring and evaluation of risks associated with third-party service providers by implementing monitoring and oversight policies, procedures, and analysis for third-party systems and processes (e.g., System and Organization Control reports, memorandums of understanding/agreements, system populations, and complementary user entity controls) in accordance with OMB A-123.

In FY 2021, the DAF modernized some of its legacy systems by implementing scalable and integrable solutions, including an Identity, Credential, and Access Management (ICAM) strategy, to improve operational effectiveness and compliance with regulatory requirements. As a result, the DAF expects to complete four ICAM pilots in FY 2021 and accelerate ICAM implementation in the coming years. The implementation of ICAM capabilities in IT solutions will further support the closure of CAPs. Lastly, the DAF is leveraging automation (e.g., robotic process automation (RPA)) to remediate audit findings and reduce its reliance on manual controls and processes. RPA uses current DAF applications and systems to help monitor and execute repetitive processes. The implementation of these automations allows for a reassessment and improvement of processes, the elimination of manual entries, enhancement of error-handling, and helps to address and solve audit shortcomings and NFRs. For example, RPA helped address and remediate IT NFRs by validating that user accounts have appropriate access rights and ensuring the completeness and accuracy of audit log validation through Job Order Cost Accounting System II Security Event Monitoring.

The table below describes the two material weaknesses in internal control over financial systems, along with the corresponding corrective actions for the DAF GF and the DAF WCF.

Table 2. Fiscal Year 2021 Material Weaknesses in Internal Control over Financial Systems

Uncorrected DAF GF Internal Control over Financial Systems Material Weaknesses			
Internal Control Reporting Category	Title of Material Weakness	Summary of Corrective Actions	Targeted Correction Date
Information Technology	Financial Information Systems	Develop and implement an integrated financial management system to meet federal system requirements, comply with federal accounting standards, post transactions, and report in compliant formats.	FY 2026

Uncorrected DAF WCF Internal Control over Financial Systems Material Weaknesses			
Internal Control Reporting Category	Title of Material Weakness	Summary of Corrective Actions	Targeted Correction Date
Information Technology	Financial Information Systems	Develop and implement an integrated financial management system to meet federal system requirements, comply with federal accounting standards, post transactions, and report in compliant formats.	FY 2026

INTERNAL CONTROL OVER OPERATIONS

In FY 2021, the DAF leveraged the SIF to continue to manage key risks that could impede or impair the delivery of the DAF strategic objectives and identify, assess, and monitor material weaknesses over operations.

The table below describes the 14 material weaknesses in internal control over operations, along with the corresponding corrective actions.

Table 3. Fiscal Year 2021 Material Weaknesses in Internal Control over Operations

Uncorrected Internal Control over Operations Material Weaknesses			
Internal Control Reporting Category	Title of Material Weakness	Summary of Corrective Actions	Targeted Correction Date
Contract Administration	Defense Contract Management Agency Contracts	Accelerate the performance of contract audits and reconciliations to a monthly basis review and support of rate settlement work, and validate contractor estimates for de-obligations.	FY 2025
Other	Overseas Housing Allowance (OHA)	Provide training to all personnel involved in OHA entitlements and documentation. Review and revise local leases to remove ambiguity.	FY 2022
Security	Enterprise Information Protection Capability	Establish DAF instructions to address revised Information Protection program requirements. Establish Information Protection Office (IPO) governance processes to monitor and assess progress and to update and standardize IPO self-inspection checklists.	FY 2021
Information Technology	Segregation of Duties in Defense Travel System (DTS) Controls	Update Air Force DTS Business Rules with enhanced guidance on DTS permission levels. Perform permission and voucher approval audits and annual Staff Assistance Visits at the installation level. Establish oversight procedures to ensure implementation of requirements, segregation of duties, and permissions levels are addressed.	FY 2022
Personnel and Organizational Management	Foreign Government Employment	Ensure recoupment actions are completed for personnel employed by a foreign government, revise Air Force Instruction to define offices responsible for communicating approval processes, and establish internal control processes.	FY 2022
Other	Criminal Data Reporting Requirements	Further codify DAF Criminal Justice Information Cell with Initial Operating Capability to oversee all criminal data and reporting with Air Force Office of Special Investigations.	FY 2023
Security	Cybersecurity of Network Component Purchases	Develop and document a process to ensure network component purchases are documented in the DAF accountable record upon receipt. Update the DAF Enterprise Configuration Monitoring Strategy to investigate, identify, and disseminate monitoring tools and techniques at the network component level.	FY 2021
Security	Cyber Security Control of Assessment Systems	Develop a new compliance tracking system.	FY 2022

Uncorrected Internal Control over Operations Material Weaknesses			
Internal Control Reporting Category	**Title of Material Weakness**	**Summary of Corrective Actions**	**Targeted Correction Date**
Comptroller and Resource Management	Marketing and Recruiting Programs	Institute marketing and advertising, financial management, program management, and contracting training for component recruiting personnel. Establish controls over promotional requirements and tracking.	FY 2022
Security	Networked Data Protection	Perform Air Force Privacy Office workload studies and associated manning adjustments as necessary to provide privacy program oversight, centrally manage breach reporting, institute trainings, and reinforce privacy controls.	FY 2023
Comptroller and Resource Management	F-35 Cooperative Training	Require the designated organization to establish oversight responsibility to verify that personnel execute the program, develop firm cost allocation methodologies, and escalate processes related to execution issues.	FY 2022
Contract Administration	Contracting Officer Representatives (COR)	Ensure that a qualified COR is designated for all service contracts. Retain and execute contract oversight responsibilities. Enhance existing process to further reduce improper payments.	FY 2022
Information Technology - Business System Modernization	Software Use	Develop a plan to deploy a reliable software asset accountability system.	FY 2023
Force Readiness	Integrated Base Defense Security System Risk Management Framework	Develop training for personnel to implement and manage the risk management framework process and maintain compliance.	FY 2022

STATEMENT OF ASSURANCE

SECRETARY OF THE AIR FORCE
WASHINGTON

04 OCT 2021

MEMORANDUM FOR OFFICE OF THE UNDERSECRETARY OF DEFENSE (COMPTROLLER) (OUSD(C)) DEPUTY CHIEF FINANCIAL OFFICER (DCFO)

SUBJECT: Annual Statement of Assurance Required Under the Federal Managers' Financial Integrity Act (FMFIA) for Fiscal Year 2021

As Secretary of the Air Force, I recognize the Department of the Air Force (DAF) is responsible for managing risks and maintaining effective internal control to meet the objectives of Sections 2 and 4 of the Federal Managers' Financial Integrity Act (FMFIA) of 1982. The DAF conducted its assessment of risk and internal control in accordance with the Office of Management and Budget (OMB) Circular No. A-123, "Management's Responsibility for Enterprise Risk Management and Internal Control" and the Green Book, GAO-14-704G, "Standards for Internal Control in the Federal Government." This internal review also included an evaluation of the internal controls around our Security Assistance Accounts' (SAA) activities. Based on the results of the assessment, the DAF can provide reasonable assurance, except for the (2) significant deficiencies and thirty-six material weaknesses reported in the "Significant Deficiencies and Material Weaknesses Template," that internal controls over operations, reporting, and compliance are operating effectively as of September 30, 2021.

The DAF conducted its assessment of the effectiveness of internal controls over operations in accordance with OMB Circular No. A 123, the Government Accountability Office (GAO) Green Book, and the FMFIA. The "Internal Control Evaluation (Appendix C)" section provides specific information on how the DAF conducted this assessment. This internal review also included an evaluation of the internal controls around our SAA activities. Based on the results of the assessment, the DAF can provide reasonable assurance, except for the fourteen (14) material weaknesses reported in the "Significant Deficiencies and Material Weaknesses Template," that internal controls over operations and compliance are operating effectively as of September 30, 2021.

The DAF conducted its assessment of the effectiveness of internal controls over reporting (including internal and external financial reporting) in accordance with OMB Circular No. A-123, Appendix A. The "Internal Control Evaluation (Appendix C)" section provides specific information on how the DAF conducted this assessment. This assessment also included an evaluation of the internal controls around our SAA activities. Based on the results of the assessment, the DAF can provide reasonable assurance, except for the two (2) significant deficiencies and twenty (20) material weaknesses reported in the "Significant Deficiencies and Material Weaknesses Template," that internal controls over reporting (including internal and external reporting) and compliance are operating effectively as of September 30, 2021.

The DAF also conducted an internal review of the effectiveness of the internal controls over the integrated financial management systems in accordance with FMFIA and OMB Circular No. A-123, Appendix D. The "Internal Control Evaluation (Appendix C)" section provides specific information on how the DAF conducted this assessment. This internal review selection included an evaluation of all internal controls across the agency including controls that impact DAF SAA activities. Based on the results of this assessment, the DAF can provide reasonable assurance, except for the two (2) nonconformance(s) reported as material weaknesses in the "Significant Deficiencies and Material Weaknesses Template," that the internal controls over the financial systems are in compliance with the FMFIA, Section 4; Federal Financial Management Improvement Act (FFMIA), Section 803; and OMB Circular No. A 123, Appendix D, as of September 30, 2021.

The DAF assessed entity-level controls including fraud controls in accordance with the Green Book, OMB Circular No. A-123, the Payment Integrity Information Act of 2019, and GAO Fraud Risk Management Framework. This internal review selection included an evaluation of all internal controls across the agency including controls that impact DAF SAA activities. Based on the results of the assessment, the DAF can provide reasonable assurance, except for the one (1) material weakness that is included within the financial reporting oversight and monitoring material weakness in the "Material Weaknesses and Significant Deficiencies Template," that entity-level controls including fraud controls are operating effectively as of September 30, 2021.

The DAF is hereby reporting that no Anti-Deficiency Act (ADA) violation has been discovered/identified during our assessments of the applicable processes.

If there are any questions regarding this Statement of Assurance for FY 2021, my point of contact is Mr. Mike Mason. He can be reached at michael.mason.23@us.af.mil.

Frank Kendall
Secretary of the Air Force

Note: The *Material Weakness and Significant Deficiencies Template* referenced within the signed Statement of Assurance is not included in the AFR.

LEGAL COMPLIANCE

The *Anti-Deficiency Act* (ADA) is codified in 31 U.S. Code §§ 1341(a)(1), 1342, and 1517(a). The ADA provides that federal agencies may not:

- Obligate or expend funds in excess of the amount available in an appropriation or fund or in advance of appropriations;
- Accept voluntary services on behalf of the government or employ personal services in excess of that authorized by law, except as it may be necessary in emergencies involving the safety of human life or the protection of property; or
- Obligate, authorize, or expend funds that exceed an apportionment or amount permitted by a regulation prescribed for the administrative control of an appropriation.

An ADA violation is a serious matter as it represents a violation of a federal statute. A federal employee who violates the ADA may be subject to administrative sanctions (such as suspension from duty without pay or removal from office) and/or penal sanctions (such as fines or imprisonment). Confirmed ADA violations are reported to the President of the United States through the Director of the OMB, Congress, and the Comptroller General of the United States.

The DAF started FY 2021 with 10 open ADA cases. During the year, the DAF opened an additional five new cases, for a total of 15 open cases in FY 2021. The DAF was able to close nine of these cases, none of which resulted in a reportable ADA violation, thereby resulting in the remaining number of six open cases at year-end. Of the remaining six open cases, three are expected to close as "no ADA violation" once corrective actions are complete. The other three cases remain under investigation with the outcome yet to be determined.

COMPLIANCE WITH OTHER KEY LEGAL AND REGULATORY REQUIREMENTS

As of September 30, 2021, the DAF is in the process of developing and implementing a program to perform a comprehensive assessment of compliance with key legal and regulatory financial requirements. The DAF plans to provide the results of the compliance assessment in future AFRs.

Airmen assigned to the Georgia National Guard's 165th and 116th Security Forces Squadrons bow their heads during prayer while observing the 59th Presidential Inauguration in Washington, D.C. (Photo credit: Staff Sgt. Caila Arahood)

FORWARD-LOOKING INFORMATION

The DAF is the world's preeminent force in air, space, and cyberspace. The DAF maintains that distinction by upholding the objectives of global vigilance, reach, and power and by remaining steadfast in its priorities to: Build the United States Space Force (USSF), Modernize the Air and Space Forces, Grow Strong Leaders and Resilient Families, and Strengthen Allies and Partners. Due to the rapidly changing global strategic environment, a new era of great power competition and challenges to U.S. military dominance, the DAF faces a myriad of emerging risks and challenges. Risks and challenges include, but are not limited to the following:

LEGACY INFORMATION TECHNOLOGY (IT) INFRASTRUCTURE MAY CHALLENGE FINANCIAL MANAGEMENT EFFECTIVENESS

The DAF maintains a complex IT environment consisting of multiple nonintegrated defense business systems, which may challenge effective financial management. To improve decision-making, as part of its Maintenance, Repair, and Overhaul initiative (MROi), the DAF WCF is consolidating its three general ledgers into a single maintenance and financial information system. MROi will help standardize business operations across the depot enterprise and provide accurate, consistent, and timely data to conduct strategic decision making. Additionally, the DAF GF leveraged the Defense Enterprise Accounting and Management System (DEAMS), a centralized enterprise financial management system, to pave the way for enhanced business reporting through the creation of a more automated control environment. The DAF will continue to make improvements to its IT infrastructure by implementing a centralized analytics environment to maintain transaction-level detail and analytic tools in one authoritative source and by adopting an Enterprise Information Technology as a Service framework to improve network operations and capabilities. These improvements will allow the DAF to support the joint force in a more efficient manner.

CYBERSECURITY VULNERABILITIES MAY LEAD TO UNAUTHORIZED ACCESS TO IT SYSTEMS AND NETWORKS

The DAF relies on key cyber capabilities to conduct operations in and through cyberspace in order to successfully accomplish the full range of DAF missions. The expansion of sophisticated and evolving cyber-attacks from adversary nations, non-state terrorists, and hackers poses one of the most significant threats to national security. At an increasing rate, adversaries are attempting to exploit cybersecurity vulnerabilities to gain unauthorized access to systems and networks to use sensitive and classified information to collect intelligence, target critical infrastructure, and manipulate data. The DAF is focused on enhancing its ability to deter and defeat cyber threats by modernizing equipment to be cyber-secure and developing architecture that will improve cyber resiliency. Additionally, through a coordinated strategy to implement Identity, Credential, and Access Management, the DAF is building a more secure, trusted systems environment. Through the 16th Air Force (Air Forces Cyber), the DAF is constantly, vigilantly, and actively deterring adversarial activities. Air Forces Cyber assures DAF missions across the full range of information operations, including integrating multisource intelligence, surveillance, and reconnaissance; cyber warfare; and electronic warfare capabilities.

Chief Master Sergeant of the Space Force Roger A. Towberman speaks at the Air Force Association Air, Space, and Cyber (ASC) Conference in National Harbor, Maryland. The ASC Conference is a professional development seminar that offers the opportunity for Department of Defense personnel to participate in forums, speeches, and workshops. From engaging speakers and panels focused on airpower, space, and cyber developments, to the technology exposition featuring the latest technology, equipment, and solutions for tomorrow's problems, the conference has something for everyone (Photo credit: Staff Sgt. Jeremy L. Mosier)

GREAT POWER COMPETITORS CONTINUE TO THREATEN AMERICA'S LONG-STANDING WARFIGHTING ADVANTAGES

The reemergence of great power competition by revisionist powers and rogue nations is the pre-eminent challenge facing the nation's security. These adversarial nations seek to assert their authority by destabilizing regions and reshaping the existing world for their strategic benefit through the use of sophisticated military and intelligence capabilities and advanced weaponry. To combat these efforts, the DAF is accelerating change by modernizing warfighting capabilities and equipment. The DAF is introducing game-changing technology that includes digital engineering, open mission systems architecture, and agile software to maintain air superiority. By developing and investing in advanced capability microelectronics technology such as hypersonic weapons and artificial intelligence, the DAF will continue to build and sustain its technological dominance. The DAF will maintain its long-standing warfighting advantages by innovating approaches to core missions; developing solid partnerships; and increasing the agility, speed, and resilience of the DAF's contributions to the joint force. To better prepare for combat operations, the DAF is implementing a force-generation model focused on building and sustaining long-term high-end readiness.

Two U.S. Air Force F-16 Fighting Falcons depart after receiving fuel from a KC-135 Stratotanker, assigned to the 340th Expeditionary Aircraft Refueling Squadron, while flying routine operations over Southwest Asia. (Photo credit: Staff Sgt. Taylor Harrison)

ADVANCED ADVERSARIAL SPACE CAPABILITIES MAY HINDER THE DAF'S ABILITY TO ACCESS, MANEUVER, AND BE SUCCESSFUL IN SPACE

The U.S. has consistently been the dominant force in space, heavily depending on space-based assets to support military operations in all domains. Space-based capabilities such as missile warning; missile defense; and nuclear command, controls, and communication are crucial components in protecting the U.S. homeland and counteracting threats. However, space is rapidly evolving into a competitive and contested warfighting domain. Adversaries are aggressively pursuing warfighting and counter-space capabilities to neutralize and destroy U.S. space capabilities. To sustain the DAF's competitive advantage in space, the USSF is modernizing and improving space defense architecture by transforming organizations and processes to accelerate the delivery of operationally relevant capabilities. The USSF will continue to develop a Joint All-Domain Command and Control System to ensure the U.S. Space Command and their joint and coalition partners have the capability they require to command and control in a contested domain.

INABILITY TO RECRUIT, TRAIN, AND RETAIN PERSONNEL MAY CHALLENGE THE DAF'S ABILITY TO EFFECTIVELY COUNTER THREATS AND CONDUCT MILITARY OPERATIONS

Emerging threats across all domains demand an increase in Air and Space professionals, as Airmen and Guardians are the core of the DAF's ability to deter and defeat adversaries. To be successful in future endeavors, the DAF must sustain a force that is resilient, agile, and innovative as well as better organized, trained, and equipped. The DAF is committed to improving recruitment efforts to better identify candidates who have the essential skills that position them to meet future challenges. A diverse and inclusive force is a warfighting imperative; by harnessing Airmen and Guardians' diverse experiences, geographic and socioeconomic backgrounds, cultural knowledge, and ability to speak multiple languages, the DAF has an asymmetric advantage over its adversaries. The DAF will continue to modernize training environments to reflect the reality of current and future missions, thereby allowing forces to be better prepared and more successful on the battlefield. To better develop Airmen and Guardians and align them with opportunities that utilize their talents, the DAF will review and transform their accession and assessment tools as well as personnel and talent management systems. The DAF will provide increased flexibility, compensation, and professional development opportunities to build on retention efforts. Further, the DAF will focus on Airmen and Guardians' physical safety, health, and mental well-being.

Staff Sgt. Dwayne Baldwin, 701st Airlift Squadron loadmaster, inspects cargo before departing to Johan Adolf Pengel International Airport, Suriname, from Joint Base Charleston, South Carolina. The portable field hospital, valued at $745,000, was donated by the U.S. Southern Command to the Suriname Ministry of Health to augment their overwhelmed medical capacity brought on by the COVID-19 pandemic. (Photo credit: Staff Sgt. Shawn White)

NON-TRADITIONAL CHALLENGES MAY DISRUPT OPERATIONAL AND PERSONNEL READINESS

Increases in non-traditional threats, including pandemics, changing climate and weather patterns, and extreme and damaging weather events can adversely impact military infrastructure, personnel readiness, and supply chains. Natural disasters resulting from changing climate and extreme weather events can jeopardize military installations due to recurrent flooding, drought, desertification, or wildfires, thereby limiting the DAF's ability to utilize bases for training and testing exercises. This can require the DAF to spend significant resources to recover from these events. To mitigate these challenges, the DAF is investing in climate assessments, exploring clean energy sources, and making improvements to buildings to be more climate-friendly. The DAF is reducing its carbon footprint and innovating new technology by funding renewable energy projects and energy-saving performance contracts. Through the Natural Disaster Recovery Division, the DAF will tackle current and future natural disasters with capabilities that include damage assessment, requirements development, and construction execution, as well as ensure that installations are more resilient to future natural disasters. The Air Force Installation and Mission Support Center's Storm Damage Tracker will allow the DAF to work closely with civil engineer squadrons and financial experts to validate infrastructure damage and get them the proper funding for repairs and to get missions up and running again on a timely basis.

Additionally, the DAF is focused on mitigating the effects of the Coronavirus Disease 2019 (COVID-19) global pandemic. COVID-19 hit unexpectedly and impacted the DAF's ability to train its forces and conduct military exercises due to social distance regulations, travel restrictions, and personnel exposure to the virus. To mitigate the risks posed by COVID-19 and to safeguard the health and well-being of its personnel, the DAF adapted and maximized organizational productivity by allowing greater flexibility to service members and civilian personnel. The DAF also adapted to creating virtual resilience programs to support the needs of its military members returning from deployment.

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FINANCIAL SECTION

Aircraft assigned to the 354th Fighter Wing (FW) and 168th Wing line the runway at Eielson Air Force Base, Alaska. More than 30 aircraft were quickly generated and prepared to launch in an effort demonstrating the readiness capabilities of the 354th FW and the 168th Wing. (Photo credit: Senior Airman Keith Holcomb)

Stephen R. Herrera

"The audit continues to be a positive catalyst for improvement by helping us find and fix issues so we can reduce waste and spend smarter."

Message from the Chief Financial Officer

For the Fiscal Year 2021 Agency Financial Report

8 November 2021

It is my honor to join Secretary Kendall in presenting the Fiscal Year 2021 Agency Financial Report, which provides an in-depth review of the Department of the Air Force's financial performance, as well as efforts taken to ensure that we are efficiently and effectively providing significant value to American taxpayers.

While the auditor issued a disclaimer of opinion again in Fiscal Year 2021, this year marked an important evolution for our Financial Improvement and Audit Remediation program. By developing and deploying an Integrated Master Schedule, we have increased accountability, communication, and support across all levels of the organization to better focus our attention and align resources to areas with the most critical need and potential impact. Using this full organizational approach, we are targeting four Material Weaknesses for downgrade over the next 18 months. While we acknowledge our progress, the Department of the Air Force fully comprehends the challenges we face with our complex and disparate legacy systems. Therefore, system migrations and modernizations remain a top priority.

We are particularly proud of our team's ability to perform in the challenging environment posed by the COVID-19 pandemic over the past fiscal year. Through our use of virtual technologies, we were able to sustain progress and avoid any significant adverse impacts on the audit.

The audit continues to be a positive catalyst for improvement by helping us find and fix issues so we can reduce waste and spend smarter. Ultimately, we remain confident the audit will continue to play an essential role in helping the Department of the Air Force produce more accurate and complete data to make faster, more informed decisions to better support our warfighters and execute the mission.

Stephen R. Herrera
Acting Assistant Secretary of the Air Force
(Financial Management and Comptroller)

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DEPARTMENT OF THE AIR FORCE GENERAL FUND (UNAUDITED)

The DAF GF principal statements and related notes summarize financial information for the DAF GF for the FY ended September 30, 2021 and are not presented on a comparative basis. In FY 2021, the United States Space Force is reported as part of the DAF GF's financial statements. The principal statements and related notes have been prepared to report financial position pursuant to the requirements of the *Chief Financial Officers Act of 1990*, the *Government Management Reform Act of 1994*, and the Office of Management and Budget Circular A-136, *Financial Reporting Requirements*.

The following statements comprise the DAF GF's principal statements:

Consolidated Balance Sheet

The Consolidated Balance Sheet, as of September 30, 2021, represents those resources owned or managed by the DAF GF, which are available to provide future economic benefits (assets), amounts owed by the DAF GF that will require payments from those resources or future resources (liabilities), and residual amounts retained by the DAF GF, comprising the difference (net position).

Consolidated Statement of Net Cost

The Consolidated Statement of Net Cost presents the net cost of the DAF GF's operations for the FY ended September 30, 2021. The DAF GF's net cost of operations includes the gross costs incurred by the DAF GF less any exchange revenue earned from DAF GF activities.

Consolidated Statement of Changes in Net Position

The Consolidated Statement of Changes in Net Position presents the change in the DAF GF's net position resulting from the net cost of DAF GF's operations, budgetary financing sources other than exchange revenues, and other financing sources for the FY ended September 30, 2021.

Combined Statement of Budgetary Resources

The Combined Statement of Budgetary Resources presents the budgetary resources available to the DAF GF during FY 2021, the status of these resources as of September 30, 2021, and the net outlays of budgetary resources for the FY ended September 30, 2021.

Department of the Air Force General Fund
CONSOLIDATED BALANCE SHEET
As of September 30, 2021

(Amounts in Thousands)

		2021 Consolidated (Unaudited)
Assets (Note 2)		
Intragovernmental:		
Fund Balance with Treasury (Note 3)	$	152,462,023
Investments (Note 5)		7
Accounts Receivable, Net (Note 6)		1,011,014
Other Assets (Note 10)		129,621
Total Intragovernmental	$	153,602,665
Other than Intragovernmental:		
Cash and Other Monetary Assets (Note 4)	$	310,410
Accounts Receivable, Net (Note 6)		305,134
Operating Materials & Supplies, Net (Note 8)		64,297,138
General Property, Plant and Equipment, Net (Note 9)		156,635,339
Advances and Prepayments (Note 10)		18,110,875
Total Other than Intragovernmental	$	239,658,896
Total Assets	$	393,261,561
Stewardship Land and Heritage Assets (Note 9)		
Liabilities (Note 11)		
Intragovernmental:		
Accounts Payable	$	4,657,214
Other Liabilities (Note 13 & Note 15)		2,126,515
Total Intragovernmental	$	6,783,729
Other than Intragovernmental:		
Accounts Payable	$	5,689,171
Federal Employee and Veteran Benefits Payable (Note 13)		4,462,052
Environmental and Disposal Liabilities (Note 14)		12,802,167
Other Liabilities (Note 15, Note 16 & Note 17)		6,609,269
Total Other than Intragovernmental	$	29,562,659
Total Liabilities	$	36,346,388
Commitments and Contingencies (Note 17)		

The accompanying notes are an integral part of these statements.

Department of the Air Force General Fund
CONSOLIDATED BALANCE SHEET, CONTINUED
As of September 30, 2021

(Amounts in Thousands)

		2021 Consolidated (Unaudited)
Net Position		
Unexpended Appropriations - Funds Other than Dedicated Collections	$	154,715,121
Total Unexpended Appropriations (Consolidated)	$	154,715,121
Cumulative Results of Operations - Funds from Dedicated Collections (Note 18)		60,441
Cumulative Results of Operations - Funds Other than Dedicated Collections		202,139,611
Total Cumulative Results of Operations (Consolidated)	$	202,200,052
Total Net Position	$	356,915,173
Total Liabilities and Net Position	$	393,261,561

The accompanying notes are an integral part of these statements.

Department of the Air Force General Fund
CONSOLIDATED STATEMENT OF NET COST
For Fiscal Year Ended September 30, 2021

(Amounts in Thousands)

		2021 Consolidated (Unaudited)
Program Costs		
Military Personnel	$	44,043,509
Operations, Readiness, & Support		65,321,204
Procurement		45,507,824
Research, Development, Test & Evaluation		49,773,429
Family Housing & Military Construction		5,285,018
Gross Costs	$	209,930,984
(Less: Earned Revenue)		(9,453,517)
Net Cost of Operations	$	200,477,467

The accompanying notes are an integral part of these statements.

Department of the Air Force General Fund
CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION
For Fiscal Year Ended September 30, 2021

(Amounts in Thousands)

		2021 Consolidated (Unaudited)
Unexpended Appropriations		
Beginning Balances (Includes Funds from Dedicated Collections - See Note 18)	$	159,000,202
Beginning Balances, as Adjusted		159,000,202
Appropriations Received		205,318,244
Appropriations Transferred In/Out		(48,995)
Other Adjustments (+/-)		(4,500,244)
Appropriations Used		(205,054,086)
Net Change in Unexpended Appropriations (Includes Funds from Dedicated Collections - See Note 18)	$	(4,285,081)
Total Unexpended Appropriations (Includes Funds from Dedicated Collections - See Note 18)	$	154,715,121
Cumulative Results of Operations		
Beginning Balances	$	202,589,225
Prior Period Adjustments:		
Corrections of Errors (+/-) – Prior to FY 2020 (See Note 20)		(4,328,474)
Corrections of Errors (+/-) – FY 2020 (See Note 20)		(816,976)
Beginning Balances, as Adjusted (Includes Funds from Dedicated Collections - See Note 18)	$	197,443,775
Other Adjustments (+/-)		(9,046)
Appropriations Used		205,054,086
Non-Exchange Revenue		54
Donations and Forfeitures of Cash and Cash Equivalents		6,304
Transfers In/Out Without Reimbursement		302,388
Imputed Financing		766,618
Other		(886,660)
Net Cost of Operations (+/-) (Includes Funds from Dedicated Collections - See Note 18)	$	200,477,467
Net Change in Cumulative Results of Operations	$	4,756,277
Cumulative Results of Operations (Includes Funds from Dedicated Collections - See Note 18)		202,200,052
Net Position	$	356,915,173

The accompanying notes are an integral part of these statements.

Department of the Air Force General Fund
COMBINED STATEMENT OF BUDGETARY RESOURCES
For Fiscal Year Ended September 30, 2021

(Amounts in Thousands)

		2021 Combined (Unaudited)
Budgetary Resources		
Unobligated Balance from Prior Year Budget Authority, Net (discretionary and mandatory) (Note 21)	$	41,775,132
Appropriations (discretionary and mandatory)		204,077,163
Spending Authority from Offsetting Collections (discretionary and mandatory)		12,477,438
Total Budgetary Resources	$	258,329,733
Status of Budgetary Resources		
New Obligations and Upward Adjustments (total)	$	218,649,392
Unobligated Balance, End of Year:		
Apportioned, Unexpired Accounts		34,810,837
Exempt from Apportionment, Unexpired Accounts		16,835
Unapportioned, Unexpired Accounts		90,223
Unexpired Unobligated Balance, End of Year		34,917,895
Expired Unobligated Balance, End of Year		4,762,446
Unobligated Balance, End of Year (total)		39,680,341
Total Budgetary Resources	$	258,329,733
Outlays, Net		
Outlays, Net (total) (discretionary and mandatory)		203,205,677
Distributed Offsetting Receipts (-)		(122,173)
Agency Outlays, Net (discretionary and mandatory)	$	203,083,504

The accompanying notes are an integral part of these statements.

NOTES TO THE PRINCIPAL STATEMENTS

Notes to the financial statements communicate information essential for fair presentation of the financial statements that is not displayed on the face of the financial statements.

Click each note for quick access (online version only).

Note 1 Summary of Significant Accounting Policies

A. Reporting Entity

The DAF encompasses the Headquarters Air Force (HAF), United States Space Force (USSF) Headquarters, Air Force Field Organizations, and USSF Field Organizations. The Secretary of the Air Force has overall responsibility for the Air Force and for the USSF, under the guidance and direction of the Secretary of Defense. The HAF is led by the Chief of Staff of the Air Force who is responsible for the efficiency of the Air Force and the preparation of its forces for military operations. The Air Force Field Organizations are comprised of the Major Commands, Direct Reporting Units, Field Operating Agencies, and their subordinate elements that carry out the mission of the Air Force.

The USSF Headquarters is led by the Chief of Space Operations who is responsible for the efficiency of the USSF and the preparation of its forces for military operations. The USSF Field Organizations are comprised of the Field Commands and their subordinates that carry out the mission of the USSF.

For financial reporting purposes, the DAF is organized into two reporting entities: the DAF GF and the DAF WCF. The DAF GF includes financial information for both the Air Force and the USSF; however, separate appropriations were established to fund USSF activity. Each reporting entity has a separate set of financial statements and related disclosures. This section of the report specifically applies to the DAF GF. As a result, it does not disclose information related to the DAF WCF.

As a reporting entity of the U.S. Government, some of the assets and liabilities reported by the DAF GF may be eliminated for government-wide reporting because they are offset by assets and liabilities of another U.S. Government entity. The financial statements should be read with the realization that they are for a component of the U.S. Government.

B. Mission of the Reporting Entity

The DAF 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. As part of the FY 2020 *National Defense Authorization Act*, the USSF became the sixth branch of the U.S. Armed Forces, established as an independent Military Service within the DAF. The DAF's mission is comprised of the Air Force mission and the USSF mission.

The Air Force's mission statement is *to fly, fight, win . . . airpower anytime, anywhere*. The Air Force carries out its mission by adhering to a strategic framework of core values and is committed to providing Global Vigilance, Global Reach, and Global Power while defending and protecting the U.S.

The USSF's mission statement is: *The USSF is responsible for organizing, training, and equipping Guardians to conduct global space operations that enhance the way our joint and coalition forces fight, while also offering decision makers military options to achieve national objectives.* USSF responsibilities include developing Guardians (service members in the USSF), acquiring military space systems, maturing the military doctrine for space power, and organizing space forces to support the Combatant Commands.

C. Basis of Presentation

These non-comparative financial statements have been prepared to report the consolidated financial position, net cost of operations, changes in net position, and combined budgetary resources of the DAF GF, as required by the *Chief Financial Officers Act of 1990*, as amended and expanded by the *Government Management Reform Act of 1994*, and other applicable legislation. The DAF GF does not show comparative financial statements because financial statement line item values are changing due to remediation efforts and any comparison could be misleading to the reader.
To the extent possible, the financial statements have been prepared from the accounting records of the DAF GF in accordance with the requirements and formats prescribed by Office of Management and Budget (OMB) Circular A-136, *Financial Reporting Requirements*, the DoD Financial Management Regulation (FMR), and in accordance with Federal Generally Accepted Accounting Principles (GAAP) as described by the Federal Accounting

Standards Advisory Board (FASAB). The accompanying financial statements account for all resources for which the DAF GF is responsible, unless otherwise noted. Accounting standards require all reporting entities to disclose that accounting standards allow certain presentations and disclosures to be modified, if needed, to prevent the disclosure of classified information.

The DAF GF is unable to fully implement all elements of GAAP and OMB A-136 due to the limitations of financial and non-financial management processes and systems that support the financial statements. The DAF GF derives reported values and information for major asset and liability categories largely from non-financial systems, such as inventory and logistics systems. These systems were designed to support reporting requirements for maintaining accountability over assets and reporting the status of federal appropriations rather than preparing financial statements in accordance with GAAP. The DAF GF continues to implement process and system improvements addressing these limitations.

The DAF GF is involved in various programs whereby procurement contracts are used to buy goods and services for multiple federal government entities. The DAF GF determined its accounting for such contracts does not always reflect the specific DAF GF allocation of contract costs. Collections, obligations, and outlays of the DAF GF are misstated by the difference between the DAF GF expenditures and the DAF GF actual allocations of contract costs. The DAF GF cannot currently estimate the amount of misstatement, but has concluded it may be material.

D. Basis of Accounting

The DAF GF's financial statements and supporting trial balances are compiled from the underlying financial data and trial balances of the DAF GF's sub-entities. The underlying data is largely derived from budgetary transactions (e.g., obligations, disbursements, and collections), non-financial feeder systems, and accruals made for major items such as payroll expenses, Accounts Payable, and Environmental and Disposal Liabilities (E&DL). Some of the sub-entity level trial balances may reflect known abnormal balances resulting largely from business and system processes. At the consolidated DAF GF level, these abnormal balances may not be evident. Disclosures of abnormal balances are made in the applicable footnotes, but only to the extent that the abnormal balances are evident at the consolidated level.

The DAF GF presents the Balance Sheet, Statement of Net Cost, and Statement of Changes in Net Position on a consolidated basis, which is the summation of the components less the eliminations of intradepartmental activity. The Statement of Budgetary Resources is presented on a combined basis, which is the summation of the components; intradepartmental activity has not been eliminated. The financial transactions are recorded on both a proprietary accrual basis and a budgetary basis of accounting. Under the proprietary accrual basis, revenues are recognized when earned and expenses are recognized when incurred, without regard to the timing of receipt or payment of cash. Under the budgetary basis, the legal commitment or obligation of funds is recognized in advance of the proprietary accruals and in compliance with legal requirements and controls over the use of federal funds.

The DAF GF's continued effort toward full compliance with GAAP for the accrual method of accounting is encumbered by various system limitations and the nature of the DAF GF's activities. The DAF GF is unable to meet full accrual accounting requirements. This is primarily because many of the DAF GF's financial and non-financial systems and processes were designed prior to the legislative mandate to produce financial statements in accordance with GAAP. These systems were not designed to collect and record financial information on the full accrual accounting basis, but were designed to record information on a budgetary basis.

The DAF GF is continuing to evaluate the effects that will result from fully adopting recent accounting standards and other authoritative guidance issued by FASAB. These pronouncements listed below are expected to have an impact on the DAF GF's financial statements; however, the DAF GF is currently unable to determine the full impact that adopting the pronouncements will have on its financial position, results of its operations, net position, and budgetary activity when such pronouncements are adopted.

1) Statement of Federal Financial Accounting Standards (SFFAS) 47, *Reporting Entity*. Issued on December 23, 2014. Effective Date: Reporting periods beginning after September 30, 2017.

SFFAS 47 requires federal government entities to analyze their relationships with related entities to determine which, if any, entities should be reported with the reporting entity on a consolidated basis, those that should be disclosed as inter-related with the reporting entity, and those that should be disclosed by the reporting entity as related parties. Currently, the DAF GF's SFFAS 47 analysis is not complete. The consolidation decisions related to that analysis, when complete, could have a material impact on the DAF GF's financial statements.

2) SFFAS 48, *Opening Balances for Inventory, Operating Materials and Supplies, and Stockpile Materials*. Issued on January 27, 2016. Effective Date: Reporting periods beginning after September 30, 2016.

The DAF GF plans to utilize deemed cost to value beginning balances for Operating Materials and Supplies (OM&S), as permitted by SFFAS 48. The DAF GF has valued some of its OM&S using deemed cost methodologies as described in SFFAS 48. However, systems required to account for historical cost for OM&S in accordance with SFFAS 3, *Accounting for Inventory and Related Property*, are not yet fully in place. Therefore, the DAF GF is not making an unreserved assertion with respect to the OM&S line item in accordance with SFFAS 48.

3) SFFAS 49, *Public-Private Partnerships: Disclosure Requirements*. Issued on April 27, 2016. Effective Date: Reporting periods beginning after September 30, 2018.

The DAF GF has begun to evaluate arrangements and transactions for Public-Private Partnership (P3) criteria to determine the complete population of arrangements and transactions requiring disclosure under SFFAS 49, but has not completed a full analysis of all arrangements as of September 30, 2021.

4) SFFAS 50, *Establishing Opening Balances for General Property, Plant, and Equipment: Amending SFFAS 6, 10, and 23, and Rescinding SFFAS 35*. Issued on August 4, 2016. Effective Date: Reporting periods beginning after September 30, 2016.

The DAF GF plans to utilize deemed cost to value beginning balances for General Property, Plant, and Equipment (General PP&E), as permitted by SFFAS 50. The DAF GF has valued some of its General PP&E using deemed cost methodologies as permitted by SFFAS 50. However, systems required to account for historical cost for General PP&E in accordance with SFFAS 6, *Accounting for Property, Plant, and Equipment*, are not yet fully in place. Therefore, the DAF GF is not making an unreserved assertion with respect to the General PP&E line item in accordance with SFFAS 50.

5) SFFAS 54, *Leases: An Amendment of SFFAS 5, Accounting for Liabilities of the Federal Government, and SFFAS 6, Accounting for Property, Plant, and Equipment*. Issued on April 17, 2018. Effective Date: Reporting periods beginning after September 30, 2020. Early adoption is not permitted.

The requirements of SFFAS 54 were deferred to reporting periods beginning after September 30, 2023 under SFFAS 58, *Deferral of the Effective Date of SFFAS 54, Leases*. Issued on June 19, 2020. Early adoption is not permitted.

6) SFFAS 59, *Accounting and Reporting of Government Land*. Issued on July 30, 2021. Effective Date: Reporting periods beginning after September 30, 2021.

7) Technical Bulletin 2017-1, *Intragovernmental Exchange Transactions*. Issued on November 1, 2017. Effective date: Upon issuance.

8) Technical Bulletin 2017-2, *Assigning Assets to Component Reporting Entities*. Issued on November 1, 2017. Effective date: Upon issuance.

9) Technical Release 17, *Conforming Amendments to Technical Releases for SFFAS 50, Establishing Opening Balances for General Property, Plant, and Equipment*. Issued on April 10, 2017. Effective Date: Upon issuance.

As this Technical Release serves as implementation guidance for SFFAS 50, the DAF GF is in the process of adopting this Technical Release as of September 30, 2021.

10) Technical Release 18, *Implementation Guidance for Establishing Opening Balances*. Issued on October 2, 2017. Effective Date: Upon issuance.

As this Technical Release serves as implementation guidance for SFFAS 48 and SFFAS 50, the DAF GF is in the process of adopting this Technical Release as of September 30, 2021.

11) Staff Implementation Guidance 6.1, *Clarification of Paragraphs 40-41 of SFFAS 6, Accounting for Property, Plant, and Equipment, as amended*. Issued on July 17, 2018. Effective Date: Upon issuance.

This Staff Implementation Guidance clarifies specific guidance provided in SFFAS 6. The DAF GF is in the process of adopting this Staff Implementation Guidance as of September 30, 2021.

12) Interpretation 9, *Cleanup Cost Liabilities Involving Multiple Component Reporting Entities, An Interpretation of SFFAS 5 & SFFAS 6*. Issued on August 16, 2019. Effective Date: Reporting periods beginning after September 30, 2019.

13) Interpretation 10, *Clarification of Non-Federal Non-Entity FBwT Classification (SFFAS 1, Paragraph 31): An Interpretation of SFFAS 1 and SFFAS 31*. Issued on May 10, 2021. Effective Date: Upon issuance.

As stated above, the DAF GF has not recorded all transactions consistent with GAAP because of limitations of certain systems and resource constraints, and as such, these transactions are believed to be materially misstated in the financial statements. These transactions represent accounting errors recorded in current and prior years that impact the current year financial statements, and that have not been recorded and corrected in accordance with GAAP. The DAF GF continues transitioning to systems that can produce GAAP-compliant financial statements.

E. Accounting for Intragovernmental and Intergovernmental Activities

The Treasury Financial Manual (TFM), Volume 1, Part 2, Chapter 4700, *Agency Reporting Requirements for the Financial Report of the United States Government*, provides guidance for reporting and reconciling intragovernmental balances. Accounting standards require an entity to eliminate intra-entity activity and balances from consolidated financial statements to prevent overstatement caused by the inclusion of business activity between entity components. Intragovernmental cost and exchange revenue represent transactions made between two reporting entities within the Federal Government. Cost and Earned Revenue with the public represent exchange transactions made between the reporting entity and a non-federal entity. 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. Due to the inability to provide detailed transaction level data to support general ledger account code beginning balances, the DAF GF is currently unable to reconcile all buyer and seller data with their respective trading partners. The DoD is implementing a replacement system, called Government Invoicing (G-Invoicing), which incorporates the necessary elements to enable the DoD to correctly report, reconcile, and eliminate intragovernmental balances. G-Invoicing will directly impact amounts reported on the DAF GF's Balance Sheet and Statement of Net Cost, including Accounts Payable, Accounts Receivable, Earned Revenue, and expenses.

Imputed financing represents the cost paid by another federal entity on behalf of the DAF GF. In accordance with SFFAS 55, *Amending Inter-Entity Cost Provisions*, the DAF GF recognizes the general nature of imputed costs only for business-type activities and other costs specifically required by OMB A-136, including 1) employee pension, post-retirement health, and life insurance benefits; 2) post-employment benefits for terminated and inactive employees, to include unemployment and workers compensation under the *Federal Employees' Compensation Act* (FECA); and 3) losses in litigation proceedings that are paid from the U.S. Treasury Judgment Fund. Unreimbursed costs of goods and services other than those identified above are not included in the DAF GF's financial statements.

For additional information, refer to Note 19, *Disclosures Related to the Statement of Net Cost*.

F. Non-Entity Assets

Non-Entity Assets are not available for use in the DAF GF's normal operations. The DAF GF has stewardship accountability and reporting responsibility for Non-Entity Assets. An example of a Non-Entity Asset is the portion of

Fund Balance with Treasury (FBwT) that consists of deposit funds.

For additional information, refer to Note 2, *Non-Entity Assets*.

G. Fund Balance with Treasury

FBwT represents the aggregate amount of the DAF GF's budget spending authority available to pay current liabilities and finance future authorized purchases. The DAF GF's monetary resources of collections and disbursements are maintained in U.S. Treasury accounts. The disbursing offices of the Defense Finance and Accounting Service, the Military Departments, the U.S. Army Corps of Engineers, and the Department of State's financial service centers process most of the DAF GF's cash collections, disbursements, and adjustments worldwide. Each disbursing station reports to the U.S. Treasury on checks issued, electronic fund transfers, interagency transfers, and deposits.

FBwT is an asset of DAF GF and a liability of the Treasury General Fund. Similarly, investments in government securities held by dedicated collections accounts are assets of the reporting entity responsible for the dedicated collections and liabilities of the Treasury General Fund. In both cases, the amounts represent commitments by the Government to provide resources for particular programs, but they do not represent net assets to the Government as a whole.

When the DAF GF seeks to use FBwT or investments in government securities to liquidate budgetary obligations, the U.S. Treasury will finance the disbursements in the same way it finances all other disbursements, which is to borrow from the public if there is a budget deficit and to use current receipts if there is a budget surplus.

In addition, the DAF GF reports to the U.S. Treasury by appropriation on interagency transfers, collections received, and disbursements issued. The U.S. Treasury records these transactions in the applicable FBwT account.

For additional information, refer to Note 3, *Fund Balance with Treasury*.

H. Cash and Other Monetary Assets

Cash is the total of cash resources under the control of the DAF GF including coins, paper currency, negotiable instruments, and amounts held for deposit in banks and other financial institutions. Foreign Currency consists of the total U.S. dollar equivalent of both Foreign Currency exchanged for U.S. dollars and Foreign Currency received as payment for goods or services. Foreign Currency is valued using the U.S. Treasury prevailing rate of exchange. The TFM Volume 1, Part 2, Chapter 3200, *Foreign Currency Accounting and Reporting*, provides guidance for accounting and reporting Foreign Currency.

The DAF GF conducts a significant portion of operations overseas. Congress established a special appropriations account to handle the gains and losses from Foreign Currency transactions for five general fund appropriations: 1) operations and maintenance, 2) military personnel, 3) military construction, 4) family housing operations and maintenance, and 5) family housing construction. The gains and losses are calculated as the variance between the current exchange rate at the date of payment and a budget rate established at the beginning of each FY. Foreign Currency fluctuations related to other appropriations require adjustments to the original obligation amount at the time of payment. The DAF GF does not separately identify currency fluctuation transactions.

For additional information, refer to Note 2, *Non-Entity Assets* and Note 4, *Cash and Other Monetary Assets*.

I. Investments and Related Interest

The DAF GF reports investments in U.S. Treasury securities at cost, net of amortized premiums or discounts. Premiums or discounts are amortized over the term of the investments using the effective interest rate method or another method obtaining similar results. The DAF GF's intent is to hold investments to maturity unless they are needed to finance claims or otherwise sustain operations. Consequently, a provision is not made for unrealized gains or losses on these securities.

For additional information, refer to Note 5, *Investments and Related Interest*.

J. Accounts Receivable

Accounts Receivable from other federal and non-federal entities include accounts receivable, claims receivable, and refunds receivable. In accordance with Technical Bulletin 2020-1, *Loss Allowance for Intragovernmental Receivables*, the DAF GF records an allowance for Intragovernmental Receivables, in addition to recording an allowance for Other than Intragovernmental Receivables. Allowances for federal and non-federal uncollectible accounts are based upon factors such as aging of accounts receivable, debtor's ability to pay, and payment history. Although the DAF GF records an allowance for Intragovernmental Receivables, claims for accounts receivable from other federal agencies are still resolved between the agencies in accordance with the *Intragovernmental Business Rules* published in the TFM Volume 1, Part 2, Chapter 4700.

In accordance with paragraphs 44-49 of SFFAS 1, *Accounting for Selected Assets and Liabilities,* the methodology for losses due to uncollectible amounts are based on an individual account analysis and/or group analysis, and is performed using the same methodology for both Intragovernmental Receivables and Other than Intragovernmental Receivables. For individual account analysis, account balances are individually analyzed to determine the loss allowance. For group analysis, receivables are separated into groups of homogeneous accounts with similar risk characteristics. To allow for both requirements, a group analysis is performed in determining the allowance percentages by aging categories applied to delinquent balances per the *Treasury Report on Receivables* or other sources of public receivable information. The allowance percentages by aging categories are based on three years of actual collection experience. In accordance with the DoD FMR Volume 4, Chapter 3, *Receivables*, a secondary analysis may be performed on individual receivable balances greater than $100.0 thousand. Based on the analysis, the DAF GF can either completely remove the balance (full or partial) from the percentage calculation or adjust the ending balance.

For additional information, refer to Note 6, *Accounts Receivable, Net*.

K. Direct Loans and Loan Guarantees

The *National Defense Authorization Act* for FY 1996 (NDAA) contains authorities for the Military Housing Privatization Initiative (MHPI). The NDAA includes a series of authorities that allow the DAF GF to work with the private sector to build, renovate, and sustain military housing. The goals of the program are to obtain private capital to leverage government dollars, make efficient use of limited resources, and use a variety of private sector approaches to build and renovate military housing faster and at a lower cost to taxpayers. Other statutory authorities for this initiative include 10 U.S. Code (U.S.C.) § 2873, 10 U.S.C. § 2875, and 10 U.S.C. § 2878. The most commonly used MHPI authorities the DAF GF exercised include direct loans and loan guarantees (10 U.S.C. §§ 2873 and 2883), differential lease payments (10 U.S.C. §§ 2877 and 2883), equity investments (10 U.S.C. §§ 2875 and 2883), and conveyance or leasing of land and/or housing and other facilities (10 U.S.C. § 2878).

The DAF GF entered into a competitive process with the private sector with a goal to provide its uniformed service members and their families access to safe, secure, quality, affordable, and well-maintained housing in a military community where they choose to live. The projects are non-Federal Acquisition Regulation (FAR) real estate transactions with project owners. The project owners obtain financing, provide required equity, develop, own, and operate the rental housing development for a period of 50 years. The expected life of each MHPI agreement corresponds to the duration of the ground lease. The duration of the ground lease was established through negotiation with the project owner and was considered to be the minimum duration required to ensure project success.

The DAF GF predominately elected to enter into MHPI P3s by entering into long-term leases with private entities, conveying existing housing and other real estate assets, and offering direct loans for 27 projects, of which six included a limited loan guarantee and one included differential lease payments.

As required by SFFAS 2, *Accounting for Direct Loans and Loan Guarantees,* the present value of the subsidy costs associated with direct loans and loan guarantees is recognized as costs in the year the direct or guaranteed loan is disbursed.

As discussed above within D. *Basis of Accounting*, the DAF GF has begun implementing SFFAS 49, but has not completed a full analysis of all arrangements and transactions for P3 criteria as of September 30, 2021.

For additional information, refer to Note 7, *Loans Receivable, Net and Loan Guarantee Liabilities*.

L. Operating Materials and Supplies, Net

The DAF GF manages only military or government specific OM&S under normal conditions. OM&S includes items such as weapon systems spares, ammunition, tactical missiles, aerial targets, uninstalled aircraft and cruise missile engines, and uninstalled missile motors. Items commonly used in, and available from, the commercial sector are not included in the DAF GF's OM&S management activities. Operational cycles are irregular, and the military risks associated with stock-out positions have no commercial parallel. The DAF GF holds OM&S based on military need and support for contingencies.

The DAF GF uses the consumption method of accounting for OM&S. Newly acquired in-transit OM&S is not reported as part of the DAF GF's OM&S balance until it is accepted at the base and not when title transfers. Once issued to the end user, OM&S is expensed.

For excess, obsolete, and unserviceable (EOU) inventory, the DAF GF does not recognize any net realizable value in accordance with the guidance in the DoD FMR Volume 4, Chapter 4, *Inventory and Related Property*.

The DAF GF, when applicable, will continue to adopt SFFAS 48 permitting alternative methods in establishing opening balances.

For additional information, refer to Note 8, *Operating Materials and Supplies, Net*.

M. General Property, Plant, and Equipment

The DAF GF normally records General PP&E at the estimated historical cost. In FY 2018, the DAF GF applied the deemed cost alternative valuation method to the opening balance of General PP&E Land in accordance with SFFAS 50 and wrote off its recorded General PP&E Land value. The DAF GF reported $0.0 opening balance for General PP&E Land in FY 2021 and will expense General PP&E Land acquisitions in future periods. The DAF GF has established a deemed cost opening balance for some of its equipment in accordance with SFFAS 50. To establish the equipment opening balances, the DAF GF accumulated information related to program funding and associated equipment, equipment useful lives, program acquisitions, and disposals. Opening balances for equipment were then established using expenditure, acquisition, and disposal information. The DAF GF, when applicable, will continue to use alternative methods in establishing opening balances for General PP&E in accordance with SFFAS 50.

The DAF GF capitalizes General PP&E acquisitions per SFFAS 6 and DoD FMR Volume 4, Chapters 24, 25, and 27. The capitalization threshold for General Equipment (including Military Equipment) is $1.0 million. The capitalization threshold for Internal Use Software and Real Property is $250.0 thousand. These capitalization thresholds apply to asset acquisitions and modifications/improvements placed into service after September 30, 2013. In accordance with DoD FMR Volume 4, Chapter 24 and 25, the DAF GF elected to retroactively apply the current capitalization thresholds for Real Property of $250.0 thousand and General Equipment of $1.0 million to Real Property and General Equipment acquired prior to September 30, 2013. For General Equipment specifically, the DAF GF will not retroactively apply this capitalization threshold until the Defense Property Accountability System is implemented as the DAF GF's accountable property system of record for Government-Furnished Equipment (GFE). This retroactive application of current capitalization thresholds to asset acquisitions placed in service prior to September 30, 2013 does not apply to Military Equipment. The DAF GF does not retroactively apply the capitalization threshold of $250.0 thousand to Real Property that was capitalized and recently transferred to the DAF GF from other agencies. The DAF GF depreciates all General PP&E on a straight-line basis.

The DAF GF provides government-owned or leased General PP&E (also known as GFE) to contractors for performing work within a contract, for which the DAF GF must recognize the GFE for accountability and financial reporting purposes.

Contractor-Acquired Property is General PP&E acquired by a contractor on behalf of the DAF GF for performing work within a contract, where the government will ultimately hold the title to the General PP&E. If the Contractor-Acquired Property has a useful life of at least two years and the value of Contractor-Acquired Property meets or exceeds the DAF GF's capitalization threshold, GAAP requires the Contractor-Acquired Property to be reported on the DAF GF's Balance Sheet when title passes to the DAF GF or when the General PP&E is delivered to the DAF GF.

For additional information, refer to Note 9, *General PP&E, Net*.

N. Other Assets

The DAF GF conducts business with commercial contractors under two primary types of contracts: fixed price and cost reimbursement. The DAF GF may provide financing payments to contractors to alleviate the potential financial burden from long-term contracts. Contract financing payments are defined in the FAR, Part 32, as authorized disbursements to a contractor prior to acceptance of supplies or services by the Government. Contract financing payment clauses are incorporated in the contract terms and conditions and may include advance payments, performance-based payments, commercial advances and interim payments, progress payments based on cost, and interim payments under certain cost-reimbursement contracts. Contract financing payments are not recorded in accordance with GAAP.

The Defense Federal Acquisition Regulation Supplement authorizes progress payments based on a percentage or stage of completion. Contract financing payments should not include invoice payments, payments for partial deliveries, lease and rental payments, or progress payments based on a percentage or stage of completion.

For additional information, refer to Note 10, *Other Assets*.

O. Leases

Lease payments for the rental of equipment and operating facilities are classified as either capital or operating leases. When a lease substantially transfers all the benefits and risks of ownership to the DAF GF (a capital lease), and the value equals or exceeds the current capitalization threshold, the DAF GF records the applicable asset as though it was purchased with an offsetting liability and records depreciation on the asset. The DAF GF records the asset and the liability at the lesser of the present value of the rental and other minimum lease payments during the lease term (excluding portions representing executory costs paid to the lessor) or the asset's fair market value. The discount rate for the present value calculation is either the lessor's implicit interest rate or the Government's incremental borrowing rate at the inception of the lease. The DAF GF, as the lessee, receives the use and possession of leased property (e.g., real estate or equipment) from a lessor in exchange for a payment of funds.

An operating lease does not substantially transfer all the benefits and risk of ownership to the DAF GF. Payments for operating leases are expensed over the lease term. Office space leases entered into by the DAF GF are the largest component of operating leases.

For additional information, refer to Note 16, *Leases*.

P. Accounts Payable

Accounts Payable includes amounts owed to federal and non-federal entities for goods and services received by the DAF GF.

Q. Liabilities

Liabilities represent the probable future outflow or other sacrifice of resources as a result of past transactions or events; however, no liability can be paid by the DAF GF without proper budget authority. Liabilities Covered by Budgetary Resources are appropriated funds for which funding is available to pay amounts due. Liabilities Not Covered by Budgetary Resources (e.g., future environmental cleanup liabilities) represent amounts owed in excess of available appropriated funds or other amounts, where there is no certainty that the appropriations will be enacted. Liabilities not funded by the current year appropriation are classified as Liabilities Not Covered by Budgetary Resources.

For additional information, refer to Note 11, *Liabilities Not Covered by Budgetary Resources*.

R. Environmental and Disposal Liabilities

E&DL are estimated costs for the anticipated remediation, cleanup, and disposal costs resulting from the use of the DAF GF's assets or operations. Consistent with SFFAS 6, recognition of an anticipated environmental liability begins when the asset is placed in service.

For additional information, refer to Note 14, *Environmental and Disposal Liabilities*.

S. Other Liabilities

Other Liabilities may be federal or non-federal. Such liabilities include Advances from Others, FECA Reimbursement to the Department of Labor, Disbursing Officer Cash, Deposit Funds, Judgment Funds, Custodial Liabilities, Contingent Liabilities, Accrued Funded Payroll, Contract Holdbacks, and Employer Contributions and Payroll Taxes.

For additional information, refer to Note 15, *Other Liabilities*.

T. Commitments and Contingencies

The DAF GF recognizes Contingent Liabilities on the Balance Sheet for those legal actions where management considers an adverse decision to be probable and the loss amount is reasonably estimable. However, there are cases where amounts have not been accrued or disclosed because the likelihood of an adverse decision is considered remote or the amount of potential loss cannot be estimated.

For additional information, refer to Note 17, *Commitments and Contingencies.*

U. Military and Civilian Retirement Benefits

As an employer entity, the DAF GF recognizes the annual cost of its civilian employees' pension, other retirement benefit plans, and other post-employment benefit plans including health and life insurance plans. However, as the administering entity, the Office of Personnel Management is responsible for executing the benefit plans including accounting for plan assets, liabilities, and associated gains and losses. Accordingly, the DAF GF does not display gains and losses from changes in long-term assumptions used to measure these liabilities on the Statement of Net Cost.

For additional information, refer to Note 13, *Federal Employee and Veteran Benefits Payable* and Note 19, *Disclosures Related to the Statement of Net Cost*.

V. Revenues and Other Financing Sources

As a component of the government-wide reporting entity, the DAF GF is subject to the federal budget process, which involves appropriations that are provided annually and appropriations that are provided on a permanent basis. The financial transactions resulting from the budget process are generally the same transactions reflected in agency and government-wide financial reports.

The DAF GF's budgetary resources reflect past congressional action and enable the DAF GF to incur budgetary obligations, but are not assets to the Government as a whole. Budgetary obligations are legal obligations for goods, services, or amounts to be paid based on statutory provisions (e.g., Social Security benefits). After budgetary obligations are incurred, the U.S. Treasury will make disbursements to liquidate the budgetary obligations and finance those disbursements in the same way it finances all disbursements, which, as noted above, is to borrow from the public if there is a budget deficit.

The DAF GF receives congressional appropriations as financing sources for general funds, trust funds, and special funds. The DAF GF uses these appropriations and funds to execute its missions and subsequently report on resource usage.

General funds are obtained through collections not earmarked by law for specific purposes, the proceeds of general borrowing, and appropriations. The DAF GF appropriation funding covers costs that include personnel, operation and maintenance, research and development, procurement, and military construction.

These funds expire annually, some on a multi-year basis, or do not expire. When authorized by legislation, these appropriations are supplemented by revenues generated by sales of goods or services. The DAF GF recognizes revenue as a result of costs incurred for goods and services provided to other federal agencies and the public. Full cost pricing is the DAF GF's standard policy for services provided as required by OMB Circular A-25, *User Charges*. In some instances, revenue is recognized when bills are issued.

Trust funds contain receipts and expenditures of funds held in trust by the Federal Government for use in carrying out specific purposes or programs in accordance with the terms of the donor, trust agreement, or statute. Special fund accounts are used to record government receipts reserved for a specific purpose and the expenditure of these receipts. Certain trust and special funds may be designated as Funds from Dedicated Collections. Funds from Dedicated Collections are financed by specifically identified revenues, are required by statute to be used for designated activities, benefits, or purposes, and remain available over time. In accordance with SFFAS 27, *Identifying and Reporting Funds from Dedicated Collections*, as amended by SFFAS 43, *Funds from Dedicated Collections: Amending Statement of Federal Financial Accounting Standards 27, Identifying and Reporting Earmarked Funds*, the DAF GF separately accounts for and reports on the receipt, use, and retention of revenues and other financing sources for funds from dedicated collections in Note 18, *Funds from Dedicated Collections*.

In accordance with SFFAS 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*, the DAF GF recognizes non-exchange revenue when there is a specifically identifiable, legally enforceable claim to the cash or other assets of another party that will not directly receive value in return. The DAF GF non-exchange revenue consists of interest, penalty, and administrative fees on military and civilian employee and contractor receivables, all of which are reasonably estimable. Collection of these non-exchange revenues is probable, with the exception of instances when settlements are negotiated for delinquent receivables that includes a corresponding reduction of the associated interest, penalty, and administrative fees.

The DAF GF does not include non-monetary support provided by U.S. allies for common defense and mutual security in amounts reported in the Statement of Net Cost and in Note 24, *Reconciliation of Net Cost to Net Outlays*. The U.S. has cost sharing agreements with countries having a mutual or reciprocal defense agreement, where U.S. troops are stationed, or where the U.S. Fleet is in a port.

W. Recognition of Expenses

The DAF GF's policy requires the recognition of operating expenses in the period incurred. Estimates are made for major items including, but not limited to, payroll expenses, E&DL, and Contingent Liabilities. Some accounts such as civilian pay, military pay, and Accounts Payable are presented on the accrual basis of accounting on the financial statements.

X. Treaties for Use of Foreign Bases

The DAF GF has the use of land, buildings, and other overseas facilities obtained through various international treaties and agreements negotiated by the Department of State. The DAF GF purchases capital assets overseas with appropriated funds. However, the host country retains title to the land and capital improvements. In accordance with the DoD FMR Volume 4, Chapter 24, the DAF GF reports these assets on its Balance Sheet when an agreement exists between the U.S. and the host nation/foreign government and the agreement conveys a right to construct and operate facilities; the DAF GF funded the asset's acquisition (i.e., purchase and construction) and/or capital improvements; the asset meets capital General PP&E useful life and threshold criteria; and the asset is used in operations. Treaty terms generally allow the DAF GF continued use of these properties until the treaty expires. In the event treaties or other agreements are terminated, use of the foreign bases is prohibited and losses are recorded for the value of any non-retrievable capital assets. The settlement due to the U.S. or host nation is negotiated and takes into account the value of capital investments and may be offset by the cost of environmental cleanup. Liabilities for these settlements that might be applicable in the future are not accrued until time of settlement.

For additional information, refer to Note 9, *General PP&E, Net* and Note 14, *Environmental and Disposal Liabilities*.

Y. Use of Estimates

The DAF GF's management makes assumptions and reasonable estimates in the preparation of financial statements based on current conditions, which may affect the reported amounts. Actual results could differ materially from the estimated amounts. Significant estimates include such items as E&DL, Contingent Legal Liabilities, and actuarial liabilities related to workers' compensation.

Z. Parent-Child Reporting

The DAF GF 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 net cost of operations, changes in net position, and budgetary resources of the parent entity. Exceptions to this general rule apply to specific funds for which OMB has directed that all activity be reported in the financial statements of the child entity. These exceptions include U.S. Treasury-Managed Trust Funds, Executive Office of the President (EOP), and all other funds specifically designated by OMB.

The DAF GF receives allocation transfers for EOP (Foreign Military Sales/Military Assistance Program) meeting the OMB exception; however, activities for this fund are reported separately from the DoD financial statements.

AA. Transactions with Foreign Governments and International Organizations

Each year, the DAF GF sells defense articles and services to foreign governments and international organizations under the provisions of the *Arms Export Control Act of 1976*. Under the provisions of this act, the DAF GF has the authority to sell defense articles and services to foreign countries and international organizations generally at no profit or loss to the Federal Government. Payment in U.S. dollars is required in advance.

BB. Fiduciary Activities

Fiduciary Activities which the DAF GF must uphold are the collection or receipt, and the management, protection, accounting, investment, and disposition by the Federal Government of cash or other assets in which non-federal individuals or entities have an ownership interest. Fiduciary cash and other assets are not assets of the DAF GF and are not recognized on the Balance Sheet.

For additional information, refer to Note 23, *Fiduciary Activities*.

CC. Tax Exempt Status

As an entity of the Federal Government, the DAF GF is exempt from all income taxes imposed by any governing body whether it is a federal, state, commonwealth, local, or foreign government.

DD. Standardized Balance Sheet and Related Footnotes

The format of the Balance Sheet has changed to reflect more detail for certain line items, as required for all significant reporting entities by OMB A-136. This change does not affect totals for assets, liabilities, or net position and is intended to allow readers of this report to see how the amounts shown on the DAF GF Balance Sheet are reflected on the Government-wide Balance Sheet, thereby supporting the preparation and audit of the Financial Report of the U.S. Government. The mapping of U.S. Standard General Ledger (USSGL) accounts, in combination with their attributes, to particular Balance Sheet lines and footnotes is directed by the guidance published periodically under TFM, USSGL Bulletins, *Section V: Crosswalks to Standard External Reports for FY 2021 Government-wide Treasury Account Symbol Adjusted Trial Balance System Reporting*. The footnotes affected by the modified presentation are Note 6, *Accounts Receivable, Net*; Note 10, *Other Assets*; Note 12, *Federal Debt and Interest Payable*; Note 13, *Federal Employee and Veteran Benefits Payable*, and Note 15, *Other Liabilities*.

Note 2 Non-Entity Assets

As of September 30		2021 (Unaudited)
(Amounts in Thousands)		
Intragovernmental		
Fund Balance with Treasury	$	944,396
Total Intragovernmental	$	944,396
Other than Intragovernmental		
Cash and Other Monetary Assets	$	310,410
Accounts Receivable		896
Total Other than Intragovernmental	$	311,306
Total Non-Entity Assets	$	1,255,702
Total Entity Assets	$	392,005,859
Total Assets	$	393,261,561

Non-Entity Assets are assets for which the DAF GF maintains stewardship accountability and reporting responsibility, but are not available for the DAF GF's normal operations.

Intragovernmental Fund Balance with Treasury represents amounts in the DAF GF's deposit funds that are not available for the DAF GF's use.

Other than Intragovernmental Cash and Other Monetary Assets represent Disbursing Officers' cash and undeposited collections as reported on the Statement of Accountability (Standard Form 1219). These assets are held by Disbursing Officers as agents of the U.S. Treasury. For additional information, refer to Note 1.H., *Summary of Significant Accounting Policies- Cash and Other Monetary Assets*.

Other than Intragovernmental Accounts Receivable consists of amounts associated with cancelled year appropriations, as well as interest, fines, and penalties due on debt. Generally, the DAF GF cannot use the proceeds and must remit them to the U.S. Treasury unless permitted by law.

Note 3 Fund Balance with Treasury

As of September 30		2021 (Unaudited)
(Amounts in Thousands)		
Status of Fund Balance with Treasury		
Unobligated Balance		
Available	$	34,827,672
Unavailable		4,852,669
Total Unobligated Balance	$	39,680,341
Obligated Balance Not Yet Disbursed	$	118,065,995
Non-Budgetary Fund Balance with Treasury		
Clearing Accounts	$	2,372
Deposit Funds		944,396
Total Non-Budgetary Fund Balance with Treasury	$	946,768
Non-Fund Balance with Treasury Budgetary Accounts		
Investments - Treasury Securities	$	(7)
Unfilled Customer Orders without Advance		(5,004,640)
Receivables and Other		(1,226,434)
Total Non-Fund Balance with Treasury Budgetary Accounts	$	(6,231,081)
Total Fund Balance with Treasury	$	152,462,023

The U.S. Treasury records cash receipts and disbursements on the DAF GF's behalf; funds are available only for the purposes for which the funds were appropriated. The DAF GF Fund Balance with Treasury (FBwT) consists of appropriation accounts, revolving funds, trust accounts, special funds, and other fund types.

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

The Unobligated Balance is classified as Available or Unavailable and represents the cumulative amount of budgetary authority set aside to cover outstanding future obligations. The Available balance consists primarily of the unexpired, unobligated balance that has been apportioned and available for new obligations. The Unavailable balance consists of funds invested in U.S. Treasury securities and are temporarily precluded from obligation by law. Certain unobligated balances are restricted for future use and are not apportioned for current use. Unobligated Balances for trust fund accounts are restricted for use by the public law that established the funds.

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

Non-Budgetary FBwT includes accounts without budgetary authority, such as Deposit Funds and Clearing Accounts. The Clearing Accounts include activity from suspense transactions that are temporary in nature and are recorded in accordance with DoD Financial Management Regulation Volume 12, Chapter 1, *Funds*.

Non-FBwT Budgetary Accounts include Investments – Treasury Securities, Unfilled Customer Orders without Advance, and Receivables and Other that reduce budgetary resources.

Investments - Treasury Securities provide the DAF GF with budgetary authority and enables the DAF GF to access funds to make future benefit payments or other expenditures. The DAF GF must redeem these securities before they become part of the FBwT.

Unfilled Customer Orders without Advance and Receivables and Other provide budgetary resources when reimbursements are collected, not when orders are accepted or have been earned. FBwT is only increased when reimbursements are collected.

Total FBwT does not include funds held as a result of allocation transfers received from other Federal Agencies and fiduciary activities. As the child entity, the DAF GF received allocation transfers from the Department of Transportation (DoT) and the Department of Agriculture for execution on their behalf in the amount of $104.3 thousand as of September 30, 2021. As the parent entity, the DAF GF issued allocation transfers to the DoT for execution on behalf of the DAF GF in the amount of $27.3 million as of September 30, 2021. In addition, the DAF GF held cash and cash equivalents for fiduciary activities in the amount of $5.3 million as of September 30, 2021; these amounts are not reported in FBwT in accordance with Statement of Federal Financial Accounting Standards 31, *Accounting for Fiduciary Activities*. For additional information, refer to Note 23, *Fiduciary Activities*.

The FBwT reported in the financial statements has been adjusted to reflect the DAF GF's balance as reported by the U.S. Treasury. The difference between FBwT in the DAF GF's general ledger and FBwT reflected in the U.S. Treasury accounts is attributable to transactions that have not been posted to the individual detailed accounts in the DAF GF's general ledger, as a result of timing differences or the inability to obtain valid accounting information, prior to the issuance of the financial statements. The following adjustments were necessary for the DAF GF to reconcile their general ledger to the U.S. Treasury: $8.2 million in net undistributed collections, and $1.7 billion in net undistributed disbursements. These net amounts represent the culmination of inflows and outflows (collections and disbursements) throughout the period. When research is completed, these transactions will be recorded in the appropriate individual detailed accounts in the DAF GF's general ledger.

Beginning December 31, 2020, DAF GF began recording an additional quarterly accrual, which supplements the undistributed net disbursement adjustment, as described in the preceding paragraph. This additional quarterly adjustment is intended to more accurately reflect non-FBwT accounts included in the transactions that comprise the difference in balances between the DAF GF and the U.S. Treasury. The DAF GF performs a historical trend analysis by assessing the resolution of historical unmatched transactions. The result of this analysis has both a proprietary and budgetary impact that is reviewed and compared to previous quarter accruals for reasonableness. Accounts impacted include Advances and Prepayments, Accounts Payable, operating expenses, undelivered orders, and delivered orders.

As of September 30, 2021, the additional quarterly adjustment based on the historical trend analysis had a total budgetary impact of $637.7 million and a net proprietary impact of $419.9 million.

The DAF has $3.0 billion of funds in expired appropriations that were returned to the U.S. Treasury as of September 30, 2021.

Note 4 Cash and Other Monetary Assets

As of September 30	2021 (Unaudited)
(Amounts in Thousands)	
Cash	$ 59,821
Foreign Currency	250,589
Total Cash, Foreign Currency, & Other Monetary Assets	$ 310,410

Cash and Foreign Currency are Non-Entity Assets and consist of cash collected and held by disbursing officers in a custodial capacity for the U.S. Treasury or other Federal entity. Both of these assets are considered restricted and are not available to fund the DAF GF's normal operations. For additional information, refer to Note 2, *Non-Entity Assets*.

The DAF GF reported $37.2 million in cash held from dedicated collections as of September 30, 2021. For additional information, refer to Note 18, *Funds from Dedicated Collections.*

Note 5 Investments and Related Interest

As of September 30	2021 (Unaudited)			
	Cost	Amortized (Premium) / Discount	Investments, Net	Market Value Disclosure
(Amounts in Thousands)				
Intragovernmental Securities				
Non-Marketable, Market-Based				
Other Funds	$ 7	$ 0	$ 7	$ 0
Total Non-Marketable, Market-Based	$ 7	$ 0	$ 7	$ 0
Total Intragovernmental Securities	$ 7	$ 0	$ 7	$ 0

Intragovernmental Securities Other Funds primarily represent the DAF GF General Gift Fund investment in U.S. Treasury Securities. The value of these Non-Marketable, Market-Based Securities fluctuates in tandem with the selling price of the equivalent marketable security. Securities are purchased with the intent to hold until maturity; balances are not adjusted to market value.

The U.S. Treasury securities are issued to the Funds from Dedicated Collections as evidence of its receipts and are an asset to the DAF GF and a liability to the U.S. Treasury. The Federal Government does not set aside assets to pay future benefits or other expenditures associated with funds from dedicated collections. The cash generated from Funds from Dedicated Collections are deposited in the U.S. Treasury, and are used for general government purposes. Since the DAF GF and the U.S. Treasury are both part of the Federal Government, these assets and liabilities offset each other at a consolidated level. For this reason, they do not represent an asset or a liability in the U.S. Government-wide financial statements.

The U.S. Treasury securities provide the DAF GF with authority to access funds to make future benefit payments or other expenditures. When the DAF GF requires redemption of securities to make expenditures, the Federal Government will meet the requirement by using accumulated cash balances, raising taxes or other receipts, borrowing from the public or repaying less debt, or curtailing other expenditures. The Federal Government used the same method to finance all of its other expenditures.

For additional information on the DAF GF General Gift Fund, refer to Note 18, *Funds from Dedicated Collections.*

Cash contributions and contributions of Real Property assets have been made in connection with the DAF GF Military Housing Privatization Initiative (MHPI) agreements, which constitute Other Investments. However, these investments and related transactions are recorded only in the DoD consolidated financial statements; no transactions or amounts are recorded in the DAF GF principal financial statements. Information to comply with required footnote disclosures for a reconciliation of MHPI investment activity for FY 2021 is currently not available. In support of the DoD consolidated financial statement disclosures for MHPI, the DAF GF is developing processes to obtain the information necessary to comply with the disclosure requirements in Statement of Federal Financial Accounting Standards 49, *Public-Private Partnerships: Disclosure Requirements* in subsequent fiscal years.

For additional information on DAF GF MHPI agreements, refer to Note 25, *Public-Private Partnerships*.

Note 6 Accounts Receivable, Net

As of September 30	2021 (Unaudited)		
	Gross Amount Due	Allowance For Estimated Uncollectibles	Accounts Receivable, Net
(Amounts in Thousands)			
Intragovernmental Receivables	$ 1,021,933	$ (10,919)	$ 1,011,014
Other than Intragovernmental Receivables (From the Public)	349,336	(44,202)	305,134
Total Accounts Receivable	$ 1,371,269	$ (55,121)	$ 1,316,148

Accounts Receivable represents the DAF GF's claim for payment from federal and non-federal entities. As of September 30, 2021, the DAF GF reported a receivable allowance for Intragovernmental Receivables balance of $10.9 million in accordance with Technical Bulletin 2020-1, *Loss Allowance for Intragovernmental Receivables*, which was issued in the second quarter of FY 2020. An allowance recorded to recognize an Intragovernmental Receivable at net realizable value on the financial statements does not alter the underlying statutory authority to collect the receivable or the legal obligation of the other intragovernmental entity to pay. For additional information regarding the method utilized to estimate the allowance for uncollectible amounts, refer to Note 1.J., *Summary of Significant Accounting Policies – Accounts Receivable*.

Note 7 Loans Receivable, Net and Loan Guarantee Liabilities

Direct Loans and Loan Guarantees Programs

The DAF GF is in the process of reviewing its business arrangements and transactions to determine those that meet the disclosure requirements of Statement of Federal Financial Accounting Standards (SFFAS) 49, Public-Private Partnerships: Disclosure Requirements. To date, the DAF GF has identified the Military Housing Privatization Initiative (MHPI) as meeting the requirements for disclosure in its financial statements in accordance with SFFAS 49. Disclosure information for the MHPI, as well as consideration of other DAF GF arrangements which may meet the criteria for SFFAS 49 disclosure, are described in Note 25, *Public-Private Partnerships*. Due to the complexity of some of the MHPI arrangements, it is possible that previous transactions may need to be adjusted in order to comply with Federal Generally Accepted Accounting Principles.

Transactions and amounts for the MHPI direct loans and loan guarantees disclosed herein are recorded only in the DoD consolidated principal financial statements. No transactions or amounts are recorded in the DAF GF principal financial statements.

Since inception of the MHPI program, no direct loan project has ever defaulted on its obligations to MHPI. The DAF GF recognizes that situations may arise that necessitate the modification of the terms of certain direct loan agreements to ensure the sustainability of affected projects. Although projects may not be at risk of imminent default or forecasted to have debt issues, a sustainment review is performed every two to three years outlining the needs of a project. On an annual basis, there is a re-forecast of projected cash flows to assess each project's sustainability.

No modifications were completed during FY 2021.

Currently, the following projects are under review and subject to possible modification:

- Air Education and Training Command Group 1 (AETC I) - In October 2018, Tyndall Air Force Base (AFB) suffered a direct hit by Hurricane Michael and all 867 privatized units (813 end-state and 54 excess units) sustained damage resulting in the largest insurance loss in the history of DAF GF privatized housing. All units were deemed uninhabitable and the Basic Allowance for Housing (BAH) at Tyndall AFB was suspended. Tyndall AFB provided 42.0% of total Net Operating Income for the AETC I project's government direct loan, putting repayment of the government direct loan at risk. The AETC I project consists of Altus AFB, Oklahoma; Luke AFB, Arizona; Sheppard AFB, Texas; and Tyndall AFB, Florida. The Office of Management and Budget (OMB) previously approved a 12-month forbearance of the AETC I government direct loan for the period of January 2019 through December 2019, which remains in an interest-only period through February 2023.

The DAF GF and Project Owner adopted a two-phased recovery approach for the AETC I project, working closely with the senior lender in establishing a plan to restore and rebuild homes at Tyndall AFB. The Phase I Tyndall AFB restoration was approved by OMB in October 2019 and included a reduction in the Tyndall AFB end-state to 593 total units. The Phase I plan uses funds from the Non-Debt Sized Units (separate units under the same project, but have a separate cash flow waterfall) at the Northern Group and Western Group MHPI projects to loan funds to the AETC Group I project through a credit facility to address a funding shortfall in the Phase I restoration plan. The loan is non-recourse, no interest, and payable at the end of the AETC I lease term. The Phase I plan also included the DAF GF take-back of 274 units for demolition, which has been completed. Phase II will include a restructure of the AETC I project to ensure long-term sustainment and is anticipated to include adjustments to the government direct loan and other changes to project deal terms to ensure the viability of the AETC I project through the end of the lease term. As of September 30, 2021, a total of 97 homes were online and available for occupancy with the remaining 496 homes left to be fully restored.

At the end of first quarter of FY 2020, the DAF GF became aware that the project was experiencing delays in receiving the next major tranche of insurance proceeds, specifically in the $100.0 to $200.0 million layer of funding. Insurers that owe the next $100.0 million of insurance proceeds are disputing the validity of the remaining claim, putting the timing and restoration of the final 496 end-state units at risk. In October 2020, the Project Owner filed a civil complaint against the insurers for failure to pay the remaining insurance claim. A successful litigation outcome could delay the remaining recovery of homes at Tyndall AFB up to five years. While a settlement could result in an earlier payment, there is no certainty a settlement would provide sufficient funds to complete the remaining Phase I recovery scope. In March 2021, the Department of Justice requested the court expedite this action to the extent possible, which was granted. Ongoing delays in recovering units at Tyndall AFB may place repayment of the government direct loan at risk as the project is currently using Non-Debt Sized Units loan funds to avoid a default.

Additionally, the DAF GF is planning to perform government direct loan modifications for various projects:

FY 2022 (Offutt, Robins I, and Robins II):

- **Offutt AFB** – Shortfalls ($13.0 million for sustainment at project mid-term with 0.0% mid-term reinvestment funded) driven by weak BAH growth, occupancy challenges, and outdated units that are not competitive with the market. The DAF GF and Project Owner are currently negotiating the terms of a potential restructure to resolve these funding shortfalls by modifying the terms of the existing government direct loan and adjusting various project terms such as cash flow splits.
- **Robins I** – Shortfalls ($20.0 million or more for sustainment over next 10 years and no mid-term reinvestment funded) driven by higher than projected operating expenses, poor historical occupancy, and preferred return balances that are never expected to be repaid resulting in no cash flow to the Reinvestment Account. The DAF GF is working with the Project Owner to finalize the divestiture of the project from the DAF GF portfolio.
- **Robins II** – Shortfalls ($5.0 million for sustainment over next 10 years and 0.0% mid-term reinvestment funded) driven by higher than projected operating expenses and a preferred return balance not expected to be repaid until the end of the lease term resulting in no cash flow to the Reinvestment Account. The DAF GF and Project Owner are negotiating a potential restructure to resolve these funding shortfalls through a Government Equity investment as this project does not have a government direct loan.

FY 2023 (Scott and Dover):

- **Scott AFB** – Shortfalls ($52.0 million for sustainment at project mid-term and $162.0 million by end of lease with 0.0% mid-term reinvestment funded) driven by large deferred fee/preferred return balances never expected to be repaid; no funds ever reached the Reinvestment Account. The DAF GF received a counter proposal in late May 2021. DAF GF recently submitted scoring packages to the OSD for a mid-point vector check.
- **Dover AFB** – Shortfalls ($26.0 million for sustainment by end of lease with only 30.0% reinvestment funded at mid-term) driven by large deferred fees never expected to be repaid; no funds ever reached the Reinvestment Account. The DAF GF recently submitted scoring packages to the OSD for a mid-point vector check.

For additional information on activities related to the MHPI, refer to Note 12, *Federal Debt and Interest Payable*, and Note 25, *Public-Private Partnerships.*

Note 8 Operating Materials and Supplies, Net

As of September 30	2021 (Unaudited)		
	OM&S, Gross	Revaluation Allowance	OM&S, Net
(Amounts in Thousands)			
Held for Use	$ 52,404,295	$ N/A	$ 52,404,295
Held in Reserve for Future Use	1,401,533	N/A	1,401,533
Held for Repair	10,491,310	0	10,491,310
Excess, Obsolete, and Unserviceable	672,041	(672,041)	0
Total	$ 64,969,179	$ (672,041)	$ 64,297,138

General Composition of Operating Materials and Supplies

Operating Materials and Supplies (OM&S) consists of tangible personal property to be consumed in normal operations. Repairables are assets that are cost-effective to repair and include, but are not limited to, high-value munitions, cruise missiles, spare engines, uninstalled missile motors, and aerial targets. Consumables are those assets that are not cost effective to repair and include, but are not limited to, low-value munitions and spare parts.

OM&S includes items with a useful life of two or more years if those items are expected to be returned or transferred after use with the intent of re-use. OM&S includes weapon systems spares, ammunition, tactical missiles, aerial targets, uninstalled aircraft and cruise missile engines, and uninstalled missile motors.

Munitions, cruise missiles, spare engines, and uninstalled missile motors are commonly turned in for maintenance and repair. Based on the maintenance personnel's evaluation, OM&S turned in for maintenance and repair is assigned a supply condition code to classify the asset in terms of readiness for issue and use. It may be recorded as a change in condition. If a repair is needed, the asset's status is changed from Held for Use to Held for Repair. If a portion of munitions issued for consumption is returned or turned in, the consumed portion of the munitions issued for consumption is reported as an expense and the remaining munition(s), if any, will continue to be recorded as Held for Use. Once required maintenance or repair has been completed for a spare engine, the spare engine is reported as Held for Use or will be deployed and installed on an aircraft and reported as Military Equipment. Aerial targets generally do not get turned in as they are destroyed during training exercises and are not salvageable.

Contractor-Inventory Control Point (C-ICP) represents OM&S assets managed and possessed by contractors supporting various weapons systems at contractor inventory control points.

Currently, the DAF GF cannot disclose an Allowance for Repair as required by Statement of Federal Financial Accounting Standards (SFFAS) 3, *Accounting for Inventory and Related Property*. Additionally, the DAF GF does not record Excess, Obsolete, and Unserviceable (EOU) OM&S at a Net Realizable Value (NRV) as required by SFFAS 3 (other than EOU transferred to the Defense Logistics Agency which has a NRV of zero) as the DAF GF is actively working to implement corrective actions to properly report these amounts.

Restrictions on the Use of OM&S

The DAF does not maintain any OM&S restricted assets.

Decision Criteria for Identifying the Category to Which OM&S Items Are Assigned

The DAF GF assigns OM&S items to a category based on asset type and condition. Held for Use includes all materiel available for issuance. Held in Reserve for Future Use includes suspended stock, which is OM&S with one of the following conditions: 1) awaiting inspection to determine its condition, 2) inventory returned from customers or users to storage warehouses and awaiting condition classification, 3) inventory held at storage warehouses pending litigation or negotiation with contractors or common carriers, 4) quality-deficient inventory returned by customers or users due to technical deficiencies, and 5) inventory returned by salvage activities for which the material condition cannot be determined.

Held for Repair generally includes all economically repairable materiel as defined by the Military Standard Transaction Reporting and Accounting Procedures Manual (Defense Logistics Manual 4000.25-2-M). Held for Repair represents unserviceable repairable, unserviceable incomplete, suspended (in work), and suspended (reclaimed items, awaiting condition determination) recorded at Moving Average Cost (MAC).

EOU includes all materiel that managers determine to be more costly to repair than to replace. To date, the DAF GF has not confirmed any proceeds received from the disposal of these OM&S assets, and therefore, the NRV is currently reported as zero.

The DAF GF incorrectly classifies economic retention stock, contingency retention stock, and excess assets as Held for Use, and is currently reviewing how these assets are reported to determine whether they should be re-classified as Held in Reserve for Future Use or EOU. The DAF GF is also in the process of re-classifying spare engines that are placed in long-term storage.

The U.S. Treasury U.S. Standard General Ledger (USSGL) Board approved the use of the OM&S In-Development account for the DoD effective October 1, 2017. The DAF GF is still in the process of implementing DoD policy regarding the use of this account.

OM&S Value

Currently, not all logistics systems maintain the historical cost data necessary to comply with SFFAS 3. Therefore, the DAF GF is not making an unreserved assertion with respect to this line item in accordance with SFFAS 48, *Opening Balances for Inventory, Operating Materials and Supplies, and Stockpile Materials*.

- Munitions purchased prior to 2016 are valued based on the Federal Logistics Information System catalogue price. Munitions purchased after 2016 are valued based on actual historical cost.
- Spare Engines, Aerial Targets, Uninstalled Missile Motors, and Cruise Missiles are valued based on estimated historical cost.

The Comprehensive Engine Maintenance System calculates MAC for Spare Engines. The Reliability and Maintainability Information Systems calculates MAC for cruise missiles and aerial targets, and the Theater Integrated Combat Munitions System calculates MAC for munitions. Legacy system functionality and the lack of a complete asset universe prevents the DAF GF from recording MAC values located at C-ICP locations. The DAF GF's accounting system uses transaction type codes provided by Mechanization of Contract Administration Services (MOCAS) to determine how to record transactions. MOCAS was not designed to have separate transaction type codes to identify and account for contract financing payments at the level required to accurately determine the USSGL posting to the proper work in process type asset account, including OM&S In-Development. Until system modifications are made, contract financing payments, as disclosed in Note 10, *Other Assets*, are overstated and work in process type assets (including OM&S In-Development) are understated.

Other Department of the Air Force Disclosures

C-ICP represents $13.4 billion of the DAF GF's OM&S as of September 30, 2021. The DAF GF has not been able to identify a complete population of programs that contain contractor managed and possessed OM&S. In addition, some contractor systems can only provide minimal OM&S accounting data that can be used to prepare the financial statements. Although some programs report transactional data, the data provided by many other programs consists of only beginning and ending balances for each of the following asset accounts: Held for Use, EOU, Held for Future Use, and Held for Repair. Without the required additional data (acquisitions, transfers in, amounts consumed, transfers out, trading partner data, etc.), the DAF GF can only report the net change between prior period ending balances and the values reported as current period ending balances. The DAF GF does not currently use MAC for C-ICP assets because there is no accountable property system of record (APSR) to perform the MAC calculation. In addition, the DAF GF does not require contractors to report SFFAS 3 compliant data that uses the MAC valuation method. The DAF GF has identified C-ICP Programs and issued a Contract Data Requirements List requiring financial reporting on a quarterly basis. However, the DAF GF has identified that not all C-ICP Programs are submitting required Chief Financial Officer Reports or reporting through the Automated Logistics Management Support System. EOU C-ICP inventory is not being recorded at NRV as required by SFFAS 3.

There is an APSR for Base Possessed OM&S, the Integrated Logistics Supply System, which contains the functionality to calculate MAC; however, the DAF GF is currently unable to validate that the inputs and the calculation are accurate.

The DAF GF contributes funds to the Joint Strike Fighter (JSF) Program for the acquisition and sustainment of a global pool of spare parts and support equipment. The JSF Program Office maintains ownership title to pooled spares until the point at which they are installed and incorporated into DAF GF owned F-35 aircraft, and maintains ownership title to pooled support equipment throughout its life. Therefore, pooled spares and support equipment are not reported on the DAF GF's Balance Sheet because the DAF GF does not own them. The DAF GF's rights to benefit from the asset pools in relation to the funding it provides are based on decision memorandums developed by the JSF Program Office and signed by the DAF GF and other program participants. The DAF GF does not currently have a process in place to effectively reconcile the funds provided to the assets issued to it from the pool at an item level. The DAF GF is participating in an OSD working group that is developing a process to allow the DAF GF to properly account for its rights to the asset pools in accordance with Federal Generally Accepted Accounting Principles.

Note 9 General PP&E, Net

As of September 30	2021 (Unaudited)							
	Depreciation/ Amortization Method	Service Life		Acquisition Value		(Accumulated Depreciation/ Amortization)		Net Book Value
(Amounts in Thousands)								
Major Asset Classes								
Buildings, Structures, and Linear Structures*	S/L	20, 40 or 45*	$	96,643,840	$	(62,266,243)	$	34,377,597
Leasehold Improvements	S/L	Lease Term		43,418		(28,005)		15,413
Software	S/L	2-5 or 10		628,944		(439,627)		189,317
General Equipment	S/L	Various		376,810,851		(269,354,103)		107,456,748
Aircraft				298,649,371		(210,001,326)		88,648,045
Other				78,161,480		(59,352,777)		18,808,703
Construction-in-Progress	N/A	N/A		14,596,264		N/A		14,596,264
Military Equipment				13,903,639		N/A		13,903,639
Real Property				692,625		N/A		692,625
Total General PP&E			$	488,723,317	$	(332,087,978)	$	156,635,339

Legend for Valuation Methods

S/L = Straight Line N/A = Not Applicable

* Estimated useful service life is 20 years for structures, 40 years for linear structures, and 45 years for buildings.

General PP&E, Net - Summary of Activity

As of September 30		2021 (Unaudited)
(Amounts in Thousands)		
General PP&E, Net beginning of year	$	160,284,264
Capitalized Acquisitions		15,030,228
Dispositions		(1,813,867)
Transfers In/(Out) Without Reimbursement		437,691
Revaluations (+/-)		214,280
Depreciation Expense		(16,002,269)
Other (+/-)		(1,514,988)
General PP&E, Net End of Year	$	156,635,339

General Property, Plant, and Equipment

The DAF GF has valued some of its General Property, Plant, and Equipment (General PP&E) using deemed cost methodologies as defined in Statement of Federal Financial Accounting Standards (SFFAS) 50, *Establishing Opening Balances for General Property, Plant, and Equipment: Amending SFFAS 6, SFFAS 10, SFFAS 23, and Rescinding SFFAS 35.* However, systems and processes required to consistently account for historical cost for all General PP&E in accordance with SFFAS 6, *Accounting for Property, Plant, and Equipment* and SFFAS 10, *Accounting for Internal Use Software*, as applicable, are not fully in place. Therefore, the DAF GF is not making an unreserved assertion with respect to any General PP&E line items in accordance with SFFAS 50.

Buildings, Structures, and Linear Structures

In the first quarter of FY 2019, the DAF GF revalued Real Property assets using Plant Replacement Value (PRV) within the Accountable Property Systems of Record (APSRs), which will eventually be used to implement deemed cost valuation for existing Real Property assets in accordance with SFFAS 50. The revaluation was premature, as a significant number of underlying data elements utilized to calculate the PRV were inaccurate resulting in misstatements requiring manual adjustment in FY 2019 and FY 2020. The DAF GF determined the manual adjustment was no longer necessary in FY 2021. The DAF will continue to validate and correct reported values in the APSRs, and strengthen go-forward processes, to enable complete and accurate accounting in the general ledgers. As the DAF GF continues to improve the underlying systems and data used to support Real Property values reported on the DAF GF's financial statements, interim adjustments occur to address targeted activities while solutions that are more permanent are planned and executed to address root causes.

The DAF GF reports in its financial statements Real Property within the jurisdiction of DAF installations because it is the designated installation host. This includes Real Property on the DAF GF installations used and occupied by other DoD agencies. As the installation host, the DAF does not report assets on its installation that were funded and are exclusively used by an entity not included in the consolidated DoD financial statements. While the DAF GF is responsible and accountable for accepting, controlling, managing, and utilizing Real Property, the DAF GF may enter into Memoranda of Agreement with another Military Department, Washington Headquarters Services or other DoD Components, and license or permit with a non-DoD governmental agency, transferring the right to control the use of a DAF GF Real Property to the other organization. The transfer of the right to control the use of the Real Property does not transfer jurisdiction and the asset remains an asset under the jurisdiction of the DAF GF. The DAF GF continues to work toward compliance with DoD Financial Management Regulation Volume 4, Chapter 24, *Real Property*, by working with other Military Departments to reconcile Real Property reports.

Leasehold Improvements

The DAF GF has ongoing efforts to validate the leasehold improvement balance. Leasehold Improvements are additions, alterations, remodeling, or other changes to a leased property that either extend the useful life or enlarge or improve the capacity of existing property.

Software

Internal use software (IUS) is comprised of both financial and administrative software, including those used for project management, and software used to produce goods and services. IUS may exist as a stand-alone application, or the combined software components of an information technology system. However, software that is integrated into and necessary to operate equipment rather than perform an application is not considered or treated as IUS. IUS encompasses the following types of software:

- Commercial off-the-shelf software – software acquired from a vendor or other government entity, typically in the form of a license, which is ready for use with little or no changes
- Developed software – internally developed software is software that is developed by or under the oversight of DAF GF Program Offices (Contractor developed), including new software and the modification of existing or purchased software or software licenses

As of September 30, 2021, the DAF GF was unable to support the reported balance for IUS. The DAF GF is in the process of implementing processes and controls in accordance with SFFAS 10, *Accounting for Internal Use Software*. Once these processes and controls are in place, the DAF GF intends to expense, in the FY of the unreserved assertion, IUS balances in a future period as permitted by SFFAS 50.

General Equipment

General Equipment comprises multiple asset types such as Aircraft and Other General Equipment.

Aircraft – Represents the most significant portion of General Equipment and is comprised of 11 categories of aircraft based on mission types: attack, bomber, transport, electronic, fighter, trainer, helicopter, vertical takeoff and landing, utility, glider, and remotely piloted aircraft systems. The DAF GF continues to work toward establishing opening balances for these assets in accordance with SFFAS 50. Previous alternative valuation methods used to establish opening balances, as permitted by SFFAS 50, were reasonable historical cost estimates based on: 1) cost of similar assets at the time of acquisition; 2) current cost of similar assets discounted for inflation since the time of acquisition (that is, deflating current costs to costs at the time of acquisition by general price index); or 3) other reasonable methods, including latest acquisition cost and estimation methods based on information such as, but not limited to, budget, appropriations, engineering documents, contracts, or other reports reflecting amounts to be expended. In instances where contracts or other key supporting documents were not available, the DAF GF used budgetary data, such as procurement documents, to establish an opening balance for assets and modifications. When budgetary data is utilized, the acquisition cost can be found in the DoD FY President's Budget Submission for the given year.

Other General Equipment – Includes satellites, missiles, pods, and mine resistant ambush protected vehicles. In FY 2021, the DAF GF continued to work toward establishing opening balances for these assets in accordance with SFFAS 50.

Other General Equipment also includes assets classified as support equipment such as passenger carrying, non-mine resistant ambush protected vehicles, communications security equipment, nuclear weapons related material, special tooling and special test equipment, either as equipment in the possession of the DAF GF or as Government Furnished Equipment (GFE) with contractors. These equipment categories have not yet been valued using deemed cost to establish opening balances under SFFAS 50. The DAF GF intends to value these equipment categories using deemed cost to establish opening balances under SFFAS 50 in future FYs.

The DAF GF can account for only a portion of its GFE. Additionally, the DAF GF is in the process of implementing the Defense Property Accountability System (DPAS) as its APSR for GFE. Upon full implementation in future years, DPAS will provide the DAF GF enhanced oversight capabilities for tracking, monitoring, and financially reporting assets in the possession of contractors.

Construction-in-Progress

Military Equipment – The DAF GF began reporting Construction-in-Progress (CIP) for selected Military Equipment assets under development as of September 30, 2017. The methodology to estimate CIP is based on the capitalizable expenditures during the period by program and by contract. CIP is reduced based on delivered assets placed in service, which are then recorded in the APSR at actual historical cost. The DAF GF currently reports CIP balances for all 15 aircraft platforms and five variants of satellite assets currently in production. This CIP balance does not include costs associated with the construction of capital improvements/modifications.

Real Property – The DAF GF constructs Real Property and works closely with other Military Departments, the United States Army Corps of Engineers (USACE), and private sector entities for design and construction. The DAF GF has begun coordinating with all relevant stakeholders to establish consistent and repeatable processes for CIP. A majority of the Real Property construction is performed by USACE for the DAF GF.

As discussed in Note 8, *Operating Materials and Supplies, Net*, transaction codes used by the DAF GF's accounting system were not designed to identify and account for contract financing payments at the level required to accurately determine the U.S. Standard General Ledger posting to the proper work in process type asset account, including General PP&E - CIP.

Restrictions on the Use or Convertibility of General PP&E

There are restrictions on the DAF GF's ability to dispose of land, buildings, structures, and linear structures located outside the continental U.S. The DAF GF has use of overseas land, buildings, and structures obtained through international treaties and agreements negotiated by the Department of State. Treaty covenants restrict the DAF GF's use and disposal of the restricted property located outside the U.S. For additional information, refer to Note 1.X., *Summary of Significant Accounting Policies – Treaties for Use of Foreign Bases*.

Heritage Assets

Heritage Assets For Year Ended September 30, 2021 (Physical Count) (Unaudited)					
Heritage Asset Categories	Measurement Quantity	As of 9/30/20	Additions (+)	Deletions (-)	As of 9/30/21
Buildings, Structures, and Linear Structures	Each	5,960	181	0	6,141
Archaeological Sites	Sites	2,196	0	(272)	1,924
Museum Collection Items (Objects, Not Including Fine Art)	Each	135,214	1,014	(1,145)	135,083
Museum Collection Items (Fine Art)	Each	15,067	18	(4,885)	10,200

The DAF GF fully commits to the preservation of the U.S. Air Force history, heritage, and traditions, and meets this commitment through its policy to preserve heritage assets, which are items of natural, cultural, educational, architectural, or artistic significance. With minor exceptions, the DAF GF uses the buildings and structures in its daily activities and includes the buildings and structures on the Balance Sheet as multi-use heritage assets. The DAF GF defines heritage assets as follows:

- ***Buildings, Structures, and Linear Structures:*** Buildings, Structures, and Linear Structures are listed on, or eligible for listing on, the National Register of Historic Places (NRHP) in accordance with Section 110 of the *National Historic Preservation Act* (NHPA), including multi-use heritage assets.
- ***Archaeological Sites:*** Sites that have been identified, evaluated, and determined eligible for listing on, or listed on, the NRHP in accordance with Section 110 of the NHPA.
- ***Museum Collection Items:*** Items are considered unique due to historical, natural, cultural, educational, artistic, technical, or architectural significance.

The DAF GF has become a large-scale owner of historic buildings, structures, archaeological sites and artifacts, aircraft, and other cultural resources. The determination of buildings and structures, and archaeological sites, to be listed on the NRHP is made by the appropriate base civil engineering group with concurrence by the relevant State Historic Preservation Officer (SHPO) or by a determination from the Keeper of the NRHP. Guidelines for determining eligibility for listing on the NRHP are located in the Code of Federal Regulations (CFR), Title 36, Part 60, Section 60.4. Each State's Historic Preservation Office assists the DAF GF with the identification, evaluation, protection, and enhancement of heritage assets located within the state.

The DAF GF, with minor exceptions, uses the buildings and structures in its daily activities and includes the buildings and structures on the Balance Sheet as multi-use heritage assets. If an asset is classified as a single use heritage asset, the asset is not depreciated, nor recorded on the DAF GF's Balance Sheet. The DAF GF is in the process of validating assets that are recorded as a multi-use heritage asset as opposed to a single use heritage asset. The DAF GF does not receive any heritage assets through donation or devise. For information related to deferred maintenance and repairs, including heritage assets, refer to the DAF GF's Required Supplementary Information section.

Buildings, Structures, and Linear Structures

As mentioned above, Buildings, Structures, and Linear Structures that are classified as heritage assets are those that are listed on, or eligible for listing on the NRHP, including multi-use facilities. Each base's civil engineering group, as part of their overall responsibility, maintains these facilities in accordance with the NHPA, and *The Secretary of Interior's Standards for The Treatment of Historic Properties*. The DAF GF reported 5,960 Buildings, Structures, and Linear Structures on the DAF GF installations and garrisons to be heritage assets as of September 30, 2020. As of September 30, 2021, 6,141 Buildings, Structures, and Linear Structures are classified as heritage assets; an increase of 181.

Archaeological Sites

Archaeological Sites considered heritage assets are sites that have been identified, evaluated, and determined to be eligible for listing on, or are listed on, the NRHP. The DAF GF reported 2,196 Archaeological Sites as heritage assets as of September 30, 2020. As of September 30, 2021, 1,924 known Archaeological Sites are classified as heritage assets; a decrease of 272. This cohort of archaeological heritage assets is a subset of nearly 21,000 known Archaeological Sites recorded on the DAF GF controlled and owned lands in the U.S. and its Territories.

Archaeological site data is tracked and maintained by the Air Force Civil Engineer Center/Environmental Quality Technical Support Branch (AFCEC/CZTQ). AFCEC/CZTQ collects archaeological data during the bi-annual Environmental Management Review data call.

Museum Collection Items, Objects

This represents the number of objects which meet the criteria for historical property as defined in the DAF GF Instruction 84-103 and that have been evaluated, accessioned, and catalogued in the DAF GF national historical collection. The National Museum of the United States Air Force (NMUSAF) performs inherently governmental functions by fulfilling statutory requirements delegated by the Secretary of the Air Force for management of the DAF GF's national historic collection. The NMUSAF is fully accredited by the American Alliance of Museums.

During the period of October 1, 2020 through September 30, 2021 there have been 1,014 objects added to the collection, which had 135,214 objects as of September 30, 2020. These additions are a result of private donations, transfers from the DAF GF or other federal entities, curatorial administrative actions such as class code changes, accession breakouts, etc., and the continued documentation of newly reported artifacts at the DAF GF activities worldwide. There were 1,145 objects deleted due to administrative actions or deaccessioned from the collection as having been determined not to meet historic property criteria, were in poor condition, or were transferred to other federal historical activities, resulting in a collection of 135,083 objects as of September 30, 2021. As part of the NMUSAF's active collection management process, the accession and deaccession of objects is continuous.

The overall condition of the historical collection, which is primarily located at the NMUSAF, is very good because of both professional care from trained conservators and ever improving exhibit/storage conditions.

Museum Collection Items, Fine Art

In addition to its artifact collection, the NMUSAF holds a Fine Art collection separate from the Air Force Art Program Collection totaling 979 items as of September 30, 2020. During the period, the NMUSAF recorded four additions to the program, and 12 deletions resulting in 971 items as of September 30, 2021. Containing original oils, drawings, sketches, and sculptures, these Fine Art holdings are in direct support of NMUSAF exhibit requirements.

An additional art collection held by the Air Force Art Program also contains original oils, drawing, sketches, and sculptures. As of September 30, 2020, those items totaled 14,088. These paintings were a direct result of the artists visiting bases and operations throughout the DAF. The Air Force Art Program saw an increase of 14 pieces based upon those visits and 4,873 deletions. As of September 30, 2021, items held by the Air Force Art Program totaled 9,229. The difference in items held is accounted by the fact that the DAF GF no longer includes pieces that have been deaccessioned or destroyed.

The NMUSAF and Air Force Fine Arts Program combined held a total of 15,067 and 10,200 pieces of art as of September 30, 2020 and 2021, respectively.

General PP&E Land and Stewardship Land

GENERAL PP&E LAND AND STEWARDSHIP LAND For Year Ended September 30, 2021 (Acres in Thousands) (Unaudited)					
Facility Code	Facility Title	As of 9/30/20	Additions (+)	Deletions (-)	As of 9/30/21
9110	Government Owned Land	1,540	6,764	(61)	8,243
9111	State Owned Land	0	0	0	0
9120	Withdrawn Public land	5,627	0	(5627)	0
9130	Licensed and Permitted Land	728	0	(728)	0
9140	Public Land	0	0	0	0
9210	Land Easement	10	0	(10)	0
9220	In-leased Land	102	0	(102)	0
9230	Foreign Land	297	0	(297)	0
9900	Land Rights	113	0	(6)	107
Total		8,417	6,764	(6,831)	8,350

The table above presents combined acreage amounts for both General PP&E Land and Stewardship Land from the DAF GF APSR. In June 2021, OSD published the FY 2021 Real Property Categorization System (RPCS) wherein certain facility codes were deleted and remapped to 9110 Government Owned Land. As of September 30, 2021, there are only two facility codes assigned to land: 9110 and 9900 Land Rights due to the APSR being reconfigured to remap the facility codes to comply with the RPCS changes. As a result, the acres for facility codes remapped to 9110 are shown in the table above as deletions for their respective previous facility codes and shown as an aggregate addition of 6,764 thousand acres for 9110.

In addition to the appropriate categorization of land between General PP&E Land and Stewardship Land, the DAF GF has ongoing efforts to validate land acreage amounts for both of these categories and verify land records reported in the APSRs. Ongoing efforts include the development of a land parcel map to reconcile land deeds to the land masses of the DAF GF installations, the development of a Real Property Reconciliation Tool to reconcile amounts included in the APSRs with Geographic Information System maps, the implementation of new controls around the review of land deeds, and a DAF GF-wide effort to migrate to full compliance with Real Property Information Model (RPIM) and SFFAS 50 re-baselining Real Property values.

General PP&E Land is land and land rights (such as easements) acquired for or in combination with General PP&E, and land acquired with the intent to construct General PP&E. Stewardship Land represents land rights owned by the Federal Government, but not acquired for, or in combination with, items of General PP&E. All DAF GF Stewardship Land is in acceptable condition, based on designated use. The DAF GF is unable to identify quantities of Stewardship Land obtained through donation or devise due to limitations of the DAF GF's financial and non-financial management processes and systems.

Note 10 Other Assets

As of September 30	2021 (Unaudited)
(Amounts in Thousands)	
Intragovernmental Other Assets	
Advances and Prepayments	$ 129,621
Total Intragovernmental Other Assets	$ 129,621
Other than Intragovernmental Other Assets	
Outstanding Contract Financing Payments	$ 17,912,020
Advances and Prepayments	198,855
Subtotal	$ 18,110,875
Less: "Outstanding Contract Financing Payments" and "Advance and Prepayments" totaled and presented on the Balance Sheet as "Advances and Prepayments"	$ (18,110,875)
Total Other Assets	$ 129,621

Advances and Prepayments are made in contemplation of the future performance of services, receipt of goods, incurrence of expenditures, or receipt of assets, excluding those made as Outstanding Contract Financing Payments (OCFP).

OCFP, a separate classification of Advances and Prepayments, includes $17.9 billion as of September 30, 2021 in contract financing payments made in contemplation of the future performance of services, receipt of goods, incurrence of expenditures or receipt of assets.

Note 11 Liabilities Not Covered by Budgetary Resources

As of September 30		2021 (Unaudited)
(Amounts in Thousands)		
Intragovernmental Liabilities		
Accounts Payable	$	599,000
Federal Employees' Compensation Act		167,491
Other Liabilities		10,853
Total Intragovernmental Liabilities	$	777,344
Other than Intragovernmental Liabilities		
Accounts Payable	$	477,219
Federal Employee and Veteran Benefits Payable		4,454,589
Environmental and Disposal Liabilities		11,758,839
Other Liabilities		255,885
Total Other than Intragovernmental Liabilities	$	16,946,532
Total Liabilities Not Covered by Budgetary Resources	$	17,723,876
Total Liabilities Covered by Budgetary Resources		18,622,512
Total Liabilities	$	36,346,388

Liabilities Not Covered by Budgetary Resources require future congressional action, whereas Liabilities Covered by Budgetary Resources reflect prior congressional action. Regardless of when the congressional action occurs or when the liabilities are liquidated, the U.S. Treasury will finance the liquidation in the same way that it finances all other disbursements by using some combination of receipts, other inflows, or borrowing from the public (if there is a budget deficit).

The material amounts and sensitive areas included in Total Liabilities Not Covered by Budgetary Resources are categorized as not covered because there is no current or immediate appropriation available for liquidation. These liabilities will require resources funded from future year appropriations.

Intragovernmental Other Liabilities are primarily comprised of unfunded employment related liabilities.

Accounts Payable primarily represents liabilities in cancelled appropriations, which when paid, will be disbursed using current year funds.

Federal Employee and Veteran Benefits Payable consists of various employee actuarial liabilities not due and payable during the current fiscal year. These liabilities primarily consist of the amount recorded by employer agencies for the actuarial present value of future *Federal Employees' Compensation Act* benefits provided to federal employees or their beneficiaries as a result of work-related deaths, disability, or occupational disease. For additional details and disclosures, refer to Note 13, *Federal Employee and Veteran Benefits Payable*.

For additional details and disclosures related to Environmental & Disposal Liabilities, refer to Note 14, *Environmental and Disposal Liabilities.*

Other than Intragovernmental Other Liabilities are primarily comprised of the amounts recorded for unpaid leave and Contingent Liabilities. Earned unpaid leave is entitled to an employee upon separation from the DAF GF employment. Contingent Liabilities that are probable and measurable will require resources funded from future-year appropriations.

Note 12 Federal Debt and Interest Payable

Debt is established when the Military Housing Privatization Initiative (MHPI) borrows funds from the U.S. Treasury to provide loans to the private sector for the acquisition, construction, and rehabilitation of suitable housing for military families. When the private sector repays the loans, MHPI returns the funds to the U.S. Treasury.

MHPI borrowed funds for the fourth of six scheduled government loan disbursements for the Continental Group project. These funds were disbursed in October 2020. The fifth and sixth disbursements are scheduled to occur in FY 2022. Transactions and amounts related to funds borrowed by the DAF GF from the U.S. Treasury and repayment thereof are recorded only in the DoD consolidated principal financial statements. No transactions or amounts are recorded in the DAF GF principal financial statements.

For additional information on activities related to the MHPI, refer to Note 7, *Loans Receivable, Net and Loan Guarantee Liabilities*, and Note 25, *Public-Private Partnerships*.

Note 13 Federal Employee and Veteran Benefits Payable

As of September 30	2021 (Unaudited)		
	Liabilities	(Assets Available to Pay Benefits)	Unfunded Liabilities
(Amounts in Thousands)			
Other Benefits			
Federal Employees' Compensation Act	$ 954,047	$ 0	$ 954,047
Other	3,508,005	(7,463)	3,500,542
Total Other Benefits	$ 4,462,052	$ (7,463)	$ 4,454,589
Federal Employee and Veteran Benefits Payable (presented separately on the Balance Sheet)	4,462,052	(7,463)	4.454,589
Other Benefit-related Payables Included in Intragovernmental Other Liabilities on the Balance Sheet	329,777	(151,434)	178,343
Total Federal Employee and Veteran Benefits Payable	$ 4,791,829	$ (158,897)	$ 4,632,932

Federal Employees' Compensation Act

The DAF GF reports an actuarial liability for the *Federal Employees' Compensation Act* (FECA). The FECA provides federal employees injured in the performance of duty with workers' compensation benefits, which include wage-loss benefits for a total or partial disability, monetary benefits for permanent loss of use of a schedule member, medical benefits, and vocational rehabilitation. The FECA also provides survivor benefits to eligible dependents if the injury causes the employee's death. The actuarial liability for FECA is not covered by budgetary resources.

Actuarial Cost Method Used and Assumptions

The DAF GF's actuarial liability for workers' compensation benefits is developed and provided by the Department of Labor (DOL) at the end of each FY. The estimate for future workers' compensation benefits includes the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases; plus a component for incurred, but not reported claims.

The DOL calculates the future workers' compensation liability using wage inflation factors (e.g., Cost of Living Adjustment (COLA)) and medical inflation factors (e.g., Consumer Price Index Medical (CPI-M)), which were applied to the calculation of projected future benefits. The actual rates for these factors for the Charge-Back Year (CBY) 2021 were also used to adjust the methodology's historical payments to current-year constant dollars.

Consistent with past practice, these projected annual benefit payments have been discounted to present value based on interest rate assumptions on the U.S. Treasury's Yield Curve for the U.S. Treasury Nominal Coupon (TNC) Issues (the TNC Yield Curve) to reflect the average duration of income payments and medical payments. Discount rates were based on averaging the TNC Yield Curves for the current and prior four years for FY 2021. Interest rate assumptions utilized for discounting were as follows:

Discount Rates
For wage benefits:
2.2% in Year 1 and Years thereafter;
For medical benefits:
2.1% in Year 1 and Years thereafter.

The compensation COLAs and CPI-Ms used in the projections for various CBYs were as follows:

CBY	COLA	CPI-M
2021	N/A	N/A
2022	2.1%	3.1%
2023	2.5%	3.6%
2024	2.6%	4.0%
2025	2.6%	3.9%
2026 and thereafter	2.7%	4.2%

The model's resulting projections were analyzed to ensure that the estimates were reliable. Analysis was based on four tests: 1) a sensitivity analysis of the model to economic assumptions, 2) a comparison of the percentage change in the liability amount by agency to the percentage change in the actual incremental payments, 3) a comparison of the incremental paid losses per case (a measure of case-severity) in CBY 2021 to the average pattern observed during the most current three CBYs, and 4) a comparison of the estimated liability per case in FY 2022 projection to the average pattern for the projections of the most recent three years.

Other

Federal Employee and Veteran Benefits Payable represents other post-employment benefits, which can include salary continuation, severance benefits, counseling, training, funded unemployment liability for federal employees, funded FECA liability, and the current portion of veterans' disability compensation benefits. These are not actuarial liabilities. Federal Employee and Veteran Benefits Payable is covered by budgetary resources.

Accrued Unfunded Annual Leave, which comprises Other Benefits, is based on the employees' leave balances at the end of the year.

Refer to Note 15, *Other Liabilities*, for description of Other Benefit-Related Payables Included in Intragovernmental Other Liabilities on the Balance Sheet.

Note 14 Environmental and Disposal Liabilities

As of September 30		2021 (Unaudited)
(Amounts in Thousands)		
Environmental Liabilities—Other than Intragovernmental		
Accrued Environmental Restoration Liabilities		
Active Installations—Installation Restoration Program and Building Demolition and Debris Removal	$	6,451,134
Active Installations—Military Munitions Response Program		321,385
Other Accrued Environmental Liabilities—Non-BRAC		
Environmental Corrective Action		380,238
Environmental Closure Requirements		714,834
Asbestos		1,608,331
Base Realignment and Closure Installations		
Installation Restoration Program		2,681,556
Military Munitions Response Program		10,204
Environmental Corrective Action / Closure Requirements		122
Asbestos		197
Environmental Disposal for Military Equipment / Weapons Programs		
Non-Nuclear Powered Military Equipment		634,166
Total Environmental and Disposal Liabilities	$	12,802,167

An environmental liability is a probable and reasonably estimable future outflow or expenditure of resources that exists as of the financial reporting date for environmental cleanup costs resulting from past transactions or events. The DAF GF is required to clean up contamination resulting from past waste disposal practices, leaks, spills, and other past activity, which has created a public human health or environmental risk.

Applicable Laws and Regulations of Cleanup, Closure, and/or Disposal Requirements

The following laws and regulations affect the activities for cleanup, closure, and/or disposal requirements:

- *Comprehensive Environmental Response, Compensation, and Liability Act* (CERCLA)
- *Superfund Amendments and Reauthorization Act*
- *Clean Water Act*
- *Safe Drinking Water Act*
- *Clean Air Act*
- *Resource Conservation and Recovery Act* (RCRA)
- *Toxic Substances Control Act*

- *Atomic Energy Act*
- *Nuclear Waste Policy Act*
- *Low Level Radioactive Waste Policy Amendments Act*

Types of Environmental Liabilities and Disposal Liabilities Identified

The DAF GF does not report environmental liabilities for cases in which another DoD entity serves as the DoD lead agent or executive agent. The following DoD entities serve as the DoD lead or executive agent and are responsible for identifying funding requirements as well as disclosing financial information regarding the progress of programs: the United States Army Corps of Engineers is the lead agent for Formerly Used Defense Sites at active installations, Department of the Navy is the lead agent for nuclear-powered military equipment and spent nuclear fuel, and Department of the Army is the executive agent for the Chemical Weapons Disposal Program.

The DAF GF has cleanup requirements for the Defense Environmental Restoration Program (DERP) sites at active installations and Base Realignment and Closure (BRAC) installations. The DAF GF has additional cleanup requirements for active installations not covered by DERP and weapon systems programs. All cleanup efforts are performed in coordination with regulatory agencies, other responsible parties, and current property owners, as applicable. If fully remediated within the current FY, environmental conditions that result from current operations and require immediate cleanup (e.g., de minimis spills or routine hazardous waste removal) are not considered environmental liabilities and are part of current operating expenses.

Accrued Environmental Restoration Liabilities

The DAF GF has estimated costs related to remedial actions eligible for DERP funding at 158 active installations. Accrued Environmental Restoration Liabilities consists of costs related to: 1) Active Installations – Installation Restoration Program (IRP) and Building Demolition and Debris Removal (BD/DR); and 2) Active Installations – Military Munitions Response Program (MMRP).

As of September 30, 2021, the DAF GF estimated and reported liabilities associated with 2,542 Active Sites – IRP and BD/DR. These remedial actions may address CERCLA (e.g., hazardous substances, pollutants, and contaminants), RCRA (e.g., hazardous waste or hazardous constituents), or demolition and removal of unsafe buildings and structures at facilities or sites.

As of September 30, 2021, the DAF GF estimated and reported liabilities associated with 258 Active Sites – MMRP. These response actions (e.g., the identification, investigation, and removal actions, remedial actions, or a combination of removal and remedial actions) may address military munitions (e.g., Unexploded Ordinance or Waste Military Munitions) or the chemical residues of munitions at locations other than operational ranges.

Other Accrued Environmental Liabilities – Non-BRAC

The DAF GF has estimated cleanup costs ineligible for DERP funding. Other Accrued Environmental Liabilities–Non-BRAC (OEL) consists of costs related to (1) Environmental Corrective Action (ECA); (2) Environmental Closure Requirements (ECR); and (3) Asbestos.

Base Realignment and Closure Installations

The DAF GF has estimated costs related to BRAC Installations. BRAC Installations consist of costs related to: 1) 745 IRP sites, 2) 25 MMRP sites across 40 BRAC Installations, 3) ECA and ECR requirements at one BRAC installation, and 4) Asbestos requirements at one BRAC installation.

Environmental Disposal for Military Equipment/Weapons Programs

Non-nuclear powered military equipment is comprised of aircrafts (fixed-wing aircrafts, remotely piloted aircrafts, vertical take-off aircrafts, landing aircrafts, and helicopters), aircraft pods, satellites, Intercontinental Ballistic Missiles

(ICBMs), and Mine-Resistant Ambush Protected (MRAP) vehicles.

As of September 30, 2021, the DAF GF estimated and reported liabilities associated with non-nuclear powered military equipment, specifically fixed-wing aircrafts, helicopters, ICBMs, and MRAP vehicles.

The DAF GF did not record an environmental liability for remotely piloted, vertical take-off, and landing aircrafts, as well as aircraft pods, due to a lack of actual historical cost data or reliable cost models to estimate the liabilities. The DAF GF will report liabilities associated with these assets in future periods as historical data is obtained and cost models are refined. The DAF GF determined that no future outflows of cash exist for the environmental disposal of satellites, as all satellites and their components are destroyed before reentry into the Earth's atmosphere, thus no liability was reported in FY 2021.

Methods for Assigning Total Cleanup, Closure, and/or Disposal Costs to Current Operating Periods

Accrued Environmental Restoration Liabilities

Active Installations – IRP and BD/DR and Active Installations – MMRP:

The DAF GF uses one or more of the following methods to estimate the Cost-to-Complete (CTC) cleanup and disposal activities: pre-negotiated contract costs, historical costs, engineering estimates, parametric estimates, and cost estimation software (e.g., Remedial Action Cost Engineering and Requirements (RACER)). In addition to pre-set values included in the RACER software, the DAF GF can add User Defined Costs (UDCs) to customize and refine estimates within RACER. CTC estimates consider, on a current cost basis, all activities to be performed for the full duration of IRP and BD/DR, and MMRP, inclusive of program management costs. For projects with an undefined duration, the DAF GF uses a rolling 30-year period. These environmental liabilities are not associated with an asset having a useful life; thus, the total estimated cleanup cost is recognized upon identification of the liability.

Other Accrued Environmental Liabilities – Non-BRAC

Environmental Corrective Actions:

The DAF GF utilizes the same methodologies to estimate ECAs as those used for Active Installations – IRP and BD/DR and Active Installations – MMRP described above. ECA environmental liabilities are also recognized upon identification of the liability and not associated with an asset having a useful life.

Environmental Closure Requirements:

The DAF GF uses one or more of the following approaches to generate estimates for assets with ECR: cost estimating software (e.g., RACER), historical costs, and engineering estimates. Estimates leverage industry-standard cost factors or comparable historical projects, bids, and expenditures. In addition to pre-set values included in the RACER software, the DAF GF can add UDCs to customize and refine estimates within RACER. However, reliable information required to calculate a cleanup cost is not available for all ECR assets identified, and thus the reported balance reflects the ECR assets that are probable and reasonably estimable given the data available, as of September 30, 2021.

Asbestos:

The DAF GF uses two separate cost estimation methodologies to generate liabilities for Potentially Asbestos Containing (PAC) building assets: 1) a power equation to estimate survey costs; and 2) look-up tables to estimate abatement costs based on building size, age, and type.

The PAC asset population consists of both friable (immediate health threat) and non-friable (not an immediate health threat) asbestos assets with a probable and reasonably estimable cleanup cost. However, reliable information required to calculate a cleanup cost is not available for all PAC assets identified, and thus the reported balance reflects the PAC assets that are probable and reasonably estimable given the data available, as of September 30, 2021. Efforts are ongoing to estimate all costs by approximately September 30, 2024.

The FY 2021 total estimated Survey and Abatement costs for building assets and select non-building assets are limited to assets with a recorded unit of measure of square feet in the accountable property systems of record (APSR) data. This FY 2021 total does not represent a complete Asbestos liability estimate for the entire Real Property population since cost estimate methodologies for other non-building assets recorded with a unit of measure other than square feet have not been developed. Due to the presumed nature of asset construction and the recorded unit of measure of square feet, a select number of non-building assets align with the estimating approach the DAF GF uses for buildings.

Base Realignment and Closure Installations

IRP, MMRP, Environmental Corrective Action/Closure Requirements and Asbestos

The DAF GF utilizes the same methodologies to estimate BRAC Installations related to IRPs and MMRPs as that of Active Installations – IRP and BD/DR and Active Installations – MMRP. CTC estimates consider, on a current cost basis, all activities to be performed for the full duration of IRP and MMRP, inclusive of program management costs. For projects with an undefined duration, a rolling 30-year period is used.

ECA, ECR, and Asbestos liabilities are not associated with an asset having a remaining useful life; thus, the total estimated cleanup cost is recognized upon identification of the liability.

Environmental Disposal for Military Equipment / Weapons Programs

Non-Nuclear Powered Military Equipment

The DAF GF uses one or more of the following approaches to generate estimates for Military Equipment Weapons Program (MEWP) assets: historical disposal labor data and estimates for the disposal of hazardous material, industry-standard cost factors, or comparable historical projects, bids, and expenditures. However, reliable information required to calculate a cleanup cost is not available for all MEWP assets identified, and thus the reported balance reflects the MEWP assets that are probable and reasonably estimable given the data available, as of September 30, 2021.

Uncertainty Regarding Accounting Estimates Used to Calculate the Reported Environmental Liabilities

The DAF GF has unrecognized portions of the estimated total closure and post-closure liabilities as of September 30, 2021, as detailed below.

The environmental liabilities for the DAF GF are based on accounting estimates, which require certain judgments and assumptions that are reasonable based upon information available at the time the estimates are calculated. The actual results may vary materially from the accounting estimates if agreements with regulatory agencies require remediation to a different degree than anticipated when calculating the estimates. The liabilities can be further impacted if additional investigation of the environmental sites disclose contamination different than what is known at the time of the estimates.

While business rules have been developed governing the use of RACER for estimating Accrued Environmental Restoration Liabilities, ECA, and ECR, the DAF GF is continuing to develop a process to compare estimated environmental liabilities to subsequent actual expenditures. This will support the validity of RACER-derived estimates and drive refinements to the estimation methodology, as appropriate.

For OEL – ECA, specifically Environmental Response at Operational Ranges (EROR), Title 40 Code of Federal Regulations, Environmental Protection Agency (EPA), §266.202 (the EPA Regulation) exempts military munitions on active and inactive military ranges from the definition of hazardous waste. The EPA Regulation effectively excludes military munitions on an active military range from the definition of solid waste until a formal decision to close the range occurs or Munitions Constituents (MCs) migrate off the military range. Therefore, these military munitions do not meet the criteria of an environmental liability. DAF GF has an on-going program to assess potential off-range migration of MCs, and as of September 30, 2021, the DAF GF has identified off-range migration that is probable and measurable at Whiteman AFB, March Air Reserve Base (ARB), and Shaw AFB. Off-range migration occurred at Whiteman AFB, and as of September 30, 2021, cleanup has been completed and costs related to final documentation remain. Contamination with limited impact to a single hotspot above action levels has been confirmed at March ARB. Additional sampling is required, and future remediation is being planned as of September 30, 2021, to determine the liability associated with cleanup. A confirmed hotspot has been identified at Shaw AFB, but additional assessment is needed to determine the environmental impact and liability.

Material Changes in Total Estimated Cleanup Costs Due to Changes in Laws, Technology or Plans, and the Portion of the Change in Estimates that Relates to Prior Period Operations

Estimated environmental liabilities are adjusted each year for price growth (inflation) and increases in labor rates and materials. As of September 30, 2021, there are no changes to the environmental liability estimates due to decreases in prices, changes in laws, regulations, agreements with regulatory agencies, and advances in technology. The DAF GF is not aware of any pending changes, but the liability can change as a result of future changes in laws, regulations, changes in agreements with regulatory agencies, and advances in technology.

Nature of Estimates and Information Regarding Possible Changes Due to Inflation, Technology, or Applicable Laws and Regulations

The DAF GF applied inflation factors to bring historical costs to current-year dollars for the following:

1) For Accrued Environmental Restoration Liabilities, OEL - ECA, and OEL - Asbestos, in accordance with Air Force Manual 65-502, Inflation, (October 30, 2018), the DAF GF utilizes inflation factors from the DAF GF raw inflation indices which are based on the OSD raw inflation rates for Operations and Maintenance.

2) For BRAC, in accordance with the Office of the Under Secretary of Defense (Comptroller) Memorandum, Inflation Guidance – FY 2021 President's Budget, (January 11, 2021), the DAF GF utilizes inflation factors based on OSD raw inflation rates for Military Construction.

3) For Military Equipment/Weapons Program - ICBMs, in accordance with Air Force Manual 65-502, Inflation (October 30, 2018), to perform this inflation adjustment, the DAF used Consumer Price Index (CPI) Data from the Bureau of Labor Statistics. Specifically, the total year CPI averages for 1998, the year estimates were originated, and 2019, the most recent full calendar year of CPI data available, to develop an inflation multiplier.

Refer to *Emerging Contaminants* section for potential impacts for emerging contaminants due to applicable laws and regulations.

Unrecognized Portion of Estimated Total Cleanup Cost Associated with General Property, Plant, and Equipment

The DAF GF uses either the accretion method or the non-accretion method to calculate estimated environmental liabilities associated with General Property, Plant, and Equipment. Under the accretion method, a liability is recognized for the amount of the estimated total cleanup cost that is attributable to the portion of the physical capacity of an asset used or that portion of the estimated useful life of an asset that has passed since the asset was placed into service. The accretion method results in an unrecognized portion of the total cleanup costs based on the remaining useful life or capacity of the underlying asset. Under the non-accretion method, a liability is recognized for the total estimated cleanup cost. Under both methods, the total cleanup costs are remeasured at least annually based on current costs.

Estimates Based on the Total Cleanup Cost (Non-Accretion Method)

Estimates associated with buildings, structures, and linear structures (i.e., Real Property) should be calculated under the accretion method based on asset inventory records maintained in the APSRs. Real Property cleanup cost estimates for OEL - ECR and Asbestos are dependent on the accuracy and completeness of the underlying APSR records, including asset attributes (e.g., useful life and placed in service dates). These APSR records are currently not considered to be accurate and complete to support using the accretion method. An analysis was performed to evaluate the difference between accreting and not accreting, which determined the difference to be not significant to the total Environmental and Disposal Liabilities (E&DL) balance. As a result, OEL - ECR and OEL - Asbestos does not use the accretion method; instead the total estimated environmental cleanup costs are recorded, even where accounting standards would require accreting based on the useful life.

Total cleanup costs are recognized for environmental liabilities at BRAC Installations.

Total cleanup costs are recognized for environmental liabilities associated with government-acknowledged events or government-related events for Accrued Environmental Restoration Liabilities and OEL - ECA, inclusive of Overseas Remediation, non-defense environmental restoration DERP Air National Guard sites, and EROR.

Estimates Based on the Total Cleanup Cost (Accretion Method)

Cleanup cost estimates for environmental disposal for MEWP (fixed wing aircrafts, helicopters, MRAPs, and ICBMs) uses the accretion method. In conformance with SFFAS 6, the total estimated cleanup cost for each of these Military Equipment asset types is adjusted by the percentage of depreciation based on the useful life of the underlying asset. The result of this calculation is the recognized portion of the total environmental disposal liability. Estimates are remeasured at least annually to reflect current prices of goods and services (i.e., labor rates).

The DAF GF has an unrecognized portion of the estimated total cleanup cost associated with environmental disposal for MEWP. The DAF GF uses the useful life of these underlying asset categories to determine an annual amount of the total estimated cleanup costs to be expensed each year. The unrecognized estimated total cost, which will be expensed over the remaining useful life of the assets, is $456.9 million as of September 30, 2021.

Unrecorded Liabilities for Which Estimates Are Not Measurable

The DAF GF has an unrecorded liability for the environmental disposal of some MEWP asset categories (remotely piloted aircrafts, vertical take-off aircrafts, landing aircrafts, and aircraft pods), where there is a lack of reliable information to calculate an estimated environmental liability. Liabilities will be reported for these MEWP, as applicable, when more data becomes available and cost estimation methodologies are fully developed, executed, and refined.

The DAF GF also has an unrecorded liability for some ECR and Asbestos asset categories, where there is a lack of reliable information to calculate an estimated environmental liability. Specifically, the DAF GF has not reported an environmental liability associated with the following OEL - ECR asset categories: underground oil water separators (OWSs), aboveground OWSs, and water supply wells. Additionally, the DAF GF has not reported an OEL - Asbestos liability for non-building assets with asbestos on active installations or for buildings with asbestos on active installations where sufficient information to determine an estimated cleanup cost is not available. Liabilities will be reported for these OEL - ECR and OEL - Asbestos categories, as applicable, when sufficient data becomes available and cost estimation methodologies are fully developed, executed, and refined.

Ongoing Corrective Action Impacts

Due to ongoing implementation of corrective action plans across the OEL program, updates to the estimated liabilities associated with OEL sub-line items are expected to continue through FY 2024. Until full implementation of these programmatic changes is complete, balances will reflect only a portion of the liabilities at year end.

Additional assets on active installations with ECR and Asbestos liabilities exist but are not yet reported due to ongoing implementation of corrective actions and lack of reliable information to calculate an estimated environmental liability. Corrective actions are ongoing to assess the remaining ECR and non-building PAC assets.

To help mitigate significant financial statement impacts of asset related environmental liabilities not yet estimated, the DAF GF focused its efforts to identify and estimate environmental liabilities for assets with the most significant and material impact to ECR and Asbestos liabilities using subject matter experts and current Real Property inventories to make these determinations.

Emerging Contaminants

Emerging contaminants are newly identified contaminants that require future cleanup.

Per- and Polyfluoroalkyl Substances (PFAS) are a large class of chemicals found in many consumer products, as well as in a certain firefighting foam called aqueous film forming foam (AFFF). While DoD is only one of many users of AFFF, there is significant attention on DoD's use and the subsequent potential impact to human health and the environment. PFAS are classified as emerging contaminants because they do not have established federal regulatory standards, but evolving science has identified potential risk to humans and regulatory standards are under consideration. DoD follows the existing federal cleanup law (CERCLA) and long-standing EPA regulations for all chemicals in its cleanup program, including PFAS. DoD is conducting assessments for PFAS use or potential release at DoD installations and National Guard locations. At this time, some future costs are not yet estimable. However, as DoD continues these investigations, the cost estimates related to PFAS cleanup are likely to increase as more is known about the sites. Other contingent liabilities for emerging contaminants could be identified in the future and would follow a similar process.

Note 15 Other Liabilities

As of September 30	2021 (Unaudited)		
	Current Liability	Non-Current Liability	Total
(Amounts in Thousands)			
Intragovernmental Other Liabilities			
Advances from Others and Deferred Revenue	$ 1,485,638	$ 0	$ 1,485,638
Disbursing Officer Cash	310,471	0	310,471
Liabilities for Non-Entity Assets	0	629	629
Other Liabilities Reported on Note 13, *Federal Employee and Veteran Benefits Payable*	329,777	0	329,777
Total Intragovernmental Other Liabilities	$ 2,125,886	$ 629	$ 2,126,515
Other than Intragovernmental Other Liabilities			
Accrued Funded Payroll and Benefits	4,114,854	0	4,114,854
Advances from Others and Deferred Revenue	314,310	0	314,310
Deposit Funds and Suspense Accounts	944,393	0	944,393
Contract Holdbacks	81,275	0	81,275
Contingent Liabilities	0	255,885	255,885
Other Liabilities with Related Budgetary Obligations	898,552	0	898,552
Total Other than Intragovernmental Other Liabilities	$ 6,353,384	$ 255,885	$ 6,609,269
Total Other Liabilities	$ 8,479,270	$ 256,514	$ 8,735,784

Intragovernmental Other Liabilities

Advances from Others and Deferred Revenue represent liabilities for collections received to cover future expenses or acquisition of assets the DAF GF incurs or acquires on behalf of another organization.

Disbursing Officer Cash represents liabilities for currency on hand, cash on deposit at designated depositories, cash in the hands of deputy disbursing officers, cashiers and agents, negotiable instruments on hand, and similar notes advanced from the U.S. Treasury under various authorities. Disbursing Officer Cash is non-entity, restricted cash.

Liabilities for Non-entity Assets for collections reported as non-exchange revenues where the DAF GF is acting on behalf of another Federal Entity.

Other Liabilities Reported on Note 13, *Federal Employee and Veteran Benefits Payable*, include Intragovernmental Deposit Funds and Suspense Accounts, *Federal Employees' Compensation Act* (FECA) Reimbursement to the Department of Labor (DOL), Employer Contribution and Payroll Taxes Payable, and unemployment compensation liabilities.

- Deposit Funds and Suspense Accounts represent liabilities for receipts held in suspense temporarily for distribution to another fund or entity, or held as an agent for others and paid at the direction of the owner and liabilities that offset undistributed disbursements. The net amount of these may be presented as an overall positive or negative balance.

- FECA Reimbursement to the DOL represents liabilities for billed amounts payable in FY 2021 and FY 2022 unbilled amounts, including both incurred and an estimated accrual. Refer to *Note 13, Federal Employee and Veteran Benefits Payable*, for the estimated FECA actuarial liability.

- Employer Contribution and Payroll Taxes Payable represents the employer portion of payroll taxes and benefit contributions for health benefits, retirement, life insurance, and voluntary separation incentive payments.

Other than Intragovernmental Other Liabilities

Accrued Funded Payroll and Benefits includes the life insurance program, Federal Employee Group Life Insurance plan, which is a term life insurance benefit with varying amounts of coverage selected by the employee. The Federal Employees Health Benefits Program is comprised of different types of health plans that are available to federal employees for individual and family coverage for healthcare. OPM, as the administering agency, establishes the types of insurance, options for coverage, the premium amounts to be paid by the employees and the amount of benefit received. The DAF GF has no role in negotiating these insurance contracts and incurs no liabilities directly to the insurance companies. Employee payroll withholding related to the insurance and employer contributions are submitted to OPM.

For additional information on Advances from Others and Deferred Revenue and Deposit Funds and Suspense Accounts, refer above.

Contract Holdbacks are amounts withheld from grantees or contractors pending completion of related contracts. For FY 2021, Contract Holdbacks include $81.3 million for contracted progress payments based on cost as defined in the Federal Acquisition Regulation. OSD issued a policy memorandum in September 2019 directing DoD components to recognize Contract Holdbacks expected to be paid within one year of the balance sheet date as Accounts Payable, and to recognize Contract Holdbacks expected to be paid after one year of the balance sheet date as Other Liabilities. Due to system limitations, the DAF GF is unable to distinguish Current from Non-Current Contract Holdbacks and reported both Current and Non-Current Contract Holdbacks as Other Liabilities as of September 30, 2021. As such, the DAF GF does not record Contract Holdbacks in accordance with GAAP.

Contingent Liabilities is comprised of $255.9 million in Contingent Legal Liabilities as of September 30, 2021. For additional information, refer to *Note 17, Commitments and Contingencies*.

Other Liabilities with Related Budgetary Obligations primarily consists of accrued estimated costs related to the construction of aircraft and satellites. The DAF GF recorded additional accruals in FY 2021 based on percentage of completion data provided by vendors.

Note 16 Leases

Operating Leases

As of September 30	2021 (Unaudited)			
	Asset Category			
	Land and Buildings	Equipment	Other	Total
(Amounts in Thousands)				
Intragovernmental				
Fiscal Year				
2022	$ 269	$ 0	$ 0	$ 269
2023	269	0	0	269
2024	269	0	0	269
2025	269	0	0	269
2026	269	0	0	269
After 5 Years	269	0	0	269
Total Intragovernmental Future Lease Payments	$ 1,614	$ 0	$ 0	$ 1,614
Other than Intragovernmental				
Fiscal Year				
2022	$ 7,490	$ 0	$ 28,368	$ 35,858
2023	5,605	0	28,935	34,540
2024	5,369	0	29,514	34,883
2025	4,765	0	30,104	34,869
2026	1,896	0	30,706	32,602
After 5 Years	1,399	0	31,320	32,719
Total Other than Intragovernmental Future Lease Payments	$ 26,524	$ 0	$ 178,947	$ 205,471
Total Future Lease Payments	$ 28,138	$ 0	$ 178,947	$ 207,085

Operating Leases for Land and Buildings (Real Property leases) include leases with department-level agencies, state and local municipalities, private corporations, and the general public. The nature of Real Property leases spans a wide variety of mission critical objectives based upon the needs of the DAF GF, Air National Guard or Air Reserve Bases, and Installations. Real Property leases may include leases for administrative, storage, and medical buildings on an installation, use of land acreage surrounding an installation gate and/or border, and use of various equipment and linear structures such as weather instruments, airport towers, antennas, and radar sites.

Other leases are comprised of commercial vehicle leases between the DAF GF and the general public, and include leases with dealerships and rental car companies. All leases are for one year and are renewed once funds become available.

Note 17 Commitments and Contingencies

Legal Contingencies

The DAF GF is a party in various administrative proceedings, legal actions, and other claims awaiting adjudication which may result in settlements or decisions adverse to the Federal Government. These matters arise in the normal course of operations and generally relate to environmental torts, equal employment opportunity matters, personnel injury, property damage, and contractual matters for which the ultimate disposition is unknown.

In the event of an unfavorable judgment against the Federal Government, some of the settlements are expected to be paid from the U.S. Treasury Judgment Fund. In some cases, the DAF GF does not have to reimburse the Judgment Fund. For non-reimbursable Judgment Fund payments, in accordance with the Federal Accounting Standards Advisory Board (FASAB) Interpretation of Federal Accounting Standards 2: *Accounting for Treasury Judgment Fund Transactions: An Interpretation of Statement of Federal Financial Accounting Standards* (*SFFAS*) *4 and SFFAS 5* (Interpretation 2), once the Judgment Fund has paid a settlement, the contingent legal liability should no longer be reported and an imputed cost and a corresponding imputed financing source in the amount of the payment should be reported. The cumulative FY amount of non-reimbursable settlements paid by the Judgment Fund as of September 30, 2021 was $68.5 million. Reimbursement by the DAF GF to the Judgment Fund is required for cases under either the *Contracts Disputes Act* or the *Notification and Federal Employee Antidiscrimination and Retaliation Act.* Once the Judgment Fund has paid a reimbursable settlement, the contingent legal liability should no longer be reported by the DAF GF and instead a Judgment Fund Liability should be recorded in the amount to be reimbursed. The Judgment Fund liability as of September 30, 2021 was $599.0 million as reported in Accounts Payable on the Balance Sheet.

In accordance with SFFAS 5, *Accounting for Liabilities of the Federal Government*, as amended by SFFAS 12, *Recognition of Contingent Liabilities Arising from Litigation: An Amendment of SFFAS 5, Accounting for Liabilities of the Federal Government*, an assessment should be made as to whether the likelihood of an unfavorable outcome is considered probable, reasonably possible, or remote. A contingent liability should be recorded for material contingencies where an unfavorable outcome is considered probable and the amount of potential loss is measurable. No amounts have been accrued for contingencies where the likelihood of an unfavorable outcome is less than probable, where the amount or range of potential loss cannot be estimated due to a lack of sufficient information, or for immaterial contingencies. The presented amounts accrued for Contingent Legal Liabilities are included within the Contingent Liabilities amount reported in Note 15, *Other Liabilities*, Contingent Liabilities as of September 30, 2021.

Summary of Legal Contingent Liabilities as of September 30	2021 (Unaudited) Estimated Range of Loss		
	Accrued Liabilities	Lower End	Upper End
(Amounts in Thousands)			
Contingent Legal Liabilities Probable	$ 255,885	$ 0	$ 0
Reasonably Possible	$ 0	$ 205,386	$ 215,176

During FY 2021, the DAF implemented new policies and procedures to evaluate its legal claims for the likelihood of loss (probable, reasonably possible, or remote) and the estimate of loss in compliance with Federal Generally Accepted Accounting Principles (GAAP) as set forth in SFFAS 5.

As of September 30, 2021, legal claims exist for which an adverse outcome was assessed as either probable or reasonably possible but for which the estimated loss amount or the range of loss cannot be reasonably measured. Consequently, no amount has been recorded as a contingent liability for these claims. The claimed amounts for these claims evaluated as probable totaled approximately $51.2 million as of September 30, 2021; the claimed amounts for these claims evaluated as reasonably possible totaled approximately $3.4 billion as of September 30, 2021. The ultimate outcomes in these matters cannot be predicted at this time. Sufficient information through the legal process of discovery, comparable cases establishing precedent or other factors is not currently available to determine if the ultimate resolution of the proceeding, actions, and claims will materially affect the DAF GF's financial position or results of operations.

Other Contingencies

In FY 2021, the DAF GF determined that internal administrative claims (IACs) representing claims being adjudicated within the DAF GF and not through a court, board, outside agency, or other third-party legal entity with the authority to adjudicate the rights and obligations of the parties involved, should not be included in the process to determine the Contingent Legal Liability. As of September 30, 2021, the DAF GF documented IACs within the Office of the Judge Advocate General relating to foreign claims, general torts, medical law, aviation, and environmental torts. IACs are analyzed by litigators to determine whether, in accordance with GAAP, they must be accrued and/or disclosed as a threatened/unasserted litigation contingent liability. The DAF GF conducted an analysis of IACs as of September 30, 2021 to estimate the potential unfavorable outcome of these claims based on the average payout of IACs for the current and two previous years. The analysis included total IAC claimed amounts of $3.9 billion outstanding as of September 30, 2021 with an estimated potential loss of $5.1 million based on the historical average payout rate. In the event of a loss, most of these claims will be paid by the Judgment Fund, and all such payments will be on a non-reimbursable basis. In FYs prior to 2021, all IACs were included in the DAF GF process to determine the Contingent Legal Liability.

In addition to the administrative claims described in the preceding paragraph, it is the DAF GF's practice to enter into treaties and other international agreements that do not create contingent liabilities, as defined in SFFAS 5. The DAF GF executes project agreements pursuant to the cooperative activity agreements framework with foreign governments. All of these agreements give rise to obligations that are appropriately reported in the DAF GF's financial statements, pursuant to legal authority and appropriated funds; none are contingent.

Contractual Obligations

The DAF GF is a party in numerous individual contracts that contain clauses, such as price escalation, award fee payments, or dispute resolution, that may result in a future outflow of budgetary resources. Currently, the DAF GF's automated system processes have limited capability to capture these potential liabilities. Therefore, the amounts reported may not fairly present the DAF GF commitments and contingencies.

Commitments

The amount of obligations related to cancelled appropriations for which the DAF GF has a contractual commitment for payment is $2.5 billion as of September 30, 2021.

Note 18 Funds from Dedicated Collections

Combined Balance Sheet - Funds from Dedicated Collections

As of September 30	2021 (Unaudited)			
	General Gift Fund	Wildlife Conservation Fund	Air Force Cadet Fund	Combined Total
(Amounts in Thousands)				
Intragovernmental				
Fund Balance with Treasury	$ 18,036	$ 2,414	$ 16,780	$ 37,230
Investments	7	0	0	7
Total Intragovernmental	18,043	2,414	16,780	37,237
Other than Intragovernmental				
Accounts Receivable, Net	$ 2	$ 0	$ 0	$ 2
General Property, Plant and Equipment, Net	1,341	0	0	1,341
Total Other than Intragovernmental	1,343	0	0	1,343
Total Assets	$ 19,386	$ 2,414	$ 16,780	$ 38,580
Intragovernmental				
Accounts Payable	$ 368	$ 0	$ 0	$ 368
Total Intragovernmental	368	0	0	368
Other than Intragovernmental				
Accounts Payable	$ 12	$ (671)	$ 0	$ (659)
Other Liabilities:				
Other	0	8	0	8
Total Other Liabilities	12	8	0	8
Total Other than Intragovernmental	$ 12	$ (663)	$ 0	$ (651)
Total Liabilities	$ 380	$ (663)	$ 0	$ (283)
Cumulative Results of Operations	$ 38,863	$ 0	$ 0	$ 38,863
Total Liabilities and Net Position	$ 39,243	$ (663)	$ 0	$ 38,580

Combined Statement of Net Cost — Funds from Dedicated Collections

For the period ended September 30	2021 (Unaudited)			
	General Gift Fund	Wildlife Conservation Fund	Air Force Cadet Fund	Combined Total
(Amounts in Thousands)				
Gross Program Costs	$ 23,400	$ 1,082	$ 115	$ 24,597
Less: Earned Revenue	0	(1,176)	(4,370)	(5,546)
Net Program Costs	$ 23,400	$ (94)	$ (4,255)	$ 19,051
Net Cost of Operations	$ 23,400	$ (94)	$ (4,255)	$ 19,051

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

For the period ended September 30	2021 (Unaudited)			
	General Gift Fund	Wildlife Conservation Fund	Air Force Cadet Fund	Combined Total
(Amounts in Thousands)				
Beginning balance	$ 51,609	$ 0	$ 0	$ 51,609
Beginning balance, as adjusted	51,609	0	0	51,609
Donations and forfeitures of cash and cash equivalents	6,304	0	0	6,304
Less: Net Cost of Operations	19,050	0	0	19,050
Net Change in Cumulative Results of Operations	$ (12,746)	$ 0	$ 0	$ (12,746)
Net Position, End of Period	$ 38,863	$ 0	$ 0	$ 38,863

Statement of Federal Financial Accounting Standards (SFFAS) 27, *Identifying and Reporting Funds from Dedicated Collections*, as amended by SFFAS 43, *Dedicated Collections: Amending Statement of Federal Financial Accounting Standards 27, Identifying and Reporting Earmarked Funds*, defines the following three criteria for determining a fund from dedicated collections: 1) a statute committing the Federal Government to use specifically identified revenue and/or other financing sources that are originally provided to the Federal Government by a non-federal source only for designated activities, benefits, or purposes; 2) explicit authority for the fund to retain revenue and/or other financing sources not used in the current period for future use to finance the designated activities, benefits, or purposes; and 3) a requirement to account for and report on the receipt, use, and retention of the revenue and/or other financing sources that distinguished the fund from the Federal Government's general revenue.

The DAF GF's Funds from Dedicated Collections are financed by specifically identified revenues and other financing sources, provided to the government by non-federal sources. These specifically identified revenues and other financing sources are required by statute to be used for designated activities, benefits or purposes and must be accounted for separately from the DAF GF's general revenues. The DAF GF and other component entities are not responsible for carrying out the program financed with revenues and other financing sources that are dedicated collections.

Office of Management and Budget Circular A-136, *Financial Reporting Requirements*, permits presentation of Funds from Dedicated Collections on either a consolidated or combined basis. Starting in FY 2019, the DAF GF elected to present information on Funds from Dedicated Collections on a combined basis.

All of the tables above are presented on a combined basis and relate solely to Funds from Dedicated Collections. The Net Position amounts related to Funds from Dedicated Collections reflected in the first and last tables will not equal those reflected on the DAF GF's Balance Sheet and Statement of Changes in Net Position, as those statements are presented on a consolidated basis. Refer to Note 20, *Disclosures Related to the Statement of Changes in Net Position*, for additional information on reconciling the combined Funds from Dedicated Collections Net Position amounts to the consolidated Funds from Dedicated Collections Net Position amounts.

General Gift Fund [10 U.S.C. 2601]

The DAF GF General Gift Fund accepts, holds, and administers any gift, device, or bequest of real or personal property, made on the condition that it is used for the benefit (or in connection with the establishment, maintenance, or operation) of a school, hospital, library, museum, or cemetery under the DAF GF's jurisdiction. The fund is available to such institutions or organizations subject to the terms of the gift, device, or bequest. Conditional gifts are invested in U.S. Treasury securities, and any interest earned on these securities is accumulated in the fund.

Wildlife Conservation Fund [16 U.S.C. 670]

The Wildlife Conservation Fund provides for: 1) the conservation and rehabilitation of natural resources on military installations; 2) the sustainable multipurpose use of the resources which include hunting, fishing, trapping, and non-consumptive uses; and 3) the public access to military installations to facilitate its use, subject to safety requirements and military security. The fund is available to carry out these programs and other such expenses that may be necessary for the purpose of the cited statute.

Consisting of both appropriated and non-appropriated funding, this fund gives installation commanders the authority to collect fees from the sale of hunting and fishing permits.

Air Force Cadet Fund [10 U.S.C. 903]

The Air Force Cadet Fund is maintained for the benefit of Air Force Academy cadets. Disbursements are made for the personal services of cadets such as laundry, arts, and athletics while collections are received from the same cadets at least equal to any disbursements made.

The DAF GF General Gift Fund and Wildlife Conservation Fund are trust funds. The Air Force Cadet Fund is classified as a special fund. All three funds utilize receipt and expenditure accounts in accounting for and reporting the funds.

Note 19 Disclosures Related to the Statement of Net Cost

As of September 30		2021 (Unaudited)
(Amount in Thousands)		
Military Personnel		
Gross Cost	$	44,043,509
Less: Earned Revenue		(1,030,799)
Net Program Costs	$	43,012,710
Operations, Readiness & Support		
Gross Cost	$	65,321,204
Less: Earned Revenue		592,746
Net Program Costs	$	65,913,950
Procurement		
Gross Cost	$	45,507,824
Less: Earned Revenue		(4,469,804)
Net Program Costs	$	41,038,020
Research, Development, Test & Evaluation		
Gross Cost	$	49,773,429
Less: Earned Revenue		(4,545,660)
Net Program Costs	$	45,227,769
Family Housing & Military Construction		
Gross Cost	$	5,285,018
Less: Earned Revenue		0
Net Program Costs	$	5,285,018
Consolidated		
Gross Cost	$	209,930,984
Less: Earned Revenue		(9,453,517)
Total Net Cost	$	200,477,467

The Statement of Net Cost (SNC) represents the net cost of programs and organizations of the DAF GF supported by appropriations or other means. The intent of the SNC is to provide gross and net cost information related to the amount of output or outcome for a given program or organization administered by a responsible reporting entity. The DAF GF's current processes and systems capture costs based on appropriation groups as presented in the schedule above. The DoD is in the process of reviewing available data and developing a cost reporting methodology required by the Statement of Federal Financial Accounting Standards (SFFAS) 4, *Managerial Cost Accounting Standards and Concepts*, as amended by SFFAS 55, *Amending Inter-Entity Cost Provisions*.

The DAF GF's systems do not track intragovernmental transactions by customer. Buyer-side expenses are adjusted to agree with internal seller-side revenues. Expenses are generally adjusted by reclassifying amounts between federal and non-federal expenses. Intradepartmental revenues and expenses are then eliminated.

The DAF GF is not in compliance with Federal Generally Accepted Accounting Principles. Information presented is based on budgetary obligations, disbursements, and collection transactions, as well as non-financial feeder systems adjusted to record known accruals for major items such as payroll expenses, Accounts Payable, and Environmental Liabilities.

The DAF GF is working toward disclosing transfers of Heritage Assets and Stewardship Land, in addition to exchange revenues.

Goods and services are received from other federal entities at no cost or at a cost less than the full cost to the providing federal entity. Consistent with accounting standards, certain costs of the providing entity that are not fully reimbursed by the DAF GF are recognized as imputed costs in the SNC and are offset by imputed revenue in the Statement of Changes in Net Position. Such imputed costs and revenues relate to employee benefits and claims to be settled by the U.S. Treasury Judgment Fund; however, unreimbursed costs of goods and services other than these above are not included in the DAF GF's financial statements.

For additional information on exchange revenue pricing and loss information, refer to Note 1.V., *Summary of Significant Accounting Policies – Revenue and Other Financing Sources.*

Note 20 Disclosures Related to the Statement of Changes in Net Position

The Appropriations Received on the Statement of Changes in Net Position (SCNP) do not agree with Appropriations on the Statement of Budgetary Resources (SBR) in the amount of $1.2 billion. The SBR is presented on a combined basis in accordance with the Office of Management and Budget Circular A-136, *Financial Reporting Requirements*. This presentation differs from the SCNP, which is presented on a consolidated basis.

Year Ended September 30, 2021 (Unaudited) Reconciliation of Appropriations on the Statement of Budgetary Resources to Appropriations Received on the Statement of Changes in Net Position	*(Amounts in Thousands)*
	Total
Appropriations, Statement of Budgetary Resources	$ 204,077,163
Less: Appropriations Received, Statement of Changes in Net Position	205,318,244
Total Reconciling Amount	$ **(1,241,081)**
Items Reported as Reductions to Appropriations, Statement of Budgetary Resources	
Permanent and Temporary Reductions	$ (1,508,338)
Items Reported in Appropriations, Statement of Budgetary Resources	
Transfers	255,408
Trust and Special Fund Receipts	11,849
Total Reconciling Amount	$ **(1,241,081)**

Permanent and Temporary Reductions are primarily attributable to the amount of prior year balances and current year budget authority permanently or temporarily reduced by enacted legislation.

Transfers include the current year authority transfers in and current year authority transfers out.

Trust and Special Fund Receipts are not immediately available for obligation and are awaiting authorizing legislation and/or the satisfaction of specific legal requirements.

Year Ended September 30, 2021 (Unaudited) Reconciliation of Combined Dedicated Collections and Other Funds to Consolidated Dedicated Collections and Other Funds			*(Amounts in Thousands)*
Consolidating Net Position	Combined	Consolidating Eliminations	Consolidated
Cumulative Results of Operations – Dedicated Collections	$ 38,863	$ 21,578	$ 60,441
Cumulative Results of Operations – Other Funds	202,161,189	(21,578)	202,139,611
Unexpended Appropriations – Other Funds	154,715,121	0	154,715,121
Total Net Position	$ **356,915,173**	$ **0**	$ **356,915,173**

Funds from Dedicated Collections is presented on a combined basis in Note 18, *Funds from Dedicated Collections*. The tables above summarize the elimination of intradepartmental activity between Funds from Dedicated Collections and all Other Fund types to arrive at the consolidated net position totals as presented on the Balance Sheet.

Other Disclosures

Other Financing Sources, Other

Other Financing Sources, Other is comprised of unsupported adjustments to reconcile reported intragovernmental transfers, the majority of which are recorded at the Air Force Component level, as the respective federal partners could not be identified, nor the transfers reconciled.

Prior Period Adjustment

In FY 2021, the DAF GF determined that errors existed in prior year financial statements in relation to reported transactions and balances for General Equipment – Aircraft; General Equipment – Other; Construction-in-Progress – Military Equipment; Depreciation Expense; Transfers In/Out Without Reimbursement; operating expenses/Program Costs; other gains; losses on disposition of assets – other; and other losses.

The prior period adjustments were necessary to reverse historical journal vouchers that were unsupported, to correct variances between the general ledger systems and the accountable property systems of record, to transfer assets to another DoD entity responsible for reporting those assets, and to reclassify expenses and losses between FYs.

As the DAF GF has not presented comparative financial statements, these prior period adjustments are shown as an adjustment to the beginning balance of Cumulative Results of Operations for $(5.1) billion. Of this $(5.1) billion reduction, $(817.0) million related to FY 2020 and $(4.3) billion affected FYs prior to FY 2020.

Note 21 Disclosures Related to the Statement of Budgetary Resources

The Statement of Budgetary Resources (SBR) is presented on a combined basis in accordance with the Office of Management and Budget (OMB) Circular A-136, *Financial Reporting Requirements*; intra-entity transactions have not been eliminated from the amounts presented. This presentation differs from other principal financial statements, which are presented on a consolidated basis.

Net Adjustments to Unobligated Balance, Brought Forward, October 1

There were no material adjustments as of September 30, 2021 to the budgetary resources available at the beginning of the year.

Terms of Borrowing Authority Used

The DAF GF utilizes borrowing authority for the Military Housing Privatization Initiative (MHPI). Borrowing authority is used in compliance with OMB Circular A-129, *Policies for Federal Credit Programs and Non-Tax Receivables*. For additional information related to MHPI, refer to Note 7, *Loans Receivable, Net and Loan Guarantee Liabilities*, and Note 25, *Public-Private Partnerships*.

Available Borrowing/Contract Authority, End of Period

There was no available borrowing authority remaining for the year ended September 30, 2021.

Undelivered Orders at the End of the Period

Budgetary Resources Obligated for Undelivered Orders at the End of the Period

As of September 30	2021 (Unaudited)
(Amount in Thousands)	
Intragovernmental	
Unpaid	$ 25,631,605
Prepaid/Advanced	1,140,023
Total Intragovernmental	$ 26,771,628
Other than Intragovernmental	
Unpaid	$ 77,812,133
Prepaid/Advanced	18,110,875
Total Other than Intragovernmental	$ 95,923,008
Total Budgetary Resources Obligated for Undelivered Orders at the End of the Period	$ 122,694,636

Legal Arrangements Affecting the Use of Unobligated Balances

A portion of the DAF GF's unobligated balances represent trust fund receipts collected in FY 2021 exceeding the amount needed to pay benefits or other valid obligations. These receipts are temporarily precluded from obligation by law due to a benefit formula or other limitation. The receipts, however, are assets of the trust funds and are available for obligation in the future. The DAF GF operates within the constraints of fiscal law and has no additional legal arrangements affecting the use of unobligated balances. For the amount of receipts collected in FY 2021, refer to Note 20, *Disclosures Related to the Statement of Changes in Net Position*.

Explanation of Differences between the SBR and the Budget of the U.S. Government

The table below presents a reconciliation between the Budgetary Resources, New Obligations and Upward Adjustments, Distributed Offsetting Receipts, and Net Outlays from FY 2020 SBR and the actual amounts from the "Analytical Perspectives – Federal Budget by Agency and Account" and "Appendix – Detailed Budget Estimates by Agency" sections of the FY 2022 President's Budget. The FY 2023 Budget will display the FY 2021 actual values and will be available at a later date at https://www.whitehouse.gov/omb/budget.

Explanation of Differences between the SBR and the Budget of the U.S. Government (Amounts in Billions)				
As of September 30	Fiscal Year 2020 Actual			
	Budgetary Resources	New Obligations & Upward Adjustments (Total)	Distributed Offsetting Receipts	Agency Outlays, Net
Combined Statement of Budgetary Resources	$ 257.5	$ 218.8	$ 0.2	$ 197.7
Differences				
Expired accounts that are excluded from the Budget of the U.S. Government*	$ (5.1)	$ 0	$ 0	$ 0
Budget of the U.S. Government	$ 252.4	$ 218.8	$ 0.2	$ 197.7

**The difference reported above for Budgetary Resources is due to different reporting requirements on the SBR versus the Budget.*

Contributed Capital

There was no infusion of capital received for the year ended September 30, 2021.

Other Disclosures

Expired Unobligated Balance

The SBR reflects Unobligated Expired Appropriations in the amount of $4.8 billion (1.8% of Total Budgetary Resources). The DAF GF strives to obligate as close as prudently possible to 100.0% of available budget authority before it expires. Its internal controls and systems for administrative control of funds are designed to avoid over-obligating or over-expending funds in violation of the *Anti-Deficiency Act*. The enormous number of contracts, projects, and activities (e.g., construction projects, complex acquisitions, cutting edge/high risk technology efforts, and contingency operations) that must be carried out without exceeding available budget authority do result in liabilities that must be recorded against finite unobligated expired appropriation balances. Consequently, some level of unobligated expired appropriations must be available for recording adjustments to existing obligations, as authorized by § 1553 of Title 31 U.S. Code (U.S.C.).

Apportionment Categories

Funds are apportioned by three categories: 1) Category A is apportioned quarterly; 2) Category B is apportioned by program, activity, or project; and 3) Exempt is funds not subject to apportionment. The amounts of Direct and Reimbursable obligations incurred are stated in the table.

		(Amounts in Billions)
Type	Direct	Reimbursable
Category A	$ 110.4	$ 5.1
Category B	$ 95.8	$ 7.3
Exempt	$ 0	$ 0
Total	$ 206.2	$ 12.4

Permanent Indefinite Appropriations

Permanent indefinite appropriations are as follows (refer to Note 18, *Funds from Dedicated Collections*, for additional information on the Department of the DAF GF General Gift Fund, the Wildlife Conservation Fund, and the Air Force Cadet Fund):

DAF GF General Gift Fund [10 U.S.C. 2601]

Wildlife Conservation Fund [16 U.S.C. 670]

Air Force Cadet Fund [10 U.S.C. 903]

Medicare-Eligible Retiree Health Fund Contribution, Air Force [10 U.S.C. 1116]

Medicare-Eligible Retiree Health Fund Contribution, Reserve Personnel, Air Force [10 U.S.C. 1116]

Medicare-Eligible Retiree Health Fund Contribution, National Guard Personnel, Air Force [10 U.S.C. 1116]

The Medicare-Eligible Retiree Health Fund Contribution is maintained for the accumulation of funds, in compliance with the law, in order to finance uniformed services retiree health care programs for Medicare-eligible beneficiaries. The Secretary of the Treasury will contribute an amount into the Fund from the General Fund of the U.S. Treasury, which is certified under the Secretary of Defense. Amounts paid will be for the costs of all uniformed service retiree health care programs for the benefit of members or former members of a participating uniformed service who are entitled to retired or retainer pay and are Medicare eligible, and eligible dependents who are Medicare eligible. The fund receives income from the three following sources: 1) annual U.S. Treasury payment made on behalf of the Uniformed Services at the beginning of the year based on average budgeted force strengths; 2) annual payments from the U. S. Treasury to amortize the unfunded liability; and 3) investment income.

Legal limitations and time restrictions on the use of unobligated appropriation balances such as upward adjustments are provided under Public Law.

Appropriations Received

Appropriations on the SBR differ from those reported on the Statement of Changes in Net Position. For additional information, refer to Note 20, *Disclosures Related to the Statement of Changes in Net Position*.

Note 22 Disclosures Related to Incidental Custodial Collections

The DAF GF collected $17.0 million of incidental custodial revenues during the year ended September 30, 2021, which were generated primarily from the collection of Accounts Receivable related to cancelled accounts. These funds are not available for use by the DAF GF. At the end of each FY, the accounts are closed and the balances are rendered to the U.S. Treasury.

Note 23 Fiduciary Activities

Schedule of Fiduciary Activities

As of September 30		2021 (Unaudited)
(Amounts in Thousands)		
Fiduciary Net Assets, Beginning of Year	$	529
Contributions		26,601
Distributions To and On Behalf of Beneficiaries		(32,412)
Increase/(Decrease) in Fiduciary Net Assets	$	(5,811)
Fiduciary Net Assets, End of Period	$	(5,282)

Schedule of Fiduciary Net Assets

As of September 30		2021 (Unaudited)
(Amounts in Thousands)		
Fiduciary Assets		
Fund Balance with Treasury	$	(5,282)
Total Fiduciary Net Assets	$	(5,282)

A fiduciary relationship may exist any time the DAF GF collects or receives, and holds or makes, disposition of assets in which a non-federal individual or entity has an ownership interest that the DAF GF must uphold. The relationship is based on statute or other legal authority and the fiduciary activity must be in furtherance of that relationship.

The DAF GF's fiduciary activities consist solely of the Savings Deposit Program (SDP). SDP was authorized by Title 10 U.S. Code § 1035, which authorized the DAF GF to collect savings deposits on behalf of members of the uniformed services serving in a designated combat zone as an opportunity to build their financial savings. However, the balance presented for SDP does not currently reflect the fiduciary net assets balance held by the DAF GF due to limitations identifying interagency transactions, specifically with the Department of the Navy. Additional reconciliations need to be performed to accurately classify and present the fiduciary net assets for SDP held by the DAF GF.

The DAF GF is not aware of any non-valued fiduciary assets for which it has management responsibility.

Note 24 Reconciliation of Net Cost to Net Outlays

As of September 30	2021 (Unaudited)		
	Intragovernmental	Other than Intragovernmental	Total
(Amounts in Thousands)			
Net Cost of Operations	$ 35,637,896	$ 164,839,571	$ 200,477,467
Components of Net Cost That are Not Part of Net Outlays:			
General Property, Plant, and Equipment, net changes	$ 0	$ 1,496,526	$ 1,496,526
Increase/(decrease) in assets:			
Accounts Receivable, Net	324,793	62,677	387,470
Other Assets	(15,765)	(301,696)	(317,461)
(Increase)/decrease in liabilities:			
Accounts Payable	(1,182,893)	230,768	(952,125)
Environmental and disposal liabilities	0	(486,701)	(486,701)
Federal Employee and Veteran Benefits Payable	0	(55,877)	(55,877)
Other Liabilities	(206,467)	(1,415,572)	(1,622,039)
Other financing sources:			
Imputed Cost	(766,618)	0	(766,618)
Donated revenue	0	(6,304)	(6,304)
Total Components of Net Cost That Are Not Part of Net Outlays	$ (1,846,950)	$ (476,179)	$ (2,323,129)
Components of Net Outlays That Are Not Part of Net Cost:			
Inventory and Related Property	0	3,989,108	3,989,108
Total Components of Net Outlays That Are Not Part of Net Cost	$ 0	$ 3,989,108	$ 3,989,108
Miscellaneous Reconciling Items			
Other	(438,962)	(4,139,370)	(4,578,332)
Total Other Reconciling Items	$ (438,962)	$ (4,139,370)	$ (4,578,332)
Net Outlays	$ 33,351,984	$ 164,213,130	$ 197,565,114
Agency Outlays, Net, Statement of Budgetary Resources			$ 203,083,504
Unreconciled Difference			$ (5,518,390)

Budgetary and financial accounting information is used for different purposes. Budgetary accounting is used for planning and control purposes and relates to both the receipt and use of cash, as well as reporting the federal deficit. Financial accounting is intended to provide a picture of the government's financial operations and financial position, so it presents information on an accrual basis. The accrual basis includes information about costs arising from the consumption of assets and the incurrence of liabilities. The reconciliation of Net Outlays, presented on a budgetary basis, and the Net Cost, presented on an accrual basis, provide an explanation of the relationship between budgetary and financial accounting information. The reconciliation serves not only to identify costs paid for in the past and those that will be paid in the future, but also to assure integrity between budgetary and financial accounting.

The table above illustrates this reconciliation of key differences between Net Cost and Net Outlays. The reconciling difference of $(5.5) billion is attributed to DAF GF financial system limitations, causing budgetary data to not reconcile with proprietary expenses and capitalized assets. Additionally, this difference is due to timing differences between the recognition of expenses/revenues and disbursements/collections on the Statement of Net Cost and Statement of Budgetary Resources.

Note 25 Public-Private Partnerships

The Statement of Federal Financial Accounting Standards (SFFAS) 49, *Public-Private Partnerships: Disclosure Requirements*, was issued in recognition of the increasing number of risk-sharing agreements or transactions being entered into between Federal Government Agencies and the private sector. These agreements are referred to as Public-Private Partnerships (P3s). SFFAS 49 is effective for periods beginning after September 30, 2018. Therefore, FY 2019 was the first time that the DAF GF reported under this Standard. However, the DAF GF is not fully compliant with SFFAS 49 because it has not completed a comprehensive review and evaluation of all significant business agreements that could require disclosure under SFFAS 49.

The DAF GF is in the process of reviewing its business agreements and transactions to determine those that meet the disclosure requirements of SFFAS 49. To date, the DAF GF has identified the Military Housing Privatization Initiative (MHPI) as meeting the requirements for disclosure in its financial statements in accordance with SFFAS 49. Disclosure information for the MHPI, as well as consideration of other DAF GF agreements which may meet the criteria for SFFAS 49 disclosure, are described below.

In addition to developing appropriate disclosures to meet the requirements of SFFAS 49 for the MHPI, the DAF GF is also in the process of reviewing the details of the individual agreements within the MHPI to help ensure that the agreements and their underlying transactions are/have been recorded and reported in accordance with Federal Generally Accepted Accounting Principles (GAAP). Due to the complexity of some of the MHPI agreements, it is possible that previous transactions may need to be adjusted in order to be GAAP-compliant. The DAF GF is currently not able to determine the materiality of adjustments that may result from its review of the MHPI agreements and the identification and review of other P3 agreements, as well as the effect on its financial position, results of its operations, and net position.

Military Housing Privatization Initiative

Funding

Federal funding for the MHPI agreements was provided through the DAF GF budgetary resources and/or the U.S. Treasury through government direct loan disbursements at development completion or completed phases of development; limited loan guarantees of private debt against base closure, significant deployment, or significant downsizing; direct upfront cash and non-cash equity contribution, contribution of Real Property assets, and/or through differential lease payments for a stated period of time.

At inception of an MHPI agreement, the DAF GF enters into a long-term land lease (generally 50 years), and conveys the associated Real Property assets (e.g., buildings, structures, facilities, and, in some cases, utility infrastructure) to the MHPI P3 organized as a single purpose, bankruptcy remote Limited Liability Company (LLC).

The authorities under the DoD MHPI program allow for direct cash contributions, loans, or limited loan guarantees of private debt to the LLCs. Contributions to MHPI P3 partners from the DoD Family Housing Improvement Fund (FHIF) requires a statement of scored cost including the conveyance or lease as determined by the Office of Management and Budget (OMB) approval and Congressional notification (10 U.S. Code (U.S.C.) § 2884). There are no contractual requirements for additional federal contributions to the LLCs.

As a result of Public Law 115-91 § 603, Public Law 115-232 § 606, as amended by § 3036(a) and 3037 of the FY 2020 *National Defense Authorization Act* (NDAA) (Public Law 116-92), the DAF GF is required to make direct payments to the MHPI entities equivalent to either 1.0%, 5.0%, or 2.5% of the Basic Allowance for Housing (BAH) amount as applicable calculated under § 403(b)(3)(A)(i) of the military pay statute in Title 37, U.S.C. for the area in which the covered housing exists.

The following table represents the aggregated federal contribution amounts paid to the MHPI Program and LLCs through September 30, 2021:

DAF GF Initial Contributions from the MHPI Program to the LLCs & LPs* (Cumulative as of September 30,2021)	
Direct cash contributions	$ 674.8 million
Real property contributions to the LLCs & Limited Partnerships (LPs) (value of Real Property Assets conveyed, per OMB scoring documents)	$ 2.7 billion
Bonds	$ 0.0 million
Direct loans disbursed	$ 1.9 billion
DAF GF On-Going Contributions to the DoD MHPI Program* (For the Year Ended September 30,2021)	
DoD direct payments as required by Pub. L. 115-91 § 603 (1% BAH) and 15-232§ 606 (5% BAH)	$ 48.5 million
BAH under § 403 of Title 37 to members living in privatized housing	$ 858.6 million
Differential Lease Payments	$ 16.5 million
Property, Cash, Bonds, and Loans	$ 0.0 million
Private Partner Initial Contribution to the MHPI Program	
Direct cash contributions	$ 338.8 million
Real Property contributions to the LLCs & LPs	$ 1.2 million
Bonds	$ 5.1 billion
Direct loans disbursed	$ 0.0 million
Private Partner On-Going Contribution to the MHPI Partnership	
Direct cash contributions	$ 0.0 million
Bonds/Loans contributed	$ 0.0 million
Real Property and land contributions	$ 0.0 million

**These financial amounts represented above are presented in the DoD's consolidated principal financial statements. No transactions or amounts are recorded in the DAF GF principal financial statements and their respective note disclosures.*

With respect to indirect third-party payments to MHPI entities, it is estimated that the DAF GF will pay BAH under § 403 of Title 37 to members living in privatized housing in the amount of $858.6 million in FY 2021. The number of military family housing units upon which these estimated payments will be made is 39,451 in FY 2021. The number of units of military unaccompanied housing upon which these estimated payments will be made is 94 in FY 2021. The indirect third-party payments will continue as long as military members reside in MHPI housing.

The DAF GF will continue to make monthly direct payments for BAH to the MHPI entities for a projected total of $4.1 billion over the remaining life of the operating agreements, unless this authority is rescinded or modified.

Non-federal funding for the MHPI agreements generally included cash equity contribution(s) investment(s) on the part of the Private Partners and either bond or loan revenue obtained by the LLC for the purpose of financing the demolition/renovation/new construction of Real Property assets required to meet the end state number of housing units. The DAF GF obtained OSD and OMB approval of the end state through the scoring reports and notifications provided to Congress for the MHPI P3 agreements.

There is no requirement for the Private Partners to make any additional contributions after September 30, 2019 through the end of the agreements (approximately through 2063).

The MHPI entities have not borrowed or invested capital based on any DAF GF promise to pay, either implied or explicit. The only payments contractually required from the DAF GF to the MHPI entities are the direct cash investments and direct loan disbursements required upon execution of each phase of the MHPI agreement in accordance with the operating agreement or forward commitment, if required. There are no other contractually required payments from the DAF GF to the MHPI entities for the remaining term of the agreements.

The DAF GF and Partner equity investments may occur at the beginning of any new equity project, as required by the operating agreement. Any new DAF GF cash investment in a MHPI P3 from the FHIF or Unaccompanied Housing Improvement Fund (UHIF) requires approval from the Office of the Assistant Secretary of Defense Energy, Installations, and Environment (OASD EI&E) and the OMB as well as Congressional notification (10 U.S.C. § 2883(f)). The DAF GF is not obligated by the operating agreements for equity deals to make any investments in the MHPI P3 beyond its initial investment in each deal. The DAF GF has not made any in kind contributions/services or donations to the MHPI entities.

The DAF GF may contribute budget authority to restructure a project in financial distress through a modification of the government direct loan under OMB Circular A-11 Preparation, Submission and Execution of the Budget, Part 5, Section 185, Federal Credit, as was the case with Barksdale Air Force Base (AFB), Langley AFB, and Joint Base Anacostia-Bolling, or by providing additional equity in the case where the DAF GF is a non-managing member of the LLC.

Cumulative Acreage of Ground Leases:

Military Department	Agreement Type	Ground Lease in Acres
DAF GF	Government Loans /Loan Guarantees	19,095
DAF GF	Equity Agreements	2,367

As previously mentioned, at inception of an MHPI agreement, the DAF GF entered into a long-term land lease (generally 50 years). The LLCs pay a nominal amount for the land included in the lease, generally $1.0. The acreage totals in the table are primarily cumulative amounts from the Lease of Property (LOP) documents within each agreement between the DAF GF and the LLCs. There were instances where the LOP did not contain acreage so project fact sheets were used which were derived from the request for proposals and/or other sources.

Actual Values Received and Paid:

Military Department	Grouping Title (e.g., Geographic Location)	Number of Projects	In Fiscal Year 2021 (in millions)		Over Expected Life of LLCs & LPs*	
			Actual Received	Actual Paid	Estimated to be Received	Estimated to be Paid
DAF GF	Direct Loans	27	$ 84.7	$ 32.3	*Note	
DAF GF	Loan Guarantees	6	$ 0	$ 0		
DAF GF	Equity Investments	4	$ 0	$ 0		

*Note: Any potential future payments beyond the current liabilities reflected above are not estimable and are therefore not provided. This is due to there being no contractual requirement to make additional payments and the uncertainty associated with Congressional action in this area over the last two years, and the projected revision to the *National Defense Authorization Act*, Public Law 115-91.

The actual received and paid amounts included in the table above reflect amounts received and paid by the DAF GF from and to MHPI LLCs and LPs. The amounts do not include transactions between the DAF and the U.S. Treasury. During the first quarter of FY 2021, there was a planned disbursement for the government direct loan to a project within the MHPI program.

Contractual Terms Governing Incentive Fees

Performance Incentive Fees (PIFs) are paid as an incentive to the property manager for achieving a specific level of performance. The amount of the fee award depends on performance relative to criteria/targets specified in the Performance Incentive Plan (PIP). The DAF GF housing privatization transactions generally include management fees with two pricing components: a base fee and an incentive fee. The base fee is guaranteed, but the PIF is awarded only to the extent that the property manager meets the PIP criteria. Not all projects have a PIF written into their transaction documents.

Risk of Loss

The DoD's risk of loss is the initial cash contribution to the program, the risk of default on a government direct loan and the risk of a Guaranty Threshold Event under a Loan Guaranty Agreement will occur. In addition, the DAF GF risks failing to deliver on its goal to provide quality housing services to service members. The Private Partner's risk of loss includes the recovery of the initial cash contributions, inability to repay bonds and/or loans, and the loss of a long-term revenue source. Each MHPI lockbox agreement prescribes how funds flow through accounts ("waterfall"). This hierarchy ensures payments to "must pay" accounts, such as operating expenses and debt, occur first with Project Owners' fees at risk of delay or non-payment if insufficient cash flow is available. The waterfall is in effect a risk mitigation strategy to the LLC, should unexpected interruptions occur to the revenue stream during project operation.

The MHPI operating agreements and lockbox agreements do not explicitly identify risk of loss contingencies, but some projects include reserve accounts for specific circumstances, such as operating expense reserve accounts or utility reserve accounts to save funds for protection against unexpectedly high expenses.

The four DAF GF equity deal operating agreements provide for orderly processes for dissolution or termination of the agreement. The operating agreements also provide processes through which the DAF GF can enter into successor agreements in cases where the current Private Partner is no longer a member of the MHPI agreement.

Succession or removal of a project owner under a debt deal structure is addressed through the project LOP or, in the case of grouped projects, through the Master Development and Management Agreement (MDMA).

DAF GF projects with a direct loan may involve a restructure of the loan through an administrative workout under OMB A-11, Part 5, Section 185, *Federal Credit*, for a troubled loan or a loan in imminent default. The cost of this type of restructure is borne by the U.S. Treasury through permanent indefinite authority. The DAF GF may also contribute budget authority to modify a direct loan to strengthen long term financial sustainment of the project under a direct loan modification. The DAF GF has successfully restructured two projects through an administrative workout of the direct loan, preventing the loans from imminent default. The DAF GF obtained OASD EI&E and OMB approval of a direct loan modification for one project in order to strengthen its long-term sustainment.

The entity cash flow is dependent on congressional authorization and appropriation of BAH, which becomes a third-party payment for rent to the MHPI entity. The DAF GF can influence but cannot control the authorization and appropriation process. Additionally, as a result of ongoing congressional review of the MHPI program and the FY 2020 NDAA, there may be changes to the relationship between the DAF GF and the entity based on congressional action.

Changes, once fully implemented from the FY 2020 NDAA (Public Law 116-92 § 606), will potentially impact the revenue stream of projects. The full impact is not measurable at this time. If or when action is taken, the DAF GF will disclose any financial changes or impact that this may pose/cause. There is potentially a remote impact, which is not measurable at this time.

Gains and Losses

In accordance with DoD for *Accounting and Reporting of Equity Investments in Military Privatized Housing Projects* (FPM21-05), the DAF GF must disclose its relationships with the P3 private entities and the DoD will recognize any gains or losses associated with the contributions to the private entity in the DoD consolidated financial statements.

Per the LOP for each base, there are three options at lease termination to include restoration and surrender, with or without demolition of improvements or renewal of the lease.

Risk of Termination or Non-Compliance

The DAF GF receives and tracks monthly financial reports and monitors for events of termination or default including failure to make required capital investments, judicial dissolution, insolvency, or other significant breach or agreements without resolution.

The conditions governing the early termination, hand-back, and renewal options vary from each MHPI agreement. If a going-concern, termination, or default occurs, the DAF GF will conduct procedures to mitigate risk and to identify an entity to take over the partnership. Each MHPI operating agreement for equity deals and LOP or MDMA provides for orderly processes for dissolution or termination of the agreement to include the sale of assets not on DAF GF land and the reversion of Real Property assets to the DAF GF. The operating agreements, LOP or MDMA, as applicable, also provide processes through which the DAF GF can enter into successor agreements in cases where the current Private Partner is no longer a member of the MHPI agreement, thereby avoiding early termination of the project.

Other Potential Public Private Partnership Arrangements

The DAF GF conducted a review of enhanced use lease agreements to assess whether these agreements have created a Public-Private Venture (PPV)/P3. The DAF GF concluded that these agreements do not constitute a PPV/P3 and do not require disclosure under SFFAS 47, *Reporting Entity*, or SFFAS 49.

The DAF GF has not yet completed the entity-wide review of privatized utilities, renewable energy program out-leases, utility energy savings contracts, power purchase agreements, and energy savings performance contracts. It is possible that one or more of these relationships could constitute a PPV/P3.

For additional information, refer to Note 7, *Loans Receivable, Net and Loan Guarantee Liabilities* and Note 12, *Federal Debt and Interest Payable*.

Note 26 Disclosure Entities and Related Parties

Effective in FY 2018, Statement of Federal Financial Accounting Standards (SFFAS) 47, *Reporting Entity*, requires agencies to disclose certain information for disclosure entities and related parties. Related Party Organizations are considered related parties if: 1) the existing relationship, or one party to the existing relationship, has the ability to exercise significant influence over the other party's policy decisions; and 2) the organizations do not meet the inclusion principles of SFFAS 47. The DAF GF is still in the early stages of implementing this significant standard and completing a full impact analysis. Once the DAF GF fully implements this new standard, the DAF GF will be able to provide a thorough disclosure for Disclosure Entities and Related Parties.

The DAF GF has Public-Private Partnership agreements that meet the criteria for disclosure as related parties. For disclosures related to Public-Private Partnership contributions, risks, and operations, refer to Note 25, *Public-Private Partnerships*.

Note 27 COVID-19 Activity

In response to societal and economic impacts of Coronavirus Disease 2019 (COVID-19), multiple public laws were enacted to help lessen the impact of this pandemic on individuals, businesses, and federal, state, and local government operations.

Coronavirus Aid, Relief, and Economic Security Act

On March 27, 2020, the *Coronavirus Aid, Relief, and Economic Security* (CARES) Act (Public Law 116-136) was signed into law, which provides FY 2020 supplemental appropriations for federal agencies to respond to COVID-19. The supplemental appropriations are designated as emergency spending, which is exempt from discretionary spending limits.

In an effort to quickly respond to pandemic needs, the CARES Act waives certain undefinitized contract restrictions for the DAF GF to authorize contractors to begin work before reaching a final agreement on contract terms, specifications, or price, where it is determined the waiver is necessary due to the national emergency for COVID-19. The CARES Act also allows the DAF GF to waive certain restrictions on the usage of other transaction authority in contracts related to COVID-19, affording the DAF GF the authority to enter into certain contracts generally exempt from federal procurement laws and regulations.

On April 10, 2020, the Office of Management and Budget (OMB) issued implementation guidance for supplemental funding provided in response to COVID-19. In balancing speed with transparency, OMB Memorandum M-20-21 directed agencies to leverage and continue to employ existing financial transparency and accountability mechanisms wherever possible. OMB Memorandum M-20-21 further instructed agencies to consider three core principles: 1) mission achievement, by using data and evidence to meet program objectives; 2) expediency in issuing awards to meet crucial needs; and 3) transparency and accountability to the public.

Other Information

In FY 2020, the DAF GF received $713.0 million in funding, as well as $534.3 million in transfers of current year authority. In FY 2021, the DAF GF did not receive any further appropriations. The funding and transfers received were for special training, base support, mission support operations, test and evaluation support, and payroll/other personnel costs. During the year ended September 30, 2021, the DAF GF disbursed $326.4 million. Disbursements for COVID-19 prevention, preparation, and response include base support, operations support programs, administrative costs, and professional development, education, and training. As of September 30, 2021, there was $39.3 million in undelivered orders and $2.1 million in Accounts Payable. As of September 30, 2021, the DAF GF does not have any remaining resources available for obligation.

The impact on the DAF GF's assets, liabilities, and net position on the Balance Sheet cannot be separately determined, as mechanisms within the financial reporting systems needed to track such transactions through the proprietary accounts generally do not exist. Financial reporting impacts would be expected to the Statement of Net Cost and the Statement of Changes in Net Position.

Note 28 Subsequent Events

Subsequent events were evaluated from the balance sheet date through November 8, 2021, which is the date the financial statements were available to be issued. The DAF GF concluded that no events or transactions occurred or are pending that would have a material effect on the financial statements.

Fiscal Year 2021

DEPARTMENT OF THE AIR FORCE GENERAL FUND

REQUIRED SUPPLEMENTARY INFORMATION

DISAGGREGATED STATEMENT OF BUDGETARY RESOURCES

For the Fiscal Year Ended September 30, 2021

(Amounts in Thousands)

	Research, Development, Test & Evaluation	Procurement	Military Personnel
Budgetary Resources			
Unobligated Balance from Prior Year Budget Authority, Net (discretionary and mandatory) (Note 21)	$ 8,659,419	$ 19,184,046	$ 1,025,140
Appropriations (discretionary and mandatory)	46,277,195	47,773,678	42,858,327
Spending Authority from Offsetting Collections (discretionary and mandatory)	4,890,197	3,056,912	1,024,981
Total Budgetary Resources	$ 59,826,811	$ 70,014,636	$ 44,908,448
Status of Budgetary Resources			
New Obligations and Upward Adjustments (total)	$ 52,419,768	$ 48,498,610	$ 44,177,884
Unobligated Balance, End of Year:			
Apportioned, Unexpired Accounts	6,881,779	20,240,486	120,293
Exempt from Apportionment, Unexpired Accounts	0	0	0
Unapportioned, Unexpired Accounts	45,515	0	0
Unexpired Unobligated Balance, End of Year	$ 6,927,294	$ 20,240,486	$ 120,293
Expired Unobligated Balance, End of Year	479,749	1,275,540	610,271
Unobligated Balance, End of Year (total)	$ 7,407,043	$ 21,516,026	$ 730,564
Total Budgetary Resources	$ 59,826,811	$ 70,014,636	$ 44,908,448
Outlays, Net			
Outlays, Net (total) (discretionary and mandatory)	$ 46,744,774	$ 48,040,739	$ 41,821,726
Distributed Offsetting Receipts (-)	0	0	0
Agency Outlays, Net (discretionary and mandatory)	$ 46,744,774	$ 48,040,739	$ 41,821,726

The accompanying notes are an integral part of these statements.

DISAGGREGATED STATEMENT OF BUDGETARY RESOURCES, CONTINUED

(Amounts in Thousands)

	Family Housing & Military Construction	Operations, Readiness & Support	2021 Combined
Budgetary Resources			
Unobligated Balance from Prior Year Budget Authority, Net (discretionary and mandatory)	$ 8,253,674	$ 4,652,853	$ 41,775,132
Appropriations (discretionary and mandatory)	1,248,795	65,919,168	204,077,163
Spending Authority from Offsetting Collections (discretionary and mandatory)	6,053	3,499,295	12,477,438
Total Budgetary Resources	$ 9,508,522	$ 74,071,316	$ 258,329,733
Status of Budgetary Resources			
New Obligations and Upward Adjustments (total)	$ 2,137,668	$ 71,415,462	$ 218,649,392
Unobligated Balance, End of Year:			
Apportioned, Unexpired Accounts	7,131,177	437,102	34,810,837
Exempt from Apportionment, Unexpired Accounts	0	16,835	16,835
Unapportioned, Unexpired Accounts	0	44,708	90,223
Unexpired Unobligated Balance, End of Year	$ 7,131,177	$ 498,645	$ 34,917,895
Expired Unobligated Balance, End of Year	239,677	2,157,209	4,762,446
Unobligated balance, End of Year (total)	$ 7,370,854	$ 2,655,854	$ 39,680,341
Total Budgetary Resources	$ 9,508,522	$ 74,071,316	$ 258,329,733
Outlays, Net			
Outlays, Net (total) (discretionary and mandatory)	$ 1,940,295	$ 64,658,143	$ 203,205,677
Distributed Offsetting Receipts (-)	0	(122,173)	(122,173)
Agency Outlays, Net (discretionary and mandatory)	$ 1,940,295	$ 64,535,970	$ 203,083,504

The DAF GF has performance measures based on missions and outputs. The DAF GF is unable to accumulate costs for major programs based on those performance measures because its financial processes and systems were not designed to collect and report this type of cost information. Until the processes and systems are upgraded, the DAF GF will break out programs by major appropriation groupings.

The accompanying notes are an integral part of these statements.

Real Property Deferred Maintenance and Repair

Real Property Deferred Maintenance and Repair For Fiscal Year 2021* (Excludes Military Family Housing) (In Millions of Dollars)			
	2021 (Unaudited)		
	Plant Replacement Value	Required Work (Deferred Maintenance & Repair)	Percentage (Required Work/ Plant Replacement Value)
Active Real Property			
Category Buildings, Structures, and Linear Structures (Enduring Facilities)	$ 333,789	$ 27,160	8.1%
Category Buildings, Structures, and Linear Structures (Heritage Assets)	$ 43,237	$ 1,687	3.9%
Inactive Real Property			
Category Buildings, Structures, and Linear Structures (Excess Facilities or Planned for Replacement)	$ 15,998	$ 3,737	23.4%

Military Family Housing - Real Property Deferred Maintenance and Repair For Fiscal Year 2021* (In Millions of Dollars)			
	2021 (Unaudited)		
	Plant Replacement Value	Required Work (Deferred Maintenance & Repair)	Percentage (Required Work/ Plant Replacement Value)
Active Real Property			
Category Buildings, Structures, and Linear Structures (Enduring Facilities)	$ 12,053	$ 2,133	17.7%
Category Buildings, Structures, and Linear Structures (Heritage Assets)	$ 152	$ 36	23.7%
Inactive Real Property			
Category Buildings, Structures, and Linear Structures (Excess Facilities or Planned for Replacement)	$ 181	$ 146	80.7%

General Overview/Policy

Consistent with Statements of Federal Financial Accounting Standards (SFFAS) 42, *Deferred Maintenance and Repairs: Amending SFFAS 6, 14, 29 and 32*, the DAF Real Property Deferred Maintenance and Repair (DM&R) is facility maintenance and repairs that were not performed when they should have been, or were scheduled to be, and which are delayed or rescheduled to a future period.

The DAF GF's policy related to DM&R is to accomplish essential facility maintenance and repair to keep Real Property assets in a functional and safe condition. Maintenance and repairs include preventive maintenance; replacement of parts, systems, or components; and other activities needed to preserve or maintain the asset in safe, working condition.

These requirements are assessed for probability of asset failure and potential consequential risk to mission. DM&R funding requirements must be balanced with other DAF GF priorities for allocation of limited resources.

The two key components for determining Real Property DM&R on an annual basis are Plant Replacement Value (PRV) and condition assessment data described below. The PRV is a modeled value that represents the cost in current year dollars, to replace an asset in the same location and for the same function. In instances where the DAF GF observed that certain PRV calculations produced invalid asset amounts, an alternative Life Cycle Forecast approach was used to calculate DM&R. The DAF GF will continue to address underlying data issues to improve the accuracy of PRV values.

Maintenance and Repair Policies and Procedures

Air Force Instruction (AFI) 32-1020, *Planning and Programming Built Infrastructure Projects*, provides policy guidance for the planning and programming of Real Property maintenance and repair projects for facility sustainment, restoration, and modernization. This instruction provides detailed roles and responsibilities, and standardized work prioritization guidelines. AFI 32-1020 provides further details about maintenance and inspection processes and responsibilities. The integrated priority list is a critical component of the DAF GF maintenance and repair identification and planning process.

Organizations at all of the DAF GF levels are responsible for employing a sustainable asset management approach for maintenance and repairs. The Air Force Civil Engineer Center (AFCEC) provides assistance to installations for the identification and justification of facility maintenance and repair projects. Installation Commanders ensure existing facilities are used economically and efficiently to include maintenance and repairs. They are also responsible and accountable for ensuring maintenance and repair work is accomplished properly and it is authorized and funded in accordance with laws, policies, and regulations. Additionally, they ensure that project approval authority is within limits established in the DAF GF policy and guidance and delegated to the installation. The Base Civil Engineer (BCE) accomplishes required maintenance and repair planning actions, programming actions, compliance items, and certifications on behalf of the installation commander while retaining supporting documentation for future reference and project management.

Maintenance and Repair Ranking and Prioritization

The DAF GF prioritizes, executes, and tracks maintenance and repair work in accordance with AFI 32-1001, *Civil Engineer Operations*, and AFI 32-1020. The general work priorities and types in AFI 32-1001 are used by the BCE to manage the maintenance and repair task workload. These general work priorities and types are summarized in the table below:

Work Priorities	
Work Priority	**Work Type**
1	Emergency Work
2A	Preventive Maintenance and Physical Plant Operations
2B	Contingency Projects
3A (High)	Scheduled Sustainment Work (Corrective Maintenance (CM))
3B (Medium)	Scheduled Sustainment Work (CM)
3C (Low)	Scheduled Sustainment Work (CM)
4A	Scheduled Enhancement Work
4B	All other Enhancement Work

Factors Used to Determine Acceptable Facility Condition Standards

The DAF GF considers multiple interconnected factors as it determines acceptable Real Property asset condition standards. Depending on the asset assessed, factors include:

- The designed intent of the infrastructure asset;
- The infrastructure asset's criticality to the DAF GF mission;
- The asset management activity portfolio into which a given infrastructure asset falls:
    - Facilities;
    - Utilities;
    - Transportation network;
    - Natural infrastructure, etc.

Technical subject matter experts (SMEs) determine standardized engineering characteristics, single or multi-disciplinary, to determine and report on the condition of given assets. Local and staff-level SMEs apply judgment to these factors and derive recommended maintenance and repair tasks and projects necessary for a given asset to gain and/or maintain the condition required to support the DAF GF mission.

Deferred Maintenance and Repair and Associated Measurements

The PRV is updated annually and applied to the current Real Property quantities, which are retrieved from the Real Property accountable property systems of record (APSRs). The PRV equation includes the following component factors:

- Facility Quantity/Size information from the APSRs;
- PRV Unit Cost (PUC), Area Cost Factor (ACF), Historical Records Adjustment, and the Planning & Design Factor;
- Supervision Inspection & Overhead Factor and Contingency Factor.

These component factors are established and periodically updated by the Office of the Assistant Secretary of Defense for Sustainment, the U.S. Army Corps of Engineers, and the Naval Facilities Engineering Command based on industry standards. The APSRs automatically calculate the PRV as changes are made to the inventory (e.g., Facility Analysis Category Code, size, and historic status). Changes in PRV factors (ACF/Real Property Categorization System (RPCS)) are annually configured in the APSRs.

The DAF GF currently uses five sources of data to produce the dollar value of required repairs: the Automated Civil Engineering System-Project Management, Next Generation Information Technology (NexGen IT), Sustainment Management Systems (SMS) BUILDER and PAVER, and Utilities Linear Segmentation. The business rules for what data is used from these sources to calculate Real Property DM&R are included in the DAF GF DM&R Standard Operating Procedures.

Reporting Process

The DAF GF reported DM&R includes both capitalized and non-capitalized Real Property, as well as general property and heritage assets.

The DAF GF continually updates the two Real Property subsidiary ledgers, Automated Civil Engineer System – Real Property (ACES-RP) and NexGen IT, throughout the year. In the last quarter of the FY, Real Property APSRs data is pulled from ACES-RP and NexGen IT. Due to system limitations and reporting schedule requirements, third quarter DM&R data was used to prepare the end-of-year DM&R values. The RPAD data is verified and validated to comply with current OSD RPCS changes and Real Property Information Model 10 business rules. Once the APSRs data is developed, a data validation and verification procedure is completed to identify errors that AFCEC reviews and coordinates with the applicable installation to achieve resolution. APSRs data is then combined with data generated from SMS systems such as BUILDER and PAVER. Calculations are performed using SMS data, or other Life Cycle Forecast data as applicable, to obtain a DM&R value for each reportable asset record. The final values are then reviewed and formatted to produce the DAF GF DM&R year-end report containing the current estimated DM&R requirements. Real Property assets for which the DAF GF does not measure and/or report deferred maintenance and repairs, and the rationale for the exclusion, are summarized in the table below:

Deferred Maintenance and Repair Exclusions	
Assets for which DM&R Not Reported	**Rationale for Exclusion**
Future or To Be Acquired APSR facility records without an assigned Real Property Unique Identifier (RPUID)	A Real Property asset without an assigned RPUID is considered a future facility and is not capitalized in the APSR until issued an RPUID. The DAF GF has identified these APSR records and is making progress on a corrective action plan to resolve.
Some assets not yet entered in APSRs due to changes in Host Installation reporting guidance contained in OUSD Memo, Real Property Financial Reporting Responsibilities Policy Update, dated March 2019	Real Property asset record not fully compliant with accountability guidance nor in the APSRs.
11,240 RPUIDs were not included in DAF GF DM&R process calculation due to missing or incorrect data. The DM&R for these RPUIDs is estimated (by extrapolation of calculated RPUIDs) to be approximately $1-2B, but cannot be fully verified.	Not included due to apparent APSR data issues identified during calculation process. The DAF GF has identified these RPUIDs and is making progress on a corrective action plan to resolve each issue.

Not all assets recorded in the APSRs are used in the DM&R calculations, and therefore, they are not reported as part of the DM&R. These assets are documented in the DAF GF's DM&R supporting documentation and available for review. The DAF GF did not include in the DM&R calculations RPUIDs of facilities that were recently impaired by natural disasters.

Deferred Maintenance and Repair Amounts for FY 2021

For FY 2021, the DAF GF's DM&R Business Process Improvement initiative resulted in improvements to the accuracy and auditability of reported DM&R values. The DAF GF SMS condition assessment data is not yet 100% complete for all Real Property; therefore, Life Cycle Forecasting methodologies were used for DM&R calculation for some Real Property assets. These Life Cycle Forecasting calculation methodologies to estimate DM&R are as follows:

- Extrapolation of DM&R values by Category Code
- Sustainment Unit Cost and PUC parametric approach
- Asset age and operational status parametric approach

Historically the DAF GF's reported DM&R amount has generally increased year-to-year due to under funding and delays in maintenance execution. This year the DM&R value increased by $4.4 billion, from $30.5 billion to $34.9 billion. This increase translated to greater than 10.0% increases across all reportable categories except non-Military Family Housing heritage assets and inactive Real Property assets. The primary drivers are as follows:

- Addition of approximately 12,980 reportable RPUIDs to the inventory due to the transfer of Joint Base Anacostia-Bolling from Navy to the DAF GF as lead service; addition of DAF GF Plant 42 to the APSR; assignment of RPUIDs that, due to a known APSR system limitation, had been awaiting assignment for three to five years; and ongoing APSR improvements due to existence and completeness inspections executed by local installations;
- PRV inflation driven largely by commodities costs and ACFs. ACF and construction commodity cost increases drove significant increases in housing and various utilities component PRVs and related DM&R values.

The DAF GF used Financial Reporting Organization and Interest Type coding in the APSRs to determine the population of facilities for which it calculated a DM&R value. These criteria were used instead of Sustainment Organization and Sustainment Fund codes due to known APSRs data shortcomings in sustainment coding, and to comply with: 1) the March 15, 2019 Deputy Chief Financial Officer memo on Host Installation reporting, and 2) DoD Financial Management Regulation Volume 4, Chapter 24, paragraph 240304.C, updated October 2019. This approach in determining facility population subject to DM&R reporting resulted in significant differences in calculated DM&R and PRV compared to the process used in previous FYs. As APSR data is updated to accurately reflect new host installation reporting guidance and to more accurately identify and code sustaining organizations, this process will be refined to provide increased precision in the DAF GF DM&R reporting.

Equipment Deferred Maintenance and Repair

Equipment Deferred Maintenance and Repair For Fiscal Year Ended September 30, 2021 (In Millions of Dollars)						
Major Categories	PB-61 Amounts		Adjustments		Totals	
Aircraft	$	13,692	$	(13,495)	$	197
Automotive Equipment	$	24	$	(24)	$	0
Combat Vehicles	$	19	$	(19)	$	0
Construction Equipment	$	0	$	0	$	0
Electronics and Communications Systems	$	3,866	$	(3,855)	$	11
Missiles	$	811	$	(809)	$	2
Ships	$	0	$	0	$	0
Ordnance Weapons and Munitions	$	146	$	(146)	$	0
General Purpose Equipment	$	166	$	(153)	$	13
All Other Items Not Identified to Above Categories	$	16	$	(16)	$	0
Total	$	**18,740**	$	**(18,517)**	$	**223**

Deferred Maintenance and Repairs for FY 2021

Weapon System Sustainment (WSS) is very diverse and encompasses over 109 weapon systems throughout the world and supports 12 Service Core Functions. Those weapon systems consist of fly (fixed-wing and rotary wing) and non-fly systems. Fly systems are maintained to meet airworthiness standards and all weapon systems are sustained to perform their assigned mission by the most economical means. Most requirements within WSS are considered Capitalized General Plant, Property and Equipment.

Defining and Implementing Maintenance and Repair Policies in Practice

As permitted under Statements of Federal Financial Accounting Standards (SFFAS) 42, *Deferred Maintenance and Repairs: Amending SFFAS 6, 14, 29 and 32*, several different basis of estimate methodologies determine maintenance and repair requirements. For example, Programmed Depot Maintenance is a calendar driven interval developed by the Operational Safety, Suitability and Effectiveness authority for the weapon system. During the development of WSS maintenance and repair requirements, approved Force Structure changes are incorporated. Maintenance and repair requirements change from the time of publishing in support of the Program Objective Memorandum (POM) to development of the execution plan for the upcoming execution year. This reflects the most current requirement and funded customer order to support organic depot workload for planning materials and labor. During the WSS mid-year execution review, program office personnel receive guidance to reduce maintenance and repair requirements to what will execute that year unless deferred to another year. If this action would drive deferred maintenance and repair, the requirement remains as unfunded. One of two follow-on actions will occur depending on what fiscal year the maintenance and repair requirement is deferred. First, if there is available capacity the following execution year, the deferral will be added as an out-of-cycle requirement. Second, if there is no additional capacity in the following year, the deferral will be added during the normal scheduled requirements development in support of the next POM, which leaves sufficient lead-time for development of capacity.

Ranking and Prioritizing Maintenance and Repair Activities

The program office prioritizes maintenance and repair requirements during the requirements development phase in collaboration with the lead command. Risk-based methodologies determine the acceptable operational risk during the building of the POM and Execution Plan. During the execution year, emerging requirements and real-world events drive review and reprioritization of maintenance and repair. During the mid-year execution review, programs adjust requirements to what will execute by end-of-year unless the requirement defers to a following year.

Factors Considered in Setting Acceptable Condition

WSS entity defines acceptable condition using Life-cycle costing.

Significant Changes from the Prior Year and Related Events

The total projected deferred requirements of $223.1M is due to deferring:

- A-10 – $28.3M total:
  - $24.2M: Four aircraft deferred due to Scheduled Structure Inspection (SSI) timing due to flying less hours than estimated and limited depot capacity extending planned aircraft into the Air and Space Expeditionary Force window
  - $4.1M: One of one aircraft SSI deferred due to schedule slippage at Korean Air Lines Contractor Depot
- ATCALS – $1.1M: Two radar inductions deferred due to mission requirements during induction period
- Automatic Test Systems – $0.02M: Lack of available asset for repair during delivery order timeline
- B-52 (TF33 Engine) – $2.4M: One engine overhaul induction due to funding constraints
- C-17 Globemaster III – $45.2M total:
  - $19.8M: Four of 30 engines deferred due to parts limitations reducing engine production
  - $18.6M: Three engines and two aircraft deferred due to engine depot capacity, engine parts availability, System Program Office induction schedule, and reduced peculiar support equipment requirements
  - $6.0M: Two F117 engine overhaul inductions due to capacity and parts constraints
  - $0.4M: Software projects un-executable due to schedule and manpower availability
  - $0.3M: Flight Data Recorder Operational Flight Plan and Loadmaster Forward Control Panel retrofit software build package deferred due to shortage in manpower to support contract award process
  - $0.1M: Cybersecurity Line Replaceable Unit (LRU) Patch Management Project software maintenance (incorporating Win10 Long Term Service Channel Operating System on two remaining LRU deferred due to delays incurred from a separate project involving these two LRU
- C-37 – $5.8M total:
  - $5.1M: Three of three aircraft scheduled for interior refurbishment deferred due to funding shortfalls
  - $0.7M: Two of seven Scheduled Aircraft Depot Level Inspections deferred due to a shift in the depot induction schedule caused by the actual cycles flown being less than the projections
- C-130 – $0.6M: Delayed stand up of Cheyenne Flight Simulator until FY 2022
- CV-22 Osprey – $2.0M: Functional Requirement Document – 10 software packages delayed due to contract award issues
- E-8 – $2.7M: One engine deferred due to generation forecast and organic depot capacity
- F-15C/D Eagle – $1.1M total:
  - $0.7M: Requirement deferred to FY 2022 due to executability and security constraints
  - $0.4M: APG-63(v)3 Radar System software maintenance support at Robins Air Force Base deferred due to delays in the delivery of the white paper from the Original Equipment Manufacturer, Raytheon El Segundo
- F-15E Strike Eagle – $3.3M: APG-82(v)1 Radar software sustainment deferred due to delays in the Radar Modernization Program depot standup
- F-16 Fighting Falcon – $50.8M total:
  - $19.8M: Deferred Pre-block Structural Sustainment Repair (PSSR) due to capacity issues, bundling of paint and inlet ram repair with PSSR deferrals and cancellations due to mission requirements
  - $11.1M: Five aircraft depot overhaul inductions due to capacity constraints
  - $9.2M: Seven of 10 Aircraft Inductions for Programmed Structural Sustainment Repair program deferred due to depot capacity issues
  - $8.2M: Four of 13 Aircraft Depot Heavy Maintenance from the Service Life Extension Program (SLEP) deferred due to kit supportability issues

  - $1.5M: Testers software sustainment support deferred due to delays in contract award
  - $1.0M: One of eight Non-SLEP aircraft at 309th Aerospace Maintenance and Regeneration Group for Post Block Repair deferred due to unit failing to meet their delivery induction date
- ICBM – $1.9M: Computer hardware components purchase for the Central Data Assessment System software update deferred due to delays in the contract award of the Boeing Guidance Repair Center contract
- KC-135 – $54.5M total:
  - $23.6M: Two aircraft inductions deferred to alleviate negative mission capability and aircraft availability rates
  - $13.9M: Three F108 engine overhaul inductions due to requirements not generating / lack of unserviceable engines to induct
  - $12.4M: One aircraft depot overhaul induction due to funding constraints
  - $4.6M: One F108 engine overhaul induction due to funding constraints
- Loaders – $5.8M: 18 Halvorsen overhauls deferred due to funding shortfalls
- Range Threat Systems – $10.0M total:
  - $6.7M: Aircrew Training Systems software maintenance deferred due to funding shortfalls
  - $3.3M: One overhaul induction of Joint Threat Emitter (TSQ-T10) due to capacity constraint
- Support Equipment and Vehicles – $7.3M: 18 Engine Test Stands at six locations deferred due to funding shortfalls

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

November 8, 2021

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

SUBJECT: Transmittal of the Independent Auditor's Reports on the Department of the Air Force General Fund Financial Statements and Related Notes for FY 2021 (Project No. D2021-D000FT-0070.000, Report No. DODIG-2022-018)

We contracted with the independent public accounting firm of Ernst & Young, LLP (EY), to audit the Department of the Air Force (DAF) General Fund Financial Statements and related notes as of and for the fiscal year ended September 30, 2021. The contract required EY to provide a report on internal control over financial reporting and compliance with provisions of applicable laws and regulations, contracts, and grant agreements, and to report on whether the DAF General Fund's financial management systems substantially complied with the requirements of the Federal Financial Management Improvement Act of 1996. The contract required EY to conduct the audit in accordance with generally accepted government auditing standards (GAGAS); Office of Management and Budget audit guidance; and the Government Accountability Office/Council of the Inspectors General on Integrity and Efficiency "Financial Audit Manual," June 2018, Volume 1 (Updated, April 2020), Volume 2 (Updated, March 2021), and Volume 3 (Updated, September 2021). EY's Independent Auditor's Reports are attached.

EY's audit resulted in a disclaimer of opinion. EY could not obtain sufficient, appropriate audit evidence to support the reported amounts within the DAF General Fund Financial Statements. As a result, EY could not conclude whether the financial statements and related notes were presented fairly in accordance with Generally Accepted Accounting Principles. Accordingly, EY did not express an opinion on the DAF General Fund FY 2021 Financial Statements and related notes.

EY's separate report, "Report of Independent Auditors on Internal Control Over Financial Reporting," discusses 10 material weaknesses related to the DAF General Fund's internal controls over financial reporting.* Specifically, EY's report concluded that the DAF did not:

- establish entity level controls that support effective financial management;
- integrate and reconcile feeder systems to the general ledger to ensure that it accurately and timely recorded the entire population of financial transactions on its financial statements;
- sufficiently document policies and procedures and fully implement controls over its real property assets;
- value and reconcile property data in the accountability systems and military equipment financial statement balance;
- develop controls to identify, value, and report all other general equipment;
- implement sufficient processes to value and report an accurate Operating Materials and Supplies balance;
- oversee property and materials managed and held by contractors and other defense organizations;
- develop sufficient policies, procedures, and internal controls to fully reconcile Fund Balance With Treasury;
- support Accounts Payable, expenses, and contract financing payment balances; and
- ensure the effective design and operation of financial information systems.

EY's additional report, "Report of Independent Auditors on Compliance and Other Matters," discusses two instances of noncompliance with provisions of applicable laws and regulations, contracts, and grant agreements. Specifically, EY's report describes instances in which the DAF General Fund's financial management systems did not

* A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting that results in a reasonable possibility that management will not prevent, or detect and correct, a material misstatement in the financial statements in a timely manner.

comply with the Federal Financial Management Improvement Act of 1996 and the Federal Managers' Financial Integrity Act of 1982.

In connection with the contract, we reviewed EY's reports and related documentation and discussed them with EY's representatives. Our review, as differentiated from an audit of the financial statements and related notes in accordance with GAGAS, was not intended to enable us to express, and we do not express, an opinion on the DAF General Fund FY 2021 Financial Statements and related notes. Furthermore, we do not express conclusions on the effectiveness of internal control over financial reporting, on whether the DAF General Fund's financial systems substantially complied with Federal Financial Management Improvement Act of 1996 requirements, or on compliance with provisions of applicable laws and regulations, contracts, and grant agreements. Our review disclosed no instances where EY did not comply, in all material respects, with GAGAS. EY is responsible for the attached November 8, 2021 reports, and the conclusions expressed within the reports.

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

Lorin T. Venable

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

Attachments:
As stated

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Report of Independent Auditors

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

Report on the Financial Statements

We were engaged to audit the accompanying financial statements of the Department of the Air Force General Fund (DAF GF), which comprise the consolidated balance sheet as of September 30, 2021, and the related consolidated statements of net cost and changes in net position and combined statement of budgetary resources for the year then ended, and the related notes to the financial statements (the financial statements).

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements 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 financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on conducting the 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 Office of Management and Budget Bulletin No. 21-04, *Audit Requirements for Federal Financial Statements*. Because of the matters 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.

Departures from U.S. Generally Accepted Accounting Principles

As described in Note 1, there are several areas where the DAF GF is not following U.S. generally accepted accounting principles. Collections, obligations and outlays presented in the financial statements are misstated for the activity related to joint procurement programs and shared access vendor contracts.

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The DAF GF has not implemented certain accounting standards for the Department of Defense and the Federal government. The effect of these matters on the financial statement amounts and related disclosures involved is not currently determinable by the DAF GF and could be material.

Basis for Disclaimer of Opinion

The DAF GF continues to have unresolved accounting issues and material weaknesses in internal controls that cause the DAF GF to be unable to provide sufficient evidential support for complete and accurate financial statements on a timely basis. As a result, we cannot determine the effect of the lack of sufficient appropriate audit evidence on the DAF GF's financial statements as of and for the year ended September 30, 2021.

Disclaimer of Opinion

Because of the significance of the matters 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 financial statements.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and other Required Supplementary Information, as listed in the Table of Contents, be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Federal Accounting Standards Advisory Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We were unable to apply certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraph. We do not express an opinion or provide any assurance on the information.

Other Information

We were engaged for the purpose of forming an opinion on the financial statements that collectively comprise the DAF GF's financial statements. The Message from the Secretary of the Air Force, Message from the Chief Financial Officer, and the Other Information (collectively the Other Information), as listed in the Table of Contents, is presented for purposes of additional analysis and is not a required part of the financial statements. The Other Information has not been subjected to the auditing procedures applied in the engagement to perform an audit of the financial statements, and, accordingly, we do not express an opinion or provide any assurance on it.

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Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we also have issued our reports dated November 8, 2021 on our consideration of the DAF GF's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of those reports is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the DAF GF's 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 the DAF GF's internal control over financial reporting and compliance.

Ernst & Young LLP

November 8, 2021

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

The Secretary of the 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. 21-04, *Audit Requirements for Federal Financial Statements*, the financial statements of the Department of the Air Force General Fund (DAF GF), which comprise the consolidated balance sheet as of September 30, 2021, and the related consolidated statement of net cost, consolidated statement of changes in net position and combined statement of budgetary resources for the year then ended, and the related notes to the financial statements and have issued our report thereon dated November 8, 2021. Our report disclaims an opinion on such financial statements because the DAF GF was not able to provide sufficient appropriate audit evidence due to matters discussed further in the Basis for Disclaimer of Opinion paragraph.

Internal Control Over Financial Reporting

In connection with our engagement to audit the financial statements, we considered the DAF GF's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the DAF GF's internal control. Accordingly, we do not express an opinion on the effectiveness of the DAF GF's internal control. We did not consider 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 preparing performance information and ensuring efficient operations.

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

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

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described below and in Appendix A as Items XI. to XIII. to be significant deficiencies.

Further details regarding each of these matters are included in Appendix A.

<u>Material Weaknesses</u>

I. Entity Level Controls – Establishing Entity Level Controls (ELCs) is a primary step in operating an effective system of internal control. ELCs are internal controls that have a pervasive effect on an organization, generally operate at a high level and establish a basis for the effective operation of controls addressing specific accounts and assertions. The lack of sufficient attention to these matters will hinder the entity's ability to remediate existing material weaknesses as well as limit the ability to develop and sustain future financial management capabilities.

During our procedures, we identified the following deficiencies related to the DAF GF's control environment, risk assessment, monitoring and information and communication components:

- Enhanced integration and oversight of risks by enterprise-wide leadership is needed
- Enterprise IT strategy has not been formalized and fully implemented
- Lack of sufficient and/or sufficiently trained resources
- Additional emphasis needed to meet external financial reporting objectives

II. Integration and reconciliation of financial systems

To ensure that the entire population of financial transactions has been recorded in the financial statements, it is necessary to reconcile feeder systems to the general ledger. The DAF GF has a complex systems environment consisting of many non-integrated systems that use non-standard and non-compliant data structures. The systems environment is composed of legacy mainframe, standalone systems and micro-applications, along with its newer general ledger, Defense Enterprise Accounting and Management System (DEAMS). These systems are not integrated and require numerous manual workarounds. The lack of a fully integrated system prevents DAF GF's management from obtaining timely, accurate and reliable information to make effective business decisions. The DAF GF continues to rely on both manual re-entry of data into multiple systems and complex system interfaces that are not fully reconciled. The lack of integration prevents information/data from processing without significant manual intervention.

We identified the following:

- Inability to validate the completeness of transactions underlying the financial statements
- Transactions not recorded in accordance with the United States Standard General Ledger (USSGL)
- Insufficient processes over DEAMS system design and updates

III. Real Property – Real Property includes land, buildings, structures and linear structures. The DAF GF has not sufficiently documented policies and procedures or fully implemented controls over its real property assets. Significant efforts are still needed to remediate identified weaknesses, including the following:

- Lack of sufficient documentation of accounting policies, procedures and controls
- Insufficient controls over financial reporting of real property
- Insufficient review and monitoring of accountable property system of record (APSR) data
- Further procedures are needed to identify the complete population of real property assets
- Insufficient procedures in place to monitor and report real property construction in process (CIP)

IV. Military Equipment – Military Equipment is a sub-set of General Equipment and includes several categories of assets including aircraft and satellites. While the DAF GF made progress in FY21, continued efforts are needed to value military equipment and reconcile the accountability systems to the balances reflected in the financial statements.

We identified the following:

- Insufficient controls over financial reporting of military equipment
- Insufficient review and monitoring of APSR data
- Process and related controls to value military equipment CIP needs improvement

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V. Other General Equipment (GE-Other) – GE-Other includes equipment such as support equipment, vehicles, special tooling and special test equipment. The DAF GF has not developed sufficient controls to identify, value and report all GE-Other.

We identified the following:

- Lack of sufficient documentation of accounting policies, procedures and controls
- Inability to identify a complete population of other general equipment
- Insufficient controls over financial reporting of other general equipment

VI. Operating Materials and Supplies (OM&S) – The majority of OM&S is comprised of munitions, spare engines, uninstalled missile motors, and other weapon system spare parts. The lack of sufficient accounting policies, procedures and internal controls prevents the DAF GF from substantiating the reported balance on the financial statements and the disclosures, including reconciliation to the underlying accountability systems.

We identified the following:

- Lack of sufficient documentation and assessment of accounting policies, procedures and controls
- Insufficient controls over financial reporting of OM&S
- Lack of sufficient accounting processes to value and report OM&S

VII. Property and materials held by others – The DAF GF has shared service arrangements with other branches of the military, other defense organizations and commercial contractors to hold inventory and equipment to avoid duplication of efforts. We found that in many of these instances the DAF GF is heavily reliant upon the other party to report activity and balances related to those materials.

We identified the following:

- Insufficient oversight of OM&S managed by Army and the Defense Logistics Agency (DLA)
- Insufficient oversight of government furnished property and contractor-acquired property
- Insufficient oversight of the accounting for Joint Strike Fighter (JSF) spare parts and associated costs

VIII. Fund Balance with Treasury (FBwT) – FBwT represents the aggregate amount of funds in the DAF GF's accounts with the U.S. Treasury. The DAF GF, in conjunction with the Defense Finance and Accounting Service (DFAS), uses the Consolidated Cash Accountability System Air Force (CCAS-AF) as part of its process to reconcile the general ledger (GL) to the U.S. Treasury as well as track open variances. The DAF GF, however, does not have sufficient policies, procedures, and internal controls in place over CCAS-AF

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and its reconciliation process, including the appropriate integration of DFAS into the DAF's control environment.

We identified the following:
- Lack of sufficient documentation of accounting policies, procedures and controls
- Lack of sufficient monitoring over DFAS

IX. Accounts Payable (AP), Expenses, and Accounting for Contract Financing Payments (CFP) – AP represents the amount owed to third parties by the DAF GF for goods and services received. Expenses are incurred and recognized when the DAF GF obtains goods and services from the public or other federal entities. CFP are authorized disbursements to a contractor prior to the acceptance of supplies or services by the Government. The DAF GF lacks sufficient policies, procedures and internal controls for the procure to pay process.

We identified the following:
- Lack of sufficient documentation of accounting policies, procedures and controls
- Inadequate controls over accounts payable, expenses, cash disbursement and obligation processes
- Insufficient controls over the accounting for joint procurement programs and shared access vendor contracts
- Insufficient controls over CFP

X. Financial Information Systems – Our assessment of the DAF GF's IT controls and the computing environment identified deficiencies which collectively constitute a material weakness in the design and operation of information systems controls over financial data.

We identified the lack of sufficient controls in the following areas:
- Access controls
- Configuration management / change controls
- Segregation of duties
- Interface controls
- Security management

Significant Deficiencies

XI. Contingent Legal Liabilities (CLL) – The DAF GF's contingent liabilities include contingent legal liabilities where DAF General Counsel considers an adverse decision probable and the amount of the loss measurable. The DAF GF also discloses those cases that are determined to be reasonably possible for adverse decision. The DAF GF lacks sufficient processes and controls to ensure the population of claims is complete and accurate.

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XII. Environmental and Disposal Liabilities (E&DL) – E&DL includes the estimated costs associated with clean-up or disposal of military equipment/weapon programs, base realignment and closure, environmental restoration and other environmental liabilities. The DAF GF has not fully designed internal controls to assess the reasonableness of the entity's recorded liability estimates.

We identified the following:
- Lack of sufficient documentation of accounting policies, procedures and controls
- Insufficient procedures in place to record all E&DL
- Insufficient review over the estimate rollforward process through fiscal year-end
- Lack of sufficient processes to compare actual contract costs to recorded estimates

XIII. Reimbursable Programs – The DAF GF does not have sufficient controls in place to ensure that reimbursable costs are being properly billed to customers in accordance with their reimbursable agreements/customer orders.

We identified the following:
- Insufficient controls over financial reporting of reimbursable agreements
- Lack of sufficient reviews over reimbursable activity

Management's Response to Findings

DAF GF's response to the findings identified in our engagement and relevant comments from the DAF GF's management are provided in their accompanying letter dated November 8, 2021. Management'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 results of that testing, and not to provide an opinion on the effectiveness of 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.

Ernst + Young LLP

November 8, 2021

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Appendix A

Material Weaknesses

I. ENTITY LEVEL CONTROLS

Entity management has a fundamental responsibility to develop and maintain effective internal control, which provides assurance that significant weaknesses in the design or operation of internal control, that could adversely affect the entity's ability to meet its objectives, would be prevented or detected in a timely manner. Establishing ELCs is a primary step in developing and operating an effective system of internal control. ELCs are internal controls that have a pervasive effect on an organization, generally operate at a high level and establish a basis for the effective operation of controls addressing specific accounts and assertions. ELCs begin at the top of an organization with enterprise-wide leadership involvement. The establishment of the integrated organization structure with clear action plans to design, implement, and execute a large complex organization is critical to an effective internal control environment. The DAF GF has established governance bodies in accordance with OMB Circular A-123. This includes the Strategic Integration Forum (SIF) to fulfill the responsibilities of the Risk Management Council (RMC) and Senior Management Council (SMC). The DAF GF also has an Executive Steering Committee that functions as its Senior Assessment Team as described in OMB Circular A-123.

In addition, organizations should integrate its efforts to meet the requirements of the Federal Managers' Financial Integrity Act (FMFIA) of 1982 with other efforts to improve effectiveness and accountability, instead of considering internal control as an isolated management tool. Thus, internal control should be an integral part of the entire cycle of planning, budgeting, management, accounting, and auditing. It should support the effectiveness and the integrity of every step of the process and provide continual feedback to management.

During our procedures, we identified the following deficiencies that aggregated into this material weakness:

(a) Enhanced integration and oversight of risks by enterprise-wide leadership is needed

The Deputy Assistant Secretary for Financial Operations (SAF/FMF and SAF/FM CIO) has the primary responsibility for the DAF's financial statement audit readiness and compliance; however, efforts supporting financial statement audit and audit remediation requires inputs from the entire organization, including major commands (MAJCOMs) and Headquarters Air and Space Force organizations. Continued improvements in financial management capabilities, whether by redesigned business processes, modernized IT systems or other efforts, facilitate better decision making and oversight of DAF priorities by enterprise-wide leadership.

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We identified the following conditions that indicates a lack of consistent integration and oversight across the DAF to sufficiently address financial reporting issues and risks:

- **Corrective action plans do not always reflect the entity-wide impact of an identified deficiency**—For example, EY identified instances where service providers, functional communities, financial management community (FM), IT and others may be developing separate and disconnected remediation efforts that may not necessarily be tied to the risks of material misstatement. Consequently, the DAF GF may be developing multiple manual workarounds as detect/correct controls to address variances and the related risk versus preventative controls without sufficient consideration of where the appropriate control should occur at the entity. Specifically, there is a lack of sufficient understanding of the flow of financial information from initiation to reporting on the trial balance and the corresponding impact on end-to-end budgetary and proprietary business processes and how those transactions impact the entity beyond one individual assessable unit. This effort requires enhanced coordination amongst key stakeholders (e.g., FM, functional communities) to identify, assess and respond to the impact of both budgetary and proprietary financial transactions.

  Additionally, it is not apparent how DAF GF's enterprise-wide leadership is fully integrated in the evaluation of risks and in determining the best course of action for the entity as a whole. Furthermore, DAF GF's Corrective Action Plan (CAP) development, timelines and/or remediation efforts does not always include how expected changes to IT systems or business processes effect the entity-wide risks to internal control over financial reporting.

- **Insufficient communication and assessment of the financial statement impact resulting from ongoing operations**—For example, DAF GF has not assessed the impact of the United States Space Force (USSF) on the DAF GF's financial statements and internal control over financial reporting. Also, the organization has not fully assessed how certain non-financial data in mixed systems (e.g., logistics systems) impacts the financial statements.

(b) Enterprise IT strategy has not been formalized and fully implemented

In accordance with the GAO Green Book, management should design information system and related control activities to achieve objectives and respond to risks. An information system is the people, processes, data and technology that management organizes to obtain, communicate or dispose of information. Information technology enables information related to operational processes to become available to the entity on a timelier basis.

We identified the following conditions that indicate a lack of a formalized and fully implemented enterprise IT strategy related to internal control over financial reporting:

- **Inconsistent integration and collaboration between functional organizations throughout the system consolidation lifecycle leading to a lack of a holistic understanding of risks and mitigations across the enterprise**—Cross-functional requirements and IT controls are not fully integrated during new application implementation and/or legacy application modernization. For example, enhanced project accounting could occur through the use of integrated modules incorporating processes such as procurement, accounts payable and property/equipment/inventory.

- **Insufficient integration of system oversight between financial management and functional organizations**—Although the financial management portfolio board with representation from The Office of the Assistant Secretary of the Air Force for Acquisition, Technology and Logistics (SAF/AQ), Defense Finance Accounting Service (DFAS), Deputy Under Secretary of the Air Force, Management (SAF/MG) among others meets on a monthly basis to discuss the current status of application consolidation/modernization, status of CAPs and related matters. The financial management portfolio board's oversight is limited to systems in the Financial Management and Comptroller functional organization. Additional functional organizations (e.g., A1, A4, AQ) in the DAF GF exercise oversight of financially relevant systems within their portfolio; however, these efforts are not sufficiently integrated.

- **Lack of a formalized and fully implemented IT governance strategy for financial and financially relevant systems** —An overarching Business Mission Area (BMA) Enterprise IT strategy for governance over IT strategic direction, financial and financial feeder system portfolio modernization, knowledge management, data analytics, workforce skillsets and training/education, and enterprise-wide monitoring program for all application consolidations and data migration efforts has not been formalized and fully implemented.

(c) Lack of sufficient and/or sufficiently trained resources

The ability to develop, implement and execute effective internal control over financial reporting is dependent on the entity hiring, training and retaining sufficient qualified resources in key roles to understand and direct the control activities related to financial reporting across the organization. Further, in an organization of this size and complexity, succession and contingency plans for key roles help the entity continue achieving its objectives. Consequentially, there are severe impacts to the DAF GF's current audit roadmap and completion dates for corrective actions when there is a lack of sufficient and/or sufficiently trained resources to address identified internal control deficiencies. In addition, limitations in IT systems delay the remediation of internal control deficiencies because of manual workarounds, further stressing the entity's resource capacity.

We identified the following conditions that indicate a need for enhanced focus on the Green Book requirement to demonstrate a commitment to recruiting, developing, and retaining competent individuals:

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- There are not sufficient succession or contingency plans to mitigate the impact of retirements or other unexpected departures. For example, SAF/FMF has a number of unfilled roles or individuals transitioning into new areas.
- Lack of sufficiently defined competencies, roles, responsibilities and expectations for key FM or Financial Improvement and Audit Remediation (FIAR) roles.

As a result, the lack of sufficient attention to these resource constraints will hinder the entity's ability to remediate existing and future material weaknesses as well as limit the ability to develop and sustain future financial management capabilities.

(d) Additional emphasis needed to meet external financial reporting objectives

While the DAF GF has made progress in improving its financial reporting, several critical areas are not yet resolved. The DAF GF's financial reporting process lacks sufficient processes and internal controls to ensure that complete and accurate financial statements, including related note disclosures, are prepared on a timely basis.

Lack of assessment, monitoring and effective implementation of recent accounting guidance

As the DAF GF works through its existing material weaknesses, performing a timely and complete analysis of relevant accounting guidance is a critical step in the development of appropriate corrective actions responsive to risks of material misstatement to the financial statements. The DAF GF has not fully established a process to effectively assess, monitor and implement recent accounting guidance issued by the Federal Accounting Standards Advisory Board (FASAB) or other accounting guidance issued by the Office of the Under Secretary of Defense (Comptroller) (OUSD(C)) (e.g., DoD Financial Management Regulation (FMR) updates) on a timely basis. Additionally, the entity has not completed the process of evaluating the effects that will result from adopting the pronouncements and other guidance issued by the FASAB which are already effective. This includes, but this is not limited to, SFFAS 47, *Reporting Entity,* and SFFAS 49, *Public-Private Partnerships.* The effect on the financial statements amounts involved is not currently determinable by the DAF GF and could be material. Additionally, DAF GF has not yet fully evaluated the impact of the newly established USSF on its internal controls or financial statement reporting and disclosure requirements. USSF activity is currently included in the FY21 consolidated DAF GF financial statements and disclosures.

Enhanced financial statement review procedures are needed

While significant progress has been made, the DAF GF needs to continue to enhance its process for the preparation and review of its Agency Financial Report (AFR). Specifically, we identified instances of the following:

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- Supporting documentation that did not adequately support amounts included in the disclosures or could not be provided in a timely manner.
- Lack of complete and accurate disclosures.
- Inability to fully explain major changes in balances or activity.

The DAF GF should continue to work across the organization to ensure that the appropriate input is being provided to decrease the probability of error and increase the usefulness of the AFR as a mechanism to communicate to the public the successes, plans and annual results of the DAF GF.

In addition, in accordance with Office of Management and Budget (OMB) Circular A-136, *Financial Reporting Requirements*, and Statement of Federal Financial Accounting Concepts (SFFAC) 2, *Entity and Display,* the Statements of Net Cost should present gross and net cost information for major organization and programs, as well as data related to its outputs and outcomes. The DAF GF currently accumulates amounts reported in its Statement of Net Cost by major appropriation groups funded by Congress and not by major organization and programs as required. As further discussed in Note 1C., the DAF GF also has not presented comparative financial statements as required by Circular A-136.

Recommendations:

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

- Enhanced integration and oversight of risks by enterprise-wide leadership is needed:
    - Enhance the CAP guidance and process to ensure that FM and the functional communities have an integrated action plan that not only identifies the requirements for FM and the risk of material misstatements but is also clear as to assessing and coordinating those steps provided and executed by the other communities.
    - Continue to execute and refine, as necessary, the maturity model related to the detailed framework for risk identification and communication from all levels within the organization (i.e., survey or questionnaire) with a focus on all critical aspects of internal control over financial reporting (e.g., business processes, ELCs, critical IT systems, impacts of resource constraints, etc.). Continue to develop mechanisms, including the Integrated Master Schedule, to enforce accountability and collaboration across the entity (e.g., SAF/FMF, functional communities, IT organization) to understand and address the accounting and internal control implications and challenges.
    - Enhance formal lines of communication about ongoing operational activities that prioritize the objectives of developing an internal control environment and business processes with the financial community for assessment beyond audit response and CAP efforts.
- Enterprise IT strategy has not been formalized and fully implemented: Finalize the DAF Enterprise IT strategic plan to consistently implement overarching IT governance over IT

strategic direction, financial and financial feeder system modernization, and enterprise-wide monitoring program for all application consolidations and data migration efforts. Consider including the following elements:

- Plan to continually retire/decommission legacy applications and reduce the number of duplicated system functions to simplify the BMA Portfolio.
- Develop and consistently implement an enterprise-wide, comprehensive plan to improve financial and financial feeder system data analytics
- Formalize processes that allow for consistent integration and collaboration between functional organizations throughout the system consolidation lifecycle and provide a holistic understanding of risks across the enterprise. Elements that should be included in the Enterprise IT strategy and governance include:
  - Implementation of planning, programming, budgeting and execution of resources in alignment with DOD, DAF and BMA strategies and priorities.
  - Incorporation of compliance requirements with applicable laws, regulations and policies into system life-cycle management.
  - Focused financial system modernization on mission effectiveness, cybersecurity, cost efficiency and system interoperability, and enterprise shared services.
  - Prioritize cross-functional requirements into the design and system modernization implementation efforts as well as interoperability and interfaces between financially relevant systems.
- DAF GF should continue to prioritize remediation of IT findings based on severity of the finding and the impact on downgrading applicable financial business processes while continuing to integrate DAF GF's IT modernization plan and timelines as part of this prioritization effort.
- Implement automated control processes to assist in sustaining effective controls over the long-term (i.e., Identity, Credential, and Access Management, Security Information and Event Management and Vulnerability Management). There should be a holistic strategy to implementing these solutions rather than operating/implementing them in silos.
- Best practices learned from successful remediation of CAPs should be shared and implemented for relevant CAPs for other applications especially during system modernization efforts. This will prevent repetition of similar findings across the enterprise.

- Lack of sufficient and/or sufficiently trained resources:
  - Assess what further actions may be necessary to continue to recruit, develop and grow financial leaders with relevant financial management capabilities.
  - Continue to develop and enhance core and specialized training to further enhance competencies in internal control, IT, and accounting topics, including the development of hands-on workshops to address relevant hot topics (e.g., management review controls, information produced by the entity).

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- Assess the impact on the resources needed to support manual workarounds against the additional investment that may be necessary to address any IT system limitations causing such manual activities. Align these considerations to the organization's IT strategic vision and priorities impacting internal control over financial reporting.
- Clarify the competencies, roles, responsibilities and expectations of key roles and responsibilities in relation to internal control over financial reporting.
- Develop appropriate succession and contingency plans for key roles to address the need to replace personnel over the long term, as well as respond to any sudden personnel changes.

- Additional emphasis needed to meet external financial reporting objectives
  - Dedicate resources to track and coordinate the assessment of the impact and implementation of recent guidance and technical updates commensurate with the size and complexity of the DAF GF's operations.
    - Develop white papers to document the DAF GF's consideration of the guidance and plan for implementation.
    - Continue to review OMB Circular A-136 requirements to ensure updated guidance is evaluated and incorporated in a timely manner.
  - Continue to monitor the ongoing transition and related operational activity pertaining to the USSF to appropriately evaluate and implement the financial reporting and related disclosure requirements.
  - Continue to develop reviews by business process areas to ensure disclosures are complete, accurate and compliant with financial reporting guidance.
  - Improve the presentation of the Statements of Net Cost by determining major organizations/programs and implement processes to capture costs.

II. INTEGRATION AND RECONCILIATION OF FINANCIAL SYSTEMS

A modernized IT system environment is critical to an entity's ability to fulfill its established missions. Well-designed information systems promote stronger financial management, enhance control over the entity's resources and provides timely access to better data for decision-making purposes.

Although the DAF GF is progressing towards modernized financial systems, the entity's system environment continues to include legacy mainframe and standalone systems. This includes the DAF GF's legacy general ledger system, General Accounting and Finance System-Reengineered (GAFS-R). While the DAF GF is prioritizing investment on more modernized IT systems, such as DEAMS, the DAF GF needs to fully evaluate and mitigate the impact of known deficiencies as long as significant financial statement activity flows through its legacy environment.

As the DAF GF continues to transition to modern systems, it is critical that the entity does not just replicate its existing environment and internal control processes just with newer, yet still non-integrated, systems. Instead, the entity needs to continue to define its requirements (mission-based,

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IT and financial management) and redesign processes as appropriate to take advantage of the benefits of system integration. Otherwise, the DAF GF will continue to experience many of the similar challenges discussed within this report and further inhibit the entity's ability to produce timely and auditable financial statements.

The following deficiencies aggregated into this material weakness:

(a) Inability to validate the completeness of transactions underlying the financial statements

The DAF's financial system environment, which includes legacy systems and DEAMS, relies on both manual re-entry of data into multiple systems and complex system interfaces that are not fully reconciled, which limits the ability to fully validate beginning and ending balances, and financial activity. The lack of integration prevents information/data from processing without significant manual intervention. Additionally, many of the DAF GF's corrective actions to date have resulted in workarounds (e.g., additional reconciliations, journal vouchers) to address identified weaknesses.

Lack of sufficient or accurate data elements to enable effective data transfer

The DAF GF has not fully designed and implemented sufficient data management controls for the timely resolution of errors during data transfer between feeder systems and GAFS-R. The DAF GF's data does not always contain sufficient or accurate data elements to enable effective data transfer. If an incoming transaction does not contain the necessary data elements, or there are other issues with the transaction, the transaction may not post in the general ledger. These transactions are suspended pending further review and analysis. While the DAF GF, in working with DFAS, has created a variety of reconciliations to research and address these errors, these errors are not always resolved in a timely manner. No provision is made to reflect the unreconciled activity in period-end financial statements.

Similar to the legacy environment, the DAF GF has not fully designed and implemented sufficient data management controls for the timely resolution of errors during data transfer between feeder systems and DEAMS. There are unresolved transactions on error reports that are not resolved at period-end and the DAF-GF does not record a period-end adjustment to reflect the value of unresolved transactions that should have been posted to DEAMS.

Inability to accurately categorize or identify all relevant transactions

The DAF GF, in conjunction with DFAS, is in the process of creating a qualitative drilldown (QDD), a custom report that will be utilized to provide additional detail on transactions within GAFS-R and DEAMS. The QDD for each of general ledgers is intended to extract and categorize data into the applicable category and/or business process; however, the QDD is not yet complete.

As a result, the DAF GF lacks controls to consistently and accurately categorize or identify all relevant transactions within each of its financial reporting systems.

- **Inability to identify transactions by business process**—While the DAF GF has developed business rules to categorize certain transactions, these rules are neither complete nor accurate for all processes and there is a large population of uncategorized transactions in both GAFS-R and DEAMS. For example, Mechanization of Contract Administration Services (MOCAS) transactions do not directly interface to DEAMS and must be manually entered. A DFAS technician must indicate it is a MOCAS transaction in the description field; however, there is a risk that a complete MOCAS population cannot be identified within DEAMS if this description is not entered.
- **Inability to consistently identify internal reclassifications**—There is not a consistent ability to identify internal reclassifications that do not have an impact to the financial statements (i.e., data element changes).
- **Lack of unique identifiers for certain transactions**—There are instances in the DAF GF's data in GAFS-R and DEAMS that lack uniquely identifying data elements, inhibiting the ability to determine if the transaction is a duplicate, an internal reclassification or a valid transaction.
- **Lack of data elements necessary to reconcile feeder systems to the general ledger**— As Military Standard Requisitioning and Issue Procedures (MILSTRIP) General Supply transactions post at a summary level in the general ledger, a reconciliation is needed between detailed budgetary feeder system transactions and the summary file. A detail to summary reconciliation is still in development. As a result, the DAF GF is unable to provide evidence to support the recorded MILSTRIP general supply obligations and disbursements in the general ledger.

Inability to support JVs or other manual workarounds

Journal vouchers (JVs)—Due to the lack of a fully integrated system, the DAF GF records a significant volume of JVs to account for ongoing activity as well as address errors in processing. Some of these JVs are not adequately supported (e.g., trading partner adjustments) or mapped to the Treasury Financial Manual (TFM). Additionally, the use of manual JVs or on-the-top adjustments that are booked at a summary level can inhibit the auditability of the amounts being recorded and further management analysis. Additionally, the DAF GF lacks sufficient oversight of non-recurring DEAMS JVs that are prepared by DFAS-Limestone (DFAS-LI) personnel.

Miscellaneous obligation and reimbursement documents (MORDs)—MORDs are intended to be used to temporarily record known obligations or reimbursements when the required documents to support the obligation/reimbursable transactions are not immediately available, as well as other limited purposes. Although there is significant usage of MORDs throughout the organization for varied purposes, the DAF GF is unable to provide a complete and accurate listing of all MORDs by various MORD types. While the entity has evaluated its overall MORD guidance, the DAF GF

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has not sufficiently assessed the related control activities for material MORD activity impacting its business processes/assessable units.

(b) Transactions not recorded in accordance with the USSGL

The DAF GF does not have controls to configure the posting logic in its general ledgers to be compliant with the United States Standard General Ledger (USSGL) or sufficient controls to link business events to the correct posting logic. Not all transactions in the GAFS-R or DEAMS posting logic are appropriately mapped to validate their compliance with the TFM. As a result, transactions are not always recorded appropriately. For example, the DAF GF records progress payments as advances rather than incurred expenses, construction in progress (CIP) or inventory in development, as appropriate.

(c) Insufficient processes over DEAMS system design and updates

As discussed above, DEAMS is currently one of the DAF GF's two general ledgers along with GAFS-R. The DAF GF is scheduled to "sunset" GAFS-R in future fiscal periods. As a result, the entity needs to continue to define its requirements for DEAMS (mission-based, IT and financial management) and consider whether redesigned processes may be necessary.

In addition to those DEAMS items identified in (a) and (b) above, we identified the following conditions related to the design and use of DEAMS:

Lack of appropriate system configuration and related controls

We noted several examples that indicate that the current system design deficiencies result in the need for additional manual workarounds or reconciliations to prevent, or detect and correct, errors. For example,

- DEAMS is not able to appropriately post progress payments due to system limitations. In order to post progress payments for specific contracts, it must be entered as a quantity of 'many' with a unit price of '$1'. We have identified errors with the manual input of price and quantity within DEAMS resulting in abnormally large transactions being posted and then requiring subsequent correction.
- The system allows for the DEAMS trial balance and related activity to be out of balance. For example, the out-of-balance condition is caused by postings to memo/clearing accounts (e.g., General Ledger Account Code (GLAC) 9999) and Accounting and Disbursement Symbol Numbers (ADSNs) of "N/A". This can cause a transaction to appear one sided because a posting can be made to a financially reportable account as well as a memo/clearing account. This then results in "one-sided" entries to correct this out-of-balance condition.

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Lack of sufficient system integration

While DEAMS has the capability to be an enterprise resource planning system, we identified several systems and related business processes that are not currently integrated or directly interfaced with DEAMS. This results in the need for additional manual workarounds or reconciliations to prevent, or detect and correct, errors. For example,

- MOCAS transactions do not directly interface to DEAMS and must be manually entered. A DFAS technician must indicate it is a MOCAS transaction in the description field.
- Automated Funds Management (AFM) does not interface into DEAMS. Since all bases report activity through DEAMS, a reconciliation at the DDRS-B level is necessary to reconcile these amounts.

Insufficient processes to address DEAMS software upgrade issues

DEAMS underwent an Oracle upgrade to version R12 in November 2019. The upgrade was necessary for vendor support, cybersecurity, and sustainability purposes. The DAF GF had insufficient processes and controls to identify, troubleshoot, and remediate significant errors or system complications in a timely manner. While the DAF GF has remedied many of the challenges associated with the R12 upgrade, there are several known errors or other issues that remain outstanding.

Recommendations:

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

- Inability to validate the completeness of transactions underlying the financial statements:
    - Continue to implement and develop feeder system reconciliation processes for the identified systems to support completeness of the financial statements, including validation of beginning and ending balances, as well as financial activity.
    - Ensure that variances identified in any universe of transactions reconciliation are investigated and remediated on a timely basis. Evaluate whether changes can be made to the existing business processes to prevent future variances.
    - Perform an analysis of the period-end reconciling items that documents the appropriate adjustments for any unrecorded transactions. If an adjustment cannot be determined, or if DAF GF management decides to not make an adjustment, the DAF GF should document the impact of not recording an adjustment, including an assessment of the impact of these unrecorded transactions on the financial statements.
    - Evaluate current policies and procedures against current practice to identify root causes. Identify inconsistencies in current procedures, such as denoting a common data string to identify transactions at all levels.

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  - Continue efforts to develop and further refine the QDD at a sufficiently precise level to accurately classify, categorize, and identify transactions within DEAMS and GAFS-R, including MORDs and JVs. These efforts should incorporate involvement and input from key stakeholders and business process leads.
  - Continue to address other applicable findings related to GAFS-R system environment and related transaction quality based on the materiality of transactions still processed by the system.
  - Identify the risks that are related to the financial statement line items, relevant assertions, and general ledger accounts by MORDs. Based on the risks, DAF GF should perform the following:
    - Document the process flow of transactions that generate those risks and the process owners responsible for assessing the risks.
    - Identify and document the corresponding key controls that address those risks to adequately account and report the financial statement line item.
    - Where applicable, based on prior-year findings and exceptions, assess and update the process flow and controls in place to adequately address the finding.
  - Consider performing an entity-wide analysis over DEAMS and GAFS-R JVs to evaluate if additional centralized oversight is needed to monitor whether JVs are being used for the intended purposes as stated within the entity's policy and are appropriately reviewed and approved.
  - Evaluate formalizing a process to ensure sufficient monitoring and oversight related to transactions primarily handled by DFAS.
  - Consider implementing system changes to DEAMS to post transactions through the normal course of business whenever possible. As part of this process, where applicable, DAF GF should identify areas where systematic JVs can be utilized in instances where manual JVs are recorded.
  - Determine, based on materiality and GAFS-R decommissioning timelines, whether additional investment in GAFS-R may be necessary to remediate these conditions.
- Transactions not recorded in accordance with the USSGL:
  - Perform an analysis to determine the impact on financial statements of noncompliant posting or other system logic within GAFS-R.
  - Determine, based on materiality and GAFS-R decommissioning timelines, whether additional investment in GAFS-R may be necessary to remediate these conditions.
  - Improve monitoring over GAFS-R and DEAMS, including establishment of posting logic data validation procedures, to identify and correct accounting that does not comply with the TFM.
  - Identify accounting policies or practices that do not comply with the TFM and take corrective actions.
- Insufficient processes over DEAMS system design and updates:
  - In collaboration with all relevant parties, analyze the system limitations described above and other known instances:

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- Determine which conditions may already be part of ongoing remediation efforts.
- For those not currently part of ongoing corrective actions, determine whether additional system changes or revised processes may be necessary to facilitate more automated and integrated solutions. Consider the long-term requirements for resources and funding that is necessary to effectively implement any additional changes.

- As the DAF GF moves towards decommissioning GAFS-R and other legacy systems, and related business processes transition to DEAMS, continue to consider the impact on the design and functionality of DEAMS.
- Assess the increased usage of additional system edit checks and/or controls to prevent processing errors rather than relying primarily on detective controls.
- Continue efforts to perform the necessary research to identify and resolve all known issues resulting from the R12 upgrade and if applicable, make the appropriate adjustments to support and correct the balances presented within DEAMS.
- Complete an evaluation of the potential entity-wide impact of delays and issues resulting from the R12 upgrade. Develop a process to incorporate these considerations in future system upgrades.

III. REAL PROPERTY

Real Property (RP) consists of land, buildings, structures and linear structures. RP asset information and activity (e.g., acquisitions, transfers and disposals) are recorded within the Accountable Property System of Record (APSR) as utilized by the installation Real Property Office (RPO) as well as other applicable organizations within the functional community. Currently, the DAF GF is in the process of transitioning all RP data and related tracking from their current system of record referred to as the Automated Civil Engineering System-Real Property (ACES-RP) to NexGen-IT. Therefore, some installations operate on ACES-RP while others have completed the migration to NexGen-IT.

The following deficiencies aggregated into this material weakness:

(a) Lack of sufficient documentation of accounting policies, procedures and controls

The complete end-to-end processes, procedures and key controls for portions of the real property process are not fully documented. The DAF GF's process cycle memorandum (PCM) lacks policies and procedures to sufficiently identify the financial reporting risks and corresponding controls.

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(b) Insufficient controls over financial reporting of real property

Sufficient controls have not been designed and/or implemented to reconcile Real Property balances and activity in its APSRs to the financial statements. The DAF GF also has not fully assessed the current impact of certain journal vouchers recorded in prior years. In January 2019, the DAF GF initiated baseline valuation adjustments for Real Property assets utilizing Plant Replacement Values (PRV) without sufficient involvement from SAF/FMFA. PRV is an acceptable deemed cost methodology under Statement of Federal Financial Accounting Standards (SFFAS) 50, *Establishing Opening Balances for General Property, Plant and Equipment*. These adjustments led to significant fluctuations in the value being reported as Real Property at that time. The DAF GF subsequently determined that additional validation, reconciliation and remediation efforts were necessary to validate the data inputs used to calculate PRV (e.g., category code, unit of measure). As a result, the DAF GF reversed all then current-year activity recorded to GAFS-R by ACES-RP and DEAMS by NexGen-IT. The DAF GF used additional top-side journal vouchers to record recent activity in FY 2019 and FY 2020, including transfers-in from other organizations, construction in progress, and estimated depreciation. The DAF GF determined that no further entries with respect to this matter were needed in FY 2021; however, the entity has not completed its reconciliation procedures.

Additionally, the DAF GF has not fully assessed the posting logic for various financial and non-financial data elements utilized by ACES-RP and NexGen-IT in the generation of financial amounts in GAFS-R and DEAMS, respectively.

(c) Insufficient review and monitoring of APSR data

Assets have various characteristics recorded in the APSRs based upon the nature and category of the asset. Although some data elements are non-financial in nature, much of this information has a direct or indirect impact on the DAF GF's financial statements. The DAF GF has not fully implemented sufficient review and monitoring controls over the completeness and accuracy of key data fields contained within its APSRs that impact asset valuation in accordance with SFFAS 50 (e.g., category code, unit of measure), depreciation calculations (e.g., placed in service dates) or the determination of rights and obligations. Air Force Civil Engineer Center /CIT-A is implementing a Data Quality Monitoring program to centralize the monitoring process. This includes the development of tools to automate the review of various Real Property Information Model (RPIM) data elements in accordance with defined requirements. The DAF GF is currently developing a process for identification, communication and timely resolution of any anomalies identified as part of this review; however, this process is not yet complete.

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(d) Further procedures are needed to identify the complete population of real property assets

Buildings and Structures

Enhanced controls are needed to validate that the APSRs contain a complete and accurate listing of all buildings and structures. We identified a lack of sufficient controls to ensure APSRs are updated timely to reflect new assets or remove assets that have been disposed.

The DoD Financial Management Regulation (FMR) 7000.14-R, Volume 4, Chapter 24-Real Property requires the installation host to report Real Property assets on their financial statements. Installation hosts are Military Departments (i.e., the DAF GF, as well as Army and Navy) or the Washington Headquarters Services (WHS) on whose installation a Real Property asset is located. The DAF GF has not fully implemented this policy nor established sufficient controls over the completeness and accuracy of related transfers of Real Property assets. The DAF GF recorded a transfer-in of Real Property assets from DoD agencies based on amounts as reported by the DoD agencies and the Department of the Air Force Working Capital Fund, which have not yet been fully validated by the DAF GF. Additionally, the DAF GF is still in the process of performing reconciliations and recording the applicable transfers with the other Military Departments and WHS, as applicable.

Linear Structures and Land

The DAF GF has not completed its assessment as to whether its APSR contains a complete and accurate population of linear structures. Additionally, under SFFAS 50, entities have an option to exclude land and land rights from the general property, plant and equipment balance and instead disclose specific acreage information. The DAF GF has not completed its acreage reconciliation efforts as controls have not yet been fully finalized, communicated or implemented at the installation level.

(e) Insufficient procedures in place to monitor and report real property CIP

The two primary construction agents (CA) used by the DAF GF to manage military construction (MILCON) of real property assets are U.S. Army Corps of Engineers (USACE) and the Naval Facilities Engineering Systems Command (NAVFAC). During the construction phase of the project, the CAs track and report incurred construction costs to the DAF GF. The DAF GF has not developed sufficient controls to reconcile its data with that provided by the CAs. The DAF GF also has not evaluated the completeness and accuracy of CIP categories other than MILCON.

The lack of sufficient controls over CIP prevents full implementation of SFFAS 6, *Accounting for Property, Plant and Equipment*, (SFFAS 6) which inhibits the DAF GF's ability to make an unreserved assertion that its balances comply with SFFAS 6 prospectively and SFFAS 50 retrospectively.

Recommendations:

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

- Identify the significant financial-related risks that are posed to the financial statement line items, relevant assertions, and general ledger accounts that comprise the Real Property cycle.
    - Document the process flow of transactions that generate those financial risks and the process owners responsible for assessing the risks.
    - Identify and document the corresponding key controls that address those financial risks to accurately account and report the financial statement line item.
- Develop more robust training of all applicable groups within the Real Property community regarding the financial statement impact of changes made within the APSRs.
- Enhance integration between SAF/FMFA and the RP functional community in the assessment of current posting logic gaps.
- Assess if updates to policy or guidance are needed to clarify the respective roles and responsibilities of all applicable civil engineering (CE) parties (i.e., Real Property Office, Engineering Flight, Operations Flight, Base Civil Engineer) and other parties (e.g., USACE) for the timely and accurate identification, communication and subsequent reporting of RP asset acquisitions and dispositions.
- As the accurate computation of PRV is dependent on APSR data, the DAF GF should monitor the completeness and accuracy of Real Property asset data and key inputs within the APSRs.
- Continue to develop a rollforward/reconciliation process and related controls to monitor asset balances and activity period-over-period to:
    - Validate that assets reported in subledger systems agree to the amounts reported in the financial statements,
    - Identify anomalous activity and balances, and
    - Support other financial reporting objectives.
- Develop controls to assess the completeness and accuracy of transfers in and out to comply with the RP financial reporting policy.
- Develop procedures and internal controls at the installation level to effectively establish and subsequently monitor the use of various technology and data sources to aid in the identification and reconciliation of underground linear structure assets.
- Ensure the appropriate tools and models are developed to assist in the accurate measurement of land acreage.
- Reconcile real property construction activity reported by constructions agents to DAF GF expenditure data.
- Evaluate current processes to determine appropriate actions needed for accumulating historical cost in accordance with SFFAS 6.

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IV. MILITARY EQUIPMENT

Military Equipment (ME) assets are a sub-set of General Equipment. Aircraft and satellites represent the vast majority of the DAF GF's ME balance, which also includes aircraft pods, missiles, mine-resistant ambush protected vehicles (MRAPs) and remotely piloted aircraft systems (RPA).

The following deficiencies aggregated into this material weakness:

(a) Insufficient controls over financial reporting of military equipment

Controls have not been fully implemented to reconcile balances for military equipment in its APSRs to the financial statements. The DAF GF has designed a quarterly ME rollforward with the intent to validate that assets reported in the APSRs agree to the financial statements, identify any anomalous activity/balances and support other financial reporting objectives. While the DAF GF has continued make progress in FY21, including resolution of certain variances, the rollforward effort has not yet been completed and additional unresolved variances remain.

(b) Insufficient review and monitoring of APSR data

The DAF GF has continued to develop and refine its data quality dashboards, as well as its rollforward process described above, to review and track changes made to the APSRs monthly. The entity, however, is still in the process of implementing review procedures of the data quality dashboards within the applicable program offices. The DAF GF is also in the process of implementing additional monitoring controls over automated APSR depreciation calculations. During FY21, the DAF GF identified a prior period adjustment related to accumulated depreciation as key data inputs had not been entered timely and/or accurately, resulting in changes to depreciation calculations.

(c) Process and related controls to value military equipment CIP needs improvement

CIP is the amount of direct labor, direct material, and overhead incurred in the construction of property, plant and equipment for which the entity will be accountable for financial reporting purposes. In accordance with SFFAS 6, management is responsible for capitalizing the cost of assets as those costs are incurred and recording them as CIP within the financial statements.

Aircraft and Satellites Acquisition: The DAF GF is continuing to refine its quarterly ME CIP analyses for aircraft and satellites. A separate CIP analysis is prepared for each aircraft variant or satellite type. The models are compiled using a highly manual process to accumulate data from contracts, third-party contractors, and other reports that lack a comprehensive reconciliation with the actual historical costs recorded throughout the DAF GF general ledger accounts. While DAF GF has established a Standard Operating Procedures (SOPs) for the Aircraft and Satellite CIP

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models that outlines the steps to gather data and implement the manual process, the information within does not directly address the nature and extent of review procedures being performed. This includes, but is not limited to, the implementation of direct evidence of review and validation by the appropriate DAF control owner maintained within the file that would allow an outside party to inspect and reperform the review procedures performed.

Aircraft Modifications: The DAF GF leveraged the methodology for the aircraft acquisition models to develop CIP balances for aircraft modifications. As a result, the modification CIP models share similar challenges described above regarding the manual nature of the calculations and outstanding reconciliation efforts. However, the accounting for modification CIP presents incremental complexities due to the involvement of various kits and the inherent lag times between procurement and installation. The DAF GF has not fully evaluated the impact of those factors.

Additionally, the DAF GF lacks sufficient accountability controls for the kits acquired prior to installation. The entity is not currently tracking these assets within any of their APSRs and instead is heavily reliant on individual program offices to maintain a manual listing of these items. While the authorization for the procurement of modification kits is the responsibility of the DAF GF, contractors may be responsible for the management and physical custody of certain kits. The entity does not currently have controls designed and implemented to verify asset accountability and ownership back to DAF GF records.

All other military equipment: While the DAF GF has stated that the entity has not recently acquired or modified missiles and MRAPs and does not have a significant volume of assets in production within these asset classes, the entity lacks a defined methodology to account for these assets in accordance with SFFAS 6 if current production levels were to change.

The lack of sufficient controls and general ledger reconciliations over all CIP-related accounts prevent full implementation of SFFAS 6, which inhibits the DAF GF's ability to make an unreserved assertion that its balances comply with SFFAS 6 prospectively and SFFAS 50 retrospectively.

Additionally, the procedures to record CIP do not consider the impact of the DAF GF's improper accounting of Contract Financing Payments (CFP) (refer to Item IX. below).

Recommendations:

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

- Reconcile balances recorded in the financial statements to the balances in underlying asset listings:

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  - Perform timely reconciliations of general ledger accounts and require variances be investigated and resolved. If applicable, adjust the financial statements because of this research.
  - Enhance the control documentation evidencing the creation and review of the reconciliation.
- Perform a regular review of key data inputs in the APSR to allow for timely identification and correction of errors.
- Complete efforts over the CIP valuation models (acquisition and modifications)
  - Develop applicable management review controls over key risks and assumptions within the CIP model.
  - Enhance the control documentation evidencing the creation and review of the CIP models, including steps for remediating identified anomalies and assessment of key assumptions.
  - Continue efforts to integrate the CIP analysis with the Fixed Asset Rollforward to support the complete balance of assets required for presentation in the financial statements and related disclosures.
  - Consider use of integrated project accounting modules or further implement automated CIP processes and general ledger reconciliations to reduce or eliminate the need for significant manual compilation and linkage of financial data.
- Implement policies and procedures for accurately recording and reporting the nature and timing of the acquisition of modification kits.
- Implement processes and controls to monitor and track modification kits including kits in the custody of third-party contractors.
- Determine whether further action is needed to establish a process to accumulate costs for other ME asset classes beyond aircraft and satellites.

V. OTHER GENERAL EQUIPMENT

The DAF GF's Other General Equipment (GE-Other) includes, but is not limited to, support equipment, vehicles, and special tooling and special test equipment.

The following deficiencies aggregated into this material weakness:

(a) Lack of sufficient documentation of accounting policies, procedures and controls

The complete end-to-end processes, procedures and key controls for portions of the GE-Other process are not accurately and/or fully documented. Additionally, the DAF GF has not fully developed or implemented the accounting and valuation methodologies set forth in SFFAS 6 or SFFAS 50 for GE-Other.

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(b) Inability to identify a complete population of other general equipment

The DAF GF is still in the process of developing its controls for accounting of GE-Other within the Defense Property Accountability System (DPAS) and certain assets still require additional validation prior to being reported. As a result, the DAF GF is currently unable to provide a complete population of other general equipment.

(c) Insufficient controls over financial reporting of other general equipment

Controls have not been implemented to fully reconcile balances being reported for other general equipment to the financial statements and identified variances have not been investigated or resolved. The DAF GF is currently unable to identify, analyze and report values for each sub-asset class comprising other general equipment.

Recommendations:

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

- Continue to develop sufficient controls and policies within the DPAS APSR to consistently recognize, measure, and disclose DAF GF-held equipment in accordance with SFFAS 6 and SFFAS 50.
- Continue efforts to identify the complete population all Other General Equipment assets and corresponding validation efforts over the asset data being entered into DPAS.
- Perform the necessary research to support the separate identification of and applicable adjustments to correct the Other General Equipment balances presented within the financial statements.

VI. OPERATING MATERIALS AND SUPPLIES

The majority of Operating Materials and Supplies (OM&S) is comprised of munitions, spare engines, uninstalled missile motors, and other weapon system spare parts.

The following deficiencies aggregated into this material weakness:

(a) Lack of sufficient documentation and assessment of accounting policies, procedures and controls

The complete end-to-end process flows, procedures and key controls for portions of the OM&S process are not accurately and/or fully documented, including insufficient considerations related to segregation of duties, timely recording of transactions, management review controls, and application interfaces.

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The DAF GF is utilizing the Theater Integrated Combat Munitions System (TICMS) as its munitions APSR during FY21, yet the DAF GF has not fully identified, assessed and responded to the financial statement risks associated with TICMS including the application and interface controls relevant to internal control over financial reporting. For example, there is not a documented assessment of how the Defense Logistics Management Standards (DLMS) for recording logistics transactions are aligned with respective transactions in the TFM. Furthermore, the PCM internal control documentation has not been fully developed to address new TICMS capabilities, including interfaces with newly developed mobile barcode readers.

Additionally, the DAF GF has not evaluated and/or fully documented its assessment of the following in accordance with relevant accounting standards, including:

- Appropriateness of posting logic used to generate reports for financial reporting
- Alignment of munition condition codes to USSGL accounts
- Alignment of logistics supply categories to USSGL accounts

These examples highlight the importance of coordination between the financial management and the functional community regarding the accounting/financial reporting impact of non-financial data maintained by the functional community.

(b) Insufficient controls over financial reporting of OM&S

Controls have not been fully developed and implemented to reconcile balances being reported for OM&S in its APSRs to the financial statements and identified variances have not been fully investigated or resolved on a timely basis. Additionally, the DAF GF does not perform reconciliations between OM&S proprietary and corresponding budgetary transactions.

(c) Lack of sufficient accounting processes to value and report OM&S

The DAF GF has not implemented nor applied the costing and valuation methodologies set forth in SFFAS 3, *Accounting for Inventory and Related Property,* or SFFAS 48, *Opening Balances for Inventory, Operating Materials and Supplies, and Stockpile Materials*. The DAF GF has not demonstrated a systemic capability to integrate OM&S actual historical costs, including purchase, production and transportation costs, and calculate moving average cost (MAC) in accordance with SFFAS 3 across its acquisition, logistical and financial (both general ledger and payment) systems. The DAF GF also lacks policies and procedures for the proper valuation of excess, obsolete, and unserviceable OM&S and repair allowances.

Recommendations:

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

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- Evaluate and redesign controls where roles and responsibilities of the control owner include a combination of authority, custody, and accounting to enforce segregation of duties.
- Establish criteria, as well as policies and procedures on how to implement the proper use of Logistic Supply Condition Codes and Logistic Supply Categories impacting financial reporting.
- Document end-to-end process flows including the documentation of controls, applications and related business processes that are aligned to the flow of financial information from initiation to reporting. This flow should contain an accurate and complete population of events that result in financial transactions and include all relevant applications and interfaces between systems. This effort requires enhanced coordination between financial and logistics stakeholders to identify, assess and respond to the impact of logistics transactions on information used for financial reporting.
- Develop and implement APSR to general ledger reconciliations. When variances are identified, take actions to resolve the variances.
- Perform accounting analyses to identify all transactions that require both budgetary and proprietary accounting.
- Update policies to reflect the entity's accounting position for OM&S accounting methods. Complete the analysis of OM&S accounting treatment for consumption vs. purchase method.
    - Should the consumption method be adopted, establish a formalized plan and timeline for completion of efforts for those OM&S assets to account for inventory and related property under SFFAS 3. This plan should include the systemic components and controls necessary to properly integrate from an internal control over financial reporting perspective and calculate Moving Average Cost that reconcile to the APSR acquisition, logistics, and financial (GL and Payment) system transactions.
- Complete any open efforts for beginning balance valuation in accordance with SFFAS 48 and any related implementation guidance and ensure that purchase, production and transportation costs are accumulated and supporting documentation is available and retained for opening balances.

VII. PROPERTY AND MATERIALS HELD BY OTHERS

The following deficiencies aggregated into this material weakness:

(a) Insufficient oversight of OM&S managed by Army

The DAF GF's OM&S balance includes approximately $31 billion of munitions. Of that balance, the Army performs munitions inventory management services for approximately $11 billion of munitions. The DAF GF utilizes TICMS, which now provides for the DAF GF to receive transactional-level quantity updates from Army's Logistics Modernization Program (LMP) system via a standardized DLMS interface. TICMS has the capability to detect mismatches in inventory quantity for a given stock number at a Department of Defense Activity Address Code (DoDAAC)

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level via a live Inventory Mismatch Report. However, the DAF GF has not fully developed controls around the evaluation and resolution of the variances identified through this reconciliation process between TICMS and LMP. In addition, DAF GF has not developed a comprehensive asset level reconciliation process for all National Stock Number and DoDAACs between TICMS and LMP. Finally, DAF GF has not fully evaluated and documented its assessment of controls performed by Army. Specifically, the DAF GF has not evaluated the complementary user entity controls (CUECs) identified in the current Army Service Organization Controls (SOC) report and mapped relevant CUECs to DAF GF internal controls. The DAF GF also has not considered the impact of deficiencies identified in the Army SOC report on its internal control over financial reporting.

(b) Insufficient oversight of OM&S managed by DLA

Also included in OM&S are supplies managed by DLA. The DAF GF relies on the DLA to report inventory quantities on hand at period end through the Distribution Standard System application. The DAF GF does not have sufficient policies or procedures in place to perform reconciliations for assets managed by DLA and reported by the DAF GF. When there are discrepancies, the DAF GF adjusts their inventory counts to the amounts reported by DLA without reconciliation or explanation of variances.

Finally, DAF has not fully evaluated and documented its assessment of controls performed by DLA. Specifically, the DAF GF has not evaluated the complementary user entity controls (CUECs) identified in the current DLA SOIDC SOC report and mapped relevant CUECs to DAF GF internal controls. The DAF GF also has not considered the impact of deficiencies identified in the DLA SOIDC SOC report on its internal control over financial reporting.

(c) Insufficient oversight of GFP and contractor-acquired property

Government property in the custody of contractors includes government furnished equipment (GFE) and contractor-acquired property. The DAF GF lacks policies and procedures to sufficiently maintain accountability for, and to financially report, property in the custody of contractors. The DAF GF is unable to provide a complete listing of GFE assets and has not developed or implemented controls for the recording and monitoring of GFE.

Additionally, the DAF GF lacks sufficient controls over contactor inventory control points (C-ICP). C-ICP represents the portion of DAF GF-owned OM&S assets that are maintained at commercial entity locations for wholesale distribution. The DAF GF has not developed sufficient policies and internal controls to identify, validate and financially report all C-ICP programs and is unable to determine the materiality of C-ICP programs currently not reporting. In addition, the DAF GF has not developed oversight and monitoring controls to evaluate and assess contractor executed procedures that have a financial impact and are important to internal control over

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financial reporting, such as recording new receipts, updating condition codes and performing periodic physical inventory counts.

(d) Insufficient oversight of the accounting for JSF spare parts and associated costs

The F-35 Lightning II (also known as the Joint Strike Fighter (JSF)) program is a joint, multinational acquisition program intended to develop and field a family of next-generation strike fighter aircraft for the DAF GF, Navy and Marine Corps, as well as other international partners and foreign military sales customers. As one of the program participants, the DAF GF contributes a percentage of the annual procurement costs to the global pool of assets that are owned by the JSF program. The F-35 Program procures "whole" spares under annual Sustainment contracts and retains ownership of these spares until these spares are installed on a participant's F-35. As a result, the DAF GF's interest in the spare part pool equates to a percentage of the pool's future benefit to be received. The DAF GF currently does not report an asset on the balance sheet to represent this future benefit. To address this issue, the DAF GF is working with the JSF Program office to develop a formalized process for accounting and reporting for the future benefit of the spare pool and issuance (expensing) of spares on the DAF GF financial statements.

Recommendations:

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

- Improve oversight of OM&S managed by Army and DLA:
    - Munitions
        - Continue to develop and implement Standard Operating Procedures over DAF's monitoring control of OM&S specifically munitions balances posted by service providers, including end-to-end process flow, controls and CEUCs impacting internal control over financial reporting to validate the completeness and accuracy of balances posted.
        - Design and implement comprehensive asset level reconciliation controls for all NSNs and DoDAACs between Army LMP and TICMS.
        - For the mismatch report reconciliation, document when variances are reviewed and how they were resolved.
    - Supplies
        - Design and implement internal controls related to the review of DLA Managed Inventory balances. These should include controls to assess the completeness and accuracy of information reported.
        - Develop a process to routinely monitor variances between DLA and the DAF GF.

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        - Evaluate and document its assessment of controls performed by DLA and all DLA functions material to DAF's internal control environment. In addition, develop CUECs in response to service organization risks.
- Improve oversight of GFP and other materials held by contractors:
    - Complete actions to obtain a complete population of property held by contractors.
    - Develop sufficient oversight procedures to effectively monitor contractors, including the development of reconciliations between DAF GF and contractor records. Specifically, DAF GF should develop oversight and monitoring controls to evaluate and assess contractor executed procedures that have a financial impact and are important to internal control over financial reporting, such as recording new receipts, updating condition codes and performing periodic physical inventory counts.
- Insufficient oversight of the accounting for JSF spare parts and associated costs:
    - Develop policies and procedures for the accounting and reporting of the DAF GF's investment in the spare parts pool.

VIII. FUND BALANCE WITH TREASURY

Fund Balance with Treasury (FBwT) is an asset account that shows the available budget spending authority of federal agencies. Fund balance reconciliations are key controls for supporting the existence, completeness, and accuracy of the budget authority and outlays reported on the Statements of Budgetary Resources.

The following deficiencies aggregated into this material weakness:

(a) Lack of sufficient documentation of accounting policies, procedures and controls

The complete end-to-end processes, procedures and key controls for portions of the FBwT reconciliation process are not accurately and/or fully documented. For example, we identified specific review controls over inputs into, execution of, and outputs from the Consolidated Cash Accountability System Air Force (CCAS-AF) reconciliation that were not effectively designed because they lacked review objectives, established thresholds for an appropriate level of precision to detect errors, and criteria detailed in process documentation for control owners to follow. Furthermore, undistributed items are not cleared in a timely manner and a significant amount remained unresolved at period-end.

During our review of DAF GF's CCAS-AF reperformance efforts, we identified that the review procedures over the source files were inadequate to validate the completeness and accuracy of the data prior to it being imported into CCAS-AF. Additionally, because the CCAS Program Management Office (PMO) cannot evidence sufficient documentation to support the business logic in the script; we cannot validate that the reconciliation is occurring consistently and correctly each period.

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(b) Lack of sufficient monitoring over DFAS

The DAF GF is responsible for monitoring the effectiveness of internal controls over processes being executed by its third-party service providers. During our review and procedures over the FBwT reconciliation process, we were unable to obtain sufficient audit evidence for the following:

- The DAF GF's process documentation to explain the script, implementation activities to monitor changes to the script, and the evaluation of the design of the CCAS-AF reconciliation.
- The implementation of a control that would effectively allow the DAF GF to request and monitor modifications within the CCAS-AF reconciliation scripts and process.
- Performance of completeness and accuracy checks over the DAF GF data between the source files used in the CCAS-AF reconciliation and the source system.
- The implementation of a control that would allow the DAF GF to monitor the effectiveness of the FBwT reconciliations performed by DFAS prior to the month-end undistributed process.

Recommendations:

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

- Develop an appropriately designed process with the reconciliation tool to produce a complete, accurate reconciliation to the undistributed JV.
- Document sufficiently precise documentation and review procedures over the changes made via hard coded, supplemental, and system change requests (SCRs) made to the script for the FBwT reconciliation.
- Develop adequate ongoing monitoring controls to verify the procedures performed by the service provider are executed consistent with expectations and that any exceptions in the process identified by DAF GF can be appropriately communicated, corrected, and verified as implemented appropriately.
- Evaluate the root cause of undistributed variances and the reasons that non-FBwT transactions are not correctly recorded at each point in the flow of information related to the transaction.

IX. ACCOUNTS PAYABLE, EXPENSES AND ACCOUNTING FOR CONTRACT FINANCING PAYMENTS

The following deficiencies aggregated into this material weakness:

(a) Lack of sufficient documentation of accounting policies, procedures and controls

The DAF GF has not fully demonstrated its integration and consideration of financial reporting risks that extend across multiple Assessable Units, and its development and retention of adequate documentation of its acquisition, logistics, and accounting process, and the complete and accuracy of data from asset procurement through receipt, invoicing, payment, and valuation.

The complete end-to-end processes, procedures and related key controls for financial reporting are not accurately and/or fully documented for accounts payable (AP), expenses, disbursements, obligations, contracting and key subprocesses from the procure to pay (P2P) and plan to stock business processes, including, but not limited to Vendor Pay, MOCAS, and MILSTRIP.

In some instances, the DAF GF also was unable to provide sufficient supporting documentation in a timely manner, which limits our ability to perform certain audit procedures.

(b) Inadequate controls over AP, expenses, cash disbursement and obligation processes

The DAF GF lacks or has inadequate controls, including the design of its key controls, over the following:

- **Recording transactions in the appropriate period**—The DAF GF lacks controls to record expense transactions appropriately and accurately in the period that the transaction occurred, or when the goods/services are received.
- **AP and cash disbursements**—The DAF GF lacks controls to monitor the aging of its accounts payable, including evaluating unpaid invoices and whether remaining balances are valid. Internal controls also have not been fully designed or implemented to confirm the accuracy and completeness over accounts payable and disbursements.
- **MOCAS contracts**—The DAF GF has not developed controls to validate that contract obligations are recorded and/or interfaced between MOCAS and the accounting systems timely.

The lack of or inadequate controls over AP, expenses, cash disbursement and obligations processes have a downstream impact on other processes, such as FBwT, Military Equipment, Payroll and OM&S. This can result in significant fluctuations in costs and asset balances from period to period, which may be created by material inaccuracies in the related accounts.

(c) Insufficient controls over the accounting for joint procurement programs and shared access vendor contracts

The DAF GF has indicated that amounts presented for collections, obligations and outlays related to joint procurement programs and shared access vendor contracts may not be materially correct. While the activity for these programs and contracts may be accounted for in accordance with DoD policies, in some instances, the accounting treatment may not be in accordance with U.S. Generally Accepted Accounting Principles (GAAP). Collections, obligations and outlays of the DAF GF are misstated by any difference between DAF GF expenditures and the DAF GF actual specific allocations of contract cost, which cannot be calculated. Additionally, due to a lack of

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comprehensive financial management policies related to these activities and an insufficient assessment of relevant guidance, the accounting treatment in some instances may not be in accordance with GAAP.

(d) Insufficient controls over contract financing payments

CFP are authorized disbursements to a contractor prior to acceptance of supplies or services by the Government and are reported by the DAF GF as a component of Other Assets. MOCAS is the primary system utilized to administer contracts with CFP. The DAF GF lacks sufficient controls over the financial reporting of CFP, including:

- Insufficient monitoring of the MOCAS CFP balance for accuracy and completeness, including the lack of reconciliation between the MOCAS CFP sub-ledger population and the general ledger.
- Improper reporting of CFP related to capitalized equipment, OM&S and inventory as "Other Assets." The capitalized costs incurred before assets are placed in service should instead be recognized in GPP&E (CIP) or I&RP (OM&S in Development) as appropriate.

Recommendations:

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

- Update and finalize the PCMs that document the end-to-end processes, including related key controls, for AP, expenses and related P2P subprocesses for accurate and timely recording of transactions.
- Develop a plan for the systemic capability and integration necessary across acquisition, logistics, and financial systems to achieve proper asset valuation in accordance with GAAP based on complete and accurate data.
- Update policies and procedures to document year-end processes for identifying, monitoring and recording transactions in the current period.
- Implement monitoring over the accrual processes to ensure that accruals are recorded timely and accurately.
- Update policies and procedures to determine that appropriate supporting documentation is developed, retained and provided in a timely manner to support transactions/balances recorded in the financial statements.
- Develop an aging schedule over the Accounts Payable balance to accurately track unpaid invoices and avoid late payments.
- Coordinate with service providers as appropriate to ensure that obligations (contracts) are recorded in MOCAS, Integrated Accounts Payable System and the accounting systems on a timely basis.

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- Implement the following due to insufficient controls over the accounting for joint procurement programs and shared access vendor contracts:
  - The DAF GF should implement monitoring procedures over recorded disbursements and collections to validate they represent transactions incurred by the DAF GF.
  - The DAF GF should continue to coordinate with the Office of the Undersecretary of Defense (Comptroller), DFAS and others to determine if the current accounting policies are GAAP compliant and what, if any, corrective actions are needed to move to a GAAP compliant policy.
- Implement the following due to insufficient controls over financial reporting of contract financing payments:
  - Develop and implement a beginning-to-end process to properly record contract financing payments, including reporting in the appropriate financial statement lines.
  - Determine whether financial statement balances reflect an accurate and complete population of contract financing payments by:
    - Identifying and validating a complete MOCAS contract financing population.
    - Developing and implementing a reconciliation between the MOCAS contracting financing population and the general ledger.

X. FINANCIAL INFORMATION SYSTEMS

Information system (IS) controls are fundamental to the confidentiality, integrity, and availability of all applications and the financial data they store, process, and transmit. Our assessment of the Information Technology (IT) controls and the computing environment identified deficiencies in the design and operation of information systems controls in the following areas:

- Access Controls (AC): Controls provide reasonable assurance that the access to system resources is consistent with job duties and restricted to authorized individuals.
- Configuration Management (CM): Controls provide reasonable assurance that changes to the information system are authorized and operating as intended.
- Segregation of Duties (SoD): Controls provide reasonable assurance that incompatible duties are effectively segregated.
- Interface Controls (IC): Controls provide reasonable assurance that data from feeder systems is reliable, valid, complete, and properly converted from the feeder systems into the applications they support.
- Security Management (SM): Controls provide reasonable assurance that overarching system risk management policies and procedures are in place.

IT general controls support the continued functioning of application controls, the automated aspects of IT-dependent manual controls and the production of complete and accurate information produced by the entity. Weaknesses in such controls can compromise the integrity of data and increase the risk that such data may be inappropriately used and disclosed in the DAF GF's financial statements, IT environment, and financial applications. The inability to have reliance on

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application controls inhibits the entity's ability to enhance the timeliness, availability and accuracy of information as they are operated by the IT application without manual intervention.

The DAF GF continues to focus on modernization efforts of legacy applications and infrastructure, migration of its accounting and financial systems to the DEAMS processing environment and leveraging of new technologies to standardize business and IT processes. As new financially significant applications are commissioned, it is critical to integrate information systems controls during the implementation to avoid any weaknesses in the DAF GF IT controls environment post implementation.

(a) Access Controls

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 verify 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 following access control weaknesses in aggregate, represent a significant risk to the DAF GF IT environment (relevant to the financial applications):

- Access was not restricted to authorized users and was not assigned in accordance with the principle of least privilege.
- Policies and procedures for account authorization, provisioning, and termination were not documented.
- Procedures were not consistently followed for monitoring unused IDs, locked IDs, terminated users, access provisioning, or access re-certifications.
- Procedures for monitoring and auditing security violations and sensitive user activities, including activities of privileged users, were not documented, not being performed, or not configured appropriately within systems.
- Periodic reviews of sensitive and non-sensitive user access were not performed appropriately.
- Security auditing and monitoring of system activities was not established.
- Audit logging information is not being reviewed by an independent party.
- Passwords were not being changed in accordance with defined frequencies.
- Shared passwords for group accounts are not adequately protected.
- Inactive or unauthorized users are not disabled or removed timely and in accordance with organization defined policies.
- The completeness and accuracy of system and manually generated reports are not being verified by management responsible for reviewing these reports.
- Password complexity and password lockout requirements were not being enforced.

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(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, the DAF GF can verify 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 following change control weaknesses in aggregate as discussed below represent a significant risk to the DAF GF IT environment (relevant to the financial applications):

- Adequate policies and procedures defining configuration management requirements have not been developed.
- Developers were granted inappropriate access to make modifications directly to the production environment and delete system files within application modules.
- Configuration changes are not properly reviewed, approved, tested and documented.
- Configuration changes to production environments are not being monitored to verify their appropriateness.
- The release and migration of application code, configurations, and databases are not monitored for potentially unauthorized changes.
- Direct changes to data in production may be made unmonitored and without any required documentation, testing (if applicable), or approval.
- The completeness and accuracy of system and manually generated reports are not being verified by management responsible for reviewing these reports.
- Access to application source code is not appropriately restricted and monitored.

(c) Segregation of Duties (SoD)

SoD controls provide policies, procedures, and an organizational structure to prevent one or more individuals from controlling key aspects of computer-related operations without detection, and thereby conducting unauthorized actions or gaining unauthorized access to assets or records. Proper implementation of these controls separates duties in both procedure and practice, preventing a single user from having access or responsibility for tasks that should be completed by separate personnel for a strong control environment. Weaknesses in such controls can compromise the review processes and detective control procedures in applications, increasing the risk that user activities, especially for sensitive transactions, are not appropriately monitored and assessed.

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

- Access rights and responsibilities were not appropriately restricted to independent users and assigned in accordance with SoD policies.
- Policies and procedures were not always comprehensive and did not address potential SoD conflicts within the applications.
- Controls were not in place to verify conflicting roles were not assigned to individuals during the access provisioning process, and for known conflicts where SoD concerns were identified, subsequent logging and review of a user's activity was not in place and monitored for appropriateness.
- Conflicting roles that were deemed necessary or required due to a business need were not documented and assessed on a regular basis.
- Users were assigned access to allow them to perform both administrator and end user functions.
- The completeness and accuracy of system- and manually generated reports are not being verified by management responsible for reviewing these reports.

(d) Interface Controls

Interface controls consist of those controls over the timely, accurate, and complete processing of information between applications on an ongoing basis.

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

- Interface agreements are not reviewed on a periodic basis to ensure they are accurate.
- Documented interface agreements do not comprehensively describe edits and validation checks along with error handling processes.
- Logs of interface processing activities are not retained to support subsequent auditing and monitoring. Error reporting of failed interface processing activities has not been implemented in some systems.
- Interface files are not protected from unauthorized access and modification prior to processing
- Validation checks are not consistently implemented across interfaces to prevent the processing of duplicate or inaccurate data.
- Reconciliations are not being performed between source and target systems to verify completeness and accuracy of processing.
- The completeness and accuracy of system- and manually generated reports are not being verified by management responsible for reviewing these reports.
- Periodic reviews of system interface errors do not appropriately document the cause and resolution of the errors.

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(e) Security Management

A security management program is the foundation of a security control structure and a reflection of senior management's commitment to addressing security risks. The security management program should establish a framework and continuous cycle of activity for assessing risk, developing and implementing effective security procedures, and monitoring the effectiveness of these procedures. Without a well-designed program, security controls may be inadequate; responsibilities may be unclear, misunderstood, or improperly implemented; and controls may be inconsistently applied.

The following security management weaknesses in aggregate represent a significant risk to the DAF GF IT environment (relevant to the financial applications):

- There is an inconsistent integration and collaboration between functional organizations throughout the system consolidation lifecycle leading to a lack of a holistic understanding of risks and mitigations across the enterprise.
- Security controls were not regularly assessed for appropriateness, monitored, or tested in order to verify compliance.
- Plans of action and milestones (POA&Ms) were not prioritized and periodically tracked to completion, including testing and monitoring of corrective actions.
- For systems hosted by the Defense Information Systems Agency (DISA), assessments over CUECs and inherited controls identified in the SOC 1 report were not performed.

Recommendations:

The DAF GF 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 controls for users with elevated access privileges
    - 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
    - Segregate roles and where conflicting roles are required or unavoidable, document business rationale and monitor activities of users
    - Restrict user access to a single account and eliminate shared accounts
    - Review access logs and perform follow-up investigation of potential security violations
    - Implement strong password management policies
    - Implement controls verifying the completeness and accuracy of management reports
- Configuration management / change controls:
    - Develop appropriate configuration management policies and procedures
    - Segregate developer access between development and production environments

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  - Document and retain adequate evidence of change requests, testing, and approvals
  - Monitor the application and database(s) for potentially unauthorized changes
  - Implement controls verifying the completeness and accuracy of management reports
  - Restrict access to application source code to only authorized users
- 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
  - Maintain and periodically review appropriate and comprehensive documentation covering all interfaces
  - Document and follow procedures for performing interface error handling and correction
- Security Management:
  - Finalize the DAF Enterprise IT strategic plan to consistently implement overarching IT governance over IT strategic direction, financial and financial feeder system modernization, and enterprise-wide monitoring program for all application consolidations and data migration efforts.
  - Define and implement consistent procedures related to periodic security controls assessments and testing
  - Prioritize and monitor POA&M progress, and test and monitor corrective actions
  - Review applicable SOC reports and associated CUEC implementation

Significant Deficiencies

XI. CONTINGENT LEGAL LIABILITIES

The DAF GF is a party in various administrative proceedings, legal actions and other claims awaiting adjudication that may result in settlements or decisions adverse to the entity. The DAF GF currently has nineteen reporting offices that are organized under seven divisions. Each of these reporting offices are responsible for assessing each claim filed against the DAF GF and providing the necessary information to the Air Force Judge Advocate (AF/JA) Headquarters. The entity made significant strides in FY21 as a GAAP-compliant methodology was implemented for the measurement and reporting of contingent legal liabilities. Further enhancements are needed to the entity's processes and controls to ensure that the population of claims being assessed is complete and accurate.

We identified the need for enhanced processes and controls to:

- Identify, track, record, and support a complete and accurate population of Administrative Tort Claims throughout the claim lifecycle.
- Track and monitor claims filed at the installation level, which generally represent claims for amounts below $25,000.

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- Verify the accuracy of the data elements recorded in the case tools/systems, Reporting Office Unit Report of Contingent Liability (URCL) and Consolidated Quarterly Contingent Legal Liability Report (CLLR) (e.g., date opened/closed, claim amount, case status, likelihood and estimate of loss assessments, etc.).
- Identify, assess, and report the DAF's proportionate share of legal matters involving third parties.
- Track and monitor settlements paid and awaiting payment by the U.S. Treasury Judgment Fund.

Recommendations:

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

- Evaluate the current tools and/or systems and consider the feasibility of centralizing the system used to record and monitor claims to assist in the development of standardized processes across the organization.
- Continue to enhance the entity's assessment over the current end-to-end business process and related key controls. This may include, but is not limited to, the following:
    - o The identification, recording, and tracking of claims/cases filed against the entity throughout its lifecycle (e.g., progression of the claim/case lifecycle that changes the status/information and subsequent evaluation or treatment of the claim/case).
    - o Evaluation of the process performed by the installation level personnel, communication/coordination between AF/JA and the installation to determine responsible party, and subsequent recording and reporting of these claims/cases.
- Continue to enhance the periodic assessment and monitoring over the population of administrative tort claims to ensure a complete, accurate, and consistent recording of the population.
- Continue to improve policies, procedures, and controls for the assessment, measurement, and recognition of cases/claims that involve multiple defendants.
- Continue to develop and execute applicable analyses and reconciliations to ensure consistent and accurate reporting of the Judgment Fund payments and related liabilities.

XII. ENVIRONMENTAL AND DISPOSAL LIABILITIES

(a) Lack of sufficient documentation of accounting policies, procedures, and controls

The complete end-to-end processes, procedures and key controls for portions of the environmental and disposal liabilities (E&DL) process are not accurately and/or fully documented. For example, the DAF GF has not designed sufficient controls for the review of third-party inputs that are used in the determination of a portion of the liability.

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(b) Insufficient procedures in place to record all environmental and disposal liabilities

The DAF GF estimates E&DL related to the restoration and other environmental clean-up efforts of real property assets. Environmental Restoration Liabilities (ERA) represent the future costs associated with identifying, investigating, remediating, and monitoring environmental contaminations within the United States, including program management costs. Other Environmental Liabilities (OEL) is comprised of the four remaining items: Environmental Corrective Action (ECA), Environmental Response at Operational Range (EROR), Environmental Closure Requirements (ECR) and Asbestos. Restoration and OEL estimates are triggered by two different activities: asset-driven or event-driven. ECR and Asbestos fall under asset-driven liabilities which are reported under OEL within the financial statements. Asset-driven liabilities are based on the characteristics of a particular (RP asset and, therefore, are heavily dependent on information from the real property APSRs to determine the completeness of population for which a liability needs to be determined. As discussed in the RP material weakness above, the DAF GF's APSRs may not capture all real property assets. The DAF GF has also not fully developed or implemented estimation methodologies for all asset categories within ECR or for Asbestos. As a result, the associated E&DL may not be complete.

The DAF GF also estimates liabilities related to the disposal of decommissioned military equipment and weapon programs (ME/WP). These liabilities are assessed separately for each category of military equipment assets, including aircraft (fixed wing and rotary), remotely piloted aircraft, missiles, satellites, MRAPs and aircraft pods. The DAF GF has not yet completed their assessment to appropriately estimate the ED&L for all of the major military equipment asset categories.

(c) Insufficient review over the estimate rollforward process through fiscal year-end

Additional assessments are performed for Restoration sites at year-end that have had significant changes in site conditions or required remedies since the original cost estimate was developed at June 30th. Restoration programs only conduct the rollforward process at the individual site-level. Therefore, there is not sufficient consideration of fluctuations or significant changes that may occur at the project, installation, and/or regional levels, that in aggregate, could have a material impact at the program-wide level.

(d) Lack of sufficient processes to compare actual contract costs to recorded estimates

The DAF GF often utilizes the Remedial Action Cost Engineering and Requirements (RACER) software to forecast costs for contaminated sites including Base Realignment and Closure and Restoration that require investigation and/or clean-up. RACER is a third-party software operated and maintained by AECOM Technical Services, Inc. (AECOM) through a contract with USACE. AECOM is tasked with maintaining and updating the multiple different databases that RACER

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stores including, but not limited to, technology/assembly costs, per diem rates, area cost factors, and inflation rates.

The DAF GF has not completed the development and implementation of a process to compare and assess actual costs to recorded estimates for reasonableness for Restoration and OEL. While the DAF GF demonstrated progress by developing plans for a retrospective review for Restoration, further analysis and evaluation of key factors are necessary given the complexity and unique nature of the applicable populations. These factors include, but are not limited to, the various types of sites and related technologies, the variance threshold, and the applicable sample sizes and precision used to evaluate the actual to estimates review.

The RACER Verification, Validation, and Accreditation (VV&A) process involves the review and input of the various Department of Defense (DoD) users in addition to the DAF GF. It is performed on a periodic basis to review key factors impacting the estimation of clean-up activities for various environmental sites. The DAF GF does not have a sufficient process in place to assess the reviews and updates to key inputs performed by other entities within the VV&A process which may impact the DAF GF's clean-up activities. The lack of an effective retrospective review process at the program level limits the DAF GF's ability to develop a comprehensive understanding of the impact of RACER inputs on the accuracy of the entity's recorded estimates.

Recommendations:

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

- Insufficient procedures to record all E&DL—real property assets:
    - Monitor the remedial actions taken to address the completeness and accuracy of real property APSR data.
    - Continue efforts to develop and implement applicable estimation models and methodologies for ECR and Asbestos. Establish the appropriate controls to prevent or detect and correctly identify risks of misstatement across all components of ECR and Asbestos on a timely basis.
- Insufficient procedures to record all E&DL—military equipment and weapon systems:
    - Obtain and assess data to support the development of the related E&DL associated to each major asset category.
    - Evaluate the appropriateness of current E&DL cost estimation models to accurately estimate environmental disposal costs.
- Further develop existing rollforward controls to consider the materiality of changes in estimates for Restoration sites both individually and in the aggregate.
- Continue to further evaluate and analyze contract cost information to effectively develop and implement a complete process to compare actual contract costs to E&DL estimates as computed by RACER or any other cost estimation software.

- Continue to refine the plan and approach to execute the retrospective review process. This will allow the DAF GF to gain more insight into the accuracies of inputs, cost assemblies, and technologies utilized within RACER.
- Develop a specific set of roles and responsibilities for DAF GF representatives involved in the VV&A process to effectively monitor and evidence the specific review procedures tasked to the DAF GF.
- Establish a process requiring DAF GF representatives to perform and evidence review procedures of RACER updates impacting the entity as validated by other agencies/users. Additionally, these processes should include subsequent monitoring and validation of updates made to the RACER system by the responsible parties.

XIII. REIMBURSABLE PROGRAMS

(a) Insufficient controls over financial reporting of reimbursable agreements

The DAF GF must match current-year reimbursable authority received from customer orders to the corresponding obligations incurred for that order. If these amounts are not in balance, funds may need to be returned to the customer or de-obligated prior to the end of the fiscal year. The DAF GF performs balancing at various times during the year and forces reconciling balances on journal vouchers. There is a lack of supporting documentation and unique identifiers for these balancing transactions.

The DAF GF also does not have sufficient procedures in place to ensure that transactions associated with intra-DAF GF reimbursable agreements are appropriately eliminated from the financial statements.

(b) Lack of sufficient reviews over reimbursable activity

We identified several instances that indicate a lack of sufficient review, including:

- Reimbursable codes in the Job Order Cost Accounting System II (JOCAS) are not regularly reviewed against updated DoD guidance. This could lead to the DAF GF either over- or under-charging a customer depending on whether the costs are reimbursable.
- Lack of timely identification and action to resolve stale open reimbursable orders.
- Insufficient documentation supporting the review of receipt and acceptance for goods and services when performed in conjunction with a reimbursable order to ensure customer billings are correct.

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Recommendations:

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

- Insufficient controls over financial reporting of reimbursable agreements:
    - Evaluate the causes for why unfilled customer orders and obligations created to fulfill those orders are not in balance. Depending on the causes identified, policies and procedures may need to be updated to fully address requirements to:
        - Minimize time lags between the disbursement of funding to meet the contractual obligations and the billing/collection from the customer.
        - Return funding to the customer promptly if the DAF GF knows the funding will not be fully utilized.
        - Properly record reimbursable obligations initially as reimbursable budget authority rather than direct budget authority, in order to prevent reclassifying at a later date.
    - Develop policies and procedures to eliminate intra-fund transactions as appropriate.
- Lack of sufficient reviews over reimbursable activity:
    - Establish a process to regularly assess and update reimbursable codes within JOCAS, as well as those assigned to particular customers.
    - Implement and document a review of the reasonableness of charges and the customer bill, including ensuring the goods received or services performed comply with the requirements of the agreement.
    - Enhance the current process to determine stale balances are being monitored and ensure customers are billed and collected from in a timely manner.
    - Develop or update policies to sufficiently support that goods provided or services performed satisfy the criteria of the order and include evidence of receipt and acceptance for the expenses incurred.

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

The Secretary of the 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. 21-04, *Audit Requirements for Federal Financial Statements,* the financial statements of the Department of the Air Force General Fund (DAF GF), which comprise the consolidated balance sheet as of September 30, 2021, and the related consolidated statement of net cost, consolidated statement of changes in net position and combined statement of budgetary resources for the year then ended, and the related notes to the financial statements and have issued our report thereon dated November 8, 2021. Our report disclaims an opinion on such financial statements because the DAF GF was not able to provide sufficient appropriate audit evidence due to matters discussed further in the Basis for Disclaimer of Opinion paragraph.

Compliance and Other Matters

In connection with our engagement to audit the financial statements of the DAF GF, 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 financial statements, as well as 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.

The results of our tests disclosed instances of noncompliance and other matters that are required to be reported under *Government Auditing Standards* and OMB Bulletin No. 21-04, as described below. Additionally, if the scope of our work had been sufficient to enable us to express an opinion on the financial statements, other instances of noncompliance or other matters may have been identified and reported herein.

Our Report on Internal Control over Financial Reporting dated November 8, 2021 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, and our recommendations to the specific issues presented.

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FFMIA

Under FFMIA, we are required to report whether the DAF GF'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 the DAF GF's financial management systems did not substantially comply with federal financial management systems requirements, applicable federal accounting standards or the USSGL.

(a) Federal financial management system requirements

As referenced in the Fiscal Year (FY) 2021 DAF GF Statement of Assurance, the DAF GF identified that financial systems and financial portions of mixed systems do not substantially meet FFMIA or OMB Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control* (Circular A-123) Appendix D.

EY also identified this material weakness as part of the Financial Information Systems material weakness, contained in the Report on Internal Control over Financial Reporting, where we identified noncompliance with federal financial management system requirements for multiple systems. Weaknesses identified include those associated with security management, access controls/user access, configuration management/change controls, segregation of duties and interface controls. These financial system deficiencies prevent the DAF GF from being compliant with federal financial management system requirements and inhibit the DAF GF's ability to prepare complete and accurate financial reports.

(b) Noncompliance with applicable federal accounting standards

As referenced in the FY 2021 DAF GF Statement of Assurance and Note 1 to the financial statements, the DAF GF identified that the financial systems and financial portions of mixed systems do not allow the DAF GF to comply with applicable federal accounting standards, including not being able to collect and record financial information on an accrual accounting basis. EY also identified noncompliance with federal accounting standards during our testing, which was included in our Report on Internal Control over Financial Reporting.

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

As referenced in the FY 2021 DAF GF Statement of Assurance, the DAF GF identified that the design of financial systems and financial portions of mixed systems do not allow the DAF GF to comply with the USSGL at the transaction level. EY also identified noncompliance with USSGL posting logic during our testing, which was included in our Report on Internal Control over Financial Reporting.

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FMFIA

Federal Managers' Financial Integrity Act (FMFIA) of 1982 requires federal entities to establish internal controls, perform ongoing evaluations of the adequacy of the systems of internal control and prepare related reports.

The DAF GF has not fully implemented a framework to evidence that they are in compliance with certain aspects of OMB Circular A-123, which implemented FMFIA. The DAF GF provided the FY 2021 Statement of Assurance; however, there was not sufficient appropriate audit evidence that certain aspects related to entity level controls have been identified and implemented by the DAF GF. Based on the evidence received, EY assessed that the DAF GF has implemented an OMB Circular A-123 testing framework and strategy; however, the DAF GF has not sufficiently evaluated and supported the extent of testing and review performed to meet the reliability of financial reporting requirements of FMFIA.

Management's Response to Findings

DAF GF's response to the findings identified in our engagement and relevant comments from the DAF GF's management responsible for addressing the noncompliance are provided in their accompanying letter dated November 8, 2021. Management'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 compliance and the results of that testing, and not to provide an opinion on the entity's compliance. This report is an integral part of an engagement to perform an audit in accordance with *Government Auditing Standards* in considering the entity's compliance. Accordingly, this communication is not suitable for any other purpose.

Ernst + Young LLP

November 8, 2021

DEPARTMENT OF THE AIR FORCE
WASHINGTON DC

OFFICE OF THE ASSISTANT SECRETARY

SAF/FM
1130 Air Force Pentagon
Washington, DC 20330-1130

8 November 2021

Mr. Timothy Winder
Partner, Ernst & Young LLP
1775 Tysons Blvd
Tysons, VA 22102

Dear Mr. Winder:

The Department of the Air Force reviewed the Independent Auditor Report prepared for the Fiscal Year 2021 General Fund financial statements and both acknowledges and concurs with your issuance of a disclaimer of opinion. While we continue to learn from these constructive audit findings—which are included in your reports of *Internal Control Over Financial Reporting and Compliance and Other Matters*—rest assured that our commitment to improving our financial management, by making the right choices at the right time, has never been stronger.

The Department of the Air Force has undergone four full financial statement audits and our leadership is eager to demonstrate to Congress and the American taxpayers the many benefits that having a clean set of books can have on our mission. As such, we have renewed our approach to accelerate our audit goals of reducing critical material weaknesses and improving fiscal responsibility. Several material weaknesses are being worked for downgrade over the next 18 months, which will be significant milestones on our path to achieving an unmodified audit opinion. The Department of the Air Force continues to follow a "balance sheet approach" by focusing on the most material line items to make progress towards achieving an unmodified audit opinion. We are developing new tools and reconciliations to better analyze transaction-level detail to support material line item balances.

We are pleased to report that COVID-19 had minimal adverse impacts on the audit. Furthermore, we continued to leverage virtual technologies to sustain audit progress and gain more efficiencies that can be used in future audits. COVID-19 has undoubtedly ushered in a "new normal," and, as such, we thank you for your flexibility in navigating this challenging environment with us.

While our Information Technology systems environment remains one of our most significant challenges, we made considerable progress in improving our cybersecurity posture. The Department of the Air Force diligently focused on remediating Information Technology Notices of Findings and Recommendations, with more than half of the findings submitted for closure related to access controls and segregation of duties, which is a primary Secretary of Defense priority. Additionally, the Department of the Air Force is developing an Identity, Credential, and Access Management solution to automate and strengthen our ability to manage digital identities and their respective roles and permissions. This innovative and critical solution will improve our cybersecurity capabilities by serving as a single source of truth by which all users are identified and allowed access.

We remain confident that audit outcomes will provide American taxpayers with a renewed confidence that the Department of the Air Force is using their hard-earned dollars in the most efficient and effective ways possible. We remain steadfast in our belief that the audit will play a major role in helping us reduce waste and save money by improving inventory management, addressing vulnerabilities in cybersecurity, and producing better data for leadership to make decisions that will have a meaningful mission impact.

Sincerely,

Stephen R. Herrera
Acting Assistant Secretary of the Air Force
(Financial Management and Comptroller)

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DEPARTMENT OF THE AIR FORCE WORKING CAPITAL FUND (UNAUDITED)

The DAF WCF principal statements and related notes summarize financial information for the DAF WCF for the FY ended September 30, 2021 and are not presented on a comparative basis. The principal statements and related notes have been prepared to report financial position pursuant to the requirements of the *Chief Financial Officers Act of 1990*, the *Government Management Reform Act of 1994*, and the Office of Management and Budget Circular A-136, *Financial Reporting Requirements*.

The following statements comprise the DAF WCF's principal statements:

Consolidated Balance Sheet

The Consolidated Balance Sheet, as of September 30, 2021, represents those resources owned or managed by the DAF WCF, which are available to provide future economic benefits (assets), amounts owed by the DAF WCF that will require payments from those resources or future resources (liabilities), and residual amounts retained by the DAF WCF, comprising the difference (net position).

Consolidated Statement of Net Cost

The Consolidated Statement of Net Cost presents the net cost of the DAF WCF's operations for the FY ended September 30, 2021. The DAF WCF's net cost of operations includes the gross costs incurred by the DAF WCF less any exchange revenue earned from DAF WCF activities.

Consolidated Statement of Changes in Net Position

The Consolidated Statement of Changes in Net Position presents the change in the DAF WCF's net position resulting from the net cost of DAF WCF's operations, budgetary financing sources other than exchange revenues, and other financing sources for the FY ended September 30, 2021.

Combined Statement of Budgetary Resources

The Combined Statement of Budgetary Resources presents the budgetary resources available to the DAF WCF during FY 2021, the status of these resources as of September 30, 2021, and the net outlays of budgetary resources for the FY ended September 30, 2021.

Department of the Air Force Working Capital Fund
CONSOLIDATED BALANCE SHEET
As of September 30, 2021

(Amounts in Thousands)

		2021 Consolidated (Unaudited)
Assets (Note 2)		
Intragovernmental:		
Fund Balance with Treasury (Note 3)	$	1,403,723
Accounts Receivable, Net (Note 4)		780,685
Total Intragovernmental	$	2,184,408
Other than Intragovernmental:		
Accounts Receivable, Net (Note 4)	$	2,496
Inventory and Related Property, Net (Note 5)		26,784,936
General Property, Plant and Equipment, Net (Note 6)		958,806
Advances and Prepayments (Note 7)		227,534
Other Assets (Note 7)		1,305
Total Other than Intragovernmental	$	27,975,077
Total Assets	$	30,159,485
Liabilities (Note 8)		
Intragovernmental:		
Accounts Payable	$	214,722
Other Liabilities (Note 10)		66,769
Total Intragovernmental Liabilities	$	281,491
Other than Intragovernmental:		
Accounts Payable	$	476,731
Federal Employee and Veteran Benefits Payable (Note 9)		184,643
Other Liabilities (Note 10)		523,743
Total Other than Intragovernmental	$	1,185,117
Total Liabilities	$	1,466,608
Commitments and Contingencies (Note 11)		
Net Position		
Unexpended Appropriations - Funds Other than Dedicated Collections	$	42,105
Total Unexpended Appropriations (Consolidated)	$	42,105
Cumulative Results of Operations - Funds Other than Dedicated Collections	$	28,650,772
Total Cumulative Results of Operations (Consolidated)	$	28,650,772
Total Net Position	$	28,692,877
Total Liabilities and Net Position	$	30,159,485

The accompanying notes are an integral part of these statements.

Department of the Air Force Working Capital Fund
CONSOLIDATED STATEMENT OF NET COST
For Fiscal Year Ended September 30, 2021

(Amounts in Thousands)

	2021 Consolidated (Unaudited)
Program Costs	
Operations, Readiness, & Support	$ 13,712,273
Gross Costs	$ 13,712,273
(Less: Earned Revenue)	(13,848,028)
Net Cost of Operations	$ (135,755)

The accompanying notes are an integral part of these statements.

Department of the Air Force Working Capital Fund
CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION
For Fiscal Year Ended September 30, 2021

(Amounts in Thousands)

		2021 Consolidated (Unaudited)
Unexpended Appropriations		
Beginning Balances	$	23,101
Beginning Balances, as Adjusted		23,101
Appropriations Transferred In/Out		95,712
Appropriations Used		(76,708)
Net Change in Unexpended Appropriations	$	19,004
Total Unexpended Appropriations	$	42,105
Cumulative Results of Operations		
Beginning Balances	$	28,081,893
Beginning Balances, as Adjusted		28,081,893
Appropriations Used		76,708
Non-Exchange Revenue		(10)
Transfers In/Out Without Reimbursement		142,497
Imputed Financing		210,933
Other		2,996
Net Cost of Operations (+/-)	$	(135,755)
Net Change in Cumulative Results of Operations	$	568,879
Cumulative Results of Operations	$	28,650,772
Net Position	$	28,692,877

The accompanying notes are an integral part of these statements.

Department of the Air Force Working Capital Fund
COMBINED STATEMENT OF BUDGETARY RESOURCES
For Fiscal Year Ended September 30, 2021

(Amounts in Thousands)

		2021 Combined (Unaudited)
Budgetary Resources		
Unobligated Balance from Prior Year Budget Authority, Net (discretionary and mandatory)	$	1,255,489
Appropriations (discretionary and mandatory)		95,712
Contract Authority (discretionary and mandatory)		10,107,468
Spending Authority from Offsetting Collections (discretionary and mandatory)		6,941,439
Total Budgetary Resources	$	18,400,108
Status of Budgetary Resources		
New Obligations and Upward Adjustments (total)	$	17,176,356
Unobligated Balance, End of Year:		
Apportioned, Unexpired Accounts		1,223,752
Unexpired Unobligated Balance, End of Year	$	1,223,752
Unobligated Balance, End of Year (total)	$	1,223,752
Total Budgetary Resources	$	18,400,108
Outlays, Net		
Outlays, Net (total) (discretionary and mandatory)	$	(428,451)
Agency Outlays, Net (discretionary and mandatory)	$	(428,451)

The accompanying notes are an integral part of these statements.

NOTES TO THE PRINCIPAL STATEMENTS

Notes to the financial statements communicate information essential for fair presentation of the financial statements that is not displayed on the face of the financial statements.

Click each note for quick access (online version only).

Note 1 Summary of Significant Accounting Policies

A. Reporting Entity

The DAF encompasses the Headquarters Air Force (HAF) and Air Force Field Organizations. The Secretary of the Air Force has overall responsibility for the Air Force under the guidance and direction of the Secretary of Defense. The HAF is led by the Chief of Staff of the Air Force who is responsible for the efficiency of the Air Force and the preparation of its forces for military operations. The Air Force Field Organizations are comprised of the Major Commands, Direct Reporting Units, Field Operating Agencies, and their subordinate elements that carry out the mission of the Air Force.

For financial reporting purposes, the DAF is organized into two reporting entities: the DAF GF and the DAF WCF. Each reporting entity has a separate set of financial statements and related disclosures. This section of the report specifically applies to the DAF WCF. As a result, it does not disclose information related to the DAF GF.

As a reporting entity of the U.S. Government, some of the assets and liabilities reported by the DAF WCF may be eliminated for government-wide reporting because they are offset by assets and liabilities of another U.S. Government entity. The financial statements should be read with the realization that they are for a component of the U.S. Government.

B. Mission of the Reporting Entity

The DAF 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 DAF's mission is comprised of the Air Force mission, which is *to fly, fight, win…airpower anytime, anywhere*. The Air Force carries out its mission by adhering to a strategic framework of core values and is committed to providing Global Vigilance, Global Reach, and Global Power while defending and protecting the U.S.

The stock and industrial revolving fund accounts were created by the *National Security Act* of 1947, as amended in 1949 and codified in 10 U.S. Code (U.S.C.) § 2208. The revolving funds were established to more effectively control the cost of work performed by the DoD. The DoD began operating under the revolving fund concept on July 1, 1951.

The DAF WCF operations consist of two major activity groups: Consolidated Sustainment Activity Group (CSAG) and the Supply Management Activity Group - Retail (SMAG-R). All the DAF WCF CSAG and SMAG-R activities establish rates based on full cost recovery. If an operating loss or gain is incurred, the activity will make the appropriate adjustment in following years' prices to recoup the loss or return the gain to their customers.

The mission of CSAG is supply management of reparable and consumable items, and maintenance activities. Supply Division activities of CSAG are authorized to procure and manage reparable and consumable items for which the DAF WCF is the Inventory Control Point. The Supply Division manages items that are generally related to weapon systems and ground support, and include both depot level and non-depot level reparables.

Maintenance Division activities of CSAG are authorized to perform: 1) overhaul, conversion, reclamation, progressive maintenance, modernization, software development, storage, modification, and repair of aircraft, missiles, engines, accessories, components, and equipment; 2) the manufacture of parts and assemblies required to support the foregoing; and 3) the furnishing of other authorized services or products for the DAF and other DoD and non-DoD agencies. As directed by the Air Force Materiel Command or higher authority, the Maintenance Division may furnish the above-mentioned products or services to agencies of other departments or instrumentalities of the U.S. Government, and to private parties and other agencies, as authorized by law.

The SMAG-R consists of three business divisions: General Support Division (GSD), Medical-Dental Division, and Air Force Academy Division. GSD procures and manages consumable supply items related to maintenance, the Flying Hour Program, and installation functions. Most of these items are used in support of field and depot maintenance of aircraft, ground and airborne communication systems, and other support systems and equipment. The Medical-Dental

Division procures and manages medical supply items and equipment necessary to maintain an effective Air Force health care system for the active military, retirees, and their dependents. The Air Force Academy Division procures and manages a retail inventory of uniforms, academic supplies, and other recurring issue requirements for the Cadet Wing of the United States Air Force Academy. Inventory procurement is only for mandatory items as determined by the Cadet Uniform Board.

C. Basis of Presentation

These non-comparative financial statements have been prepared to report the consolidated financial position, net cost of operations, changes in net position, and combined budgetary resources of the DAF WCF operations, as required by the *Chief Financial Officers Act of 1990*, as amended and expanded by the *Government Management Reform Act of 1994*, and other applicable legislation. The DAF WCF does not show comparative financial statements because financial statement line item values are changing due to remediation efforts and any comparison could be misleading to the reader. To the extent possible, the financial statements have been prepared from the accounting records of the DAF WCF in accordance with the requirements and formats prescribed by Office of Management and Budget (OMB) Circular A-136, *Financial Reporting Requirements*, the DoD Financial Management Regulation (FMR), and in accordance with Federal Generally Accepted Accounting Principles (GAAP) for federal entities as prescribed by the Federal Accounting Standards Advisory Board (FASAB). The accompanying financial statements account for all resources for which the DAF WCF is responsible, unless otherwise noted. Accounting standards allow certain presentations and disclosures to be modified, if needed, to prevent the disclosure of classified information.

The DAF WCF is unable to fully implement all elements of GAAP and OMB A-136 due to the limitations of financial and non-financial management processes and systems that support the financial statements. The DAF WCF derives reported values and information for major asset and liability categories largely from non-financial systems, such as inventory and logistic systems. These systems were designed to support reporting requirements for maintaining accountability over assets and reporting the status of federal appropriations rather than preparing financial statements in accordance with GAAP. The DAF WCF continues to implement process and system improvements to address these limitations.

D. Basis of Accounting

The DAF WCF's financial statements and supporting trial balances are compiled from the underlying financial data and trial balances of the DAF WCF's sub-entities. The underlying data is largely derived from budgetary transactions (e.g., obligations, disbursements, and collections), non-financial feeder systems, and accruals made for major items such as flying hours revenue, payroll expenses, and Accounts Payable. Some of the sub-entity level trial balances may reflect known abnormal balances resulting largely from business and system processes. At the consolidated DAF WCF level, these abnormal balances may not be evident. Disclosures of abnormal balances are made in the applicable footnotes, but only to the extent that the abnormal balances are evident at the consolidated level.

The DAF WCF presents the Balance Sheet, Statement of Net Cost, and Statement of Changes in Net Position on a consolidated basis, which is the summation of the components less the eliminations of intradepartmental activity. The Statement of Budgetary Resources is presented on a combined basis, which is the summation of the components; intradepartmental activity has not been eliminated. The financial transactions are recorded on both a proprietary accrual basis and a budgetary basis of accounting. Under the proprietary accrual basis, revenues are recognized when earned, and expenses are recognized when incurred, without regard to the timing of receipt or payment of cash. Under the budgetary basis, the legal commitment or obligation of funds is recognized in advance of the proprietary accruals and in compliance with legal requirements and controls over the use of federal funds.

The DAF WCF's continued effort toward full compliance with GAAP for the accrual method of accounting is encumbered by various system limitations and the nature of the DAF WCF's activities. The DAF WCF is unable to meet full accrual accounting requirements. This is primarily because many of the DAF WCF's financial and non-financial systems and processes were designed prior to the legislative mandate to produce financial statements in accordance with GAAP. These systems were not designed to collect and record financial information on the full accrual accounting basis but were designed to record information on a budgetary basis.

The DAF WCF is continuing to evaluate the effects that will result from fully adopting recent accounting standards and other authoritative guidance issued by FASAB. These pronouncements listed below are expected to have an impact on the DAF WCF's financial statements; however, the DAF WCF is currently unable to determine the full impact that adopting the pronouncements will have on its financial position, results of its operations, net position, and budgetary activity when such pronouncements are adopted.

1) Statement of Federal Financial Accounting Standards (SFFAS) 47, *Reporting Entity*. Issued on December 23, 2014. Effective Date: Reporting periods beginning after September 30, 2017.

SFFAS 47 requires federal government entities to analyze their relationships with related entities to determine which, if any, entities should be reported with the reporting entity on a consolidated basis, those that should be disclosed as inter-related with the reporting entity, and those that should be disclosed by the reporting entity as related parties. Currently, the DAF WCF's SFFAS 47 analysis is not complete. The consolidation decisions related to that analysis, when complete, could have a material impact on the DAF WCF's financial statements.

2) SFFAS 48, *Opening Balances for Inventory, Operating Materials and Supplies, and Stockpile Materials*. Issued on January 27, 2016. Effective Date: Reporting periods beginning after September 30, 2016.

The DAF WCF plans to utilize deemed cost to value beginning balances for Inventory and Related Property (I&RP), as permitted by SFFAS 48. However, systems required to account for historical cost for I&RP in accordance with SFFAS 3, *Accounting for Inventory and Related Property*, are not yet fully in place. Therefore, the DAF WCF is not making an unreserved assertion with respect to the I&RP line item.

3) SFFAS 49, *Public-Private Partnerships: Disclosure Requirements*. Issued on April 27, 2016. Effective Date: Reporting periods beginning after September 30, 2018.

The DAF WCF has begun to evaluate arrangements and transactions for Public-Private Partnerships criteria to determine the complete population of arrangements and transactions requiring disclosure under SFFAS 49 but has not completed a full analysis of all arrangements as of September 30, 2021.

4) SFFAS 50, *Establishing Opening Balances for General Property, Plant, and Equipment: Amending SFFAS 6, 10, and 23, and Rescinding SFFAS 35*. Issued on August 4, 2016. Effective Date: Reporting periods beginning after September 30, 2016.

The DAF WCF plans to utilize deemed cost to value beginning balances for General Property, Plant, and Equipment (General PP&E), as permitted by SFFAS 50. However, systems required to account for historical cost for General PP&E in accordance with SFFAS 6, *Accounting for Property, Plant, and Equipment* are not yet fully in place. Therefore, the DAF WCF is not making an unreserved assertion with respect to the General PP&E line item.

5) SFFAS 55, *Amending Inter-entity Cost Provisions*. Issued on May 31, 2018. Effective Date: Reporting periods beginning after September 30, 2018.

Pursuant to SFFAS 55, DoD FMR, Volume 4, Chapter 24, *Inter-Entity Costs*, directs all DoD components not to recognize imputed costs and corresponding imputed financing from non-business type activities other than inter-entity costs for personnel benefits and the U.S. Treasury Judgment Fund settlements. This election is permitted under SFFAS 55. However, as a business-type activity, the DAF WCF is required to recognize imputed costs and imputed financing for goods and services received from other federal entities at no cost, or at a cost less than the full cost. The DAF WCF is in the process of adopting this SFFAS.

6) Technical Bulletin 2017-1, *Intragovernmental Exchange Transactions*. Issued on November 1, 2017. Effective date: Upon issuance.

7) Technical Bulletin 2017-2, *Assigning Assets to Component Reporting Entities*. Issued on November 1, 2017. Effective date: Upon issuance.

8) Technical Release 17, *Conforming Amendments to Technical Releases for SFFAS 50, Establishing Opening Balances for General Property, Plant, and Equipment*. Issued on April 10, 2017. Effective Date: Upon issuance.

As this Technical Release serves as implementation guidance for SFFAS 50, the DAF WCF is in the process of adopting this Technical Release as of September 30, 2021.

9) Technical Release 18, Implementation *Guidance for Establishing Opening Balances*. Issued on October 2, 2017. Effective Date: Upon issuance.

As this Technical Release serves as implementation guidance for SFFAS 48 and SFFAS 50, the DAF WCF is in process of adopting this Technical Release as of September 30, 2021.

10) Staff Implementation Guidance 6.1, *Clarification of Paragraphs 40-41 of SFFAS 6, Accounting for Property, Plant, and Equipment*, *as amended*. Issued on July 17, 2018. Effective Date: Upon issuance.

This Staff Implementation Guidance clarifies specific guidance provided in SFFAS 6. The DAF WCF is in the process of adopting this Staff Implementation Guidance as of September 30, 2021.

11) Interpretation 9, *Cleanup Cost Liabilities Involving Multiple Component Reporting Entities: An Interpretation of SFFAS 5 & SFFAS 6*. Issued on August 16, 2019. Effective Date: Reporting periods beginning after September 30, 2019.

The DAF WCF has not recorded all transactions consistent with GAAP because of limitations of certain systems and resource constraints. The DAF WCF continues transitioning to systems that can produce GAAP-compliant financial statements. The following known transactions were not recorded consistent with GAAP and are believed to be materially misstated in the financial statements (not an exhaustive list):

1) Accounting errors recorded in prior years and impacting the current year financial statements have not been recorded and corrected in accordance with GAAP.

2) Transactions that should have been recorded in prior years, were recorded in the current year.

E. Accounting for Intragovernmental and Intergovernmental Activities

The Treasury Financial Manual (TFM), Volume 1, Part 2, Chapter 4700, *Agency Reporting Requirements for the Financial Report of the United States Government*, provides guidance for reporting and reconciling intragovernmental balances. Accounting standards require an entity to eliminate intra-entity activity and balances from consolidated financial statements to prevent overstatement caused by the inclusion of business activity between entity components. Intragovernmental cost and exchange revenue represent transactions made between two reporting entities within the Federal Government. Cost and Earned Revenue with the public represent exchange transactions made between the reporting entity and a non-federal entity. 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. Due to the inability to provide detailed transaction level data to support general ledger account code beginning balances, the DAF WCF is currently unable to reconcile all buyer and seller data with their respective trading partners. The DoD is implementing a replacement system, called Government Invoicing (G-Invoicing), which incorporates the necessary elements to enable the DoD to correctly report, reconcile, and eliminate intragovernmental balances. G-Invoicing will directly impact amounts reported on the DAF WCF's Balance Sheet and Statement of Net Cost, including Accounts Payable, Accounts Receivable, Earned Revenue, and expenses.

Imputed financing represents the cost paid by another federal entity on behalf of the DAF WCF. Once SFFAS 55 is fully implemented, the DAF WCF will recognize the general nature of imputed costs only for business-type activities and other costs specifically required by OMB A-136, including 1) employee pension, post-retirement health, and life insurance benefits; 2) post-employment benefits for terminated and inactive employees, to include unemployment and workers compensation under the *Federal Employees' Compensation Act* (FECA); and 3) losses in litigation proceedings that are paid from the U.S. Treasury Judgment Fund. Unreimbursed costs of goods and services other than those identified above are not included in the DAF WCF's financial statements.

For additional information, refer to Note 12, *Disclosures Related to the Statement of Net Cost*.

F. Non-Entity Assets

Non-Entity Assets are not available for use in the DAF WCF's normal operations. The DAF WCF has stewardship accountability and reporting responsibility for Non-Entity Assets.

For additional information, refer to Note 2, *Non-Entity Assets*.

G. Fund Balance with Treasury

The Fund Balance with Treasury (FBwT) represents the aggregate amount of the DAF WCF available budget spending authority available to pay current liabilities and finance future authorized purchases.

The DAF WCF's monetary resources of collections and disbursements are maintained in U.S. Treasury accounts. The disbursing offices of the Defense Finance and Accounting Service, the Military Departments, the U.S. Army Corps of Engineers, and the Department of State's financial service centers process most of the DAF WCF's cash collections, disbursements, and adjustments worldwide. Each disbursing station reports to the U.S. Treasury on checks issued, electronic fund transfers, interagency transfers, and deposits.

FBwT is an asset of the DAF WCF and a liability of the Treasury General Fund. The amounts represent commitments by the Government to provide resources for particular programs, but they do not represent net assets to the Government as a whole.

When the DAF WCF seeks to use FBwT to liquidate budgetary obligations, the U.S. Treasury will finance the disbursements in the same way it finances all other disbursements, which is to borrow from the public if there is a budget deficit and to use current receipts if there is a budget surplus.

In addition, the DAF WCF reports to the U.S. Treasury by appropriation on interagency transfers, collections received, and disbursements issued. The U.S. Treasury records these transactions to the applicable FBwT account.

For additional information, refer to Note 3, *Fund Balance with Treasury*.

H. Accounts Receivable

Accounts Receivable from other federal and non-federal entities include accounts receivable, claims receivable, and refunds receivable. In accordance with Technical Bulletin 2020-1, *Loss Allowance for Intragovernmental Receivables*, the DAF WCF now records an allowance for Intragovernmental Receivables, in addition to recording an allowance for Other than Intragovernmental Receivables. Allowances for federal and non-federal uncollectible accounts are based upon factors such as aging of accounts receivable, debtor's ability to pay, and payment history. Although the DAF WCF records an allowance for Intragovernmental Receivables, claims for accounts receivable from other federal agencies are still resolved between the agencies in accordance with the *Intragovernmental Business Rules* published in the TFM Volume 1, Part 2, Chapter 4700.

In accordance with paragraphs 44-49 of SFFAS 1, *Accounting for Selected Assets and Liabilities*, the methodology for losses due to uncollectible amounts are based on an individual account analysis and/or group analysis, and is performed using the same methodology for both Intragovernmental Receivables and Other than Intragovernmental Receivables. For individual account analysis, account balances are individually analyzed to determine the loss allowance. For group analysis, receivables are separated into groups of homogeneous accounts with similar risk characteristics. To allow for both requirements, a group analysis is performed in determining the allowance percentages by aging categories applied to delinquent balances per the *Treasury Report on Receivables* or other sources of public receivable information. The allowance percentages by aging categories are based on three years of actual collection experience. In accordance with the DoD FMR Volume 4, Chapter 3, *Receivables*, a secondary analysis may be performed on individual receivable balances greater than $100.0 thousand. Based on the analysis, the DAF WCF can either completely remove the balance (full or partial) from the percentage calculation or adjust the ending balance.

For additional information, refer to [Note 4, *Accounts Receivable, Net*].

I. Inventories and Related Property

The DAF WCF manages only military or government-specific materiel under normal conditions. Materiel is a unique term that relates to military force management, and includes items such as aircraft, missiles, engines, accessories, components, medical, dental, and support equipment. Items commonly used in, and available from, the commercial sector are not managed in the DAF WCF's materiel management activities. Operational cycles are irregular, and the military risks associated with stock-out positions have no commercial parallel. The DAF WCF holds materiel based on military need and support for contingencies.

Inventory Held for Sale includes consumable spares and repair parts, as well as reparable items owned and managed by the DAF WCF. This inventory is retained to support military or national contingencies. The DAF WCF values its resale inventory using the moving average cost (MAC) method.

Inventory Held for Repair is damaged inventory that requires repair to make it suitable for sale. Often, it is more economical to repair these items rather than to procure them. As the DAF WCF often relies on weapon systems and machinery no longer in production, the DAF WCF supports a process that encourages the repair and rebuilding of certain items. This repair cycle is essential to maintaining readiness to defend the nation. Inventory Work In Process balances include: 1) costs related to the production or servicing of items, including direct material, labor, and applied overhead; 2) the value of finished products or completed services that are yet to be placed in service; and 3) munitions in production and depot maintenance work with associated costs incurred in the delivery of maintenance services. The DAF WCF values Inventory Held for Repair using the allowance method.

Operating Materials and Supplies (OM&S) includes consumable parts and supplies used to remanufacture spare parts and repair weapons systems. OM&S Held for Use is valued using MAC. The DAF WCF uses the consumption method of accounting for OM&S.

The DAF WCF recognizes Excess, Obsolete, and Unserviceable Inventory and OM&S at a net realizable value of zero.

The DAF WCF, when applicable, will continue to adopt SFFAS 48 permitting alternative methods in establishing opening balances.

For additional information, refer to [Note 5, *Inventory and Related Property, Net*].

J. General Property, Plant, and Equipment

The DAF WCF capitalizes all General PP&E used in the performance of its mission with a useful life of two or more years and with an acquisition cost that equals or exceeds capitalization thresholds. When applicable, the DAF WCF will continue to use alternative methods in establishing opening balances for General PP&E in accordance with SFFAS 50.

The DAF WCF's capitalization threshold for General PP&E is $250.0 thousand. This capitalization threshold applies to asset acquisitions and modifications/improvements placed into service after September 30, 2013. General PP&E assets acquired prior to October 1, 2013 were capitalized at prior threshold levels ($100.0 thousand for Equipment). The DAF WCF depreciates all General PP&E, on a straight-line basis.

For additional information, refer to [Note 6, *General Property, Plant, and Equipment, Net*].

K. Other Assets

The DAF WCF conducts business with commercial contractors under two primary types of contracts: fixed price and cost reimbursement. The DAF WCF may provide financing payments to contractors to alleviate the potential financial burden from long-term contracts. Contract financing payments are defined in the *Federal Acquisition Regulations, Part*

32, as authorized disbursements to a contractor prior to acceptance of supplies or services by the Government.

Contract financing payment clauses are incorporated in the contract terms and conditions and may include advance payments, performance-based payments, commercial advances and interim payments, progress payments based on cost, and interim payments under certain cost-reimbursement contracts.

The *Defense Federal Acquisition Regulation Supplement* authorizes progress payments based on a percentage or stage of completion. Contract financing payments should not include invoice payments, payments for partial deliveries, lease and rental payments, or progress payments based on a percentage or stage of completion.

For additional information, refer to Note 7, *Other Assets*.

L. Accounts Payable

Accounts Payable includes amounts owed to federal and non-federal entities for goods and services received by the DAF WCF.

M. Liabilities

Liabilities represent the probable future outflow or other sacrifice of resources as a result of past transactions or events; however, no liability can be paid by the DAF WCF without proper budget authority. Liabilities Covered by Budgetary Resources are liabilities for which funding will otherwise be available to pay amounts when due. Liabilities Not Covered by Budgetary Resources, for example, Federal Employee and Veteran Benefits Payable liabilities, represent amounts owed in excess of available funds or other amounts, where there is no certainty that the funds will be available. Liabilities not funded by the current year resources are classified as Liabilities Not Covered by Budgetary Resources.

For additional information, refer to Note 8, *Liabilities Not Covered by Budgetary Resources*.

N. Other Liabilities

Other liabilities may be federal or non-federal. Such liabilities include FECA Reimbursement to the Department of Labor, Custodial Liabilities, Employer Contribution and Payroll Taxes Payable, Accrued Funded Payroll and Benefits, Advances from Others, Accrued Unfunded Annual Leave, Contract Holdbacks, and Other Liabilities with Related Budgetary Obligations.

For additional information, refer to Note 10, *Other Liabilities*.

O. Commitments and Contingencies

The DAF WCF recognizes contingent liabilities on the Balance Sheet for those legal actions where management considers an adverse decision to be probable and the loss amount is reasonably estimable. However, there are cases where amounts have not been accrued or disclosed because the likelihood of an adverse decision is considered remote or the amount of potential loss cannot be estimated.

For additional information, refer to Note 11, *Commitments and Contingencies*.

P. Military and Civilian Retirement Benefits

As an employer entity, the DAF WCF recognizes the annual cost of its civilian employees' pension, other retirement benefit plans, and other post-employment benefit plans, including health and life insurance plans. However, as the administering entity, Office of Personnel Management is responsible for executing the benefit plans including accounting for plan assets, liabilities and associated gains and losses. Accordingly, the DAF WCF does not display gains and losses from changes in long-term assumptions used to measure these liabilities on the Statement of Net Cost.

For additional information, refer to Note 9, *Federal Employee and Veteran Benefits Payable*.

Q. Revenues and Other Financing Sources

The DAF WCF's budgetary resources reflect past congressional action and enable the entity to incur budgetary obligations, but they are not assets to the Government as a whole. Budgetary obligations are legal obligations for goods, services, or amounts to be paid based on statutory provisions. After budgetary obligations are incurred, the U.S. Treasury will make disbursements to liquidate the budgetary obligations and finance those disbursements in the same way it finances all disbursements, using some combination of receipts, other inflows, and borrowing from the public if there is a budget deficit.

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

The primary sources of revenue recorded within the DAF WCF result from the following activities: 1) The sale of repair services such as (a) the repair of aircraft, missiles, engines, accessories, components, and equipment, and (b) the remanufacture of parts and assemblies required to support the foregoing; 2) Inventory issued to the Flying Hour Program. Instead of recognizing revenue based on the sale price of a spare part, revenue is recognized on a rate charged for a flying hour; and 3) The sale of reparable (including both depot level and non-depot level reparables) and consumable items that are generally related to medical supplies, medical equipment, weapon systems, and ground support.

The CSAG Maintenance Division recognizes revenue according to the percentage of completion method. The CSAG Supply and SMAG-R Divisions recognize revenue based on flying hours executed and the sale of inventory items. Full-cost pricing is the DAF WCF's standard policy for services provided as required by OMB Circular A-25, *User Charges*.

In accordance with SFFAS 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*, the DAF WCF recognizes non-exchange revenue when there is a specifically identifiable, legally enforceable claim to the cash or other assets of another party that will not directly receive value in return.

The DAF WCF does not include non-monetary support provided by U.S. allies for common defense and mutual security in amounts reported in the Statement of Net Cost and in Note 16, *Reconciliation of Net Cost to Net Outlays*. The U.S. has cost sharing agreements with countries having a mutual or reciprocal defense agreement, where U.S. troops are stationed, or where the U.S. Fleet is in a port.

R. Recognition of Expenses

The DAF WCF's policy requires the recognition of operating expenses in the period incurred. Estimates are made for major items such as payroll expenses, Accounts Payable and unbilled revenue. Some accounts such as civilian pay, and Accounts Payable are presented on the accrual basis of accounting on the financial statements.

The DoD has issued guidance under which DoD Components may expense OM&S using the purchase method of accounting rather than the consumption method. The DAF WCF uses the consumption method to recognize expense for OM&S. OM&S are expensed when consumed.

S. Use of Estimates

The DAF WCF's management makes assumptions and reasonable estimates in the preparation of financial statements based on current conditions, which may affect the reported amounts.

Actual results could differ materially from the estimated amounts. Significant estimates include such items as percentage of completion revenue recognition for maintenance services, and actuarial liabilities related to workers' compensation.

CSAG Maintenance recognizes revenue using the percentage of completion method. Estimated Total Costs are not evaluated and/or changed during the life of the project. The End Item Sales Price (EISP) is used as the total amount of cost that can be used in the revenue calculation. If actual total costs of the project ever reach the EISP, revenue stops being recorded, however, costs will continue to be recorded until the project is financially closed. Management monitors open projects where total incurred costs exceeded the total amount of recognized revenue.

T. Transactions with Foreign Governments and International Organizations

Each year, the DAF WCF sells defense articles and services to foreign governments and international organizations under the provisions of the *Arms Export Control Act of 1976*. Under the provisions of this Act, the DAF WCF has the authority to sell defense articles and services to foreign countries and international organizations generally at no profit or loss to the Federal Government. Payment in U.S. dollars is required in advance.

U. Tax Exempt Status

As an entity of the Federal Government, the DAF WCF is exempt from all income taxes imposed by any governing body whether it is a federal, state, commonwealth, local, or foreign government.

V. Standardized Balance Sheet and Related Footnotes

The format of the Balance Sheet has changed to reflect more detail for certain line items, as required for all significant reporting entities by OMB A-136. This change does not affect totals for assets, liabilities, or net position and is intended to allow readers of this report to see how the amounts shown on the DAF WCF Balance Sheet are reflected on the Government-wide Balance Sheet, thereby supporting the preparation and audit of the Financial Report of the U.S. Government. The mapping of U.S. Standard General Ledger (USSGL) accounts, in combination with their attributes, to particular Balance Sheet lines and footnotes is directed by the guidance published periodically under TFM, USSGL Bulletins, Section V: Crosswalks to Standard External Reports for FY 2021 Government-wide Treasury Account Symbol Adjusted Trial Balance System Reporting. The footnotes affected by the modified presentation are Note 4, *Accounts Receivable, Net*; Note 7, *Other Assets*; Note 9, *Federal Employee and Veteran Benefits Payable*, and Note 10, *Other Liabilities*.

Note 2 Non-Entity Assets

As of September 30	2021 (Unaudited)
(Amounts in Thousands)	
Other than Intragovernmental	
Accounts Receivable	$ 2
Total Non-Entity Assets	$ 2
Total Entity Assets	$ 30,159,483
Total Assets	$ 30,159,485

Non-Entity Assets are assets for which the DAF WCF maintains stewardship accountability and reporting responsibility, but are not available for the DAF WCF's normal operations.

Other than Intragovernmental Accounts Receivable consists of amounts associated with interest, fines, and penalties due on debt. Generally, the DAF WCF cannot use the proceeds and must remit them to the U.S. Treasury unless permitted by law.

Note 3 Fund Balance with Treasury

As of September 30		2021 (Unaudited)
(Amounts in Thousands)		
Status of Fund Balance with Treasury		
Unobligated Balance		
Available	$	1,223,752
Total Unobligated Balance	$	1,223,752
Obligated Balance Not Yet Disbursed	$	9,986,825
Non-Fund Balance with Treasury Budgetary Accounts		
Unfilled Customer Orders without Advance	$	(4,537,308)
Contract Authority		(4,230,070)
Receivables and Other		(1,039,476)
Total Non-Fund Balance with Treasury Budgetary Accounts	$	(9,806,854)
Total Fund Balance with Treasury	$	1,403,723

The U.S. Treasury records cash receipts and disbursements on the DAF WCF's behalf; funds are available only for the purposes for which the funds were appropriated. The DAF WCF's Fund Balance with Treasury (FBwT) consists of appropriation accounts and revolving funds.

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

The Unobligated Balance is classified as Available or Unavailable and represents the cumulative amount of budgetary authority set aside to cover outstanding future obligations. The Available balance consists primarily of the unexpired, unobligated balance that has been apportioned and is available for new obligations. Certain unobligated balances are restricted for future use and are not apportioned for current use. The DAF WCF has no restrictions on unobligated balances.

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

Non-FBwT Budgetary Accounts include Unfilled Customer Orders without Advance, Contract Authority, and Receivables and Other that reduce budgetary resources. Unfilled Customer Orders without Advance, Contract Authority, and Receivables and Other do not increase the FBwT when initially posted, but do provide budgetary resources. FBwT increases only after the customer payments for services or goods rendered have been collected. Conversely, appropriations received increase FBwT upon receipt of the budget authority.

The FBwT reported in the financial statements has been adjusted to reflect the DAF WCF's balance as reported by the U.S. Treasury. The difference between FBwT in the DAF WCF's general ledger and FBwT reflected in the U.S. Treasury accounts is attributed to transactions that have not been posted to the individual detailed accounts in the DAF WCF's general ledger, as a result of timing differences or the inability to obtain valid accounting information, prior to the issuance of the financial statements. The following adjustments were necessary for the DAF WCF to reconcile their general ledger to the U.S. Treasury: $105.4 million in disbursements, and $(2.2) million in collections; however, the total activity to support the adjustments cannot be supported. When research is completed, these transactions will be recorded in the appropriate individual detailed accounts in the DAF WCF's general ledger.

Note 4 Accounts Receivable, Net

As of September 30	2021 (Unaudited)		
	Gross Amount Due	Allowance For Estimated Uncollectibles	Accounts Receivable, Net
(Amounts in Thousands)			
Intragovernmental Receivables	$ 783,844	$ (3,159)	$ 780,685
Other than Intragovernmental Receivables (From the Public)	2,664	(168)	2,496
Total Accounts Receivable	$ 786,508	$ (3,327)	$ 783,181

Accounts Receivable represents the DAF WCF's claim for payment from federal and non-federal entities.

An allowance recorded to recognize an intragovernmental receivable at net realizable value on the financial statements does not alter the underlying statutory authority to collect the receivable or the legal obligation of the other intragovernmental entity to pay.

For additional information regarding the method utilized to estimate the allowance for uncollectible amounts, refer to Note 1.H., *Summary of Significant Accounting Policies – Accounts Receivable*.

Note 5 Inventory and Related Property, Net

As of September 30	2021 (Unaudited)
(Amounts in Thousands)	
Inventory, Net	$ 26,671,171
Operating Materials & Supplies, Net	113,765
Total Inventory and Related Property, Net	$ 26,784,936

As of September 30	2021 (Unaudited)			
	Inventory, Gross	Revaluation Allowance	Inventory, Net	Valuation Method
(Amounts in Thousands)				
Held for Sale	$ 13,510,224	$ 0	$ 13,510,224	MAC
Held for Repair	19,236,077	(6,090,249)	13,145,828	MAC, LRC
Work-in-Process	15,119	0	15,119	MAC
Excess, Obsolete, and Unserviceable	129,836	(129,836)	0	NRV
Total	$ 32,891,256	$ (6,220,085)	$ 26,671,171	

Legend for Valuation Methods:

LRC = Latest Repair Cost MAC = Moving Average Cost NRV = Net Realizable Value

General Composition of Inventory

Inventory includes weapon system consumable and reparable parts, base supply items, and medical-dental supplies. Inventory is tangible personal property that is held for sale or held for repair for eventual sale, in the process of production for sale, to be consumed in the production of goods for sale, or in the provision of services for a fee.

Restrictions on the Use, Sale or Disposition of Inventory

There are no restrictions on the use, sale, or disposition of inventory except for War Reserve Materiel (WRM).

WRM is mission essential secondary items, principal end items, and munitions sufficient to attain and sustain operational objectives in scenarios authorized in the Secretary of Defense guidance and Joint Staff scenarios for committed forces.

The WRM is only to be available for transfer without reimbursement when its issuance has been approved to satisfy requirements of a mobilization of U.S. Armed Forces. However, if authorized, WRM may be sold.

Decision Criteria for Identifying the Category to which Inventory is Assigned

The DAF WCF assigns inventory items to a category based on asset type and condition.

Held for Sale includes all materiel available for issuance.

Held for Repair represents unserviceable (but repairable) items that are more economical to repair than to procure. Held for Repair items are recorded at Moving Average Cost (MAC), as it relates to gross costs. Inventory, Net is calculated as MAC less the repair allowance for the asset. The repair allowance is determined utilizing the allowance method.

Work in process is the term used to describe products that are being repaired, but are not yet complete, and consists of the costs of direct materials, direct labor, and applied indirect costs pertaining to the item.

Excess, Obsolete, and Unserviceable includes inventory that is no longer required due to changes in technology, laws, customs, or operations, and damaged inventory that is more economical to dispose of than to repair.

Inventory Adjustments

In FY 2021, the DAF WCF recorded an adjustment to decrease Inventory and Related Property, Net and to increase Gross Costs by $79.0 million to properly reflect the value of inventory in-transit.

Operating Materials and Supplies, Net

As of September 30	2021 (Unaudited)		
	OM&S, Gross Value	OM&S, Net	Valuation Method
(Amounts in Thousands)			
Held for Use	$ 113,765	$ 113,765	MAC
Total	$ 113,765	$ 113,765	
Legend for Valuation Methods:			
MAC = Moving Average Cost			

General Composition of Inventory

The DAF WCF assigns all Operating Materials and Supplies to the Held for Use category and includes consumable parts and supplies used to remanufacture spare parts and repair weapons systems.

Restrictions on the Use, Sale or Disposition of OM&S

There are no restrictions on the use, sale, or disposition of OM&S.

Note 6 General Property, Plant, and Equipment, Net

As of September 30	2021 (Unaudited)				
	Depreciation/ Amortization Method	Service Life	Acquisition Value	(Accumulated Depreciation/ Amortization)	Net Book Value
(Amounts in Thousands)					
Major Asset Classes					
Software	S/L	2-5 or 10	$ 1,188,325	$ (1,126,399)	$ 61,926
General Equipment	S/L	Various	3,273,721	(2,575,730)	697,991
Construction-in-Progress	N/A	N/A	198,889	N/A	198,889
Total General PP&E			$ 4,660,935	$ (3,702,129)	$ 958,806

Legend for Valuation Methods

S/L = Straight Line N/A = Not Applicable

As of September 30	2021 (Unaudited)
(Amounts in Thousands)	
General PP&E, Net beginning of year	$ 923,694
Capitalized Acquisitions	168,049
Dispositions and Donations	11,347
Depreciation and Amortization Expense	(144,284)
Total General PP&E, Net end of year	$ 958,806

The DAF WCF does not have any restrictions on the use or convertibility of General Property, Plant, and Equipment (General PP&E), nor does the DAF WCF have a material impairment that requires a disclosure in accordance with Statement of Federal Financial Accounting Standards 44, *Accounting for Impairment of General Property, Plant, and Equipment Remaining in Use*. Refer to *Note 1.J., Summary of Significant Accounting Policies - General Property, Plant, and Equipment,* for the capitalization threshold.

The DAF WCF's accounting system uses transaction type codes provided by Mechanization of Contract Administration Services (MOCAS) to determine how to record transactions. MOCAS was not designed to have separate transaction type codes to identify and account for contract financing payments at the level required to accurately determine the U.S. Standard General Ledger posting to the proper work-in-process type asset account including General PP&E Construction-In-Progress (CIP). Until system modifications are made, contract financing payments, as disclosed in *Note 7, Other Assets*, are overstated and work in process type assets (including General PP&E CIP) are understated.

Note 7 Other Assets

As of September 30		2021 (Unaudited)
(Amounts in Thousands)		
Other than Intragovernmental Other Assets		
Outstanding Contract Financing Payments	$	227,258
Advances and Prepayments		276
Other Assets		1,305
Subtotal	$	228,839
Less: "Outstanding Contract Financing Payments" and "Advance and Prepayments" totaled and presented on the Balance Sheet as "Advances and Prepayments"	$	(227,534)
Total Other Assets	$	1,305

Outstanding Contract Financing Payments (OCFP), a separate classification of Advances and Prepayments, includes $227.3 million as of September 30, 2021 in contract financing payments made in contemplation of the future performance of services, receipt of goods, incurrence of expenditures or receipt of assets.

As discussed in *Note 6, General Property, Plant, and Equipment, Net,* the transaction codes used by the DAF WCF's accounting system were not designed to identify and account for contract financing payments at the level required to accurately determine the U.S. Standard General Ledger posting to the proper work-in-process type asset account. Until system modifications are made, contract financing payments disclosed above are overstated and work-in-process type assets are understated.

Advances and Prepayments are made in contemplation of the future performance of services, receipt of goods, incurrence of expenditures, or receipt of assets, excluding those made as OCFP.

Other than Intragovernmental Other Assets is $1.3 million as of September 30, 2021, and is primarily comprised of the Consolidated Sustainment Activity Group's labor costs that have been recorded in the Time and Attendance logistical system, but have not yet been updated to the appropriate labor account in the accounting system.

Note 8 Liabilities Not Covered by Budgetary Resources

As of September 30		2021 (Unaudited)
(Amounts in Thousands)		
Intragovernmental Liabilities		
Federal Employees' Compensation Act	$	33,729
Total Intragovernmental Liabilities	$	33,729
Other than Intragovernmental Liabilities		
Federal Employee and Veteran Benefits Payable	$	184,643
Total Other than Intragovernmental Liabilities	$	184,643
Total Liabilities Not Covered by Budgetary Resources	$	218,372
Total Liabilities Covered by Budgetary Resources	$	1,248,236
Total Liabilities	$	1,466,608

Liabilities Not Covered by Budgetary Resources require future congressional action, whereas Liabilities Covered by Budgetary Resources reflect prior congressional action. Regardless of when the congressional action occurs or when the liabilities are liquidated, U.S. Treasury will finance the liquidation in the same way that it finances all other disbursements by using some combination of receipts, other inflows, or borrowing from the public (if there is a budget deficit).

The $33.7 million in Intragovernmental Liabilities is comprised of the portion of the total DAF *Federal Employees' Compensation Act* (FECA) liability allocated to the DAF WCF for known claims.

Federal Employee and Veteran Benefits Payable consists of various employee actuarial liabilities not due and payable during the current FY. These liabilities primarily consist of the amount recorded by employer agencies for the actuarial present value of future FECA benefits provided to federal employees or their beneficiaries as a result of work-related deaths, disability, or occupational disease. For additional information and disclosures refer to *Note 9, Federal Employee and Veteran Benefits Payable.*

Note 9 Federal Employee and Veteran Benefits Payable

As of September 30	2021 (Unaudited)		
	Liabilities	(Assets Available to Pay Benefits)	Unfunded Liabilities
(Amounts in Thousands)			
Other Benefits			
Federal Employees' Compensation Act	$ 184,643	$ 0	$ 184,643
Total Other Benefits	$ 184,643	$ 0	$ 184,643
Total Federal Employee and Veteran Benefits Payable	$ 184,643	$ 0	$ 184,643
Other Benefit-Related Payables Included in Intragovernmental Other Liabilities on the Balance Sheet	66,767	(33,038)	33,729
Total Federal Employee and Veteran Benefits Payable	$ 251,410	$ (33,038)	$ 218,372

Federal Employees' Compensation Act

The DAF WCF reports an actuarial liability for the *Federal Employees' Compensation Act* (FECA). The FECA provides federal employees injured in the performance of duty with workers' compensation benefits, which include wage-loss benefits for a total or partial disability, monetary benefits for permanent loss of use of a schedule member, medical benefits, and vocational rehabilitation. The FECA also provides survivor benefits to eligible dependents if the injury causes the employee's death.

Refer to Note 10, *Other Liabilities,* for description of Other Benefit-Related Payables Included in Intragovernmental Other Liabilities on the Balance Sheet.

Actuarial Cost Method Used and Assumptions

The DAF WCF's actuarial liability for workers' compensation benefits is developed and provided by the Department of Labor (DOL) at the end of each FY. The estimate for future workers' compensation benefits includes the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases, plus a component for incurred, but not reported claims.

The DOL calculates the future workers' compensation liability using wage inflation factors (e.g., Cost of Living Adjustment (COLA)) and medical inflation factors (e.g., Consumer Price Index Medical (CPI-M)), which were applied to the calculation of projected future benefits. The actual rates for these factors for the Charge-Back Year (CBY) 2021 were also used to adjust the methodology's historical payments to current-year constant dollars.

Consistent with past practice, these projected annual benefit payments have been discounted to present value based on interest rate assumptions on the U.S. Treasury's Yield Curve for the U.S. Treasury Nominal Coupon (TNC) Issues (the TNC Yield Curve) to reflect the average duration of income payments and medical payments. Discount rates were based on averaging the TNC Yield Curves for the current and prior four years for FY 2021. Interest rate assumptions utilized for discounting were as follows:

Discount Rates
For wage benefits:
2.2% in Year 1 and Years thereafter;
For medical benefits:
2.1% in Year 1 and Years thereafter.

The compensation COLAs and CPI-Ms used in the projections for various CBYs were as follows:

CBY	COLA	CPI-M
2021	N/A	N/A
2022	2.1%	3.1%
2023	2.5%	3.6%
2024	2.6%	4.0%
2025	2.6%	3.9%
2026 and thereafter	2.7%	4.2%

The model's resulting projections were analyzed by DOL to ensure that the estimates were reliable. Analysis was based on four tests: 1) a sensitivity analysis of the model to economic assumptions, 2) a comparison of the percentage change in the liability amount by agency to the percentage change in the actual incremental payments, 3) a comparison of the incremental paid losses per case (a measure of case-severity) in CBY 2021 to the average pattern observed during the most current three CBYs, and 4) a comparison of the estimated liability per case in FY 2022 projection to the average pattern for the projections of the most recent three years.

Note 10 Other Liabilities

As of September 30	2021 (Unaudited)		
	Current Liability	Non-Current Liability	Total
(Amounts in Thousands)			
Intragovernmental Other Liabilities			
Liabilities for Non-Entity Assets	$ 2	$ 0	$ 2
Other Liabilities Reported on *Note 9, Federal Employee and Veteran Benefits Payable*	66,767	0	66,767
Total Intragovernmental Other Liabilities	$ 66,769	$ 0	$ 66,769
Other than Intragovernmental Other Liabilities			
Accrued Funded Payroll and Benefits	$ 316,305	$ 0	$ 316,305
Advances from Others and Deferred Revenue	163,352	0	163,352
Contract Holdbacks	197	0	197
Other Liabilities with Related Budgetary Obligations	43,889	0	43,889
Total Other than Intragovernmental Other Liabilities	$ 523,743	$ 0	$ 523,743
Total Other Liabilities	$ 590,512	$ 0	$ 590,512

Intragovernmental Other Liabilities

Liabilities for Non-Entity Assets represent liabilities for collections reported as non-exchange revenues where the DAF WCF is acting on behalf of another federal entity.

Other Liabilities Reported on *Note 9, Federal Employee and Veteran Benefits Payable,* include *Federal Employees' Compensation Act* (FECA) Reimbursement to the Department of Labor (DOL) and Employer Contribution and Payroll Taxes Payable.

- FECA Reimbursement to the DOL represents liabilities for billed amounts payable in FY 2021 and FY 2022 unbilled amounts, including both incurred and an estimated accrual.
- Employer Contribution and Payroll Taxes Payable represents the employer portion of payroll taxes and benefit contributions for health benefits, retirement, life insurance, and voluntary separation incentive payments.

Other than Intragovernmental Other Liabilities

Accrued Funded Payroll and Benefits include life and other insurance programs and accrued annual leave. The DAF WCF's life and other insurance programs covering civilian employees are provided through the Office of Personnel Management (OPM), which administers these insurance benefit programs. The DAF WCF does not negotiate the insurance contracts and incurs no liabilities directly to the insurance companies. Employee payroll withholdings related to the insurance and employer contributions are submitted to OPM. The portion of the total DAF civilian accrued leave liability includes amounts for accrued annual leave, restored annual leave (including Base Realignment and Closure restored), credit hours, compensatory hours, and frozen annual leave.

Advances from Others and Deferred Revenue represent liabilities for collections received to cover future expenses or acquisition of assets the DAF WCF incurs or acquires on behalf of another organization.

Contract Holdbacks are amounts earned by contractors or suppliers during the production period but not yet paid to the contractor/supplier to ensure future performance. For FY 2021, Contract Holdbacks include $197.0 thousand for contract progress payments based on cost as defined in the Federal Acquisition Regulation. OSD issued a policy memorandum in September 2019 directing DoD Components to recognize Contract Holdbacks expected to be paid within one year of the balance sheet date as Accounts Payable, and to recognize Contract Holdbacks expected to be paid after one year of the balance sheet date as Other Liabilities. Due to system limitations, the DAF WCF is unable to distinguish Current from Non-Current Contract Holdbacks and reported both Current and Non-Current Contract Holdbacks as Other Liabilities as of September 30, 2021. As such, the DAF WCF does not record Contract Holdbacks in accordance with Federal Generally Accepted Accounting Principles.

Other Liabilities with Related Budgetary Obligations primarily consist of accrued liabilities established in the Consolidated Sustainment Activity Group Supply, which offset inventory owned and managed on behalf of foreign governments under a Cooperative Logistics Supply Support Agreement.

Note 11 Commitments and Contingencies

Legal Contingencies

The DAF WCF is a party in various administrative proceedings and legal actions related to claims for equal employment opportunity matters, and contractual bid protests. In accordance with Statement of Federal Financial Accounting Standards (SFFAS) 5, *Accounting for Liabilities of the Federal Government*, as amended by SFFAS 12, *Recognition of Contingent Liabilities Arising from Litigation: An Amendment of SFFAS 5, Accounting for Liabilities of the Federal Government*, an assessment should be made as to whether the likelihood of an unfavorable outcome is considered probable, reasonably possible, or remote. The DAF WCF's Office of the General Counsel considers the possibility of the DAF WCF sustaining any losses on these legal actions to be remote.

Other Contingencies

The DAF WCF is a party to numerous individual contracts that contain clauses, such as price escalation, award fee payments, or dispute resolution, that may result in a future outflow of budgetary resources. Currently, the DAF WCF's automated system processes have limited capability to capture these potential liabilities. Therefore, the amounts reported may not fairly present the DAF WCF's commitments and contingencies.

It is the DAF WCF's practice to enter into treaties and other international agreements that do not create contingent liabilities, as defined in SFFAS 5. The DAF WCF executes project agreements pursuant to the framework cooperative activity agreements with foreign governments. All of these agreements give rise to obligations that are appropriately reported in the DAF WCFs financial statements, pursuant to legal authority and appropriated funds; none are contingent.

Note 12 Disclosures Related to the Statement of Net Cost

As of September 30		2021 (Unaudited)
(Amounts in Thousands)		
Operations, Readiness, & Support		
Gross Cost	$	13,712,273
Less: Earned Revenue		(13,848,028)
Total Net Cost	$	(135,755)

The three primary sources of revenue for the DAF WCF are from the sale of repair services, revenue from the Flying Hour Program, and the sale of reparable and consumable items. For the year ending September 30, 2021, consolidated revenue for each revenue stream is $4.7 billion, $5.4 billion, and $1.9 billion, respectively. The remaining $1.8 billion is associated to gains.

Refer to Note 1.Q., *Summary of Significant Accounting Policies - Revenue and Other Financing Sources* for additional information.

The Statement of Net Cost (SNC) represents the net cost of programs and organizations of the DAF WCF supported by appropriations, contract authority, and reimbursable authority. The intent of the SNC is to provide gross and net cost information related to the amount of output or outcome for a given program or organization administered by a responsible reporting entity. The DAF WCF's current processes and systems capture costs based on appropriation groups as presented in the schedule above. The DoD is in the process of reviewing available data and developing a cost reporting methodology required by the Statement of Federal Financial Accounting Standards (SFFAS) 4, *Managerial Cost Accounting Concepts and Standards for the Federal Government,* as amended by SFFAS 55, *Amending Inter-Entity Cost Provisions*.

Intragovernmental costs and revenue relate to transactions made between two reporting entities within the Federal Government.

Public costs and revenues are exchange transactions made between the reporting entity and a non-federal entity.

Many of the DAF WCF's systems do not track intragovernmental transactions by customer at the transaction level. Expenses were adjusted by reclassifying amounts between federal and non-federal expenses.

The DAF WCF records transactions on an accrual basis. The DAF WCF may not have all the actual costs and revenues input into the system in time for reporting. Accrual estimates based upon budget information and historical data are made as required by Federal Generally Accepted Accounting Principles. These estimates reverse as actual costs or revenues are recorded.

Note 13 Disclosures Related to the Statement of Changes in Net Position

Pursuant to Statement of Federal Financial Accounting Standards (SFFAS) 55, *Amending Inter-entity Cost Provisions,* DoD Financial Management Regulation, Volume 4, Chapter 24, *Inter-Entity Costs,* directs all DoD components not to recognize imputed costs and corresponding imputed financing from non-business type activities other than inter-entity costs for personnel benefits and the U.S. Treasury Judgment Fund settlements. This election is permitted under SFFAS 55. However, as a business-type activity, the DAF WCF is also required to recognize imputed costs and imputed financing for goods and services received from other federal entities at no cost or at a cost less than the full cost. The DAF WCF is in the process of adopting this SFFAS.

There are no Appropriations Received recorded on the Statement of Changes in Net Position (SCNP). The $95.7 million in appropriations recorded in the DAF WCF were transferred from the Defense Working Capital Fund, and are included in the Appropriation line item on the Statement of Budgetary Resources; however, they are reported as Appropriations Transferred In/Out, and not as Appropriations Received on the SCNP.

Other, on the SCNP, is comprised of capitalizations for which the DAF WCF could not determine the trading partner and reclassified from Other Financing Sources - Transfers In/Out Without Reimbursement.

Note 14 Disclosures Related to the Statement of Budgetary Resources

The Statement of Budgetary Resources (SBR) is presented on a combined basis in accordance with Office of Management and Budget Circular A-136, *Financial Reporting Requirements*; intra-entity transactions have not been eliminated from the amounts presented. This presentation differs from other principal financial statements, which are presented on a consolidated basis.

Net Adjustments to Unobligated Balance, Brought Forward, October 1

There were no material adjustments as of September 30, 2021 to the budgetary resources available at the beginning of the year.

Undelivered Orders at the End of the Period

As of September 30		2021 (Unaudited)
(Amounts in Thousands)		
Intragovernmental		
Unpaid	$	2,647,073
Total Intragovernmental	$	2,647,073
Other than Intragovernmental		
Unpaid	$	5,877,149
Prepaid/Advanced		227,534
Total Other than Intragovernmental	$	6,104,683
Total Budgetary Resources Obligated for Undelivered Orders at the End of the Period	$	8,751,756

Explanation of Differences between the SBR and the Budget of the U.S. Government

The table below presents a reconciliation between the budgetary resources, new obligations and upward adjustments, distributed offsetting receipts, and net outlays from the FY 2020 SBR and the actual amounts from the "Analytical Perspectives – Federal Budget by Agency and Account" and "Appendix – Detailed Budget Estimates by Agency" sections of the FY 2022 President's Budget. The FY 2023 Budget will display the FY 2021 actual values and will be available at a later date at https://www.whitehouse.gov/omb/budget/.

Explanation of Differences between the SBR and the Budget of the U.S. Government (Amounts in Billions)				
As of September 30	Fiscal Year 2020 Actual			
	Budgetary Resources	New Obligations & Upward Adjustments (Total)	Distributed Offsetting Receipts	Agency Outlays, Net
Department of the Air Force Working Capital Fund Statement of Budgetary Resources	$ 17.5	$ 16.2	$ 0.0	$ 0.4
Adjustments				
United States Transportation Command Statement of Budgetary Resources*	$ 8.9	$ 8.1	$ 0.0	$ (0.1)
Combined Department of the Air Force Working Capital Fund and United States Transportation Command	$ 26.4	$ 24.3	$ 0.0	$ 0.3
Budget of the U.S. Government	$ 26.4	$ 24.3	$ 0.0	$ 0.3

United States Transportation Command's (USTRANSCOM) financial results are not consolidated within the DAF WCF's financial results; however, the DAF WCF is required to report USTRANSCOM in the DAF WCF's Budget of the U.S. Government.

Contributed Capital

There was no infusion of capital received for the year ended September 30, 2021.

Note 15 Disclosures Related to Incidental Custodial Collections

The DAF WCF collected $1.8 thousand of incidental custodial revenues during the year ended September 30, 2021, which were generated primarily from non-entity interest, penalties, and administrative fees collected for out of service debts. These funds are not available for use by the DAF WCF. At the end of each FY, the accounts are closed and the balances are rendered to the U.S. Treasury.

Note 16 Reconciliation of Net Cost to Net Outlays

As of September 30	2021 (Unaudited)		
	Intragovernmental	Other than Intragovernmental	Total
(Amounts in Thousands)			
Net Cost of Operations	$ (9,913,335)	$ 9,777,580	$ (135,755)
Components of Net Cost That are Not Part of Net Outlays:			
General Property, Plant, and Equipment, net changes	$ 0	$ 35,112	$ 35,112
Increase/(decrease) in assets:			
Accounts Receivable, Net	122,017	263	122,280
Other Assets	0	65,780	65,780
(Increase)/decrease in liabilities:			
Accounts Payable	(145,456)	(68,516)	(213,972)
Federal Employee and Veteran Benefits Payable	0	7,833	7,833
Other Liabilities	10	120,582	120,592
Other financing sources:			
Imputed Cost	(210,933)	0	(210,933)
Total Components of Net Cost That Are Not Part of Net Outlays	$ (234,362)	$ 161,054	$ (73,308)
Components of Net Outlays That Are Not Part of Net Cost:			
Inventory and Related Property	0	(73,904)	(73,904)
Total Components of Net Outlays That Are Not Part of Net Cost	$ 0	$ (73,904)	$ (73,904)
Miscellaneous Reconciling Items			
Other	(142,497)		(142,497)
Total Other Reconciling Items	$ (142,497)	$	$ (142,497)
Net Outlays	$ (10,290,194)	$ 9,864,730	$ (425,464)
Agency Outlays, Net, Statement of Budgetary Resources			$ (428,451)
Unreconciled Difference			$ 2,987

Budgetary and financial accounting information is used for different purposes. Budgetary accounting is used for planning and control purposes and relates to both the receipt and use of cash, as well as reporting the federal deficit. Financial accounting is intended to provide a picture of the government's financial operations and financial position, so it presents information on an accrual basis. The accrual basis includes information about costs arising from the consumption of assets and the incurrence of liabilities. The reconciliation of Net Outlays, presented on a budgetary basis, and the Net Cost, presented on an accrual basis, provides an explanation of the relationship between budgetary and financial accounting information. The reconciliation serves not only to identify costs paid for in the past and those that will be paid in the future, but also to assure integrity between budgetary and financial accounting.

The table above illustrates this reconciliation of key differences between Net Cost and Net Outlays. The reconciling difference of $3.0 million as of September 30, 2021 is due to three accounts that offset Inventory and Related Property, Net or General Property, Plant, and Equipment transactions that were not mapped to the reconciliation. The DAF WCF is currently researching the issue to identify necessary corrective actions.

Note 17 Public-Private Partnerships

The DAF WCF continues to evaluate arrangements and transactions for Public-Private Partnerships criteria to determine the complete population requiring disclosure under Statement of Federal Financial Accounting Standards 49, *Public-Private Partnerships: Disclosure Requirements*, but has not completed a full analysis of all arrangements as of September 30, 2021.

Note 18 Disclosure Entities and Related Parties

Effective in FY 2018, the Statement of Federal Financial Accounting Standards 47, *Reporting Entity,* requires agencies to disclose certain information for disclosure entities and related parties. The DAF WCF is still in the early stages of implementing this significant standard and completing a full impact analysis. When the DAF WCF fully implements this new standard, the DAF WCF will provide a thorough disclosure for Disclosure Entities and Related Parties.

Note 19 COVID-19 Activity

The *Coronavirus Aid, Relief, and Economic Security Act* that was received by the DAF WCF in FY 2020 was fully executed. The DAF WCF did not receive any additional funding in FY 2021.

Note 20 Subsequent Events

Subsequent events were evaluated from the balance sheet date through November 8, 2021, which is the date the financial statements were available to be issued. The DAF WCF concluded that no events or transactions occurred or are pending that would have a material effect on the financial statements.

Fiscal Year 2021

DEPARTMENT OF THE AIR FORCE WORKING CAPITAL FUND

REQUIRED SUPPLEMENTARY INFORMATION

DISAGGREGATED STATEMENT OF BUDGETARY RESOURCES

For the Fiscal Year Ended September 30, 2021

(Amounts in Thousands)

	Operations, Readiness & Support	2021 Combined
Budgetary Resources		
Unobligated Balance from Prior Year Budget Authority, Net (discretionary and mandatory) (Note 14)	$ 1,255,489	$ 1,255,489
Appropriations (discretionary and mandatory)	95,712	95,712
Contract Authority (discretionary and mandatory)	10,107,468	10,107,468
Spending Authority from Offsetting Collections (discretionary and mandatory)	6,941,439	6,941,439
Total Budgetary Resources	$ 18,400,108	$ 18,400,108
Status of Budgetary Resources		
New Obligations and Upward Adjustments (total)	$ 17,176,356	$ 17,176,356
Unobligated Balance, End of Year:		
Apportioned, Unexpired Accounts	1,223,752	1,223,752
Unexpired Unobligated Balance, End of Year	1,223,752	1,223,752
Unobligated Balance, End of Year (total)	$ 1,223,752	$ 1,223,752
Total Budgetary Resources	$ 18,400,108	$ 18,400,108
Outlays, Net		
Outlays, Net (total) (discretionary and mandatory)	$ (428,451)	$ (428,451)
Agency Outlays, Net (discretionary and mandatory)	$ (428,451)	$ (428,451)

The accompanying notes are an integral part of these statements.

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

November 8, 2021

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

SUBJECT: Transmittal of the Independent Auditor's Reports on the Department of the Air Force Working Capital Fund Financial Statements and Related Notes for FY 2021 (Project No. D2021-D000FT-0071.000, Report No. DODIG-2022-019)

We contracted with the independent public accounting firm of Ernst & Young, LLP (EY), to audit the Department of the Air Force (DAF) Working Capital Fund Financial Statements and related notes as of and for the fiscal year ended September 30, 2021. The contract required EY to provide a report on internal control over financial reporting and compliance with provisions of applicable laws and regulations, contracts, and grant agreements, and to report on whether the DAF Working Capital Fund's financial management systems substantially complied with the requirements of the Federal Financial Management Improvement Act of 1996. The contract required EY to conduct the audit in accordance with generally accepted government auditing standards (GAGAS); Office of Management and Budget audit guidance; and the Government Accountability Office/Council of the Inspectors General on Integrity and Efficiency "Financial Audit Manual," June 2018, Volume 1 (Updated, April 2020), Volume 2 (Updated, March 2021), and Volume 3 (Updated, September 2021). EY's Independent Auditor's Reports are attached.

EY's audit resulted in a disclaimer of opinion. EY could not obtain sufficient, appropriate audit evidence to support the reported amounts within the DAF Working Capital Fund Financial Statements. As a result, EY could not conclude whether the financial statements and related notes were presented fairly in accordance with Generally Accepted Accounting Principles. Accordingly, EY did not express an opinion on the DAF Working Capital Fund FY 2021 Financial Statements and related notes.

EY's separate report, "Report of Independent Auditors on Internal Control Over Financial Reporting" discusses nine material weaknesses related to the DAF Working Capital Fund's internal controls over financial reporting.* Specifically, EY's report concluded that the DAF did not:

- integrate and reconcile feeder systems to the general ledger to ensure that it accurately and timely recorded the entire population of financial transactions on its financial statements;
- sufficiently document inventory policies and procedures and fully implement inventory controls, such as those for inventory valuation and movement;
- oversee property and materials managed and held by contractors and other defense organizations;
- correctly apply its revenue recognition and support its accounts receivable;
- develop sufficient policies, procedures, and internal controls to fully reconcile Fund Balance With Treasury;
- support Accounts Payable, gross costs, and contract financing payment balances;
- develop sufficient processes and internal controls to accumulate and prepare complete and accurate financial statements;
- fully implement an internal control program over financial reporting and compliance with financial laws and regulations; and
- ensure the effective design and operation of financial information systems.

EY's additional report, "Report of Independent Auditors on Compliance and Other Matters," discusses two instances of noncompliance with provisions of applicable laws and regulations, contracts, and grant agreements. Specifically, EY's report describes instances in which the DAF Working Capital Fund's financial management systems did not comply with the Federal Financial Management Improvement Act of 1996 and the Federal Managers' Financial Integrity Act of 1982.

* A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting that results in a reasonable possibility that management will not prevent, or detect and correct, a material misstatement in the financial statements in a timely manner.

In connection with the contract, we reviewed EY's reports and related documentation and discussed them with EY's representatives. Our review, as differentiated from an audit of the financial statements and related notes in accordance with GAGAS, was not intended to enable us to express, and we do not express, an opinion on the DAF Working Capital Fund FY 2021 Financial Statements and related notes. Furthermore, we do not express conclusions on the effectiveness of internal control over financial reporting, on whether the DAF Working Capital Fund's financial systems substantially complied with Federal Financial Management Improvement Act of 1996 requirements, or on compliance with provisions of applicable laws and regulations, contracts, and grant agreements. Our review disclosed no instances where EY did not comply, in all material respects, with GAGAS. EY is responsible for the attached November 8, 2021 reports, and the conclusions expressed within the reports.

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

Lorin T. Venable

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

Attachments:
As stated

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Report of Independent Auditors

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

Report on the Financial Statements

We were engaged to audit the accompanying financial statements of the Department of the Air Force Working Capital Fund (DAF WCF), which comprise the consolidated balance sheet as of September 30, 2021, and the related consolidated statements of net cost and changes in net position and combined statement of budgetary resources for the year then ended, and the related notes to the financial statements (the financial statements).

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements 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 financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on conducting the 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 Office of Management and Budget Bulletin No. 21-04, *Audit Requirements for Federal Financial Statements*. Because of the matters 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.

Departures from U.S. Generally Accepted Accounting Principles

As described in Note 1, the DAF WCF has not implemented certain accounting standards for the Department of Defense and the Federal government. The effect of these matters on the financial statement amounts and related disclosures involved is not currently determinable by the DAF WCF and could be material.

Basis for Disclaimer of Opinion

The DAF WCF continues to have unresolved accounting issues and material weaknesses in internal controls that cause the DAF WCF to be unable to provide sufficient evidential support for complete and accurate financial statements on a timely basis. As a result, we cannot determine the effect of the lack of sufficient appropriate audit evidence on the DAF WCF's financial statements as of and for the year ended September 30, 2021.

Disclaimer of Opinion

Because of the significance of the matters 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 financial statements.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and other Required Supplementary Information, as listed in the Table of Contents, be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Federal Accounting Standards Advisory Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic or historical context. We were unable to apply certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraph. We do not express an opinion or provide any assurance on the information.

Other Information

We were engaged for the purpose of forming an opinion on the financial statements that collectively comprise the DAF WCF's financial statements. The Message from the Secretary of the Air Force, Message from the Chief Financial Officer, and the Other Information (collectively the Other Information), as listed in the Table of Contents, is presented for purposes of additional analysis and is not a required part of the financial statements. The Other Information has not been subjected to the auditing procedures applied in the engagement to perform an audit of the financial statements, and, accordingly, we do not express an opinion or provide any assurance on it.

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Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we also have issued our reports dated November 8, 2021 on our consideration of the DAF WCF's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of those reports is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the DAF WCF's 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 the DAF WCF's internal control over financial reporting and compliance.

Ernst & Young LLP

November 8, 2021

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

The Secretary of the 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. 21-04, *Audit Requirements for Federal Financial Statements*, the financial statements of the Department of the Air Force Working Capital Fund (DAF WCF), which comprise the consolidated balance sheet as of September 30, 2021, and the related consolidated statement of net cost, consolidated statement of changes in net position and combined statement of budgetary resources for the year then ended, and the related notes to the financial statements and have issued our report thereon dated November 8, 2021. Our report disclaims an opinion on such financial statements because the DAF WCF was not able to provide sufficient appropriate audit evidence due to matters discussed further in the Basis for Disclaimer of Opinion paragraph.

Internal Control Over Financial Reporting

In connection with our engagement to audit the financial statements, we considered the DAF WCF's internal control over financial reporting (internal control) as a basis for designing the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the DAF WCF's internal control. Accordingly, we do not express an opinion on the effectiveness of the DAF WCF's internal control. We did not consider 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 preparing performance information and ensuring efficient operations.

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent,

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or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described below and in Appendix A as Items I. through IX. to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described below and in Appendix A as Item X to be a significant deficiency.

Further details regarding each of these matters are included in Appendix A.

Material Weaknesses

I. Integration and Reconciliation of Financial Systems – To ensure that the entire population of financial transactions has been recorded in the financial statements, it is necessary to reconcile feeder systems to the general ledger. The DAF WCF has a complex systems environment consisting of many non-integrated systems that use non-standard data and requires numerous manual workarounds. The lack of an integrated system prevents management from obtaining timely, accurate and reliable information to make effective business decisions. The DAF WCF continues to rely on both manual re-entry of data into multiple systems and complex system interfaces that are not fully reconciled. The lack of integration prevents information/data from processing without significant manual intervention.

We identified the following:

- Inability to validate the completeness of transactions underlying the financial statements
- Lack of monitoring over posting logic compliance with the USSGL
- Inability to maintain and/or provide supporting documentation in a timely manner
- Enterprise IT strategy has not been formalized and fully implemented

II. Inventory Held by the DAF WCF – Inventory is a component of Inventory and Related Property, Net within the consolidated balance sheet. The balance includes supplies and spare parts at bases and maintenance depots, as well as parts awaiting or undergoing repair for reuse. The value of individual pieces is determined using different methods depending on their nature. Acquired supplies and parts are valued based upon acquisition cost while repairable and repaired parts are required to be valued based upon the internal and external costs incurred to repair.

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We identified the following:

- Lack of sufficient inventory count procedures and controls
- Lack of sufficient policies, procedures and controls over inventory valuation
- Lack of sufficient policies, procedures and controls over inventory movement transactions
- Inability to identify and value in-transit inventory

III. Inventory Held by Others – The DAF WCF has shared service arrangements with other defense organizations and commercial contractors to hold or repair inventory and equipment to avoid duplication of efforts. We found that in many of these instances the DAF WCF is heavily reliant upon the other party to report activity and balances related to those materials.

We identified the following:

- Insufficient oversight of inventory managed by the Defense Logistics Agency (DLA)
- Insufficient oversight of inventory held by contractors and other defense organizations

IV. Earned Revenue and Accounts Receivable – The DAF WCF recognizes revenue and related accounts receivable balances for large scale long-term maintenance projects using a percentage of completion calculation. The DAF WCF recognizes "Flying Hours" revenue based upon the flying hours executed. The DAF WCF recognizes supply revenue for inventory sold based on the delivery of the inventory items.

We identified the following:

- Incorrect application of the percentage of completion revenue recognition method for maintenance revenue
- Lack of adequate policies, procedures and internal controls for "Flying Hours" revenue
- Lack of adequate policies, procedures, internal controls and supporting documentation for supply revenue
- Inability to support invoice level accounts receivable subledgers

V. Fund Balance with Treasury (FBwT) – FBwT represents the aggregate amount of funds in the DAF WCF's accounts with the U.S. Treasury. During our testing, EY identified that although key review controls achieved reconciliation of differences between the DAF WCF and Treasury balances and recorded the necessary adjustments to FBwT at a summary level, those procedures did not always achieve a complete analysis of or sufficient support for the adjustments recorded.

We identified the following:

- Lack of sufficient documentation of accounting policies, procedures and controls
- Enhanced controls over the monthly undistributed journal voucher process are needed

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- Lack of sufficient monitoring over Defense Finance and Accounting Service (DFAS)

VI. Accounts Payable (AP), Gross Costs and Contract Financing Payments (CFP) – AP represents the amount owed to third parties by the DAF WCF for goods and services received. Gross costs are incurred and recognized when the DAF WCF obtains goods and services from the public or other federal entities. CFP are authorized disbursements to a contractor prior to the acceptance of supplies or services by the Government. The DAF WCF lacks sufficient policies, procedures and internal controls for the procure to pay process.

We identified the following:

- Lack of sufficient documentation of accounting policies, procedures and controls for gross costs
- Lack of or inadequate controls over accounts payable, gross costs, cash disbursement and obligation processes
- Insufficient controls over CFP

VII. Accumulating and Preparing Financial Statements – The financial reporting compilation function, along with the recording of journal vouchers, is central to any entity's internal control environment and ability to support an audit. While the DAF WCF has made progress in improving its financial reporting, several critical areas are not yet resolved. The DAF WCF's financial reporting process lacks sufficient processes and internal controls to ensure that complete and accurate financial statements, including related note disclosures, are prepared on a timely basis.

We identified the following:

- Lack of sufficient centralized financial statement analytical and review functions
- Lack of assessment, monitoring and effective implementation of recent accounting guidance including but not limited to Statement of Federal Financial Accounting Standard (SFFAS) 48, *Opening Balances for Inventory, Operating Material and Supplies, and Stockpile Materials* and SFFAS 50, *Establishing Opening Balances for General Property, Plant, and Equipment*
- Enhanced financial statement review and account reconciliation procedures are needed

VIII. Oversight and Monitoring of Internal Control – FMFIA requires federal entities to establish internal control, perform ongoing evaluations of the adequacy of the entity's system of internal control and prepare related reports. OMB Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*, Appendix A, *Management of Reporting and Data Integrity Risk* provides a methodology for agency management to assess, document and report on internal control over reporting. The DAF WCF has not fully implemented its internal control program that would allow it to substantially comply with OMB Circular A-123, Appendix A.

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We identified the following:
- Lack of an effective internal control program over financial reporting and compliance with financial-related laws and regulations
- Lack of complete narratives for significant processes of the DAF WCF

IX. Financial Information Systems – Our assessment of the DAF WCF's 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 over financial data. We identified the lack of sufficient controls in the following areas:

- Access controls
- Configuration management / change controls
- Segregation of duties
- Interface controls
- Security management

Significant Deficiencies

X. General Property, Plant and Equipment (GPP&E) – The DAF WCF does not have adequate policies, procedures, internal controls and supporting documentation in place to appropriately record GPP&E activity in the financial statements.

Management's Response to Findings

The DAF WCF's response to the findings identified in our engagement and relevant comments from the DAF WCF's management are provided in their accompanying letter dated November 8, 2021. Management'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.

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Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and the results of that testing, and not to provide an opinion on the effectiveness of the 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.

Ernst + Young LLP

November 8, 2021

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Appendix A – Material Weaknesses

I. INTEGRATION AND RECONCILIATION OF FINANCIAL SYSTEMS

A modernized IT system environment is critical to an entity's ability to fulfill its established missions. Well-designed information systems promote stronger financial management, enhance control over the entity's resources and provide timely access to better data for decision-making purposes.

As the DAF WCF continues to transition to modern systems, it is critical that the organization does not just replicate its existing environment and internal control processes with newer, yet still non-integrated, systems. Instead, the entity needs to continue to define its requirements (mission-based, IT and financial management) and redesign processes as appropriate to take advantage of the benefits of system integration. Otherwise, the DAF WCF will continue to experience many of the similar challenges discussed within this report and further inhibit the entity's ability to produce timely and auditable financial statements.

The following deficiencies aggregate into this material weakness:

(a) Inability to validate the completeness of transactions underlying the financial statements

The DAF WCF does not have a complete understanding of its universe of transactions. This assessment is critical for management to understand and document the mapping of the internal processes, flow of data and controls performed to ensure output data is complete and accurate. Additionally, many of the DAF WCF's corrective actions to date have resulted in workarounds (e.g., additional reconciliations, journal vouchers) to address identified weaknesses given current system or resource limitations. The next significant step in the evolution of the DAF WCF's financial control environment needs to be the inclusion of a multi-layer analysis, review, repair and remediation cycle. The DAF WCF will need to implement and operate a sustainable and auditable business environment through enhanced integration and innovation capabilities deployed in a targeted and coordinated manner. During our procedures, we identified the following:

- Accountable Property System of Record (APSR) reconciliations are reconciliations that occur in order to assert that feeder files reconcile completely and accurately to the corporate general ledger (General Accounting and Finance System – Re-engineered (GAFS-R)). There are eighteen APSR reconciliations completed through the Statement of Budgetary Resources Automated Reconciliation Tool (SBR-ART). The APSR reconciliations include but are not limited to reconciling the Integrated Logistics Systems-Supply (ILS-S), Defense Medical Logistics Standard Support (DMLSS), and Financial Inventory Accounting and Billing System (FIABS) to Standard Material Accounting System (SMAS) along with reconciling SMAS and

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Defense Industrial Financial Management System (DIFMS), to GAFS-R. While progress has been made, the DAF WCF is unable to provide complete and accurate reconciliations as part of the SBR-ART. The DAF WCF did not investigate and remediate reconciling items identified in the SBR-ART.

- The Unadjusted Trial Balance to Adjusted Trial Balance (UTB to ATB) reconciliation is designed to reconcile the feeder systems to the financial statements and provide reasonable assurance that these trial balances are complete and accurate. The DAF WCF currently performs a UTB to ATB reconciliation at the summary trial balance level and identifies journal vouchers (JV's) which explain the variance. The DAF WCF was unable to provide a sufficient UTB to ATB reconciliation as the DAF WCF was unable to identify JV's that impacted the reconciliation within the Defense Departmental Reporting System – Budgetary (DDRS-B). Further, the DAF WCF was unable to identify prior year adjustments within GASF-R beginning balances which impacted the reconciliation. As a result, the DAF WCF is unable to accurately reconcile all balances.
- The Quantitative Drill Down (QDD) process is a summary reconciliation that extracts raw data from the DAF WCF systems and separates the financial statement line-item data by Assessable Unit in order to reconcile the DAF WCF universe of transaction to the financial statements. The QDD currently does not have a sufficient process to remediate variances identified in the reconciliation.
- A reconciliation was performed by the DAF WCF between the data from the various inventory feeder systems and the data which ultimately flows to FIABS. As a result of this reconciliation, the DAF WCF identified quantity differences between FIABS and the identified feeder systems. While some progress has been made, the DAF WCF has not fully determined the underlying cause of the differences nor how to resolve them. Further, the DAF WCF has not applied dollar values to all of the quantity differences to fully assess their financial statement impact.

Additionally, Intragovernmental transactions result from business activities conducted between two federal government entities, called trading partners. Accounting differences occur in government-wide financial reporting when trading partners record differing amounts for transactions that should eliminate or net to zero. Trading partners must reconcile and resolve these differences on a routine basis. Through September 30, 2021, the Department of Defense (DoD) reporting entity making sales or providing services ("seller-side") was the basis for reporting most of the DAF WCF's intra-DoD balances. There was no reconciliation at the agreement or document level to the trading partner adjustments made. Trading partner adjustments are recorded in Defense Departmental Reporting System – Audited Financial Statements (DDRS-AFS) as top-side adjustments and are identified as unsupported by DFAS.

The above examples demonstrate the complexity of the system environment and the need for a robust understanding of the flow of data to the financial statements. As a result, the DAF WCF was unable to support whether the transactions recorded in the financial statements were complete or accurate.

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(b) Lack of monitoring over posting logic compliance with the USSGL

The DAF WCF and its service provider, DFAS, do not currently have a review process in place to ensure that the mappings applied are compliant with the Treasury Financial Manual (TFM). Throughout the course of the year, transactions from supply base level systems (FIABS, ILS-S and DMLSS) flow from the subledgers to the general ledger (SMAS) and then to the corporate general ledger (GAFS-R). On the maintenance side, transactions flow from the general ledger (DIFMS) to the corporate general ledger (GAFS-R). Posting logic applications take transactions at the subledger level and properly classify them into general ledger accounts (i.e., USSGL). FIABS, SMAS and DIFMS all apply posting logic. This mapping allows transactions to properly post and ultimately impact the intended financial statement line item.

(c) Inability to maintain and/or provide supporting documentation in a timely manner

Further progress is needed by the DAF WCF and its external parties to provide complete documentation in a timely manner to support an audit.

During our current year testing, we identified the following:

- Improper management and retention of supporting documentation. (e.g., support agreement, customer order/acceptance, customer voucher, shipping documentation, vendor invoice, evidence of review control execution).
- Lack of consistent implementation of documentation standards for maintaining complete records.
- Inability to provide supporting documentation to auditors in a consistent and timely manner.
- Inability to provide transactional data that reconciles to the summarized trial balance amounts that comprise the beginning budgetary and proprietary financial statement balances. Currently, there are no policies or procedures to mitigate this system weakness. Further, no documentation is maintained from prior periods to support beginning balances.

The DAF WCF's inability to provide adequate support for accounting transactions and control execution increases the risk of a misstatement that could impact the financial statements. Furthermore, without such supporting documentation and proper audit trail, there is an increased risk of deficiencies in internal control over financial reporting and noncompliance with applicable laws and regulations.

(d) Enterprise IT strategy has not been formalized and fully implemented

In accordance with the GAO Green Book, management should design information system and related control activities to achieve objectives and respond to risks. An information system is the people, processes, data and technology that management organizes to obtain, communicate or dispose of information. Information technology enables information related to operational processes to become available to the entity on a timelier basis.

We identified the following conditions that indicate a lack of a formalized and fully implemented enterprise IT strategy related to internal controls over financial reporting:

- The DAF WCF is currently in the process of modernizing its system environment by replacing legacy systems with a centralized enterprise business suite. The modernization of the DAF WCF's system architecture will require a complex series of transitional interfaces and synchronization of legacy system interactions. In executing the process of modernizing its system environment, the DAF WCF lacks a comprehensive strategic vision for the implementation of new financial management systems and the subsumption or sunset of existing systems. For example, the current financial management system modernization plan does not consider all legacy systems, and some identified systems do not have a target subsumption or sunset date.
- There is inconsistent integration and collaboration between functional organizations throughout the system consolidation lifecycle leading to a lack of a holistic understanding of risks and mitigations across the enterprise. Cross-functional requirements and IT controls are not fully integrated during new application implementation and/or legacy application modernization. For example, enhanced project accounting could occur through the use of integrated modules incorporating processes such as procurement, accounts payable and GPP&E/inventory.
- There is insufficient integration of system oversight between financial management and functional organizations. Although the financial management portfolio board with representation from SAF AQ, DFAS, SAF/MG among others meets on a monthly basis to discuss the current status of application consolidation/modernization, status of Corrective Action Plans (CAPs) and related matters, its oversight is limited to systems in the Financial Management and Comptroller functional organization. Additional functional organizations (e.g., A1, A4, AQ) in the Department of the Air Force (DAF) exercise oversight of financially relevant systems within their portfolio; however, these efforts are not sufficiently integrated.
- There is a lack of a formalized and fully implemented IT governance strategy for financial and financially relevant systems. A comprehensive Enterprise IT strategy for governance over IT strategic direction, financial and financial feeder system portfolio modernization, knowledge management, data analytics, workforce skillsets and training/education and enterprise-wide monitoring program for all application consolidations and data migration efforts has not been formalized and fully implemented.

Recommendations:

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

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Related to inability to validate the completeness of transactions underlying the financial statements

- Regarding the SBR-ART reconciliations which support the DAF WCF's Universe of Transactions:
    - Implement a timely remediation process that determines the cause and magnitude of unmatched files.
    - Develop a trend analysis on unmatched files to discover trends that could be used to reduce the number of unmatched files in the future and identify root causes within the reconciliation processes.
- Develop/enhance the process to perform a quarterly detail level UTB to ATB reconciliation using the full detail data sets, including appropriate identification of JV's, to ensure the completeness and accuracy of the data as it flows from the general ledger to the financial statements.
- Implement a timely remediation process that determines the cause and magnitude of variances identified during the QDD process and takes appropriate corrective actions.
- Investigate and determine the cause of the inventory quantity variances within FIABS resulting from the lack of identified feeder system quantities. In addition, the DAF WCF should implement effective feeder system data reconciliation procedures and controls to support the beginning balance of inventory within FIABS and ensure all balances in FIABS are reconciled to an identified feeder system on an ongoing basis.
- Implement document level reconciliations with the DAF WCF trading partners and develop a process for resolving differences at the document level.
- Pertaining to process and internal controls within the financial statement close and reporting (FSCR) class of transactions:
    - Perform a risk assessment of the FSCR class of transaction and identify all risks of material misstatement.
    - Design effective control activities which prevent or detect the identified risks of material misstatement.
    - Execute the designed control activities.
    - Maintain sufficient evidence of the design and execution of the identified control activities.

Related to lack of monitoring over posting logic compliance with the USSGL

- Ensure mapping of SMAS, FIABS and DIFMS posting logic rules to TFM entries.
- For any new SMAS, FIABS or DIFMS posting logic rules, develop policies and procedures to review new posting logic rules for TFM compliance prior to implementation.

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Related to inability to maintain and/or provide supporting documentation in a timely manner

- Address the DAF WCF/DFAS ability to access and provide supporting documentation for significant transactions.
- Update the DAF WCF policies and procedures to ensure its internal controls provide adequate support for material amounts on the consolidated financial statements pertaining to beginning budgetary and proprietary financial statement balances.

Related to Enterprise IT strategy has not been formalized and fully implemented

- Develop a comprehensive integrated financial management system modernization plan that considers long-term requirements for resources and funding, necessary changes to interfaces and business process controls throughout each phase of the plan, and development of effective IT general controls. Consider the following points when developing the system modernization plan:
    - Plan to continually retire/decommission legacy applications and reduce the number of duplicated system functions.
    - Develop and consistently implement an enterprise-wide, comprehensive plan to improve financial and financial feeder system data analytics.
    - Formalize processes that allow for consistent integration and collaboration between functional organizations throughout the system consolidation lifecycle and provide a holistic understanding of risks across the enterprise. Elements that should be included in the Enterprise IT strategy and governance include:
        - Implementation of planning, programming, budgeting and execution of resources in alignment with strategies and priorities.
        - Incorporation of compliance requirements with applicable laws, regulations and policies into system life-cycle management.
        - Focused financial system modernization on mission effectiveness, cybersecurity, cost efficiency and system interoperability, and enterprise shared services.
        - Prioritize cross-functional requirements into the design and system modernization implementation efforts as well as interoperability and interfaces between financially relevant systems.
    - The DAF should continue to prioritize remediation of IT findings based on severity of the finding and the impact on downgrading applicable financial business processes while continuing to integrate the DAF's IT modernization plan and timelines as part of this prioritization effort.
    - Implement automated control processes to assist in sustaining effective controls over the long-term (i.e. Identity, Credential, and Access Management, Security Information and Event Management and Vulnerability Management). There should be a holistic strategy to implementing these solutions rather than operating/implementing them in silos.

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- o Best practices learned from successful remediation of CAPs should be shared and implemented for relevant CAPs for other applications especially during system modernization efforts. This will prevent repetition of similar findings across the enterprise.

II. INVENTORY HELD BY THE DAF WCF

The following deficiencies aggregate into this material weakness:

(a) Lack of sufficient inventory count procedures and controls

Inventory held by the DAF WCF is categorized as depot inventory, base possessed inventory, and Medical Dental Division (MDD) inventory. Complete and accurate information on inventory values and quantities are critical to the reliability of the financial statements.

- The DAF WCF has created a formal standard operating procedure (SOP) for periodic inventory counts for organic maintenance inventory. However, the SOP does not properly outline specific procedures related to the planning, execution and monitoring of organic maintenance inventory counts. Therefore, the SOP has not been effectively implemented. As a result of the SOP not being effectively implemented, Air Force Materiel Command (AFMC) is unable to ensure material errors do not exist within the inventory records.
- The DAF WCF has implemented a formal policy and SOP for cycle count procedures for base possessed inventory. Cycle counts are performed throughout the year as determined by each base’s cycle count plan. Cycle count results are summarized and reviewed at each base on a monthly basis. The procedures performed to review cycle count results are not sufficiently documented, do not include the validation of the completeness and accuracy of key reports from ILS-S utilized to perform the review and do not specify the threshold or criteria used to identify items requiring further investigation. Further, cycle count results are not reviewed centrally by AFMC or others to ensure material errors do not exist within the consolidated inventory records.
- The DAF WCF has implemented a formal policy and SOP for cycle count procedures for MDD inventory. The procedures performed to review cycle count results are not sufficiently documented, do not include the validation of the completeness and accuracy of key reports utilized to perform the reviews and do not specify the threshold or criteria used to identify items requiring further investigation.

(b) Lack of sufficient policies, procedures and controls over inventory valuation

In general, inventory is valued at either an assigned value based on moving average cost (MAC) or at MAC net of an accumulation of internal and external costs incurred to restore a part to usable condition, or Latest Repair Cost (LRC). Findings exist for both types of valuation and are summarized between those related to the application of MAC and LRC:

MAC calculation process

The DAF WCF uses the MAC process to value the majority of its inventory. MAC is an approved historical cost valuation methodology for inventory in accordance with SFFAS 3 *Accounting for Inventory and Related Property* (SFFAS 3). The MAC calculates historical cost based upon an average of the on-hand quantity of an item's historical procurement prices. MAC values inventory on a perpetual basis; as a receipt of property is inducted, ILS-S or FIABS automatically computes MAC. The calculation of MAC is a heavily automated process that requires interactions amongst groups of systems and interfaces within the DAF WCF system environment. The DAF WCF does not have the appropriate controls or procedures in place for reviewing changes or transactions related to the MAC calculation process, leading to an increased risk of inaccurate valuation of inventory.

During our procedures, we had the following observations related to the MAC calculation process:

- The DAF WCF does not have insight into which contracting systems fail to appropriately interface with the instance of FIABS performing the daily MAC calculation updates. Currently, there are not standard policies and procedures for the DAF WCF to identify and resolve instances where a procurement occurred from a contract outside of the primary contracting database that should be used as an input into the daily MAC calculation within FIABS.
- The MAC calculation includes new procurements only and excludes repairable inventory items that have been repaired by maintenance and restocked. The items repaired by maintenance and restocked should trigger a new MAC recalculation in accordance with the DoD Financial Management Regulation (FMR), but no recalculation is occurring.
- Currently, there is a lack of periodic reviews of data inputs for local purchases in ILS-S and FIABS, as well as local purchases by DLA. The data entry is completed manually and no secondary review or sample audit of these transactions occurs.
- There is no reconciliation process in place to ensure the contract values interfacing to FIABS for purposes of calculating MAC updates are complete and accurate.

Accumulation of cost for held for repair inventory

When a reparable inventory item is inducted into the DAF WCF's inventory system, the item's gross value is at MAC and a repair allowance (contra-asset) is recorded based on LRC. As part of the annual budget process, the DAF WCF will review repair costs, including labor and material costs, to assess if any changes to the LRC for reparable National Stock Numbers (NSN's) are necessary. Several errors existed in the application of this process resulting from the lack of controls in place to ensure LRC adjustments are appropriately valued or that the accumulated balance of the allowance reflects the allowance required for the parts in process of repair:

- When the asset is repaired and released into a held for sale inventory status, the reserve is then decreased in the amount of the asset's LRC on the day the asset repair is completed. The intent

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is that the newly repaired part is now valued at MAC. The LRC values are updated via the annual budget process. While the asset remains under repair, the allowance is not updated to reflect changes in the LRC. However, the entry to record the relief of the allowance is recorded at the current LRC. As such, the allowance is understated for those items under repair that were inducted in prior budget years. The accumulation of this error over time results in the consolidated inventory balance being misstated.

- During the annual budget process, LRC for the current fiscal year is developed based off of data from the two preceding fiscal years. In some instances, inventory items have an LRC that is greater than the MAC value of that item, resulting in a recorded negative net inventory value for the carcass. An LRC greater than the MAC value can occur when manufacturers no longer supply the part, or manufacturers have not produced the parts in many years, therefore replacing the part may require custom manufacturing. The negative net inventory occurs due to the fact that the DAF WCF is not considering Latest Acquisition Cost (LAC) in calculating the repair allowance by asset. The DAF WCF recorded a material adjustment to partially address this condition and increase the value of inventory and related property, net.
- The credit given to customers for delivering carcasses is not equal to the net value assigned to the carcass in inventory (i.e. MAC less LRC) creating an unintended gain or loss.

(c) Lack of sufficient policies, procedures and controls over inventory movement transactions

The DAF WCF did not consistently execute internal controls to ensure inventory movements (inductions, issuances or disposals) were completely and accurately reflected within the supply systems. Additionally, the complete end-to-end processes, procedures and key controls for portions of the inventory movement processes are not accurately and/or fully documented.

- Both the DAF WCF and DLA manage the movement of depot inventory. The DAF WCF manages the induction of base possessed inventory in ILS-S. During induction, the asset and associated data are received, inspected and entered into the appropriate systems. Verification of the accuracy of the induction information is not appropriately segregated amongst multiple personnel or performed through other controls.
- The induction of inventory into FIABS is performed within multiple feeder systems. Discrepancies resulting from induction are researched and resolved. Evidence of the research and resolution of these discrepancies is not consistently maintained. Further, system generated information used to determine discrepancies has not been verified as complete and accurate.
- The DAF WCF personnel utilize degraded operations procedures to record inventory movements when ILS-S is not online. Degraded operations transactions are manually recorded within a log and then manually transferred into ILS-S once it is back online. Sufficient review procedures currently are not in place to verify the completeness and accuracy of degraded operations activity entered into ILS-S.
- The DAF WCF did not sufficiently record inventory movement associated with unserviceable inventory awaiting inspection, disposition or shipment for repair.

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(d) Inability to identify and value in-transit inventory

As inventory is moved between the DAF WCF locations, those in-transit items are removed from the supply systems until they reach their destination and then are re-recorded in the supply systems. While progress has been made, the DAF WCF remains unable to appropriately identify and value in-transit inventory at the item and transaction level. The balance of in-transit inventory recorded was primarily determined by an aging-based estimation methodology which lacks appropriate precision. This likely causes misstatements in inventory balances. During our procedures, we had the following observations related to inventory-in transit:

- When inventory is shipped from one location of the DAF WCF to another, the inventory is removed from the local base's subledger upon shipment. The DAF WCF is unable to identify inventory in-transit, as the receiving base does not recognize the inventory until inducted. When the inventory arrives at its destination, it is the responsibility of the receiving base to recognize the inventory in ILS-S.
- Shipments are processed via manual entry into ILS-S or FIABS. We identified instances where, during the asset transportation process, either an individual at the receiving base or at the shipping base, created errors in the system when the shipments were recorded. As a result, discrepancies were caused in the subledger.
- When MDD inventory is shipped from one location of the DAF WCF to another, the inventory is removed from the shipping base's subledger upon shipment. The DAF WCF is unable to identify MDD inventory in-transit at the asset level, as the receiving base does not recognize the inventory until inducted.

Recommendations:

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

Related to inventory count procedures and controls

- Implement an SOP that includes controls across planning, execution and monitoring of organic maintenance cycle counts.
- Design and implement controls to support the procedures in the SOP to plan, execute and monitor organic maintenance cycle counts.
- Create an SOP and associated internal controls to ensure AFMC, or a centralized group, reviews the results of all base possessed inventory cycle counts to ensure that there are no material errors within the inventory records.
- Design control activities which prevent or detect the identified risks of material misstatement; such as, incomplete or inaccurate system information used in the performance of a control.

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- Maintain appropriate evidence of the design and execution of the control activities.
- Design a cycle count program for MDD inventory that includes centralized oversight of planning, execution and review of results, including a periodic review of production inventory aging.

Related to inventory valuation - MAC

- Implement additional interface controls to ensure contracts housed in databases outside of the primary contract database are appropriately incorporated into the computation of MAC. Further, implement reconciliation processes to ensure that contract values interfacing as part of the MAC computation process are complete and accurate.
- Update FIABS and ILS-S system logic to ensure that items turned in for repair that are subsequently restocked once a repair is complete trigger an updated MAC calculation.
- Implement periodic reviews or sample audits for data inputs for local purchases in ILS-S and FIABS.

Related to inventory valuation – Accumulation of Cost

- Establish policies, procedures and controls so that the repair allowance is calculated consistently with SFFAS 3 and the DoD FMR. This should include updating the LRC for the results of the annual budget process and reflecting the updates in the repair allowance account.

Related to inventory movement

- Design control activities which prevent or detect the identified risks of material misstatement such as incomplete or inaccurate system information used in the performance of a control and inappropriate segregation of duties.
- Maintain appropriate evidence of the design and execution of control activities.
- Review and update existing policies and procedures related to the accounting for inventory movement for unserviceable inventory awaiting inspection, disposition or shipment for repair.

Related to in-transit inventory

- Develop policies and procedures related to in-transit inventory. Specifically, the DAF WCF should consider creating a sub-account for in-transit materials in order to maintain appropriate transaction and subledger records in ILS-S and FIABS. This sub-account could be charged when the asset departs from the local base and then reduced upon arrival to the receiving destination.
- Implement controls over the ILS-S system to prevent double counting and misplacement of inventory from occurring.

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- Create a sub-account for MDD War Reserve Material (WRM) in-transit materials in order to maintain appropriate records in DMLSS at the asset level.

III. INVENTORY HELD BY OTHERS

Inventory balances for the DAF WCF are approximately $26.8 billion as of September 30, 2021. Of the $26.8 billion of DAF WCF inventory, approximately 51% of this inventory balance ($13.6 billion) is managed by the DLA. The DAF WCF relies on the DLA to report inventory quantities on hand at period end through the Distribution Standard System (DSS) application.

The following deficiencies aggregate into this material weakness:

(a) Insufficient oversight of inventory managed by DLA

We identified that the DAF WCF does not have sufficient controls in place to ensure balances being recorded through the DLA DSS system are complete and accurate. DLA DSS is a feeder system which flows into the DAF WCF inventory subledger. The DAF relies on DLA to report inventory quantities on hand at period end through DLA DSS. The DAF WCF's current policy is to adjust the inventory records to the quantities reported by DLA. This policy can result in discrepancies in inventory quantities when compared to the DAF WCF records of DLA managed inventory items. The DAF WCF is currently not performing an analysis to determine the appropriateness of changes recorded as a result of DLA's balances compared to the DAF WCF records.

DLA is a material service provider to the DAF WCF. The DAF WCF has not assessed all DLA functions to determine which risks of material misstatement and internal controls are material to the DAF WCF's internal control over financial reporting. Further, the DAF WCF has not implemented controls specific to its review of the DLA Service Owned Inventory in DLA Custody (SOIDC) Service Organization Controls (SOC) report. Specifically, the DAF WCF has not evaluated the complementary user entity controls (CUECs) identified in the current DLA SOIDC SOC report and mapped relevant CUECs to the DAF WCF internal controls. The DAF WCF also has not considered the impact of deficiencies identified in the DLA SOIDC SOC report on its internal control over financial reporting.

(b) Insufficient oversight of inventory managed by contractors and other defense organizations

Complete and accurate information on inventory values and quantities are critical to the reliability of the financial statements. The DAF WCF utilizes multiple third parties to hold and repair inventory in order to avoid duplication of efforts. In reporting inventory balances held at third party locations, the DAF WCF is responsible to ensure the completeness and accuracy of the information being reported on its financial statement and related footnotes. EY identified multiple

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conditions precluding the DAF WCF from effectively executing oversight of assets held by contractors and other defense organizations on behalf of the DAF WCF.

A reconciliation was performed by the DAF WCF between the data from various inventory feeder systems impacting contractor and other defense organization inventory and the data which ultimately flows to the inventory subledger, FIABS. As a result of this reconciliation, the DAF WCF identified that there are quantity differences and potential duplicate records between the inventory subledger and the identified feeder systems. We identified the following conditions regarding the reconciliation:

- While progress has been made in determining and resolving the underlying causes of the quantity differences within the reconciliation, all differences have not been resolved.
- Interfaces between the feeder systems and the inventory subledger have not been identified and validated for completeness and accuracy.
- Dollar values have not been applied to all quantity differences to assess their complete financial statement impact.
- Controls to assess the completeness and accuracy of the various data sources which are used in the reconciliation have not been established.
- A standard operating procedure and ongoing internal controls pertaining to the reconciliation have not been developed.

During the performance of inventory observation procedures, we identified multiple instances where location data within the DAF WCF's inventory subledger did not match the asset's physical location. As a result of these observations, inventory quantity differences were identified between the DAF WCF inventory feeder system and contractor systems, as well as differences between contractor systems and on-hand quantities. Furthermore, we identified an instance of assets being sent to a contractor and inducted under an NSN representative of an upgraded version of the asset prior to upgrade work being performed. Without accurate tracking of the inventory held by third parties on the DAF WCF's behalf, management is unable to assess the completeness, existence, and accuracy of inventory balances in other organizations' custody.

The DAF WCF does not always perform a timely review of asset receipts processed by external contractors or other defense organizations, which can result in incomplete or inaccurate receipts being reflected within the DAF WCF's financial statements.

Finally, we identified instances where the DAF WCF prepared process narratives pertaining to inventory managed by contractors or other defense organizations that were either incomplete or inaccurate. Specifically, descriptions of the process and associated internal controls for material components of the process pertaining to Depot Maintenance Interservice Agreement (DMISA) and Performance Based Logistics (PBL) inventory were not included within the DAF WCF prepared process narratives. We additionally determined that the DAF WCF has not fully identified the material aspects of the process, risks of material misstatement, DAF WCF controls and contractor

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or other defense organization controls within its process narratives pertaining to inventory managed by contractors or other defense organizations.

Recommendations:

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

- Evaluate the most effective approach to ensure the controls being performed by the DAF WCF and the DLA impacting the DLA managed inventory process are designed and operated effectively to prevent and/or detect material misstatements:
    - Evaluate the existing DLA SOIDC SOC-1 report to ensure the report is scoped for the specific risks associated to the functions the DLA performs on behalf of the DAF WCF.
    - Evaluate the CUECs identified within the current DLA SOIDC SOC report to determine whether all CUECs are relevant to the DAF WCF's processes and use of the DLA.
    - Evaluate which process narratives are required to be updated for the identified CUECs from the DLA SOIDC SOC-1 report based on the underlying nature of the identified CUEC.
    - Map the CUECs, as identified within the DLA SOIDC SOC-1 report, to the DAF WCF process narratives to ensure the DAF WCF control environment is responsive to the risks related to the use of the DLA.
    - Design, implement, and maintain evidence for internal control activities performed by the DAF WCF related to the DLA managed inventory process which prevent or detect misstatements.
- Pertaining to the reconciliation of various inventory feeder systems impacting contractor and other defense organization inventory and the data which ultimately flows to the inventory subledger:
    - Establish controls and procedures to document the underlying drivers of identified variances, the process by which those variances were investigated, and the eventual resolution of identified variances including appropriate retention of supporting evidence.
    - Identify and validate the completeness and accuracy of interfaces between the feeder systems and the inventory subledger.
    - Apply dollar values to all identified quantity differences in the reconciliation in order to assess their materiality.
    - Establish controls to assess the completeness and accuracy of the various data sources which are used in the reconciliation.
- Effectively design and operate controls related to the contractor managed and other defense organization managed inventory processes in order to prevent or detect material misstatements. In determining the extent of control procedures required, the assessment should continuously

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consider the materiality of the balance of inventory and transaction volume pertaining to each contractor or other defense organization.

- Implement periodic review controls over contractor managed inventory to include locational data completeness and accuracy.
- Perform inventory existence and completeness count procedures over contractor and other defense organization managed inventory balances.
- Perform periodic reconciliation of inventories reported by contractors and other defense organizations to the DAF WCF inventory subledger. Investigate and resolve reconciling items in a timely manner.
- Evaluate whether a journal voucher should be recorded at period end to reduce the value of assets inducted for upgrade under the upgraded versions NSN to the value of the non-upgraded version.
- Obtain a population of all found on base (FOB) transactions within FIABS and implement controls and procedures requiring timely review and approval of FOB transactions.

IV. EARNED REVENUE AND ACCOUNTS RECEIVABLE

The following deficiencies aggregate into this material weakness:

(a) Incorrect application of the percentage of completion revenue recognition method for maintenance revenue

The DAF WCF recognizes revenue for large scale long-term maintenance projects using a percentage of completion calculation. The DAF WCF is incorrectly applying the percentage of completion calculation per SFFAS 7, *Accounting for Revenue and Other Financing Sources*. Currently, the DAF WCF does not have a system in place to routinely monitor and update total estimated costs of a project, and therefore, is recognizing revenue as a percentage of the initial estimated costs of the project rather than actual costs. By not identifying and monitoring projects where the total cost incurred will exceed (or not meet) the amount of costs initially estimated, the DAF WCF is incorrectly matching revenues to expenses in the reporting period. Additionally, the complete end-to-end processes, procedures and key controls for the maintenance revenue class of transactions are not accurately and/or fully documented.

(b) Lack of adequate policies, procedures and internal controls for "Flying Hours" revenue

The DAF WCF recognizes "Flying Hours" revenue for the Consolidated Sustainment Activity Group (CSAG) Supply Division and Supply Management Activity Group – Retail (SMAG-R) based upon the flying hours executed. "Flying Hours" billings are computed monthly on a one-month lag. The year-end "Flying Hours" accrual is computed based upon a three-month average of actual billings. We identified that the review performed of the year-end "Flying Hours" revenue accrual was not sufficiently documented or of sufficient rigor. In addition, the DAF WCF

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determines the amount of "Flying Hours" billings based upon the preliminary quantity of flying hours executed by each Major Command. The final amount of executed flying hours are determined and provided to the DAF WCF subsequent to monthly billings. The DAF WCF did not reconcile the preliminary quantity of flying hours executed to the final quantity of flying hours executed and make any corresponding adjustments to "Flying Hours" revenue recorded.

(c) Lack of adequate policies, procedures, internal controls and supporting documentation for supply revenue

The DAF WCF recognizes supply and MDD revenue upon the sale of an inventory item. Prices are entered into various pricing systems managed by the DAF or third parties and interface to ILS-S, FIABS or DMLSS to measure revenue. We identified that insufficient controls are in place to ensure accurate approved prices are used to measure revenue. In addition, insufficient controls were in place over the customer acceptance and maintenance process.

(d) Inability to support invoice level accounts receivable subledgers

We identified that the DAF WCF is unable to provide an accounts receivable subsidiary ledger at the invoice level which reconciles to the general ledger.

Recommendations:

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

- Develop policies and procedures to properly apply the percent of completion guidance as outlined in SFFAS 7.
- Implement a process to continually estimate and document the total cost of the maintenance project throughout the life of the maintenance project.
- Update the maintenance revenue recognition calculation to include a calculation for a proportionate amount of estimated losses each period.
- Design control activities which prevent or detect the identified risks of material misstatement such as incomplete or inaccurate system information used in the performance of a control and inappropriate segregation of duties.
- Maintain appropriate evidence of the design and execution of control activities.
- Update policies and procedures so that appropriate documentation can be provided in a timely manner to support transactions/balances recorded in the financial statements.
- Develop sufficient controls to reconcile and monitor the accounts receivable subsidiary ledger at the invoice level to the general ledger.

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V. FUND BALANCE WITH TREASURY

FBwT is an asset account that shows the available budget spending authority of federal agencies. FBwT reconciliations are key controls for supporting the existence, completeness and accuracy of the budget authority and outlays reported on the Statements of Budgetary Resources.

The following deficiencies aggregate into this material weakness:

(a) Lack of sufficient documentation of accounting policies, procedures and controls

The complete end-to-end processes, procedures and key controls for portions of the FBwT reconciliation process are not accurately and/or fully documented. For example, we identified specific review controls over inputs into and outputs from the Consolidated Cash Accountability System – Air Force (CCAS-AF) reconciliation that were not effectively designed because they lacked review objectives, established thresholds for an appropriate level of precision to detect errors and criteria detailed in process documentation for control owners to follow.

(b) Enhanced controls over the monthly undistributed journal voucher processes are necessary

Each month, the DAF WCF reconciles FBwT in the DDRS-B to their balance as reported by the U.S. Treasury and records an adjustment to bring those balances into agreement. At year end, the DAF WCF had identified significant differences between activity posted by the U.S. Treasury and that posted in DDRS-B.

The undistributed JVs, some of which cannot be supported at the voucher detail level, currently impact various general ledger accounts including accounts payable, accounts receivable and related budgetary accounts. There is no current analysis performed to supplement the undistributed JV to assess the root causes of these undistributed and unmatched transactions.

While the CCAS-AF reconciliation is used to systematically measure and track the unmatched data between the DAF WCF's general ledgers and the U.S. Treasury, this process is not completed before the undistributed JV's are posted. During our testing, we identified instances where the undistributed JV's did not reconcile to the CCAS-AF reports. Currently, no formal review exists to support the review and resolution of variances between the undistributed JV and the CCAS-AF reports. Additionally, undistributed items are not cleared in a timely manner and a significant amount remain unresolved at year end.

(c) Lack of sufficient monitoring over DFAS

The DAF WCF is responsible for monitoring the effectiveness of internal control over processes being executed by its third-party service providers. During our procedures over the FBwT

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reconciliation process performed by DFAS, we were unable to obtain sufficient audit evidence for the following:

- The DAF WCF's monitoring of the accuracy and timely maintenance of applicable process documentation.
- The implementation of a control that would allow the DAF WCF to validate the accuracy and completeness of the CCAS outputs/reconciliations.
- The performance of completeness checks over the DAF WCF data between the source files used in the CCAS-AF reconciliation and the source system.
- The implementation of a control that would effectively allow the DAF WCF to monitor modifications within the CCAS-AF reconciliation script and process.
- The implementation of a control that would effectively allow the DAF WCF to monitor the effectiveness of the FBwT reconciliations performed by DFAS prior to the CCAS-AF month-end process.
- The DAF WCF's review of the undistributed JV's and how the reconciliation between the DAF WCF's general ledgers to the U.S. Treasury are supported each period with transaction level detail.

Recommendations

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

- Develop control objectives to resolve variances between the general ledger and the U.S. Treasury in a supportable manner each period. The control objectives should include sufficient root cause analysis of the exceptions that caused the undistributed and unmatched variances.
- Design and implement an effective process to support the monthly reconciliation controls between DAF WCF's general ledgers and the U.S. Treasury. Retain adequate documentation to support the execution of the controls including sufficient evidence of the underlying review over source files input into the reconciliation, the business logic used for the reconciliation tool's processing of the files and the final outputs intended to support the undistributed JV.
- Evaluate the existing FBwT reconciliation control environment to identify the need for additional monitoring and review controls throughout the entire FBwT reconciliation process.
- Implement ongoing review procedures over the documentation on changes made to the FBwT reconciliation script to allow the DAF WCF oversight over changes in the business logic and evidence the review procedures in written documentation (e.g., SOP, Process Cycle Memorandum (PCM)).

VI. ACCOUNTS PAYABLE, GROSS COSTS AND CONTRACT FINANCING

The following deficiencies aggregate into this material weakness:

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(a) Lack of sufficient documentation of accounting policies, procedures and controls for accounts payable, gross costs and cash disbursements processes

The DAF WCF has not fully demonstrated the systemic interoperability and audit trail of its acquisition, logistical and accounting processes and systems data from asset procurement through receipt, invoicing, payment and valuation. The complete end-to-end processes, procedures and key controls are not accurately and/or fully documented for portions of the accounts payable, gross costs, disbursements, obligations, contracting and key subprocesses from the procure to pay (P2P) and plan to stock business processes, including but not limited to: Maintenance Expense, Supply Expense, MDD Expense, Vendor Pay, Mechanization of Contract Administration Services (MOCAS) and Military Standard Requisitioning and Issue Procedures (MILSTRIP). In addition, in some instances the DAF WCF also was unable to provide sufficient supporting documentation in a timely manner, which limits our ability to perform certain procedures.

(b) Lack of or inadequate controls over accounts payable, gross costs, cash disbursement and obligation processes

The DAF WCF lacks or has inadequate controls, including the design of controls, over the following:

- **Recording transactions in the appropriate period** — The DAF WCF lacks controls to record expense transactions appropriately and accurately in the period that the transaction occurred or when the goods/services are received.
- **AP and cash disbursements** — The DAF WCF lacks controls to monitor the aging of its accounts payable, including evaluating unpaid invoices and whether remaining balances are valid. Internal controls also have not been fully designed or implemented to confirm the accuracy and completeness over accounts payable and disbursements.
- **MOCAS contracts** — The DAF WCF has not developed controls to validate that contract obligations are recorded and/or interfaced between MOCAS and the accounting systems timely.

The lack of adequate controls over AP, gross costs, cash disbursements and obligations processes has a downstream impact on other processes, such as FBwT, inventory held by the DAF WCF and inventory held by others. This can result in significant fluctuations in costs and asset balances from period to period, which may be created by material inaccuracies in the related accounts.

(c) Insufficient controls over contract financing payments

CFP are authorized disbursements to a contractor prior to acceptance of supplies or services by the Government and are reported by the DAF WCF as a component of Other Assets. MOCAS is the

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primary system utilized to administer contracts with CFP. The DAF WCF lacks sufficient controls over the financial reporting of CFP, including:

- Insufficient monitoring of the MOCAS CFP balance for accuracy and completeness, including the lack of reconciliation between the MOCAS CFP sub-ledger population and the general ledger.
- Improper reporting of CFP related to capitalized equipment and inventory as “Other Assets.” The capitalized costs incurred before assets are placed in service should instead be recognized in GPP&E (construction-in-progress) or inventory and related property (inventory in development) as appropriate.

Recommendations:

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

- Design control activities which prevent or detect the identified risks of material misstatement such as incomplete or inaccurate system information used in the performance of a control and inappropriate segregation of duties.
- Maintain appropriate evidence of the design and execution of control activities.
- Update policies and procedures to document year-end processes for identifying, monitoring and recording transactions in the current period.
- Implement monitoring over the accrual processes to ensure that accruals are recorded timely and accurately.
- Update policies and procedures to determine that appropriate supporting documentation is developed, retained and provided in a timely manner to support transactions/balances recorded in the financial statements.
- Develop an aging schedule over the Accounts Payable balance to accurately track unpaid invoices and avoid late payments.
- Coordinate with service providers as appropriate to ensure that obligations (contracts) are recorded in MOCAS, Integrated Accounts Payable System and the accounting systems on a timely basis.

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- Implement the following due to insufficient controls over financial reporting of contract financing payments:
    - Develop and implement a beginning-to-end process to properly record contract financing payments, including reporting in the appropriate financial statement lines.
    - Determine whether financial statement balances reflect an accurate and complete population of contract financing payments by:
        - Identifying and validating a complete MOCAS contract financing population.
        - Developing and implementing a reconciliation between the MOCAS contracting financing population and the general ledger.

VII. ACCUMULATING AND PREPARING FINANCIAL STATEMENTS

The following deficiencies aggregate into this material weakness:

(a) Lack of sufficient centralized financial statement analytical and review functions

The below listing highlights several areas where we identified a lack of sufficient monitoring over financial reporting:

- Unsupported transactions
- Approval and identification of journal vouchers accumulated within the trial balance
- Ineffective monitoring of abnormal balances
- Insufficient monitoring of balance sheet account reconciliations and accounting estimates
- Improper budgetary to proprietary tie-point balancing

In addition, we identified several accounting or posting logic errors, which are discussed further in section (b) of the Integration and Reconciliation of Financial Systems section, which could have been detected and corrected prior to reporting had an effective monitoring process been in place.

The DAF WCF does not have a sufficient data analytics infrastructure or unique data elements to timely perform monitoring of accounting data and transactions. Additionally, the DAF WCF does not have a sufficient number of trained accounting personnel to perform monitoring over its financial reporting environment to compensate for the insufficient data infrastructure. Finally, the DAF WCF relies on its service provider, DFAS, to perform data analytics, reconciliations and other key data functions without the necessary capability or capacity to fully monitor or review DFAS' work. The DAF WCF established a new Accounting Oversight & Data Analysis branch to begin addressing these conditions.

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(b) Lack of assessment, monitoring and effective implementation of recent accounting guidance

The DAF WCF does not have a formal process established to effectively assess, monitor, and implement recent accounting guidance issued by the Federal Accounting Standards Advisory Board (FASAB) or other accounting guidance issued by the Office of the Secretary of Defense (OSD) (e.g., DoD Financial Management Regulation updates, Defense Audit Remediation Working Group (DARWG) papers). While the DAF WCF leadership is actively involved in working groups to stay abreast of new guidance, there is not one group that is responsible for ensuring the full implementation for financial reporting purposes.

As described in Note 1 to the financial statements, the DAF WCF has not completed the process of evaluating the effects that will result from adopting certain pronouncements and other guidance issued by FASAB, which are already effective. This includes but is not limited to SFFAS 48, *Opening Balances for Inventory, Operating Material and Supplies, and Stockpile Materials* (SFFAS 48) and SFFAS 50, *Establishing Opening Balances for Property, Plant, and Equipment* (SFFAS 50). The effect on the financial statements amounts is not currently determinable by the DAF WCF and could be material.

(c) Enhanced financial statement review procedures are needed

While progress has been made, the DAF WCF needs to continue to enhance its process for the preparation and review of its Agency Financial Report (AFR). Specifically, we identified instances of the following:

- Inaccurate balances reported in the notes to the financial statements
- Supporting documentation that did not adequately support amounts included in the notes or could not be provided in a timely manner
- Lack of complete and accurate disclosures

The DAF WCF should continue to work across the organization to ensure that the appropriate input is being provided to decrease the probability of error and increase the usefulness of the AFR as a mechanism to communicate to the public the successes, plans and annual results of the DAF WCF. Some variances identified during our audit procedures were unable to be corrected by the DAF WCF as the correction would not comply with Office of the Secretary of Defense policy.

In accordance with OMB Circular A-136, *Financial Reporting Requirements*, and Statement of Federal Financial Accounting Concepts (SFFAC) 2, *Entity and Display,* the Statement of Net Cost should present gross and net cost information for major organizations and programs, as well as data related to its outputs and outcomes. The DAF WCF currently accumulates amounts reported in its Statement of Net Cost by major appropriation groups funded by Congress and not by major

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organization and programs as required. As further discussed in Note 1C., the DAF WCF also has not presented comparative financial statements as required by Circular A-136.

Recommendations:

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

- Invest in hiring, training and retaining additional qualified accountants across the entity, as necessary, for the purpose of implementing a more comprehensive oversight program.
- Develop effective controls to prevent abnormal balances from inaccurately being recorded in the financial records. Review the financial statements produced by DFAS to assess their accuracy including to confirm that no abnormal balances exist.
- Enhance internal control procedures for journal vouchers, including evaluating whether sufficient policies and procedures exist to ensure proper review and approval of a complete population of journal vouchers.
- Dedicate resources to track and coordinate the assessment of the impact and implementation of recent guidance and technical updates commensurate with the size and complexity of the DAF WCF's operations.
    - Perform reviews of OMB Circular A-136 requirements to ensure updated guidance is evaluated and incorporated in a timely manner.
    - Develop white papers to document the DAF WCF's consideration of the guidance and plan for implementation.
    - Assess current checklists used in the financial reporting process to determine if checklists need to include enhanced review procedures.
    - Develop policies and procedures pertaining to the valuation of opening balances of inventory, operating materials and supplies in consideration of SFFAS 48 and opening balances of general property, plant and equipment in consideration of SFFAS 50.
- Continue to develop reviews by business process areas to ensure disclosures are complete, accurate, and compliant with financial reporting guidance.
- Statement of Net Cost
    - Determine the major organizations and programs most relevant to the DAF WCF.
    - Implement processes to capture costs by major organization and program.
- Design and implement control activities which identify accounting estimates and monitor the appropriateness of the method, model, and assumptions utilized to determine the estimates.
- Design and implement control activities to perform and monitor balance sheet account reconciliations.

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VIII. OVERSIGHT AND MONITORING OF INTERNAL CONTROL

The following deficiencies aggregate into this material weakness:

(a) Lack of an effective internal control program over financial reporting and compliance with financial-related laws and regulations

OMB Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control,* defines management's responsibility for enterprise risk management and internal control in Federal agencies. FMFIA requires federal entities to establish internal controls in accordance with the GAO's Standards for Internal Control in the Federal Government (the GAO Green Book). The GAO Green Book defines entity level controls as controls that have a pervasive effect on an entity's internal control. It establishes five components of internal control: Control Environment, Risk Assessment, Control Activities, Information and Communication and Monitoring. In accordance with the GAO Green Book, management must effectively design, implement, and operate each of the components of internal control for the components to be effective. Based on our review of the DAF WCF's FY 2021 Statement of Assurance, the description of activities related to the OMB Circular A-123 program and discussions with the DAF WCF, the DAF WCF has not fully implemented an effective internal control program over financial reporting and compliance with financial-related laws and regulations in compliance with OMB Circular A-123, Appendix A.

While the DAF WCF A-123 program is not fully implemented, the DAF WCF has made progress, including the development of training programs focused on risk and control concepts, development of standardized templates for control evaluation, and evaluation of the operating effectiveness of some key controls. The DAF WCF also enhanced its cycle memorandum to more accurately document the financial statement risks and key controls for significant processes. These efforts demonstrate steps forward, however, as identified in other sections of this report, we identified instances where the DAF WCF prepared process cycle memorandums that were either incomplete or inaccurate and where controls were insufficiently designed or executed.

(b) Lack of complete narratives for significant processes of the DAF WCF

During our walkthroughs and site visits, we identified instances where the DAF WCF-prepared process narratives were incomplete. Specifically, process narratives were incomplete for the inventory revaluation allowance, the depot operating materials and supplies, the supply revenue rate setting, the excess, obsolete and unserviceable inventory, the benefit expense, the imputed financing cost, certain DMISA, certain contractor and the Federal Employee Compensation Act (FECA) liability processes. Further, the DAF WCF-prepared process narratives did not include all existing interface, application and technology dependent manual controls which mitigated risks of material misstatement (RMM's).

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Recommendations:

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

- Enhance the process and procedures related to the Statement of Assurance by providing training and identifying roles and responsibilities to validate that the DAF WCF identified assessable units, developed management control plans, performed risk assessments, performed ongoing monitoring, developed corrective action plans, and tracked progress towards remediation.
- Fully execute the assessment process contained in OMB A-123, Appendix A, to assess the effectiveness of internal control over financial reporting and compliance with financial-related laws and regulations.
- Maintain adequate and updated supporting documentation and for all phases/steps outlined in OMB A-123, Appendix A.
- Increase the resources dedicated to the A-123 program to completely execute all aspects of the program requirements on an on-going basis.
- Update the DAF WCF-prepared process narratives to include a description of all material aspects of the processes and all existing controls which mitigate RMM's.

IX. FINANCIAL INFORMATION SYSTEMS

Information system (IS) controls are fundamental to the confidentiality, integrity, and availability of all applications and the financial data they store, process, and transmit. Our assessment of the IT controls and the computing environment identified deficiencies in the design and operation of information systems controls in the following areas:

- Access Controls (AC): Controls provide reasonable assurance that the access to system resources is consistent with job duties and restricted to authorized individuals.
- Configuration Management (CM): Controls provide reasonable assurance that changes to the information system are authorized and operating as intended.
- Segregation of Duties (SoD): Controls provide reasonable assurance that incompatible duties are effectively segregated.
- Interface Controls (IC): Controls provide reasonable assurance that data from feeder systems is reliable, valid, complete and properly converted from the feeder systems into the applications they support.
- Security Management (SM): Controls provide reasonable assurance that overarching system risk management policies and procedures are in place.

IT general controls support the continued functioning of application controls, the automated aspects of IT-dependent manual controls and the production of complete and accurate information

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produced by the entity. Weaknesses in such controls can compromise the integrity of sensitive data and increase the risk that such data may be inappropriately used and disclosed in the DAF WCF's financial statements, IT environment and financial applications. The inability to have reliance on application controls inhibits the entity's ability to enhance the timeliness, availability and accuracy of information as they are operated by the IT application without manual intervention.

The DAF WCF has made progress in remediating prior year findings while continuing to focus on modernization efforts of their legacy applications and infrastructure and leveraging of new technologies to standardize business and IT processes. As new financially significant applications are commissioned, it is critical to effectively plan and fully integrate information systems controls during the implementation to avoid any weaknesses in the DAF WCF IT controls environment post implementation.

(a) Access Controls

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 verify 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 following access control weaknesses in aggregate, represent a significant risk to the DAF WCF IT environment (relevant to the financial applications):

- Access was not restricted to authorized users and was not assigned in accordance with the principle of least privilege.
- Policies and procedures for account authorization, provisioning and termination were not documented.
- Procedures were not consistently followed for monitoring unused IDs, locked IDs, terminated users, access provisioning or access re-certifications.
- Procedures for monitoring and auditing security violations and sensitive user activities, including activities of privileged users, were not documented, not being performed, or not configured appropriately within systems.
- Periodic reviews of sensitive and non-sensitive user access were not performed appropriately.
- Security auditing and monitoring of system activities was not established.
- Audit logging information is not being reviewed by an independent party.
- Passwords were not being changed in accordance with defined frequencies.
- Shared passwords for group accounts are not adequately protected.

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- Inactive or unauthorized users are not disabled or removed timely and in accordance with organization defined policies.
- The completeness and accuracy of system- and manually-generated reports are not being verified by management responsible for reviewing these reports.
- Password complexity and password lockout requirements were not being enforced.

(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, the DAF WCF can verify 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 following change control weaknesses in aggregate as discussed below represent a significant risk to the DAF WCF IT environment (relevant to the financial applications):

- Adequate policies and procedures defining configuration management requirements have not been developed.
- Developers were granted inappropriate access to make modifications directly to the production environment and delete system files within application modules.
- Configuration changes are not properly reviewed, approved, tested and documented.
- Configuration changes to production environments are not being monitored to verify their appropriateness.
- The release and migration of application code, configurations, and databases are not monitored for potentially unauthorized changes.
- Direct changes to data in production may be made unmonitored and without any required documentation, testing (if applicable), or approval.
- The completeness and accuracy of system and manually generated reports are not being verified by management responsible for reviewing these reports.
- Access to application source code is not appropriately restricted and monitored.

(c) Segregation of Duties

SoD controls provide policies, procedures, and an organizational structure to prevent one or more individuals from controlling key aspects of computer-related operations without detection, and thereby conducting unauthorized actions or gaining unauthorized access to assets or records. Proper implementation of these controls separates duties in both procedure and practice,

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preventing a single user from having access or responsibility for tasks that should be completed by separate personnel for a strong control environment. Weaknesses in such controls can compromise the review processes and detective control procedures in applications, increasing the risk that user activities, especially for sensitive transactions, are not appropriately monitored and assessed.

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

- Access rights and responsibilities were not appropriately restricted to independent users and assigned in accordance with SoD policies.
- Policies and procedures were not always comprehensive and did not address potential SoD conflicts within the applications.
- Controls were not in place to verify conflicting roles were not assigned to individuals during the access provisioning process, and for known conflicts where SoD concerns were identified, subsequent logging and review of a user's activity was not in place and monitored for appropriateness.
- Conflicting roles that were deemed necessary or required due to a business need were not documented and assessed on a regular basis.
- Users were assigned access to allow them to perform both administrator and end user functions.
- The completeness and accuracy of system- and manually generated reports are not being verified by management responsible for reviewing these reports.

(d) Interface Controls

Interface controls consist of those controls over the timely, accurate, and complete processing of information between applications on an ongoing basis.

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

- Interface agreements are not reviewed on a periodic basis to ensure they are accurate.
- Documented interface agreements do not comprehensively describe edits and validation checks along with error handling processes.
- Logs of interface processing activities are not retained to support subsequent auditing and monitoring. Error reporting of failed interface processing activities has not been implemented in some systems.
- Interface files are not protected from unauthorized access and modification prior to processing.
- Validation checks are not consistently implemented across interfaces to prevent the processing of duplicate or inaccurate data.

- Reconciliations are not being performed between source and target systems to verify completeness and accuracy of processing.
- The completeness and accuracy of system- and manually generated reports are not being verified by management responsible for reviewing these reports.
- Periodic reviews of system interface errors do not appropriately document the cause and resolution of the errors.

(e) Security Management

A security management program is the foundation of a security control structure and a reflection of senior management's commitment to addressing security risks. The security management program should establish a framework and continuous cycle of activity for assessing risk, developing and implementing effective security procedures, and monitoring the effectiveness of these procedures. Without a well-designed program, security controls may be inadequate; responsibilities may be unclear, misunderstood, or improperly implemented; and controls may be inconsistently applied.

The following security management weaknesses in aggregate represent a significant risk to the DAF WCF IT environment (relevant to the financial applications):

- Security controls were not regularly assessed for appropriateness, monitored, or tested in order to verify compliance.
- Plans of action and milestones (POA&Ms) were not prioritized and periodically tracked to completion, including testing and monitoring of corrective actions.
- For systems hosted by the Defense Information Systems Agency (DISA), assessments over CUECs and inherited controls identified in the SOC 1 report were not performed.

Recommendations:

The DAF WCF 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 controls for users with elevated access privileges.
    - 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.
    - Segregate roles and where conflicting roles are required or unavoidable, document business rationale and monitor activities of users.
    - Restrict user access to a single account and eliminate shared accounts.

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  - Review access logs and perform follow-up investigation of potential security violations.
  - Implement strong password management policies.
  - Implement controls verifying the completeness and accuracy of management reports.
- Configuration management / change controls:
  - Develop appropriate configuration management policies and procedures.
  - Segregate developer access between development and production environments.
  - Document and retain adequate evidence of change requests, testing, and approvals.
  - Monitor the application and database(s) for potentially unauthorized changes.
  - Implement controls verifying the completeness and accuracy of management reports.
  - Restrict access to application source code to only authorized users.
- 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.
  - Maintain and periodically review appropriate and comprehensive documentation covering all interfaces.
  - Document and follow procedures for performing interface error handling and correction.
- Security Management:
  - Define and implement consistent procedures related to periodic security controls assessments and testing.
  - Prioritize and monitor POA&M progress, and test and monitor corrective actions.
  - Review applicable SOC reports and associated CUEC implementation.

Significant Deficiency

X. General Property, Plant and Equipment (GPP&E)

(a) Insufficient policies, procedures, internal controls and supporting documentation for GPP&E

The complete end-to-end processes, procedures and internal controls for portions of the GPP&E processes are not accurately and/or fully documented. The DAF WCF did not consistently execute internal controls to ensure GPP&E balances (additions, disposals or impairments) were completely and accurately reflected within the financial statements. Certain detect controls within the GPP&E process were effectively designed and were operating during the year; however, other controls within the GPP&E process were not effectively designed and evidence of their performance was not appropriately maintained. In addition, the fact that DAF WCF has not completed the process of evaluating the effects that will result from adopting SFFAS 50 to the beginning balance of GPP&E is not considered in this significant deficiency. Rather, it is considered separately within the Accumulating and Preparing Financial Statements material weakness.

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Recommendations:

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

- Design control activities which prevent the identified risks of material misstatement such as incomplete or inaccurate system information used in the performance of a control and inappropriate segregation of duties.
- Maintain appropriate evidence of the design and execution of control activities.

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

The Secretary of the 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. 21-04, *Audit Requirements for Federal Financial Statements,* the financial statements of the Department of the Air Force Working Capital Fund (DAF WCF), which comprise the consolidated balance sheet as of September 30, 2021, and the related consolidated statement of net cost, consolidated statement of changes in net position and combined statement of budgetary resources for the year then ended, and the related notes to the financial statements and have issued our report thereon dated November 8, 2021. Our report disclaims an opinion on such financial statements because the DAF WCF was not able to provide sufficient appropriate audit evidence due to matters discussed further in the Basis for Disclaimer of Opinion paragraph.

Compliance and Other Matters

In connection with our engagement to audit the financial statements of the DAF WCF, 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 financial statements as well as 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.

The results of our tests disclosed instances of noncompliance and other matters that are required to be reported under *Government Auditing Standards* and OMB Bulletin No. 21-04, as described below. Additionally, if the scope of our work had been sufficient to enable us to express an opinion on the financial statements, other instances of noncompliance or other matters may have been identified and reported herein.

Our Report on Internal Control over Financial Reporting dated November 8, 2021 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, and our recommendations to the specific issues presented.

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FFMIA

Under FFMIA, we are required to report whether the DAF WCF'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 the DAF WCF's financial management systems did not substantially comply with federal financial management systems requirements, applicable federal accounting standards or the USSGL.

(a) Federal financial management system requirements

As referenced in the Fiscal Year (FY) 2021 DAF WCF Statement of Assurance, the DAF WCF identified that financial systems and financial portions of mixed systems do not substantially meet FFMIA or OMB Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control* (Circular A-123) Appendix D.

EY also identified this material weakness as part of the Financial Information Systems material weakness, contained in the Report on Internal Control over Financial Reporting, where we identified noncompliance with federal financial management system requirements for multiple systems. Weaknesses identified include those associated with security management, access controls/user access, configuration management/change controls, segregation of duties and interface controls. These financial system deficiencies prevent the DAF WCF from being compliant with federal financial management system requirements and inhibit the DAF WCF's ability to prepare complete and accurate financial reports.

(b) Noncompliance with applicable federal accounting standards

As referenced in the FY 2021 DAF WCF Statement of Assurance and Note 1 to the financial statements, the DAF WCF identified that the financial systems and financial portions of mixed systems do not allow the DAF WCF to comply with applicable federal accounting standards, including not being able to collect and record financial information on an accrual accounting basis. EY also identified noncompliance with federal accounting standards during our testing, which was included in our Report on Internal Control over Financial Reporting.

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

As referenced in the FY 2021 DAF WCF Statement of Assurance, the DAF WCF identified that the design of financial systems and financial portions of mixed systems do not allow the DAF WCF to comply with the USSGL at the transaction level. EY also identified noncompliance with the USSGL posting logic during our testing, which was included in our Report on Internal Control over Financial Reporting.

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FMFIA

Federal Managers' Financial Integrity Act (FMFIA) of 1982 requires federal entities to establish internal controls, perform ongoing evaluations of the adequacy of the systems of internal control and prepare related reports.

The DAF WCF has not fully implemented a framework to evidence that they are in compliance with significant aspects of OMB Circular A-123, which implemented FMFIA. The DAF WCF provided a FY 2021 Statement of Assurance, however there was not sufficient appropriate audit evidence that each process identified and implemented by the DAF WCF fully 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 assessed that the DAF WCF has implemented an OMB Circular A-123 testing framework and strategy; however, the DAF WCF has not sufficiently evaluated and supported the extent of testing and review performed to meet the reliability of financial reporting requirements of FMFIA.

Management's Response to Findings

The DAF WCF's response to the findings identified in our engagement and relevant comments from the DAF WCF's management responsible for addressing the noncompliance are provided in their accompanying letter dated November 8, 2021. Management'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 compliance and the results of that testing, and not to provide an opinion on the entity's compliance. This report is an integral part of an engagement to perform an audit in accordance with *Government Auditing Standards* in considering the entity's compliance. Accordingly, this communication is not suitable for any other purpose.

Ernst + Young LLP

November 8, 2021

DEPARTMENT OF THE AIR FORCE
WASHINGTON DC

OFFICE OF THE ASSISTANT SECRETARY

8 November 2021

SAF/FM
1130 Air Force Pentagon
Washington, DC 20330-1130

Mr. Timothy Winder
Partner, Ernst & Young LLP
1775 Tysons Blvd
Tysons, VA 22102

Dear Mr. Winder:

The Department of the Air Force reviewed the Independent Auditor Report prepared for the Fiscal Year 2021 Working Capital Fund financial statements and both acknowledges and concurs with your issuance of a disclaimer of opinion. While we continue to learn from these constructive audit findings—which are included in your reports of *Internal Control Over Financial Reporting and Compliance and Other Matters*—rest assured that our commitment to improving our financial management, by making the right choices at the right time, has never been stronger.

The Department of the Air Force has undergone four full financial statement audits and our leadership is eager to demonstrate to Congress and the American taxpayers the many benefits that having a clean set of books can have on our mission. As such, we have renewed our approach to accelerate our audit goals of reducing critical material weaknesses and improving fiscal responsibility. Several material weaknesses are being worked for downgrade over the next 18 months, which will be significant milestones on our path to achieving an unmodified audit opinion. The Department of the Air Force continues to focus on the most material line items to make progress towards achieving an unmodified audit opinion. We are developing new tools and reconciliations to better analyze transaction-level detail to support material line item balances.

We are pleased to report that COVID-19 had minimal adverse impacts on the audit. Furthermore, we continued to leverage virtual technologies to sustain audit progress and gain more efficiencies that can be used in future audits. COVID-19 has undoubtedly ushered in a "new normal," and, as such, we thank you for your flexibility in navigating this challenging environment with us.

While our Information Technology systems and Integration and Reconciliation of Systems environments remain our most significant challenges, we made considerable progress in improving our cybersecurity posture. The Department of the Air Force diligently focused on remediating Information

Technology Notices of Findings and Recommendations, with more than half of the findings submitted for closure related to access controls and segregation of duties, which is a primary Secretary of Defense priority. Additionally, the Department of the Air Force is developing an Identity, Credential, and Access Management solution to automate and strengthen our ability to manage digital identities and their respective roles and permissions. This innovative and critical solution will improve our cybersecurity capabilities by serving as a single source of truth by which all users are identified and allowed access. Lastly, the Air Force is committed to consolidating our three Working Capital Fund general ledgers and corporate-level general ledger into one as part of the Maintenance, Repair, and Overhaul initiative.

We remain confident that audit outcomes will provide American taxpayers with a renewed confidence that the Department of the Air Force is using their hard-earned dollars in the most efficient and effective ways possible. We remain steadfast in our belief that the audit will play a major role in helping us reduce waste and save money by improving inventory management, addressing vulnerabilities in cybersecurity, and producing better data for leadership to make decisions that will have a meaningful mission impact.

Sincerely,

Stephen R. Herrera
Acting Assistant Secretary of the Air Force
(Financial Management and Comptroller)

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OTHER INFORMATION

Airmen assigned to the 48th Fighter Wing at Royal Air Force (RAF) Lakenheath, United Kingdom, participate in the North Atlantic Treaty Organization (NATO) Air Policing operations at Keflavik Air Base, Iceland. NATO Air Policing is a peacetime collective defensive mission that safeguards the integrity of NATO alliance members' airspace. (Photo credit: Staff Sgt. Rachel Maxwell)

SUMMARY OF FINANCIAL STATEMENT AUDIT AND MANAGEMENT ASSURANCES

The DAF management has a fiduciary responsibility to develop and maintain effective internal controls to ensure that its federal resources are used effectively, and its programs operate efficiently to achieve the mission. Managers throughout the DAF are accountable for ensuring effective internal controls in their areas of responsibility.

Table 1 lists the 19 material weaknesses identified by the Independent Public Accountant (IPA) during the DAF's financial statement audit.

Table 1. Fiscal Year 2021 Summary of Financial Statement Audit

Audit Opinion: Disclaimer of Opinion							
Restatement: No (GF), No (WCF)							
Material Weakness	Beginning Balance	New	Resolved	Consolidated	Ending Balance	DAF GF	DAF WCF
Integration and Reconciliation of Financial Systems	2	-	-	-	2	1	1
Operating Materials and Supplies	1	-	-	-	1	1	-
Property and Materials Held by Others	1	-	-	-	1	1	-
Inventory Held by DAF WCF	1	-	-	-	1	-	1
Inventory Held by Others	1	-	-	-	1	-	1
General Property, Plant, and Equipment	1	-	(1)*	-	-	-	-
Real Property	1	-	-	-	1	1	-
Military Equipment	1	-	-	-	1	1	-
Other General Equipment	1	-	-	-	1	1	-
Earned Revenue and Accounts Receivable	1	-	-	-	1	-	1
Fund Balance with Treasury	2	-	-	-	2	1	1
Accumulating and Preparing Financial Statements	2	-	-	(1)	1	-	1
Oversight and Monitoring of Internal Control	2	-	(1)	-	1	-	1
Contingent Legal Liabilities	1	-	(1)*	-	-	-	-
Accounts Payable, Expenses/ Gross Costs and Accounting for Contract Financing Payments	2	-	-	-	2	1	1
Entity Level Controls	-	1	-	-	1	1	-
Financial Information Systems	2	-	-	-	2	1	1
Total Material Weaknesses	22	1	(3)	(1)	19	10	9

*Resolved in this instance represents material weaknesses that have been downgraded to a significant deficiency in the current year.

As required, the DAF Managers establish and assess internal control over financial reporting, operations, and financial management systems. Management-identified weaknesses are determined by assessing internal controls, as required by the *Federal Managers' Financial Integrity Act of 1982* (FMFIA), the *Federal Financial Management Improvement Act of 1996* (FFMIA), and Office of Management and Budget (OMB) Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*. Assessments of internal controls fall into one of the following categories:

- FMFIA Section 2, *Effectiveness of Internal Control over Financial Reporting*,
- FMFIA Section 2, *Effectiveness of Internal Control over Operations*, or
- FMFIA Section 4, *Compliance with Federal Financial Management Systems Requirements*.

Table 2 provides those areas where material weaknesses were identified by the DAF in the above categories and where remediation work continues. In addition, it includes the status of compliance with Section 803(A) of the FFMIA. The DAF Management believes that the listing of the DAF-identified material weaknesses encompasses all material weaknesses also identified by the IPA for internal control over reporting and internal control over financial systems. Note that differences may exist between the material weaknesses identified by the IPA and those identified by DAF management; these differences are a function of timing between the Statement of Assurance issuance and the date of the Auditor's Report. These timing differences do not change the conclusions reached by both the DAF and the IPA.

Table 2. Fiscal Year 2021 Summary of Management Assurances

Effectiveness of Internal Control over Financial Reporting (FMFIA Section 2)					
Statement of Assurance: Modified Assurance					
Material Weakness	Beginning Balance	New	Resolved	Consolidated	Ending Balance
Accumulating and Preparing Financial Statements (DAF GF)	1				1
Oversight and Monitoring of Internal Controls (DAF GF)	1				1
Property and Materials Held by Others (DAF GF)	1				1
Operating Materials and Supplies (DAF GF)	1				1
Real Property (DAF GF)	1				1
Integration and Reconciliation of Financial Systems (DAF GF)	1				1
Fund Balance with Treasury (DAF GF)	1				1
Establishing Opening Balances for Assets (and related liabilities) used in Operations (DAF GF)	1			(1)	0
Contingent Legal Liabilities (DAF GF)	1				1
Military Equipment (DAF GF)		1			1
Other General Equipment (formerly 'General Equipment' (Including Military Equipment)) (DAF GF)	1				1
Accounts Payable, Expenses/Gross Costs and Accounting for Contract Financing Payments (formerly 'Contract Financing Payments') (DAF GF)	1				1
Fund Balance with Treasury (DAF WCF)	1				1
Earned Revenue (DAF WCF)	1				1
Inventory Held by Air Force Working Capital Fund (DAF WCF)	1				1

Effectiveness of Internal Control over Reporting (FMFIA Section 2)					
Statement of Assurance: Modified Assurance					
Material Weakness	Beginning Balance	New	Resolved	Consolidated	Ending Balance
Inventory Held by Others (DAF WCF)	1				1
Accounts Payable, Expenses/Gross Costs and Accounting for Contract Financing Payments (formerly 'Contract Financing Payments') (DAF WCF)	1				1
Establishing Opening Balances for Assets Used in Operations (DAF WCF)	1			(1)	0
General Property, Plant, and Equipment (DAF WCF)	1				1
Accumulating and Preparing Financial Statements (DAF WCF)	1				1
Oversight and Monitoring of Internal Controls (DAF WCF)	1				1
Integration and Reconciliation of Financial Systems (DAF WCF)	1				1
Total Material Weaknesses	21	1	0	(2)	20

Effectiveness of Internal Control over Operations (FMFIA Section 2)					
Statement of Assurance: Modified Assurance					
Material Weakness	Beginning Balance	New	Resolved	Consolidated	Ending Balance
Defense Contract Management Agency Contracts	1				1
Overseas Housing Allowance	1				1
Energy Meter Management	1		(1)		0
Enterprise Information Protection Capability	1				1
Segregation of Duties in Defense Travel System Controls (formerly 'Defense Travel System Controls')	1				1
Foreign Government Employment	1				1
Electronic Records Cyber Hygiene (formerly 'Electronic Records Hygiene')	1		(1)		0
Criminal Data Reporting Requirements (formerly 'Criminal History Data Reporting Requirements')	1				1
Cybersecurity of Network Component Purchases	1				1
Cyber Security Control of Assessment Systems	1				1
Marketing and Recruiting Programs	1				1
Networked Data Protection	1				1
F-35 Cooperative Training	1				1
Contracting Officer Representatives		1			1
Software Use		1			1
Integrated Base Defense Security System Risk Management Framework		1			1
Total Material Weaknesses	13	3	(2)	0	14

Conformance With Federal Financial Management Systems Requirements (FMFIA Section 4)					
Statement of Assurance: Modified Assurance					
Material Weakness	Beginning Balance	New	Resolved	Consolidated	Ending Balance
Financial Information Systems (DAF GF)	1				1
Financial Information Systems (DAF WCF)	1				1
Total Material Weaknesses	2	0	0	0	2

Compliance With Section 803(A) Of The Federal Financial Management Improvement Act		
	Agency	Auditor
Federal Financial Management System Requirements	Lack of compliance noted	Lack of compliance noted
Applicable Federal Accounting Standards	Lack of compliance noted	Lack of compliance noted
United States Standard General Ledger at Transaction Level	Lack of compliance noted	Lack of compliance noted

BIENNIAL REVIEW OF USER FEES

The *Chief Financial Officers Act of 1990* and the Office of Management and Budget Circular A-25, *User Charges*, requires biennial reviews of agency fees and other charges imposed by the agency for services or special benefits derived from federal activities beyond those received by the general public. The objective of these reviews is to identify such activities, charge fees as permitted by law, and periodically adjust these fees to reflect current costs or market value. The DAF performed a review of user fees in FY 2020 and did not identify any required adjustments. The DAF will conduct the next review in FY 2022.

FIRST FEMALE CREW CHIEF FLIES IN B-2 SPIRIT

In May, U.S. Air Force Staff Sgt. Elizabeth Lambert, 509th Aircraft Maintenance Squadron Dedicated Crew Chief assigned to the Spirit of New York, won the 2021 Chief Master Sergeant of the Air Force Thomas N. Barnes award, which recognizes the most outstanding aircraft crew chief in the U.S. Air Force.

Along with this accomplishment, Staff Sgt. Lambert became the first female crew chief to fly in the B-2 Spirit stealth bomber, an opportunity that fewer than 30 enlisted Airmen have earned.

“This is a once in a lifetime opportunity,” said Staff Sgt. Lambert. “I am the first female enlisted crew chief to fly in the B-2 Spirit and that is incredible. I love that I get to be a part of history as someone that other girls can look up to and know that if I can do this, they can too.”

You can read more about Staff Sgt. Lambert’s historic achievement here.

U.S. Air Force Staff Sgt. Elizabeth Lambert approaches a B-2 Spirit parked on the flight line at Whiteman Air Force Base, Missouri. (Photo credit: Airman 1st Class Victoria Hommel)

GLOSSARY OF ACRONYMS

ACC	Air Combat Command
ACF	Area Cost Factor
ACES-RP	Automated Civil Engineer System – Real Property
ADA	Anti-Deficiency Act
AETC	Air Education and Training Command
AETC I	Air Education and Training Command Group 1
AFB	Air Force Base
AFCEC	Air Force Civil Engineer Center
AFCEC/CZTQ	Air Force Civil Engineer Center/Environmental Quality Technical Support
AFFF	Aqueous Film Forming Foam
AFGSC	Air Force Global Strike Command
AFMC	Air Force Materiel Command
AFR	Agency Financial Report
AFRC	Air Force Reserve Command
AFSOC	Air Force Special Operations Command
AMC	Air Mobility Command
ANG	Air National Guard
APSR	Accountable Property System of Record
ARB	Air Reserve Base
ASC	Air, Space, and Cyber
BAH	Basic Allowance for Housing
BCE	Base Civil Engineer
BD/DR	Building Demolition and Debris Removal
BRAC	Base Realignment and Closure
BS	Balance Sheet
C-ICP	Contractor-Inventory Control Point
CAP	Corrective Action Plan
CARES	Coronavirus Aid, Relief, and Economic Security
CBY	Charge-Back Year
CERCLA	Comprehensive Environmental Response, Compensation, and Liability Act
CFP	Contract Financing Payments
CFR	Code of Federal Regulations
CIP	Construction-in-Progress
CM	Corrective Maintenance

COLA	Cost of Living Adjustment
COR	Contracting Officer Representatives
COVID-19	Coronavirus Disease 2019
CPI	Consumer Price Index
CPI-M	Consumer Price Index Medical
CSAF	Chief of Staff of the Air Force
CSAG	Consolidated Sustainment Activity Group
CSO	Chief of Space Operations
CTC	Cost-to-Complete
DAF	Department of the Air Force
DAF GF	Department of the Air Force General Fund
DAF WCF	Department of the Air Force Working Capital Fund
DAFBOP	Department of the Air Force Business Operations Plan
DEAMS	Defense Enterprise Accounting and Management System
DERP	Defense Environmental Restoration Program
DISCON	Disconnected
DLA	Defense Logistics Agency
DoD	Department of Defense
DOL	Department of Labor
DoT	Department of Transportation
DPAS	Defense Property Accountability System
DRU	Direct Reporting Unit
DSMOA	Defense State Memorandum of Agreement
DTS	Defense Travel System
E&DL	Environmental and Disposal Liabilities
ECA	Environmental Corrective Action
ECR	Environmental Closure Requirements
EISP	End Item Sales Price
EITaaS	Enterprise Information Technology-as-a-Service
ELT	Executive Leadership Team
EOP	Executive Office of the President
EOU	Excess, Obsolete, and Unserviceable
EPA	Environmental Protection Agency
EROR	Environmental Response at Operational Ranges
ESC	Executive Steering Committee
ESOC	Enterprise Information Technology-as-a-Service Security Operations Center

FAR	Federal Acquisition Regulation
FASAB	Federal Accounting Standards Advisory Board
FBwT	Fund Balance with Treasury
FECA	Federal Employees' Compensation Act
FEMA	Federal Emergency Management Agency
FFMIA	Federal Financial Management Improvement Act
FHIF	Family Housing Improvement Fund
FIAR	Financial Improvement and Audit Remediation
FIELDCOM	Field Command
FISCAM	Federal Information System Controls Audit Manual
FMFIA	Federal Managers' Financial Integrity Act
FMR	Financial Management Regulation
FOA	Field Operating Agency
FW	Fighter Wing
FY	Fiscal Year
G-Invoicing	Government Invoicing
GAAP	Generally Accepted Accounting Principles
GAO	Government Accountability Office
General PP&E	General Property, Plant, and Equipment
GF	General Fund
GFE	Government-Furnished Equipment
GSD	General Support Division
HAF	Headquarters Air Force
HQ	Headquarters
I&RP	Inventory and Related Property
IAC	Internal Administrative Claim
ICAM	Identity, Credential, and Access Management
ICBM	Intercontinental Ballistic Missile
ICOR	Internal Controls over Reporting
IPA	Independent Public Accountant
IPO	Information Protection Office
IRP	Installation Restoration Program
ISR	Intelligence, Surveillance, and Reconnaissance
IT	Information Technology
IUS	Internal Use Software

JCS	Joint Chiefs of Staff
JEP	Joint Execution Plan
JSF	Joint Strike Fighter
JV	Journal Voucher
KAFB	Kirtland Air Force Base
LLC	Limited Liability Company
LOE	Line of Effort
LOP	Lease of Property
LRU	Line Replaceable Unit
MAC	Moving Average Cost
MAJCOM	Major Command
MC	Munitions Constituent
MDMA	Master Development and Management Agreement
MEWP	Military Equipment Weapons Program
MHPI	Military Housing Privatization Initiative
ME	Military Equipment
MMRP	Military Munitions Response Program
MOCAS	Mechanization of Contract Administration Services
MRAP	Mine-Resistant Ambush Protected
MROi	Maintenance, Repair, and Overhaul initiative
NATO	North Atlantic Treaty Organization
NDAA	National Defense Authorization Act
NDBOP	National Defense Business Operations Plan
NDS	National Defense Strategy
NexGen IT	Next Generation Information Technology
NFR	Notices of Findings and Recommendations
NHPA	National Historic Preservation Act
NMUSAF	National Museum of the United States Air Force
NRHP	National Register of Historic Places
NRV	Net Realizable Value
OASD EI&E	Office of the Assistant Secretary of Defense Energy, Installations, and Environment
OCFP	Outstanding Contract Financing Payments
OEL	Other Accrued Environmental Liabilities - Non-BRAC
OSD	Office of the Secretary of Defense
OHA	Overseas Housing Allowance
OM&S	Operating Materials and Supplies

OMB	Office of Management and Budget
OPM	Office of Personnel Management
OWS	Oil Water Separators
P3	Public-Private Partnership
PAC	Potentially Asbestos Containing
PACAF	Pacific Air Forces
PFAS	Polyfluoroalkyl Substances
PIF	Performance Incentive Fees
PIP	Performance Incentive Plan
POM	Program Objective Memorandum
PPV	Public-Private Venture
PRV	Plant Replacement Value
PSSR	Pre-block Structural Sustainment Repair
PUC	Plant Replacement Value Unit Cost
PWS	Performance Work Statement
RACER	Remedial Action Cost Engineering and Requirements
RAF	Royal Air Force
RCRA	Resource Conservation and Recovery Act
RPA	Robotic Process Automation
RPCS	Real Property Categorization System
RPIM	Real Property Information Model
RPUID	Real Property Unique Identifier
SAA	Security Assistance Accounts
SAF/MG	Deputy Under Secretary of the Air Force, Management
SAT	Senior Assessment Team
SBR	Statement of Budgetary Resources
SCNP	Statement of Changes in Net Position
SDP	Savings Deposit Program
SFFAS	Statement of Federal Financial Accounting Standards
SHPO	State Historic Preservation Officer
SIF	Strategic Integration Forum
SLEP	Service Life Extension Program
SMAG-R	Supply Management Activity Group - Retail
SME	Subject Matter Experts
SMS	Sustainment Management Systems
SNC	Statement of Net Cost

SOCOM	Special Operations Command
SOF	Special Operations Forces
SpOC	Space Operations Command
SSC	Space Systems Command
SSI	Scheduled Structure Inspection
STARCOM	Space Training and Readiness Command
SWAC	Space Warfighting Analysis Center
TFM	Treasury Financial Manual
TICMS	Theater Integrated Combat Munitions System
TNC	Treasury Nominal Coupon
U.S.	United States
U.S.C.	United States Code
UDC	User Defined Cost
UHIF	Unaccompanied Housing Improvement Fund
ULO	Unliquidated Obligation
USACE	United States Army Corps of Engineers
USAFE-AFAFRICA	United States Air Forces in Europe –Air Forces Africa
USAFRICOM	United States Africa Command
USEUCOM	United States European Command
USSF	United States Space Force
USSGL	United States Standard General Ledger
WCF	Working Capital Fund
WRM	War Reserve Materiel
WSS	Weapon System Sustainment

F-15E Strike Eagle aircrew assigned to the 492nd Fighter Squadron (FS) reunite with their families at Royal Air Force Lakenheath, United Kingdom. The 492nd FS returned from a six-month deployment in support of U.S. Air Force Central Command. (Photo credit: Airman 1st Class Jessi Monte)

FRONT COVER CREDIT

Clockwise from top left:

Photo 1: An Air Force C-130J Super Hercules flies over Yokota Air Base, Japan during a training mission. The C-130J's operations including tactical airland and airdrop, as well as aeromedical and distinguished visitor airlift. (Photo credit: Yasuo Osakabe)

Photo 2: F-16 Fighting Falcons assigned to Eglin Air Force Base, Florida, fly over a high school football game in Niceville, Florida. The Okaloosa County Schools held a Prisoner of War/Missing In Action remembrance ceremony prior to kickoff. (Photo credit: Master Sgt. Tristan McIntire)

Photo 3: Senior Airman Annalisse Jaramillo, 349th Security Force Squadron member, awaits takeoff in a C-17 Globemaster III during exercise Nexus Dawn at Travis Air Force Base, California. Nexus Dawn is a readiness exercise designed to test the ability of certain Air Force Reserve units to generate, employ and sustain air operations in a simulated combat environment. (Photo credit: 2nd Lt. Daniel Phelps)

Photo 4: An unarmed Minuteman III intercontinental ballistic missile (ICBM) launches during a developmental test at Vandenberg Air Force Base, California. ICBM test launches demonstrate that the U.S. nuclear enterprise is safe, secure, effective, and ready to defend the United States and its allies. (Photo credit: Senior Airman Clayton Wear)

Photo 5: Staff Sgt. Nicholas Waytkus, a tactical air control party specialist assigned to the 3rd Air Support Operations Squadron, descends over Malemute Drop Zone while conducting airborne training at Joint Base Elmendorf-Richardson, Alaska. (Photo credit: Alejandro Peña)

Photo 6: Senior cadets stand in formation during the U.S. Air Force Academy Class of 2021 graduation parade at Stillman Parade Field in Colorado Springs, Colorado. In all, 1,019 Air Force Academy graduates received their diplomas in a graduation ceremony at Falcon Stadium, with 114 of those graduates commissioning into the Space Force. (Photo credit: Joshua Armstrong)

BACK COVER CREDIT

A B-1B Lancer assigned to the 9th Expeditionary Bomb Squadron sits on the flight line at Ørland Air Force Station, Norway. Conducting Bomber Task Force Europe deployments and operations provides aircrew with enhanced readiness and training necessary to respond to any contingency or challenge across the globe. (Photo credit: Airman 1st Class Colin Hollowell)

FOR MORE INFORMATION OR TO CONTACT US:

Assistant Secretary of the Air Force
for Financial Management and Comptroller
SAF/FMFA (Financial Reporting)

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