Department of the Air Force

AGENCY FINANCIAL REPORT

Fiscal Year 2022

U.S. AIR FORCE

Turns 75

On July 26, 1947, while fittingly aboard his VC-54C presidential aircraft, President Harry S. Truman signed the National Security Act of 1947, setting into motion what would become the creation of the U.S. Air Force. A few months later, when W. Stuart Symington was sworn in as the first Secretary of the Air Force on September 18, 1947, the new branch of the U.S. military was officially born.

Flash forward 75 years later and the U.S. Air Force has cemented a legacy of delivering military firsts. From the courageous Capt. Chuck Yeager, who became the first man to fly faster than the speed of sound, to the engineering marvels of the B-2 Spirit stealth bomber and precision-guided munitions, the U.S. Air Force Airmen have continued to push technological and cultural boundaries to fuel American dominance in airpower and spacepower.

As we look to the next 75 years and beyond, our Airmen, and now our Guardians, will be called upon again to innovate, accelerate, and thrive. Our Department will always be there to provide America with the airpower it needs to defend this nation, deter and/or defeat our adversaries, reassure our partners and allies, and help diplomacy proceed from a position of strength.

One Team, One fight.

TABLE OF CONTENTS

FRONT COVER

A F-16 Fighting Falcon, assigned to the 64th Aggressor Squadron, receives fuel from a KC-135 Stratotanker assigned to the 91st Air Refueling Squadron, MacDill Air Force Base, FL, while participating in Red Flag-Nellis 22-2 over the NV Test and Training Range, NV. During Red Flag, the aggressor nation refines threat replication, applies advanced threats and jamming capabilities, and increases threat capabilities to maximize training in non-permissive environments.

Photo: [Josey Blades], [Airman 1st Class]

AIR FORCE 75TH

The Air Force's 75th Anniversary Commemorative poster serves as a commemorative display honoring 75 years of technological and cultural milestones for the U.S. Air Force's 75th Anniversary. The design represents some of the many firsts and achievements the service has achieved since its inception as it continues to strive to break barriers, and innovate, accelerate, and thrive.

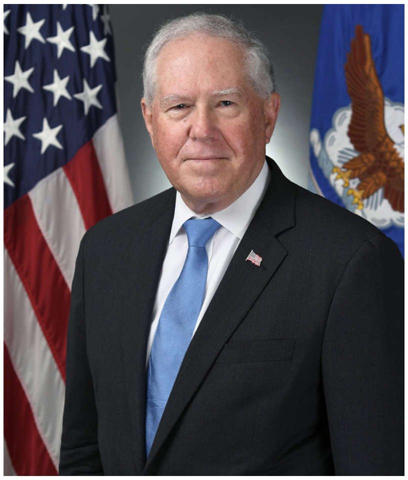
Photo: [Travis Burcham], [U.S. Air Force]

BACK COVER

The U.S. Air Force Air Demonstration Squadron "Thunderbirds" pilots perform during MT's Military Open House "Flight over the Falls" at MT Air National Guard Base, Great Falls, MT. The Thunderbirds are the U.S. Air Force's premier air demonstration squadron.

Photo: [Joe A. Davis], [Master Sgt.]

MESSAGE FROM THE SECRETARY OF THE AIR FORCE



8 November 2022

On behalf of the brave Airmen, Guardians, and civilians working to help our nation's Air Force and Space Force maintain their dominance and influence around the world, I proudly present the Fiscal Year 2022 Agency Financial Report. The data within this report provides a complete and transparent review of the Department of the Air Force's finances, operations, and use of appropriated resources to further our air, space, and cyberspace missions. This year brought special importance for the Department of the Air Force as we began celebrating our 75th Anniversary. As we continue to deliver the airpower and spacepower needed to defend our nation and advance diplomacy from a position of strength, audit-inspired solutions will enable our Airmen and Guardians to innovate, accelerate, and thrive for decades to come.

At the conclusion of our fifth full financial statement audit, the Department of the Air Force continues to be among the Department of Defense leaders in audit remediation and material weakness reduction, 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. We continued to push the Department of the Air Force closer toward a clean audit opinion by following our Audit Roadmaps and prioritizing activities that correct high-impact material weaknesses.

By aligning our efforts with the Secretary of Defense's Fiscal Year 2022 audit priorities, we made important advancements towards our financial goals. The Department of the Air Force placed added emphasis on correcting deficiencies to "balance our checkbook" with the Department of the Treasury and provide greater transparency to American taxpayers. We continued to prioritize implementing internal controls over our critical, high materiality systems and financial reporting processes in order to remediate audit findings and improve our cyber posture.

Though our progress has been considerable, we cannot take our hand off the throttle. Our audit improvement actions help achieve air and space superiority through improved resource management and accountability. Evolving global threats have reinforced the need for the Department of the Air Force to rapidly modernize its capabilities to offset the current and emerging security challenges posed by major foreign powers. To deter conflict and project power against pacing challenges, I commissioned the development of seven Operational Imperatives which focus on ensuring capabilities in space, improving operational systems, optimizing basing actions, and enhancing deployment readiness. The success of our military depends on the ability to control air and space; achieving these imperatives will enable the Department of the Air Force to maintain our competitive advantages.

We owe it to our Airmen and Guardians to use accurate, reliable, and timely information in developing the resource strategy necessary to accomplish our mission. One Team, One Fight holds true as we continue an enterprise approach to achieve operational readiness while ensuring effective stewardship of taxpayer dollars.

Frank Kendall

MANAGEMENT'S DISCUSSION AND ANALYSIS

A formation of 42 F-35A Lightning II's during a routine readiness exercise at Eielson Air Force Base, AK. The formation demonstrated the 35th Fighter Wing's ability to rapidly mobilize fifth-generation aircraft in arctic conditions.
Photo: [Jose Miguel T. Tamondong], [Airman 1st Class]

OVERVIEW

Created in 1907 as a functional component of the United States (U.S.) Army, the U.S. Air Force ("the "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). The DAF celebrated its historic 75th Anniversary on September 18, 2022, and will continue its efforts to Innovate, Accelerate, and Thrive by honoring and pursuing its core missions.

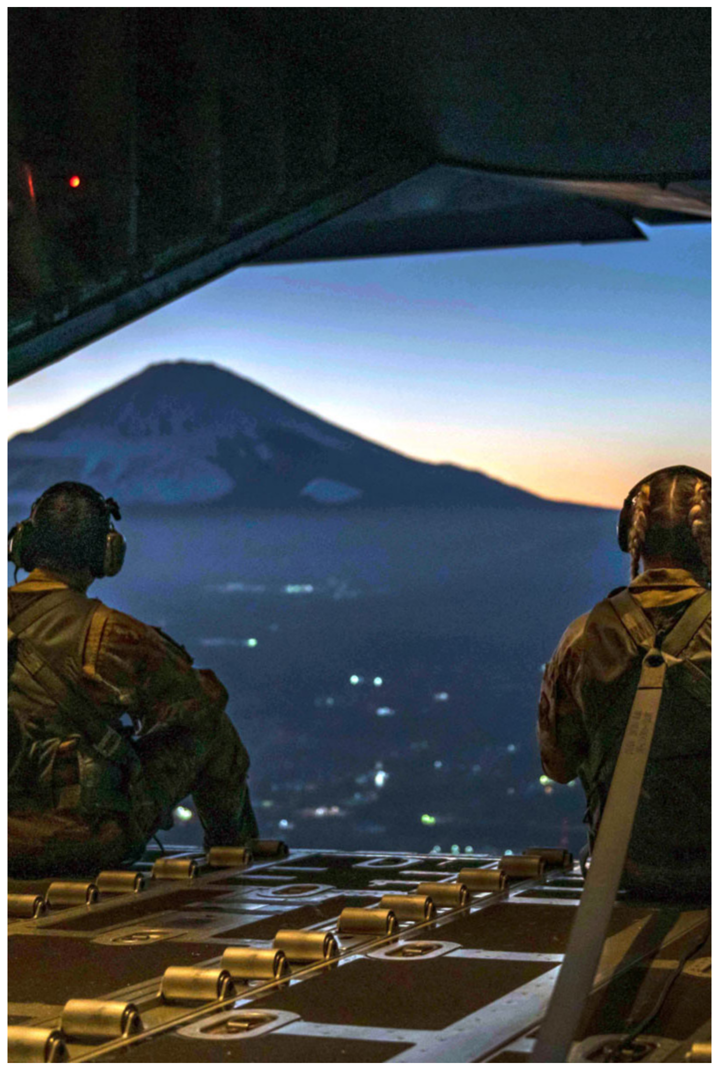
On December 20, 2019, as part of the Fiscal Year (FY) 2020 National Defense Authorization Act, the United States Space Force (USSF) became the sixth branch of the U.S. Armed Forces, established as a Military Service within the DAF. For FY 2022, the USSF is reported as part of the DAF General Fund (GF) 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 GF and the DAF Working Capital Fund (WCF) are included within this section.

FINANCIAL SECTION – This section includes a message from the Chief Financial Officer, principal financial statements (Consolidated Balance Sheets, Consolidated Statements of Net Cost, Consolidated Statements of Changes in Net Position, and Combined Statements of Budgetary Resources), associated notes, Required Supplementary Information, the Report of Independent Auditors, and the Management Response Letter. 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.



Loadmasters assigned to the 1st Special Operations Squadron (SOS) look out over Mount Fuji from the rear of an MC-130J Commando II during a flight over Japan in support of exercise Resolute Dragon. The 1st SOS conducted an airdrop in support of the exercise, demonstrating their long-range joint resupply capabilities. *Photo: [Jessi Monte], [Senior Airman]*

MISSION

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 force, the combined effort across military departments, 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 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.*

DEPARTMENT OF THE AIR FORCE CORE MISSIONS

A U.S. Air Force Airman walks on the flightline in preparation of a Red Flag night operation at Nellis Air Force Base, NV. The first Red Flag took place in 1975. 47 years later, the Air Force continues to prioritize combat readiness and air superiority by challenging their Airmen to constantly push themselves to excellence.

Photo: [Mikaela Smith], [Airman 1st Class]

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's 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.

MISSION

Staff Sgt. Dallas Moore, 65th Air Base Squadron Air Traffic Control watch supervisor, verifies flight progress strips in the Radar Approach Control (RAPCON) facility at Lajes Field, Portugal. Air traffic controllers at RAPCON record the general information and intent of each aircraft on the strips. By monitoring this information and keeping constant communication with pilots, RAPCON ensures the safe arrival and departure of aircraft.

Photo: [John R. Wright], [Senior Airman]

Airmen unload from a C-130J Super Hercules in support of the Tsuiki Air Base Aviation Training Relocation (TATR) program at Tsuiki Air Base, Japan. TATR is a result of the United States-Japan roadmap for realignment implementation, a bilateral program aimed at increasing operational readiness and improving interoperability.

Photo: [Kyle Johnson], [Staff Sgt.]

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.

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 war fighters 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.

MISSION

The 1st Range Operations Squadron range operations commanders manage operations inside the Morrell Operations Center (MOC) in support of the Orbital Flight Test 2 launch, Cape Canaveral Space Force Station (CCSFS), FL. The MOC supports every space launch from the CCSFS and Kennedy Space Center.
Photo: [Dakota Raub], [Senior Airman]

U.S. Air Force Senior Airman Joseph Putnam, 700th Airlift Squadron C-130H Hercules loadmaster, prepares for an airdrop mission during exercise Cope North 22 (CN 22) over the Pacific Ocean. CN 22 focused on humanitarian assistance and/or disaster relief operations and helped improve collaboration between the U.S. Armed Forces, Royal Australian Air Force, and the Japan Air Self-Defense Force.
Photo: [Joey Swafford], [Master Sgt.]

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.

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's 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 air power 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 war fighting advantage.

ORGANIZATIONAL STRUCTURE

The Total Force of the DAF consists of 678,576 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.

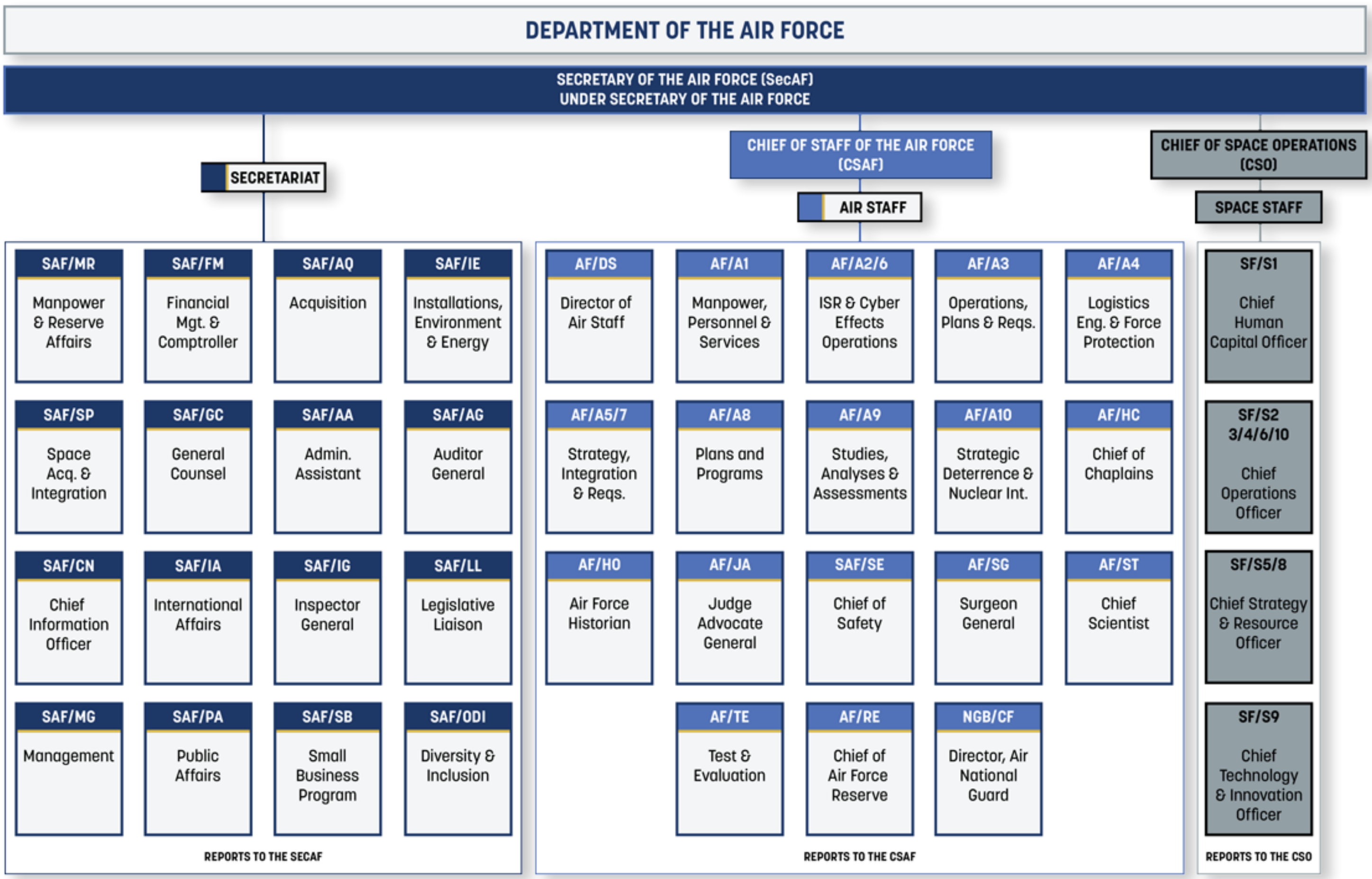
FIGURE 1: DAF Total Force

TOTAL	678,576
ACTIVE DUTY AIRMAN AND GUARDIANS	332,424
CIVILIANS	173,120
AIR NATIONAL GUARD	104,984
AIR FORCE RESERVE	68,048

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 Air Force Major Commands 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.

ORGANIZATIONAL STRUCTURE

FIGURE 2: Headquarters, Department of the Air Force

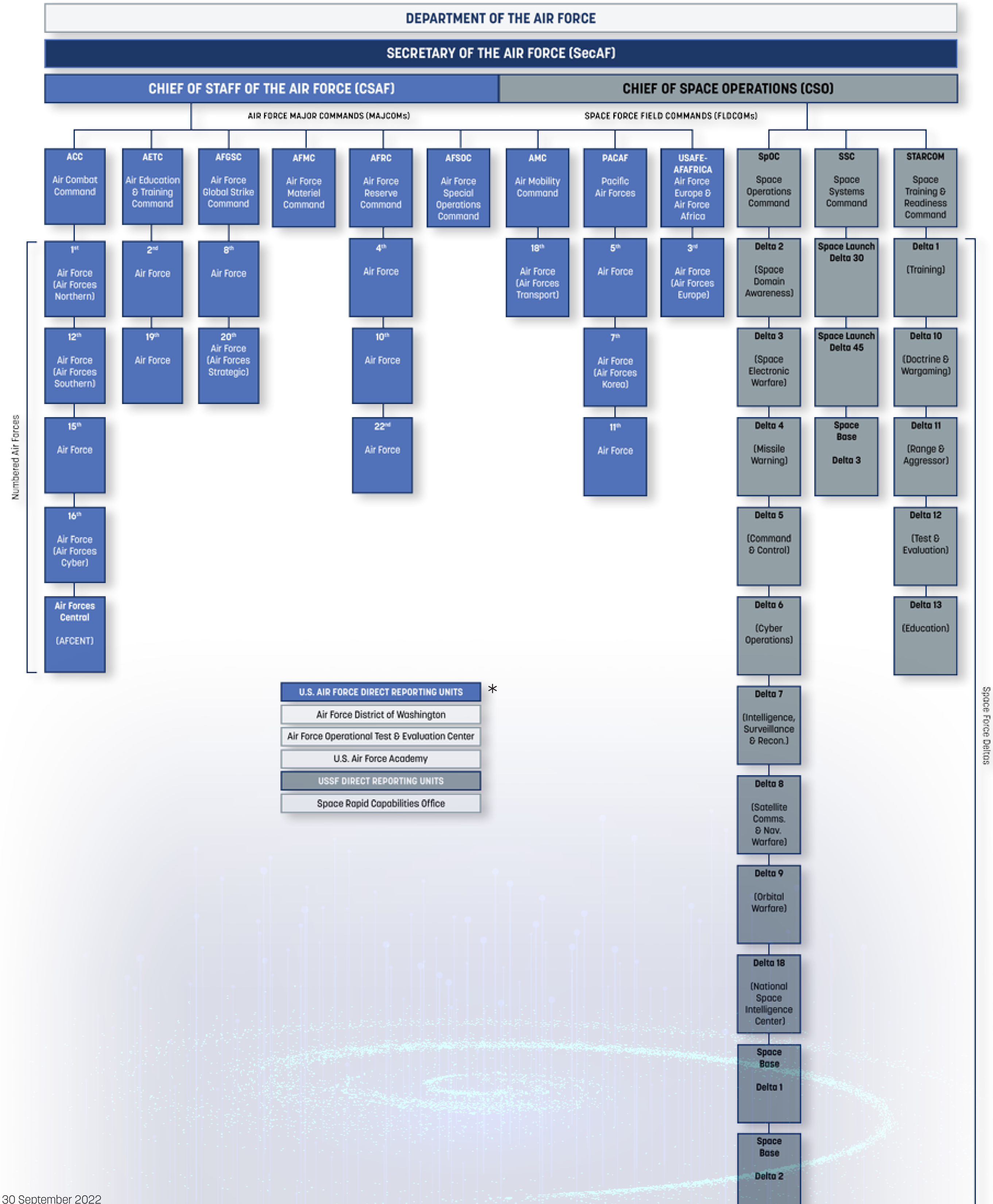


A U.S. Air Force F-16 Fighting Falcons assigned to the OH National Guard's 180th Fighter Wing, takes off for a training mission, in Swanton, OH. Flying the Lockheed Martin F-16CM Fighting Falcon, a multi-role fighter aircraft with Pratt and Whitney F100-PW-229 engines, the 180FW has access to military operating airspace and air-to-ground gunnery ranges suited for the capabilities of the F-16. The Alpena Airspace Complex, MI, and Buckeye Airspace, OH, are supersonic, chaff/flare capable with full radar ground control intercept and Link-16 capable.

Photo: [Beth Holliker], [Senior Master Sgt.]

ORGANIZATIONAL STRUCTURE

FIGURE 3: DAF Command Structure



As of 30 September 2022
*For more information on DRUs, see page 14

ORGANIZATIONAL STRUCTURE

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 or SecAF) and the Secretary's principal staff; the U.S. Air Force ('Air Force'), which is headed by the Chief of Staff of the Air Force (the CSAF); and the USSF, which is headed by the Chief of Space Operations (CSO). The Secretariat, the Air Force, and the USSF help the Secretary, the CSAF, and the CSO direct the DAF's mission. The Secretary has overall responsibility for the DAF 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, the CSAF, and the CSO, 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 CSAF 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 CSAF serves as a member of the Joint Chiefs of Staff (JCS) and the Armed Forces Policy Council. In the JCS capacity, the CSAF is one of the military advisers to the President of the United States, the National Security Council, and the Secretary of Defense. The CSAF is also the principal adviser to the Secretary regarding the Air Force. The CSAF 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 CSAF 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 CSAF 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.

ORGANIZATIONAL STRUCTURE

FIELD ORGANIZATIONS

Direct Reporting Units (DRUs), Field Operating Agencies (FOAs), Air Force Major Commands (MAJCOMs), USSF Field Commands (FLDCOMs), 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 four DRUs: the Air Force District of Washington, the Air Force Operational Test and Evaluation Center, the U.S. Air Force Academy, and the Space Rapid Capabilities Office.

FOAs are a subdivision of the DAF and are directly subordinate to the DAF Headquarters 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.

For more information about DRUs and FOAs, go to:
Air Force DRUs and FOAs
Space Force DRU

Senior Master Sgt. Scott Spangler, 920th Operations Group special mission aviator superintendent, performs pre-flight checks in preparation of a turkey shoot competition at Patrick Space Force Base, FL. During the competition, aircrew members competed on skills such as aircraft weapons employment, helicopter air to air refueling, degraded navigation, degraded search, and confined hoisting.
Photo: [Thomas Sjoberg], [Senior Airman]

One Year In: Secretary Kendall Talks Achievements and Challenges

When Mr. Frank Kendall was sworn in as the 26th Secretary of the Air Force, he echoed the Secretary of Defense's priorities of taking care of our people, mission performance, and building teams. One year later, Secretary Kendall is proud of the work that has been accomplished.

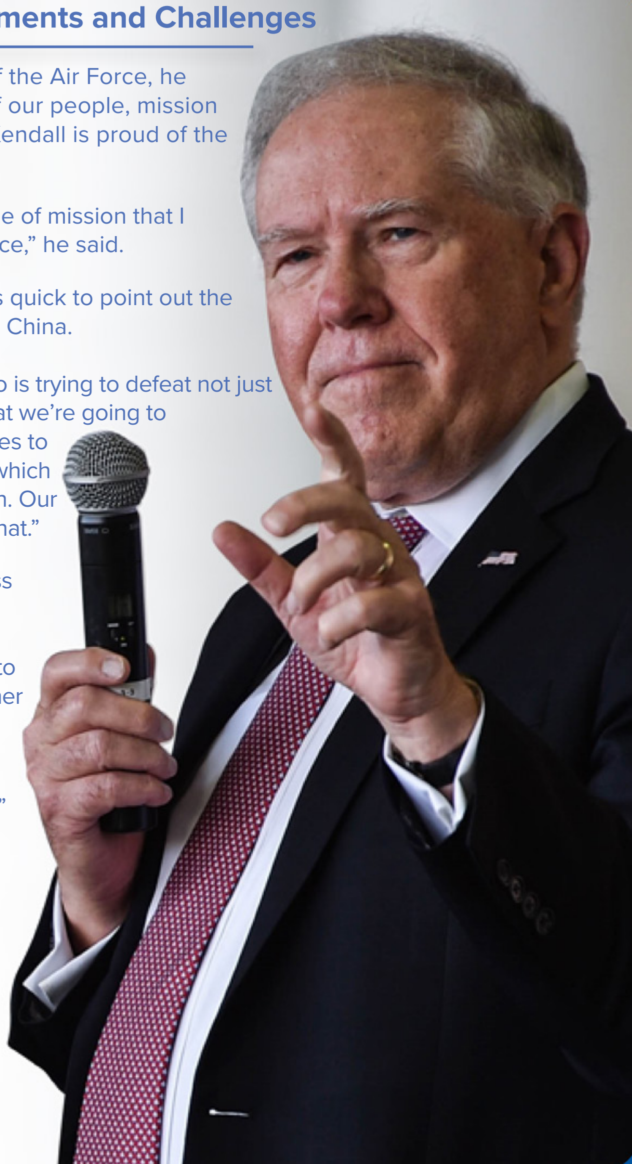
"I'm delighted with the capabilities and the talent and the sense of mission that I encounter everywhere I go in the Air Force and the Space Force," he said.

While Secretary Kendall is quick to praise his team, he's just as quick to point out the remaining challenges, most notably the emerging threats from China.

"We have a well-resourced, strategic, innovative competitor who is trying to defeat not just our current capabilities but thinking ahead to the capabilities that we're going to field and already started down the road of developing capabilities to counter those," said Secretary Kendall. "It's a game of chess in which we have to think a few moves ahead and we have to take action. Our ability to sustain deterrence depends upon our success doing that."

To achieve that success, Secretary Kendall has continued to stress a sense of urgency for the Department. It's the cornerstone of his seven Operational Imperatives, which are critical operational capabilities and functions the Air and Space Force must achieve to deter conflict and project power against pacing threats. While other challenges remain and unanticipated issues will arise, Secretary Kendall remains confident in the Total Force's ability to respond.

"These are people who are dedicated to serving their country," said Secretary Kendall. "They work tirelessly, have an enormous amount of capability, and they serve the country very well every day."



One team. One fight.

Find out more about Secretary Kendall's Operational Imperatives
CLICK HERE

> *"I'm delighted with the capabilities and the talent and the sense of mission that I encounter everywhere I go in the Air Force and the Space Force."*
>
> *- Secretary Kendall*

U.S. Air Force 75 Established 1947

ORGANIZATIONAL STRUCTURE

AIR FORCE MAJOR COMMANDS

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 (ISR); 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:
www.acc.af.mil

ORGANIZATIONAL STRUCTURE

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:
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:
www.afgsc.af.mil

A C-130 Hercules assigned to the 133rd Airlift Wing sits on the flightline in St. Paul, MN. The C-130 primarily performs the tactical portion of the airlift mission. The aircraft is capable of operating from rough dirt strips and is the prime transport for airdropping troops and equipment into hostile areas.

Photo: [Austen R. Adriaens], [Tech. Sgt.]

ORGANIZATIONAL STRUCTURE

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:
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 ISR; 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:
www.afrc.af.mil

ORGANIZATIONAL STRUCTURE

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:
www.afsoc.af.mil

AIR MOBILITY COMMAND (AMC)

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

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:
www.amc.af.mil

PACIFIC AIR FORCES (PACAF)

MISSION: PACAF, in coordination with other components, allies, and partners, provides United States Indo Pacific Command with continuous unrivaled air, space, and cyberspace capabilities to ensure regional stability and security

VISION: An agile, accurately postured, undeterred, and lethal force capable of dedicating peerless effects 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:
www.pacaf.af.mil

ORGANIZATIONAL STRUCTURE

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's, USEUCOM's, and USAFRICOM's missions with forward-based airpower and infrastructure to conduct and enable theater and global operations.

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

U.S. Navy and Air Force service members assigned to the Electronic Attack Squadron (AQ) 134 and the 52nd Logistics Readiness Squadron Fuels Management Flight complete a joint hot-pit refueling on a U.S. Navy EA-18G Growler electronic attack aircraft, on Spangdahlem Air Base, Germany. This was the first joint hot-pit refueling on the aircraft for Spangdahlem AB, enhancing air defense and joint capabilities.

Photo: [Marcus Hardy-Bannerman], [Airman 1st Class]

ORGANIZATIONAL STRUCTURE

UNITED STATES SPACE FORCE FIELD COMMANDS

Currently, there are three active FLDCOMs that are assigned specific responsibilities on a functional basis to accomplish USSF worldwide activities and further organize, administer, equip, and train their subordinate elements to accomplish assigned missions. FLDCOM headquarters have a full range of functional staff, excluding functions that are centralized elsewhere for DAF-wide execution. FLDCOMs are hierarchically organized by Space Deltas, Space Base Deltas, and Squadrons. Space Deltas focus on executing complex missions to empower rapid decision-making, Space Base Deltas focus on providing installation support functions to the Space Deltas, and Squadrons provide specific operational or support capabilities.

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

SPACE OPERATIONS COMMAND (SpOC)

MISSION: Protect 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

SpOC's priorities fall under three main efforts: Preparing, Partnering, and Projecting. SpOC's first priority revolves around preparing combat-ready, ISR led, cyber-secure space and combat support forces; and an empowered, diverse, healthy warfighting culture. As its second priority, SpOC is tasked with partnering across the U.S. government, allies, and commercial partners; other USSF organizations; and U.S. Space Command as its DAF service component. Lastly under its third priority, SpOC is tasked with projecting combat power in, from, and to space; and projecting an innovative, digitized force.

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

ORGANIZATIONAL STRUCTURE

SPACE SYSTEMS COMMAND (SSC)

MISSION: Delivering Lethal and Resilient Space Capabilities to Defend the Nation in the Contested Space Domain

SSC is responsible for developing, acquiring, equipping, fielding, and sustaining lethal and resilient space capabilities for warfighters. The command is responsible for launch operations, on-orbit checkout, developmental testing, sustainment and maintenance of military satellite constellations and other DoD space systems, as well as the oversight and integration of USSF science and technology initiatives.

For more information about SSC, go to:
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

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.

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

Air Force Band members and guests sing the new USSF service song during the 2022 Air, Space, and Cyber Conference in National Harbor, MD.

Photo: [Eric Dietrich], [U.S. Air Force]

PERFORMANCE GOALS, OBJECTIVES, AND RESULTS

The DAF possesses a unique set of competencies and capabilities to achieve its national security priorities of defending the homeland, deterring aggression and strategic attacks, prevailing in conflict, and building a joint force. However, the DAF is increasingly facing a more 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 and to achieve its goals and priorities, the DAF made concentrated efforts to support the DoD's four strategic goals:

FIGURE 4: DoD's Strategic Goals

These strategic goals and national security priorities will be advanced in three primary ways: integrated deterrence, campaigning, and actions that build enduring advantages. Integrated deterrence entails developing and combining the DAF's strengths to work seamlessly across warfighting domains and through its unmatched partnership network. Campaigning strengthens deterrence and enables the DAF to gain advantages by synchronizing efforts to undermine competitors and further develop warfighting capabilities alongside the DAF's allies and partners. Building enduring advantages involves undertaking reforms to accelerate force development, attaining cutting-edge technology, and investing in our Airmen and Guardians as they are the cornerstone of the DAF's success. Together these methods will enable the DAF to develop, design, and manage a force that will be able to meet the challenges presented by today's complex security environment.

Air Force Trailblazer Vaught Earns Presidential Medal of Freedom

On July 7, 2022, President Joe Biden awarded retired Brigadier General Wilma L. Vaught the Presidential Medal of Freedom, the nation's highest civilian honor. Gen Vaught was recognized for her role in breaking down gender barriers in the Air Force that paved the way for new opportunities for U.S. military service members.

Following her commission as a Second Lieutenant in January 1957, Gen Vaught continued to shatter conventions. During her 28-year military service career, Gen Vaught became the first woman to:

- Deploy with a Strategic Air Command bombardment wing on an operational deployment;
- Attend the Industrial College of the Armed Forces (since renamed The Eisenhower School);
- Command a unit that received the Joint Meritorious Unit Award; and be promoted to Brigadier General in the comptroller career field.

At the time of her retirement, Gen Vaught was one of only seven female generals in the entire U.S. military. Her military decorations include the Distinguished Service Medal, Legion of Merit, and the Bronze Star Medal, amongst others.

U.S. AIR FORCE

PERFORMANCE GOALS, OBJECTIVES, AND RESULTS

STRATEGIC GOALS AND RELATED ACCOMPLISHMENTS

Strategic Goal #1: Making the Right Technology Investments and Transforming the Future Force

The DAF recognizes the rapidly evolving and volatile global environment and the complex challenges it presents. The reemergence of long-term strategic competition 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 and technology, and build enduring advantages by investing in a more capable and lethal force. To defend the nation, the DAF is focused on accelerating transformative efforts in all areas of mission support, integrated deterrence, and readiness to ensure the delivery of agile and effective support to the warfighter as well as continued investments in interoperability capabilities and in connecting joint, allied, and partner teams

DAF Accomplishments in Support of Strategic Goal #1:

- The DAF awarded a $985.3 million contract to develop and demonstrate Hypersonic Attack Cruise Missile prototypes, underscoring the DAF's focus on increasing interoperability with allies and partners to stay ahead of strategic competitors.
- The DAF awarded a $108.0 million contract for advance procurement to support the B-21 Raider program. Funds will directly support the acquisition of long lead items necessary to build the first lot of production B-21 aircraft.
- The DAF operationalized the Agile Combat Employment (ACE) concept, a vision for operating in modern, contested environments. The ACE framework provides the DAF the ability to develop; maintain; and share timely, accurate, and relevant mission information across dispersed forces despite adversarial attempts to deny or degrade it. It also prepares leaders to make and disseminate risk-informed decisions with limited information.
- The DAF made progress on equipping B-52s with a new beyond line-of-sight (BLOS) communication capability called IRIS, a system that will guarantee complete global coverage. The DAF successfully executed the first air demonstration utilizing the BLOS communication system paired with an Iridium Certus terminal on a B-52 Stratofortress.
- The DAF selected the E-7 Wedgetail, an airborne warning and control system aircraft that will replace a portion of the E-3 Sentry, to provide tactical battle management, command and control, and target tracking capabilities that will help identify mobile targets in the air and on the surface.

PERFORMANCE GOALS, OBJECTIVES, AND RESULTS

Strategic Goal #2: Strengthen Resilience and Adaptability of Our Defense Ecosystem

The DAF is increasingly facing transboundary threats, whether it be from adversaries or acts of nature such as climate change and pandemics. As a result, the DAF must focus its efforts on strengthening resilience and adapting and fortifying its defense ecosystem. Fortification of its defense ecosystem will depend on the DAF's ability to strengthen installations; work with its allies and partners; enhance its cybersecurity environment; and increase the resiliency of its Command, Control, and Communications (C3) capabilities. To operate in contested environments and preserve its operational capability, the DAF must strengthen its installations from a variety of threats including cyber, kinetic, and climate. By strengthening and modernizing its alliances and partnerships, the DAF will deter aggression and contain threats, thereby increasing its readiness, domain awareness, and decision-making. To defeat the growing sophisticated and malicious cyberspace activity, which may overtake the DAF's strategic advance in conventional and strategic weaponry, the DAF must be prepared to defend its systems in a contested cyberspace. The DAF must secure its systems and defend them against adversaries. Lastly, by ensuring and defending its C3 capabilities, the DAF's commanders and decision makers will be able to rapidly evaluate, select, and execute effective courses of action to accomplish the mission.

DAF Accomplishments in Support of Strategic Goal #2:

- The Space Rapid Capabilities Office awarded an Other Transaction Agreement for the Satellite Communications Augmentation Resource (SCAR) program to a commercial entity. SCAR will address the critical U.S. Space Command requirement to rapidly, responsively, and affordably augment satellite control capacity for the Satellite Control Network as it provides tactical control links to USSF satellites.
- The DAF conducted Black Flag 22-1, bringing together four branches of the U.S. military and the Royal Australian Air Force in a first coalition test environment to identify enhancements to night-one capabilities. Black Flag allows the DAF to develop force integration techniques and discover capabilities utilizing existing and emerging material to deliver combat capability to the warfighter.
- The USSF completed its first exercise iteration of SPACE FLAG, which provides tactical space units with advanced training in a simulated contested, degraded, and operationally-limited environment. The exercise was conducted using live, virtual, and constructive simulations which immerse Guardians and participants into a synthetic virtual battlefield.
- The FY 2022 Defense Appropriations Act provided funding for five new military construction projects to stand-up the B-21 mission at Ellsworth Air Force Base, South Dakota, the Raider's first main operating base. Projects include the construction of a low observable maintenance hangar and an environmental impact statement to inform decisions on future B-21 operating bases.
- The Chiefs of Staff of the Air Force, Space Force, Army, Navy, and the Marine Corps held discussions to align and synchronize on all aspects of Joint All-Domain Command and Control (JADC2), thereby emphasizing the high level of importance DoD's senior leaders place on joint interoperability, timely data-sharing, as well as unified and ubiquitous command and control throughout all warfighting domains.
- The DAF participated in the Cope North 2022 exercise alongside Japan and Australia, an exercise meant to modernize training for the future. For the first time, the Battlefield Assisted Trauma Distributed Observation Kit application was utilized – a tool in direct support of ACE concepts, that provides medics with access to customized, digitized medical standard of care guidelines and procedures when they need it most.

PERFORMANCE GOALS, OBJECTIVES, AND RESULTS

Strategic Goal #3: Taking Care of Our People and Cultivating the Workforce We Need

The DAF's dedicated and selfless Airmen and Guardians enable the DAF to meet the challenges imposed by the evolving strategic landscape. They enhance the peaceful instruments of diplomacy, sustain instruments of deterrence, and ensure credible consequences for aggressions. As the DAF's greatest competitive advantage, the DAF is creating a future force with the capabilities and competencies to win and thrive. The DAF understands that providing its Airmen and Guardians with the right tools to prevail is its most sacred obligation. As such, the DAF is committed to maximizing opportunities for all its members to serve their fullest potential. By continuing to focus on attracting, recruiting, retaining, and training its workforce, the DAF will ensure that its future force is well equipped to meet and keep pace with the threats facing the DAF.

DAF Accomplishments in Support of Strategic Goal #3:

- The DAF hosted a Women's Air and Space Power Symposium that highlighted the importance of equality for women in the military and discussed how leaders, regardless of gender, can break barriers to pursue positive change at any level in the Air and Space Forces.
- In accordance with the objectives in the DAF's Enlisted Force Development Action Plan, the DAF issued *The Joint Team*, commonly referred to as the "Purple Book." The Purple Book educates Airmen on how airpower fits into the Joint Force construct and identifies the joint doctrine, values, capabilities, and warfighting concepts that capture how the DAF, alongside other services, protect the nation's interests across the globe.
- The DAF launched the Integrated Response Co-Location Pilot program at seven installations to evaluate the effectiveness of a new, more holistic approach for responding and assisting survivors of sexual assault, sexual harassment, domestic violence, stalking, and cyber harassment.
- To help ease the burden facing Airmen and Guardians during the current economic conditions, the DAF enacted support across four areas: compensation, entitlements for permanent change of station/household goods moves, personal finance readiness, and food insecurity aid.

Strategic Goal #4: Address Institutional Management Priorities

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. By focusing on standardization and simplification, the DAF will enable greater productivity, trustworthiness, security, and innovation in its management practice and increase the effectiveness and efficiency of its day-to-day operations.

PERFORMANCE GOALS, OBJECTIVES, AND RESULTS

DAF Accomplishments in Support of Strategic Goal #4:

- To support its efforts to obtain a clean audit opinion, the DAF enhanced its audit approach by developing accelerated tracking capabilities, supported by integrated master schedules, to facilitate risk-based discussions from top to bottom.
- The USSF released its Space Test Enterprise Vision, a document designed to drive data-informed decisions at speed, maximizing the Service's flexibility and efficiency in delivering space-based capabilities for the Joint Force and the nation. The vision provides strategic guidance on how the USSF will integrate developmental and operational test and evaluation activities across a capability's lifecycle and throughout the test enterprise encompassing organizations, workforce, infrastructure, acquisitions, and operations.
- The DAF developed an application data system (BIZINT) to help track and source commercially available supplies and services available by location, in a standard format, complete with vendor information. BIZINT depicts vendors by location, along with the types and approximate quantities of the supplies and services they provide. It also provides desired commercial market intelligence and data visualization previously unknown and unavailable during the planning and execution processes.
- The DAF is accelerating the pace in which it fosters digital fluency and the creation of trusted, seamless integration of data and artificial intelligence (AI), thereby providing dominance to the U.S. and its strategic partners. As part of these efforts, the DAF's Chief Data and Artificial Intelligence Office partnered with the DAF-Massachusetts Institute of Technology Artificial Intelligence Accelerator to present the first "Data and Artificial Intelligence" Forum. The forum served as a catalyst to sharing data, AI, and analytics to support the JADC2 and the DAF's Advanced Battle Management System (ABMS).

FUTURE EFFORTS OF THE DEPARTMENT OF THE AIR FORCE

To help achieve the goal of deterring and defeating modern day adversaries, the Secretary of the Air Force (the Secretary or SecAF) commissioned seven Operational Imperatives and 11 Management Initiatives for the DAF. These initiatives and imperatives are in the process of being implemented and will guide all future DAF efforts. The SecAF's Operational Imperatives will allow the DAF to focus on modernization and improvement of its operational posture. They will serve as the blueprint for rapidly changing the hardware, policies, and cultures of the Air and Space Forces to better position them to confront current and emerging threats. They include new technologies and concepts that achieve the greatest measurable value and operational impact. The 11 Management Initiatives are inward looking and designed to streamline DAF management processes, eliminate duplication, and achieve the greatest efficiency in the use of DAF resources.

PERFORMANCE GOALS, OBJECTIVES, AND RESULTS

GOVERNANCE AND ACCOUNTABILITY

The DAF is committed to continuously monitoring performance and ensuring accountability for its operations and related activities through the Executive Steering Committee (ESC), the Risk Management Council (RMC), and the Senior Management Council (SMC). The ESC helps to assess and monitor deficiencies in internal control over financial systems and reporting and oversees corrective actions and final resolutions for material weaknesses and significant deficiencies. The RMC provides oversight of the DAF's integrated internal controls and the Enterprise Risk Management program with responsibility for approving the enterprise Risk Profile as well as holding risk owners accountable for driving risk management efforts. The SMC assesses and monitors significant deficiencies and material weaknesses in internal control over operations and oversees corrective actions and final resolutions.

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.

U.S. Air Force Staff Sgt. Efrain Huereque, a loadmaster assigned to the 1st Special Operations Squadron (SOS), Kadena Air Base, Japan, sits on the ramp of a MC-130J Commando II aircraft assigned to the 1st SOS, Kadena Air Base, Japan, flying over the AK Range, AK, during Red Flag-AK 22-3. Red Flag-AK is designed to provide realistic training essential to the continued development and improvement of combined and joint interoperability in a simulated combat environment.

Photo: [Julia Lebens], [Airman 1st Class]

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 2022 DAF financial statements.

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

- Consolidated Balance Sheets (BS)
- Consolidated Statements of Net Cost (SNC)
- Consolidated Statements of Changes in Net Position (SCNP)
- Combined Statements 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 (MILPERS):** MILPERS includes expenditures for the salaries and other compensation (housing, allowances, etc.) for active military personnel, reserve, and guard forces.
- **Operations, Readiness, and Support:** Operations, Readiness, and Support includes expenditures that provide benefits are derived for a limited period of time, such as salaries and related benefits, minor construction projects, expenses of operational military forces, training and education, recruiting, and base operations support.
- **Procurement:** Procurement includes expenditures for the acquisition of items which provide long-term benefits as well as all costs necessary to bring the items to the condition and location for their intended operational use.
- **Research, Development, Test, and Evaluation (RDT&E):** RDT&E includes expenditures related to efforts that increase the DAF's knowledge and understanding of emerging technologies, determine solutions for specific recognized needs, and establish technological feasibility of new developments. These efforts include all costs necessary to develop and test prototypes as well as the performance of services.
- **Family Housing and Military Construction (MILCON):** Family Housing and MILCON includes expenditures associated with purchasing, leasing, and support services for property that house DAF Service members and their families; as well as expenditures related to planning, designing, constructing, altering, and improving the DAF's military facilities.

ANALYSIS OF FINANCIAL STATEMENTS

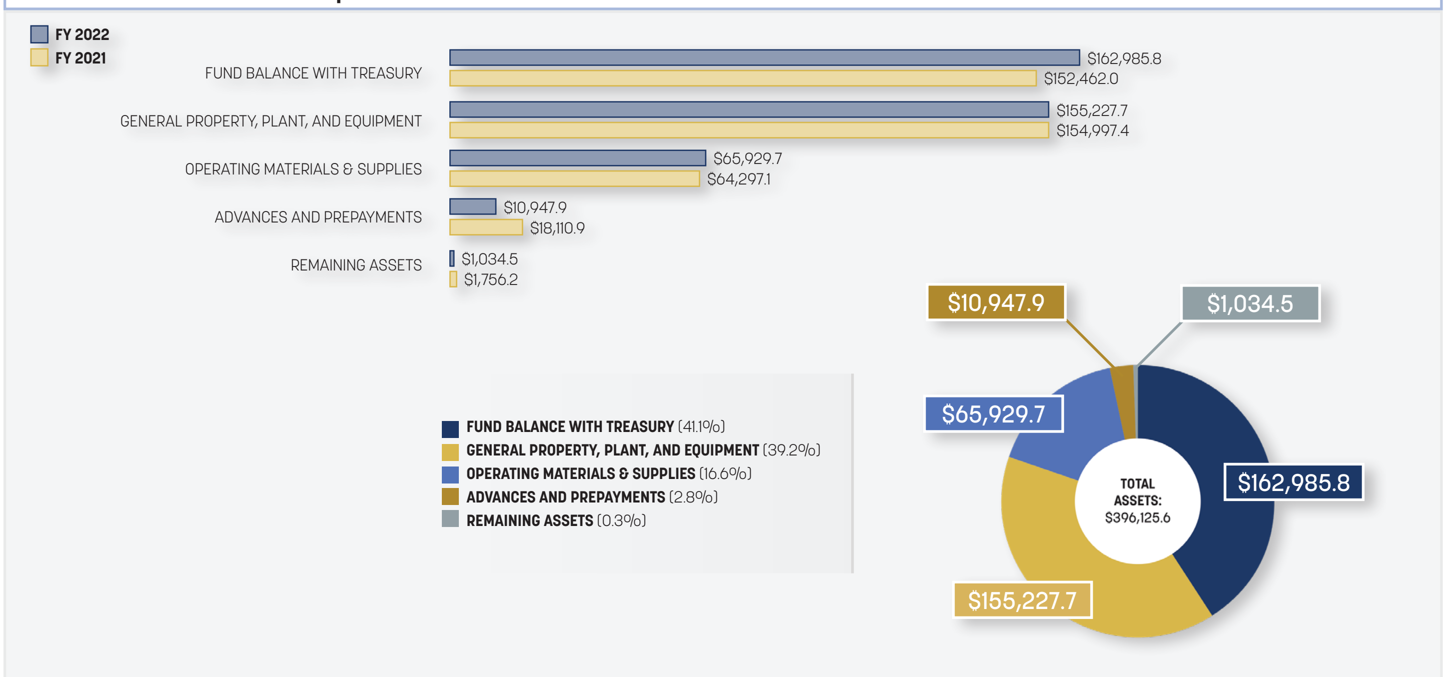
In FY 2022, the DAF GF corrected errors identified in FY 2021 balances. Accordingly, FY 2021 balances related to General Equipment – Aircraft, General Equipment – Other, and Construction-in-Progress – Military Equipment were restated. This restatement resulted in a ($1.6) billion impact to the BS, $289.6 million impact to the SNC, and $1.3 billion impact to the SCNP for FY 2021 balances. As a result, the FY 2021 numbers presented in this section reflect restated balances. For additional information related to prior period adjustments for the General PP&E balances, refer to DAF GF Note 27, *Restatements*.

CONSOLIDATED BALANCE SHEETS

The Consolidated BS, which represents the DAF GF's financial position as of September 30, 2022, and September 30, 2021, 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's $396.1 billion in assets at Fiscal Year End (FYE) 2022 is predominantly comprised of Fund Balance with Treasury (FBwT); General Property, Plant, and Equipment; Operating Materials & Supplies; and Advances and Prepayments; which together represent 99.7% of the DAF GF's assets. This is approximately a 1.1% overall increase from FYE 2021, in which assets were $391.6 billion (restated).

FIGURE 5: DAF GF's Assets Comparison | DAF GF's FYE 2022 Assets | (*in millions*) *(unaudited)*



Significant changes and underlying causes related to the DAF GF's assets between FYE 2022 and 2021 are as follows:

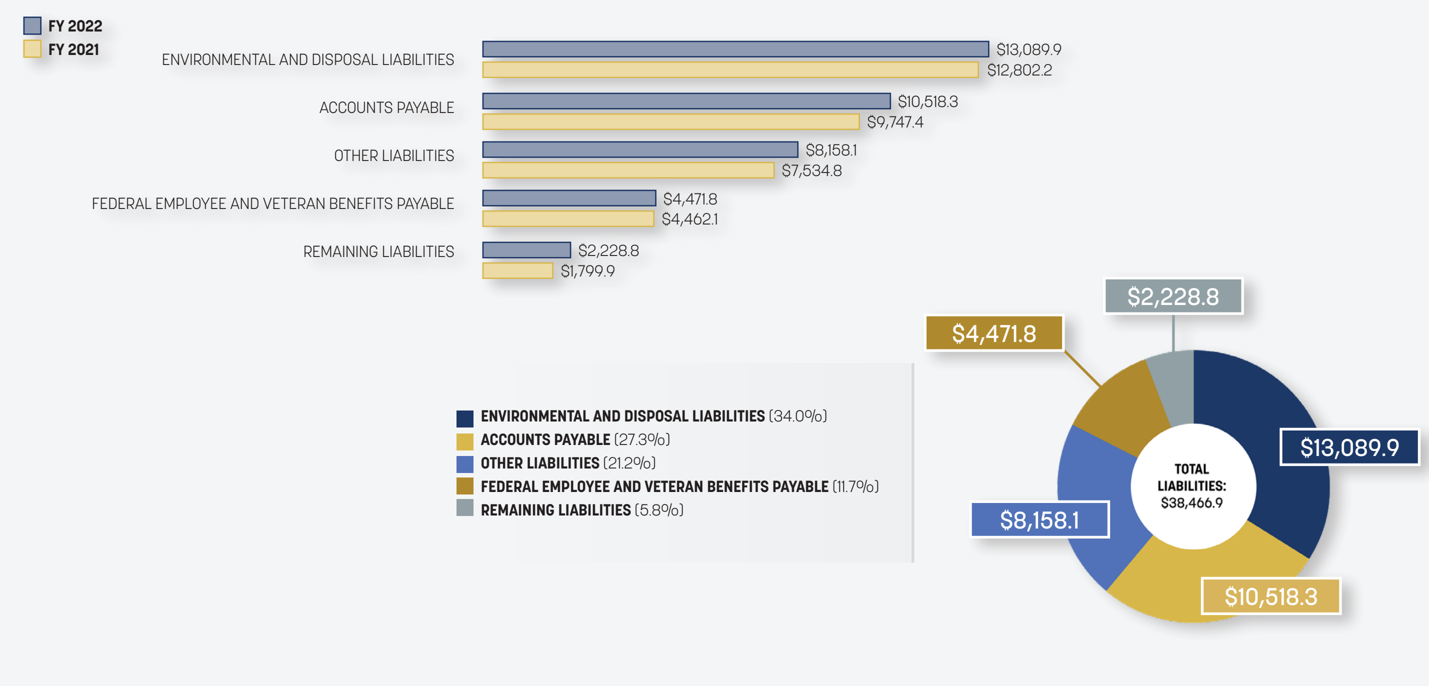
- **Fund Balance with Treasury:** The DAF GF's FBwT increased by $10.5 billion (6.9%). This increase is primarily attributed to $18.5 billion increase in funding across the DAF GF appropriations for modernization efforts, civilian and military end-strength growth, readiness, and space activities. These increases are offset by a $5.1 billion increase in outlays for additional spending on space technology and systems support with several additional immaterial increases and decreases of funding, collections, and disbursements made throughout the DAF GF operations.

ANALYSIS OF FINANCIAL STATEMENTS

- **Advances and Prepayments:** The DAF GF's Advances and Prepayments decreased by $7.2 billion (39.6%). This decrease is primarily attributed to the DAF GF reclassifying Advances/Prepayments to Operating Expenses/Program Costs for progress on respective projects and expenses incurred.

The DAF GF's $38.5 billion of liabilities at FYE 2022 is predominantly comprised of Environmental and Disposal Liabilities, Accounts Payable, Other Liabilities, and Federal Employee and Veteran Benefits Payable, which together represent 94.2% of the DAF GF's liabilities. This is approximately a 6.1% overall increase from FYE 2021, in which liabilities were $36.3 billion.

FIGURE 6: DAF GF's Liabilities Comparison | DAF GF's FYE 2022 Liabilities | (*in millions*) *(unaudited)*



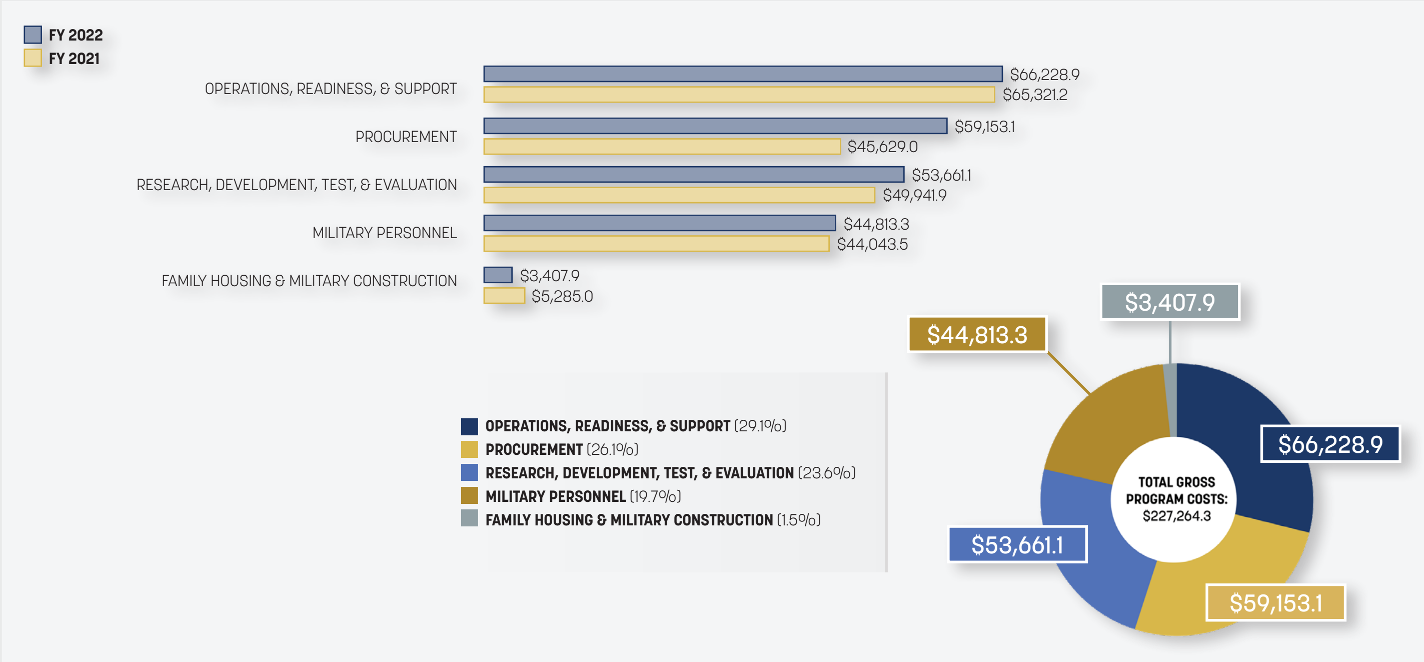
CONSOLIDATED STATEMENTS OF NET COST

The Consolidated SNC represents the net cost of programs and organizations of the DAF GF supported by appropriations or other means for the years ended September 30, 2022, and September 30, 2021. 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 $217.5 billion at FYE 2022 and $200.8 billion (restated) at FYE 2021, which is an 8.3% increase from FYE 2021.

The culmination of the five program cost categories (MILPERS; Operations, Readiness, and Support; Procurement; RDT&E; and Family Housing and MILCON), less earned revenue, make up the net cost of operations.

ANALYSIS OF FINANCIAL STATEMENTS

FIGURE 7: DAF GF's Gross Program Costs Comparison | DAF GF's FYE 2022 Gross Program Costs | (*in millions*) *(unaudited)*

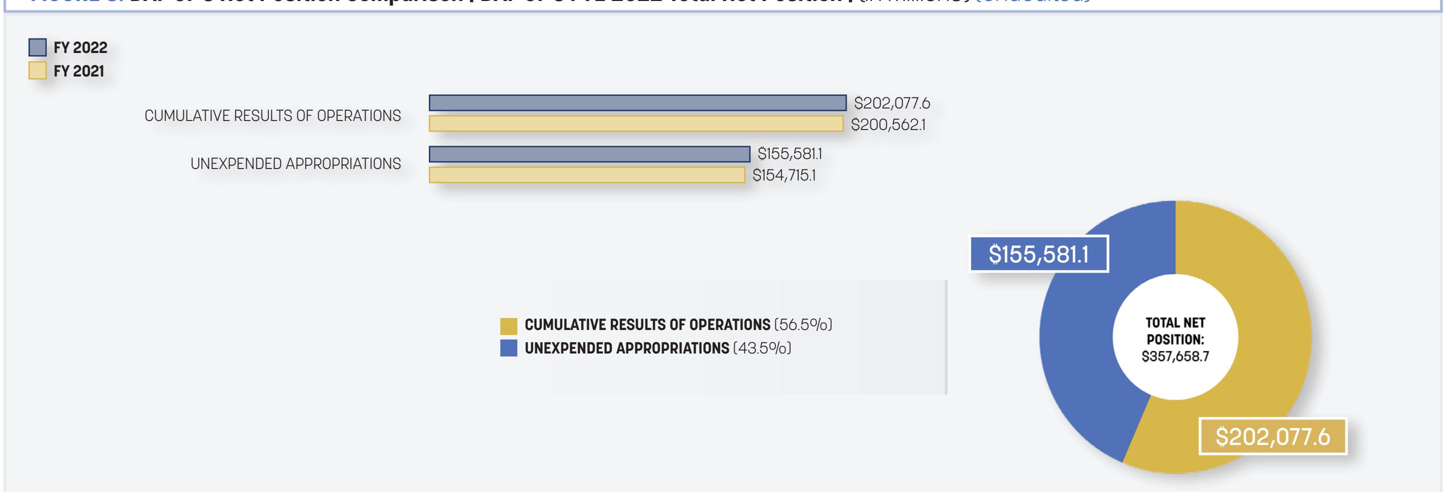


The DAF GF Gross Costs increased by $17.0 billion (8.1%) as a result of a number of factors, mainly DAF GF Procurement activities. In addition, there was an increase in costs for the USSF and other procurement activities related to operational system development and demonstration, space activities, management support, base maintenance and support, and special support projects.

CONSOLIDATED STATEMENTS OF CHANGES IN NET POSITION

The Consolidated SCNP represents the total Net Position, which is composed of Cumulative Results of Operations and Unexpended Appropriations. At FYE 2022, the DAF GF's net position was approximately $357.7 billion, compared to $355.3 billion (restated) at FYE 2021, approximately a 0.7% increase.

FIGURE 8: DAF GF's Net Position Comparison | DAF GF's FYE 2022 Total Net Position | (*in millions*) *(unaudited)*



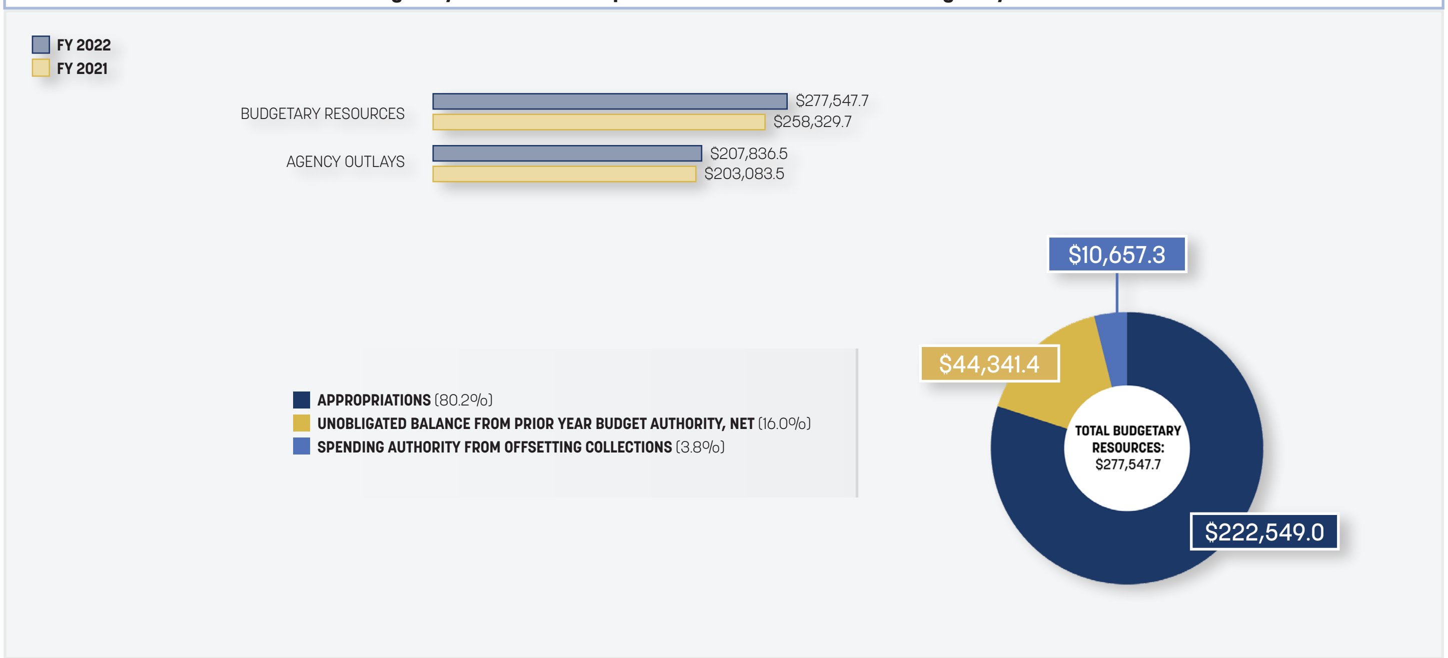
ANALYSIS OF FINANCIAL STATEMENTS

COMBINED STATEMENTS OF BUDGETARY RESOURCES

The Combined SBR provides information on the budgetary funding 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 $277.5 billion and $207.8 billion at FYE 2022 and $258.3 billion and $203.1 billion at FYE 2021, respectively, representing an increase of approximately 7.4% in Budgetary Resources and an increase of approximately 2.3% in Net Outlays.

The FY 2022 enacted appropriations of $222.5 billion represent 80.2% of total budgetary resources compared to 79.0% in FY 2021. The DAF GF obligated $236.2 billion, or 85.1%, of the Total Budgetary Resources in FY 2022, and the remaining $41.3 billion, or 14.9%, of available funding remained unobligated as of the end of FY 2022, compared to 84.6% and 15.4% respectively in FY 2021.

FIGURE 9: DAF GF's Statement of Budgetary Resources Comparison | DAF GF's Sources of Budgetary Resources | (*in millions*) *(unaudited)*



Significant changes and underlying causes related to the DAF GF's Combined Statement of Budgetary Resources between FYE 2022 and FYE 2021 are as follows:

- **Budgetary Resources**: The DAF GF's Budgetary Resources increased by $19.2 billion (7.4%). This increase is primarily due to an increase in Appropriations of approximately $18.5 billion. The increase in Appropriations is due to the following:
  - The RDT&E appropriation increased by $5.7 billion due to modernization efforts for nuclear programs, air superiority with Next Generation Air Dominance and hypersonic capabilities, and the Advanced Battle Management System.
  - The Operations, Readiness, and Support appropriation increased by $4.7 billion, primarily driven by civilian pay; mission support; installation support; training; and facility sustainment, restoration, and modernization.

ANALYSIS OF FINANCIAL STATEMENTS

- The USSF appropriation increased by $2.4 billion. The increase is primarily due to increased funding to protect and defend current space assets; build a more effective digital service; development of resilient missile warning and tracking; personnel; mission operations; sustainment of day-to-day operations; and additional acquisition of spacecraft, terminals, and launch services.
- The MILCON appropriation increased by $2.2 billion, which was related to accelerating installation readiness, resilience, modernization, and the planning/design funds to reinforce program stability and consistency.
- The MILPERS appropriation increased by $1.8 billion, due to end-strength growth of the total force, most specifically the retention of medical personnel. Additional funding was to attract and retain high-quality recruits.
- The Procurement appropriation increased by $1.6 billion due to Other Base Maintenance & Support equipment for special support projects.

A U.S. Air Force MC-130 J Commando II aircraft assigned to the 352nd Special Operations Wing conducts search patterns overhead during open ocean personnel recovery training off of the east coast of England. The Commando II flies a variety of low-level air refueling missions for special operations helicopters and aircraft, while also supporting infiltration, exfiltration, and resupply of special operations forces.
Photo: [Kevin Long], [Staff Sgt.]

ANALYSIS OF FINANCIAL STATEMENTS

WORKING CAPITAL FUND

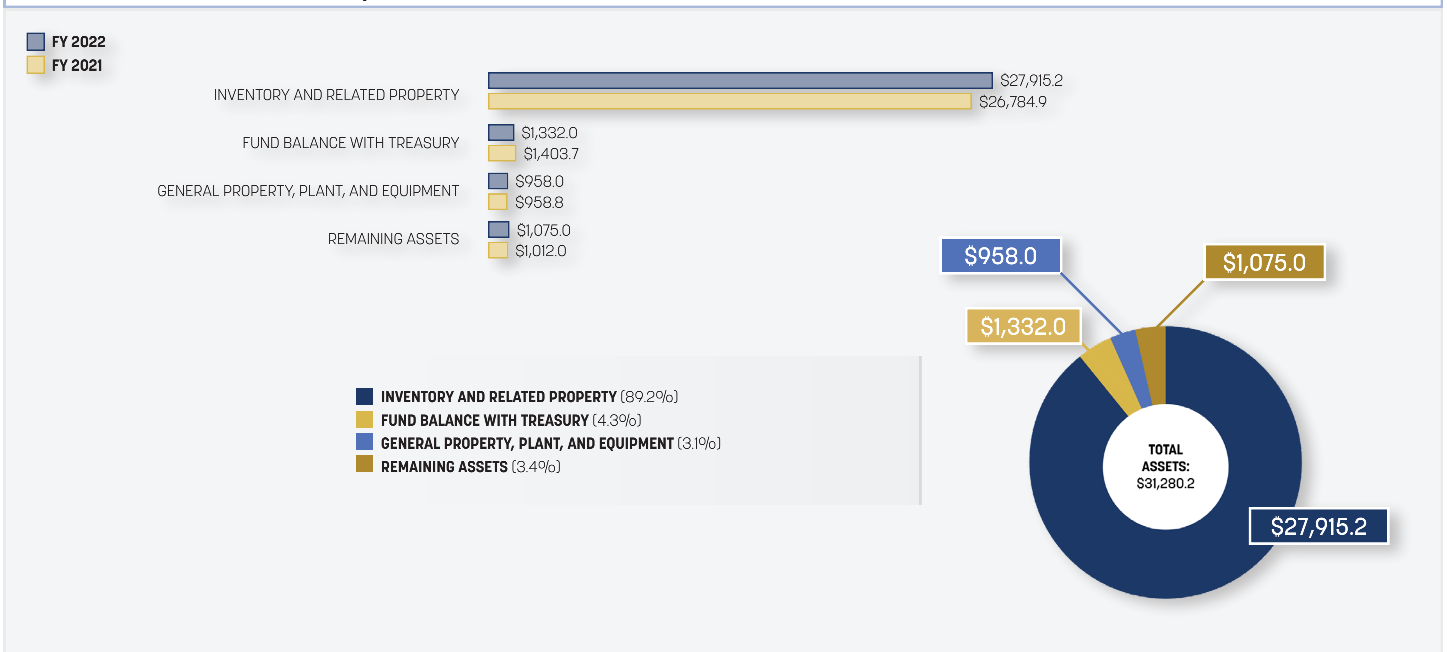
The DAF WCF activities provide maintenance services, weapon system parts, and base and medical supplies in support of the DAF core functions. The DAF WCF is designed to be a self-sustaining, "business-like" activity that generates revenue from providing goods and services. It is integral to readiness and sustainability of the 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.

CONSOLIDATED BALANCE SHEETS

The Consolidated BS, which represents the DAF WCF's financial position as of September 30, 2022 and September 30, 2021, 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's WCF $31.3 billion in assets at FYE 2022 is predominantly comprised of Inventory and Related Property; FBwT; and General Property, Plant, and Equipment; which together represent 96.6% of the DAF WCF's assets. This is approximately a 3.6% overall increase from FYE 2021, in which assets were $30.2 billion.

FIGURE 10: DAF WCF's Assets Comparison | DAF WCF's FYE 2022 Total Assets | (*in millions*) *(unaudited)*



ANALYSIS OF FINANCIAL STATEMENTS

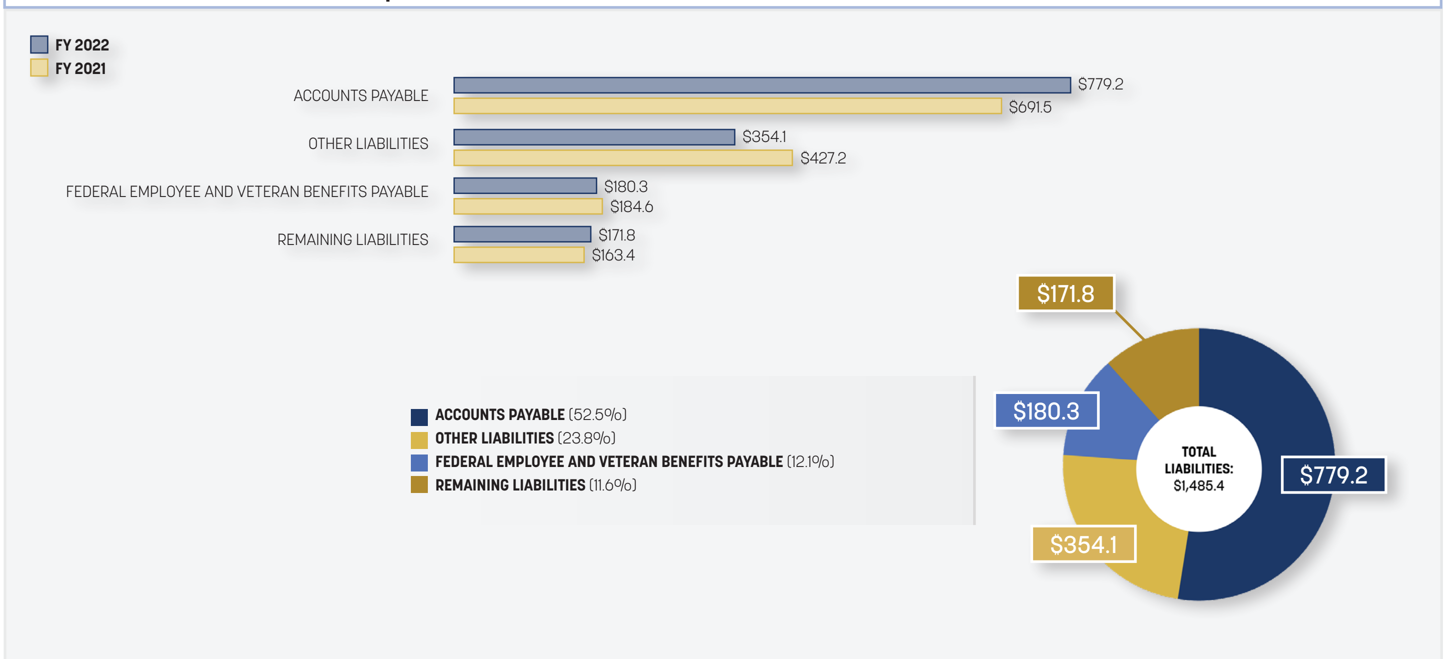
Significant changes and underlying causes related to the DAF WCF's assets between FYE 2022 and 2021 are as follows:

- **Inventory and Related Property:** The DAF WCF's Inventory and Related Property increased by $1.1 billion (4.1%). This increase is primarily attributed to an increase in Consolidated Sustainment Activity Group (CSAG) Supply resulting from in-transit inventory adjustments, coupled with a transfer of reparable assets in support of the Global Hawk Program.

- **Advances and Prepayments:** The DAF WCF's Advances and Prepayments, included in Remaining Assets in Figure 10 above, increased by $101.3 million (44.5%). This increase is primarily the result of increases in progress payments to contractors resulting from increased purchase requests of complex depot level reparables that have a long manufacturing lead time.

The DAF WCF's $1.5 billion of liabilities at FYE 2022 is predominantly comprised of Accounts Payable, Other Liabilities, Federal Employee and Veteran Benefits, which together represent 88.4% of the DAF WCF's liabilities.

FIGURE 11: DAF WCF's Liabilities Comparison | DAF WCF's FYE 2022 Total Liabilities | (*in millions*) *(unaudited)*



Significant changes and underlying causes related to the DAF WCF's liabilities between FYE 2022 and 2021 are as follows:

- **Accounts Payable:** The DAF WCF's Accounts Payable increased by $87.7 million (12.7%). This increase is primarily attributed to increased station support services.

- **Other Liabilities (Other than Intragovernmental):** The DAF WCF's Other Liabilities (Other than Intragovernmental) decreased by $69.6 million (19.3%). This variance is primarily attributed to a decrease in the accrual for salaries and wages in FY 2022. Fewer days were accrued for in salaries and wages for September FY 2022 compared to September FY 2021, due to the timing of pay periods.

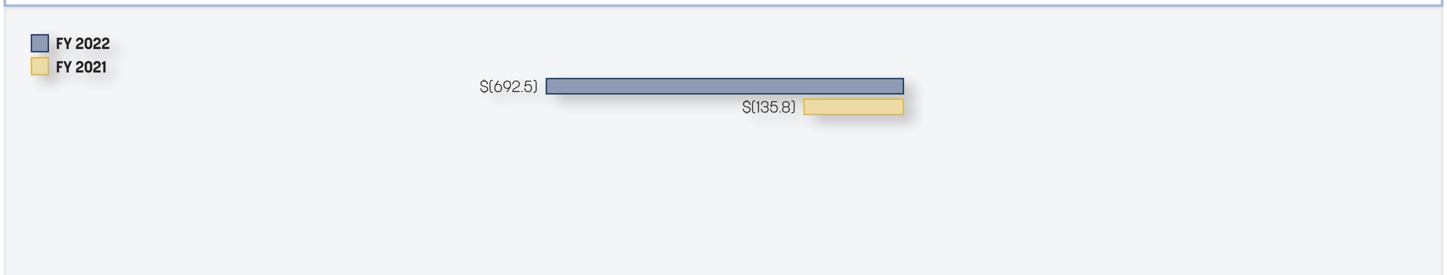
ANALYSIS OF FINANCIAL STATEMENTS

CONSOLIDATED STATEMENTS OF NET COST

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 FYE 2022 DAF WCF's Net Cost of Operations was approximately $(692.5) million compared to $(135.8) million in FY 2021.

The $556.7 million (409.9%) decrease in the DAF WCF's Net Cost of Operations from FYE 2021 to FYE 2022 is attributed to a $0.4 billion decrease in Earned Revenue, coupled with a $0.9 billion decrease in Gross Costs. The decrease in the Net Costs of Operations is mainly attributed to in-transit inventory adjustments recorded in CSAG Supply.

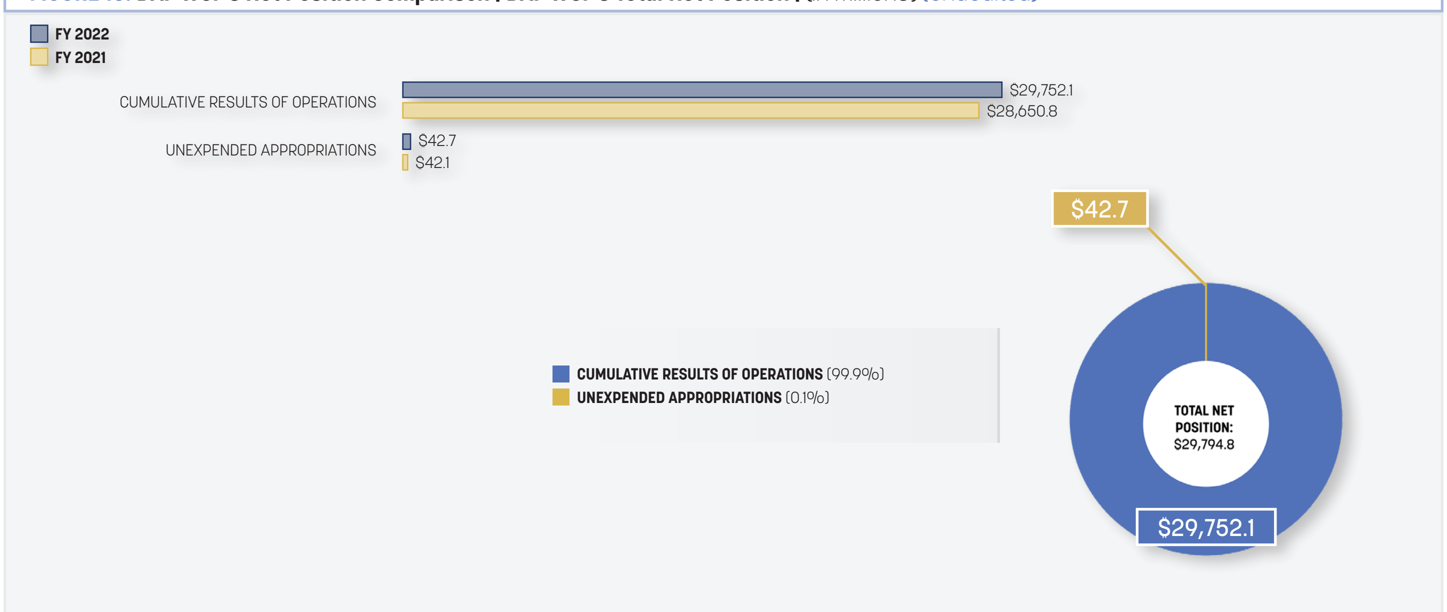
FIGURE 12: DAF WCF's Net Cost of Operations (*in millions*) *(unaudited)*



CONSOLIDATED STATEMENTS OF CHANGES IN NET POSITION

The Consolidated SCNP represents the total Net Position, which is comprised of Cumulative Results of Operations and Unexpended Appropriations. At FYE 2022, the DAF WCF's net position was approximately $29.8 billion, compared to $28.7 billion at FYE 2021, approximately a 3.8% increase.

FIGURE 13: DAF WCF's Net Position Comparison | DAF WCF's Total Net Position | (*in millions*) *(unaudited)*



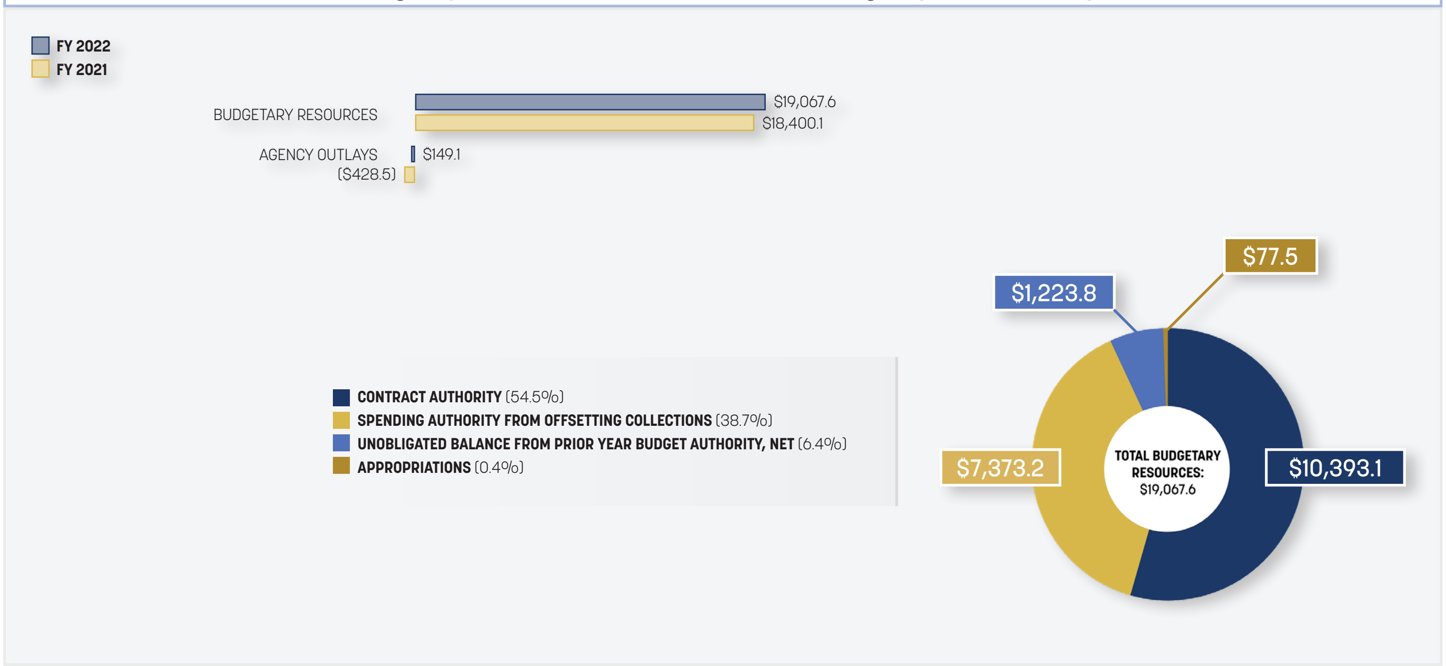
ANALYSIS OF FINANCIAL STATEMENTS

COMBINED STATEMENTS OF BUDGETARY RESOURCES

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 $19.1 billion and $149.1 million at FYE 2022 and $18.4 billion and $(428.5) million at FYE 2021, respectively, representing an increase of approximately 3.8% in Budgetary Resources and an increase of approximately 134.8% in Net Outlays.

The DAF WCF's FY 2022 resources from Contract Authority and Spending Authority from offsetting collections represent $17.8 billion or approximately 93.2% of total budgetary resources compared to $17.0 billion or approximately 92.4% of total budgetary resources in FY 2021. The DAF WCF obligated $18.2 billion of the $19.1 billion Total Budgetary Resources in FY 2022 compared to $17.2 billion of the $18.4 billion Total Budgetary Resources in FY 2021. The remaining $0.9 billion of available resources remained unobligated as of the end of FY 2022 compared to $1.2 billion in FY 2021.

FIGURE 14: DAF WCF's Sources of Budgetary Resources | DAF WCF's Statement of Budgetary Resources Comparison | (*in millions*) *(unaudited)*



Significant changes and underlying causes related to the DAF WCF's Combined Statement of Budgetary Resources between FYE 2022 and FYE 2021 are as follows:

- **Budgetary Resources:** The DAF WCF's Budgetary Resources increased by $0.7 billion (3.8%). This increase is primarily attributed to a $0.4 billion increase in Spending Authority from Offsetting Collections due to increased demand for repair services. The additional $0.3 billion is related to increased spending in Supply Contract Authority in FY 2022, resulting from the removal of the spending constraints implemented in FY 2020 and FY 2021 in order to restore cash lost in FY 2019.

- **Net Outlays:** The DAF WCF's Net Outlays increased by $0.6 billion (134.8%). The increase in Net Outlays is attributed to a reduction in Supply revenue resulting from the removal of the "Cash Recovery" surcharge factor implemented in the FY 2021 prices.

ANALYSIS OF FINANCIAL STATEMENTS

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 Circular 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.

Chief Master Sgt. Karmman-Monique Pogue, Senior Enlisted Leader for Space Delta 10, Space Training and Readiness Command, participates in the USSF Science, Technology, Engineering, and Mathematics (STEM) to Space panel at the Space Symposium Teacher Liaison Workshop. During the workshop, Space Foundation Teacher Liaisons receive space-themed, hands-on training that they can take back to their classrooms to better engage students in STEM.

Photo: [Kirsten Brandes], [Staff Sgt.]

Kristyn E. Jones Sworn in as the Assistant Secretary of the Air Force Financial Management and Comptroller

In April, Ms. Kristyn E. Jones was confirmed by the U.S. Senate as the Assistant Secretary of the Air Force for Financial Management and Comptroller, succeeding Honorable John P. Roth. One month later, Honorable Jones—an Army veteran—was sworn in to serve as the principal adviser to the Secretary, Chief of Staff of the Air Force, and Chief of Space Operations on all financial matters.

She is responsible for providing financial management and analytical services necessary for the effective and efficient use of DAF resources, to include nearly 700,000 military and civilian personnel, and managing a nearly $200.0 billion budget to modernize the Air and Space Forces.

"We welcome Kristyn to the Department and recognize how fortunate we are to have her joining our team," said Secretary of the Air Force Frank Kendall. "Her leadership and experience serving in various financial management and technology roles will be critical to supporting Department of the Air Force priorities as we look to accelerate transformation to stay ahead of our pacing challenges."

To learn more about The Honorable Jones **CLICK HERE**

> "Her leadership and experience serving in various financial management and technology roles will be critical to supporting Department of the Air Force priorities."
>
> *- Secretary Kendall*

U.S. Air Force 75 Established 1947

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, integrated financial management 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-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, 2022:

- Internal Controls over Reporting (ICOR) – reasonable assurance, except for 17 material weaknesses
- Internal Controls over Operations – reasonable assurance, except for 14 material weaknesses
- Internal Controls over Financial Systems – reasonable assurance, 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, Entity Level Controls.

Refer to Table 1 in the *Other Information: Summary of Financial Statement Audit and Management Assurances* 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 changes.

ANALYSIS OF SYSTEMS, CONTROLS, AND LEGAL COMPLIANCE

INTERNAL CONTROL GOVERNANCE

In FY 2022, the DAF leveraged the Risk Management Council (RMC) and Senior Management Council (SMC) to provide oversight of enterprise risk management and internal control activities over operations. RMC 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 SMC 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 2022. 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 and significant deficiencies. Additionally, the DAF is implementing an Enterprise Governance, Risk, and Compliance tool to streamline and automate the OMB A-123 program. It will serve as the official repository in FY 2023 for objectives, risks, controls, tests of controls, conclusions, deficiencies, and CAPs.

INTERNAL CONTROL OVER REPORTING

In FY 2022, 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 17 total uncorrected material weaknesses, comprised of nine DAF GF and eight DAF WCF material weaknesses.

The tables below include the 17 material weaknesses in internal control over reporting, along with the corresponding corrective actions.

TABLE 1. Fiscal Year 2022 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**
Procure-to-Pay	Accounts Payable, Expenses/Gross Costs and Accounting for Contract Financing Payments	Reconcile United States Standard General Ledger (USSGL) balances and develop roll forwards for Obligations, Accounts Payable, and Contract Financing Payments (CFP) line items. Design an Accounts Payable accrual methodology. Coordinate with the Defense Finance and Accounting Service (DFAS) around a Mechanization of Contract Administration Services (MOCAS) replacement strategy and implement change requests to properly post CFP transactions driving abnormal balances.	FY 2023
Multiple	Entity Level Controls (formerly 'Accumulating and Preparing Financial Statements')	Implement executive oversight and authorities for Financial Improvement and Audit Remediation (FIAR) leadership to make and enact FIAR decisions rapidly (FY 2023); fully integrate current Integrated Master Schedules and develop all remaining (e.g., WCF, Entity Level Controls GF) (FY 2023); and develop performance management system to align organizational performance to individual performance at the appropriate levels (FY 2023).	FY 2026
Budget-to-Report	Fund Balance with Treasury	Perform historical trend analysis to determine estimated amounts for quarterly accrual journal voucher (JV) entries to enhance the accuracy of the non - Fund Balance with Treasury (FBwT) side of the undistributed JV entries. Enhance DAF monitoring over the Consolidated Cash Accountability System (CCAS) 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

ANALYSIS OF SYSTEMS, CONTROLS, AND LEGAL COMPLIANCE

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	Integration and Reconciliation of Financial Systems	Develop and implement an integrated Financial Management system to meet federal system requirements, comply with federal accounting standards with the ability to post transactions and report in compliant format. Establish automated processes to execute reconciliations between source/feeder systems, USSGL, and financial statements.	FY 2026
Acquire-to-Retire	Military Equipment	Implement and continue to refine preventative and detective controls around construction in progress, asset entry and updates in Accountable Property System of Records (APSR), and the existence and completeness of aircraft pods.	FY 2022
Plan-to-Stock	Operating Materials and Supplies	Improve the process to value and record newly acquired Operating Materials and Supplies (OM&S) needs and enhance procedures to record ongoing OM&S activities.	FY 2026
Acquire-to-Retire	Other General Equipment	Develop and implement policies and procedures to account for full costs of new acquisitions, including Construction-in-Progress (CIP), for accurate financial statement reporting.	FY 2024
Acquire-to-Retire	Property and Materials Held by Others	Implement an APSR to financially report contractor managed/possessed property not in a government APSR. Execute contract modifications, when necessary, to enforce contract oversight and vendor reporting requirements.	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 CIP and depreciation. Complete analysis of subledger balance changes required following finalized FY 2022 transition from legacy APSR Information Technology (IT) systems to Next Generation IT APSR system. Complete floor-to-book and book-to-floor inventory in a timely manner.	FY 2025

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	Accounts Payable, Gross Costs and Contract Financing Payments (formerly 'Accounts Payable, Expenses/Gross Costs and Accounting for Contract Financing Payments')	Reconcile USSGL balances and develop roll forwards for Obligations, Accounts Payable, and CFP line items. Design an Accounts Payable accrual methodology. Coordinate with DFAS around a MOCAS replacement strategy and implement change requests to properly post CFP transactions driving abnormal balances.	FY 2023
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
Order-to-Cash	Earned Revenue and Accounts Receivable (formerly '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 Controls	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

ANALYSIS OF SYSTEMS, CONTROLS, AND LEGAL COMPLIANCE

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	Include supporting documentation in each DAF WCF JV package that reconciles FBwT to reported Treasury activity. Develop corrective actions based on the evaluation of the DAF WCF CCAS process. Establish additional milestones based on further discovery and CAPs.	FY 2023
Budget-to-Report	Integration and Reconciliation of Financial Systems	Implement cost effective remediations in the legacy environment pending information technology modernization.	FY 2028
Plan-to-Stock	Inventory Held by DAF WCF	Improve depot, base, and medical/dental inventory count procedures; controls over inventory transactions; and in-transit inventory accountability. Coordinate existence and completeness baseline timing with Valuation Go-Forward and Statement of Federal Financial Accounting Standard (SFFAS) 48 Baselining efforts.	FY 2025
Plan-to-Stock	Inventory Held by Others	Develop a process to routinely monitor variances between Defense Logistics Agency and the DAF and adjust the two sets of records to the actual inventory on hand. Address issues with inventory held by contractors and other defense organizations. Coordinate existence and completeness baseline timing with Valuation Go-Forward and SFFAS 48 Baselining efforts.	FY 2025
Multiple	Oversight and Monitoring of Internal Controls	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

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. Critical systems to financial reporting and control span across various business functions including, but are not limited to, acquisition (Contract Information Technology), logistics (Theater Integrated Combat Munitions System, Next Generation Information Technology, Reliability and Maintainability Information System), and financial management (Defense Enterprise Accounting and Management System).

In FY 2022, the DAF began implementing an enterprise IT roadmap that tracks the audit remediation activities for 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), 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.

ANALYSIS OF SYSTEMS, CONTROLS, AND LEGAL COMPLIANCE

The DAF submitted 74 IT CAPs 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 2022, the DAF Business Mission Area continued to fully implement its Enterprise IT Strategy to simplify, secure, and modernize its portfolio of financial and financial feeder systems. Enhanced cross functional governance and tools will support monitoring of compliance requirements, implementation of cybersecurity solutions (e.g. Identity, Credential, and Access Management (ICAM) and Security Information and Event Monitoring, and Configuration Management), and retirement of legacy systems. For example, the DAF implemented a multi-year roadmap to accelerate ICAM capabilities for critical financial systems which will meet Secretary of Defense and DAF strategic audit and cybersecurity goals. The implementation of ICAM capabilities in IT solutions will limit access to critical systems and financial data to those with a "need to know." 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.

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 2022 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 2022, the DAF leveraged the SMC to 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.

ANALYSIS OF SYSTEMS, CONTROLS, AND LEGAL COMPLIANCE

TABLE 3. Fiscal Year 2022 Material Weaknesses in Internal Control over Operations

UNCORRECTED DAF INTERNAL CONTROL OVER OPERATIONS MATERIAL WEAKNESSES			
INTERNAL CONTROL REPORTING CATEGORY	**TITLE OF MATERIAL WEAKNESS**	**SUMMARY OF CORRECTIVE ACTIONS**	**TARGETED CORRECTION DATE**
Supply Operations	Consumable Parts Disposal	Update guidance to clearly require (a) all base-level personnel to follow the DoD and DAF guidance for demilitarization and (b) decentralized materiel support personnel to assist maintenance personnel with identification and disposal requirements of consumable items with demilitarization codes. Develop and provide training to ensure all users are aware of consumable item demilitarization and disposal requirements.	FY 2023
Contract Administration	Contracting Officer Representatives	Ensure that a qualified Contracting Officer Representative is designated for all service contracts. Retain and execute contract oversight responsibilities. Enhance existing process to further reduce improper payments.	FY 2023
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 2024
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 2023
Security	Cyber Security Control of Assessment Systems	Develop a new compliance tracking system.	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
Force Readiness	Installation Chemical, Biological, Radiological, and Nuclear Defense Readiness	Develop and implement a new training plan.	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 2023
Comptroller and Resource Management	Marketing and Recruiting Programs	Institute training, establish controls, and direct recruiting service personnel to scrutinize invoices and reconcile payments against contract and supporting documentation. Require recruiting service personnel to review the DoD Contracting Officer Handbook.	FY 2022
Security	Networked Data Protection	Reinforce data encryption controls. Perform periodic Personally Identifiable Information (PII) scans and report all findings to their designated privacy manager. Reinstitute annual PII training. Perform DAF Privacy Office workload studies and associated manning adjustments as necessary.	FY 2023
Security	Protection of Technical and Proprietary Data	Implement SharePoint Online Governance Plan.	FY 2023

ANALYSIS OF SYSTEMS, CONTROLS, AND LEGAL COMPLIANCE

UNCORRECTED DAF INTERNAL CONTROL OVER OPERATIONS MATERIAL WEAKNESSES			
INTERNAL CONTROL REPORTING CATEGORY	**TITLE OF MATERIAL WEAKNESS**	**SUMMARY OF CORRECTIVE ACTIONS**	**TARGETED CORRECTION DATE**
Security	Secure Internet Protocol Router Network Access Controls	Properly configure all network components and devices.	FY 2025
Information Technology	Segregation of Duties in Defense Travel System Controls	Update DAF Defense Travel System (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
Information Technology - Business System Modernization	Software Use	Develop a plan to deploy a reliable software asset accountability system.	FY 2023

USSF Lt. Col. Tyler Eske, 18th Space Control Squadron (SPCS) director of operations, gives a tour of the 18 SPCS operations floor to operators from the German Space Situational Awareness Centre during an "Operator Exchange" event at Vandenberg Space Force Base, CA. According to www.space-track.org, 18 SPCS's official website for tracking objects in space, there are approximately 44,800 objects continuously being monitored and accounted for, a number that is continually growing at an unprecedented pace.

Photo: [Luke Kitterman], [Tech. Sgt.]

STATEMENT OF ASSURANCE

SECRETARY OF THE AIR FORCE
WASHINGTON

MEMORANDUM FOR OFFICE OF THE UNDER SECRETARY OF DEFENSE
(COMPTROLLER) DEPUTY CHIEF FINANCIAL OFFICER

SUBJECT: Annual Statement of Assurance Required Under the Federal Managers' Financial Integrity Act for Fiscal Year 2022

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 Number (No.) A-123, "Management's Responsibility for Enterprise Risk Management and Internal Control" and the Green Book, Government Accountability Office (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 eight significant deficiencies and 33 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, 2022.

The DAF conducted its assessment of the effectiveness of internal controls over operations in accordance with OMB Circular No. Al23, the 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 four significant deficiencies and 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, 2022.

STATEMENT OF ASSURANCE

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 four significant deficiencies and 17 material weaknesses reported in the "*Significant Deficiencies and Material Weaknesses Template,*" that internal controls over reporting (including internal and external reporting) as of September 30, 2022, and compliance are operating effectively as of September 30, 2022.

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 also included an evaluation of the internal controls around our SAA activities. Based on the results of this assessment, the DAF can provide reasonable assurance, except for the two nonconformances 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. A123, Appendix D, as of September 30, 2022.

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 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 that entity-level controls including fraud controls are operating effectively as of September 30, 2022.

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

If there are any questions regarding this Statement of Assurance for Fiscal Year 2022, 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.

ANALYSIS OF SYSTEMS, CONTROLS, AND LEGAL COMPLIANCE

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 2022 with six open ADA cases. During the year, the DAF opened one new case, for a total of seven open cases in FY 2022. The DAF was able to close five of these cases, none of which resulted in a reportable ADA violation, thereby resulting in the remaining number of two open cases at year-end. Of the remaining two open cases, both are expected to close as "no ADA violation."

COMPLIANCE WITH OTHER KEY LEGAL AND REGULATORY REQUIREMENTS

As of September 30, 2022, 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.

U.S. Air Force Airmen assigned to the 816th Expeditionary Airlift Squadron (EAS) unload cargo from a U.S. Air Force C-17A Globemaster III aircraft at an undisclosed location within the U.S. Central Command area of responsibility. The 816th EAS conducts rapid global mobility operations vital to the multinational coalition effort dedicated to militarily defeating Islamic State of Iraq and Syria (ISIS).

Photo: [Matthew Plew], [Master Sgt.]

A-10 Thunderbolt II aircraft from the 924th Fighter Group, Davis-Monthan Air Force Base, AZ, prepare to take off in support Rim of the Pacific Exercise (RIMPAC) 2022 at Marine Corps Base, HI. Twenty-six nations, 38 ships, three submarines, more than 170 aircraft and 25,000 personnel - including Reserve Citizen Airmen from the 624th Regional Support Group (RSG) - are participating in RIMPAC 2022 from in and around the HI Islands and Southern CA. The world's largest international maritime exercise, RIMPAC provides a unique training opportunity while fostering and sustaining cooperative relationships among participants critical to ensuring the safety of sea lanes and security on the world's oceans. RIMPAC 2022 is the 28th exercise in the series that began in 1971, which aims to strengthen partners' collective forces and promote a free and open Indo-Pacific.

Photo: [James Bowman]

FORWARD-LOOKING INFORMATION

For 75 years, the DAF provided unparalleled capabilities to the Joint Force and excelled at keeping pace with rapid changes in innovation and technology. These unique competencies led to the DAF becoming the world's preeminent force in air, space, and cyberspace. However, the DAF's distinct advantage is being threatened by emerging risks and challenges, which include, but are not limited to the following:

The Evolving Strategic Landscape Demands Accelerated Investments to Counteract the Erosion of America's Long-Standing Warfighting Advantages

The DAF's capabilities enhance the security and prosperity of Americans, strengthen allies and partnerships, and deter aggression and strategic attacks from aggressors. Nevertheless, revisionist powers and rogue nations are investing heavily to reduce the DAF's stronghold. If left unchecked, their efforts could fundamentally challenge the DAF's ability to achieve U.S. national security objectives.

To combat these endeavors, the DAF is accelerating change by developing, testing, and fielding warfighting capabilities and equipment, including long-range traditional and hypersonic weapons and artificial intelligence-enabled technologies. The DAF is also focused on revitalizing and securing strong alliances. By engaging in efforts to maximize interoperability with allies and partners, the DAF will be able to strategically deter hostile aggression.

The DAF continues to strive towards a more agile, resilient, sustainable, and lethal force. By evaluating the DAF's strategic landscape and determining the required modernization efforts, the DAF will improve its operational posture through seven operational imperatives. The DAF will focus its future efforts to: 1) Define and resource a resilient and effective space order of battle; 2) Achieve an operationally-optimized Advanced Battle Management System (ABMS); 3) Achieve a system to track surface and air threats in a challenging operational environment; 4) Develop and field a Next Generation Air Dominance System; 5) Define optimized resilient basing, sustainment, and communications in a contested environment; 6) Define and further invest in the B-21 Raider; and 7) Prepare the DAF to transition to a wartime posture against a peer competitor.

The Emerging Adversarial Militarization of Space Requires a More Modernized and Better Trained USSF

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 underwrite all instruments of national power and enable the joint force to operate effectively. Capabilities such as precise navigation (Global Positioning System (GPS); satellite communication (SATCOM); missile warning; missile defense; and nuclear command, controls, and communication are crucial components in protecting the U.S. homeland and deterring aggression. However, space is rapidly evolving into a contested warfighting domain, threatening America's position as the world's premier space power. Adversaries are aggressively developing and deploying space and counter-space systems to neutralize and destroy U.S. space capabilities.

The USSF is modernizing space defense architecture, which will drive a more resilient and defendable architecture with enhanced capabilities through the proliferation of systems across multiple orbits and thereby increase deterrence across the full spectrum of advanced threats. Additionally, the USSF is investing in innovative capabilities such as the Deep Space Advanced Radar Capability, which will deliver continuous all-weather radar capabilities for deep-space object tracking. This will allow the USSF to track foreign launches, improve the USSF's ability to observe the behavior of existing and emerging threats, and confirm secured access to space. Alongside the National Space Intelligence Center, the USSF will analyze intelligence on foreign intentions and activities in the space domain to support future space acquisition decisions and to defend space systems against adversarial attacks. Additional efforts include the

FORWARD-LOOKING INFORMATION

modernization of GPS services including anti-jamming and advanced cyber protection for ground operating systems; enhancements and greater efficiencies to SATCOM; and acquisitions of space vehicles, ground control systems, and launch systems.

The USSF is committed to employing diverse and talented Guardians, whom are the core of the USSF's asymmetric advantage in Space. There is little precedent for space warfighting, thereby making it difficult to build space-mission trainings and education. The USSF is committed to developing space warfighting doctrine tactics, techniques, and procedures to ensure that Guardians receive the appropriate training. For example, the USSF is developing live, virtual, and constructive environments where Guardians can train against a professional, doctrinally sound, and threat-representative aggressor force.

Exploitations of Cybersecurity Vulnerabilities Require Strengthened Cyberspace Operations, Systems, and Networks

The DAF depends on key cyber capabilities to conduct and support operations across all domains and to enhance U.S. military advantages. Over the last few decades, adversaries have been researching and developing the means to attack the mission systems and infrastructure that the DAF depends on to go to war. The expansion of these sophisticated and evolving cyber-attacks poses one of the most significant threats to national security.

The DAF is focused on enhancing its ability to deter and defeat cyber threats by developing and acquiring innovative cyber tools and capabilities that continuously improve cyberspace operations. As their primary contribution to the Joint All-Domain Command and Control, the DAF is investing in the ABMS, which will accelerate communication and enhance decision making. Future investments in ABMS will go towards modernizing the Air and Space Forces Command, Control, and Communications Battle Management networks and to integrate those networks with the joint and combined force. The DAF is also investing in the Battlefield Airborne Communications Node, which will enable interoperability of systems with real-time information flow and strengthen the DAF's ability to operate in a joint environment.

The DAF is committed to acquiring replacements for systems that are aging and vulnerable to advanced attacks. Resources are being funded to modernize existing information systems and utilize emerging technology such as artificial intelligence, fifth-generation wireless technology, and cloud computing to deter and defeat cyber-attacks on information systems and logistical infrastructure.

USSF Maj. Gen. Douglas Schiess (2nd from the right) receives his second star and transfers into the USSF at Peterson Space Force Base, CO. Assigned to Headquarters, Space Operations Command, Schiess serves as the Deputy Commanding General for Operations.

Photo: [Dave Grim], [USSF]

FORWARD-LOOKING INFORMATION

ASSESSMENT, MEASUREMENT, AND MITIGATION OF CLIMATE-RELATED RISKS

Climate change is a dynamic threat that detrimentally impacts the DAF's mission capabilities, and the impacts of which are projected to increase over time. In an increasingly complex global security environment, the DAF must adapt and respond to this threat. Extreme weather and environmental conditions are already imposing high costs on the DAF's installations and missions, while simultaneously posing new risks to our ability to train and operate effectively.

Pursuant to Executive Order (EO) 14008, the DAF has worked diligently throughout FY 2022 to develop a mitigation plan in response to climate risks, resulting in the culmination of the DAF's Climate Action Plan, published in October 2022. This plan summarizes climate-related priorities, objectives, key results, and milestones that the DAF will undertake and strive to achieve over the upcoming future to not only sustain our operational readiness in the face of climate change, but also to mitigate the DAF's own contribution to climate change. This Plan aligns with the broader National Defense Strategy, the DoD Climate Adaptation Plan, and the DoD Climate Risk Analysis, and underscores the unique response and responsibilities of the DAF.

The DAF's Climate Action Plan establishes three priorities for the DAF to respond and adapt to climate challenges:

1. *Maintain Air and Space Dominance in the Face of Climate Risks:* This priority includes modernizing infrastructure and facilities to act as a platform for continued air and space combat superiority.
2. *Make Climate-Informed Decisions:* This priority emphasizes informing the workforce of climate challenges and responses, incorporating that information into strategy and planning, and considering climate-related factors in acquisition and supply chain decision-making processes.
3. *Optimize Energy Use and Pursue Alternative Energy Sources:* This priority includes improving the DAF's energy intensity by seeking efficiencies and adopting alternative energy sources to reduce the DAF's energy footprint.

The President, through EO 14057, Catalyzing Clean Energy Industries and Jobs Through Federal Sustainability, committed to achieve net-zero emissions economy-wide by 2050 and the DAF echoes this goal with its objective of operating DAF installations at net-zero emissions by 2046. As is true with any critical mission, this goal will only be accomplished via many specific and supportive key results and milestones along the way. These key results and milestones are laid out in the DAF's Climate Action Plan and reiterate that achieving such a goal is only possible by bringing the full breadth of the DAF's capabilities to the fore. Several of the notable results the DAF aims to achieve include:

Key Results for Maintaining Air and Space Dominance in the Face of Climate Risks

- In addition to net-zero emissions for all installations by FY 2046, the DAF aims to achieve a 50.0% reduction in greenhouse gas emissions department-wide by 2033 (measured from a 2008 baseline)
- Targeted investments to improve base resilience, starting with $36.0 million in FY 2023 and increasing to $100.0 million per year by FY 2027
- Energy Resilience Readiness Exercises executed at 35 installations by the end of FY 2027, with results used to inform installation investments and facilitate mission execution from energy-efficient and climate-resilient bases

FORWARD-LOOKING INFORMATION

Key Results for Making Climate-Informed Decisions

- Climate considerations integrated into DAF professional military education, technical, and continuing education by FY 2024
- Potential effects and security implications of climate change included in engagements with allies and partner nations starting in FY 2023

Key Results for Optimizing Energy Use and Pursuing Alternative Energy Sources

- Operational energy intensity of DAF flying missions increased 5.0% by FY 2027 and 7.5% by FY 2032 through standardized use of aircraft drag reduction technologies, modern software scheduling tools, and enhanced engine sustainment practices
- 100.0% carbon pollution-free electricity on a net annual basis by FY 2030, including 50.0% 24/7 carbon pollution-free electricity
- 100.0% zero emission non-tactical vehicles by FY 2035, including 100.0% zero emission light-duty vehicle acquisitions by FY 2027 and aircraft support equipment by FY 2032

Capt. Taylor Bye Becomes First Female Aviator to Receive Kolligian Trophy

What started off as a routine training sortie ended with the DAF awarding the Koren Kolligian, Jr. Trophy to a female aviator for the first time in Department history.

Two years ago, Capt. Taylor Bye, an A-10C Thunderbolt II pilot assigned to the 23rd Wing at Moody Air Force Base, Georgia, experienced a catastrophic gun failure and her canopy was sent soaring through the sky, which forced her to decide to either eject or attempt a gear-up "belly" landing. In a display of incredible heroism and professionalism, Capt. Bye instinctively put the throttles in max, pitched the aircraft nose up, and lowered her seat to reduce the wind blast. As a result of her extraordinary skill and airmanship, Capt. Bye was awarded the Koren Kolligian, Jr. Trophy at the Pentagon on May 11, 2022.

The trophy recognizes the outstanding feats of airmanship and skill of aircrew members who avert or minimize the seriousness of an aircraft mishap in terms of injury, aircraft, or property damage. While the award recognizes individual accomplishments, Capt. Bye was quick to emphasize the importance of her team both on the ground and in-flight, citing assistance from her wingman Maj. Jack Ingber, another Moody Air Force Base A-10 pilot.

"My wingman was my source of normalcy. At one point after a decent amount of time into the emergency, he said over the radio 'you're doing a good job, one.' That small statement made the world of difference because it reminded me I had a team helping me," said Capt. Bye. "This whole experience has challenged me in many ways, but to be recognized with this honor is something I will never forget."

U.S. AIR FORCE

FINANCIAL SECTION

A U.S. Air Force F-22 Raptor assigned to the 90th Expeditionary Fighter Squadron flies alongside two Polish F-16s in formation during the North Atlantic Treaty Organization (NATO) Air Shielding media day, at Łask Air Base, Poland. The Raptors uphold the Air Shielding mission alongside Polish F-16s and Italian Eurofighter Typhoons. The event showcased the importance of NATO's Air Shielding mission and the interoperability among the U.S. and NATO allies to international media through trilateral aerial demonstrations and interviews with service members. The U.S. remains dedicated to our security commitments with our NATO alliance and postured to defend NATO territory.
Photo: [Danielle Sukhlall], [Staff Sgt.]

MESSAGE FROM THE CHIEF FINANCIAL OFFICER

8 November 2022

It is my privilege to join Secretary Kendall in presenting the Fiscal Year 2022 Agency Financial Report for the Department of the Air Force. This in-depth review of the Department of the Air Force's financial performance serves as an open letter to American taxpayers on how the Department is fulfilling its commitment to use our appropriations and our assets in the most effective and efficient way possible.

Fiscal Year 2022 was a pivotal year for our Financial Improvement and Audit Remediation program as we began to see the impact that our Integrated Master Schedules are having on the way we identify risk and develop solutions to keep our audit goals on track. Although the auditor issued a disclaimer of opinion, we made strides in downgrading our material weaknesses. Our teams engaged in risk-based discussions and prioritized efforts to fuel proactive decision-making forums that allowed us to achieve key milestones in Fiscal Year 2022 and lay the groundwork for future years.

While working to remediate our material weaknesses, we continued to face challenges surrounding the more than 150 systems that directly impact our financial statements. Our reliance on dated, disparate systems not only makes substantiating transactions difficult, but introduces numerous cybersecurity issues. To that end, we are embarking on an enterprise-wide approach to Information Technology that aligns mission requirements to business capabilities, balances our needs against constrained resources, and clearly identifies risks and tradeoffs for executive decision makers.

I am proud of the work we have done related to our Fund Balance with Treasury material weakness. As a result of our heightened efforts to remediate this critical area deemed a high priority by the Secretary of Defense, we are increasing transparency surrounding where and how American taxpayers' hard-earned dollars are being utilized. This will help maximize the effectiveness of the appropriations entrusted to this Department.

Audit-fueled findings and corrective actions to modernize systems and improve processes are coming at a crucial time. As budgets become more constrained by competing economic priorities, inflation, and emerging defense requirements, the necessity to optimize resources becomes even more critical. As such, the Department of the Air Force's budgetary requests provide a sound balance between meeting combatant commanders' immediate needs while investing in the modernized capabilities the Air and Space Forces require to deter and, if necessary, defeat aggression by our foreign adversaries. To help align resources to requirements and achieve effective stewardship of taxpayer dollars, the DAF will enhance asset management, reduce cybersecurity vulnerabilities, and produce better data for high-impact decision making.

Kristyn E. Jones

Kristyn E. Jones
Assistant Secretary of the Air Force
(Financial Management and Comptroller)

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, 2022 and are presented on a comparative basis with information restated for the FY ended September 30, 2021. The USSF 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 SHEETS

The Consolidated Balance Sheets, as of September 30, 2022 and 2021, represent 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 STATEMENTS OF NET COST

The Consolidated Statements of Net Cost present the net cost of the DAF GF's operations for the FYs ended September 30, 2022 and 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 STATEMENTS OF CHANGES IN NET POSITION

The Consolidated Statements of Changes in Net Position present 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 FYs ended September 30, 2022 and 2021.

COMBINED STATEMENTS OF BUDGETARY RESOURCES

The Combined Statements of Budgetary Resources present the budgetary resources available to the DAF GF during FYs 2022 and 2021, the status of these resources as of September 30, 2022 and 2021, and the net outlays of budgetary resources for the FYs ended September 30, 2022 and 2021.

DEPARTMENT OF THE AIR FORCE, GENERAL FUND

CONSOLIDATED BALANCE SHEETS

AS OF SEPTEMBER 30 *(AMOUNTS IN THOUSANDS)*		2022 CONSOLIDATED *(UNAUDITED)*		RESTATED 2021 CONSOLIDATED *(UNAUDITED)*
ASSETS				
Intragovernmental				
Fund Balance with Treasury (*Note 3*)	$	162,985,790	$	152,462,023
Investments (*Note 5*)		7		7
Accounts Receivable, Net (*Note 6*)		346,113		1,011,014
Other Assets (*Note 10*)		174,892		129,621
Total Intragovernmental	$	163,506,802	$	153,602,665
Other than Intragovernmental				
Cash and Other Monetary Assets (*Note 4*)	$	183,956	$	310,410
Accounts Receivable, Net (*Note 6*)		329,537		305,134
Operating Materials and Supplies, Net (*Note 8*)		65,929,653		64,297,138
General Property, Plant, and Equipment, Net (*Note 9*)		155,227,745		154,997,357
Advances and Prepayments (*Note 10*)		10,947,878		18,110,875
Total Other than Intragovernmental	$	232,618,769	$	238,020,914
Total Assets	$	396,125,571	$	391,623,579
Heritage Assets and Stewardship Land (*Note 9*)				
LIABILITIES				
Intragovernmental				
Accounts Payable	$	3,251,011	$	4,058,214
Advances from Others and Deferred Revenue (*Note 15*)		1,885,558		1,485,638
Other Liabilities (*Note 13* and *Note 15*)		1,323,556		1,239,877
Total Intragovernmental	$	6,460,125	$	6,783,729
Other than Intragovernmental				
Accounts Payable	$	7,267,235	$	5,689,171
Federal Employee and Veteran Benefits Payable (*Note 13*)		4,471,810		4,462,052
Environmental and Disposal Liabilities (*Note 14*)		13,089,934		12,802,167
Advances from Others and Deferred Revenue (*Note 15*)		343,223		314,310
Other Liabilities (*Note 15*, *Note 16*, and *Note 17*)		6,834,525		6,294,959
Total Other than Intragovernmental	$	32,006,727	$	29,562,659
Total Liabilities	$	38,466,852	$	36,346,388
Commitments and Contingencies (*Note 17*)				

DEPARTMENT OF THE AIR FORCE, GENERAL FUND

CONSOLIDATED BALANCE SHEETS (CONTINUED)

AS OF SEPTEMBER 30 *(AMOUNTS IN THOUSANDS)*	2022 CONSOLIDATED *(UNAUDITED)*		RESTATED 2021 CONSOLIDATED *(UNAUDITED)*	
NET POSITION				
Unexpended Appropriations - Funds Other than Dedicated Collections	$	155,581,068	$	154,715,121
Total Unexpended Appropriations (Consolidated)	$	155,581,068	$	154,715,121
Cumulative Results of Operations - Funds from Dedicated Collections (*Note 18*)		45,233		60,441
Cumulative Results of Operations - Funds Other than Dedicated Collections		202,032,418		200,501,629
Total Cumulative Results of Operations (Consolidated)	$	202,077,651	$	200,562,070
Total Net Position	$	357,658,719	$	355,277,191
Total Liabilities and Net Position	$	396,125,571	$	391,623,579

The accompanying notes are an integral part of these statements.

DEPARTMENT OF THE AIR FORCE, GENERAL FUND

CONSOLIDATED STATEMENTS OF NET COST

FOR THE FISCAL YEAR ENDED SEPTEMBER 30 *(AMOUNTS IN THOUSANDS)*	2022 CONSOLIDATED *(UNAUDITED)*	RESTATED 2021 CONSOLIDATED *(UNAUDITED)*
PROGRAM COSTS		
Military Personnel	$ 44,813,342	$ 44,043,509
Operations, Readiness, & Support	66,228,845	65,321,204
Procurement	59,153,132	45,628,973
Research, Development, Test, & Evaluation	53,661,141	49,941,911
Family Housing & Military Construction	3,407,868	5,285,018
Gross Costs	$ 227,264,328	$ 210,220,615
(Less: Earned Revenue)	(9,752,686)	(9,453,517)
Net Cost of Operations	$ 217,511,642	$ 200,767,098

The accompanying notes are an integral part of these statements.

DEPARTMENT OF THE AIR FORCE, GENERAL FUND

CONSOLIDATED STATEMENTS OF CHANGES IN NET POSITION

FOR THE FISCAL YEAR ENDED SEPTEMBER 30 *(AMOUNTS IN THOUSANDS)*		2022 CONSOLIDATED *(UNAUDITED)*		RESTATED 2021 CONSOLIDATED *(UNAUDITED)*
UNEXPENDED APPROPRIATIONS				
Beginning Balances (Includes Funds from Dedicated Collections - *Note 18*)	$	154,715,121	$	159,000,202
Beginning Balances, as Adjusted		154,715,121		159,000,202
Appropriations Received		223,648,829		205,318,244
Appropriations Transferred In/Out		(346,809)		(48,995)
Other Adjustments (+/-)		(4,655,888)		(4,500,244)
Appropriations Used		(217,780,185)		(205,054,086)
Net Change in Unexpended Appropriations (Includes Funds from Dedicated Collections - *Note 18*)	$	865,947	$	(4,285,081)
Total Unexpended Appropriations, Ending Balance (Includes Funds from Dedicated Collections - *Note 18*)	$	155,581,068	$	154,715,121
CUMULATIVE RESULTS OF OPERATIONS				
Beginning Balances	$	200,562,070	$	197,443,775
Prior Period Adjustments:				
Corrections of Errors (+/-) (*Note 27*)		0		(1,348,350)
Beginning Balances, as Adjusted (Includes Funds from Dedicated Collections - *Note 18*)	$	200,562,070	$	196,095,425
Other Adjustments (+/-)		(5,761)		(9,046)
Appropriations Used		217,780,185		205,054,086
Non-Exchange Revenue		2,311		54
Donations and Forfeitures of Cash Equivalents		6,386		6,304
Transfers In/Out without Reimbursement		512,240		302,388
Imputed Financing		740,971		766,618
Other		(9,109)		(886,661)
Net Cost of Operations (+/-) (Includes Funds from Dedicated Collections - *Note 18*)	$	217,511,642	$	200,767,098
Net Change in Cumulative Results of Operations	$	1,515,581	$	4,466,645
Cumulative Results of Operations, Ending (Includes Funds from Dedicated Collections - *Note 18*)		202,077,651		200,562,070
Net Position	$	357,658,719	$	355,277,191

The accompanying notes are an integral part of these statements.

DEPARTMENT OF THE AIR FORCE, GENERAL FUND

COMBINED STATEMENTS OF BUDGETARY RESOURCES

FOR THE FISCAL YEAR ENDED SEPTEMBER 30 *(AMOUNTS IN THOUSANDS)*	2022 COMBINED *(UNAUDITED)*	2021 COMBINED *(UNAUDITED)*
BUDGETARY RESOURCES		
Unobligated Balance from Prior Year Budget Authority, Net (Discretionary and Mandatory) (*Note 21*)	$ 44,341,424	$ 41,775,132
Appropriations (Discretionary and Mandatory)	222,548,965	204,077,163
Spending Authority from Offsetting Collections (Discretionary and Mandatory)	10,657,358	12,477,438
Total Budgetary Resources	$ 277,547,747	$ 258,329,733
STATUS OF BUDGETARY RESOURCES		
New Obligations and Upward Adjustments (Total)	$ 236,231,384	$ 218,649,392
Unobligated Balance, End of Year:		
Apportioned, Unexpired Accounts	36,485,031	34,810,837
Exempt from Apportionment, Unexpired Accounts	18,440	16,835
Unapportioned, Unexpired Accounts	38,531	90,223
Unexpired Unobligated Balance, End of Year	36,542,002	34,917,895
Expired Unobligated Balance, End of Year	4,774,361	4,762,446
Unobligated Balance, End of Year (Total)	41,316,363	39,680,341
Total Budgetary Resources	$ 277,547,747	$ 258,329,733
OUTLAYS, NET		
Outlays, Net (Total) (Discretionary and Mandatory)	$ 208,250,459	$ 203,205,677
Distributed Offsetting Receipts (-)	(413,949)	(122,173)
Agency Outlays, Net (Discretionary and Mandatory)	$ 207,836,510	$ 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 DAF 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 Air Force 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 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* (NDAA), 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 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*.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

C. BASIS OF PRESENTATION

These 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 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. 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 DAF GF is unable to fully implement all elements of GAAP and OMB Circular 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.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 these 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.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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, 2022.

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 utilizes deemed cost to value historical cost for Military Equipment under General Property, Plant, and Equipment (PP&E), as permitted by SFFAS 50. The DAF GF has established the processes required to value current Military Equipment assets in production in accordance with SFFAS 6, *Accounting for Property, Plant, and Equipment*. While the DAF GF has made progress with valuing Military Equipment, which comprises a majority of the General Equipment balance, the DAF GF is still implementing processes to value the remaining General Equipment assets at historical values under deemed cost. Therefore, the DAF GF is not making an unreserved assertion with respect to the General PP&E line item in accordance with SFFAS 50 and SFFAS 6.

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. For additional information, see SFFAS 60, *Omnibus Amendments 2021: Lease-Related Topics*, and Technical Release 20, *Implementation Guidance for Leases*.

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

   - Paragraphs 1 – 3: Scope. Reporting periods beginning after September 30, 2021. Early adoption is not permitted.
   - Paragraphs 6 – 12: Required Supplementary Information Presentation. Reporting periods beginning after September 30, 2021 through periods beginning after September 2024. Early adoption is not permitted.
   - Paragraphs 4 – 14: Basic Presentation. Reporting periods beginning after September 30, 2025. Early adoption is not permitted.

7. SFFAS 60, Omnibus *Amendments 2021: Leases-Related Topics*. Issued on November 4, 2021. Effective Date: Reporting periods beginning after September 30, 2023.

8. Technical Bulletin 2017-1, *Intragovernmental Exchange Transactions*. Issued on November 1, 2017. Effective Date: Upon issuance.

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

10. 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, 2022.

11. 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, 2022.

12. Technical Release 20, *Implementation Guide for Leases*. Issued on November 4, 2021. Effective Date: Reporting periods beginning after September 30, 2023.

13. Technical Release 21, *Omnibus Technical Release Amendments 2022: Conforming Amendments*. Issued on September 6, 2022. Effective Date: Upon issuance.

14. 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, 2022.

15. 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.

16. 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 to transition 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,

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 Circular 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 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

The DAF GF classifies assets as either Entity or Non-Entity. Entity Assets are those that the DAF GF has authority to use for its operations. Non-Entity Assets are those held by the DAF GF but not available for use in its normal operations. Non-Entity Assets are offset by liabilities to third parties and have no impact on net position. The DAF GF combines its Entity and Non-Entity Assets on the Balance Sheet and discloses its Non-Entity Assets in the notes.

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

G. FUND BALANCE WITH TREASURY

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 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 currently process most of the DAF GF's cash collections, disbursements, and adjustments worldwide. Monthly, each disbursing station reports to the Treasury on checks issued, electronic fund transfers, interagency transfers, and deposits.

The model of using the DAF GF's disbursing systems instead of the Treasury's system is recognized by the Treasury as Non-Treasury Disbursing Office (NTDO). The DAF GF is actively migrating NTDO transactions to the Treasury Disbursing Office (TDO) under the TDO Enterprise Strategy effort. TDO is the DAF GF's target end state of executing payments and collections directly between the DAF GF and the Treasury using the Treasury's systems and the Treasury as the Service Provider. This posture will allow the DAF GF to achieve FBwT accountability and traceability through daily reconciliation and reporting directly with the Treasury.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

FBwT is an asset of DAF GF and a liability of the U.S. Government GF. Similarly, investments in federal government securities held by dedicated collections accounts are assets of the DAF GF and liabilities of the U.S. Government GF. In both cases, the amounts represent commitments by the Government to provide resources for particular programs, but they do not represent 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 Treasury will finance the disbursements in the same way it finances all other disbursements, using some combination of receipts, other inflows, and borrowing from the public, in case of a budget deficit.

In addition, the DAF GF reports to the Treasury by appropriation on interagency transfers, collections received, and disbursements issued. The 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 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

The DAF GF reports investments in 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, no provision is made for unrealized gains or losses on these securities.

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 business rules published in Appendix 5 of 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. The amounts determined to be uncollectible as the result of the analyses are recorded as an allowance.

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

K. LOANS RECEIVABLE, NET AND LOAN GUARANTEE LIABILITIES

The 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 DAF GF exercised MHPI authorities including 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.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 26 projects, of which five included a limited loan guarantee.

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, 2022.

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. 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.

Currently, the DAF GF cannot disclose an estimated Allowance for Repair as required by SFFAS 3. 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 and in accordance with the guidance in the DoD FMR Volume 4, Chapter 4, *Inventory and Related Property*, (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.

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 will continue to establish opening balances for General PP&E in accordance with SFFAS 50.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

In FY 2022, the DAF GF recorded prior period adjustments to correct historical errors, restate asset balances, and adjust prior period expenses based on a change in indirect overhead capitalization rates related to Military Equipment. As such, the DAF GF restated the FY 2021 balance related to General Equipment – Aircraft, General Equipment – Other, and Construction-in-Progress – Military Equipment, which resulted in an impact to General PP&E on the Balance Sheet, Program Costs (Procurement and Research, Development, Test & Evaluation) on the Statement of Net Cost, and Cumulative Results of Operations on the Statement of Changes in Net Position. For additional information, refer to Note 27, *Restatements*.

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.

Additionally, the DAF GF maintains Heritage Assets and Stewardship Land. Heritage Assets consists of assets of historic, natural, cultural, educational, architectural, or artistic significance. Stewardship Land represent land and land rights owned by the DAF GF but not acquired for or in connection with General PP&E.

For additional information, refer to Note 9, *General Property, Plant, and Equipment, Net*.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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. Contract financing payments are not recorded in accordance with GAAP. Due to accounting system configuration limitations, the DAF GF incorrectly records Mechanization of Contract Administration Services contract financing payments as Other Assets. Some of these transactions have been reclassified to expenses and capitalized into Construction-in-Progress, as part of the Military Equipment Construction-in-Progress process.

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 either 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.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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. Budgetary resources include new budget authority, unobligated balances of budgetary resources at the beginning of the year or net transfers of prior year balances during the year, spending authority from offsetting collections, and recoveries of unexpired budget authority through downward adjustments of prior year obligations. Liabilities are classified as not covered by budgetary resources when congressional action is needed before they can be paid.

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 and Deferred Revenue, Disbursing Officer Cash, Liabilities for Non-Entity Assets, Other Liabilities, Liability for Non-Fiduciary Deposit Funds and Undeposited Collections, Liability for Clearing Accounts, FECA Reimbursement to the Department of Labor, Employer Contributions and Payroll Taxes, Accrued Funded Payroll and Leave, Withholdings Payable, Contract Holdbacks, and Contingent Liabilities.

For Contract Holdbacks, 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, 2022. As such, the DAF GF does not record Contract Holdbacks in accordance with GAAP.

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*.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

U. FEDERAL EMPLOYEE AND VETERAN 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 provided both annually and on a permanent basis. The financial transactions that are supported by budgetary resources, which include appropriations, are generally the same transactions reflected in the DoD 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 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 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 appropriations cover 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*,

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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. For additional information, refer to 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 Budgetary 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. Some accounts such as civilian pay, military pay, and Accounts Payable are presented on the accrual basis of accounting on the financial statements.

X. BUDGETARY RESOURCES

The purpose of federal budgetary accounting is to control, monitor, and report on funds made available to federal agencies by law and help ensure compliance with the law. The following budgetary terms are commonly used:

- An appropriation is a provision of law (not necessarily in an appropriations act) authorizing the expenditure of funds for a given purpose. Usually, but not always, an appropriation provides budget authority.
- Budgetary resources are amounts available to incur obligations in a given year. Budgetary resources consist of new budget authority and unobligated balances of budget authority provided in previous years.
- An obligation is a binding agreement that will result in outlays, immediately or in the future. Budgetary resources must be available before obligations can be incurred legally.
- Offsetting collections are payments to the Government that, by law, are credited directly to expenditure accounts and deducted from gross budget authority and outlays of the expenditure account, rather than added to receipts. Usually, offsetting collections are authorized to be spent for the purposes of the account without further action by Congress. They usually result from business-like transactions with the public, including payments from the public in exchange for goods and services, reimbursements for damages, and gifts or donations of money to the Government and from intragovernmental transactions with other Government accounts. The authority to spend collections is a form of budget authority.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- Offsetting receipts are payments to the Government that are credited to offsetting receipt accounts and deducted from gross budget authority and outlays, rather than added to receipts. Usually, they are deducted at the level of the agency and subfunction, but in some cases they are deducted at the level of the Government as a whole. They are not authorized to be credited to expenditure accounts. The legislation that authorizes the offsetting receipts may earmark them for a specific purpose and either appropriate them for expenditures for that purpose or require them to be appropriated in annual appropriations acts before they can be spent. Like offsetting collections, they usually result from business-like transactions with the public, including payments from the public in exchange for goods and services, reimbursements for damages, and gifts or donations of money to the Government, and from intragovernmental transactions with other government accounts.
- Outlays are the liquidation of an obligation that generally takes the form of an electronic funds transfer. Outlays are reported both gross and net of offsetting collections and they are the measure of government spending.

Y. 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 Property, Plant, and Equipment, Net*, and Note 14, *Environmental and Disposal Liabilities*.

Z. 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, accrual of capitalized costs for Construction-in-Progress (as incurred capitalizable costs are compared to vendor completion percentages), and actuarial liabilities related to workers' compensation.

AA. PARENT-CHILD REPORTING

The DAF GF is a party to allocation transfers with other federal agencies as a transferring (parent) entity and a receiving (child) entity. An allocation transfer is an entity's legal delegation of authority to obligate budget authority and outlay funds on its behalf. A separate fund account (allocation account) is created in the Treasury as a subset of the parent fund account for tracking and reporting purposes. All allocation transfers of balances are credited to this account, and subsequent obligations and outlays incurred by

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

the child entity are charged to this allocation account as they execute the delegated activity on behalf of the parent entity. Generally, all financial activity related to 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 Treasury-Managed Trust Funds, Executive Office of the President (EOP), and all other funds specifically designated by OMB.

The DAF GF receives allocation transfers, as a child entity, 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.

AB. 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. Additionally, the DAF enters into strategic agreements with other countries to provide access to certain satellite constellations.

AC. 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*.

AD. 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.

AE. STANDARDIZED BALANCE SHEET, THE STATEMENT OF CHANGES IN NET POSITION, AND RELATED FOOTNOTES – COMPARATIVE YEAR PRESENTATION

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 Circular 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 DoD-wide 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 presentation of the FY 2021 Balance Sheet and the related footnotes was modified to be consistent with the FY 2022 presentation. 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. The footnotes affected by the modified presentation are Note 6, *Accounts Receivable, Net*; Note 10, *Other Assets*; Note 15, *Other Liabilities*; Note 18, *Funds from Dedicated Collections*; and Note 24, *Reconciliation of Net Cost to Net Budgetary Outlays*. For information related to restated balances resulting from prior period adjustments, refer to Note 27, *Restatements*.

NOTE 2 NON-ENTITY ASSETS

AS OF SEPTEMBER 30 *(AMOUNTS IN THOUSANDS)*	2022 *(UNAUDITED)*	RESTATED 2021 *(UNAUDITED)*
Intragovernmental		
Fund Balance with Treasury	$ 765,396	$ 944,396
Total Intragovernmental Assets	$ 765,396	$ 944,396
Other than Intragovernmental		
Cash and Other Monetary Assets	$ 183,956	$ 310,410
Accounts Receivable	960	896
Total Other than Intragovernmental	$ 184,916	$ 311,306
Total Non-Entity Assets	$ 950,312	$ 1,255,702
Total Entity Assets	$ 395,175,259	$ 390,367,877
Total Assets	$ 396,125,571	$ 391,623,579

Non-Entity Assets are assets for which the DAF GF maintains stewardship accountability and reporting responsibility. Non-Entity Assets consist of assets belonging to other entities but are offset by the DAF GF's liabilities to accurately reflect the DAF GF's net position.

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 Treasury. For additional information, refer to Note 1.H., *Summary of Significant Accounting Policies - Cash and Other Monetary Assets*, and Note 4, *Cash and Other Monetary Assets*.

Other than Intragovernmental Accounts Receivable consists of amounts associated with multiple types of long-term agreements; cancelled year appropriations; and interest, fines, and penalties receivable. Generally, the DAF GF cannot use the proceeds and must remit them to the Treasury unless permitted by law.

NOTE 3 FUND BALANCE WITH TREASURY

AS OF SEPTEMBER 30 (AMOUNTS IN THOUSANDS)	2022 (UNAUDITED)	2021 (UNAUDITED)
STATUS OF FUND BALANCE WITH TREASURY		
Unobligated Balance		
Available	$ 36,503,471	$ 34,827,672
Unavailable	4,812,892	4,852,669
Total Unobligated Balance	$ 41,316,363	$ 39,680,341
Obligated Balance Not Yet Disbursed	$ 125,604,801	$ 118,065,995
Non-Budgetary Fund Balance with Treasury		
Clearing Accounts	$ 280,872	$ 2,372
Deposit Funds	765,396	944,396
Total Non-Budgetary Fund Balance with Treasury	$ 1,046,268	$ 946,768
Non-Fund Balance with Treasury Budgetary Accounts		
Investments - Treasury Securities	$ (7)	$ (7)
Unfilled Customer Orders without Advance	(3,884,592)	(5,004,640)
Receivables and Other	(1,097,043)	(1,226,434)
Total Non-Fund Balance with Treasury Budgetary Accounts	$ (4,981,642)	$ (6,231,081)
Total Fund Balance with Treasury	$ 162,985,790	$ 152,462,023

The 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 represents amounts that are not apportioned for obligation by law during the current FY and consists of funds invested in Treasury securities. 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.

NOTE 3 FUND BALANCE WITH TREASURY

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. 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 create budget authority and unobligated balances, but do not record to FBwT as there has been no receipt of cash or direct budget authority, such as appropriations. Non-FBwT Budgetary Accounts include Investments – Treasury Securities, Unfilled Customer Orders without Advance, and Receivables and Other.

Investments - Treasury Securities provide the DAF GF with budgetary authority and enable 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, 2022. 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 $29.5 million and as of September 30, 2022. In addition, the DAF GF held cash and cash equivalents for fiduciary activities in the amount of $7.8 million as of September 30, 2022; 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 Treasury. The difference between FBwT in the DAF GF's general ledger and FBwT reflected in the 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 Treasury: $3.0 million in net undistributed collections, and $1.6 billion in net undistributed disbursements as of September 30, 2022. These net amounts represent the culmination of 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.

The DAF GF is unable to reconcile discrepancies between the general ledger and the Treasury in a timely manner due to control gaps and issues in upstream processes (procure to pay, civilian pay, etc.). As such, 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 Treasury. The DAF

NOTE 3 FUND BALANCE WITH TREASURY

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, 2022, the additional quarterly adjustment based on the historical trend analysis had a total budgetary impact of $430.2 million and a net proprietary impact of ($146.5) million.

The DAF GF has $3.2 billion of funds in cancelled appropriations that were returned to the Treasury as of September 30, 2022.

NOTE 4 CASH AND OTHER MONETARY ASSETS

AS OF SEPTEMBER 30 *(AMOUNTS IN THOUSANDS)*	**2022** *(UNAUDITED)*	**2021** *(UNAUDITED)*
Cash	$ 54,061	$ 59,821
Foreign Currency	129,895	250,589
Total Cash, Foreign Currency, & Other Monetary Assets	$ 183,956	$ 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 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 $43.0 million in cash held from dedicated collections as of September 30, 2022. For additional information, refer to Note 18, *Funds from Dedicated Collections*.

NOTE 5 INVESTMENTS AND RELATED INTEREST

AS OF SEPTEMBER 30 *(AMOUNTS IN THOUSANDS)*	2022 *(UNAUDITED)*			
	COST	AMORTIZED (PREMIUM) / DISCOUNT	INVESTMENTS, NET	MARKET VALUE DISCLOSURE
Intragovernmental Securities				
Non-Marketable, Market-Based				
Other Funds	$ 7	$ 0	$ 7	$ 7
Total Non-Marketable, Market-Based	$ 7	$ 0	$ 7	$ 7
Total Intragovernmental Securities	$ 7	$ 0	$ 7	$ 7

AS OF SEPTEMBER 30 *(AMOUNTS IN THOUSANDS)*	2021 *(UNAUDITED)*			
	COST	AMORTIZED (PREMIUM) / DISCOUNT	INVESTMENTS, NET	MARKET VALUE DISCLOSURE
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 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 Treasury securities were issued to trust and special funds legally authorized to invest funds with the Treasury, including those held by a Fund from Dedicated Collections, which are an asset to the DAF GF and a liability to the 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 Treasury, and are used for general government purposes. Since the DAF GF and the 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 Government-wide financial statements.

NOTE 5 INVESTMENTS AND RELATED INTEREST

The 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. A reconciliation of MHPI investment activity for FY 2022 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 FYs.

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

NOTE 6 ACCOUNTS RECEIVABLE, NET

AS OF SEPTEMBER 30 (AMOUNTS IN THOUSANDS)	2022 (UNAUDITED)		
	GROSS AMOUNT DUE	ALLOWANCE FOR ESTIMATED UNCOLLECTIBLES	ACCOUNTS RECEIVABLE, NET
Intragovernmental Receivables	$ 357,017	$ (10,904)	$ 346,113
Other than Intragovernmental Receivables (From the Public)	381,471	(51,934)	329,537
Total Accounts Receivable	$ 738,488	$ (62,838)	$ 675,650

AS OF SEPTEMBER 30 (AMOUNTS IN THOUSANDS)	2021 (UNAUDITED)		
	GROSS AMOUNT DUE	ALLOWANCE FOR ESTIMATED UNCOLLECTIBLES	ACCOUNTS RECEIVABLE, NET
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, 2022, 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*. 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 LOAN AND LOAN GUARANTEE 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 the inception of the MHPI program, no direct loan project has ever defaulted on its obligations. 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.

A forbearance of a Government Direct Loan (GDL) was completed during the period:

- **Southern Group** – Due to lower Basic Allowance for Housing (BAH) growth than forecasted and adverse impacts from the Moisture Remediation Program (MRP) at Keesler Air Force Base (AFB) that impacted the number of units online, the Project Owner forecasted that the project would not be able to fully meet its GDL obligations and submitted a 12-month forbearance request. The 12-month forbearance (December 2021 to November 2022) was approved by the Office of Management and Budget (OMB) in December 2021 and afforded Southern Group stakeholders additional time to solidify a long-term plan to address the remaining MRP scope needed at Keesler AFB. The next phase of MRP work and funding was approved by OMB on June 30, 2022.

A divestiture of a MHPI project was completed during the period:

- **Robins I** – Based on years of poor financial performance and low ongoing Target Tenant demand, the DAF GF determined that divesting this off-base project was a less costly alternative than investing additional funds to improve the project ($4.5 million for direct loan modification versus more than $50.0 million for restructure). The divestiture included a new $31.2 million private loan that the project used to fully repay the outstanding principal balance of the existing private Senior Loan ($16.6 million) and the associated prepayment penalty ($2.0 million), thereby eliminating the existing loan guarantee. Proceeds from the new private loan were used by the project to partially pay down the existing direct loan principal balance ($6.3 million). The remaining direct loan balance ($6.6 million) was "forgiven" by the Government through a GDL modification. The divestiture was

NOTE 7 LOANS RECEIVABLE, NET AND LOAN GUARANTEE LIABILITIES

executed on November 2, 2021, and the Robins I project is no longer part of the DAF GF's privatized housing portfolio. Robins I operates as an off-base housing complex like any other community rental complex located in the local market.

Additionally, the DAF GF is planning to perform GDL modifications and/or make a government equity investment for various projects:

FY 2023 (Offutt, Scott, Dover, and Air Education and Training Command Group 1):

- **Offutt AFB** – Shortfalls ($20.0 million for sustainment over the next 10 years with 0.0% mid-term reinvestment funded) driven by weak BAH growth, occupancy challenges, and outdated units that are not competitive with the market. Modifying the terms of the GDL, providing additional funding to the project through a government equity investment, and securing Project Owner concessions are under consideration.

- **Scott AFB** – Shortfalls ($61.0 million for sustainment over the next 10 years 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. Modifying the terms of the GDL, providing additional funding to the project through a government equity investment, and securing Project Owner concessions are under consideration.

- **Dover AFB** – Shortfalls ($7.0 million for sustainment over the next 10 years with 0.0% mid-term reinvestment funded) driven by large, deferred fees never expected to be repaid; no funds ever reached the Reinvestment Account. Modifying the terms of the GDL and securing Project Owner concessions are under consideration.

- **Air Education and Training Command Group 1** – Shortfalls ($70.0 million for Tyndall AFB Restoration due to Hurricane Michael, $27.0 million for sustainment over the next 10 years and 0.0% mid-term reinvestment funded) driven by the impacts from Hurricane Michael (low occupancy, cash flow impacts, etc.) as well as low BAH growth over the past 12 years. Modifying the terms of the GDL, providing additional funding to the project through a government equity investment, and securing Project Owner concessions are under consideration.

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 (AMOUNTS IN THOUSANDS)	2022 (UNAUDITED)		
	OPERATING MATERIALS AND SUPPLIES, GROSS	REVALUATION ALLOWANCE	OPERATING MATERIALS AND SUPPLIES, NET
Held for Use	$ 55,075,073	N/A	$ 55,075,073
Held in Reserve for Future Sale	1,903,090	N/A	1,903,090
Held for Repair	8,951,490	0	8,951,490
Excess, Obsolete, and Unserviceable	539,252	(539,252)	0
Total	$ 66,468,905	$ (539,252)	$ 65,929,653

AS OF SEPTEMBER 30 (AMOUNTS IN THOUSANDS)	2021 (UNAUDITED)		
	OPERATING MATERIALS AND SUPPLIES, GROSS	REVALUATION ALLOWANCE	OPERATING MATERIALS AND SUPPLIES, NET
Held for Use	$ 52,404,295	N/A	$ 52,404,295
Held in Reserve for Future Sale	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 & SUPPLIES

Operating Materials and Supplies (OM&S) consists of tangible personal property to be consumed in normal operations. Reparables 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 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. Aerial targets generally do not get turned in as they are destroyed during training exercises and are not salvageable.

NOTE 8 OPERATING MATERIALS AND SUPPLIES, NET

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

RESTRICTIONS ON THE USE OF OM&S

The DAF GF 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 not related to Excess, Obsolete, and Unserviceable (EOU) assets for which the material condition cannot be determined.

Held for Repair generally includes all economically reparable 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 reparable, 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 EOU OM&S assets and, therefore, the net realizable value 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 to Held in Reserve for Future Use or EOU.

The 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, *Accounting for Inventory and Related Property*. 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.
- C-ICP and Base Possessed are discussed further below.

NOTE 8 OPERATING MATERIALS AND SUPPLIES, NET

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.

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 has not verified whether the current Accountable Property Systems of Record (APSRs) have the capability to accurately calculate MAC for C-ICP assets. 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 the required Chief Financial Officer Reports or reporting through the Automated Logistics Management Support System. EOU C-ICP inventory is not being recorded at net realizable value 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.

OTHER DEPARTMENT OF THE AIR FORCE DISCLOSURES

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, beyond the global spares pool, in accordance with Federal Generally Accepted Accounting Principles.

NOTE 9 GENERAL PROPERTY, PLANT, AND EQUIPMENT, NET

AS OF SEPTEMBER 30 *(AMOUNTS IN THOUSANDS)*	2022 *(UNAUDITED)*						
	DEPRECIATION/ AMORTIZATION METHOD	SERVICE LIFE		ACQUISITION VALUE		(ACCUMULATED DEPRECIATION/ AMORTIZATION)	NET BOOK VALUE
MAJOR ASSET CLASS							
Buildings, Structures, and Linear Structures	S/L	20, 40 or 45*	$	98,801,009	$	(65,921,362)	$ 32,879,647
Leasehold Improvements	S/L	Lease Term		43,106		(27,850)	15,256
Software	S/L	2-5 or 10		628,945		(439,627)	189,318
General Equipment	S/L	5-40.5		384,033,136		(275,932,354)	108,100,782
Aircraft				304,399,568		(213,145,927)	91,253,641
Other				79,633,568		(62,786,427)	16,847,141
Construction-In-Progress	N/A	N/A		14,042,742		N/A	14,042,742
Military Equipment				13,242,632		N/A	13,242,632
Real Property				800,110		N/A	800,110
Total General Property, Plant, and Equipment, Net			$	497,548,938	$	(342,321,193)	$ 155,227,745

AS OF SEPTEMBER 30 *(AMOUNTS IN THOUSANDS)*	RESTATED 2021 *(UNAUDITED)*						
	DEPRECIATION/ AMORTIZATION METHOD	SERVICE LIFE		ACQUISITION VALUE		(ACCUMULATED DEPRECIATION/ AMORTIZATION)	NET BOOK VALUE
MAJOR ASSET CLASS							
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	5-40.5		377,165,864		(270,597,910)	106,567,954
Aircraft				298,649,371		(210,001,326)	88,648,045
Other				78,516,493		(60,596,584)	17,919,909
Construction-In-Progress	N/A	N/A		13,847,076		N/A	13,847,076
Military Equipment				13,154,451		N/A	13,154,451
Real Property				692,625		N/A	692,625
Total General Property, Plant, and Equipment, Net			$	488,329,142	$	(333,331,785)	$ 154,997,357

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.

NOTE 9 GENERAL PROPERTY, PLANT, AND EQUIPMENT, NET

General Property, Plant, and Equipment, Net - Summary of Activity

AS OF SEPTEMBER 30 (AMOUNTS IN THOUSANDS)	2022 (UNAUDITED)	RESTATED 2021 (UNAUDITED)
General Property, Plant, and Equipment, Net Beginning of Year	$ 154,997,357	$ 160,284,264
Capitalized Acquisitions	21,542,400	15,030,228
Dispositions	(1,935,283)	(1,813,867)
Transfers In/(Out) Without Reimbursement	598,677	437,691
Revaluations (+/-)	(238,001)	(1,510,916)
Depreciation Expense	(16,706,551)	(15,722,272)
Other (+/-)	(3,030,854)	(1,707,771)
General Property, Plant, and Equipment, Net End of Year	$ 155,227,745	$ 154,997,357

GENERAL PROPERTY, PLANT AND EQUIPMENT

The DAF GF has valued some of its General Property, Plant, and Equipment (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.

In FY 2022, the DAF GF corrected errors in prior year balances related to unsupported historic journal vouchers, variances between general ledger and the Accountable Property Systems of Record (APSRs), incorrect asset postures, and a change in indirect overhead capitalization rates. Accordingly, the balances related to General Equipment – Aircraft, General Equipment – Other, and Construction-in-Progress (CIP) – Military Equipment were restated. This restatement resulted in a ($1.6) billion impact to the Balance Sheet, $289.7 million impact to the Statement of Net Cost, and $1.3 billion impact to the Statement of Changes in Net Position for FY 2021 balances. Additional impact to the FY 2022 balances also resulted from this restatement. For additional information related to prior period adjustments for the General PP&E balances, refer to Note 27, *Restatements*.

BUILDINGS, STRUCTURES, AND LINEAR STRUCTURES

The DAF GF finalized migration to a single APSR and the DAF GF will continue to validate and correct reported values from the APSR, and strengthen go-forward processes, to enable complete and accurate accounting in the general ledgers. The DAF GF will continue to improve the underlying systems and data used to support Real Property values reported on the DAF GF's financial statements. Interim adjustments may occur to address targeted activities while solutions that are more permanent are planned and executed to address root causes.

NOTE 9 GENERAL PROPERTY, PLANT, AND EQUIPMENT, NET

The DAF GF reports in its financial statements Real Property within DoD installations where the DAF GF 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 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.

The DAF GF currently reports assets under Caretaker Status within Buildings, Structures, and Linear Structures. Caretaker Status is defined as property under the legal jurisdiction of the DAF GF awaiting further disposition, sale, or transfer to another entity.

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, 2022, 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 of 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

NOTE 9 GENERAL PROPERTY, PLANT, AND EQUIPMENT, NET

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 2022, 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, and 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.

In FY 2022, the DAF GF received transfers of Satellites from the U.S. Navy to the U.S. Space Force, resulting in a $1.2 billion net increase at the time of transfer. More transfers are expected in future years.

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 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 11 aircraft platforms, 16 aircraft modification platforms, and four variants of satellite assets currently in production. This CIP balance includes costs associated with the modification of aircraft.

Real Property – The DAF GF constructs Real Property and works closely with other Military Departments, the U.S. 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.

NOTE 9 GENERAL PROPERTY, PLANT, AND EQUIPMENT, NET

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.Y., *Summary of Significant Accounting Policies - Treaties for Use of Foreign Bases*.

HERITAGE ASSETS

HERITAGE ASSETS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2022
(PHYSICAL COUNT) (UNAUDITED)

HERITAGE ASSET CATEGORIES	MEASUREMENT QUANTITY	AS OF SEPTEMBER 30, 2021	ADDITIONS (+)	DELETIONS (-)	AS OF SEPTEMBER 30, 2022
Buildings, Structures, and Linear Structures	Each	6,141	882	0	7,023
Archaeological Sites	Sites	1,924	344	0	2,268
Museum Collection Items (Objects, Not Including Fine Art)	Each	135,083	592	(569)	135,106
Museum Collection Items (Fine Art)	Each	10,200	21	0	10,221

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. 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, 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 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, 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

NOTE 9 GENERAL PROPERTY, PLANT, AND EQUIPMENT, NET

a single-use Heritage Asset. The DAF GF does not receive any Heritage Assets through donation or devise related to Buildings, Structures, and Linear Structures and Archaeological Sites. 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 6,141 Buildings, Structures, and Linear Structures on the DAF GF installations and garrisons as Heritage Assets as of September 30, 2021. As of September 30, 2022, 7,023 Buildings, Structures, and Linear Structures are classified as Heritage Assets, representing an increase of 882 during the period.

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 1,924 Archaeological Sites as Heritage Assets as of September 30, 2021. As of September 30, 2022, 2,268 known Archaeological Sites are classified as Heritage Assets, representing an increase of 344 during the period. This cohort of archaeological Heritage Assets is a subset of the over 21,100 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 Instruction 84-103 and that have been evaluated, accessioned, and catalogued in the DAF GF national historical collection. The National Museum of the U.S. Air Force (NMUSAF) performs inherently governmental functions by fulfilling statutory requirements delegated by the Secretary of the Air Force for the management of the DAF GF's national historic collection. The NMUSAF is fully accredited by the American Alliance of Museums.

During the period between October 1, 2021 through September 30, 2022, there have been 592 objects added to the collection. 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, and the continued documentation of newly reported artifacts at the DAF GF activities worldwide, etc. There were 569 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. As part of the NMUSAF's active collection management process, the accession and deaccession of objects is continuous and balances reported represent the information at the respective time of reporting.

The overall condition of the historical collection, which is primarily located at the NMUSAF, is well maintained as a result of both the professional care from trained conservators and improving exhibit/storage conditions.

NOTE 9 GENERAL PROPERTY, PLANT, AND EQUIPMENT, NET

Museum Collection Items, Fine Art
In addition to its artifact collection, the NMUSAF holds a Fine Art collection separate from the DAF Art Program numbering 987 items as of September 30, 2022, representing 16 additions in the period from October 1, 2021 to September 30, 2022. Containing original oils, drawings, sketches, and sculptures, these Fine Art holdings are in direct support of the NMUSAF exhibit requirements.

An additional art collection held by the DAF Art Program also contains original oils, drawing, sketches, textiles, and sculptures. As of September 30, 2021, those items totaled 9,229. The DAF Art Program saw an increase of 5 pieces, resulting in 9,234 items as of September 30, 2022.

The NMUSAF and DAF Art Program combined held a total of 10,221 and 10,200 pieces of art as of September 30, 2022 and 2021, respectively.

GENERAL PP&E LAND AND STEWARDSHIP LAND

GENERAL PP&E LAND AND STEWARDSHIP LAND
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2022
(ACRES IN THOUSANDS) (UNAUDITED)

FACILITY CODE	FACILITY TITLE	AS OF SEPTEMBER 30, 2021	ADDITIONS (+)	DELETIONS (-)	AS OF SEPTEMBER 30, 2022
9110	Government Owned Land	8,243	0	(150)	8,093
9111	State Owned Land	0	0	0	0
9120	Withdrawn Public Land	0	0	0	0
9130	Licensed and Permitted Land	0	0	0	0
9140	Public Land	0	0	0	0
9210	Land Easement	0	0	0	0
9220	In-Leased Land	0	0	0	0
9230	Foreign Land	0	0	0	0
9900	Land Rights	107	25	0	132
Total		8,350	25	(150)	8,225

The table above presents combined acreage amounts for both General PP&E Land and Stewardship Land from the DAF GF APSR. 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 are reported accurately by Real Property Asset Interest Type Code 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 APSR 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 the Real Property Information Model and SFFAS 50 re-baselining Real Property values.

NOTE 9 GENERAL PROPERTY, PLANT, AND EQUIPMENT, NET

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.

Information concerning deferred maintenance and repairs and estimated land acreage is discussed in the *Required Supplementary Information* Section.

NOTE 10 OTHER ASSETS

AS OF SEPTEMBER 30 (AMOUNTS IN THOUSANDS)	2022 (UNAUDITED)	2021 (UNAUDITED)
Intragovernmental Other Assets		
Advances and Prepayments	$ 174,892	$ 129,621
Total Intragovernmental Other Assets	$ 174,892	$ 129,621
Other Than Intragovernmental Other Assets		
Outstanding Contract Financing Payments	$ 10,836,311	$ 17,912,020
Advances and Prepayments	111,567	198,855
Subtotal	$ 10,947,878	$ 18,110,875
Less: "Outstanding Contract Financing Payments" and "Advance and Prepayments" totaled and presented on the Balance Sheet as "Advances and Prepayments"	(10,947,878)	(18,110,875)
Total Other Assets	$ 174,892	$ 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, are contract financing payments made in contemplation of the future performance of services, receipt of goods, incurrence of expenditures or receipt of assets. Contract financing payments 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.

NOTE 11 LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

AS OF SEPTEMBER 30 *(AMOUNTS IN THOUSANDS)*	2022 *(UNAUDITED)*	2021 *(UNAUDITED)*
Intragovernmental Liabilities		
Federal Employees' Compensation Act	$ 162,554	$ 167,491
Judgment Fund Liabilities	630,466	599,000
Other	9,772	10,853
Total Intragovernmental Liabilities	$ 802,792	$ 777,344
Other than Intragovernmental Liabilities		
Accounts Payable	$ 836,286	$ 477,219
Federal Employee and Veteran Benefits Payable	4,319,752	4,454,589
Environmental and Disposal Liabilities	11,852,839	11,758,839
Other Liabilities	278,924	255,885
Total Other than Intragovernmental Liabilities	$ 17,287,801	$ 16,946,532
Total Liabilities Not Covered by Budgetary Resources	$ 18,090,593	$ 17,723,876
Total Liabilities Covered by Budgetary Resources	$ 19,329,992	$ 17,675,744
Total Liabilities Not Requiring Budgetary Resources	$ 1,046,267	$ 946,768
Total Liabilities	$ 38,466,852	$ 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 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 *Federal Employees' Compensation Act* (FECA) is comprised of the unfunded FECA liability. For additional information, refer to Note 13, *Federal Employee and Veteran Benefits Payable*.

Intragovernmental Judgment Fund Liabilities represent the reimbursable amount due from the DAF GF to the Treasury Judgment Fund. In the event of an unfavorable judgment against the Federal Government, settlements will be paid by the Treasury Judgment Fund on behalf of the DAF GF, which may or may not be reimbursable. For additional information, refer to Note 17, *Commitments and Contingencies*.

Intragovernmental Other Liabilities is primarily comprised of unfunded employment-related liabilities.

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

NOTE 11 LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

Other than Intragovernmental 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 details and disclosures, refer to Note 13, *Federal Employee and Veteran Benefits Payable*.

For additional details and disclosures related to Environmental and 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), through the administrative support of the Defense Finance and Accounting Service, borrows funds from the 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 Treasury.

MHPI borrowed funds for the fifth of six scheduled Government Direct Loan disbursements for the Continental Group project. These funds were disbursed in March 2022. The sixth and final disbursement is currently planned for January 2023. Transactions and amounts related to funds borrowed by the DAF GF from the 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 (AMOUNTS IN THOUSANDS)	2022 (UNAUDITED)		
	LIABILITIES	(ASSETS AVAILABLE TO PAY BENEFITS)	UNFUNDED LIABILITIES
Other Benefits			
Federal Employees' Compensation Act	$ 889,552	$ 0	$ 889,552
Other	3,582,258	(152,058)	3,430,200
Total Other Benefits	$ 4,471,810	$ (152,058)	$ 4,319,752
Federal Employee and Veteran Benefits Payable (presented separately on the Balance Sheet)	4,471,810	(152,058)	4,319,752
Other Benefit-Related Payables Included in Intragovernmental Other Liabilities on the Balance Sheet	508,647	(336,321)	172,326
Total Federal Employee and Veteran Benefits Payable	$ 4,980,457	$ (488,379)	$ 4,492,078

AS OF SEPTEMBER 30 (AMOUNTS IN THOUSANDS)	2021 (UNAUDITED)		
	LIABILITIES	(ASSETS AVAILABLE TO PAY BENEFITS)	UNFUNDED LIABILITIES
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

NOTE 13 FEDERAL EMPLOYEE AND VETERAN BENEFITS PAYABLE

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) 2022 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 Treasury's Yield Curve for the 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 2022. Interest rate assumptions utilized for discounting were as follows:

DISCOUNT RATES
For Wage Benefits: *2.1% in Year 1 and Years thereafter*
For Medical Benefits: *2.0% in Year 1 and Years thereafter*

NOTE 13 FEDERAL EMPLOYEE AND VETERAN BENEFITS PAYABLE

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

CBY	COLA	CPI-M
2022	N/A	N/A
2023	3.4%	3.1%
2024	4.0%	3.6%
2025	4.1%	3.6%
2026	4.2%	3.8%
2027 and thereafter	3.9%	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 2022 to the average pattern observed during the most current three CBYs; and 4) a comparison of the estimated liability per case in the FY 2023 projection to the average pattern for the projections of the most recent three years.

OTHER BENEFITS

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 - Other, is based on the employees' leave balances at the end of the FY. The DAF GF had a balance of $3.4 billion as of September 30, 2022 in Accrued Unfunded Annual Leave.

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 (AMOUNTS IN THOUSANDS)	2022 (UNAUDITED)	2021 (UNAUDITED)
ENVIRONMENTAL LIABILITIES–OTHER THAN INTRAGOVERNMENTAL		
Accrued Environmental Restoration Liabilities		
Active Installations–Installation Restoration Program and Building Demolition and Debris Removal	$ 7,017,071	$ 6,451,134
Active Installations–Military Munitions Response Program	357,146	321,385
Other Accrued Environmental Liabilities - Non-Base Realignment and Closure		
Environmental Corrective Action	408,790	380,238
Environmental Closure Requirements	784,474	714,834
Asbestos	1,366,908	1,608,331
Base Realignment and Closure Installations		
Installation Restoration Program	2,501,336	2,681,556
Military Munitions Response Program	10,577	10,204
Environmental Corrective Action / Closure Requirements	122	122
Asbestos	749	197
Environmental Disposal for Military Equipment / Weapons Programs		
Non-Nuclear Powered Military Equipment	642,761	634,166
Total Environmental and Disposal Liabilities	$ 13,089,934	$ 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, closure, and post-closure costs resulting from past transactions or events. The DAF GF is required to include costs for cleaning up contamination resulting from past waste disposal practices, leaks, spills, and other past activities, which has created a public human health or environmental risk. The DAF GF is also required to include costs for performing non-routine removal of hazardous waste and other associated environmental closure and post-closure activities explicitly required by permit or other policy or law at the time of asset decommissioning.

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*

NOTE 14 ENVIRONMENTAL AND DISPOSAL LIABILITIES

- *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 U.S. Army Corps of Engineers is the lead agent for Formerly Used Defense Sites at active installations, the Department of the Navy is the lead agent for nuclear-powered military equipment and spent nuclear fuel, and the Department of the Army is the executive agent for the Chemical Weapons Disposal Program.

The DAF GF has cleanup requirements and conducts the cleanup under the Defense Environmental Restoration Program (DERP) sites at active installations and Base Realignment and Closure (BRAC) installations. The DAF GF has additional cleanup, closure, and post-closure requirements for active installations not covered by DERP and weapon systems programs. All cleanup, closure, post-closure, and disposal 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 part of current operating expenses.

Accrued Environmental Restoration Liabilities

The DAF GF has estimated costs related to remedial actions eligible for DERP funding at 172 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, 2022, the DAF GF estimated and reported liabilities associated with 2,603 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, 2022, the DAF GF estimated and reported liabilities associated with 255 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.

As of September 30, 2022, 40 sites created in FY 2022 did not have an associated Cost-to-Complete (CTC) reported. The reasons for the lack of programming include: 1) requirements are unknown or inestimable; 2) no programming is required; and 3) CTC estimated did not exceed the Significant Amount Threshold.

NOTE 14 ENVIRONMENTAL AND DISPOSAL LIABILITIES

Other Accrued Environmental Liabilities - Non-Base Realignment and Closure
The DAF GF includes estimated cleanup, closure, and post-closure 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) 767 IRP sites; 2) 27 MMRP sites across 40 BRAC Installations; 3) ECA and ECR requirements at 1 BRAC installation; and 4) Asbestos requirements at 1 BRAC installation.

Environmental Disposal for Military Equipment / Weapons Programs
Non-nuclear powered military equipment is comprised of aircraft (fixed-wing aircraft, remotely piloted aircraft, vertical take-off aircraft, landing aircraft, and helicopters), aircraft pods, satellites, Intercontinental Ballistic Missiles (ICBMs), and Mine-Resistant Ambush Protected (MRAP) vehicles.

As of September 30, 2022, the DAF GF estimated and reported liabilities associated with non-nuclear powered military equipment, specifically fixed-wing aircraft, helicopters, ICBMs, and MRAP vehicles.

The DAF GF did not record an environmental liability for remotely piloted, vertical take-off, and landing aircraft, 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 is reported for FY 2022.

METHODS FOR ASSIGNING TOTAL CLEANUP, CLOSURE, AND/OR DISPOSAL COSTS TO CURRENT OPERATING PERIODS

Accrued Environmental Restoration Liabilities

Active Installations - Installation Restoration Program and Building Demolition / Debris Removal and Active Installations - Military Munitions Response Program
The DAF GF uses one or more of the following methods to estimate the CTC cleanup and disposal activities: 1) pre-negotiated contract costs; 2) historical costs; 3) engineering estimates; and 4) cost estimating software [e.g., Remedial Action Cost Engineering and Requirements (RACER®)]. A valid engineering estimate is an estimate of a future cost for similar scope or a past paid cost for which existing invoices cannot be provided to back it up (e.g., monthly utility costs in a spreadsheet). It has a prior year or current year cost basis which is determined from the date on the cost reference. 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, closure, and/or disposal cost is recognized upon identification of the liability.

NOTE 14 ENVIRONMENTAL AND DISPOSAL LIABILITIES

Other Accrued Environmental Liabilities – Non-Base Realignment and Closure

Environmental Corrective Actions

The DAF GF utilizes the same methodologies to estimate OEL - ECAs as those used for Active Installations – IRP and BD/DR and Active Installations – MMRP described above. OEL - 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 OEL - ECR: 1) cost estimating software (e.g., RACER®); 2) historical costs; and 3) engineering estimates. Estimates leverage industry-standard unit costs and cost factors, or comparable historical project costs, 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 closure or post-closure cost is not available for all OEL - ECR assets identified, and thus the reported balance reflects the OEL - ECR assets that are probable and reasonably estimable given the data available as of September 30, 2022.

Asbestos

The DAF GF uses two cost estimation methodologies to generate liabilities for assets which are likely to contain OEL - Asbestos: 1) Building assets (i.e., assets measured in square feet); and 2) Heating, Ventilation, and Air Conditioning (HVAC) linear assets. The cost estimation methodology for Building assets consists of: 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 cost estimation methodology for HVAC linear assets consists of using RACER® to generate survey and abatement costs based on the linear asset length and above or belowground construction location.

Cost estimation methodologies have not been developed for structures with a recorded unit of measure other than square feet [e.g., Other Structure (Non-Building) and HVAC - Other)].

Base Realignment and Closure Installations

Installation Restoration Program, Military Munitions Response Program, Environmental Corrective Action / Closure Requirements, and Asbestos

The DAF GF utilizes similar 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.

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

NOTE 14 ENVIRONMENTAL AND DISPOSAL LIABILITIES

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 Programs (MEWP) assets: 1) historical disposal labor data and estimates for the disposal of hazardous material; 2) industry-standard cost factors; or 3) comparable historical projects, bids, and expenditures. However, reliable information required to calculate a closure 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, 2022.

UNCERTAINTY REGARDING ACCOUNTING ESTIMATES USED TO CALCULATE THE REPORTED ENVIRONMENTAL LIABILITIES

The DAF GF has unrecognized portions of the estimated total environmental liabilities as of September 30, 2022, 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, BRAC, and OEL, the DAF GF is continuing to develop a process to compare estimated environmental liabilities to subsequent actual expenditures. The actual costs to estimates comparison 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*, §266.202, exempts military munitions on active and inactive military ranges from the definition of hazardous waste. The Environmental Protection Agency (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, 2022, the DAF GF has not identified off-range migration that is probable and measurable.

MATERIAL CHANGES IN TOTAL ESTIMATED CLEANUP, CLOSURE, AND POST-CLOSURE 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, 2022, 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.

NOTE 14 ENVIRONMENTAL AND DISPOSAL LIABILITIES

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 and OEL, 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 2023 President's Budget* (February 1, 2022), the DAF GF utilizes inflation factors based on OSD raw inflation rates for Military Construction.
3. For MEWP - 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 2021 (the most recent full calendar year of CPI data available) to develop an inflation multiplier.

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

UNRECOGNIZED PORTION OF ESTIMATED TOTAL CLEANUP, CLOSURE, AND POST-CLOSURE 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 estimated total cleanup, closure, and post-closure 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, closure, and post-closure 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, closure, and post-closure cost. Under both methods, the total cleanup, closure, and post-closure costs are remeasured at least annually based on current costs.

ESTIMATES BASED ON THE TOTAL CLEANUP, CLOSURE, AND POST-CLOSURE 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 Accountable Property Systems of Record (APSRs). Real Property closure and post-closure cost estimates for OEL - ECR and OEL - 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 balance. As a result, OEL - ECR and OEL - Asbestos does not use the accretion method; instead, the total estimated environmental closure and post-closure costs are recorded, even where accounting standards would require accreting based on the useful life.

Total cleanup, closure, and post-closure costs are recognized for environmental liabilities at BRAC Installations.

NOTE 14 ENVIRONMENTAL AND DISPOSAL LIABILITIES

Total cleanup, closure, and post-closure 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-DERP eligible Air National Guard sites, and EROR.

ESTIMATES BASED ON THE TOTAL CLEANUP, CLOSURE, AND POST-CLOSURE COST (ACCRETION METHOD)

Cleanup, closure, and post-closure cost estimates for environmental disposal for MEWP (fixed wing aircraft, helicopters, MRAPs, and ICBMs) uses the accretion method. In conformance with Statement of Federal Financial Accounting Standards 6, *Accounting for Property, Plant, and Equipment*, the total estimated closure 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, closure, and post-closure 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, closure, and post-closure cost to be expensed each year. The unrecognized estimated total cost, which will be expensed over the remaining useful life of the assets, is $43.5 million as of September 30, 2022.

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 aircraft, vertical take-off aircraft, landing aircraft, and aircraft pods), where there is a lack of reliable information to estimate an environmental liability. Liabilities will be reported for these MEWP asset categories, as applicable, when sufficient data becomes available and cost estimation methodologies are fully developed, executed, and refined.

The DAF GF also has an unrecorded liability for some OEL - ECR and OEL - Asbestos asset categories, where there is a lack of reliable information to estimate an environmental liability. Specifically, the DAF GF has not reported an environmental liability for 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 Other Structure (Non-Building) and HVAC - Other assets likely to contain asbestos on active installations or for buildings with asbestos on active installations where sufficient information to determine estimated cleanup, closure, and post-closure costs are not available. Liabilities will be reported for these OEL - ECR and OEL - Asbestos asset categories, as applicable, when sufficient data becomes available and cost estimation methodologies are fully developed, executed, and refined.

Refer to the *Emerging Contaminants* Section for unrecorded liabilities related to emerging contaminants.

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 2026. Until full implementation of these programmatic changes is complete, balances will reflect only a portion of the liabilities at year-end.

NOTE 14 ENVIRONMENTAL AND DISPOSAL LIABILITIES

Additional assets on active installations with OEL - ECR and OEL - 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 assets and Other Structure (Non-Building) and HVAC - Other assets likely to contain asbestos.

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 OEL - ECR and OEL - Asbestos liabilities using subject matter experts and current Real Property inventories to make these determinations.

EMERGING CONTAMINANTS

Emerging contaminants are chemicals and materials that have pathways to enter the environment and present real or potential unacceptable human health and/or environmental risks and either: 1) do not have peer-reviewed human health standards; or 2) standards or regulations are evolving due to new science, detection capabilities, or pathways.

Per- and Polyfluoroalkyl Substances (PFAS) are a large class of man-made chemicals found in many consumer products and are present in aqueous film forming foam (AFFF) that is used by the DoD to fight petroleum fires. 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. On August 26, 2022, the EPA issued a Notice of Proposed Rulemaking (NPRM) to designate Perfluorooctanoic Acid and Perfluorooctane Sulfonate as "hazardous substances" under CERCLA. The NPRM was published in the Federal Register in September 2022 and is currently open for public comment. The EPA anticipates issuing an Advance NPRM and plans to issue the Final Rule in August 2023. As the DoD continues to investigate the EPA and state regulatory entities continue to refine and/or promulgate standards, it is likely that costs for remediation will become probable and reasonably estimable and such costs could be material to the financial statements. The DoD's investigation work and mitigation actions are guided by CERCLA and applicable state laws. Other emerging contaminants could be identified in the future and would follow a similar process.

As of September 30, 2022, PFAS liabilities are estimated and reported through the Remedial Investigation/ Feasibility Study (RI/FS). Although costs for post-RI/FS actions are probable, such costs are not yet reasonably estimable because the extent of the PFAS contamination has not been determined. However, as additional data is collected and the extent of PFAS contamination is further defined, it is reasonably possible post-RI/FS costs could increase significantly.

For additional information on activities related to legal environmental and disposal loss contingencies, refer to Note 17, *Commitments and Contingencies*.

NOTE 15 OTHER LIABILITIES

AS OF SEPTEMBER 30 (AMOUNTS IN THOUSANDS)	2022 (UNAUDITED)		
	CURRENT LIABILITIES	NON-CURRENT LIABILITIES	TOTAL
Intragovernmental Other Liabilities			
Disbursing Officer Cash	$ 184,092	$ 0	$ 184,092
Liabilities for Non-Entity Assets	0	351	351
Other Liabilities	630,466	0	630,466
Subtotal	$ 814,558	$ 351	$ 814,909
Other Liabilities Reported on Note 13, *Federal Employee and Veteran Benefits Payable*	418,325	90,322	508,647
Total Intragovernmental Other Liabilities	$ 1,232,883	$ 90,673	$ 1,323,556
Other than Intragovernmental Other Liabilities			
Accrued Funded Payroll and Leave	$ 2,602,574	$ 0	$ 2,602,574
Withholdings Payable	6,828	0	6,828
Liability for Non-Fiduciary Deposit Funds and Undeposited Collections	765,395	0	765,395
Liability for Clearing Accounts	(299)	0	(299)
Contract Holdbacks	88,569	0	88,569
Contingent Liabilities	0	278,924	278,924
Other Liabilities with Related Budgetary Obligations	3,092,534	0	3,092,534
Total Other than Intragovernmental Other Liabilities	$ 6,555,601	$ 278,924	$ 6,834,525
Total Other Liabilities	$ 7,788,484	$ 369,597	$ 8,158,081

NOTE 15 OTHER LIABILITIES

AS OF SEPTEMBER 30 (AMOUNTS IN THOUSANDS)	2021 (UNAUDITED)		
	CURRENT LIABILITIES	NON-CURRENT LIABILITIES	TOTAL
Intragovernmental Other Liabilities			
Disbursing Officer Cash	$ 310,471	$ 0	$ 310,471
Liabilities for Non-Entity Assets	0	629	629
Other Liabilities	599,000	0	599,000
Subtotal	$ 909,471	$ 629	$ 910,100
Other Liabilities Reported on Note 13, *Federal Employee and Veteran Benefits Payable*	239,177	90,600	329,777
Total Intragovernmental Other Liabilities	$ 1,148,648	$ 91,229	$ 1,239,877
Other than Intragovernmental Other Liabilities			
Accrued Funded Payroll and Leave	$ 4,108,619	$ 0	$ 4,108,619
Withholdings Payable	6,235	0	6,235
Liability for Non-Fiduciary Deposit Funds and Undeposited Collections	944,396	0	944,396
Liability for Clearing Accounts	(3)	0	(3)
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	$ 6,039,074	$ 255,885	$ 6,294,959
Total Other Liabilities	$ 7,187,722	$ 347,114	$ 7,534,836

INTRAGOVERNMENTAL OTHER LIABILITIES

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 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 represent amounts reported for Judgment Fund. Judgment Fund Liabilities represent the reimbursable amount due from the DAF GF to the Treasury Judgment Fund. In the event of an unfavorable judgment against the Federal Government, settlements will be paid by the Treasury Judgment Fund on behalf of the DAF GF, which may or may not be reimbursable. For additional information, refer to Note 17, *Commitments and Contingencies*. The FY 2021 balances were modified to reflect FY 2022 presentation.

NOTE 15 OTHER LIABILITIES

Intragovernmental Other Liabilities on the Balance Sheet is no longer reported on a single note in accordance with the streamlined Balance Sheet format (for additional information, refer to Note 1.AE., *Significant Accounting Policies - Standardized Balance Sheet, the Statement of Changes in Net Position, and Related Footnotes – Comparative Year Presentation*). Certain U.S. Standard General Ledger accounts on the Balance Sheet line Intragovernmental Other Liabilities are required to be reported on Note 13, *Federal Employee and Veteran Benefits Payable*, while others are reported on this Note 15, *Other Liabilities*. The amounts from the Balance Sheet Intragovernmental Other Liabilities reported on Note 13 are aggregated and also included above as the line Other Liabilities Reported on Note 13, *Federal Employee and Veteran Benefits Payable*. This presentation maintains the tie out of total Intragovernmental Other Liabilities on the tables to the Balance Sheet.

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.

- Liability for Non-Fiduciary Deposit Funds and Undeposited Collections and Liability for Clearing 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 2022 and FY 2023 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 Leave and Withholdings Payable consists of estimates for salaries, wages, and other compensation earned by employees but not disbursed as of September 30, 2022. Earned annual and other vested compensatory leave is accrued as it is earned and reported on the Balance Sheet. The liability is reduced as leave is taken. Each year, the balances in the accrued leave accounts are adjusted to reflect the liability at current pay rates and leave balances. Sick leave and other types of non-vested leave are expensed when used. Accrued Funded Payroll and Withholdings Payable also include 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. Any portions of accrued leave for which funding is not available are recorded as Accrued Unfunded Annual Leave. For additional information on Accrued Unfunded Annual Leave, refer to Note 13, *Federal Employee and Veteran Benefits Payable*.

NOTE 15 OTHER LIABILITIES

For additional information on Liability for Non-Fiduciary Deposit Funds and Undeposited Collections and Liability for Clearing Accounts, refer above. The FY 2021 balances were modified to reflect FY 2022 presentation.

Contract Holdbacks are amounts withheld from grantees or contractors pending completion of related contracts. For FY 2022, Contract Holdbacks include $88.6 million for contracted progress payments based on cost as defined in the Federal Acquisition Regulation.

Contingent Liabilities is comprised of $278.9 million in Contingent Legal Liabilities as of September 30, 2022. 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 2022 based on percentage of completion data provided by vendors.

ADVANCES FROM OTHERS AND DEFERRED REVENUE

AS OF SEPTEMBER 30 (AMOUNTS IN THOUSANDS)	2022 (UNAUDITED)	2021 (UNAUDITED)
Intragovernmental	$ 1,885,558	$ 1,485,638
Other than Intragovernmental	$ 343,223	$ 314,310

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.

NOTE 16 LEASES

AS OF SEPTEMBER 30 (AMOUNTS IN THOUSANDS)	2022 (UNAUDITED)			
	ASSET CATAGORY			
	LAND AND BUILDINGS	EQUIPMENT	OTHER	TOTAL
Intragovernmental				
Fiscal Year				
2023	1,156	0	0	1,156
2024	1,156	0	0	1,156
2025	1,156	0	0	1,156
2026	1,156	0	0	1,156
2027	1,156	0	0	1,156
After 5 Years	1,156	0	0	1,156
Total Intragovernmental Future Lease Payments	$ 6,936	$ 0	$ 0	$ 6,936
Other than Intragovernmental				
Fiscal Year				
2023	45,693	0	29,052	74,745
2024	45,146	0	29,633	74,779
2025	43,241	0	30,226	73,467
2026	4,802	0	30,831	35,633
2027	4,174	0	31,447	35,621
After 5 Years	3,709	0	32,076	35,785
Total Intragovernmental Future Lease Payments	$ 146,765	$ 0	$ 183,265	$ 330,030
Total Future Lease Payments	$ 153,701	$ 0	$ 183,265	$ 336,966

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 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 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, 2022 and 2021 was $20.2 million and $68.5 million, respectively. 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, 2022 and 2021 was $630.5 million and $599.0 million, respectively, as reported in Other Liabilities on the Balance Sheet.

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. 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, 2022 and 2021.

AS OF SEPTEMBER 30 *(AMOUNTS IN THOUSANDS)*	2022 *(UNAUDITED)* ESTIMATED RANGE OF LOSS		
	ACCRUED LIABILITIES	LOWER END	UPPER END
Contingent Legal Liabilities Probable	$ 278,924	$ 0	$ 0
Reasonably Possible	$ 0	$ 235,853	$ 244,731

NOTE 17 COMMITMENTS AND CONTINGENCIES

AS OF SEPTEMBER 30 *(AMOUNTS IN THOUSANDS)*	2021 *(UNAUDITED)* ESTIMATED RANGE OF LOSS		
	ACCRUED LIABILITIES	LOWER END	UPPER END
Contingent Legal Liabilities Probable	$ 255,885	$ 0	$ 0
Reasonably Possible	$ 0	$ 205,386	$ 215,176

As of September 30, 2022, 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 $159.0 million and $51.2 million as of September 30, 2022 and 2021, respectively; the claimed amounts for these claims evaluated as reasonably possible totaled approximately $939.5 million and $3.4 billion as of September 30, 2022 and 2021, respectively. 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

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, 2022, 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, 2022 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 $3.2 billion outstanding and $3.9 billion outstanding as of September 30, 2022 and 2021, respectively, with an estimated potential loss of $4.5 million and $5.1 million, respectively, 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 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.

For additional information on activities related to non-legal environmental and disposal loss contingencies, refer to Note 14, *Environmental and Disposal Liabilities*.

NOTE 17 COMMITMENTS AND CONTINGENCIES

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 was $2.9 billion and $2.5 billion as of September 30, 2022 and 2021, respectively.

NOTE 18 FUNDS FROM DEDICATED COLLECTIONS

Combined Balance Sheet - Funds from Dedicated Collections

AS OF SEPTEMBER 30 (AMOUNTS IN THOUSANDS)	2022 (UNAUDITED)			
	GENERAL GIFT FUND	WILDLIFE CONSERVATION FUND	AIR FORCE CADET FUND	COMBINED TOTAL
Intragovernmental				
Fund Balance with Treasury	$ 19,792	$ 2,974	$ 20,207	$ 42,973
Investments, Net	7	0	0	7
Total Intragovernmental	19,799	2,974	20,207	42,980
Other than Intragovernmental				
Accounts Receivable, Net	$ 3	$ 0	$ 0	$ 3
General Property, Plant and Equipment, Net	1,341	0	0	1,341
Total Other than Intragovernmental	1,344	0	0	1,344
Total Assets	$ 21,143	$ 2,974	$ 20,207	$ 44,324
Intragovernmental				
Accounts Payable	$ 0	$ 0	$ 0	$ 0
Total Intragovernmental	0	0	0	0
Other than Intragovernmental				
Accounts Payable	$ 235	$ (677)	$ (472)	$ (914)
Other Liabilities				
Other	0	5	0	5
Total Other Liabilities	0	5	0	5
Total Other than Intragovernmental	$ 235	$ (672)	$ (472)	$ (909)
Total Liabilities	$ 235	$ (672)	$ (472)	$ (909)
Cumulative Results of Operations	$ 20,908	$ 3,646	$ 20,679	$ 45,233
Total Liabilities and Net Position	$ 21,143	$ 2,974	$ 20,207	$ 44,324

NOTE 18 FUNDS FROM DEDICATED COLLECTIONS

Combined Balance Sheet - Funds from Dedicated Collections

AS OF SEPTEMBER 30 *(AMOUNTS IN THOUSANDS)*	2021 *(UNAUDITED)* General Gift Fund	Wildlife Conservation Fund	Air Force Cadet Fund	Combined Total
Intragovernmental				
Fund Balance with Treasury	$ 18,036	$ 2,414	$ 16,780	$ 37,230
Investments, Net	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	$ 143	$ 10	$ 215	$ 368
Total Intragovernmental	143	10	215	368
Other than Intragovernmental				
Accounts Payable	$ 12	$ (671)	$ 0	$ (659)
Other Liabilities				
Other	0	8	0	8
Total Other Liabilities	0	8	0	8
Total Other than Intragovernmental	$ 12	$ (663)	$ 0	$ (651)
Total Liabilities	$ 155	$ (653)	$ 215	$ (283)
Cumulative Results of Operations	$ 19,231	$ 3,067	$ 16,565	$ 38,863
Total Liabilities and Net Position	$ 19,386	$ 2,414	$ 16,780	$ 38,580

NOTE 18 FUNDS FROM DEDICATED COLLECTIONS

Combined Statement of Net Cost - Funds from Dedicated Collections

FOR THE FISCAL YEAR ENDED SEPTEMBER 30 *(AMOUNTS IN THOUSANDS)*	2022 *(UNAUDITED)*			
	GENERAL GIFT FUND	WILDLIFE CONSERVATION FUND	AIR FORCE CADET FUND	COMBINED TOTAL
Gross Program Costs	$ (531)	$ 736	$ 1,031	$ 1,236
Less: Earned Revenue	0	(1,618)	(5,145)	(6,763)
Net Program Costs	$ (531)	$ (882)	$ (4,114)	$ (5,527)
Net Cost of Operations	$ (531)	$ (882)	$ (4,114)	$ (5,527)

FOR THE FISCAL YEAR ENDED SEPTEMBER 30 *(AMOUNTS IN THOUSANDS)*	2021 *(UNAUDITED)*			
	GENERAL GIFT FUND	WILDLIFE CONSERVATION FUND	AIR FORCE CADET FUND	COMBINED TOTAL
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

NOTE 18 FUNDS FROM DEDICATED COLLECTIONS

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

FOR THE FISCAL YEAR ENDED SEPTEMBER 30 *(AMOUNTS IN THOUSANDS)*	2022 *(UNAUDITED)*			
	GENERAL GIFT FUND	WILDLIFE CONSERVATION FUND	AIR FORCE CADET FUND	COMBINED TOTAL
Beginning Balance	$ 19,231	$ 2,764	$ 16,565	$ 38,560
Beginning Balance, as Adjusted	19,231	2,764	16,565	38,560
Donations and Forfeitures of Cash and Cash Equivalents	6,386	0	0	6,386
Other	(5,240)	0	0	(5,240)
Less: Net Cost of Operations	(531)	(882)	(4,114)	(5,527)
Net Change in Cumulative Results of Operations	$ 1,677	$ 882	$ 4,114	$ 6,673
Net Position, End of Period	$ 20,908	$ 3,646	$ 20,679	$ 45,233

FOR THE FISCAL YEAR ENDED SEPTEMBER 30 *(AMOUNTS IN THOUSANDS)*	2021 *(UNAUDITED)*			
	GENERAL GIFT FUND	WILDLIFE CONSERVATION FUND	AIR FORCE CADET FUND	COMBINED TOTAL
Beginning Balance	$ 36,326	$ 2,973	$ 12,310	$ 51,609
Beginning Balance, as Adjusted	36,326	2,973	12,310	51,609
Donations and Forfeitures of Cash and Cash Equivalents	6,305	0	0	6,305
Other	0	0	0	0
Less: Net Cost of Operations	23,400	(94)	(4,255)	19,051
Net Change in Cumulative Results of Operations	$ (17,095)	$ 94	$ 4,255	$ (12,746)
Net Position, End of Period	$ 19,231	$ 3,067	$ 16,565	$ 38,863

NOTE 18 FUNDS FROM DEDICATED COLLECTIONS

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.

All of the tables above are presented on a combined and consolidated basis and relate solely to Funds from Dedicated Collections. The Net Position amounts related to Funds from Dedicated Collections reflected 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. For additional information on reconciling the combined Funds from Dedicated Collections Net Position amounts to the consolidated Funds from Dedicated Collections Net Position amounts, refer to Note 20, *Disclosures Related to the Statement of Changes in Net Position*.

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 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.

NOTE 18 FUNDS FROM DEDICATED COLLECTIONS

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

FOR THE FISCAL YEAR ENDED SEPTEMBER 30 (AMOUNTS IN THOUSANDS)	2022 (UNAUDITED)	RESTATED 2021 (UNAUDITED)
Military Personnel		
Gross Cost	$ 44,813,342	$ 44,043,509
Less: Earned Revenue	(600,411)	(1,030,799)
Net Program Costs	$ 44,212,931	$ 43,012,710
Operations, Readiness, & Support		
Gross Cost	$ 66,228,845	$ 65,321,204
Less: Earned Revenue	313,700	592,746
Net Program Costs	$ 66,542,545	$ 65,913,950
Procurement		
Gross Cost	$ 59,153,132	$ 45,628,973
Less: Earned Revenue	(4,000,041)	(4,469,804)
Net Program Costs	$ 55,153,091	$ 41,159,169
Research, Development, Test, & Evaluation		
Gross Cost	$ 53,661,141	$ 49,941,911
Less: Earned Revenue	(5,411,631)	(4,545,660)
Net Program Costs	$ 48,249,510	$ 45,396,251
Family Housing & Military Construction		
Gross Cost	$ 3,407,868	$ 5,285,018
Less: Earned Revenue	(54,303)	0
Net Program Costs	$ 3,353,565	$ 5,285,018
Consolidated		
Gross Cost	$ 227,264,328	$ 210,220,615
Less: Earned Revenue	(9,752,686)	(9,453,517)
Total Net Cost	$ 217,511,642	$ 200,767,098

NOTE 19 DISCLOSURES RELATED TO THE STATEMENT OF NET COST

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 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 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 $1.1 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.

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2022 (UNAUDITED)		*(AMOUNTS IN THOUSANDS)*
Reconciliation of Appropriations on the Statement of Budgetary Resources to Appropriations Received on the Statement of Changes in Net Position		**TOTAL**
Appropriations, Statement of Budgetary Resources	$	222,548,965
Less: Appropriations Received, Statement of Changes in Net Position		223,648,829
Total Reconciling Amount	$	(1,099,864)
Items Reported as Reductions to Appropriations, Statement of Budgetary Resources		
Permanent and Temporary Reductions	$	(1,513,533)
Items Reported as Reductions to Appropriations, Statement of Budgetary Resources		
Transfers		400,520
Trust and Special Fund Receipts		13,149
Total Reconciling Amount	$	(1,099,864)

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.

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2022 (UNAUDITED)						*(AMOUNTS IN THOUSANDS)*
Reconciliation of Combined Dedicated Collections and Other Funds to Consolidated Dedicated Collections and Other Funds						
CONSOLIDATING NET POSITION		**COMBINED**		**CONSOLIDATING ELIMINATIONS**		**CONSOLIDATED**
Cumulative Results of Operations - Dedicated Collections	$	45,233	$	0	$	45,233
Cumulative Results of Operations- Other Funds		202,032,418		0		202,032,418
Unexpended Appropriations - Other Funds		155,581,068		0		155,581,068
Total Net Position	$	357,658,719	$	0	$	357,658,719

NOTE 20 DISCLOSURES RELATED TO THE STATEMENT OF CHANGES IN NET POSITION

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2021 (UNAUDITED)			(AMOUNTS IN THOUSANDS)
Reconciliation of Combined Dedicated Collections and Other Funds to Consolidated Dedicated Collections and Other Funds			
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	200,523,207	(21,578)	200,501,629
Unexpended Appropriations - Other Funds	154,715,121	0	154,715,121
Total Net Position	$ 355,277,191	$ 0	$ 355,277,191

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

Cumulative Results of Operations - Other

Cumulative Results of Operations - 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 2022, 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; and Construction-in-Progress - Military Equipment. The DAF GF adjusted for these known errors through prior period adjustments.

For additional information related to these prior period adjustments, refer to Note 27, *Restatements*.

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, 2022 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 FY ended September 30, 2022.

UNDELIVERED ORDERS AT THE END OF THE PERIOD

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

AS OF SEPTEMBER 30 (AMOUNTS IN THOUSANDS)	2022 (UNAUDITED)	2021 (UNAUDITED)
Intragovernmental		
Unpaid	$ 22,815,466	$ 25,631,605
Prepaid/Advanced	1,192,907	1,140,023
Total Intragovernmental	$ 24,008,373	$ 26,771,628
Other than Intragovernmental		
Unpaid	$ 86,482,238	$ 77,812,133
Prepaid/Advanced	10,947,878	18,110,875
Total Other than Intragovernmental	$ 97,430,116	$ 95,923,008
Total Budgetary Resources Obligated for Undelivered Orders at the End of the Period	$ 121,438,489	$ 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 2022 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 2022, refer to Note 20, *Disclosures Related to the Statement of Changes in Net Position*.

NOTE 21 DISCLOSURES RELATED TO THE STATEMENT OF BUDGETARY RESOURCES

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 2021 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 2023 President's Budget. The Budget with the actual amounts for the current year (FY 2022) will be available at a later date at The President's Budget | The White House.

EXPLANATION OF DIFFERENCES BETWEEN THE STATEMENT OF BUDGETARY RESOURCES AND THE BUDGET OF THE U.S. GOVERNMENT				
AS OF SEPTEMBER 30 *(AMOUNTS IN BILLIONS)*	FY 2021 ACTUAL (UNAUDITED)			
	BUDGETARY RESOURCES	NEW OBLIGATIONS AND UPWARD ADJUSTMENTS (Total)	DISTRIBUTED OFFSETTING RECEIPTS	AGENCY OUTLAYS, NET
Combined Statement of Budgetary Resources	$ 258.3	$ 218.6	$ (0.1)	$ 203.1
Differences				
Expired accounts that are excluded from the Budget of the U.S. Government*	$ (4.8)	$ 0	$ 0	$ 0
Budget of the U.S. Government	$ 253.5	$ 218.6	$ (0.1)	$ 203.1

**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 FY ended September 30, 2022.

OTHER DISCLOSURES

Expired Unobligated Balance

The SBR reflects Unobligated Expired Appropriations in the amount of $4.8 billion (1.7% 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.).

NOTE 21 DISCLOSURES RELATED TO THE STATEMENT OF BUDGETARY RESOURCES

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	$	118.5	$	5.2
CATEGORY B	$	106.1	$	6.4
EXEMPT	$	0	$	0
TOTAL	$	224.6	$	11.6

Permanent Indefinite Appropriations

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

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 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 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 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 $836.7 million of incidental custodial revenues during the FY ended September 30, 2022, 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 Treasury.

NOTE 23 FIDUCIARY ACTIVITIES

Schedule of Fiduciary Activities

FOR THE FISCAL YEAR ENDED SEPTEMBER 30 (AMOUNTS IN THOUSANDS)	2022 (UNAUDITED)	2021 (UNAUDITED)
Fiduciary Net Assets, Beginning of Year	$ (5,282)	529
Contributions	21,350	$ 26,601
Distributions To and On Behalf of Beneficiaries	(23,898)	(32,412)
Increase/(Decrease) in Fiduciary Net Assets	$ (2,548)	$ (5,811)
Fiduciary Net Assets, End of Period	$ (7,830)	(5,282)

Schedule of Fiduciary Net Assets

AS OF SEPTEMBER 30 (AMOUNTS IN THOUSANDS)	2022 (UNAUDITED)	2021 (UNAUDITED)
Fiduciary Assets		
Fund Balance with Treasury	$ (7,830)	$ (5,282)
Fiduciary Net Assets, End of Period	$ (7,830)	(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 BUDGETARY OUTLAYS

AS OF SEPTEMBER 30 (AMOUNTS IN THOUSANDS)	2022 (UNAUDITED)		
	INTRAGOVERNMENTAL	OTHER THAN INTRAGOVERNMENTAL	TOTAL
Net Cost of Operations	$ 36,577,053	$ 180,934,589	$ 217,511,642
COMPONENTS OF NET COST NOT PART OF NET BUDGETARY OUTLAYS			
Change in General Property, Plant, and Equipment, Net	$ 0	$ (59,244)	$ (59,244)
Change in Inventory and Related Property, Net	0	1,632,515	1,632,515
Increase/(Decrease) in Assets:			
Accounts Receivable, Net	(101,867)	24,403	(77,464)
Other Assets	52,884	(7,289,450)	(7,236,566)
(Increase)/Decrease in Liabilities:			
Accounts Payable	245,252	(1,578,064)	(1,332,812)
Environmental and Disposal Liabilities	0	(287,767)	(287,767)
Federal Employee and Veteran Benefits Payable	0	(9,758)	(9,758)
Other Liabilities	(492,292)	(747,776)	(1,240,068)
Financing Sources:			
Imputed Cost	(740,971)	0	(740,971)
Total Components of Net Cost Not Part of Net Budgetary Outlays	$ (1,036,994)	$ (8,315,141)	$ (9,352,135)
COMPONENTS OF NET BUDGETARY OUTLAYS NOT PART OF NET COST			
Financing Sources:			
Donated Revenue	$ 0	$ (6,386)	$ (6,386)
Total Components of Net Budgetary Outlays Not Part of Net Cost	$ 0	$ (6,386)	$ (6,386)
MISCELLANEOUS RECONCILING ITEMS			
Transfers (In)/Out Without Reimbursements	$ (487,041)	$ 0	$ (487,041)
Distributed Offsetting Receipts	0	(101)	(101)
Other	167,294	244,122	411,416
Total Other Reconciling Items	$ (319,747)	$ 244,021	$ (75,726)
Net Outlays	$ 35,220,312	$ 172,857,083	$ 208,077,395
Budgetary Agency Outlays, Net (Statements of Budgetary Resources)			$ 207,836,510
Unreconciled Difference			$ 240,885

NOTE 24 RECONCILIATION OF NET COST TO NET BUDGETARY OUTLAYS

AS OF SEPTEMBER 30 *(AMOUNTS IN THOUSANDS)*	RESTATED 2021 *(UNAUDITED)* INTRAGOVERNMENTAL	OTHER THAN INTRAGOVERNMENTAL	TOTAL
Net Cost of Operations	$ 35,637,896	$ 165,129,202	$ 200,767,098
COMPONENTS OF NET COST NOT PART OF NET BUDGETARY OUTLAYS			
Change in General Property, Plant, and Equipment, Net	$ 0	$ (141,455)	$ (141,455)
Change in Inventory and Related Property, Net	0	3,989,108	3,989,108
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	(1,087,677)	230,768	(856,909)
Environmental and Disposal Liabilities	0	(486,701)	(486,701)
Federal Employee and Veteran Benefits Payable	0	(55,877)	(55,877)
Other Liabilities	(301,683)	(997,662)	(1,299,345)
Financing Sources:			
Imputed Cost	(766,618)	0	(766,618)
Total Components of Net Cost Not Part of Net Budgetary Outlays	$ (1,846,950)	$ 2,299,162	$ 452,212
COMPONENTS OF NET BUDGETARY OUTLAYS NOT PART OF NET COST			
Financing Sources:			
Donated Revenue	$ 0	$ (6,304)	$ (6,304)
Total Components of Net Budgetary Outlays Not Part of Net Cost	$ 0	$ (6,304)	$ (6,304)
MISCELLANEOUS RECONCILING ITEMS			
Transfers (In)/Out Without Reimbursements	$ (245,300)	$ 0	$ (245,300)
Distributed Offsetting Receipts	0	0	0
Other	1,022,956	1,446,719	2,469,675
Total Other Reconciling Items	$ 777,656	$ 1,446,719	$ 2,224,375
Net Outlays	$ 34,568,602	$ 168,868,779	$ 203,437,381
Budgetary Agency Outlays, Net (Statements of Budgetary Resources)			$ 203,083,504
Unreconciled Difference			$ 353,877

NOTE 24 RECONCILIATION OF NET COST TO NET BUDGETARY OUTLAYS

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 $240.9 million as of September 30, 2022 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. The FY 2021 reconciliation was modified to conform to the FY 2022 presentation.

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 Federal funding for the MHPI agreements was provided through the DAF GF budgetary resources and/or the Treasury through Government Direct Loan (GDL) 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.

NOTE 25 PUBLIC-PRIVATE PARTNERSHIPS

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, 2022:

DAF GF INITIAL CONTRIBUTIONS FROM THE MHPI PROGRAM TO THE LLCS & LPS* AS OF SEPTEMBER 30, 2022		
Direct cash contributions	$	674.8 million
Real Property contributions to the LLCs & Limited Partnerships (LPs) [value of Real Property Assets (RPA) conveyed, per OMB scoring documents]	$	2.7 billion
Bonds	$	0.0 million
Direct loans disbursed	$	1.8 billion
DAF GF ON-GOING CONTRIBUTIONS TO THE DOD MHPI PROGRAM* CUMULATIVE AS OF SEPTEMBER, 2022		
DoD direct payments as required by Public Law 115-91§ 603 (1% BAH) and 15-232 § 606 (5% BAH)	$	249.3 million
BAH under § 403 of Title 37 to members living in privatized housing	$	925.2 million
Differential lease payments	$	16.5 million
Property, cash, bonds, and loans	$	0.0 million
PRIVATE PARTNER INITIAL CONTRIBUTION TO THE MHPI PROGRAM AS OF SEPTEMBER 30, 2022		
Direct cash contributions	$	338.8 million
Real Property contributions to the LLCs and LPs	$	1.2 million
Bonds	$	5.1 billion
Direct loans disbursed	$	0.0 million
PRIVATE PARTNER ON-GOING CONTRIBUTION TO THE MHPI PARTNERSHIP CUMULATIVE AS OF SEPTEMBER 30, 2022		
Direct cash contributions	$	0.0 million
Bonds/loans contributed	$	0.0 million
Real Property and land contributions	$	0.0 million

**Note: The DoD cash and Real Property contributions in the table above are currently reported in the DoD's consolidated financial statements. For additional information on the DoD's investments and securities, refer to Note 5, Investments and Related Interest, of the DoD's consolidated financial statements.*

NOTE 25 PUBLIC-PRIVATE PARTNERSHIPS

With respect to indirect third-party payments to MHPI entities, it is estimated that the DAF GF paid BAH under §403 of Title 37 to members living in privatized housing in the amount of $925.2 million in FY 2022. The number of military family housing units upon which these estimated payments were made is 40,207 in FY 2022. The number of units of military unaccompanied housing upon which these estimated payments were made is 112 in FY 2022. 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 $4.5 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, 2022 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 requires approval from the Office of the Assistant Secretary of Defense (OASD) Energy, Installations, and Environment (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 projects to make any investments in the MHPI P3 beyond its initial investment in each project. 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 GDL under OMB Circular A-11, *Preparation, Submission and Execution of the Budget*, Part 5, Section 185, *Federal Credit*, or by providing a government equity contribution under 10 U.S.C. 2875. The DAF GF would become a non-managing member of the LLC if equity were contributed to a debt deal.

NOTE 25 PUBLIC-PRIVATE PARTNERSHIPS

Cumulative Acreage of Ground Leases

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.

MILITARY DEPARTMENT	AGREEMENT TYPE	GROUND LEASE IN ACRES
DAF GF	Government Loans / Loan Guarantees	19,095
DAF GF	Equity Agreements	2,367

Actual Values Received and Paid:

MILITARY DEPARTMENT	GROUPING TITLE	NUMBER OF PROJECTS	IN FY 2021 (IN MILLIONS)		IN FY 2022 (IN MILLIONS)		OVER EXPECTED LIFE OF LLCS & LPS*	
			ACTUAL RECEIVED	ACTUAL PAID	ACTUAL RECEIVED	ACTUAL PAID	ESTIMATED TO BE RECEIVED	ESTIMATED TO BE PAID
DAF GF	Direct Loans	26	$84.7	$32.3	$207.0	$207.0		
DAF GF	Loans Guarantees	5	$0	$0	$0.8	$6.3	Note*	
DAF GF	Equity Investments	4	$0	$0	$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 NDAA (Public Law 115-91).*

During Q2 FY 2022, there was a disbursement for the GDL to the Continental project within the MHPI program. The sixth and final disbursement is anticipated to occur in January 2023.

Contractual Terms Governing Incentive Fees

Performance Incentive Fees (PIFs) are paid as an incentive to the MHPI 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 GDL 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

NOTE 25 PUBLIC-PRIVATE PARTNERSHIPS

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).

The DAF GF projects with a direct loan may involve a restructure of the loan through an administrative workout under OMB Circular A-11, for a troubled loan or a loan in imminent default. The cost of this type of restructure is borne by the 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 obtains OASD EI&E and OMB approval of a direct loan modification for a 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 and subsequent NDAAs, 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), Section 2811 of FY 2021 NDAA (Public Law 116-283), and Section 2811 of FY 2022 NDAA (Public Law 117-81) 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 or 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*, 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.

NOTE 25 PUBLIC-PRIVATE PARTNERSHIPS

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) or P3. The DAF GF concluded that these agreements do not constitute a PPV or 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 or 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 RESTATEMENTS

PRIOR PERIOD ADJUSTMENT

In FY 2022, 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, and Construction-in-Progress (CIP) – Military Equipment requiring the following prior period adjustments:

1. Adjust historical journal voucher balances to reverse unsupported journal vouchers and correct variances between the general ledger systems and Accountable Property Systems of Record (APSRs). Additionally, this adjustment correctly restates the U.S. Special Operations Command (SOCOM) asset posture balance to appropriately account for the transfer of assets and reporting responsibility to SOCOM.
2. Reclassify expenses and losses to a prior fiscal period that posted in FY 2022 as a result of asset corrections and transactional activity within the APSR.
3. Adjust expense accounts as a result of a change in the Satellite CIP indirect overhead capitalization rates.
4. Record a correction (reduction in value) of assets due to the on-going existence, completeness, and valuation audit of mission critical assets.

As a result of these prior period adjustments, the DAF GF restated the FY 2021 balances (which is the earliest period presented in the FY 2022 DAF GF financial statements). These prior period adjustments impacted the following financial statement line items for FY 2021:

DAF GF Restatement Impact to the Balance Sheet

AS OF SEPTEMBER 30, 2021 *(AMOUNTS IN THOUSANDS)*	UNADJUSTED	ADJUSTED	RESTATED
General Property, Plant, and Equipment	$ 156,635,339	$ (1,637,982)	$ 154,997,357
Total Other than Intragovernmental	$ 239,658,896	$ (1,637,982)	$ 238,020,914
Total Assets	$ 393,261,561	$ (1,637,982)	$ 391,623,579
Cumulative Results of Operations - Funds Other than Dedicated Collections	$ 202,139,611	$ (1,637,982)	$ 200,501,629
Total Cumulative Results of Operations (Consolidated)	$ 202,200,052	$ (1,637,982)	$ 200,562,070
Total Net Position	$ 356,915,173	$ (1,637,982)	$ 355,277,191
Total Liabilities and Net Position	$ 393,261,561	$ (1,637,982)	$ 391,623,579

NOTE 27 RESTATEMENTS

DAF GF Restatement Impact to the Statement of Net Cost

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2021 *(AMOUNTS IN THOUSANDS)*	UNADJUSTED		ADJUSTED		RESTATED	
Program Costs: Procurement	$	45,507,824	$	121,149	$	45,628,973
Program Costs: Research, Development, Test & Evaluation	$	49,773,429	$	168,482	$	49,941,911
Gross Costs	$	209,930,984	$	289,631	$	210,220,615
Net Cost of Operations	$	200,477,467	$	289,631	$	200,767,098

DAF GF Restatement Impact to the Statement of Changes in Net Position

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2021 *(AMOUNTS IN THOUSANDS)*	UNADJUSTED		ADJUSTED		RESTATED	
Beginning Balances	$	198,260,751	$	(816,976)	$	197,443,775
Correction of Errors (+/-)	$	(816,976)	$	(531,374)	$	(1,348,350)
Beginning Balances, as Adjusted (Includes Funds from Dedicated Collections - *Note 18*)	$	197,443,775	$	(1,348,350)	$	196,095,425
Net Cost of Operations (+/-) (Includes Funds from Dedicated Collections - *Note 18*)	$	200,477,467	$	289,631	$	200,767,098
Net Change in Cumulative Results of Operations	$	4,756,277	$	(289,632)	$	4,466,645
Cumulative Results of Operations Ending (Includes Funds from Dedicated Collections - *Note 18*)	$	202,200,052	$	(1,637,982)	$	200,562,070
Net Position	$	356,915,173	$	(1,637,982)	$	355,277,191

NOTE 28 SUBSEQUENT EVENTS

Subsequent events were evaluated from the Balance Sheet date through November 7, 2022, 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.

DISAGGREGATED STATEMENT OF BUDGETARY RESOURCES

DEPARTMENT OF THE AIR FORCE GENERAL FUND REQUIRED SUPPLEMENTARY INFORMATION

Disaggregated Statement of Budgetary Resources

FOR THE FISCAL YEARS ENDED 2022 AND 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*)	$ 8,224,039	$ 22,364,203	$ 745,412
Appropriations (Discretionary and Mandatory)	52,955,445	50,026,043	44,664,879
Spending Authority from Offsetting Collections (Discretionary and Mandatory)	5,463,290	577,040	607,744
Total Budgetary Resources	$ 66,642,774	$ 72,967,286	$ 46,018,035
STATUS OF BUDGETARY RESOURCES			
New Obligations and Upward Adjustments (Total)	$ 56,143,079	$ 50,431,270	$ 45,471,680
Unobligated Balance, End of Year:			
Apportioned, Unexpired Accounts	9,902,161	21,061,322	275,642
Exempt from Apportionment, Unexpired Accounts	0	0	0
Unapportioned, Unexpired Accounts	5,125	212	0
Unexpired Unobligated Balance, End of Year	$ 9,907,286	$ 21,061,534	$ 275,642
Expired Unobligated Balance, End of Year	592,409	1,474,482	270,713
Unobligated Balance, End of Year (Total)	$ 10,499,695	$ 22,536,016	$ 546,355
Total Budgetary Resources	$ 66,642,774	$ 72,967,286	$ 46,018,035
OUTLAYS, NET			
Outlays, Net (Total) (Discretionary and Mandatory)	$ 45,796,722	$ 48,377,019	$ 45,406,269
Distributed Offsetting Receipts (-)	0	0	0
Agency Outlays, Net (Discretionary and Mandatory)	$ 45,796,722	$ 48,377,019	$ 45,406,269

DISAGGREGATED STATEMENT OF BUDGETARY RESOURCES

DEPARTMENT OF THE AIR FORCE GENERAL FUND REQUIRED SUPPLEMENTARY INFORMATION

Disaggregated Statement of Budgetary Resources, Continued.

FOR THE FISCAL YEARS ENDED 2022 AND 2021 *(AMOUNTS IN THOUSANDS)*	FAMILY HOUSING & MILITARY CONSTRUCTION	OPERATIONS, READINESS, & SUPPORT	2022 COMBINED	2021 COMBINED
BUDGETARY RESOURCES				
Unobligated Balance from Prior Year Budget Authority, Net (Discretionary and Mandatory) (*Note 21*)	$ 7,493,074	$ 5,514,696	$ 44,341,424	$ 41,775,132
Appropriations (Discretionary and Mandatory)	3,453,985	71,448,613	222,548,965	204,077,163
Spending Authority from Offsetting Collections (Discretionary and Mandatory)	50	4,009,234	10,657,358	12,477,438
Total Budgetary Resources	$ 10,947,109	$ 80,972,543	$ 277,547,747	$ 258,329,733
STATUS OF BUDGETARY RESOURCES				
New Obligations and Upward Adjustments (Total)	$ 5,807,830	$ 78,377,525	$ 236,231,384	$ 218,649,392
Unobligated Balance, End of Year:				
Apportioned, Unexpired Accounts	4,815,851	430,055	36,485,031	34,810,837
Exempt from Apportionment, Unexpired Accounts	0	18,440	18,440	16,835
Unapportioned, Unexpired Accounts	1,924	31,270	38,531	90,223
Unexpired Unobligated Balance, End of Year	$ 4,817,775	$ 479,765	$ 36,542,002	$ 34,917,895
Expired Unobligated Balance, End of Year	321,504	2,115,253	4,774,361	4,762,446
Unobligated Balance, End of Year (Total)	$ 5,139,279	$ 2,595,018	$ 41,316,363	$ 39,680,341
Total Budgetary Resources	$ 10,947,109	$ 80,972,543	$ 277,547,747	$ 258,329,733
OUTLAYS, NET				
Outlays, Net (Total) (Discretionary and Mandatory)	$ 1,893,844	$ 66,776,605	$ 208,250,459	$ 203,205,677
Distributed Offsetting Receipts (-)	0	(413,949)	(413,949)	(122,173)
Agency Outlays, Net (Discretionary and Mandatory)	$ 1,893,844	$ 66,362,656	$ 207,836,510	$ 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.

REAL PROPERTY DEFERRED MAINTENANCE AND REPAIR

REAL PROPERTY DEFERRED MAINTENANCE AND REPAIR* (EXCLUDES MILITARY FAMILY HOUSING) *(IN MILLIONS OF DOLLARS)*	2022 *(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)	$	353,642	$	24,448	6.9%
Category Buildings, Structures, and Linear Structures (Heritage Assets)	$	43,688	$	1,754	4.0%
INACTIVE REAL PROPERTY					
Category Buildings, Structures, and Linear Structures (Excess Facilities or Planned for Replacement)	$	16,109	$	1,519	9.4%

REAL PROPERTY DEFERRED MAINTENANCE AND REPAIR* (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%

REAL PROPERTY DEFERRED MAINTENANCE AND REPAIR

MILITARY FAMILY HOUSING - REAL PROPERTY DEFERRED MAINTENANCE AND REPAIR* *(IN MILLIONS OF DOLLARS)*	**2022** *(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)	$ 12,003	$ 260	2.2%
Category Buildings, Structures, and Linear Structures (Heritage Assets)	$ 153	$ 6	3.9%
INACTIVE REAL PROPERTY			
Category Buildings, Structures, and Linear Structures (Excess Facilities or Planned for Replacement)	$ 176	$ 5	2.8%

MILITARY FAMILY HOUSING - REAL PROPERTY DEFERRED MAINTENANCE AND REPAIR* *(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%

**Due to systems limitations, information on Real Property Deferred Maintenance and Repair values in the table reflects available data as of June 30, 2022 and June 30, 2021.*

GENERAL OVERVIEW/POLICY

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

The DAF GF policy related to DM&R is to accomplish essential facility maintenance and repair to keep Real Property assets in a functional and safe condition so they can be used for their designated purpose. Maintenance and repairs include preventive maintenance, replacement of Real Property parts, systems, or components and other activities needed to preserve or maintain the asset in a 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.

REAL PROPERTY DEFERRED MAINTENANCE AND REPAIR

The two key components for determining Real Property DM&R on an annual basis are Plant Replacement Value (PRV) and condition assessment data, as 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

Maintenance and Repair Process and Application

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 repairs projects for Facility Sustainment, Restoration, and Modernization funding. This instruction provides detailed Roles and Responsibilities, Standardized Work Prioritization guidelines. AFI 32-1001, *Civil Engineer Operations* 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.

Organizations at all DAF GF levels are responsible for employing a sustainable asset management approach for maintenance and repairs. The Air Force Civil Engineer Center (AFCEC) assists installations for the identification and justification of facility maintenance and repair projects. Installation Commanders ensure existing facilities are used economically and efficiently, including ensuring maintenance and repair work is accomplished properly and authorized and funded in accordance with all laws, policies, and regulations. Additionally, they ensure project approval authority is within established DAF GF limits, 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 32-1001and 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 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)
3B (Medium)	Scheduled Sustainment Work (Corrective Maintenance)
3C (Low)	Scheduled Sustainment Work (Corrective Maintenance)
4A	Scheduled Enhancement Work
4B	All Other Enhancement Work

REAL PROPERTY DEFERRED MAINTENANCE AND REPAIR

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, or Natural Infrastructure, etc.

Technical Subject Matter Experts (SMEs) determine standardized engineering characteristics, single or multi-disciplinary, that are then assessed to determine and report the condition of given assets. Local and staff-level SMEs apply engineering 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 or Size information from the APSRs;
- PRV Unit Cost, 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 four 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.

REAL PROPERTY DEFERRED MAINTENANCE AND REPAIR

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 Real Property APSR, NexGen IT, throughout the year. In the last quarter of the FY, Real Property APSR data is pulled from NexGen IT. Due to system limitations and reporting schedule requirements, APSR data as of June 30, 2022 was used to prepare the year-end DM&R values. The Real Property Asset Database data is verified and validated to comply with current OSD RPCS changes and Real Property Information Model 10 business rules. AFCEC works directly with the installations to research and resolve any errors identified performed to obtain a DM&R value for each reportable asset and final values are then reviewed for inclusion in the DAF GF DM&R year-end report. Real Property assets for which the DAF GF does not measure and/or report DM&R, as well as the rationale for the exclusion, are summarized 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 a 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 the APSR due to changes in Host Installation reporting guidance contained in The Office of the Under Secretary of Defense Memo, *Real Property Financial Reporting Responsibilities Policy Update*, dated March 2019.	Real Property asset record not yet fully compliant with accountability, and some asset records have not yet been entered in to the APSR.

Not all assets recorded in the APSR are used in the DM&R calculations; therefore, they are not reported as part of the DM&R. The criteria for reportable assets are documented in the Air Force's DM&R supporting documentation and available for review. The Air Force did not include in the DM&R calculations RPUIDs at facilities that were recently impaired by natural disasters.

DEFERRED MAINTENANCE AND REPAIR AMOUNTS FOR FY 2022

Historically the DAF GF's reported DM&R amount has generally increased year-to-year due to under funding and delays in maintenance execution; however, this year, the overall DM&R value decreased by $6.9 billion, from $34.9 billion to $28.0 billion. This overall decrease translated to significant decreases across most reportable categories. The primary drivers are as follows:

- The number of DM&R-reportable assets increased from 70,992 in FY 2021 to 76,290 in FY 2022.
- The number of assets with DM&R values determined from condition assessments increased from 34,656 in FY 2021 to 65,407 in FY 2022. On a percentage basis, DM&R values determined from condition assessments increased from 26.7% in FY 2021 to 46.8% in FY 2022 of the total reportable inventory. SMS and Linear Segmentation data is based on actual condition assessments of the asset and, thus, assets with SMS and Linear Segmentation data on average have a lower calculated DM&R than assets using Life Cycle Forecast methods of DM&R calculation, which generally assumes a constant degradation of asset condition with no major repairs or restorations.

REAL PROPERTY DEFERRED MAINTENANCE AND REPAIR

- The airfield Transportation Networks asset DM&R logic was changed to a Sustainment Unit Cost parametric approach when no SMS condition assessment data was available. Due to their mission essential status, this estimation method more appropriately matches the anticipated level of sustainment. This caused the DM&R total for this type of asset class to decrease due to this methodology having an average lower calculated DM&R value when compared with alternative calculation methods.

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 FY ENDED SEPTEMBER 30, 2022 *(IN MILLIONS OF DOLLARS)*				
MAJOR CATEGORIES	**PRIOR YEAR DEFERRED MAINTENANCE AND REPAIR**	**PB-61 AMOUNTS**	**ADJUSTMENTS**	**TOTALS**
Aircraft	$ 196.9	$ 13,375.9	$ (12,968.8)	$ 407.1
Automotive Equipment	$ 0.0	$ 0.8	$ (0.8)	$ 0.0
Combat Vehicles	$ 0.0	$ 4.0	$ (4.0)	$ 0.0
Construction Equipment	$ 0.0	$ 0.0	$ 0.0	$ 0.0
Electronics and Communications Systems	$ 11.1	$ 1,583.9	$ (1,558.2)	$ 25.7
Missiles	$ 1.9	$ 599.8	$ (599.4)	$ 0.4
Ships	$ 0.0	$ 0.0	$ 0.0	$ 0.0
Ordnance Weapons and Munitions	$ 0.0	$ 54.7	$ (54.7)	$ 0.0
General Purpose Equipment	$ 13.1	$ 120.2	$ (120.2)	$ 0.0
All Other Items Not Identified to Above Categories	$ 0.0	$ 17.6	$ (17.6)	$ 0.0
Total	$ 223.1	$ 15,756.8	$ (15,323.6)	$ 433.2

DEFERRED MAINTENANCE AND REPAIRS FOR FY 2022

Weapon System Sustainment (WSS) is very diverse and encompasses over 109 program groups throughout the world and supports 11 Service Core Functions for the DAF GF. 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 Statement of Federal Financial Accounting Standards (SFFAS) 42, *Deferred Maintenance and Repairs, amending SFFAS 6, 14, 29 and 32*, several different bases 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 be executed 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 FY 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

EQUIPMENT DEFERRED MAINTENANCE AND REPAIR

during the normal scheduled requirements development in support of the next POM, leaving sufficient lead-time for development of capacity 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, the program office adjusts requirements to what will be executed by year-end, 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 PRIOR YEAR AND RELATED EVENTS

The total projected deferred requirements of $433.2 million is due to deferral in Active Duty (AD), Air Force Reserve Command (AFRC), and/or Air National Guard (ANG), of which the most significant are as follows:

- A-10 Thunderbolt - $153.3 million
- C-5 – $45.2 million
- F-15E Strike Eagle – $44.5 million
- F-16 Fighting Falcon – $77.9 million

LAND

The DAF GF maintains General Property, Plant, and Equipment (PP&E) Land and Stewardship Land. Beginning in FY 2022, Statement of Federal Financial Accounting Standard (SFFAS) 59, *Accounting and Reporting of Government Land*, requires the disclosure of General PP&E Land and Stewardship Land as Required Supplementary Information. The DAF GF has ongoing efforts to validate the data available within the related Accountable Property Systems of Record which currently limits the DAF GF's reporting capabilities. The DAF GF will continue to improve its process of reporting General PP&E Land and Stewardship Land in accordance with the disclosure requirements outlined by SFFAS 59 in future years.

General PP&E Land is land and land rights (such as easements) acquired 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 the DAF GF's financial and non-financial management processes and systems.

In FY 2022, the DAF GF classified all reported General PP&E Land and Stewardship Land as Operational. As the data and processes for reporting continue to improve, the DAF GF will update the predominant use of its Land accordingly based on information available.

ESTIMATED ACREAGE BY PREDOMINANT USE *(ACREAGE IN THOUSANDS)*	COMMERCIAL	CONSERVATION AND PRESERVATION	OPERATIONAL	TOTAL ESTIMATED ACREAGE
As of September 30, 2021	0	0	8,350	8,350
As of September 30, 2022	0	0	8,225	8,225
Held for Disposal or Exchange				
As of September 30, 2021	0	0	0	0
As of September 30, 2022	0	0	0	0

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

November 7, 2022

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 2022 and FY 2021 (Project No. D2022-D000FT-0073.000, Report No. DODIG-2023-017)

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 years ended September 30, 2022 and 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'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 2022, Volume 1, Volume 2 (Updated, June 2022), and Volume 3 (Updated, June 2022). 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 2022 and 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's internal controls over financial reporting.* Specifically, EY concluded that the DAF did not:

- establish entity level controls that provide a basis for effective financial reporting;
- 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;
- ensure the effective design and operation of financial information systems;
- develop adequate accounting policies, procedures, or internal controls over Accounts Payable, expenses, and contract financing payments;
- execute internal controls over the Fund Balance With Treasury reconciliation process consistently and develop effective controls over the Treasury reporting process;
- develop accounting policies, procedures, and internal controls to value and reconcile property data and Military Equipment;
- establish accounting policies, procedures, and internal controls to identify, value, and report all other General Equipment;
- develop sufficient accounting policies, procedures, and internal controls to value and report an accurate Operating Materials and Supplies balance;
- oversee, monitor, and accurately report property and materials managed and held by contractors and other defense organizations; or
- develop accounting policies, procedures, and internal controls to report complete and accurate Real Property.

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

* 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.

instances in which the DAF'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.

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 2022 and 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'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 7, 2022 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

Building a better working world

Ernst & Young LLP
1775 Tysons Boulevard
Tysons, VA 22102

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

Report of Independent Auditors

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

Report on the Audit of the Financial Statements

Disclaimer of Opinion

We were engaged to audit the financial statements of the Department of the Air Force General Fund (the DAF GF), which comprise the consolidated balance sheets as of September 30, 2022 and 2021, and the related consolidated statements of net cost and changes in net position and combined statements of budgetary resources for the years then ended, and the related notes (collectively referred to as the "financial statements").

We do not express an opinion on the accompanying financial statements of the DAF GF. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

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 of these matters, we were unable to determine whether any adjustments might have been found necessary in respect of recorded or unrecorded balances and the elements making up the DAF GF's financial statements as of and for the years ended September 30, 2022 and 2021.

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.

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 DAF GF's financial statements as of and for the years ended September 30, 2022 and 2021 is not currently determinable by the DAF GF and could be material.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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 Responsibilities for the Audit of the Financial Statements

Our responsibility is to conduct an audit of the DAF GF's financial statements in accordance with auditing standards generally accepted in the United States of America, in accordance with the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*), and in accordance with the provisions of Office of Management and Budget Bulletin No. 22-01, *Audit Requirements for Federal Financial Statements*, and to issue an auditor's report. However, because of the matters described in the Basis for Disclaimer of Opinion section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

We are required to be independent of the DAF GF and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and Required Supplementary Information, as listed in the Table of Contents, be presented to supplement the financial statements. Such information is the responsibility of management and, 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 section of our report. We do not express an opinion or provide any assurance on the information.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we also have issued our reports dated November 7, 2022 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 and grant

Building a better working world

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 audit performed in accordance with *Government Auditing Standards* in considering the DAF GF's internal control over financial reporting and compliance.

Ernst + Young LLP

November 7, 2022

Building a better working world

Ernst & Young LLP
1775 Tysons Boulevard
Tysons, VA 22102

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

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 (*Government Auditing Standards*) and the provisions of Office of Management and Budget (OMB) Bulletin No. 22-01, *Audit Requirements for Federal Financial Statements*, the financial statements of the Department of the Air Force General Fund (the DAF GF), which comprise the consolidated balance sheet as of September 30, 2022, 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 (collectively referred to as the "financial statements") and have issued our report thereon dated November 7, 2022. Our report disclaims an opinion on the financial statements because 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.

Report on 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 and in more detail in Appendix A, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

EY
Building a better working world

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.

<u>Material Weaknesses</u>

I. Entity Level Controls (ELCs) – Establishing 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, control activities, information and communication and monitoring 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

Building a better working world

a fully integrated system prevents the DAF GF's management from obtaining timely, complete, 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

III. 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:

IT General Controls

- Access controls
- Configuration management/change controls
- Segregation of duties
- Security management

Application Controls

- Interface controls
- Business process controls

IV. 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, contract financing payments, expenses, cash disbursement and obligation processes
- Insufficient controls over the accounting for joint procurement programs and shared access vendor contracts

Building a better working world

V. 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 (CCAS-AF) as part of its process to reconcile the general ledger (GL) to the U.S. Treasury, as well as track open variances. In fiscal year 2022 (FY22), the DAF GF made significant progress in improving the control environment around FBwT, including oversight over the CCAS-AF reconciliation and the monitoring/reduction of unmatched transactions. The DAF GF implemented oversight and monitoring controls over the CCAS-AF reconciliation, including a substantive reperformance of the reconciliation control. The DAF GF's reperformance control materially substantiated the reconciliation performed by DFAS. While the control environment surrounding the CCAS-AF reconciliation was not effective throughout all of FY22, the reconciliation process was operating effectively as of year-end.

As part of the FBwT control environment, the DAF relies on DFAS, as a service provider, for balancing disbursing/receipt activity with the U.S. Treasury on the behalf of DAF GF. Starting in April 2022, DFAS updated its process for directly reporting Mechanization of Contract Administration Services (MOCAS) transactions to the U.S. Treasury and to the DAF GF accounting records to 1) report daily and 2) implement Standardized Line of Accounting (SLOA) compliance by reporting transactions through Defense Cash Accountability System (DCAS). While this change in process was aimed at driving efficiency and improving recordkeeping, it did not appear the controls framework was fully developed, documented, and executed consistently with evidence of review and approval being maintained. As a result, these controls were deemed ineffective as of year-end.

We identified the following:

- Lack of effective controls around the reporting of MOCAS disbursing activity to the U.S. Treasury
- Lack of comprehensive evaluation of service organization control (SOC) reports for all applications impacting the FBwT reporting process

VI. Military Equipment (ME) – ME is a sub-set of General Equipment and includes several categories of assets including aircraft and satellites. In FY22, the DAF GF continued to make notable updates and enhancements to the design and implementation of key financial reporting controls.

Although measurable progress was made, we identified the following:

- Continued refinement over documentation of accounting policies, procedures and controls is needed
- Process and related controls to value military equipment construction in progress (CIP) needs improvement

- Additional review and monitoring of accountable property system of record (APSR) data is needed
- Enhanced controls over ME rollforwards are needed

VII. Other General Equipment (GE-Other) – GE-Other includes equipment such as support equipment, vehicles, special tooling, special test equipment and information technology hardware. 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 GE-Other
- Insufficient controls over the valuation and financial reporting of GE-Other

VIII. 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

IX. 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. Generally, the inventory held by others is reported as OM&S and equipment is reported as general equipment in the financial statements. We found that in many of these instances the DAF GF is heavily reliant upon the other party to provide activity and balances related to those materials.

We identified the following:
- Insufficient oversight and monitoring of OM&S managed by Army and the Defense Logistics Agency (DLA)
- Insufficient oversight and monitoring of government furnished property and contractor-acquired property
- Insufficient oversight and monitoring of the accounting for Joint Strike Fighter (JSF) spare parts and equipment

EY
Building a better working world

X. 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 APSR data
- Further procedures are needed to identify the complete population of real property assets
- Insufficient procedures in place to monitor, value and report real property CIP

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.

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 completeness and accuracy of the entity's recorded liability estimates.

We identified the following:
- Continued refinement over documentation of accounting policies, procedures and controls is needed
- 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:
- Lack of sufficient documentation of accounting policies, procedures and controls

- Insufficient controls over financial reporting of reimbursable agreements
- Lack of sufficient reviews over reimbursable activity

DAF GF's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the DAF GF's response to the findings identified in our engagement and described in the accompanying letter (Management Response Letter as listed in the Table of Contents) dated November 7, 2022. The DAF GF's response was not subjected to the other auditing procedures applied in the engagement to audit the financial statements and, accordingly, we express no opinion on the response.

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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 7, 2022 on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that 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 compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the DAF GF's compliance.

Ernst & Young LLP

November 7, 2022

Building a better working world

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 Entity Level Controls (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 DAF GF has maintained governance activities to fulfill the responsibilities of the Risk Management Council (RMC), the Senior Management Council (SMC), and the Executive Steering Committee (ESC) (functioning as its Senior Assessment Team) as described in OMB Circular A-123.

In addition, organizations must integrate its efforts to meet the requirements of the Federal Managers' Financial Integrity Act (FMFIA) of 1982 with the Enterprise Risk Management requirements 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, reporting, accounting, and auditing. It must support the effectiveness and the integrity of every step of the process and provide continual feedback to management.

The DAF GF has cross-cutting financial, information technology (IT), and operational risks that impact the entity's ability to achieve and sustain an effective internal control environment. At the enterprise-level, the DAF GF has not developed an integrated prioritization for evaluating and remediating these risks in concert with its roadmap towards becoming auditable. Furthermore, limitations on time and resources creates further disparities in achieving those objectives. Without immediate action and sufficient attention to these matters, the DAF GF will be challenged to remediate existing material weaknesses timely.

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

Building a better working world

organization, including major commands (MAJCOMs), field commands (FIELDCOMs) 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.

We identified the following conditions that indicate 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**—The DAF GF continued to evolve its governance activities as part of its OMB Circular A-123 and Enterprise Risk Management programs. However, it is not entirely apparent, or documented, how the 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, the 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, the DAF GF has not assessed the impact of the United States Space Force (USSF) on the entity'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:

- **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 training/education, and enterprise-wide monitoring program for all application consolidations and data migration efforts has not been formalized and fully implemented.
- **Inconsistent integration and collaboration between functional organizations throughout the system consolidation lifecycle leading to a lack of a holistic understanding of risks**

Building a better working world

and mitigation strategies across the enterprise— 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), the 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. However, 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. Internal controls and specifically 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.

During the current year, the DAF GF leadership have established a CAP and identified completion of precursory milestones. For example, the DAF GF has performed a review and comparison of the DAF BMA Enterprise Strategy to the SAF/CN (Office of the Chief Information Officer) Draft IT Strategy, aligning the two documents and their direction. In addition, the DAF BMA is conducting an Application Rationalization in order to identify, assess and track the retirement/decommission of legacy systems across the DAF BMA. However, future remediation activities by the DAF GF remain necessary.

(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 recognize that the DAF GF management developed an enterprise-wide Financial Management (FM) Strategic Plan that encompasses a renewed focus to develop and retain a highly-skilled FM Team and implement an FM Human Capital Strategy. However, 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:

Building a better working world

- 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 accounting guidance issued by the Federal Accounting Standards Advisory Board (FASAB). The effect on the financial statement amounts involved is not currently determinable by the DAF GF and could be material.

Enhanced financial statement review procedures are needed

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:

- Supporting documentation that did not adequately support amounts included in the disclosures or could not be provided in a timely manner.
- Inability to fully understand and explain major changes in balances or activity.
- Noncompliance with the requirements of Circular A-136, *Financial Reporting Requirements*, such as:
    - Lack of complete and accurate disclosures.
    - Amounts reported in its Statement of Net Cost are presented by major appropriation and not by major organization and programs as required.

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.

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 FM Portfolio.
    - 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.
    - 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 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

Building a better working world

  - 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.
  - Bridge potential workforce requirement gaps through enhanced documentation and knowledge management practices by creating opportunities for knowledge sharing that help transfer knowledge up, down, and across the organization.
- Lack of sufficient and/or sufficiently trained resources:
  - Continue to develop and enhance core and specialized training to further enhance competencies in internal control concepts and accounting topics.
  - 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 accounting guidance and technical updates.
  - Continue to review OMB Circular A-136 requirements to ensure updated guidance is evaluated and incorporated in a timely manner.
  - 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 Statement 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

A member firm of Ernst & Young Global Limited

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, 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 and remediate existing material weaknesses.

The following deficiencies aggregated into this material weakness:

(a) Inability to validate the completeness of transactions underlying the financial statements

The DAF GF's system environment, which includes legacy systems and more modernized systems relies on both manual re-entry of data into multiple systems and complex system interfaces that are not fully reconciled. This limits the entity's 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.

Inability to rely on completeness and accuracy of data utilized in key financial controls

General Accounting & Finance System Base Level (GAFS-BL or GAFS-BQ) is a system utilized by the DAF GF to process, summarize, and report financial data on a budgetary basis of accounting (e.g., authorizations, commitments, obligations, expenditures). GAFS-BL data interfaces with GAFS-R and it is within GAFS-R that this data is aligned to applicable general ledger accounts that comprise the financial statements. The DAF GF also utilizes the Commander's Resource Integration System (CRIS). CRIS provides a set of queries, analysis, and reporting tools used by base-level and financial oversight personnel to access data from multiple legacy systems, including GAFS-BL. Data obtained by CRIS is used regularly in the execution of key financial control activities impacting the financial statements.

The DAF GF is unable to evidence that amounts queried from GAFS-BL via CRIS and utilized in the execution of key controls throughout business processes are representative of the complete and accurate set of transactions ultimately reported in the general ledger (i.e., GAFS-R). While the DAF GF has made progress in identifying and resolving certain variances in specific business processes, the entity is unable to fully reconcile GAFS-BL to GAFS-R. Additionally there are not sufficient interface controls between GAFS-BL and CRIS. As a result, DAF GF is currently unable to support the operating effectiveness of any control utilizing GAFS-BL data queried via CRIS.

Lack of sufficient or accurate data elements to enable effective data transfer and reconciliation

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-BL or 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 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 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 the 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.
- **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.

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

Building a better working world

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.

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 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 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 legacy system automatically 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

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. 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.

In addition to those DEAMS items identified in (a) and (b) above, we identified a number of other conditions indicating the lack of sufficient system configuration and related controls commensurate with expectations for a modern financial system. For example, DEAMS:

- Lacks sufficient edit checks preventing clearly erroneous transactions from entering the universe of transactions.
- Cannot appropriately post progress payments due to system limitations.
- Allows for the DEAMS trial balance and related activity to be out of balance

These conditions all result in the need for additional manual workarounds or reconciliations to prevent, or detect and correct, errors.

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 the 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.
    - 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, the 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.

Building a better working world

  - Consider implementing system changes to DEAMS to post transactions through the normal course of business whenever possible. As part of this process, where applicable, the 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:
  - In collaboration with all relevant parties, analyze the system limitations described above and other known instances:
    - 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.

III. 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:

- IT General Controls
  - Access Controls (AC): Controls provide reasonable assurance that the access to system resources is consistent with job duties and restricted to authorized individuals.

Building a better working world

- 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.
- Security Management (SM): Controls provide reasonable assurance that overarching system risk management policies and procedures are in place.

- Application Controls
    - 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.
    - Business Process (BP): Controls provide reasonable assurance that transactions and data are complete, accurate, valid and confidential during application processing.

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 DAF GF continues to make progress in remediating prior year IT findings. As the DAF GF continues to modernize IT applications, it is critical to integrate information systems controls as well as cross functional requirements during the implementation to prevent any weaknesses in the DAF GF IT controls environment post implementation. The DAF GF also needs to evaluate the impact of existing IT deficiencies on future material weakness downgrade efforts.

For example, insufficient consideration of the impact of relevant IT system findings and prior year management risk acceptance conclusions (e.g., lack of sufficient controls over relevant interfaces) continues to impact the DAF GF's ability to utilize and rely on data extracted and used in the execution of financial control activities. The DAF GF's leveraging of the lessons learned from successful remediations of IT general and application controls deficiencies across financially significant applications is critical as existing investments are made by the DAF GF and for overall sustainment of an effective IT control environment.

For fiscal year 2022 (FY22), all of the DAF GF's in-scope financial applications had ineffective IT general controls. Further, the majority of audit findings identified in the current year across all applications are related to access controls/segregation of duties, change management and interfaces/business processes deficiencies.

Ineffective IT general controls will continue to impact any of the DAF GF's material weakness downgrade plans in future years. For example, the lack of adequate IT general controls around micro-applications, ad-hoc reporting tools, etc., used for reconciliation of financially significant data, increases the organization's risks related to its ability to validate the completeness and accuracy of data utilized in the execution of its financial control activities. In addition, insufficient controls for ensuring completeness and accuracy of information produced by the entity also threaten management's efforts to address material weaknesses. These findings relate to incomplete data used for internal management review controls related to access, change management and segregation of duties as well as inaccurate data used for financial reporting and reconciliations.

Management's inability to leverage critical existing functionalities available within financial applications is leading to the DAF GF not realizing the full return on investment (RoI) already made in modernizing its IT infrastructure coupled with an inability to rely on application controls where most financial transaction processing efficiencies could be gained. As a result, this inhibits the DAF GF's ability to enhance the timeliness, availability and accuracy of information, as produced by IT systems, without manual intervention. For example, management has not fully leveraged:

- Additional edit checks and/or controls embedded within an application to prevent processing errors rather than relying primarily on manual detective and workaround controls.
- Existing logging capabilities to produce and retain complete and accurate audit trails of changes to production code, application configurations, data directly modified by database accounts and key reports.
- Knowledge of how information produced by the entity is generated from source systems to validate and document the completeness and accuracy of data used in management review controls and reporting.

(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.

Building a better working world

- 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.
- Monitoring of system activities performed by privileged users 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.

(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 have access to make modifications directly to the production environment, increasing the risk of unauthorized changes.
- System teams are unable to produce complete and accurate logs of code files implemented to the production environment.
- Software changes are not properly reviewed, approved, tested and documented.
- Software changes to production environments are not being monitored to verify their appropriateness.
- Changes to system code, key application configurations (settings modifiable by application users), databases, and key reports 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.

EY
Building a better working world

- 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.

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.
- Temporary access assignments were used to alternate between conflicting application roles, increasing the risk of circumventing SoD controls.

(d) 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;

EY
Building a better working world

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.
- System teams are not appropriately monitoring execution of controls managed by service organizations (e.g., DISA, Cloud One). For example, assessments of complementary user entity controls (CUECs) and inherited controls in service organization control (SOC) reports were not performed, and for service organizations that do not have a SOC report, sufficient monitoring controls have not been consistently established.

(e) 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.

Building a better working world

(f) Business Process Controls

Business process controls relate to the completeness, accuracy, validity and confidentiality of data within application processing. Such controls include transaction inputs, processing and outputs, as well as master file data setup and maintenance. We identified that Business Process configurations and their related posting logic are not monitored for compliance to applicable federal policies.

Recommendations:

The DAF GF should continue to prioritize remediation of IT findings based on severity of the finding and the impact on priority financial business processes while continuing to integrate the DAF GF's IT modernization plan and timelines as part of this prioritization effort.

Best practices learned from successful remediation of CAPs should be shared across the organization and implemented for relevant CAPs for other applications especially during system modernization efforts. This will aid in the prevention of similar findings occurring across the enterprise.

Establish further integration between business process and IT system owners to allow for timely communication and assessment of system deficiencies for systems utilized in the execution of key financial reporting controls.

The DAF GF should implement controls to address deficiencies in access controls, configuration management, segregation of duties, security management, interface and business process 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.
    - Document and retain adequate evidence of change requests, testing, and approvals.
    - Monitor the application and database(s) for potentially unauthorized changes.

EY
Building a better working world

  - Implement controls verifying the completeness and accuracy of management reports.
  - Restrict access to application source code to only authorized users.
  - Implement or leverage existing logging capabilities to produce and retain complete and accurate audit trails of changes to production code, application configurations, data directly modified by database accounts and key reports.
- 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. For those service organizations where a SOC report is not performed, implement and conduct appropriate oversight and monitoring over the execution of inherited controls.
- Interface controls / business process master data setup and maintenance:
  - 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.
  - Monitor transaction processing logic to verify compliance with policies, procedures, laws and regulations
- Data completeness and accuracy – applicable to all control areas:
  - Perform and retain documentation of procedures to verify the completeness and accuracy of data used for management review controls and reporting.

IV. 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 business processes, and its development and retention of adequate documentation of its acquisition, logistics, and accounting processes, and the completeness and accuracy of data from asset procurement through receipt, invoicing and payment. For example, this includes areas such as accounts payable (AP), contract financing payments (CFP), expenses,

Building a better working world

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, Mechanization of Contract Administration Services (MOCAS), and Military Standard Requisitioning & Issue Procedures (MILSTRIP).

As a result, the complete end-to-end process flows, procedures and key controls are not accurately and/or sufficiently assessed and documented. The DAF GF's process cycle memorandums (PCMs) lack policies and procedures to sufficiently identify the financial reporting risks and corresponding controls. This includes, but is not limited to, an insufficient assessment of relevant IT applications and tools (including interface and application controls), insufficient oversight and monitoring of service providers, timely recording of transactions as well as the lack of sufficiently designed and executed controls over the completeness and accuracy of data used in the execution of key controls. The PCMs also do not reference or incorporate cross-cutting controls and processes that are significant, but documented as part of other processes (e.g., FBwT, financial reporting).

(b) Inadequate controls over AP, CFP, expenses, cash disbursement and obligation processes

The DAF GF lacks sufficient oversight and monitoring controls to detect and correct conditions that could lead to misstatements in the financial statements. As discussed in the "Integration and Reconciliation of Financial Systems" material weakness, controls have not been fully implemented to reconcile balances in relevant feeder systems to the financial statements, the entity is unable to categorize data from its universe of transactions into applicable categories or relevant business processes and the entity's posting logic in key financial systems is not always in accordance with the TFM. As a result of these challenges, the DAF GF has not fully designed relevant account reconciliations (e.g., AP, advances and prepayments, outstanding CFP), account rollforwards, or other analyses. Therefore, the entity is also unable to execute sufficient oversight and monitoring procedures over conditions such as:

- Transactions recorded in the incorrect period
- Dormant obligations or stale payables
- Untimely recording of obligations
- Unmatched disbursements

The lack of or inadequate controls over AP, CFP, expenses, cash disbursement and obligations processes have had a downstream impact on other processes, particularly FBwT and Military Equipment, leading to significant efforts to design mitigating controls in those areas that would not otherwise have been necessary. Controls designed in other areas have identified certain root

Building a better working world

causes that also indicate the need for enhanced preventative controls or other system changes that may be necessary to better support budget execution and monitoring.

(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 the DAF GF expenditures and the DAF GF actual specific allocations of contract cost, which cannot be calculated. Additionally, due to a lack of 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.

Recommendations:

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

- Identify the risks that are posed to the financial statement line items, relevant assertions and general ledger accounts for these cycles. Based on the risks, the DAF GF should perform the following:
  - Document the process flow of transactions, including the IT systems and applications, that generate those risks and the process owners (including within the DAF GF and third-parties) responsible for assessing the risks.
  - Identify and document the corresponding key controls (both prevent and detect and correct controls) that address those risks to adequately account for and report in the appropriate financial statement line item. For those areas primarily handled by third parties, develop appropriate the DAF GF monitoring controls over the procedures and controls performed by the third-party service organizations.
- Evaluate systemic capability and integration necessary across acquisition, logistics, and financial systems to better support achievement of operational and financial objectives.
- Understand the set of data elements and business rules utilized to produce a universe of transactions for each P2P transaction-type and assess whether feeder systems (funding, contract writing, entitlement, and disbursements) have sufficient data traceability for all procurement actions. This includes tracking of the committed funds, obligation funding and execution, such as receipt/ acceptance and disbursement data.

- Develop, document and implement reconciliations, rollforward procedures or other analyses supporting significant general ledger accounts such as: accounts payable, advances and prepayments/outstanding contract financing payments).
- Develop, design, and implement review controls for each AU sub-process (e.g., MOCAS, MILSTRIP, Vendor Pay Contracts) at an appropriately disaggregated level to identify individual root causes of unmatched disbursements, aged transactions, and abnormal balances relevant to financial reporting and fiscal compliance objectives. This analysis should include the defining of appropriate thresholds, adequate evidence retained to support the review performed, and notations or explanations from the reviewer to support any judgment applied.
- Develop policies and define control owners and responsibilities by organization, to include Base and MAJCOM/FIELDCOM levels, Air Force Accounting and Finance Office (AFAFO), Accounting Operations Center (AOC) and any other relevant organizations, including those responsible for research, correction and root cause analysis.
- Develop, document, and implement the methodologies, assumptions, policies, and procedures to identify and record period end accruals, including retrospective reviews and analysis as appropriate.
- Implement the following due to insufficient controls over the accounting for joint procurement programs and shared access vendor contracts:
  - The DAF GF should identify a complete and accurate population of all 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 and are recorded in accordance with US GAAP.

V. FUND BALANCE WITH TREASURY

FBwT represents the aggregate amount of funds in the DAF GF's accounts with the U.S. Treasury. The DAF GF, in conjunction with DFAS, uses the Consolidated Cash Accountability System (CCAS-AF) as part of its process to reconcile the general ledger (GL) to the U.S. Treasury, as well as track open variances. In FY22, the DAF GF made significant progress in improving the control environment around FBwT, including oversight over the CCAS-AF reconciliation and the monitoring/reduction of unmatched transactions. The DAF GF implemented oversight and monitoring controls over the CCAS-AF reconciliation, including a substantive reperformance of the reconciliation control. The DAF GF's reperformance control materially substantiated the reconciliation performed by DFAS. While the control environment surrounding the CCAS-AF reconciliation was not effective throughout all of FY22, the reconciliation process was operating effectively as of year-end.

As part of the FBwT control environment, the DAF GF relies on DFAS, as a service provider, for balancing disbursing/receipt activity with the U.S. Treasury on the behalf of DAF GF. Starting in April 2022, DFAS updated its process for directly reporting Mechanization of Contract Administration Services (MOCAS) transactions to U.S. Treasury and to the DAF GF accounting records to 1) report daily and 2) implement Standardized Line of Accounting (SLOA) compliance by reporting transactions through Defense Cash Accountability System (DCAS). While this change in process was aimed at driving efficiency and improving recordkeeping, it did not appear the controls framework was fully developed, documented, and executed consistently with evidence of review and approval being maintained. As a result, these controls were deemed ineffective as of year-end.

The following deficiencies aggregated into this material weakness:

(a) Lack of effective controls around the reporting of MOCAS disbursing activity to the U.S. Treasury

During our testing of the daily MOCAS Treasury reporting control process, we determined controls to be ineffective due to inconsistent execution and/or lack of documentation to support proper review and approval had occurred. We also noted the DAF GF did not obtain a sufficient understanding, oversight or risk assessment related to the daily reporting process which was implemented in FY22 in the PCM or Control Evaluation Matrix for this process.

(b) Lack of comprehensive evaluation of SOC reports for all applications impacting the FBwT reporting process

During our testing of various processes and related controls, it did not appear that a comprehensive evaluation had been performed to identify the universe of IT systems and tools impacting the FBwT process. This includes the lack of a sufficient review plan to timely evaluate any related SOC reports and determine necessary actions, if any, to address any identified issues.

Recommendations:

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

- For the Treasury daily reporting process involving MOCAS, fully document the end-to-end process and evaluate the impact of the various IT systems or tools utilized in the process. Develop, implement and consistently execute controls (including documentation and retention of review evidence) as considered appropriate to ensure MOCAS activity is appropriately reported and processed by the Treasury on a daily or, if considered more practical, on a monthly basis.
- Implement a process to identify and timely update the universe of IT systems and tools impacting the FBwT process and develop a timely review process with adequate evidence to support the analysis performed, judgment applied and conclusions reached over SOC reports identified as relevant to the FBwT process.

VI. 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, and mine-resistant ambush protected vehicles (MRAPs). The DAF GF uses the Reliability and Maintainability Information System (REMIS) as the accountable property system of record (APSR) for aerospace vehicles and MRAPs, while Reliability, Availability, Maintainability for Pods (RAMPOD) is the APSR for aircraft pods.

In FY22, the DAF GF continued to make notable updates and enhancements to the design and implementation of key financial reporting controls. Beyond standard acquire-to-retire processes, the entity put particular emphasis on designing and implementing controls related to ME account rollforwards, ongoing APSR data reviews, and the valuation of construction in progress (CIP). DAF continued to refine financial management review processes, enhanced rollforward analytics, and increased collaboration with respective functional organizations to help remediate period-end outstanding anomalies or variances.

Although measurable progress was made, the following deficiencies remain outstanding and aggregated into this material weakness:

(a) Continued refinement over documentation of accounting policies, procedures and controls is needed

Each of the ME asset classes have individual end-to-end business processes, risks, and related control considerations. As noted above, the DAF GF designed and implemented a number of key financial reporting controls throughout the end-to-end process during FY22, which were further supplemented by standard operating procedures (SOPs) and other control related documentation. The Military Equipment PCMs and SOPs as currently documented require further enhancement and assessment to reflect the updates and evolution of the control environment to ensure the consolidated control documentation sufficiently addresses all applicable risks of material misstatement throughout the end-to-end business process.

(b) Process and related controls to value military equipment CIP needs improvement

The DAF GF created the CIP Military Equipment Valuation (MEV) models to account for the entity's acquisition of ME assets, recognizing the full costs, direct and indirect, incurred to bring the asset to a form and location suitable for its use in accordance with SFFAS 6, *Accounting for Property, Plant and Equipment* (SFFAS 6). Each Program Office is responsible for the updating of data and the ongoing maintenance of the complex manual models. This includes an assessment of budgetary and contract data from GAFS-BL, inspection of key contractual or obligation source documents, as well as significant assumptions driving financial reporting activity on a quarterly basis. These significant assumptions include, but are not limited to, percentage complete, production schedule timing, and useful life. At the end of each quarter, SAF/FMFA records accounting entries for CIP activity as reflected within the MEV models.

The DAF GF is unable to fully demonstrate completeness of its CIP population. While the DAF GF has developed MEV models, there are limited formal processes and controls established to evidence completeness on a recurring basis across aircraft, aircraft modifications and satellites. Additionally, data within the MEV models is derived from GAFS-BL, as queried using CRIS. As discussed in the "Integration and Reconciliation of Financial Systems" material weakness, the DAF GF is unable to evidence that amounts queried from GAFS-BL via CRIS and utilized in the execution of key controls throughout DAF business processes are representative of the complete and accurate set of transactions ultimately reported in the general ledger (i.e., GAFS-R). Until organization-wide controls are in place for system reconciliations to the general ledger, DAF GF should continue its ongoing efforts to reconcile GAFS-BL and GAFS-R for ME CIP related transactions.

Aircraft and Aircraft Modifications

Enhanced controls over the MEV models are needed at the Program Office level, as well as by the Air Force Life Cycle Management Center (AFLCMC) in an oversight capacity. Program Offices are not consistently documenting and evidencing processes and procedures performed to update key components of the MEV models, including key analyses, reports, meetings, and other applicable supporting documents. This limits the DAF GF's ability to support and analyze key assumptions and activity directly impacting amounts recorded to CIP. Similarly, AFLCMC does not currently have an effectively designed and implemented independent oversight function to assess the reasonableness of key assumptions and ensure consistency, as appropriate, in Program Office execution of the models. The DAF GF also has not validated the reasonableness of the entity's current policy for the useful life for aircraft modifications when not based on engineering estimates.

While the AFLCMC manages production for the majority of aircraft platforms, the F-35 Joint Strike Fighter Weapon Program (JSF or F-35) is instead managed by a joint program office. As such, the ongoing execution and management of the valuation process to account for program CIP is managed by DAF GF representatives embedded within the F-35 Joint Program Office (JPO). The JPO is not consistently documenting and evidencing processes and procedures performed to update key components of the F-35 MEV model. Additionally, the DAF GF does not currently have an effectively designed and implemented independent oversight function to assess the timely execution of the model updates by the JPO, assess the reasonableness of significant and key assumptions and ensure consistency in execution of the models with other aircraft programs.

Satellites

While the DAF GF developed a model to accumulate and record related Satellite CIP, the lack of a formalized policy to substantiate model inputs has led to Program Offices not consistently documenting and evidencing processes and procedures performed to update key components of the models. As a result, the Space Systems Command (SSC) Chief Financial Officer (CFO) also has not consistently documented and evidenced their review of the reasonableness of key assumptions and consistency in Program Office execution of the models, as appropriate.

(c) Additional review and monitoring of APSR data is needed

Aircraft and Satellites

The DAF GF has continued to develop and refine its REMIS data quality dashboard to review and track changes made to the APSR monthly. Program Offices are responsible for valuing ME asset acquisitions and modifications, verifying that key supporting documents (KSDs) support the valuation and useful life of ME assets, and related inputs in REMIS.

While SAF/FMFA has designed a detect control over key inputs and anomalous activity within REMIS, as evidenced within the monthly data quality workbook, further control design and implementation at functional organization and system levels is needed to increase the entity's ability to research and remediate flagged activities in a timely manner, as well as reasonably prevent changes requiring subsequent correction. This would include additional oversight and monitoring by AFLCMC and SSC, as well as DAF GF oversight of the JPO. EY has identified the following:

- Lack of formalized AFLCMC, SSC and JPO review processes over the timeliness and reasonableness of inputs of or changes to key inputs (i.e., acquisition cost, useful life, date placed in service, etc.) for assets within REMIS.
- Lack of formalized procedures within AFLCMC, SSC and the JPO to research, document, and, if applicable, correct, anomalies identified by SAF/FMFA's periodic review in a timely manner.

Aircraft Pods

The DAF GF has not designed and implemented sufficient preventative controls over key inputs or changes to key inputs for pod assets within RAMPOD. Additionally, data quality dashboards designed to detect and, if necessary, correct anomalous activity within RAMPOD have not been fully implemented.

(d) Enhanced controls over ME rollforwards are needed

During FY22, the DAF GF continued to enhance their account rollforwards used to monitor asset balances and activity period-over-period. These rollforwards address critical general ledger

EY
Building a better working world

accounts including CIP, equipment and accumulated depreciation. While the entity has designed and implemented the quarterly rollforward control, limitations in the availability of timely financial data (e.g., trial balances (TBs) and detail data) from financial reporting and compilation processes inhibit the entity from completing the rollforward and reconciliation of ME activity and balances to the financial statements prior to the finalization of quarterly and year-end financial reporting.

Additionally, the current rollforward does not provide sufficient detail or insight into the RAMPOD asset posture and related transactional activity to fully accomplish the applicable financial reporting objectives.

Recommendations:

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

- Reassess the significant risks that are posed to the financial statement line items, relevant assertions, and general ledger accounts that comprise the Military Equipment cycle as a result of the significant current year remediation efforts impacting the control environment. Based on the risks, DAF should perform the following:
    - Re-evaluate the process flow of transactions that generate those risks and the process owners responsible for assessing the risks.
    - Correlate the corresponding key controls that address those risks to adequately account and report the financial statement line item.
    - For existing controls, consider whether further enhancements are needed to the design to compensate for the evolution and complexity of the process resulting from ongoing remediation efforts.
    - Further consider the impact of both known findings/exceptions.
- Define the appropriate oversight function within AFLCMC/SSC and further design and implement a periodic monitoring control to:
    - Assess consistency and appropriateness of the supporting documentation and data utilized and retained across the Program Offices to validate a complete listing of aircraft, aircraft modifications and satellites requiring capitalization.
    - Verify that all active programs meeting the capitalization thresholds are appropriately captured in the analysis.
    - Evaluate the reasonableness of the information and data compiled by Program Offices based upon CIP activity recorded to-date within an applicable program.
- Develop and implement compensating controls or procedures to reasonably address the risk of the completeness and accuracy of the GAFS-BL data as queried via CRIS and utilized within the MEV models.

Building a better working world

- Develop and communicate a policy to clearly delineate between the Program Office and SSC CFO/AFLCMC AQ roles and responsibilities over the MEV models.
- Develop and communicate a policy to clearly delineate between the JPO and DAF GF roles and responsibilities over the F-35 MEV models. Establish a centralized independent function or control owner within the DAF GF that will be responsible for the oversight, governance, and review of the JPO execution of the F-35 MEV Models.
- Continue to enhance and communicate formalized review and documentation requirements for Program Office personnel to evidence procedures performed over the MEV models to:
  - Support key assumptions within, including those obtained from third-parties.
  - Evaluate the financial statement impact of activities (e.g., known contract modifications, deobligations) that may require more timely updates to the models.
- Design and implement a control to document and evidence procedures performed by the established AFLCMC/SSC centralized oversight function noted above to review and assess the consistency of key data and assumptions within the MEV models, including the evaluation of the complete population of programs subject to capitalization.
- Develop and provide a policy for modifications based on relevant guidance for estimation of useful life. Considerations should include the unique nature of various modifications on an aircraft (e.g., overhaul of aircraft vs new equipment being added).
- Define the appropriate oversight function within AFLCMC, SSC, and the JPO and further design and implement preventative periodic monitoring controls over Program Offices to:
  - Ensure the timely entry of REMIS asset records and/or changes to key inputs.
  - Review the reasonableness and supportability behind the changes to key asset inputs prior to entry.
- Determine the appropriate internal DAF GF oversight mechanism to evaluate the reasonableness and consistency of JPO activity.
- As the DAF GF continues to refine the design and implementation of preventative controls over inputs to REMIS, consider evaluating the use of automated system changes or edit checks to aid in preventing potential anomalies from occurring.
- Design and implement review controls over key inputs for all RAMPOD assets to allow for timely identification, coordination and, if necessary, correction of errors by Program Offices.
- Continue to work with DFAS to further assess efficiencies to be gained in reporting timelines in order to support the development of sustainable processes. Design and implement compensating controls to reasonably reduce the risk that variances impacting the ME amounts reported in the financial statements are not able to be detected and corrected prior to period end.
- Further considerations should be given to the implementation of automated processes to reduce or eliminate the need for significant manual compilation and linkage of financial data.
- Continue efforts to integrate asset postures and analysis of RAMPOD periodic activities into existing rollforward processes and evaluate potential enhancements to existing management review controls to address additional risks and assumptions.

EY
Building a better working world

VII. OTHER GENERAL EQUIPMENT

The DAF GF's Other General Equipment (GE-Other) includes support equipment, vehicles, special tooling, special test equipment and information technology hardware.

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 GE-Other are not accurately and/or sufficiently assessed and documented. This includes, but is not limited to, an insufficient assessment of relevant IT applications and tools (e.g., Defense Property Accountability System (DPAS)), insufficient oversight and monitoring of service providers and contractors, as well as the lack of sufficiently designed and executed controls over the completeness and accuracy of data used in the execution of key controls. The PCMs also do not reference or incorporate cross-cutting controls and processes that are significant, but documented as part of other processes (e.g., procure to pay).

(b) Inability to identify a complete population of GE-Other

The DAF GF has not validated the population of GE-Other. As a result, the DAF GF is currently unable to provide a complete population of GE-Other, which may be understated.

(c) Insufficient controls over the valuation and financial reporting of GE-Other

Controls have not been implemented to fully reconcile balances being reported for GE-Other 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 GE-Other. Additionally, the DAF GF has not fully developed or implemented the accounting and valuation methodologies set forth in SFFAS 6 or SFFAS 50, *Establishing Opening Balances for General Property, Plant, and Equipment* (SFFAS 50).

The DAF GF has also not fully assessed the compliance of its proprietary and corresponding budgetary transactions with the TFM.

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 around the DPAS APSR to consistently recognize, measure, and disclose equipment in accordance with SFFAS 6 and SFFAS 50.

Building a better working world

- Continue efforts to identify the complete population of all GE-Other assets and corresponding validation efforts over the asset data being entered into DPAS.
- Perform reconciliations between the balances reported in DPAS and the general ledger. Take actions to resolve identified variances, if any.
- Perform accounting analyses to identify all transactions that require both budgetary and proprietary accounting.

VIII. 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 sufficiently assessed and documented. The DAF GF's PCMs lack policies and procedures to sufficiently identify the financial reporting risks and corresponding controls. This includes, but is not limited to, an insufficient assessment of relevant IT applications and tools (including interface and application controls), insufficient oversight and monitoring of service providers and contractors, segregation of duties considerations, timely recording of transactions as well as the lack of sufficiently designed and executed controls over the completeness and accuracy of data used in execution of key controls. The PCMs also do not reference or incorporate cross-cutting controls and processes that are significant, but documented as part of other processes (e.g., procure to pay).

The DAF GF's controls to ensure assets are completely and accurately recorded in the APSRs are not effectively designed to achieve financial reporting objectives. The following examples highlight the importance of coordination between the financial management and others in the functional community regarding the accounting/financial reporting impact of financial and non-financial data maintained by others:

- The DAF GF has not fully identified, assessed and responded to the financial statement risks associated with OM&S system migrations and sustainment. For example, there is not a documented assessment of how the DAF GF implemented the Defense Logistics Management Standards (DLMS) for recording logistics transactions to align with respective financial transactions required within the TFM. Accordingly, the DAF GF should determine impacts

EY
Building a better working world

and/or necessary updates to Theater Integrated Combat Munitions System (TICMS) APSR or the Munitions financial reporting process.

- 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
- The DAF GF lacks a centralized review and monitoring control over all physical inventory counts to ensure completeness, accuracy and timely completion. The DAF GF's physical inventory policy responds to general asset safeguarding, but does not respond to the risk of material misstatements to the financial statements at year-end as it does not contain rollforward procedures from the last physical inventory count to the year-end.

(b) Insufficient controls over financial reporting of OM&S

Controls have not been fully developed and implemented to reconcile asset balances being reported for OM&S in its APSRs to the general ledger, including the investigation and resolution of identified variances on a timely basis. The DAF GF also does not have sufficient controls to ensure that all OM&S is being recorded in the financial statements.

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* (SFFAS 3), or SFFAS 48, *Opening Balances for Inventory, Operating Materials and Supplies, and Stockpile Materials* (SFFAS 48). 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:

- 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.

EY
Building a better working world

- Identify, assess and respond to the financial statement risks associated with OM&S system migrations and sustainment. Specifically, the DAF GF should analyze and document APSR systems' logic to validate TFM compliance for logistics transactions that result in financial transactions.
- 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 MAC that reconcile to the APSR acquisition, logistics, and financial (general ledger 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.
- Institute review and monitoring controls to ensure physical inventory counts are monitored for completeness, accuracy and timely completion. Furthermore, implement and document alternative procedures to rollforward the periodic physical inventory counts to year end.

IX. 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. Generally, this inventory held by others is reported as OM&S and the equipment is reported as GE-Other in the financial statements.

The following deficiencies aggregated into this material weakness:

(a) Insufficient oversight and monitoring of OM&S managed by Army

The Army performs munitions inventory management services for approximately a third of the entity's total munitions. The DAF GF utilizes TICMS, which 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) 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, the DAF GF has not developed a comprehensive asset level reconciliation process for all National Stock Number and DoDAACs between TICMS and LMP.

The DAF GF has not fully evaluated and documented its assessment of controls performed by Army on the DAF GF's internal control over financial reporting and the completeness and accuracy of financial transactions processed by Army on its behalf.

(b) Insufficient oversight and monitoring of OM&S managed by DLA

Also included in OM&S are supplies managed by the Defense Logistics Agency (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.

The DAF GF has not fully evaluated and documented its assessment of controls performed by DLA on the DAF GF's internal control over financial reporting and the completeness and accuracy of financial transactions processed by DLA on its behalf.

(c) Insufficient oversight and monitoring of GFP and contractor-acquired property

Government property in the custody of contractors includes government furnished equipment (GFE) and contractor-acquired property. GFE is included within GE-Other and contractor-acquired property can either be OM&S or GE-Other. 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 and contractor-acquired

EY
Building a better working world

property and has not developed or implemented controls for the recording and monitoring of these assets.

Additionally, the DAF GF lacks sufficient oversight and monitoring 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. At a program level, the DAF GF has not developed oversight and monitoring controls to evaluate and assess contractor executed procedures that have a financial impact, such as recording new receipts, updating condition codes and performing periodic physical inventory counts.

(d) Insufficient oversight and monitoring of the accounting for JSF spare parts and equipment

The 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, including spares and equipment. For example, 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.

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 design and implement oversight and monitoring controls, specifically munitions balances posted by service providers, including end-to-end process flow, controls and third party monitoring controls 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.

Building a better working world

- Supplies
    - Design and implement internal controls related to the review of DLA Managed Inventory balances. These should include oversight and monitoring controls to assess the completeness and accuracy of information reported.
    - Develop a process to routinely monitor variances between DLA and the DAF GF and determine a resolution.
    - Evaluate and document its assessment of controls performed by DLA and all DLA functions material to the DAF GF's internal control environment. In addition, develop third party monitoring controls in response to service organization risks.
- Improve oversight and monitoring of GFP and contractor-acquired property:
    - Complete actions to obtain complete populations of property held by contractors.
    - Develop sufficient oversight and monitoring controls to effectively monitor contractors, including the development of reconciliations between the DAF GF and contractor records. In addition, these oversight and monitoring controls should be designed 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 and monitoring of the accounting for JSF spare parts and equipment:
    - Develop policies and procedures for the accounting and reporting of the DAF GF's investment in the global pool of assets, including spares and equipment.

X. REAL PROPERTY

Real Property consists of land, buildings, structures and linear structures. Real property asset information and activity (e.g., acquisitions, transfers and disposals) are recorded within the APSR by the installation Real Property Office (RPO) as well as other applicable organizations. During FY22, the DAF GF fully transitioned all data and related tracking from the Automated Civil Engineering System-Real Property (ACES-RP) 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 sufficiently assessed and documented. The DAF GF's PCM lacks policies and procedures to sufficiently identify the financial reporting risks and corresponding controls. This includes, but is not limited to, an insufficient assessment of relevant IT applications and tools, insufficient oversight and monitoring of third parties, as well as the lack of sufficiently designed

Building a better working world

and executed controls over the completeness and accuracy of data used in execution of key controls.

(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 APSR to the financial statements. Additionally, the DAF GF has not fully assessed the posting logic for various financial and non-financial data elements utilized by NexGen-IT in the generation of financial amounts.

(c) Insufficient review and monitoring of APSR data

Assets have various characteristics recorded in the APSR 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 and the entity's ability to implement SFFAS 50. SFFAS 50 allows for the Plant Replacement Value (PRV) to be used as a starting point for establishing replacement cost, which is one of the established alternative valuation methods under the standard. The DAF GF has not fully implemented sufficient review and monitoring controls over the completeness and accuracy of key data fields contained within its APSR that impact PRV (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.

(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 APSR contain a complete and accurate listing of all buildings and structures. During FY22, the DAF GF worked to enhance its controls over existence and completeness, including the timely update of the APSR; however, this process is not yet complete.

The DoD Financial Management Regulation (FMR) 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 is still in the process of performing reconciliations and recording the applicable transfers with the other Military Departments and WHS, as applicable.

Building a better working world

Linear Structures and Land

While the DAF GF has continued to develop its planned corrective actions, the entity 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 across all installations.

(e) Insufficient procedures in place to monitor, value 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 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.
- Enhance integration between SAF/FMFA and the RP functional community in the assessment of current posting logic gaps.
- Assess if additional updates to policy or guidance are needed to clarify the respective roles and responsibilities of all applicable civil engineering (CE) parties (i.e., RPO, 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 APSR.

Building a better working world

- Continue to develop a rollforward/reconciliation process and related controls to monitor asset balances and activity period-over-period to:
  - Validate whether 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. Consider the impacts, if any, presented by SFFAS 59, *Accounting and Reporting of Government Land,* that relate to the accounting treatment of land.
- Reconcile real property construction activity reported by constructions agents to the DAF GF expenditure data.
- Evaluate current processes to determine appropriate actions needed for accumulating historical cost in accordance with SFFAS 6.

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 twenty-two 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. While the DAF GF has implemented a GAAP-compliant methodology for the measurement and reporting of contingent legal liabilities, continued 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.
- 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, etc.).

- 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:

- Continue to evaluate the design and future implementation of the Case Management System (CMS) to centralize and further enhance the entity's processes and procedures for recording and reporting legal cases/claims 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:
    - 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).
    - 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 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) Continued refinement over documentation of accounting policies, procedures and controls is needed

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.

(b) Insufficient procedures in place to record all E&DL

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

Building a better working world

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 real property asset and, therefore, are heavily dependent on information from the real property APSR to determine the completeness of the population for which a liability needs to be determined. As discussed in the real property material weakness above, the DAF GF's APSR may not capture all real property assets. In addition to the reliance on the real property APSR, the DAF GF lacks sufficient internal cost data to support the development of the Asbestos estimate resulting in the reliance on data generated from other comparable entities. 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, Restoration and OEL 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 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 is performed on a periodic basis to review key factors impacting the estimation of clean-up activities for various environmental sites. This process involves the review and input of the various Department of Defense (DoD) users in addition to the DAF GF. While progress has been made to formalize certain policies and procedures, the DAF GF has not sufficiently designed and/or implemented controls to fully 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.

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.
    - Develop and refine processes to accumulate sufficient and reliable internal data to support the development of the related E&DL estimate across all real property assets.
    - 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—ME/WP:
    - 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 enhance processes to assess and evidence how matters identified in the VV&A process by DAF GF and by other RACER users may impact the estimated cost of the technologies used in the calculation of RACER produced estimates.

EY
Building a better working world

XIII. REIMBURSABLE PROGRAMS

(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 reimbursable grantor and acceptor processes are not sufficiently assessed and documented. The DAF GF's PCMs or other controls documentation lack policies and procedures to sufficiently identify the financial reporting risks and corresponding controls. This includes, but is not limited to, an insufficient assessment of relevant IT applications and tools, insufficient oversight and monitoring of service providers (i.e., DFAS), as well as the lack of sufficiently designed and executed controls over the completeness and accuracy of data used in execution of key controls. Control documentation also do not reference or incorporate cross-cutting controls and processes that are significant, but documented as part of other processes (e.g., FBwT).

(b) 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 using 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.

(c) Lack of sufficient reviews over reimbursable activity

We identified several instances that indicate a lack of sufficient review, including:

- Lack of organization-wide controls to monitor and review reimbursable transactions occurring at the base level, including the consistency in execution of those processes.
- 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.

EY
Building a better working world

Recommendations:

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

- Lack of sufficient documentation of accounting policies, procedures and controls:
  - Identify the risks that are posed to the financial statement line items, relevant assertions, and general ledger accounts that comprise disbursements, billings and collections within the RBAE Grantor and Acceptor cycles. Based on the risks, the DAF GF should perform the following:
    - Document the process flow of transactions, including the IT systems, 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, including the cross-cutting controls that are shared with other areas (e.g., FBwT).
  - Develop an adequate understanding of the processes and relevant controls performed and implemented by service organizations and the scope of any related SOC reports. Implement appropriate monitoring and oversight controls, including necessary CUECs.
- 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.
    - 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:
  - Develop management review controls that adequately monitor activity occurring at the base level to evidence controls are consistently executed across the DAF GF as part of both RBAE processes. Identify, design, and document any additional controls that should be in place for all processes required to comply with relevant accounting standards including financial statement line items and notes to the financial statements.
  - 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.

Building a better working world

- 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 whether goods provided, or services performed, satisfy the criteria of the order and include evidence of receipt and acceptance for the expenses incurred.

Building a better working world

Ernst & Young LLP
1775 Tysons Boulevard
Tysons, VA 22102

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

Report of Independent Auditors on Compliance and Other Matters Based on an 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 (*Government Auditing Standards*) and the provisions of Office of Management and Budget (OMB) Bulletin No. 22-01, *Audit Requirements for Federal Financial Statements*, the financial statements of the Department of the Air Force General Fund (the DAF GF), which comprise the consolidated balance sheet as of September 30, 2022, 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 (collectively referred to as the "financial statements") and have issued our report thereon dated November 7, 2022. Our report disclaims an opinion on the financial statements because 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.

Report on Compliance and Other Matters

In connection with our engagement to audit the financial statements, we performed tests of the DAF GF's 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). 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 or other matters that are required to be reported under *Government Auditing Standards* and the provisions of OMB Bulletin No. 22-01, 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 of Independent Auditors on Internal Control over Financial Reporting dated November 7, 2022 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.

Building a better working world

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) Noncompliance with federal financial management system requirements

As referenced in the Fiscal Year (FY) 2022 DAF GF Statement of Assurance, the DAF GF identified that financial systems and financial portions of mixed systems do not substantially meet the requirements of 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 of Independent Auditors on Internal Control over Financial Reporting, where we identified noncompliance with federal financial management system requirements for multiple systems. Deficiencies identified include those associated with security management, access controls/user access, configuration management/change controls, segregation of duties, interface controls and business process 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 2022 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 of Independent Auditors on Internal Control over Financial Reporting.

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

As referenced in the FY 2022 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 of Independent Auditors on Internal Control over Financial Reporting.

Building a better working world

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 2022 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.

DAF GF's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the DAF GF's response to the findings identified in our engagement and described in the accompanying letter (Management Response Letter as listed in Table of Contents) dated November 7, 2022. The DAF GF's response was not subjected to the other auditing procedures applied in the engagement to audit the financial statements and, accordingly, we express no opinion on the response.

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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 7, 2022 on our consideration of the DAF GF's internal control over financial reporting. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting 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. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the DAF GF's internal control over financial reporting.

Ernst + Young LLP

November 7, 2022

A member firm of Ernst & Young Global Limited

DEPARTMENT OF THE AIR FORCE
WASHINGTON DC

OFFICE OF THE ASSISTANT SECRETARY

7 November 2022

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 2022 General Fund financial statements and acknowledges and concurs with your issuance of a disclaimer of opinion. We continue to appreciate your constructive audit findings included in your reports of *Internal Control Over Financial Reporting and Compliance and Other Matters*. We remain steadfast in our commitment to improving our financial practices and will leverage both your recommendations and our lessons learned to continue building upon our remediation strategy and enhancing our internal control environment.

The Department of the Air Force has now undergone five full financial statement audit cycles and has made significant progress in remediating deficiencies. In response to your findings, we developed corrective action plans and leveraged our Integrated Master Schedules to diligently monitor progress, identify risks, and quickly hone leaderships' attention to critical areas for support. As a result of prioritizing efforts to downgrade multiple material weaknesses year-over-year, the Department of the Air Force has steadily climbed the rankings to be among the top Military Services in the annual Department of Defense Congressional Audit Rankings Report.

In Fiscal Year 2022, the Department of the Air Force continued to align its efforts with the Secretary of Defense's audit priorities. We prioritized Fund Balance with Treasury this fiscal year in an effort to balance our checkbook with the Department of Treasury and increase transparency into funding by tracking payment and obligation inconsistencies. In addition, the Department of the Air Force submitted one third of all open Information Technology corrective action plans to the auditor for remediation consideration. Nearly 64 percent of these corrective action plans related to Access Management and Segregation of Duties, both Secretary of Defense audit priority areas. In order to have adequate internal controls in place and operating across all financial reporting processes, we are working to establish our Universe of Transactions into the Office of the Secretary of Defense's ADVANA platform, as well as automating reconciliations and developing data quality checks.

The United States Space Force will leverage much of the United States Air Force's infrastructure and therefore will inherit many of the United States Air Force's challenges. For that reason, we're collaborating with stakeholders across the United States Air and Space Forces to sufficiently address these challenges, which include identifying and distinguishing United States Air and Spaces Forces' business processes, assets, and systems.

Although we are proud of the progress we have made, we realize there are many challenges that lay ahead. Currently, a fragmented approach exists in managing the Information Technology aspects of our material weaknesses, which are rooted in system interface issues, interoperability gaps, cybersecurity risks, and data quality challenges. Efforts are underway to remediate these gaps through enterprise-wide Information Technology decision making with the goal of improving data quality and cybersecurity, and providing repeatable governance and decision-making processes that support sustainable progress toward transformation.

The audit continues to influence the way we are transforming our business processes and we look forward to continued collaboration in the future.

Sincerely,

Kristyn E. Jones
Assistant Secretary of the Air Force
(Financial Management and Comptroller)

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, 2022 and are presented on a comparative basis with information previously reported for the FY ended September 30, 2021. 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 SHEETS

The Consolidated Balance Sheets, as of September 30, 2022 and 2021, represent 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 STATEMENTS OF NET COST

The Consolidated Statements of Net Cost present the net cost of the DAF WCF's operations for the FYs ended September 30, 2022 and 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 STATEMENTS OF CHANGES IN NET POSITION

The Consolidated Statements of Changes in Net Position present 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 FYs ended September 30, 2022 and 2021.

COMBINED STATEMENTS OF BUDGETARY RESOURCES

The Combined Statements of Budgetary Resources present the budgetary resources available to the DAF WCF during FYs 2022 and 2021, the status of these resources as of September 30, 2022 and 2021, and the net outlays of budgetary resources for the FYs ended September 30, 2022 and 2021.

Zach Burleson (left), 809th Aircraft Maintenance Squadron, Non-Destructive Inspection technician, works on a T-38 as part of the Talon Repair Inspections and Maintenance (TRIM) program as Larry Hall (center), 809AMXS, and Robert Pilarczyk (right), Hill Engineering observe at Joint Base San Antonio-Randolph, TX. The TRIM program will be performed on 190 T-38 aircraft. The capability allows for localized depot-level maintenance to replace or repair key parts.

Photo: [Sarayuth Pinthong], [(U.S. Air Force]

DEPARTMENT OF THE AIR FORCE, WORKING CAPITAL FUND

CONSOLIDATED BALANCE SHEETS

AS OF SEPTEMBER 30 *(AMOUNTS IN THOUSANDS)*		2022 CONSOLIDATED *(UNAUDITED)*		2021 CONSOLIDATED *(UNAUDITED)*
ASSETS				
Intragovernmental				
Fund Balance with Treasury (*Note 3*)	$	1,332,050	$	1,403,723
Accounts Receivable, Net (*Note 4*)		743,212		780,685
Total Intragovernmental	$	2,075,262	$	2,184,408
Other than Intragovernmental				
Accounts Receivable, Net (*Note 4*)	$	2,749	$	2,496
Inventory and Related Property, Net (*Note 5*)		27,915,231		26,784,936
General Property, Plant, and Equipment, Net (*Note 6*)		957,973		958,806
Advances and Prepayments (*Note 7*)		328,839		227,534
Other Assets (*Note 7*)		188		1,305
Total Other than Intragovernmental	$	29,204,980	$	27,975,077
Total Assets	$	31,280,242	$	30,159,485
LIABILITIES				
Intragovernmental				
Accounts Payable	$	166,036	$	214,722
Other Liabilities (*Note 10*)		63,329		66,769
Total Intragovernmental	$	229,365	$	281,491
Other than Intragovernmental				
Accounts Payable	$	613,111	$	476,731
Federal Employee and Veteran Benefits Payable (*Note 9*)		180,301		184,643
Advances from Others and Deferred Revenue (*Note 10*)		171,842		163,352
Other Liabilities (*Note 10*)		290,786		360,391
Total Other than Intragovernmental	$	1,256,040	$	1,185,117
Total Liabilities	$	1,485,405	$	1,466,608

DEPARTMENT OF THE AIR FORCE, WORKING CAPITAL FUND

CONSOLIDATED BALANCE SHEETS (CONTINUED)

AS OF SEPTEMBER 30 *(AMOUNTS IN THOUSANDS)*		2022 CONSOLIDATED *(UNAUDITED)*		2021 CONSOLIDATED *(UNAUDITED)*
NET POSITION				
Unexpended Appropriations - Funds Other than Dedicated Collections	$	42,694	$	42,105
Total Unexpended Appropriations (Consolidated)	$	42,694	$	42,105
Cumulative Results of Operations - Funds Other than Dedicated Collections	$	29,752,143	$	28,650,772
Total Cumulative Results of Operations (Consolidated)	$	29,752,143	$	28,650,772
Total Net Position	$	29,794,837	$	28,692,877
Total Liabilities and Net Position	$	31,280,242	$	30,159,485

The accompanying notes are an integral part of these statements.

DEPARTMENT OF THE AIR FORCE, WORKING CAPITAL FUND

CONSOLIDATED STATEMENTS OF NET COST

FOR THE FISCAL YEAR ENDED SEPTEMBER 30 *(AMOUNTS IN THOUSANDS)*		2022 CONSOLIDATED *(UNAUDITED)*		2021 CONSOLIDATED *(UNAUDITED)*
PROGRAM COSTS				
Operations, Readiness, & Support	$	12,805,033	$	13,712,273
Gross Costs	$	12,805,033	$	13,712,273
(Less: Earned Revenue)		(13,497,526)		(13,848,028)
Net Cost of Operations	$	(692,493)	$	(135,755)

The accompanying notes are an integral part of these statements.

DEPARTMENT OF THE AIR FORCE, WORKING CAPITAL FUND

CONSOLIDATED STATEMENTS OF CHANGES IN NET POSITION

FOR THE FISCAL YEAR ENDED SEPTEMBER 30 *(AMOUNTS IN THOUSANDS)*	2022 CONSOLIDATED *(UNAUDITED)*	2021 CONSOLIDATED *(UNAUDITED)*
UNEXPENDED APPROPRIATIONS		
Beginning Balances	$ 42,105	$ 23,101
Beginning Balances, as Adjusted	42,105	23,101
Appropriations Transferred In/Out	77,453	95,712
Appropriations Used	(76,864)	(76,708)
Net Change in Unexpended Appropriations	$ 589	$ 19,004
Total Unexpended Appropriations, Ending Balance	$ 42,694	$ 42,105
CUMULATIVE RESULTS OF OPERATIONS		
Beginning Balances	$ 28,650,772	$ 28,081,893
Beginning Balances, as Adjusted	$ 28,650,772	$ 28,081,893
Appropriations Used	76,864	76,708
Non-Exchange Revenue	24	(10)
Transfers In/Out without Reimbursement	116,452	142,497
Imputed Financing	215,563	210,933
Other	(25)	2,996
Net Cost of Operations (+/-)	(692,493)	(135,755)
Net Change in Cumulative Results of Operations	$ 1,101,371	$ 568,879
Cumulative Results of Operations, Ending	$ 29,752,143	$ 28,650,772
Net Position	$ 29,794,837	$ 28,692,877

The accompanying notes are an integral part of these statements.

DEPARTMENT OF THE AIR FORCE, WORKING CAPITAL FUND

COMBINED STATEMENTS OF BUDGETARY RESOURCES

FOR THE FISCAL YEAR ENDED SEPTEMBER 30 *(AMOUNTS IN THOUSANDS)*	2022 COMBINED *(UNAUDITED)*	2021 COMBINED *(UNAUDITED)*
BUDGETARY RESOURCES		
Unobligated Balance from Prior Year Budget Authority, Net (Discretionary and Mandatory) (*Note 14*)	$ 1,223,752	$ 1,255,489
Appropriations (Discretionary and Mandatory)	77,453	95,712
Contract Authority (Discretionary and Mandatory)	10,393,137	10,107,468
Spending Authority from Offsetting Collections (Discretionary and Mandatory)	7,373,230	6,941,439
Total Budgetary Resources	$ 19,067,572	$ 18,400,108
STATUS OF BUDGETARY RESOURCES		
New Obligations and Upward Adjustments (Total)	$ 18,174,058	$ 17,176,356
Unobligated Balance, End of Year:		
Apportioned, Unexpired Accounts	893,514	1,223,752
Unexpired Unobligated Balance, End of Year	893,514	1,223,752
Unobligated Balance, End of Year (Total)	893,514	1,223,752
Total Budgetary Resources	$ 19,067,572	$ 18,400,108
OUTLAYS, NET		
Outlays, Net (Total) (Discretionary and Mandatory)	$ 149,127	$ (428,451)
Agency Outlays, Net (Discretionary and Mandatory)	$ 149,127	$ (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 DAF Headquarters 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 Air Force 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: *To fly, fight, win...airpower anytime, anywhere*.

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.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 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 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. 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 DAF WCF is unable to fully implement all elements of GAAP and OMB Circular 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.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 these 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.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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, 2022.

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 (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 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.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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, 2022.

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, 2022.

10. Technical Release 21, *Omnibus Technical Release Amendments 2022: Conforming Amendments*. Issued on September 6, 2022. Effective Date: Upon issuance.

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 WCF is in the process of adopting this Staff Implementation Guidance as of September 30, 2022.

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.

The DAF WCF has not recorded all transactions consistent with GAAP because of limitations of certain systems and resource constraints. The DAF WCF continues to transition to systems that can produce GAAP-compliant financial statements. The transactions not recorded consistent with GAAP and are believed to be materially misstated in the financial statements include, but are not limited to, transactions that should have been recorded in prior years that 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.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 Circular 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 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*, and Note 13, *Disclosures Related to the Statement of Changes in Net Position*.

F. NON-ENTITY ASSETS

The DAF WCF classified assets as either Entity or Non-Entity. Entity Assets are those that the DAF WCF has authority to use for its operations. Non-Entity Assets are those held by the DAF WCF but not available for use in its normal operations. Non-Entity Assets are offset by liabilities to third parties and have no impact on net position. The DAF WCF combines its Entity and Non-Entity Assets on the Balance Sheet and discloses its Non-Entity Assets in the notes.

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 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 currently process most of the DAF WCF's cash collections, disbursements, and adjustments worldwide. Monthly, each disbursing station reports to the Treasury on checks issued, electronic fund transfers, interagency transfers, and deposits. The model of using the DAF WCF's disbursing systems instead of the Treasury's system is recognized by the Treasury as Non-Treasury Disbursing Office (NTDO). The DAF WCF is actively migrating NTDO transactions to the Treasury Disbursing Office (TDO) under the TDO Enterprise Strategy effort. TDO is the DAF WCF's target end state of executing payments and collections directly between the DAF WCF and the Treasury using the Treasury's systems and the Treasury as the Service Provider. This posture will allow the DAF WCF to achieve FBwT accountability and traceability through daily reconciliation and reporting directly with the Treasury.

FBwT is an asset of the DAF WCF and a liability of the U.S. Government GF. The amounts represent commitments by the U.S. Government to provide resources for particular programs, but they do not represent assets to the U.S. Government as a whole.

When the DAF WCF seeks to use FBwT to liquidate budgetary obligations, the Treasury will finance the disbursements in the same way it finances all other disbursements using some combination of receipts, other inflows, and borrowing from the public, in cases of a budget deficit.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

In addition, the DAF WCF reports to the Treasury by appropriation on interagency transfers, collections received, and disbursements issued. The 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 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 business rules published in Appendix 5 of 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. The amounts determined to be uncollectible as the result of the analyses are recorded as an allowance.

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) flow assumption.

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 General PP&E). 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*.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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. Budgetary resources include new budget authority, unobligated balances of budgetary resources at the beginning of the year or net transfers of prior year balances during the year, spending authority from offsetting collections, and recoveries of unexpired budget authority through downward adjustments of prior year obligations. Liabilities are classified as not covered by budgetary resources when congressional action is needed before they can be paid.

For additional information, refer to Note 8, *Liabilities Not Covered by Budgetary Resources*.

N. OTHER LIABILITIES

Other Liabilities may be Intragovernmental or Other than Intragovernmental. 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. FEDERAL EMPLOYEE AND VETERAN 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*.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 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; and 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 Budgetary 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.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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. BUDGETARY RESOURCES

The purpose of federal budgetary accounting is to control, monitor, and report on funds made available to federal agencies by law and help ensure compliance with the law. The following budgetary terms are commonly used:

- An appropriation is a provision of law (not necessarily in an appropriations act) authorizing the expenditure of funds for a given purpose. Usually, but not always, an appropriation provides budget authority.
- Budgetary resources are amounts available to incur obligations in a given year. Budgetary resources consist of new budget authority and unobligated balances of budget authority provided in previous years.
- An obligation is a binding agreement that will result in outlays, immediately or in the future. Budgetary resources must be available before obligations can be incurred legally.
- Offsetting collections are payments to the Government that, by law, are credited directly to expenditure accounts and deducted from gross budget authority and outlays of the expenditure account, rather than added to receipts. Usually, offsetting collections are authorized to be spent for the purposes of the account without further action by Congress. They usually result from business-like transactions with the public, including payments from the public in exchange for goods and services, reimbursements for damages, and gifts or donations of money to the Government and from intragovernmental transactions with other Government accounts. The authority to spend collections is a form of budget authority.
- Offsetting receipts are payments to the Government that are credited to offsetting receipt accounts and deducted from gross budget authority and outlays, rather than added to receipts. Usually, they are deducted at the level of the agency and subfunction, but in some cases they are deducted at the level of the Government as a whole. They are not authorized to be credited to expenditure accounts. The legislation that authorizes the offsetting receipts may earmark them for a specific purpose and either appropriate them for expenditures for that purpose or require them to be appropriated in annual appropriations acts before they can be spent. Like offsetting collections, they usually result from business-like transactions with the public, including payments from the public in exchange for goods and services, reimbursements for damages, and gifts or donations of money to the Government, and from intragovernmental transactions with other Government accounts.
- Outlays are the liquidation of an obligation that generally takes the form of an electronic funds transfer. Outlays are reported both gross and net of offsetting collections and they are the measure of Government spending.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

T. 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.

U. 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.

V. 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.

W. STANDARDIZED BALANCE SHEET, THE STATEMENT OF CHANGES IN NET POSITION, AND RELATED FOOTNOTES – COMPARATIVE YEAR PRESENTATION

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 Circular 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 DoD-wide Balance Sheet, thereby supporting the preparation and audit of the Financial Report of the U.S. Government. The presentation of the FY 2021 Balance Sheet and the related footnotes was modified to be consistent with the FY 2022 presentation. 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. The footnotes affected by the modified presentation are Note 4, *Accounts Receivable, Net*; Note 7, *Other Assets*; Note 10, *Other Liabilities*; and Note 16, *Reconciliation of Net Cost to Net Budgetary Outlays*.

NOTE 2 NON-ENTITY ASSETS

AS OF SEPTEMBER 30 (AMOUNTS IN THOUSANDS)	2022 (UNAUDITED)	2021 (UNAUDITED)
Other than Intragovernmental		
Accounts Receivable	$ 26	$ 2
Total Other than Intragovernmental	$ 26	$ 2
Total Non-Entity Assets	$ 26	$ 2
Total Entity Assets	$ 31,280,216	$ 30,159,483
Total Assets	$ 31,280,242	$ 30,159,485

Non-Entity Assets are assets for which the DAF WCF maintains stewardship accountability and reporting responsibility. Non-Entity Assets consist of assets belonging to other entities but are offset by the DAF WCF's liabilities to accurately reflect the DAF WCF's net position.

Other than Intragovernmental Accounts Receivable consists of amounts associated with interest, fines, and penalties. Generally, the DAF WCF cannot use the proceeds and must remit them to the Treasury unless permitted by law.

NOTE 3 FUND BALANCE WITH TREASURY

AS OF SEPTEMBER 30 *(AMOUNTS IN THOUSANDS)*	2022 *(UNAUDITED)*		2021 *(UNAUDITED)*	
STATUS OF FUND BALANCE WITH TREASURY				
Unobligated Balance				
Available	$	893,514	$	1,223,752
Total Unobligated Balance	$	893,514	$	1,223,752
Obligated Balance Not Yet Disbursed	$	11,223,376	$	9,986,825
Non-Fund Balance with Treasury Budgetary Accounts				
Unfilled Customer Orders without Advance	$	(5,318,232)	$	(4,537,308)
Contract Authority		(4,149,756)		(4,230,070)
Receivables and Other		(1,316,852)		(1,039,476)
Total Non-Fund Balance with Treasury Budgetary Accounts	$	(10,784,840)	$	(9,806,854)
Total Fund Balance with Treasury	$	1,332,050	$	1,403,723

The 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 reconciliation between the budgetary resources supporting FBwT (largely consisting of Unobligated Balance and Obligated Balance Not Yet Disbursed) and those resources provided by other means. The Total FBwT reported on the Balance Sheet reflects the budgetary authority remaining for disbursements against current or future obligations.

The entirety of the Unobligated Balance is Available and consists primarily of the unexpired, unobligated balance that has been apportioned and is available for new obligations.

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. Non-FBwT Budgetary Accounts create budgetary authority and unobligated balances, but do not record to FBwT as there has been no receipt of cash or direct budget authority, such as appropriations. FBwT increases only after the customer payments for services or goods rendered have been collected.

NOTE 3 FUND BALANCE WITH TREASURY

The FBwT reported in the financial statements has been adjusted to reflect the DAF WCF's balance as reported by the Treasury. The difference between FBwT in the DAF WCF's general ledger and FBwT reflected in the 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 Treasury: ($8.2) million in disbursements, and ($1.5) 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 (AMOUNTS IN THOUSANDS)	2022 (UNAUDITED)		
	GROSS AMOUNT DUE	ALLOWANCE FOR ESTIMATED UNCOLLECTIBLES	ACCOUNTS RECEIVABLE, NET
Intragovernmental Receivables	$ 751,800	$ (8,588)	$ 743,212
Other than Intragovernmental Receivables (From the Public)	3,179	(430)	2,749
Total Accounts Receivable	$ 754,979	$ (9,018)	$ 745,961

AS OF SEPTEMBER 30 (AMOUNTS IN THOUSANDS)	2021 (UNAUDITED)		
	GROSS AMOUNT DUE	ALLOWANCE FOR ESTIMATED UNCOLLECTIBLES	ACCOUNTS RECEIVABLE, NET
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 (AMOUNTS IN THOUSANDS)	2022 (UNAUDITED)	2021 (UNAUDITED)
Inventory, Net	$ 27,796,535	$ 26,671,171
Operating Materials and Supplies, Net	118,696	113,765
Total Inventory and Related Property, Net	$ 27,915,231	$ 26,784,936

Inventory, Net

AS OF SEPTEMBER 30 (AMOUNTS IN THOUSANDS)	2022 (UNAUDITED)			
	INVENTORY, GROSS	REVALUATION ALLOWANCE	INVENTORY, NET	VALUATION METHOD
Held for Sale	$ 14,638,710	$ 0	$ 14,638,710	MAC
Held for Repair	20,078,269	(6,931,716)	13,146,553	MAC, LRC
Work-In-Process	11,272	0	11,272	MAC
Excess, Obsolete, and Unserviceable	286,914	(286,914)	0	NRV
Total	$ 35,015,165	$ (7,218,630)	$ 27,796,535	

AS OF SEPTEMBER 30 (AMOUNTS IN THOUSANDS)	2021 (UNAUDITED)			
	INVENTORY, GROSS	REVALUATION ALLOWANCE	INVENTORY, NET	VALUATION METHOD
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.

NOTE 5 INVENTORY AND RELATED PROPERTY, NET

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 reparable) 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.

Operating Materials and Supplies, Net

AS OF SEPTEMBER 30 *(AMOUNTS IN THOUSANDS)*	2022 *(UNAUDITED)*			
	OPERATING MATERIALS AND SUPPLIES, GROSS VALUE	REVALUATION ALLOWANCE	OPERATING MATERIALS AND SUPPLIES, NET	VALUATION METHOD
Held for Use	$ 118,696	$ 0	$ 118,696	MAC
Total	$ 118,696	$ 0	$ 118,696	

AS OF SEPTEMBER 30 *(AMOUNTS IN THOUSANDS)*	2021 *(UNAUDITED)*			
	OPERATING MATERIALS AND SUPPLIES, GROSS VALUE	REVALUATION ALLOWANCE	OPERATING MATERIALS AND SUPPLIES, NET	VALUATION METHOD
Held for Use	$ 113,765	$ 0	$ 113,765	MAC
Total	$ 113,765	$ 0	$ 113,765	

LEGEND FOR VALUATION METHODS:
MAC = Moving Average Cost

NOTE 5 INVENTORY AND RELATED PROPERTY, NET

GENERAL COMPOSITION OF OPERATING MATERIALS AND SUPPLIES

The DAF WCF assigns all Operating Materials and Supplies (OM&S) 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 *(AMOUNTS IN THOUSANDS)*	2022 *(UNAUDITED)*				
	DEPRECIATION/ AMORTIZATION METHOD	SERVICE LIFE	ACQUISITION VALUE	(ACCUMULATED DEPRECIATION/ AMORTIZATION)	NET BOOK VALUE
MAJOR ASSET CLASS					
Software	S/L	2-5 or 10	$ 1,173,313	$ (1,134,767)	$ 38,546
General Equipment	S/L	10	3,333,689	(2,650,316)	683,373
Construction-in-Progress	N/A	N/A	236,054	N/A	236,054
Total General Property, Plant, and Equipment, Net			$ 4,743,056	$ (3,785,083)	$ 957,973

AS OF SEPTEMBER 30 *(AMOUNTS IN THOUSANDS)*	2021 *(UNAUDITED)*				
	DEPRECIATION/ AMORTIZATION METHOD	SERVICE LIFE	ACQUISITION VALUE	(ACCUMULATED DEPRECIATION/ AMORTIZATION)	NET BOOK VALUE
MAJOR ASSET CLASS					
Software	S/L	2-5 or 10	$ 1,188,325	$ (1,126,399)	$ 61,926
General Equipment	S/L	10	3,273,721	(2,575,730)	697,991
Construction-in-Progress	N/A	N/A	198,889	N/A	198,889
Total General Property, Plant, and Equipment, Net			$ 4,660,935	$ (3,702,129)	$ 958,806

LEGEND FOR VALUATION METHODS:
S/L = Straight Line N/A = Not Applicable

General Property, Plant, and Equipment, Net - Summary of Activity

AS OF SEPTEMBER 30 *(AMOUNTS IN THOUSANDS)*	2022 *(UNAUDITED)*	2021 *(UNAUDITED)*
General Property, Plant, and Equipment, Net Beginning of Year	$ 958,806	$ 923,694
Capitalized Acquisitions	163,355	168,049
Dispositions	(14,485)	11,347
Transfers In/(Out) without Reimbursement	(2,000)	0
Depreciation Expense	(147,703)	(144,284)
General Property, Plant, and Equipment, Net End of Year	$ 957,973	$ 958,806

NOTE 6 GENERAL PROPERTY, PLANT, AND EQUIPMENT, NET

The DAF WCF does not have any restrictions on the use or convertibility of General Property, Plant and Equipment (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*. For the capitalization threshold, refer to Note 1.J., *Summary of Significant Accounting Policies - General Property, Plant and Equipment*.

NOTE 7 OTHER ASSETS

AS OF SEPTEMBER 30 *(AMOUNTS IN THOUSANDS)*		**2022** *(UNAUDITED)*		**2021** *(UNAUDITED)*
Other Than Intragovernmental Other Assets				
Outstanding Contract Financing Payments	$	328,564	$	227,258
Advances and Prepayments		275		276
Other Assets		188		1,305
Subtotal	$	329,027	$	228,839
Less: "Outstanding Contract Financing Payments" and "Advances and Prepayments" totaled and presented on the Balance Sheet as "Advances and Prepayments"		(328,839)		(227,534)
Total Other Assets	$	188	$	1,305

Outstanding Contract Financing Payments (OCFP), a separate classification of Advances and Prepayments, are contract financing payments made in contemplation of the future performance of services, receipt of goods, incurrence of expenditures, or receipt of other assets.

Advances and Prepayments are made in contemplation of the future performance of services, receipt of goods, incurrence of expenditures, or receipt of other assets, excluding those made as OCFP.

Other than Intragovernmental Other Assets includes $188.4 thousand as of September 30, 2022, 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 updated the appropriate labor account in the accounting system.

NOTE 8 LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

AS OF SEPTEMBER 30 *(AMOUNTS IN THOUSANDS)*	2022 *(UNAUDITED)*	2021 *(UNAUDITED)*
Intragovernmental Liabilities		
Federal Employees' Compensation Act	$ 32,947	$ 33,729
Total Intragovernmental Liabilities	$ 32,947	$ 33,729
Other than Intragovernmental Liabilities		
Federal Employee and Veteran Benefits Payable	$ 180,301	$ 184,643
Total Other than Intragovernmental Liabilities	$ 180,301	$ 184,643
Total Liabilities Not Covered by Budgetary Resources	$ 213,248	$ 218,372
Total Liabilities Covered by Budgetary Resources	$ 1,272,157	$ 1,248,236
Total Liabilities	$ 1,485,405	$ 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, the 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 $32.9 million in *Federal Employees' Compensation Act* (FECA) is comprised of the portion of the total DAF 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 *(AMOUNTS IN THOUSANDS)*	2022 *(UNAUDITED)*		
	LIABILITIES	(ASSETS AVAILABLE TO PAY BENEFITS)	UNFUNDED LIABILITIES
Other Benefits			
Federal Employees' Compensation Act	$ 180,301	$ 0	$ 180,301
Total Other Benefits	$ 180,301	$ 0	$ 180,301
Federal Employee and Veteran Benefits Payable (presented separately on the Balance Sheet)	$ 180,301	$ 0	$ 180,301
Other Benefit-Related Payables Included in Intragovernmental Other Liabilities on the Balance Sheet	45,233	(12,286)	32,947
Total Federal Employee and Veteran Benefits Payable	$ 225,534	$ (12,286)	$ 213,248

AS OF SEPTEMBER 30 *(AMOUNTS IN THOUSANDS)*	2021 *(UNAUDITED)*		
	LIABILITIES	(ASSETS AVAILABLE TO PAY BENEFITS)	UNFUNDED LIABILITIES
Other Benefits			
Federal Employees' Compensation Act	$ 184,643	$ 0	$ 184,643
Total Other Benefits	$ 184,643	$ 0	$ 184,643
Federal Employee and Veteran Benefits Payable (presented separately on the Balance Sheet)	$ 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.

For a description of Other Benefit-Related Payables Included in Intragovernmental Other Liabilities on the Balance Sheet, refer to Note 10, *Other Liabilities*.

NOTE 9 FEDERAL EMPLOYEE AND VETERAN BENEFITS PAYABLE

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) 2022 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 Treasury's Yield Curve for the 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 2022. Interest rate assumptions utilized for discounting were as follows:

DISCOUNT RATES
For Wage Benefits: *2.1% in Year 1 and Years thereafter*
For Medical Benefits: *2.0% 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
2022	N/A	N/A
2023	3.4%	3.1%
2024	4.0%	3.6%
2025	4.1%	3.6%
2026	4.2%	3.8%
2027 and thereafter	3.9%	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 2022 to the average pattern observed during the most current three CBYs; and 4) a comparison of the estimated liability per case in FY 2023 projection to the average pattern for the projections of the most recent three years.

Other Benefit-Related Payables Included in Intragovernmental Other Liabilities on the Balance Sheet, include FECA Reimbursement to the DOL and Intragovernmental Employer Contribution and Payroll Taxes Payable.

NOTE 10 OTHER LIABILITIES

AS OF SEPTEMBER 30 (AMOUNTS IN THOUSANDS)	2022 (UNAUDITED)		
	CURRENT LIABILITIES	NON-CURRENT LIABILITIES	TOTAL
Intragovernmental Other Liabilities			
Liabilities for Non-Entity Assets	$ 26	$ 0	$ 26
Other Liabilities	18,070	0	18,070
Subtotal	$ 18,096	$ 0	$ 18,096
Other Liabilities Reported on *Note 9, Federal Employee and Veteran Benefits Payable*	26,927	18,306	45,233
Total Intragovernmental Other Liabilities	$ 45,023	$ 18,306	$ 63,329
Other than Intragovernmental Other Liabilities			
Accrued Funded Payroll and Leave	$ 246,739	$ 0	$ 246,739
Contract Holdbacks	0	0	0
Other Liabilities with Related Budgetary Obligations	44,047	0	44,047
Total Other than Intragovernmental Other Liabilities	$ 290,786	$ 0	$ 290,786
Total Other Liabilities	$ 335,809	$ 18,306	$ 354,115

AS OF SEPTEMBER 30 (AMOUNTS IN THOUSANDS)	2021 (UNAUDITED)		
	CURRENT LIABILITIES	NON-CURRENT LIABILITIES	TOTAL
Intragovernmental Other Liabilities			
Liabilities for Non-Entity Assets	$ 2	$ 0	$ 2
Other Liabilities	0	0	0
Subtotal	$ 2	$ 0	$ 2
Other Liabilities Reported on *Note 9, Federal Employee and Veteran Benefits Payable*	48,522	18,245	66,767
Total Intragovernmental Other Liabilities	$ 48,524	$ 18,245	$ 66,769
Other than Intragovernmental Other Liabilities			
Accrued Funded Payroll and Leave	$ 316,305	$ 0	$ 316,305
Contract Holdbacks	197	0	197
Other Liabilities with Related Budgetary Obligations	43,889	0	43,889
Total Other than Intragovernmental Other Liabilities	$ 360,391	$ 0	$ 360,391
Total Other Liabilities	$ 408,915	$ 18,245	$ 427,160

NOTE 10 OTHER LIABILITIES

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.

Intragovernmental Other Liabilities on the Balance Sheet is no longer reported on a single footnote in accordance with the streamlined Balance Sheet format (for additional information, refer to Note 1.W., *Summary of Significant Accounting Policies - Standardized Balance Sheet, the Statement of Changes in Net Position, and Related Footnotes - Comparative Year Presentation*). Certain USSGLs on the Balance Sheet line Intragovernmental Other Liabilities are required to be reported on Note 9, *Federal Employee and Veteran Benefits Payable*, while others are reported on this Note 10, *Other Liabilities*. The amounts from the Balance Sheet Intragovernmental Other Liabilities reported on Note 9 are aggregated and also included as Other Liabilities Reported on Note 9, *Federal Employee and Veteran Benefits Payable*. This presentation maintains the tie out of total Intragovernmental Other Liabilities on the tables to the Balance Sheet.

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 Intragovernmental Employer Contribution and Payroll Taxes Payable.

- FECA Reimbursement to the DOL represents liabilities for billed amounts payable in FY 2022 and FY 2023 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 Leave 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). 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. OPM administers insurance benefit programs available for coverage to the DAF WCF's eligible civilian employees. These programs include life and health insurance, and employee participation is voluntary. The portion of the total DAF civilian accrued leave liability allocated to the DAF WCF includes amounts for accrued annual leave, restored annual leave, credit hours, compensatory hours, and frozen annual leave.

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 2022, the DAF WCF did not report a balance related to Contract Holdbacks. For FY 2021, Contract Holdbacks include $197.1 thousand for contracts authorization 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.

NOTE 10 OTHER LIABILITIES

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.

Advances from Others and Deferred Revenue

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.

AS OF SEPTEMBER 30 *(AMOUNTS IN THOUSANDS)*	2022 *(UNAUDITED)*	2021 *(UNAUDITED)*
Intragovernmental	$ 0	$ 0
Other than Intragovernmental	$ 171,842	$ 163,352

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 WCF's financial statements, pursuant to legal authority and appropriated funds; none are contingent.

NOTE 12 DISCLOSURES RELATED TO THE STATEMENT OF NET COST

FOR THE FISCAL YEAR ENDED SEPTEMBER 30 *(AMOUNTS IN THOUSANDS)*	2022 *(UNAUDITED)*	2021 *(UNAUDITED)*
Operations, Readiness, & Support		
Gross Cost	$ 12,805,033	$ 13,712,273
Less: Earned Revenue	(13,497,526)	(13,848,028)
Total Net Cost	$ (692,493)	$ (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 period ending September 30, 2022, consolidated revenue for each revenue stream is $4.9 billion, $4.9 billion, and $1.7 billion, respectively. The remaining $2.0 billion is associated to gains.

For additional information, refer to Note 1.Q., *Summary of Significant Accounting Policies - Revenue and Other Financing Sources*.

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 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 $77.5 million in appropriations recorded in the DAF WCF were transferred from the Defense WCF, 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 the contra-revenue offset associated with interest, fines, and penalties recorded as non-exchange revenue.

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, 2022 to the budgetary resources available at the beginning of the year, and there are no legal arrangements affecting the use of unobligated balances.

UNDELIVERED ORDERS AT THE END OF THE PERIOD

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

AS OF SEPTEMBER 30 *(AMOUNTS IN THOUSANDS)*	2022 *(UNAUDITED)*	2021 *(UNAUDITED)*
Intragovernmental		
Unpaid	$ 2,061,104	$ 2,647,073
Total Intragovernmental	$ 2,061,104	$ 2,647,073
Other than Intragovernmental		
Unpaid	$ 7,362,119	$ 5,877,149
Prepaid/Advanced	328,839	227,534
Total Other than Intragovernmental	$ 7,690,958	$ 6,104,683
Total Budgetary Resources Obligated for Undelivered Orders at the End of the Period	$ 9,752,062	$ 8,751,756

NOTE 14 DISCLOSURES RELATED TO THE STATEMENT OF BUDGETARY RESOURCES

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 2021 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 2023 President's Budget. The Budget with the actual amounts of the current year (FY 2022) will be available at a later date at The President's Budget | The White House.

EXPLANATION OF DIFFERENCES BETWEEN THE STATEMENT OF BUDGETARY RESOURCES AND THE BUDGET OF THE U.S. GOVERNMENT

AS OF SEPTEMBER 30 *(AMOUNTS IN BILLIONS)*	FY 2021 ACTUAL (UNAUDITED)			
	BUDGETARY RESOURCES	NEW OBLIGATIONS AND UPWARD ADJUSTMENTS (Total)	DISTRIBUTED OFFSETTING RECEIPTS	AGENCY OUTLAYS, NET
Combined Statement of Budgetary Resources	$ 18.4	$ 17.2	$ 0.0	$ (0.4)
Adjustments				
U.S. Transportation Command Statement of Budgetary Resources*	$ 8.7	$ 7.7	$ 0.0	$ 0.4
Combined DAF WCF and U.S. Transportation Command	$ 27.1	$ 24.9	$ 0.0	$ 0.0
Budget of the U.S. Government	$ 27.1	$ 24.9	$ 0.0	$ 0.0

**U.S. 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 FY ended September 30, 2022.

NOTE 15 DISCLOSURES RELATED TO INCIDENTAL CUSTODIAL COLLECTIONS

The DAF WCF collected $5.4 thousand of incidental custodial revenues during the FY ended September 30, 2022, 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 rendered to the Treasury.

NOTE 16 RECONCILIATION OF NET COST TO NET BUDGETARY OUTLAYS

AS OF SEPTEMBER 30 *(AMOUNTS IN THOUSANDS)*	2022 *(UNAUDITED)*		
	INTRAGOVERNMENTAL	OTHER THAN INTRAGOVERNMENTAL	TOTAL
Net Cost of Operations	$ (9,310,554)	$ 8,618,061	$ (692,493)
COMPONENTS OF NET COST NOT PART OF NET BUDGETARY OUTLAYS			
Change in General Property, Plant, and Equipment, Net	$ 0	$ (833)	$ (833)
Change in Inventory and Related Property, Net	0	1,130,296	1,130,296
Increase/(Decrease) in Assets:			
Accounts Receivable, Net	284,674	252	284,926
Other Assets	0	100,188	100,188
(Increase)/Decrease in Liabilities:			
Accounts Payable	(274,968)	(136,379)	(411,347)
Federal Employee and Veteran Benefits Payable	0	4,342	4,342
Other Liabilities	4,947	61,116	66,063
Financing Sources:			
Imputed Cost	(215,563)	0	(215,563)
Total Components of Net Cost Not Part of Net Budgetary Outlays	$ (200,910)	$ 1,158,982	$ 958,072
COMPONENTS OF NET BUDGETARY OUTLAYS NOT PART OF NET COST			
Inventory and Related Property	$ 0	$ 0	$ 0
Total Components of Net Budgetary Outlays Not Part of Net Cost	$ 0	$ 0	$ 0
MISCELLANEOUS RECONCILING ITEMS			
Transfers (In)/Out Without Reimbursements	$ (116,452)	$ 0	$ (116,452)
Total Other Reconciling Items	$ (116,452)	$ 0	$ (116,452)
Net Outlays	$ (9,627,916)	$ 9,777,043	$ 149,127
Budgetary Agency Outlays, Net (Statements of Budgetary Resources)			$ 149,127
Unreconciled Difference			$ 0

NOTE 16 RECONCILIATION OF NET COST TO NET BUDGETARY OUTLAYS

AS OF SEPTEMBER 30 (AMOUNTS IN THOUSANDS)	2021 (UNAUDITED)		
	INTRAGOVERNMENTAL	OTHER THAN INTRAGOVERNMENTAL	TOTAL
Net Cost of Operations	$ (9,913,335)	$ 9,777,580	$ (135,755)
COMPONENTS OF NET COST NOT PART OF NET BUDGETARY OUTLAYS			
Change in General Property, Plant, and Equipment, Net	$ 0	$ 35,112	$ 35,112
Change in Inventory and Related Property, Net	0	(73,904)	(73,904)
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	(146,700)	(68,516)	(215,216)
Federal Employee and Veteran Benefits Payable	0	7,833	7,833
Other Liabilities	1,254	120,582	121,836
Financing Sources:			
Imputed Cost	(210,933)	0	(210,933)
Total Components of Net Cost Not Part of Net Budgetary Outlays	$ (234,362)	$ 87,150	$ (147,212)
COMPONENTS OF NET BUDGETARY OUTLAYS NOT PART OF NET COST			
Inventory and Related Property	$ 0	$ 0	$ 0
Total Components of Net Budgetary Outlays Not Part of Net Cost	$ 0	$ 0	$ 0
MISCELLANEOUS RECONCILING ITEMS			
Transfers (In)/Out Without Reimbursements	$ (142,497)	$ 0	$ (142,497)
Total Other Reconciling Items	$ (142,497)	$ 0	$ (142,497)
Net Outlays	$ (10,290,194)	$ 9,864,730	$ (425,464)
Budgetary Agency Outlays, Net (Statements of Budgetary Resources)			$ (428,304)
Unreconciled Difference			$ 2,840

NOTE 16 RECONCILIATION OF NET COST TO NET BUDGETARY OUTLAYS

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.

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, 2022.

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 SUBSEQUENT EVENTS

Subsequent events were evaluated from the Balance Sheet date through November 7, 2022, 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.

DISAGGREGATED STATEMENT OF BUDGETARY RESOURCES

DEPARTMENT OF THE AIR FORCE WORKING CAPITAL FUND REQUIRED SUPPLEMENTARY INFORMATION

Disaggregated Statement of Budgetary Resources

FOR THE FISCAL YEARS ENDED 2022 AND 2021 *(AMOUNTS IN THOUSANDS)*	OPERATIONS, READINESS & SUPPORT	2022 COMBINED	2021 COMBINED
BUDGETARY RESOURCES			
Unobligated Balance from Prior Year Budget Authority, Net (Discretionary and Mandatory) (*Note 14*)	$ 1,223,752	$ 1,223,752	$ 1,255,489
Appropriations (Discretionary and Mandatory)	77,453	77,453	95,712
Contract Authority (Discretionary and Mandatory)	10,393,137	10,393,137	10,107,468
Spending Authority from Offsetting Collections (Discretionary and Mandatory)	7,373,230	7,373,230	6,941,439
Total Budgetary Resources	$ 19,067,572	$ 19,067,572	$ 18,400,108
STATUS OF BUDGETARY RESOURCES			
New Obligations and Upward Adjustments (Total)	$ 18,174,058	$ 18,174,058	$ 17,176,356
Unobligated Balance, End of Year:			
Apportioned, Unexpired Accounts	893,514	893,514	1,223,752
Unexpired Unobligated Balance, End of Year	893,514	893,514	1,223,752
Unobligated Balance, End of Year (Total)	893,514	893,514	1,223,752
Total Budgetary Resources	$ 19,067,572	$ 19,067,572	$ 18,400,108
OUTLAYS, NET			
Outlays, Net (Total) (Discretionary and Mandatory)	$ 149,127	$ 149,127	$ (428,451)
Agency Outlays, Net (Discretionary and Mandatory)	$ 149,127	$ 149,127	$ (428,451)

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

November 7, 2022

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 2022 and FY 2021 (Project No. D2022-D000FT-0074.000, Report No. DODIG-2023-018)

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 years ended September 30, 2022, and 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'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 2022, Volume 1, Volume 2 (Updated, June 2022), and Volume 3 (Updated, June 2022). 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 2022 and FY 2021 Financial Statements and related notes.

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

- establish entity level controls that provide a basis for effective financial reporting;
- 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;
- ensure the effective design and operation of financial information systems;
- document inventory policies and procedures or fully implement internal controls to identify, track, and value inventory;
- oversee inventory managed and held by contractors and other defense organizations;
- develop adequate accounting policies, procedures, or internal controls over Accounts Payable, gross costs, and contract financing payment balances;
- apply its revenue recognition correctly or support its accounts receivable balance; or
- develop sufficient policies, procedures, or internal controls to fully reconcile Fund Balance With Treasury.

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'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.

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

* 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.

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 2022 and 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'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 7, 2022 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

Ernst & Young LLP
1775 Tysons Boulevard
Tysons, VA 22102

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

Report of Independent Auditors

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

Report on the Audit of the Financial Statements

Disclaimer of Opinion

We were engaged to audit the financial statements of the Department of the Air Force Working Capital Fund (DAF WCF), which comprise the consolidated balance sheets as of September 30, 2022 and 2021, and the related consolidated statements of net cost and changes in net position and combined statements of budgetary resources for the years then ended, and the related notes (collectively referred to as the "financial statements").

We do not express an opinion on the accompanying financial statements of the DAF WCF. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

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 of these matters, we were unable to determine whether any adjustments might have been found necessary in respect of recorded or unrecorded balances and the elements making up the DAF WCF's financial statements as of and for the years ended September 30, 2022 and 2021.

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 DAF WCF's financial statements as of and for the years ended September 30, 2022 and 2021 is not currently determinable by the DAF WCF and could be material.

Building a better working world

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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 Responsibilities for the Audit of the Financial Statements

Our responsibility is to conduct an audit of the DAF WCF's financial statements in accordance with auditing standards generally accepted in the United States of America, in accordance with the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*), and in accordance with the provisions of Office of Management and Budget Bulletin No. 22-01, *Audit Requirements for Federal Financial Statements*, and to issue an auditor's report. However, because of the matters described in the Basis for Disclaimer of Opinion section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

We are required to be independent of the DAF WCF and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and Required Supplementary Information, as listed in the Table of Contents, be presented to supplement the financial statements. Such information is the responsibility of management and, 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 section of our report. We do not express an opinion or provide any assurance on the information.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we also have issued our reports dated November 7, 2022 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

Building a better working world

and 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 audit performed in accordance with *Government Auditing Standards* in considering the DAF WCF's internal control over financial reporting and compliance.

Ernst + Young LLP

November 7, 2022

Building a better working world

Ernst & Young LLP
1775 Tysons Boulevard
Tysons, VA 22102

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

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 (*Government Auditing Standards*) and the provisions of Office of Management and Budget (OMB) Bulletin No. 22-01, *Audit Requirements for Federal Financial Statements*, the financial statements of the Department of the Air Force Working Capital Fund (the DAF WCF), which comprise the consolidated balance sheet as of September 30, 2022, 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 (collectively referred to as the "financial statements") and have issued our report thereon dated November 7, 2022. Our report disclaims an opinion on the financial statements because 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.

Report on 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 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 and in more detail in Appendix A, 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, 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 VIII. 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 IX to be a significant deficiency.

Material Weaknesses

I. Entity Level Controls (ELCs) - Establishing 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 WCF's control environment, risk assessment, control activities, information and communication and monitoring components:

- Enhanced integration and oversight of risks by enterprise leadership is needed
- 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 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.

Building a better working world

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

III. Financial Information Systems- Our assessment of the DAF WCF'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:

IT General Controls

- Access controls
- Configuration management/change controls
- Segregation of duties
- Security management

Application Controls

- Interface controls
- Business process controls

IV. 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.

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

V. 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 and to maintain effective internal controls over quantities.

Building a better working world

We identified the following:

- Insufficient oversight of inventory managed by the Defense Logistics Agency (DLA)
- Insufficient oversight of inventory managed by contractors and other defense organizations

VI. Accounts Payable (AP), Gross Costs, and Accounting for 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
- Inadequate controls over accounts payable, contract financing payments, gross costs, cash disbursement and obligation processes

VII. 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

VIII. 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

Significant Deficiencies

IX. 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.

DAF WCF's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the DAF WCF's response to the findings identified in our engagement and described in the accompanying letter (Management's Response Letter as listed in the Table of Contents) dated November 7, 2022. The DAF WCF's response was not subjected to the other auditing procedures applied in the engagement to audit the financial statements and, accordingly, we express no opinion on the response.

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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 7, 2022 on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that 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 compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the DAF WCF's compliance.

Ernst + Young LLP

November 7, 2022

Building a better working world

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 Entity Level Controls (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 DAF WCF has maintained governance activities to fulfill the responsibilities of the Risk Management Council (RMC), the Senior Management Council (SMC), and the Executive Steering Committee (ESC) (functioning as its Senior Assessment Team) as described in OMB Circular A-123.

In addition, organizations must integrate its efforts to meet the requirements of the Federal Managers' Financial Integrity Act (FMFIA) of 1982 with the Enterprise Risk Management requirements 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, reporting, accounting, and auditing. It must support the effectiveness and the integrity of every step of the process and provide continual feedback to management.

The DAF WCF has cross-cutting financial, IT, and operational risks that impacts the entity's ability to achieve and sustain an effective internal control environment. At the enterprise-level, the DAF WCF has not developed an integrated prioritization for evaluating and remediating these risks in concert with its roadmap towards becoming auditable. Without immediate action and sufficient attention to these matters, the DAF WCF will be challenged to remediate existing material weaknesses timely.

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

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

The Deputy Assistant Secretary for Financial Operations (SAF/FMF and SAF/FM CIO) has the overall responsibility for the DAF WCF's financial statement audit readiness and compliance, while Air Force Material Command (AFMC) has functional responsibility for audit readiness for the DAF WCF; however, efforts supporting financial statement audit and audit remediation requires inputs from the entire organization, including major commands (MAJCOMs), field commands (FIELDCOM) and Headquarters Air Force organizations. Continued improvements in

Building a better working world

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.

We identified the following conditions that indicate 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**—The DAF WCF continued to evolve its governance activities as part of its OMB Circular A-123 and Enterprise Risk Management programs. However, it is not entirely apparent, or documented, how DAF WCF'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 WCF'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.

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

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.

Lack of assessment, monitoring and effective implementation of recent accounting guidance

As the DAF WCF 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 WCF has not fully established a process to effectively assess, monitor and implement accounting guidance issued by the Federal Accounting Standards Advisory Board (FASAB). The effect on the financial statement amounts involved is not currently determinable by the DAF WCF and could be material.

Enhanced financial statement review procedures are needed

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:

- Supporting documentation that did not adequately support amounts included in the disclosures or could not be provided in a timely manner.
- Noncompliance with the requirements of Circular A-136, *Financial Reporting Requirements*, such as:

EY
Building a better working world

    - Lack of complete and accurate disclosures.
- Continued enhancement of the DAF WCF Accounting Oversight & Data Analysis branch is needed to ensure sufficient controls and procedures related to financial statement analytical reviews and oversight

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.

Recommendations:

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

Related to enhanced integration and oversight of risks by enterprise leadership is needed

- Enhance the existing risk assessment of the DAF WCF Internal Control Program and verify that all risks are identified, assessed and concluded upon annually.
- Enhance ongoing reviews of areas AU level testing to ensure disclosures are complete, accurate and compliant with OMB Circular A-123 and Government Accountability Office (GAO) Green Book guidance.
- 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.

Related to additional emphasis needed to meet external financial reporting objectives

- Dedicate resources to track and coordinate the assessment of the impact and implementation of accounting guidance and technical updates.
- Continue to review OMB Circular A-136 requirements to ensure updated guidance is evaluated and incorporated in a timely manner.
- 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 Statement of Net Cost by determining major organizations/programs and implement processes to capture costs.
- 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
- Enhance internal control procedures related to financial statement analytical reviews,
- Enhance procedures related to Journal Voucher oversight

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.

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 just 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 aggregated into this material weakness:

(a) Inability to validate the completeness of transactions underlying the financial statements

The DAF WCF currently 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

A member firm of Ernst & Young Global Limited

Building a better working world

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 Defense Industrial Financial Management System (DIFMS), to GAFS-R. While progress has been made, the DAF WCF lacks certain aspects of an effective control environment related to the Statement of Budgetary Resources Automated Reconciliation Tool (SBR-ART), including control activities to identify, investigate and remediate variances timely identified by the reconciliations.
- 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 it was unable to identify JV's which 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, it 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 DAF WCF currently has not identified key controls over the QDD process it is performing, including control activities to identify, investigate and 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 that there are 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.

EY
Building a better working world

- The DAF WCF was unable to identify the root cause and composition of an adjustment driving a variance between inventory subledgers (FIABS, ILS-S and DMLSS) and SMAS.

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, 2022, 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.

(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

Building a better working world

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, which includes

EY Building a better working world

representation from SAF AQ, DFAS, SAF/MG among others, as well as the A4 portfolio board, meet 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:

Related to inability to validate the completeness of transactions underlying the financial statements

- 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.
- Design effective SBR-ART control activities which prevent or detect the identified risks of material misstatement
- Design effective QDD control activities which prevent or detect the identified risks of material misstatement
- 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 executed by DFAS and FMRA:
    - Perform a risk assessment of the FSCR class of transaction and identify all risks of material misstatement

EY
Building a better working world

    - 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
- Design and implement a periodic review control over inventory adjustments and the associated JVs to ensure that the adjustment is complete and accurate.

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.

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.

Building a better working world

        - Prioritize cross-functional requirements into the design and system modernization implementation efforts as well as interoperability and interfaces between financially relevant systems.
    - The DAF WCF should continue to prioritize remediation of IT findings based on severity of the finding and the impact on priority financial business processes while continuing to integrate 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.
- 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.

III. 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:

- IT General Controls
    - 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.
    - Security Management (SM): Controls provide reasonable assurance that overarching system risk management policies and procedures are in place.
- Application Controls
    - 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.
    - Business Process (BP): Controls provide reasonable assurance that transactions and data are complete, accurate, valid and confidential during application processing.

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 WCF's financial statements, IT environment, and financial applications.

EY
Building a better working world

The DAF WCF continues to make progress in remediating prior year IT findings. As the DAF WCF continues to modernize IT applications, it is critical to integrate information systems controls as well as cross functional requirements during the implementation to prevent any weaknesses in the DAF WCF IT controls environment post implementation. The DAF WCF also needs to evaluate the impact of existing IT deficiencies on the future material weakness downgrade efforts.

For example, insufficient consideration of the impact of relevant IT system findings and prior year management risk acceptance conclusions (e.g., lack of sufficient controls over relevant interfaces) continues to impact the DAF WCF's ability to utilize and rely on data extracted and used in the execution of financial control activities. The DAF WCF's leveraging of the lessons learned from successful remediations of IT general and application controls deficiencies across financially significant applications is critical as existing investments are made by the DAF WCF and for overall sustainment of an effective IT control environment.

For FY22, all of the DAF WCF's in-scope financial applications had ineffective IT general controls. Further, the majority of audit findings identified in the current year across all applications are related to access controls/segregation of duties, change management and interfaces/business processes deficiencies.

Ineffective IT general controls will continue to impact any of DAF WCF's material weakness downgrade plans in future years. For example, the lack of adequate IT general controls around micro-applications, ad-hoc reporting tools, etc., used for reconciliation of financially significant data, increases the organization's risks related to its ability to validate the completeness and accuracy of data utilized in the execution of its financial control activities. In addition, insufficient controls for ensuring completeness and accuracy of information produced by the entity also threaten management's efforts to address material weaknesses. These findings relate to incomplete data used for internal management review controls related to access, change management and segregation of duties as well as inaccurate data used for financial reporting and reconciliations.

Management's inability to leverage critical existing functionalities available within financial applications is leading to the DAF WCF not realizing the full return on investment (RoI) already made in modernizing its IT infrastructure coupled with an inability to rely on application controls where most financial transaction processing efficiencies could be gained. As a result, this inhibits the DAF WCF's ability to enhance the timeliness, availability and accuracy of information, as produced by IT systems, without manual intervention. For example, management has not fully leveraged:

- Additional edit checks and/or controls embedded within an application to prevent processing errors rather than relying primarily on manual detective and workaround controls.
- Existing logging capabilities to produce and retain complete and accurate audit trails of changes to production code, application configurations, data directly modified by database accounts and key reports.

EY
Building a better working world

- Knowledge of how information produced by the entity is generated from source systems to validate and document the completeness and accuracy of data used in management review controls and reporting.

(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.
- Monitoring of system activities performed by privileged users 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.

(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

EY Building a better working world

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 have access to make modifications directly to the production environment, increasing the risk of unauthorized changes.
- System teams are unable to produce complete and accurate logs of code files implemented to the production environment.
- Software changes are not properly reviewed, approved, tested and documented.
- Software changes to production environments are not being monitored to verify their appropriateness.
- Changes to system code, key application configurations (settings modifiable by application users), databases, and key reports 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.

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.

Building a better working world

- 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.
- Temporary access assignments were used to alternate between conflicting application roles, increasing the risk of circumventing SoD controls.

(d) 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):

- 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.
- System teams are not appropriately monitoring execution of controls managed by service organizations (e.g., DISA, Cloud One). For example, assessments of CUECs and inherited controls in SOC 1 reports were not performed, and for service organizations that do not have a SOC report, sufficient monitoring controls have not been consistently established.

EY Building a better working world

(e) 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.

(f) Business Process Controls

Business process controls relate to the completeness, accuracy, validity and confidentiality of data within application processing. Such controls include transaction inputs, processing and outputs, as well as master file data setup and maintenance.

We identified that Business Process configurations and their related posting logic are not monitored for compliance to applicable federal policies.

Recommendations:

The DAF WCF should continue to prioritize remediation of IT findings based on severity of the finding and the impact on priority financial business processes while continuing to integrate the DAF WCF's IT modernization plan and timelines as part of this prioritization effort.

Best practices learned from successful remediation of CAPs should be shared across the organization and implemented for relevant CAPs for other applications especially during system modernization efforts. This will aid in the prevention of similar findings occurring across the enterprise.

Establish further integration between business process and IT system owners to allow for timely communication and assessment of system deficiencies for systems utilized in the execution of key financial reporting controls.

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
  - 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.
  - Implement or leverage existing logging capabilities to produce and retain complete and accurate audit trails of changes to production code, application configurations, data directly modified by database accounts and key reports.
- Security Management:
  - Finalize the DAF WCF 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. For those service organizations where a SOC report is not performed, implement and conduct appropriate oversight and monitoring over the execution of inherited controls.

Building a better working world

- Interface controls / business process master data setup and maintenance:
  - 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.
  - Perform procedures for formally approving master data changes prior to implementation and retain documentation of approvals.
  - Establish controls for monitoring master data changes for appropriateness.
  - Monitor transaction processing logic to verify compliance with policies, procedures, laws and regulations
- Data completeness and accuracy – applicable to all control areas:
  - Perform and retain documentation of procedures to verify the completeness and accuracy of data used for management review controls and reporting.

IV. 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 Material 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. The procedures and controls performed to execute the oversight and monitoring functions for cycle counts are not sufficiently designed to prevent and or detect and correct a material misstatement in the financial statements resulting from counts
- The DAF WCF has implemented a formal policy and SOP for cycle count procedures for MDD inventory. The procedures and controls performed to execute the oversight and monitoring functions for cycle counts are not sufficiently designed to prevent and or detect and correct a material misstatement in the financial statements resulting from counts.

EY
Building a better working world

(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 of these transactions or sample audit of these transactions occurs.
- There is no reconciliation process in place to ensure that 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 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.

Building a better working world

- 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.
- The DAF WCF currently does not have detailed accounting policy interpretations and definitions for the Excess and Obsolete categorizations of inventory as identified in Statement of Federal Financial Accounting Standards (SFFAS) 3.

(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 a complete and accurate population of, including the valuation of, in-transit inventory at the item and transaction level. The balance of in-transit inventory recorded in the financial statements 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:

- The DAF WCF has developed in-transit listings for SCS and ILS-S to provide visibility over the number and value of open in-transit transactions at a given period end, which represents transactions that have been shipped from one location, but not yet received at the receiving location and recorded within the system. However, the results of our testing resulted in inaccurate inclusion of transactions within the in-transit listings.
- The DAF WCF has not designed, implemented, or documented within an existing process cycle memorandum (PCM) appropriate oversight and monitoring controls over in-transit inventory.
- The DAF WCF identified various data paths through which in-transit inventory transactions are created and subsequently cleared. However, the DAF WCF has not currently identified the automated controls by which in-transit records are created and subsequently cleared from the in-transit listings in a PCM. Additionally, the DAF has not identified in a PCM or implemented a review control that ensures data paths that lack an interface and the transactions within that data path are manually reviewed in order to overcome the lack of an existing interface.
- 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.
- Design and implement control(s) to ensure periodic review of consolidated cycle count accuracy, both consolidated and at the location level, against pre-established quantitative thresholds deemed by management to be "highly accurate"
- Management should evaluate and define within their inventory count policy a quantitative accuracy threshold for consolidated count results to be evaluated and determine corrective action process should count results fall below this threshold
- Design and implement control(s) to ensure 100% of assets have been or will be counted by the end of the fiscal year in accordance with the established count plan

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.

EY
Building a better working world

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.
- Establish a policy in writing that interprets the SFFAS 3 definition of Excess and Obsolete inventory as it relates to the accounting for inventory transactions under the DAF WCF's operational procedures.
- Design effective control activities which prevent or detect the identified risks of inaccurately valuing Excess and Obsolete inventory.

Related to in-transit inventory

- Design, identify and execute periodic oversight and monitoring controls over in-transit inventory for SCS and ILS-S
- Identify and implement key application and interface controls within either a new or existing PCM for each data path in which an interface does exist.
- Identify and implement manual review controls within a PCM for each data path in which an interface does not exist.
- Create a sub-account for MDD WRM in-transit materials in order to maintain appropriate records in DMLSS at the asset level.

V. INVENTORY HELD BY OTHERS

A significant portion of the DAF WCF inventory balances are held by others, including DLA, outside contractors, and other defense organizations.

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 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) 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 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 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 quantity data from various inventory feeder systems impacting contractor and other defense organization inventory and the data which ultimately flows to the FIABS inventory subledger. 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.

EY
Building a better working world

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. Additionally, 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 a different stock number 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.

Additionally, we identified certain assets that were recorded within the inventory subledger as on-hand with contractors that had already been physically shipped back to the DAF WCF, causing the assets to be double counted. The DAF WCF identified the population of assets within this scenario and worked to correct the transactions prior to year-end, however, no effective internal controls currently exist to address this circumstance. The DAF WCF determined that there is not one, single root cause creating the hanging shipments, and further evaluation must be performed to help pinpoint the underlying driver for the transactions not being processes correctly

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 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:

Related to the insufficient oversight of inventory managed by DLA

- 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.

EY
Building a better working world

  - 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.

Related to the insufficient oversight of inventory managed by contractors and other defense organizations

- 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 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.
- Identify and implement a review control over the “Received, Not Shipped” report, including timely follow up and resolution procedures.

Building a better working world

VI. ACCOUNTS PAYABLE, GROSS COSTS 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 WCF has not fully demonstrated its integration and consideration of financial reporting risks that extend across multiple business processes, and its development and retention of adequate documentation of its acquisition, logistics, and accounting processes, and the completeness and accuracy of data from asset procurement through receipt, invoicing and payment. For example, this includes areas such as accounts payable (AP), contract financing payments (CFP), 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 Vendor Pay, Mechanization of Contract Administration Services (MOCAS), and Military Standard Requisitioning & Issue Procedures (MILSTRIP).

As a result, the complete end-to-end process flows, procedures and key controls are not accurately and/or sufficiently assessed and documented. The DAF WCF's process cycle memorandums (PCMs) lack policies and procedures to sufficiently identify the financial reporting risks and corresponding controls. This includes, but is not limited to, an insufficient assessment of relevant IT applications and tools (including interface and application controls), insufficient oversight and monitoring of service providers, timely recording of transactions as well as the lack of sufficiently designed and executed controls over the completeness and accuracy of data used in the execution of key controls The PCMs also do not reference or incorporate cross-cutting controls and processes that are significant, but documented as part of other processes (e.g., FBwT, financial reporting).

(b) Inadequate controls over AP, CFP, gross costs, cash disbursement and obligation processes

The DAF WCF lacks sufficient oversight and monitoring controls to detect and correct conditions that could lead to misstatements in the financial statements. As discussed in the "Integration and Reconciliation of Financial Systems" material weakness, controls have not been fully implemented to reconcile balances in relevant feeder systems to the financial statements, the entity is unable to categorize data from its universe of transactions into applicable categories or relevant business processes and the entity's posting logic in key financial systems is not always in accordance with the TFM. As a result of these challenges, the DAF WCF has not fully designed relevant account reconciliations (e.g., accounts payable, advances and prepayments, outstanding contract financing payments), account rollforwards, or other analyses. Therefore, the entity is also unable to execute sufficient oversight and monitoring procedures over conditions such as:

- Transactions recorded in the incorrect period
- Dormant obligations or stale payables
- Untimely recording of obligations
- Unmatched disbursements

The lack of or inadequate controls over AP, CFP, gross costs, cash disbursement and obligations processes have had a downstream impact on other processes, leading to significant efforts to design mitigating controls in those areas that would not otherwise have been necessary. Controls designed in other areas have identified certain root causes that also indicate the need for enhanced preventative controls at the installation level or other system changes that may be necessary to better support budget execution and monitoring.

Recommendations:

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

- Identify the risks that are posed to the financial statement line items, relevant assertions, general ledger accounts for these cycles. Based on the risks, DAF WCF should perform the following:
    - Document the process flow of transactions, including the IT systems and applications, that generate those risks and the process owners (including within DAF WCF and third-parties) responsible for assessing the risks.
    - Identify and document the corresponding key controls (both prevent and detect and correct controls) that address those risks to adequately account for and report in the appropriate financial statement line item. For those areas primarily handled by third parties, develop appropriate DAF WCF monitoring controls over the procedures and controls performed by the third-party service organizations.
- Evaluate systemic capability and integration necessary across acquisition, logistics, and financial systems to better support achievement of operational and financial objectives.
- Understand the set of data elements and business rules utilized to produce a universe of transactions for each P2P transaction-type and assess whether feeder systems (funding, contract writing, entitlement, and disbursements) have sufficient data traceability for all procurement actions. This includes tracking of the committed funds, obligation funding and execution, such as receipt/ acceptance and disbursement data.

- Develop, document and implement reconciliations, rollforward procedures or other analyses supporting significant general ledger accounts such as: accounts payable, advances and prepayments/outstanding contract financing payments).
- Develop, design, and implement review controls for each AU sub-process (e.g., MOCAS, MILSTRIP, Vendor Pay Contracts) at an appropriately disaggregated level to identify individual root causes of unmatched disbursements, aged transactions, and abnormal balances relevant to financial reporting and fiscal compliance objectives. This analysis should include the defining of appropriate thresholds, adequate evidence retained to support the review performed, and notations or explanations from the reviewer to support any judgment applied.
- Develop policies and define control owners and responsibilities by organization, to include Base and MAJCOM/FIELDCOM levels, Air Force Accounting and Finance Office (AFAFO), Accounting Operations Center (AOC) and any other relevant organizations, including those responsible for research, correction and root cause analysis.
- Develop, document, and implement the methodologies, assumptions, policies, and procedures to identify and record period end accruals, including retrospective reviews and analysis as appropriate.

VII. 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. Furthermore, management does not sufficiently review prior year accrual to actuals to determine if the estimate should be refined in future periods. In addition, the DAF WCF 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 occurring. 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 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.

Building a better working world

- Develop sufficient controls to reconcile and monitor the accounts receivable subsidiary ledger at the invoice level to the general ledger.

VIII. FUND BALANCE WITH TREASURY

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 Defense Departmental Reporting System, - Budgetary (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 JVs are posted. We identified instances where the undistributed JVs 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.

In addition to the deficiencies identified related to the undistributed JV's, we identified that the DAF WCF lack effective controls over the outputs of the FBwT reconciliation, including insufficient procedures related to reviews of manual changes to the reconciliation workflow, and insufficient procedures related to follow up and resolution of identified variances within the reconciliation.

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 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, PCM).
- Complete the review of the FBwT reconciliation timely to detect and correct errors and prior to the reporting of financial statements in each period
- Develop and/or improve existing communication protocols between the DAF WCF and service providers on the FBwT reconciliation to support the effectiveness of the controls developed.

EY
Building a better working world

Significant Deficiency

IX. General Property, Plant and Equipment (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 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 Entity Level Controls material weakness.

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.

Ernst & Young LLP
1775 Tysons Boulevard
Tysons, VA 22102

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

Report of Independent Auditors on Compliance and Other Matters Based on an 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 (*Government Auditing Standards*) and the provisions of Office of Management and Budget (OMB) Bulletin No. 22-01, *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, 2022, 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 (collectively referred to as the "financial statements") and have issued our report thereon dated November 7, 2022. Our report disclaims an opinion on the financial statements because the DAF WCF continues to have unresolved accounting issues and material weaknesses in internal controls that cause DAF WCF to be unable to provide sufficient evidential support for complete and accurate financial statements on a timely basis.

Report on Compliance and Other Matters

In connection with our engagement to audit the financial statements, we performed tests of DAF WCF's 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). 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 or other matters that are required to be reported under *Government Auditing Standards* and the provisions of OMB Bulletin No. 22-01, 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 of Independent Auditors on Internal Control over Financial Reporting dated November 7, 2022 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.

EY
Building a better working world

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) Noncompliance with federal financial management system requirements

As referenced in the Fiscal Year (FY) 2022 DAF WCF Statement of Assurance, the DAF WCF identified that financial systems and financial portions of mixed systems do not substantially meet the requirements of 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 of Independent Auditors on Internal Control over Financial Reporting, where we identified noncompliance with federal financial management system requirements for multiple systems. Deficiencies identified include those associated with security management, access controls/user access, configuration management/change controls, segregation of duties, interface controls and business process 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 2022 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 of Independent Auditors on Internal Control over Financial Reporting.

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

As referenced in the FY 2022 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 of Independent Auditors on Internal Control over Financial Reporting.

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 certain aspects of OMB Circular A-123, which implemented FMFIA. The DAF WCF provided the FY 2022 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 WCF. 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.

DAF WCF's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the DAF WCF's response to the findings identified in our engagement and described in the accompanying letter (Management's Response Letter as listed in the Table of Contents) dated November 7, 2022. The DAF WCF's response was not subjected to the other auditing procedures applied in the engagement to audit the financial statements and, accordingly, we express no opinion on the response.

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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 7, 2022 on our consideration of DAF WCF's internal control over financial reporting. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and the results of that testing, and not to provide an opinion on the effectiveness of DAF WCF's internal control over financial reporting. That report is an integral part of an audit

Building a better working world

performed in accordance with *Government Auditing Standards* in considering DAF WCF's internal control over financial reporting.

Ernst + Young LLP

November 7, 2022

DEPARTMENT OF THE AIR FORCE
WASHINGTON DC

OFFICE OF THE ASSISTANT SECRETARY

7 November 2022

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 2022 Working Capital Fund financial statements and acknowledges and concurs with your issuance of a disclaimer of opinion. We continue to appreciate your constructive audit findings included in your reports of *Internal Control Over Financial Reporting and Compliance and Other Matters*. We remain steadfast in our commitment to improving our financial practices and will leverage both your recommendations and our lessons learned to continue building upon our remediation strategy and enhancing our internal control environment.

The Department of the Air Force has now undergone five full financial statement audit cycles and has made significant progress in remediating deficiencies. In response to your findings, we developed corrective action plans and validated their effectiveness. We also continued our assessment processes as prescribed in the Office of Management and Budget Circular A-123 to assess the effectiveness of internal controls over financial reporting. As a result of prioritizing efforts to downgrade material weaknesses year-over-year, the Department of the Air Force has steadily climbed the rankings to be among the top Military Services in the annual Department of Defense Congressional Audit Rankings Report.

A major highlight born of audit findings and corrections was the continued iterative development of the cash flow dashboard and modeling capability that has provided heightened visibility into the Department of the Air Force's Working Capital Fund cash balances and helped forecast future cash flow needs. The automated tool has increased data delivery and provided real-time, daily data to enterprise stakeholders, which has improved the Working Capital Fund's cash solvency and mission support to the warfighter.

Although we are proud of the progress we have made, we realize there are many challenges that lay ahead. Currently, a fragmented approach exists in managing the Information Technology aspects of our material weaknesses, which are rooted in system interface issues, interoperability gaps, cybersecurity risks, and data quality challenges. However, efforts are underway to remediate these gaps in enterprise-wide Information Technology decision making with the goal of improving data quality and cybersecurity and providing repeatable governance and decision-making processes that support sustainable progress toward transformation.

The audit continues to influence the way we are transforming our business processes and we look forward to continued collaboration in the future.

Sincerely,

Kristyn E. Jones

Kristyn E. Jones
Assistant Secretary of the Air Force
(Financial Management and Comptroller)

OTHER INFORMATION

U.S. Air Force Airmen assigned to the 721st Aerial Port Squadron (APS) pose for a unit photo, Ramstein Air Base, Germany. 721 APS is a squadron under the 521st Air Mobility Operations Wing which executes world-class aerial port services in support of five combatant commanders.
Photo: [Edgar Grimaldo], [Airman 1st Class]

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 18 material weaknesses identified by the Independent Public Accountant (IPA) during the DAF's financial statement audit.

TABLE 1: Fiscal Year 2022 Summary of Financial Statement Audit

AUDIT OPINION: DISCLAIMER OF OPINION							
RESTATEMENT: YES *(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
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	1			(1)	0		
Oversight and Monitoring of Internal Control	1		(1)*		0		
Accounts Payable, Expenses/Gross Costs and Accounting for Contract Financing Payments	2				2	1	1
Entity Level Controls	1			1	2	1	1
Financial Information Systems	2				2	1	1
Total Material Weaknesses	19	0	(1)	0	18	10	8

**Resolved in this instance represents material weaknesses that have been downgraded to a significant deficiency in the current year.*

SUMMARY OF FINANCIAL STATEMENT AUDIT AND MANAGEMENT ASSURANCES

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 Circular No. 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 2022 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**	**REASSESSED**	**ENDING BALANCE**
Accounts Payable, Expenses, and Accounting for Contract Financing Payments (formerly 'Accounts Payable, Expenses/Gross Costs and Accounting for Contract Financing Payments') (DAF GF)	1					1
Contingent Legal Liabilities (DAF GF)	1		(1)*			0
Entity Level Controls (formerly 'Accumulating and Preparing Financial Statements') (DAF GF)	1					1
Fund Balance with Treasury (DAF GF)	1					1
Integration and Reconciliation of Financial Systems (DAF GF)	1					1
Military Equipment (DAF GF)	1					1
Operating Materials and Supplies (DAF GF)	1					1
Other General Equipment (DAF GF)	1					1
Oversight and Monitoring of Internal Controls (DAF GF)	1		(1)			0

SUMMARY OF FINANCIAL STATEMENT AUDIT AND MANAGEMENT ASSURANCES

EFFECTIVENESS OF INTERNAL CONTROL OVER FINANCIAL REPORTING *(FMFIA SECTION 2)*						
STATEMENT OF ASSURANCE: MODIFIED ASSURANCE						
MATERIAL WEAKNESS	BEGINNING BALANCE	NEW	RESOLVED	CONSOLIDATED	REASSESSED	ENDING BALANCE
Property and Materials Held by Others (DAF GF)	1					1
Real Property (DAF GF)	1					1
Accounts Payable, Gross Costs and Contract Financing Payments (formerly 'Accounts Payable, Expenses/Gross Costs and Accounting for Contract Financing Payments') (DAF WCF)	1					1
Accumulating and Preparing Financial Statements (DAF WCF)	1					1
Earned Revenue and Accounts Receivable (formerly 'Earned Revenue') (DAF WCF)	1					1
Fund Balance with Treasury (DAF WCF)	1					1
General Property, Plant, and Equipment (DAF WCF)	1		(1)*			0
Integration and Reconciliation of Financial Systems (DAF WCF)	1					1
Inventory Held by the Department of the Air Force Working Capital Fund (formerly 'Inventory Held by Air Force Working Capital Fund') (DAF WCF)	1					1
Inventory Held by Others (DAF WCF)	1					1
Oversight and Monitoring of Internal Controls (DAF WCF)	1					1
Total Material Weaknesses	20	0	(3)	0	0	17

**Resolved in this instance represents material weaknesses that have been downgraded to a significant deficiency in the current year.*

SUMMARY OF FINANCIAL STATEMENT AUDIT AND MANAGEMENT ASSURANCES

EFFECTIVENESS OF INTERNAL CONTROL OVER OPERATIONS *(FMFIA SECTION 2)*						
STATEMENT OF ASSURANCE: MODIFIED ASSURANCE						
MATERIAL WEAKNESS	**BEGINNING BALANCE**	**NEW**	**RESOLVED**	**CONSOLIDATED**	**REASSESSED**	**ENDING BALANCE**
Consumable Parts Disposal		1				1
Contracting Officer Representatives	1					1
Criminal Data Reporting Requirements	1					1
Cybersecurity of Network Component Purchases	1					1
Cyber Security Control of Assessment Systems	1					1
Defense Contract Management Agency Contracts	1		(1)			0
Enterprise Information Protection Capability	1		(1)			0
F-35 Cooperative Training	1		(1)			0
Foreign Government Employment	1					1
Installation Chemical, Biological, Radiological, and Nuclear Defense Readiness		1				1
Integrated Base Defense Security System Risk Management Framework	1					1
Marketing and Recruiting Programs	1					1
Networked Data Protection	1					1
Overseas Housing Allowance	1		(1)			0
Protection of Technical and Proprietary Data		1				1
Secure Internet Protocol Router Network Access Controls		1				1
Segregation of Duties in Defense Travel System Controls	1					1
Software Use	1					1
Total Material Weaknesses	14	4	(4)	0	0	14

SUMMARY OF FINANCIAL STATEMENT AUDIT AND MANAGEMENT ASSURANCES

CONFORMANCE WITH FEDERAL FINANCIAL MANAGEMENT SYSTEMS REQUIREMENTS *(FMFIA SECTION 4)*						
STATEMENT OF ASSURANCE: FEDERAL SYSTEMS DO NOT CONFORM TO FINANCIAL MANAGEMENT SYSTEM REQUIREMENTS						
NONCONFORMANCES	**BEGINNING BALANCE**	**NEW**	**RESOLVED**	**CONSOLIDATED**	**REASSESSED**	**ENDING BALANCE**
Financial Information Systems (DAF GF)	1					1
Financial Information Systems (DAF WCF)	1					1
Total Nonconformances	2	0	0	0	0	2

COMPLIANCE WITH SECTION 803(A) OF THE FEDERAL FINANCIAL MANAGEMENT IMPROVEMENT ACT		
STATEMENT OF ASSURANCE: MODIFIED ASSURANCE		
	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

The United States Air Force Air Demonstration Squadron, known as the Thunderbirds, perform for the Airshow London Skydrive in London, Ontario. This was the Thunderbirds second performance in Canada for the 2022 season.

Photo: [Andrew D. Sarver], [Staff Sgt.]

U.S. Air Force Senior Airman Stephen Chaves, 414th Maintenance Squadron avionics technician, adjusts his protective gear before entering an F-15E Strike Eagle at Royal Air Force Lakenheath, England. The 414th Fighter Group hosts the only F-15E Strike Eagles in the U.S. Air Force Reserve.

Photo: [Jacob Wood], [Airman 1st Class]

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 2022, and based on our review, we identified immaterial adjustments to account for changes in market conditions.

An F-16 Fighting Falcon from the 310th Fighter Squadron at Luke Air Force Base, AZ, prepares to take fuel from a KC-135 Stratotanker. The KC-135 crew made 31 contacts and provided over 39,000 thousand pounds of fuel during their mission.

Photo: [Trenton Jancze], [Airman 1st Class]

GLOSSARY OF ACRONYMS

ABMS	Advanced Battle Management System
ACC	Air Combat Command
ACE	Agile Combat Employment
ACF	Area Cost Factor
AD	Active Duty
ADA	Anti-Deficiency Act
AETC	Air Education and Training Command
AFB	Air Force Base
AFCEC	Air Force Civil Engineer Center
AFFF	Aqueous Film Forming Foam
AFGSC	Air Force Global Strike Command
AFI	Air Force Instruction
AFMC	Air Force Materiel Command
AFR	Agency Financial Report
AFRC	Air Force Reserve Command
AFSOC	Air Force Special Operations Command
AI	Artificial Intelligence
AMC	Air Mobility Command
ANG	Air National Guard
APSR	Accountable Property System of Record
BAH	Basic Allowance for Housing
BCE	Base Civil Engineer
BD/DR	Building Demolition and Debris Removal
BLOS	Beyond Line-of-Sight
BRAC	Base Realignment and Closure
BS	Balance Sheet (Consolidated
C3	Command, Control, and Communications
CBY	Charge-Back Year
CCAS	Consolidated Cash Accountability System
CERCLA	Comprehensive Environmental Response, Compensation, and Liability Act
CFP	Contract Financing Payments
C-ICP	Contractor-Inventory Control Point
CIP	Construction-in-Progress

GLOSSARY OF ACRONYMS

COLA	Cost of Living Adjustment
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
CZTQ	Environmental Quality Technical Support Branch
DAF	Department of the Air Force
DERP	Defense Environmental Restoration Program
DFAS	Defense Finance and Accounting Service
DM&R	Deferred Maintenance and Repair
DoD	Department of Defense
DOL	Department of Labor
DoT	Department of Transportation
DPAS	Defense Property Accountability System
DRU	Direct Reporting Unit
DTS	Defense Travel System
E&DL	Environmental and Disposal Liabilities
ECA	Environmental Corrective Action
ECR	Environmental Closure Requirements
EI&E	Energy, Installations, and Environment
EISP	End Item Sales Price
EO	Executive Order
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
FAR	Federal Acquisition Regulation
FASAB	Federal Accounting Standards Advisory Board
FBwT	Fund Balance with Treasury
FECA	Federal Employees' Compensation Act

GLOSSARY OF ACRONYMS

FFMIA	Federal Financial Management Improvement Act of 1996
FHIF	Family Housing Improvement Fund
FIAR	Financial Improvement and Audit Remediation
FLDCOM	Field Command
FMFIA	Federal Managers' Financial Integrity Act of 1982
FMR	Financial Management Regulation
FOA	Field Operating Agency
FY	Fiscal Year
FYE	Fiscal Year End
GAAP	Generally Accepted Accounting Principles
GDL	Government Direct Loan
GF	General Fund
GFE	Government-Furnished Equipment
G-Invoicing	Government Invoicing
GPS	Global Positioning System
GSD	General Support Division
HVAC	Heating, Ventilation, and Air Conditioning
I&RP	Inventory and Related Property
IAC	Internal Administrative Claims
ICAM	Identity, Credential, and Access Management
ICBM	Intercontinental Ballistic Missile
ICOR	Internal Controls over Reporting
IPA	Independent Public Accountant
IRP	Installation Restoration Program
ISR	Intelligence, Surveillance, and Reconnaissance
IT	Information Technology
IUS	Internal Use Software
JADC2	Joint All-Domain Command and Control
JCS	Joint Chiefs of Staff
JSF	Joint Strike Fighter
JV	Journal Voucher
LLC	Limited Liability Company
LOP	Lease of Property
LP	Limited Partnership

GLOSSARY OF ACRONYMS

LRC	Latest Repair Cost
MAC	Moving Average Cost
MAJCOM	Major Command
MC	Munitions Constituents
MDMA	Master Development and Management Agreement
MEWP	Military Equipment / Weapons Programs
MHPI	Military Housing Privatization Initiative
MILCON	Family Housing and Military Construction
MILPERS	Military Personnel
MMRP	Military Munitions Response Program
MOCAS	Mechanization of Contract Administration Services
MRAP	Mine-Resistant Ambush Protected
MRP	Moisture Remediation Program
NATO	North Atlantic Treaty Organization
NDAA	National Defense Authorization Act
NexGen IT	Next Generation Information Technology
NFR	Notices of Findings and Recommendation
NMUSAF	National Museum of the U.S. Air Force
NPRM	Notice of Proposed Rulemaking
NRHP	National Register of Historic Places
NRV	Net Realizable Value
NTDO	Non-Treasury Disbursing Office
N/A	Not Applicable
OASD	Office of the Assistant Secretary of Defense
OCFP	Outstanding Contract Financing Payments
OEL	Other Accrued Environmental Liabilities
OM&S	Operating Materials and Supplies
OMB	Office of Management and Budget
OPM	Office of Personnel Management
OWS	Oil Water Separator
PACAF	Pacific Air Forces
PFAS	Polyfluoroalkyl Substances
PIF	Performance Incentive Fee
PII	Personally Identifiable Information
PIP	Performance Incentive Plan

GLOSSARY OF ACRONYMS

POM	Program Objective Memorandum
PP&E	Property, Plant, and Equipment
PPV	Public-Private Venture
PRV	Plant Replacement Value
P3	Public-Private Partnership
RACER	Remedial Action Cost Engineering and Requirements
RCRA	Resource Conservation and Recovery Act
RDT&E	Research, Development, Test, and Evaluation
RI/FS	Remedial Investigation/Feasibility Study
RMC	Risk Management Council
RPA	Robotic Process Automation
RPCS	Real Property Categorization System
RPUID	Real Property Unique Identifier
SAT	Senior Assessment Team
SATCOM	Satellite Communication
SBR	Statement of Budgetary Resources
SCAR	Satellite Communications Augmentation Resource
SCNP	Statement of Changes in Net Position
SDP	Savings Deposit Program
SecAF	Secretary of the Air Force
SFFAS	Statement of Federal Financial Accounting Standard
SMAG-R	Supply Management Activity Group - Retail
SMC	Senior Management Council
SME	Subject Matter Expert
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
STARCOM	Space Training and Readiness Command
S/L	Straight Line
TDO	Treasury Disbursing Office
TFM	Treasury Financial Manual

GLOSSARY OF ACRONYMS

TNC	Treasury Nominal Coupon
U.S.	United States
UDC	User Defined Costs
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
USTRANSCOM	U.S. Transportation Command
WCF	Working Capital Fund
WRM	War Reserve Material
WSS	Weapon System Sustainment

U.S. Air Force Airmen and Space Force Guardians march during a basic military training coining ceremony, at the Pfingston Reception Center on Joint Base San Antonio-Lackland, TX.
Photo: [Ethan Johnson], [USSF]

FOR MORE INFORMATION OR TO CONTACT US:
Assistant Secretary of the Air Force for Financial Management and Controller
SAF/FMA *(Financial Reporting)*

1500 West Perimeter Road, Suite 3100
Joint Base Andrews, Maryland 20762
www.saffm.hq.af.mil