Department of the Air Force

Agency Financial Report

Fiscal Year 2020

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COVER PHOTO CREDIT

Top: Four F-35A Lightning IIs, assigned to the 388th Fighter Wing at Hill Air Force Base, Utah, fly in formation over Denali National Park, Alaska. The 388th Fighter Wing participated in exercise Red Flag-Alaska 20-3 during which fourth and fifth-generation fighter aircraft trained side-by-side in the Joint Pacific Alaska Range Complex. (Photo credit: Tech. Sgt. Jerilyn Quintanilla)

Bottom: An Atlas V carrying the USSF-7 mission to space lifts off from Space Launch Complex-41 at Cape Canaveral Air Force Station, Florida. The mission marks the 80th successful mission in a row for the National Security Space Launch program. (Photo courtesy of United Launch Alliance)

Barbara Barrett

Message from the Secretary of the Air Force

For the Fiscal Year 2020 Agency Financial Report

On behalf of the men and women of the Air Force and Space Force, I am proud to present our Agency Financial Report for Fiscal Year 2020. The report provides the American people with an overview of the Department of the Air Force's finances and demonstrates how resources were utilized to support our mission to fly, fight, and win in air, space, and cyberspace.

At the conclusion of our third, full financial statement audit and despite the COVID-19 pandemic, we made significant advancements toward accomplishing the Secretary of Defense's Fiscal Year 2020 audit priorities and implementing our Independent Public Accountant's recommendations. In Fiscal Year 2020, we reprioritized and proactively targeted the material weaknesses and financial statement line items most critical to achieving a clean financial statement audit opinion. The shift in our approach allowed us to make strides against material weaknesses—furthering the Department of the Air Force's goal of delivering reliable, quality, and complete financial and performance data. A description of our material weaknesses is included in the Analysis of Systems, Controls, and Legal Compliance section and within the Reports of the Independent Public Accountant.

In addition to our focus on a clean audit opinion, we remain committed to aligning with the 2018 National Defense Strategy through the implementation of our Business Operations Plan. The unveiling of our comprehensive Department of the Air Force Arctic Strategy and the establishment of the United States Space Force reinforce that commitment. The Arctic is among the most strategically significant regions of the world today—the keystone from which the Air Force and Space Force exercise vigilance. Launching the United States Space Force, modernizing the Department of the Air Force, strengthening our ties with allies and partners, and ensuring a culture of trust for our Airmen, Space Professionals, and their families will propel the Department of the Air Force toward a successful future.

Barbara Barrett

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MANAGEMENT'S DISCUSSION AND ANALYSIS

Maj. Zane Taylor, U.S. Air Force Air Demonstration Squadron "Thunderbirds" slot pilot, flies over Indianapolis Motor Speedway for the opening ceremonies of the 104th Indy 500 in Indianapolis, Indiana. This was the first time the Thunderbirds performed at the opening ceremonies for the Indy 500. (Photo credit: Staff Sgt. Andrew D. Sarver)

OVERVIEW

Created in 1907 as a functional component of the United States (U.S.) Army, the U.S. Air Force ("Air Force") is the fifth branch of the U.S. Armed Forces. The Department of the Air Force (DAF) was then established 40 years later, becoming one of three military departments within the Department of Defense (DoD).

On December 20, 2019, as part of the *National Defense Authorization Act* for Fiscal Year (FY) 2020, the United States Space Force (USSF) became the sixth branch of the U.S. Armed Forces, established as a Military Service within the DAF. The Air Force Space Command was re-designated as the USSF as an initial step in forming the USSF. The USSF serves as an independent service and its duties include protecting the interests of the U.S. in space; deterring aggression in, from, and to space; and conducting space operations. In FY 2020, USSF is reported as part of the DAF financial statements.

The DAF mission is to fly, fight and win… in air, space and cyberspace. To achieve that mission, the DAF has a vision: The U.S. Air Force will be a trusted and reliable joint partner with our sister services known for integrity in all of our activities, including supporting the joint mission first and foremost. We will provide compelling air, space, and cyber capabilities for use by the combatant commanders. We will excel as stewards of all Air Force resources in service to the American people, while providing precise and reliable Global Vigilance, Reach and Power for the nation.

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

Financial Section—This section includes the report of the independent auditor, 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, and Required Supplementary Information. This information is presented separately for both 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 funded through sales revenue, rather than Congressional appropriations. Additionally, the Financial Section is composed of the message from the Chief Financial Officer and the management response letter.

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

GENERAL BROWN'S CONFIRMATION MAKES HISTORY

General Charles Q. Brown Jr., the former Pacific Air Forces commander, became the Chief of Staff of the Air Force (CSAF) in August, making him the first African American Military Service chief in American History. As the 22nd Air Force Chief of Staff, General Brown inherited a 2020 budget of $168 billion and about 689,000 employees. He pledged to carry out the service's sweeping modernization plan, continue fighting insurgents in the Middle East and Africa, and posturing against Russia and China—all while adjusting to operations amidst the Coronavirus Disease 2019 pandemic.

General Brown has racked up more than 2,900 flight hours in more than a dozen aircraft, held leadership positions at U.S. Central Command, U.S. Indo-Pacific Command, and U.S. Air Forces in Europe-Air Forces Africa. General Brown has also earned over 20 military decorations since the 1980s.

Gen. Charles Q. Brown Jr. confirmed as 22nd CSAF

MISSION

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

The DAF's core missions include five Air Force core missions and one United States Space Force (USSF) core mission:

1 Air and Space Superiority… freedom from attack and the freedom to attack

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

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

A U.S. Air Force F-15C Eagle assigned to the 48th Fighter Wing, Royal Air Force (RAF) Lakenheath, United Kingdom, breaks away from a KC-135 Stratotanker from the 100th Air Refueling Wing, RAF Mildenhall, U.K., after receiving fuel off the English Coast. (Photo credit: Tech. Sgt. Emerson Nuñez)

2 Global Strike… *any target, any time*

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

Staff Sgt. Danielle Zandi, 23rd Aircraft Maintenance Squadron weapons load crew chief, conducts a weapons-load demonstration during the 2019 Thunder Over Georgia Air Show at Moody Air Force Base, Georgia. (Photo credit: Airman 1st Class Hayden Legg)

3 Rapid Global Mobility... *delivery on demand*

American power can be projected quickly to anywhere on the face of the earth because of the DAF's ability to rapidly deploy warfighters and essential equipment at any time. Air mobility sustains operations ranging from major combat to humanitarian relief around the world. Beyond moving cargo and equipment, the DAF's rapid global mobility is linked to unprecedented survival rates because of the highly skilled aeromedical transport teams who swiftly evacuate wounded personnel back to safety. Mobility forces also provide in-flight refueling, which is a unique DAF capability and the linchpin to joint-power projection at intercontinental distances.

Pacific Air Force's Airmen and Soldiers transload newborn twins onto a C-17 Globemaster III during an aeromedical evacuation mission at Osan Air Base, South Korea. (Photo credit: Staff Sgt. James L. Miller)

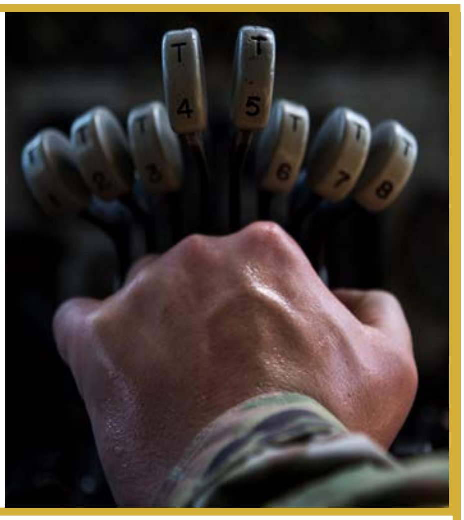
4 Intelligence, Surveillance, and Reconnaissance... *eyes and ears on adversaries*

Intelligence, surveillance, and reconnaissance (ISR) helps leaders make informed decisions to maintain deterrence, contain crises, or achieve success in battle. Through a mix of aircraft, satellites, and other technologies that collect, exploit, and disseminate critical information, 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 higher cost.

Tech. Sgt. Cory Irvin, 27th Security Forces Squadron Deployed Aircraft Ground Response Element program manager, paints his face to act as an opposing force during a hostage rescue exercise at Camp Guernsey, Wyoming. (Photo credit: Staff Sgt. Nicole Reed)

5 Command and Control... *total flexibility*

Airmen 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 team can operate globally at an up-tempo level of intensity. The DAF command and control systems give commanders the ability to conduct highly coordinated joint operations on an unequaled scale using centralized command, distributed control, and decentralized execution. The capability to deliver airpower is intimately dependent on the ability to operate effectively in cyberspace. This cyberspace arena is where all core missions are conducted and is critical to the DAF's command and control systems. Providing the right information to the right person at the right time is essential to the American warfighting advantage.



Senior Airman Kaid Hackler, 96th Aircraft Maintenance Unit aerospace propulsion journeyman, starts the engines on a B-52H Stratofortress during an engine run at Barksdale Air Force Base, Louisiana. (Photo credit: Senior Airman Lillian Miller)

6

United States Space Force... *Organizes, trains, and equips space forces in order to protect U.S. and allied interests in space and to provide space capabilities to the joint force*

USSF responsibilities include developing military space professionals, acquiring military space systems, maturing the military doctrine for space power, and organizing space forces to support the Combatant Commands. Spacelift operations at the launch bases provide services, facilities, and range safety control for the DoD, National Aeronautics and Space Administration, and commercial space launches. Through the command and control of all DoD satellites, operators provide continuous global coverage and autonomous operations. Satellites also provide essential secure communications, weather and navigational data, and threat warning. Ground and space-based systems monitor missile launches around the world to guard against a surprise attack on North America. A global network of space surveillance sensors provides vital information on the location of satellites and space debris for the nation and the world.

Senior Airman Aron Franks, assigned to the 16th Expeditionary Space Control flight deployed Al Udeid Air Base, Qatar, raises his right hand as he enlists into the U.S. Space Force. The Space Force is the newest U.S. Military Service in more than 70 years. (Photo credit: Staff Sgt. Kayla White)

Members of the U.S. Air Force Honor Guard conduct training in front of the Lincoln Memorial in Washington, D.C. The four-man team practiced a variety of movements and rifle tosses as the sun set on the National Mall. The mission of the Honor Guard is to represent Airmen to the American public and the world. (Photo credit: Staff Sgt. Christopher Muncy)

ORGANIZATIONAL STRUCTURE

The Total Force of the DAF consists of approximately 689,000 active duty (including enlisted and officers), 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.

TOTAL	689,000
ACTIVE DUTY AIRMEN	332,800
CIVILIANS	178,400
AIR NATIONAL GUARD	107,700
AIR FORCE RESERVE	70,100

The bulk of the Total Force consists of active duty officers and enlisted Airmen. The reserve component is made up of the Air Force Reserve (see Air Force Reserve Command in the *Field Organizations* section) 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.

CMSAF BASS BECOMES THE AIR FORCE'S FIRST FEMALE ENLISTED LEADER

In August, Chief Master Sergeant JoAnne Bass was named the 19th Chief Master Sergeant of the Air Force (CMSAF). With this historic appointment, CMSAF Bass became the first woman, and the first Asian American, to hold any Military Services senior enlisted role.

The Chief of Staff of the Air Force (CSAF), General Charles Q. Brown Jr., picked CMSAF Bass to follow outgoing CMSAF Kaleth Wright. CMSAF Bass' selection set up a historic leadership slate for the Air Force as it became the first military branch run by an African American CSAF and a female enlisted Chief.

CMSAF Bass previously served as the Command Chief Master Sergeant of 2nd Air Force. Prior to that, she served as the Chief of Air Force Enlisted Developmental Education, the Command Chief Master Sergeant of the 17th Training Wing at Goodfellow Air Base, Texas, and was the Superintendent at the 86th Operations Group at Ramstein Air Base, Germany. As CMSAF, she oversees more than 410,000 enlisted Airmen.

Chief Master Sgt. JoAnne S. Bass salutes during the national anthem at the beginning of a CMSAF transition of responsibility ceremony at Joint Base Andrews, Maryland. (Photo credit: Eric Dietrich)

Figure 1: Headquarters, Department of the Air Force

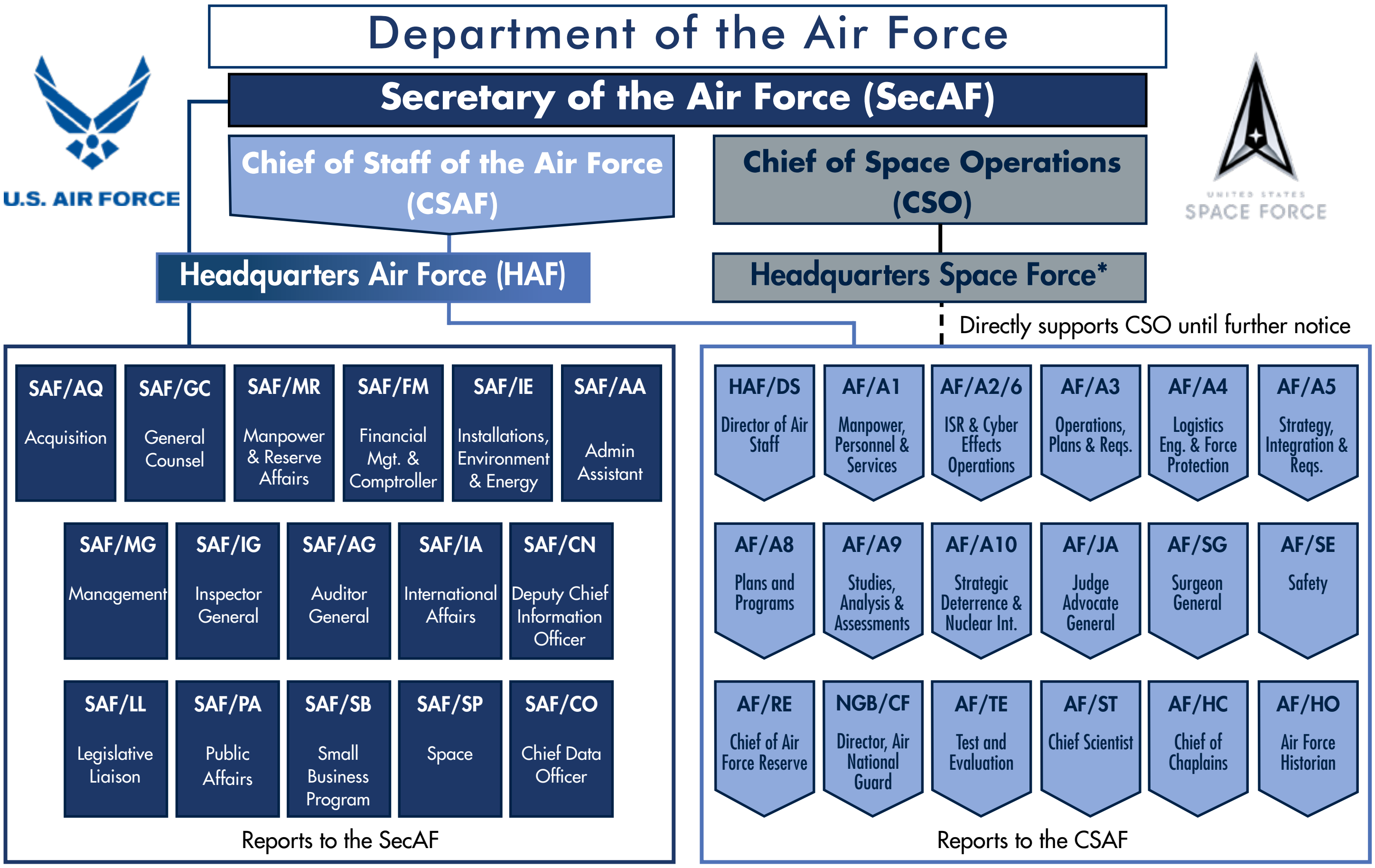
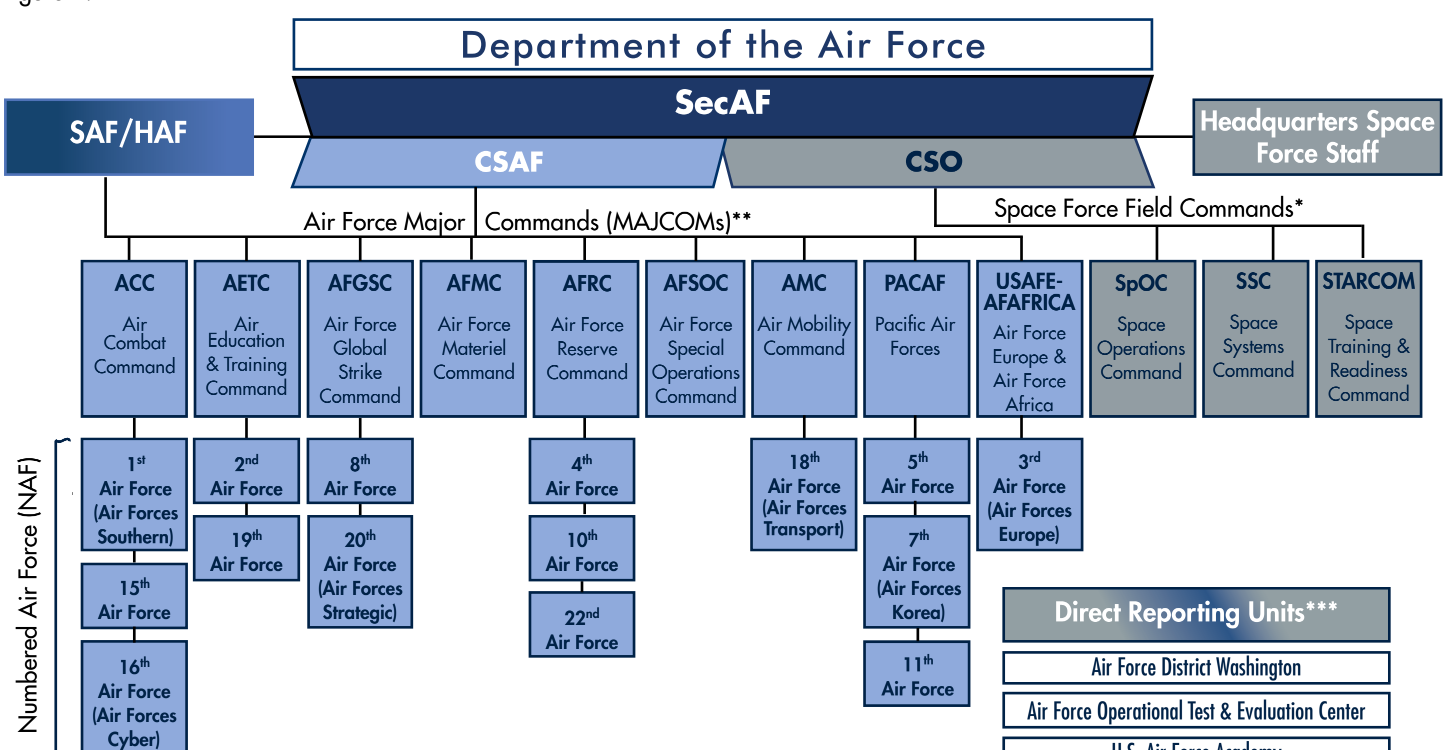


Figure 2: DAF Command Structure



As of 30 September 2020

*Final Space Force organizational determination, including subordinate headquarters and Field Commands, are to be determined

**Air Force MAJCOMs will directly support CSO until maturity of Space Force elements

***Direct Reporting Units report to the CSAF and directly support CSO

THE DEPARTMENT OF THE AIR FORCE

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

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

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

FIELD ORGANIZATIONS

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

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

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

Currently, there are nine active MAJCOMs that are assigned specific responsibilities on a functional basis in the U.S., as well as on a geographic basis overseas. The decrease in active MAJCOMs from the prior year is a result of Air Force Space Command's (AFSPC) re-designation from a MAJCOM to the USSF. AFSPC is included in the MAJCOM listing below, as it was an active MAJCOM in the current FY from October 1, 2019 to December 19, 2019 until the creation of USSF on December 20, 2019. MAJCOMs accomplish DAF worldwide activities and further organize, administer, equip, and train their subordinate elements to accomplish assigned missions. MAJCOM headquarters have the 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 prime 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. As discussed above, AFSPC is no longer an active MAJCOM, but is described below as it was an active MAJCOM in the current FY until the creation of USSF.

Air Combat Command (ACC)

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

Vision: Warrior Airmen, committed to excellence, trained and ready to fly, fight and win...anytime, anyplace

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

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

Air Education and Training Command (AETC)

Mission: Recruit, train and educate exceptional Airmen

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

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

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

Air Force Global Strike Command (AFGSC)

Mission: Airmen providing strategic deterrence, global strike and combat support… anytime, anywhere!

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

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

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

Air Force Materiel Command (AFMC)

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

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

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

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

Air Force Reserve Command (AFRC)

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

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

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

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

Air Force Space Command (AFSPC)

Mission: Provide resilient, defendable and affordable space capabilities for the Air Force, Joint Force and the Nation

Vision: Innovate, Accelerate, Dominate

As mentioned above, AFSPC was re-designated as the USSF on December 20, 2019 and is no longer considered an Air Force MAJCOM. Personnel who were assigned to AFSPC were reassigned to the USSF, but currently remain Airmen within the Air Force. Airmen in select space-related jobs will be transferred into the USSF over time, while other Airmen will remain assigned to the USSF in a supporting role. AFSPC provided military-focused space capabilities with a global perspective to the joint warfighting team. Through the command and control of all the DoD satellites, satellite operators provided force-multiplying effects: continuous global coverage, low vulnerability, and autonomous operations.

For more information about AFSPC, go to: https://www.afspc.af.mil/

Air Force Special Operations Command (AFSOC)

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

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

AFSOC provides Air Force Special Operations Forces (SOF) for worldwide deployment and assignment to regional unified commands. The Command's SOF are comprised of highly trained, rapidly deployable Airmen, conducting global special operations missions ranging from precision application of firepower to infiltration, exfiltration, resupply and refueling of SOF operational elements.

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

Air Mobility Command (AMC)

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

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

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

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

Pacific Air Forces (PACAF)

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

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

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

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

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

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

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

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

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

SPACE FORCE DEBUTS NEW LOGO AND MOTTO

In July, the USSF debuted their official logo and motto. The logo is comprised of a Delta with an embedded North Star to serve as a guiding light as they build a new Service to secure the Space Domain.

Semper Supra, "Always Above" recognizes the space domain as the ultimate high ground.

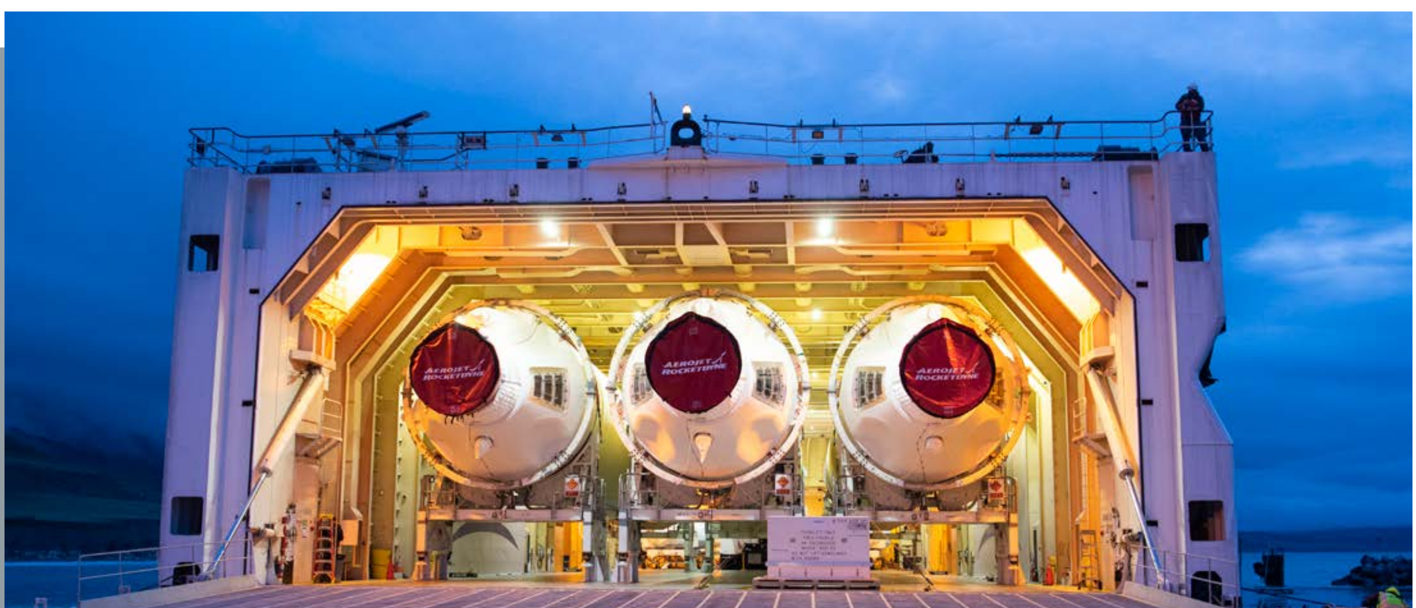
"This motto reminds us of the strategic imperative to ensure that our space capabilities and the advantages they provide the nation and our Joint and Coalition partners are always there," said Barbara Barrett, Secretary of the Air Force, "We can accept nothing less."

UNITED STATES SPACE FORCE STRUCTURE

Until the USSF fully transitions into its own field organization structure, the Air Force MAJCOMs will support the CSO. Once fully implemented, the USSF field organization will consist of three echelons of command, including field command, delta, and squadrons.

USSF activated the Space Training and Readiness (STAR) Delta Provisional in the current year. The STAR Delta Provisional serves as the precursor organization to the eventual Space Training and Readiness Command field command, known as STARCOM. STARCOM will build lethality by developing combat-ready space forces and space warfighting capabilities in order to innovate and dominate in all domains—air, land, sea, space, and cyberspace.

The remaining two field commands will be Space Operations Command (SpOC) and Space Systems Command (SSC). SpOC will be responsible for organizing, training, and equipping field space forces who will execute space warfighting operations for combatant commanders, coalition partners, the joint force, and the nation. SSC will be responsible for developing, acquiring, fielding, and sustaining lethal and resilient space capabilities.



The hatch opens on a United Launch Alliance barge, known as the RocketShip, revealing Delta IV Heavy boosters at Vandenberg Air Force Base (AFB), California. The barge docked at Vandenberg AFB to offload Delta IV Heavy boosters for an upcoming launch scheduled to occur later this year. The barge operation is a vital first step to executing the mission of assured access to space. (Photo credit: Senior Airman Aubree Owens)

PERFORMANCE GOALS, OBJECTIVES, AND RESULTS

STRATEGIC PERFORMANCE FRAMEWORK

The DAF is facing an increasingly complex global security environment marked by the reemergence of long-term strategic competition, rapid technological changes, and new concepts of warfare. To keep pace, the DAF created a Business Operations Plan (DAFBOP) articulating how to reform business operations in support of the three major lines of effort (LOEs) defined in the 2018 National Defense Strategy (NDS). A fourth LOE was added to the NDS in July 2019 by Secretary of Defense Dr. Mark T. Esper: Take Care of Our People. The four NDS LOEs are:

The DAFBOP and related business operation objectives are agile, adaptable, and continuously improved. The DAFBOP is evolving to incorporate the fourth LOE with alignment to DAFBOP objectives and activities already underway. To adjust to any changes in the security environment or strategic direction, the DAFBOP has been regularly updated since it was first published in January 2019. The *Performance Goals, Objectives, and Results* section reflects the most current business operations objectives and associated accomplishments.

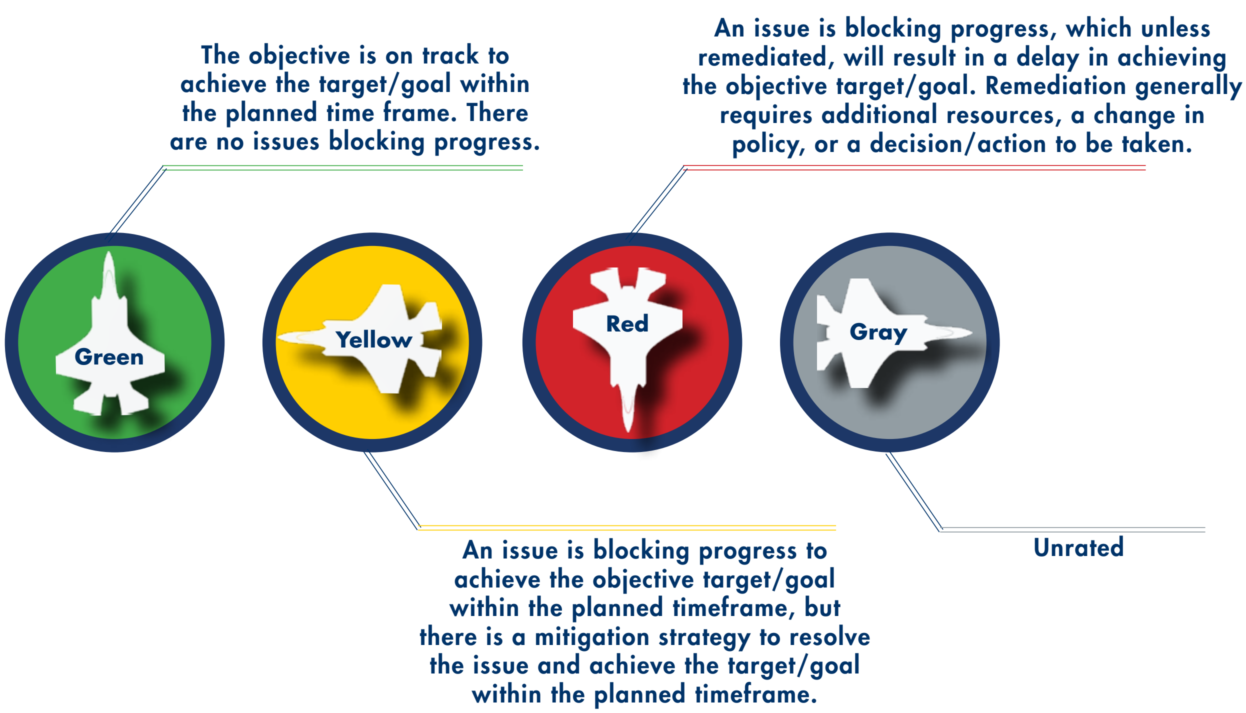
The DAFBOP, which originally consisted of 20 objectives, now consists of 29 business operations objectives as of September 30, 2020, and is driven by the following DAF strategic focus areas:

DAF STRATEGIC FOCUS AREAS

- **The Air Force We Need** – Supplying the force and capabilities we need to implement the NDS.
- **Building a More Lethal and Ready Air Force** – Confronting challenges from adversaries with forward-thinking operational concepts, new technologies, and optimized force structures.
- **Fielding Tomorrow's Air Force Faster and Smarter** – Instituting a culture of innovation and rapid acquisition as we reform for greater performance and affordability.

Each DAF business operations objective is aligned to either a National Defense BOP (NDBOP) strategic objective or an Air and Space Strategy strategic objective. The FY 2018–FY 2022 NDBOP, published by the DoD Chief Management Officer, is a supplement to the NDS and is structured to directly contribute to the NDS LOEs. All of the DAFBOP business operations objectives are aligned to an NDS LOE to support the NDS.

The DAF uses a color-coded system to assess progress made on the DAFBOP objectives and activities throughout the year. The below graphic displays this color-coded system. As of September 30, 2020, over 95% of current DAFBOP rated objectives and activities were assessed as a yellow-coded status or better.



BUSINESS OPERATION PLAN OBJECTIVES AND ACCOMPLISHMENTS

The DAF is committed to continuously improving business operations to sustain the warfighter in line with the four LOEs identified in the NDS. As a result of a sustained focus on optimizing management practices and business operations, the DAF has made significant progress toward implementing many of the 29 business operations objectives and achieved the selected accomplishments included below in support of the original three 2018 NDS LOEs.

NDS Line of Effort 1

Rebuild Military Readiness as We Build a More Lethal Joint Force

The reemergence of long-term strategic competition coupled with an extended period focused on counterterrorism has led to the need for the Military Services to increase readiness and effectiveness. The ability of the DAF to integrate new capabilities, adapt warfighting approaches, and reform business practices enable mission success. The DAF is focused on transformative efforts in the areas of modernization, mission support, and readiness to ensure the DAF is delivering agile and effective support to the warfighter.

Department of the Air Force Business Operations Plan Objectives The DAF developed 18 business operations objectives to rebuild military readiness and to increase lethality. Connecting the joint force is a top focus. Modern warfare increasingly involves conflicts across air, space, land, sea, and cyber operations. To prevail, the future joint force must be prepared to employ Joint All-Domain Operations, where individual activities are more synchronized. When the Air Force employs jointly with Army, Navy, Marine Corps, and United States Space Force (USSF) capabilities, adversaries will have to defend their forces across all domains, all the time. The DAF is also focused on dominating space. Maintaining a position of advantage in space is essential to winning in future conflicts. Key objectives to rebuild military readiness include enhancing recruitment efforts, providing relevant and realistic training, and increasing the retention of professionals.

Select Department of the Air Force Business Operations Plan Accomplishments

- The most notable accomplishment toward rebuilding military readiness is the establishment of the USSF as the newest branch of the military. The USSF is the first military branch created since the Air Force was formed in 1947.
- The DAF conducted the first field exercise of the Advanced Battle Management System, which allows all Military Services—as well as allies—to orchestrate military operations across all domains.
- With the establishment of the Total Force Recruiting Charter, the DAF made progress in streamlining the recruiting process by combining Active Duty, Guard, and Reserve into one Total Force Recruiting system.
- The DAF applied business process improvement techniques to Military Personnel modeling and pricing. This enabled the DAF to reprioritize $227.9M in FY 2020 and $1.6 billion across the Future Years Defense Program to continue restoring the readiness of the force.
- The DAF is also on track to meet the goal of achieving over 95% medical readiness. The DAF medical community measures full spectrum readiness through five levers: critical skills availability; training resource availability; volume, diversity, and acuity of care in military treatment facilities; the Comprehensive Medical Readiness Program; and operating tempo.

An Atlas V CST-100 Starliner rocket successfully launches over a Redstone rocket at Cape Canaveral Air Force Station, Florida. Also on this day, the USSF was founded, making the Starliner launch the last official launch of the U.S. Air Force; ushering in a new era of dominance in the space domain. (Photo credit: Senior Airman Dalton Williams)

Department of the Air Force Business Operations Plan Challenges Inability to recruit, lack of properly trained personnel, and fiscal constraints could lead to insufficient manpower. To mitigate these challenges, the DAF performs personnel modeling analyses to meet projected DAF manpower growth and adjusts to meet new mission requirements. Additionally, the DAF human resources analytics team plans to develop metrics that align to strategic objectives, including manpower requirements.

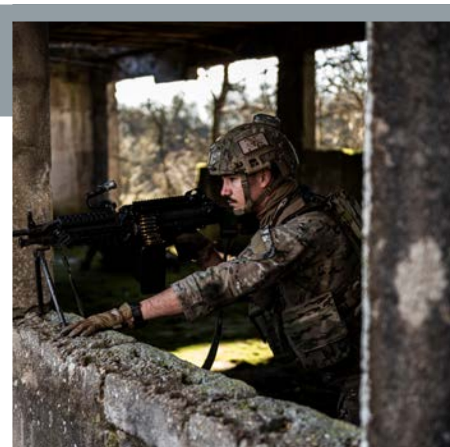
NDS Line of Effort 2:
Strengthen Our Alliances and Attract New Partners

Security cooperation is more vital than ever to the nation's prosperity and collective defense. As the DAF builds a network of partners, allies, and emerging security partners, the DAF enlists help in deterring aggression and containing threats. The DAF is committed to working alongside allies and international partners to increase global defense capabilities and capacity. The DAF is establishing the organization, policies, and practices to make alliances and partnerships central to the way the DAF does business.

Department of the Air Force Business Operations Plan Objectives Alliances and partnerships are crucial to the DAF strategy and are the focus of the two strategic objectives included in the second LOE. The DAF is focused on improving the execution of Foreign Military Sales (FMS) to optimize the delivery of interoperable capabilities to foreign partners.

Select Department of the Air Force Business Operations Plan Accomplishments

- The DAF educated the Security Cooperation Community on the benefits of using weapon system checklists to guide Partner Nation requirements development when drafting Letters of Request for FMS programs.
- The DAF received funding for exportability feasibility studies, which will aid in the early identification of critical technology protection needs and shorten delivery times of applicable weapons systems to FMS Partner Nations.


Staff Sgt. Dwight Stalter, 435th Security Forces Squadron contingency response team leader, holds security during exercise Frozen Defender in Grostenquin, France. (Photo credit: Staff Sgt. Devin Nothstine)

NDS Line of Effort 3:
Reform the Department's Business Practices for Greater Performance and Affordability

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

Department of the Air Force Business Operations Plan Objectives The DAF developed nine business operations objectives to reform business practices to enable greater performance and affordability. The DAF continues to optimize organizational structures to reduce unnecessary layers of bureaucracy and enable more efficient and effective decision-making. This optimization of organizational structures has been a focal point for both Chief of Space Operations (CSO) General John Raymond and Chief of Staff of the Air Force (CSAF) General Charles Brown, Jr. In his first major pronouncement as CSAF, General Brown stated that the Air Force must continue "to streamline bureaucracy to the greatest extent possible." Other key business reform objectives under the third LOE of the NDS include improving and strengthening business operations, reducing the regulatory burden on professionals, and conducting business at the speed of relevance to ensure cost-effective modernization.

Select Department of the Air Force Business Operations Plan Accomplishments

- In the current year, the DAF obtained significant efficiencies by rate, process, and demand efforts through the commencement of the Air Force Category Management Program. Category Management aims to find efficiencies in large goods and services contracts. It provides a new acquisition standard by analyzing and managing costs in 10 categories. The DAF reported total realized cost avoidance of $1.6 billion since FY 2017 and is projecting a cumulative cost avoidance of $2.7 billion out to FY 2024. The DAF is a leader across the DoD in Category Management, providing guidance and training to other agencies on establishing a Category Management Program.

- To reduce the regulatory burden on professionals, the DAF identified a publication process modernization architecture for prototype validation to better manage and maintain the DAF publications. As of September 30, 2020, the DAF has reviewed 1,246 publications, rescinded 474 publications, and revised 772 publications. By streamlining directive publications, the DAF unburdened Airmen to allow quick, informed, and effective decisions.

- Through prototyping, experimenting, and tailoring acquisition strategies, combined with agile software development, the DAF acquisition processes have been streamlined to speed up delivery of innovative solutions to warfighters. This program acceleration has resulted in savings equivalent to 113.3 years of planned scheduling and it is anticipated that it could reach savings of 150 years.

- The USSF has already executed numerous organizational changes, including flattening its command structure from five echelons of command to three. With the reorganization, CSO General Raymond stated that the USSF has taken a "significant step toward the development of a 21st century service purpose-built to achieve speed, agility, and unity of effort."

Tech. Sgt. Heather Boutin and Senior Airman Megan Lenling, 133rd Airlift Wing's Air Transportation Function air transportation specialists, direct and load medical supplies onto a C-17 Globemaster III during a Denton Humanitarian Assistance Program mission at the Minneapolis-St. Paul Joint Air Reserve Station, Minnesota. (Photo credit: Tech. Sgt. Bristol L. Evasco)

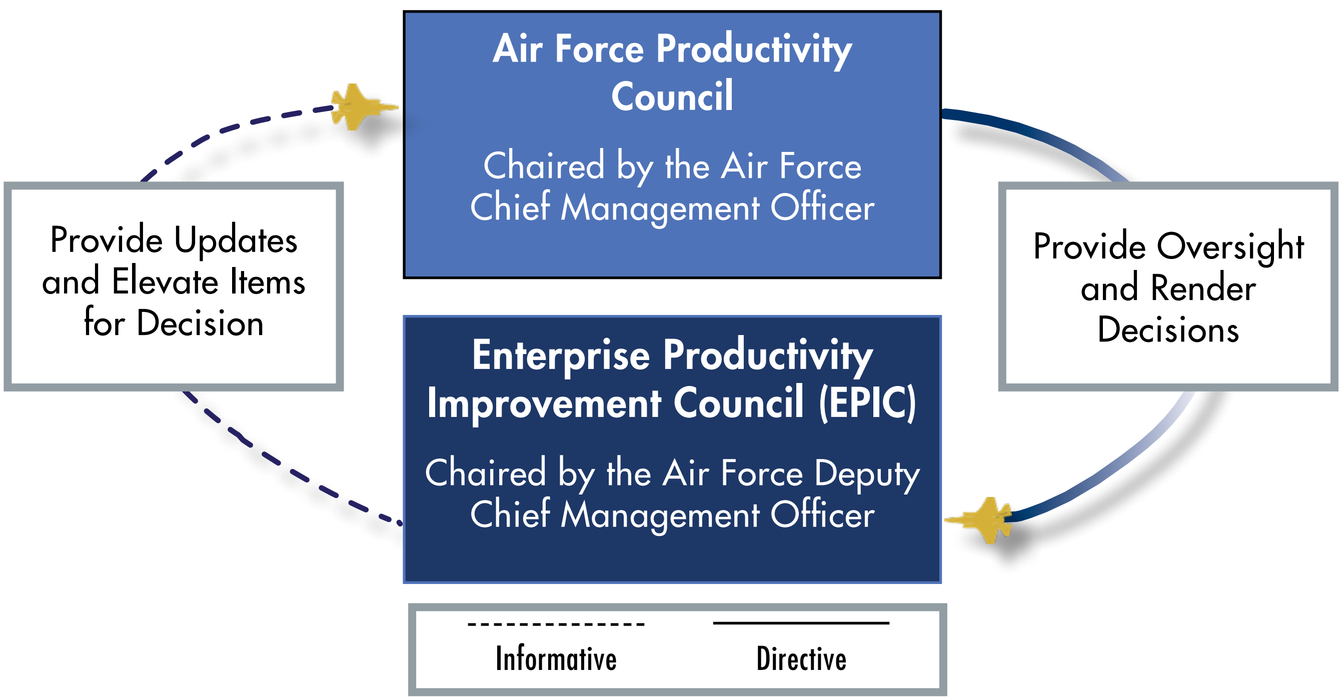
Department of the Air Force Business Operations Plan Challenges Potential improper accounting practices (e.g., incomplete and inaccurate recording of financial transactions), coupled with potential control gaps over financial reporting, may result in material misstatements to the DAF's financial statements. The DAF developed an audit strategy to mitigate these challenges. This audit strategy includes, but is not limited to, strengthening the internal control environment over financial reporting, enhancing monitoring of third-party services providers, and coordinating with the Functional Community to improve financial reporting reconciliations.

GOVERNANCE AND ACCOUNTABILITY

The DAF is committed to continuously monitoring performance and ensuring accountability for the operations and related activities through a two-tiered governance structure—the Air Force Productivity Council and the Enterprise Productivity Improvement Council (EPIC). Refer to the figure below for the DAFBOP Governance Structure. Both structures are supported by business operations objective owners. The Air Force Productivity Council is responsible for assuring business and management operations across lines of business are as streamlined and effective as possible. The EPIC is responsible for updating and overseeing the management of the DAFBOP. The EPIC reviews results, assesses and manages risks that may impede progress toward the achievement of desired outcomes, and elevates decisions to the Air Force Productivity Council as needed.

On a semi-annual basis, the Air Force Chief Management Officer updates the DAFBOP to consider new external and strategic factors. Business operations objective owners are responsible for continuously evaluating progress toward achieving intended outcomes. On a quarterly basis, business operations objective owners report progress on activity completion to the EPIC and adjust activities as needed to account for emerging issues, significant business operations improvements, and accomplishments. Results against performance and productivity measures are reported to the Air Force Productivity Council, which is the decision-making forum to elevate issues for action.

THE DAF BUSINESS OPERATIONS PLAN GOVERNANCE STRUCTURE



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 2020 DAF financial statements.

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 accompanying note disclosures comprised of the following:

- Consolidated Balance Sheets
- Consolidated Statements of Net Cost
- Consolidated Statements of Changes in Net Position
- Combined Statements of Budgetary Resources

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:

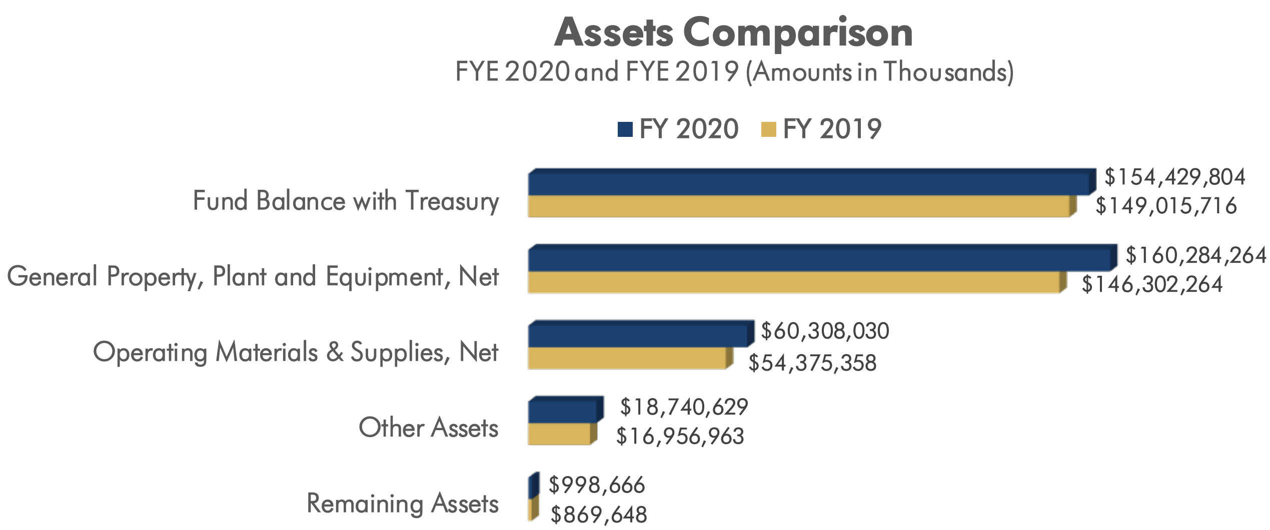
- Military Personnel (MILPERS)
- Operations and Maintenance (O&M)
- Procurement
- Research, Development, Test, and Evaluation (RDT&E)
- Military Construction (MILCON)

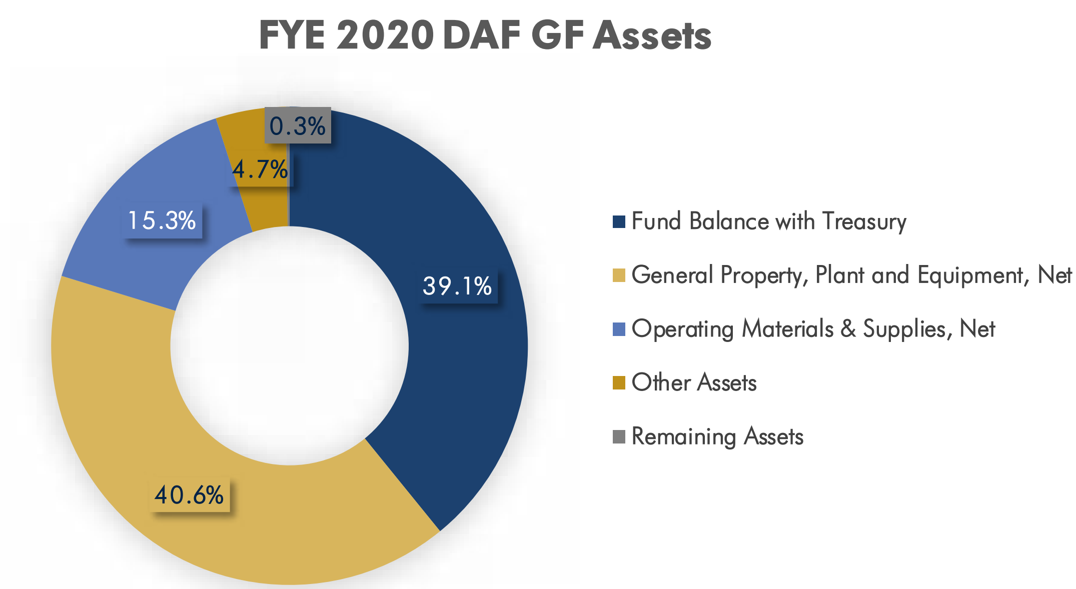
Consolidated Balance Sheet

The Consolidated Balance Sheet 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 Fiscal Year-End (FYE) 2020 DAF GF Consolidated Balance Sheet includes total assets of $394.8 billion. This is approximately a 7% overall increase from FYE 2019. Figure 1 shows the comparison of asset line items as of FYE 2020 and FYE 2019.

Figure 1. DAF General Fund Assets (Unaudited)





Material changes and underlying causes related to the DAF GF's assets between FYE 2020 and 2019 are as follows:

- **Fund Balance with Treasury:** The DAF GF Fund Balance with Treasury (FBwT) increased by $5.4 billion (4%). This increase is primarily attributed to a $3.5 billion increase in funding in MILCON/Family Housing ($1.0 billion of which was Disaster Relief), a $2.1 billion increase in O&M, a $3.9 billion increase in RDT&E, and a $616.0 million increase in MILPERS. These increases are offset by a $5.5 billion increase in RDT&E disbursements and several additional immaterial increases and decreases of funding, collections, and disbursements made throughout DAF GF operations.

- **Operating Materials & Supplies, Net:** The DAF GF Operating Materials & Supplies, Net increased by $5.9 billion (11%). This increase is driven by the following:
  - $2.9 billion of the total increase is attributed to an increase in the spare engine balance, which is primarily driven by the Comprehensive Engine Maintenance System reporting that more spare engines were returned from the end user to the DAF GF than were issued to the end user in FY 2020.
  - $1.1 billion of the total increase is attributed to Contractor-Inventory Control Point assets recorded in the Automated Logistics Management Support System.
  - Lastly, $1.9 billion of the total increase is attributed to Munitions. Munitions increased due to the replenishment of supply, particularly in Outside Contiguous U.S. Operations. Supply shortages caused by high usage in previous quarters resulted in the need for the DAF GF to expedite deliveries of new acquisition items to replenish supplies. The DAF GF also took receipt of a large quantity of Joint Air-to-Surface Standoff Missiles. Due to Coronavirus Disease 2019 (COVID-19), fewer training exercises took place in FY 2020, which led to a larger quantity of Munitions on hand compared to FY 2019.
- **General Property, Plant and Equipment, Net:** The DAF GF General Property, Plant and Equipment, Net increased by $14.0 billion (10%). This increase is due to progress toward implementing Statement of Federal Financial Accounting Standards (SFFAS) 6, *Accounting for Property, Plant and Equipment*. The progress made included the DAF GF increasing the total population of Construction-In-Progress (CIP) from two pilot programs to all 12 aircraft platforms and five variants of satellite assets currently in production. Additionally, the DAF GF increased its effort to recognize the full cost of these assets, including allocating a portion of indirect costs to CIP. This identification of additional costs to construct aircraft also increased the total CIP for FY 2020 as compared to FY 2019.
- **Other Assets (Federal and Non-Federal)**: The DAF GF Other Assets (Federal and Non-Federal) increased by $1.8 billion (11%). This $1.8 billion increase in Other Assets (Non-Federal) is primarily due to an increase in contract financing payments of $1.6 billion in Aircraft Procurement.

The DAF GF's total liabilities at FYE 2020 were $33.2 billion. This is approximately a 4% decrease from FYE 2019. Figures 2 and 3 show the comparison of liability types as of FYE 2020 and FYE 2019.

Figure 2. DAF General Fund Liabilities (Unaudited)

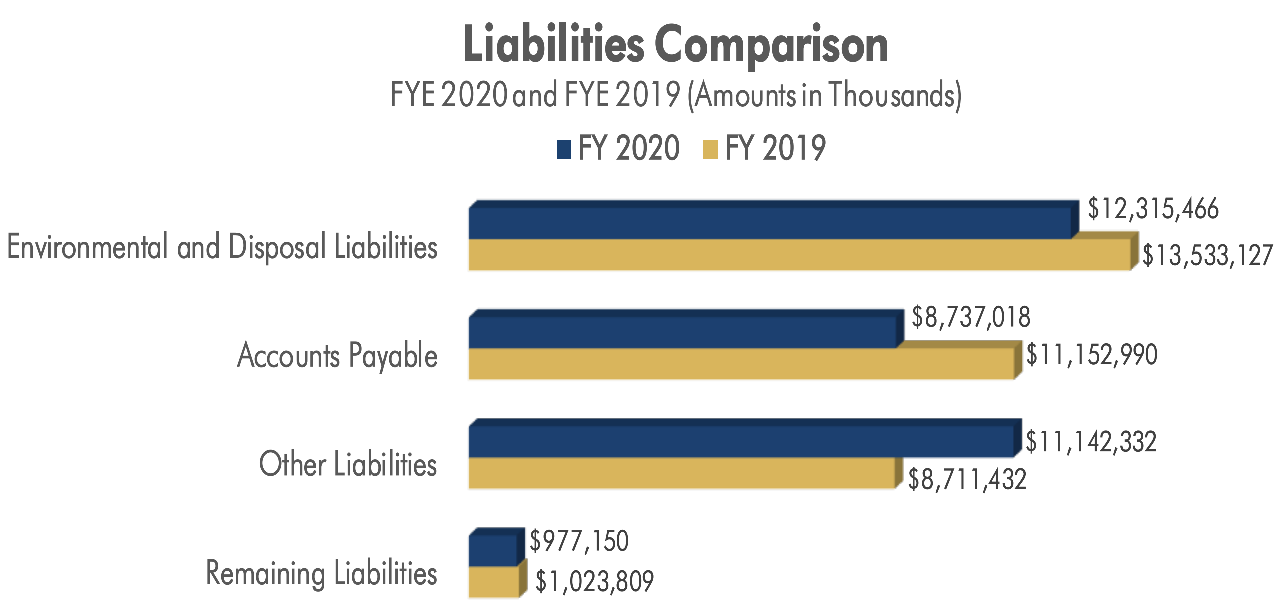
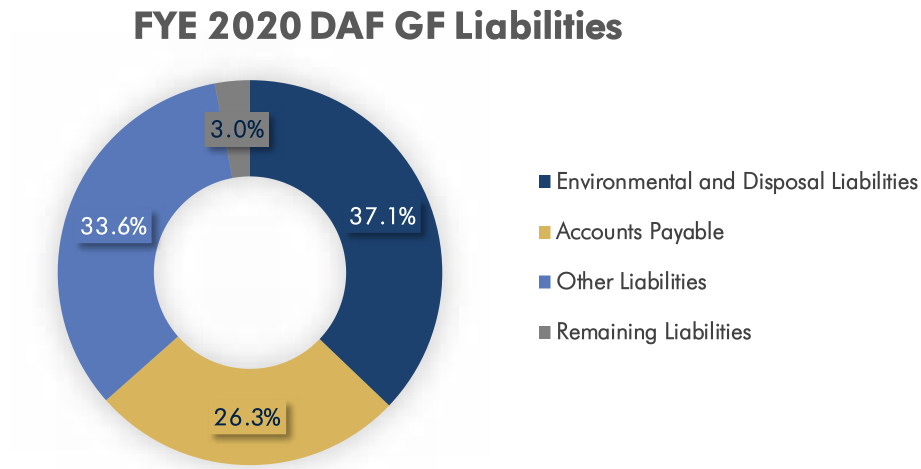


Figure 3. DAF General Fund Liabilities (Unaudited)



Material changes and underlying causes related to the DAF GF's liabilities between FYE 2020 and 2019 are as follows:

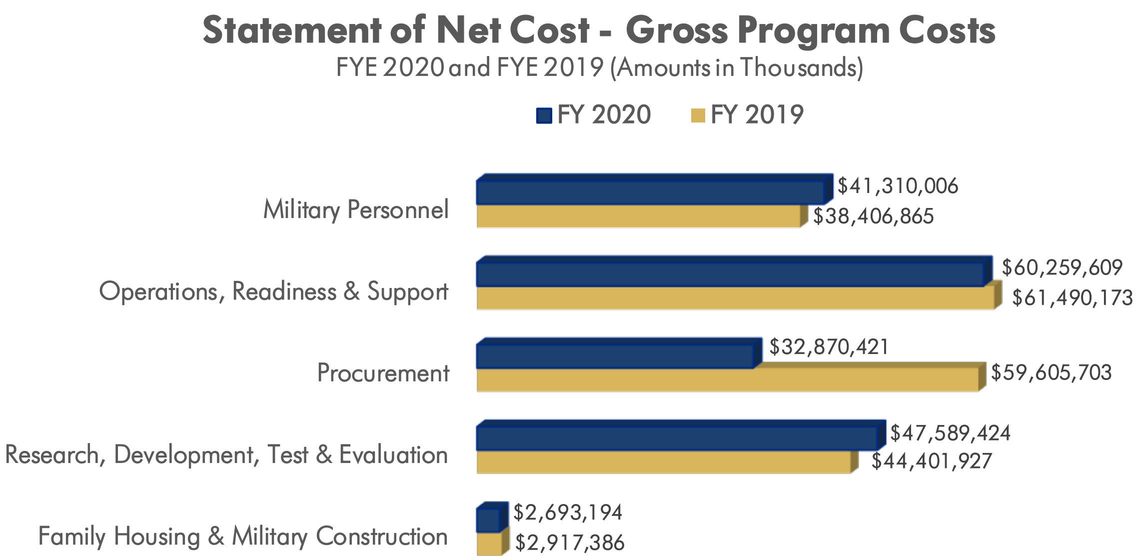
- **Accounts Payable (Federal and Non-Federal):** DAF GF Accounts Payable (Federal and Non-Federal) decreased by $2.4 billion (22%). This decrease is primarily attributed to a $1.8 billion decrease in Accounts Payable (Non-Federal), which is related to the Mechanization of Contract Administration Services (MOCAS) liability for the KC-46 Program.
- **Environmental and Disposal Liabilities:** DAF GF Environmental Liabilities decreased by $1.2 billion (9%). This variance is primarily driven by decreases in Accrued Restoration and Environmental Corrective Action of $752.4 million and $570.9 million, respectively. The decreases in Accrued Restoration and Environmental Action are offset by an increase in Environmental Closure Requirements of $87.6 million.
  - o The decrease of $752.4 million in the Restoration and Installation Restoration Program is primarily due to receiving funding over the budget request that allowed Per- and Poly-fluoroalkyl Substances (PFAS) requirements to be executed earlier than planned. In addition, PFAS remedial investigations were programmed at the installation level resulting in the deletion of the enterprise-wide project cost-to-complete.
  - o The decrease of $570.9 million in Environmental Corrective Action is primarily due to changes in probable and measurable future Perfluorooctane Sulfonic Acid/Perfluorooctanoic Acid expenditures at Air National Guard sites. The anticipated number of installations requiring remedial action decreased as a result of information obtained in the current FY.
  - o Lastly, the increase of $87.6 million in Environmental Closure Requirements is due to environmental liabilities being reported for an additional asset category, hazardous waste storage facilities. Key drivers to this fluctuation were changes in Real Property inventory.
- **Other Liabilities (Federal and Non-Federal):** DAF GF Other Liabilities (Federal and Non-Federal) increased by $2.4 billion (28%), which is primarily driven by a $1.9 billion increase in Other Liabilities (Non-Federal). This was due to the following factors:
  - o The DAF GF recorded additional accruals in FY 2020 based on percentage of completion data provided by vendors. In the fourth quarter of FY 2020, a $1.0 billion accrual was recorded.
  - o Unpaid leave liabilities increased by $745.6 million ($513.2 million for military and $232.4 million for civilian). The unpaid leave liability is based on the employees' leave balances at the end of the quarter. Due to COVID-19, employees used less leave in FY 2020 than in FY 2019.
  - o Contingent Legal Liabilities (CLL) increased by $221.7M year-over-year. This is due to an increase in the average payout percentage used to calculate CLL within the divisions of the Office of the Staff Judge Advocate.

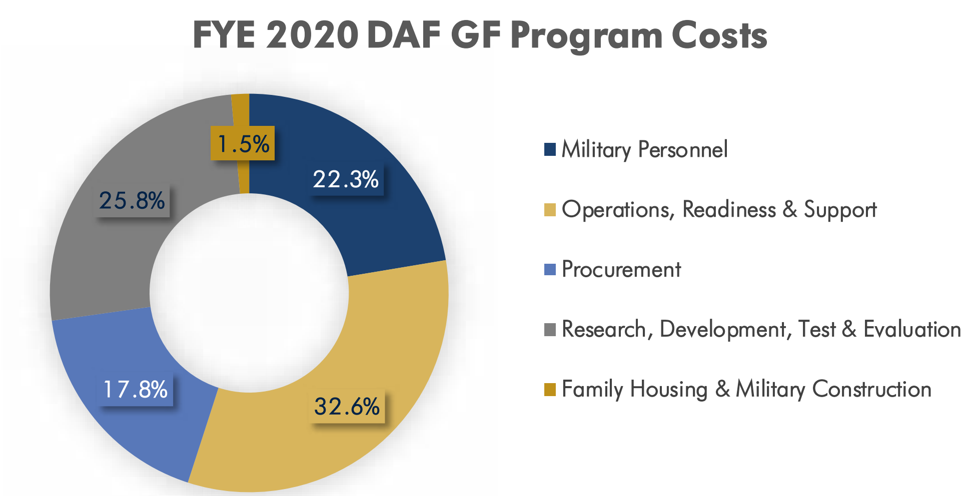
Consolidated Statement of Net Cost

The Consolidated Statement of Net Cost represents the net cost of programs and organizations of the DAF GF supported by appropriations or other means. The Consolidated Statement of Net Cost 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 FYE 2020 DAF GF net cost of operations was $174.6 billion, which is approximately a 10% decrease from FYE 2019.

Figure 4 depicts a comparison of the gross program costs included within the DAF GF's Consolidated Statement of Net Cost. 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.

Figure 4. DAF General Fund Statement of Net Cost (Unaudited)



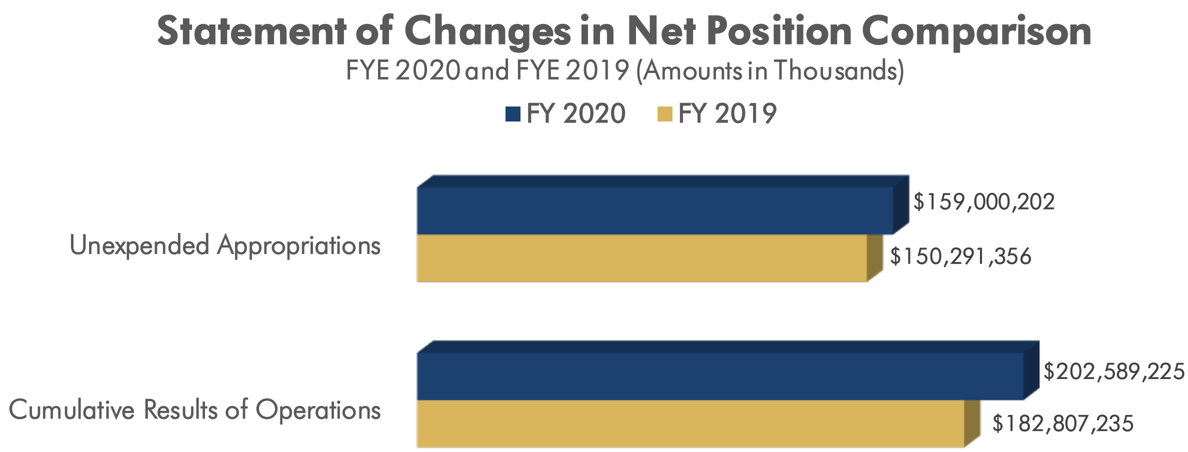


- **Gross Cost:** The DAF GF Gross Cost decreased by $22.1 billion (11%) as a result of a number of factors. During FY 2020, the DAF GF increased the scope of assets capitalized as CIP versus previous years. In addition, there was a reduction in procurement activities as well as a decrease in Other Losses in the Procurement of Ammunition appropriation. Due to COVID-19, there was a decrease in training missions, and therefore less need for ammunition in FY 2020. This led to less Munitions sold and consumed, less revenue earned, and therefore less losses than in the prior FY.
- **Earned Revenue:** DAF GF Earned Revenue decreased by $1.8 billion (15%). This decrease is primarily attributed to the Procurement of Ammunition appropriation specifically for Munitions. Due to COVID-19, there was a decrease in training missions in FY 2020. This led to less Munitions sold and consumed, and therefore less revenue earned compared to the prior FY.

Consolidated Statement of Changes in Net Position

The Consolidated Statement of Changes in Net Position represents the total Net Position, which is composed of Unexpended Appropriations and Cumulative Results of Operations. The DAF GF net position at FYE 2020 totaled $361.6 billion and $333.1 billion at FYE 2019, a 9% increase. Figure 5 shows the comparison of the DAF GF Unexpended Appropriations and Cumulative Results of Operations as of FYE 2020 and FYE 2019.

Figure 5. DAF General Fund Statement of Changes in Net Position (Unaudited)



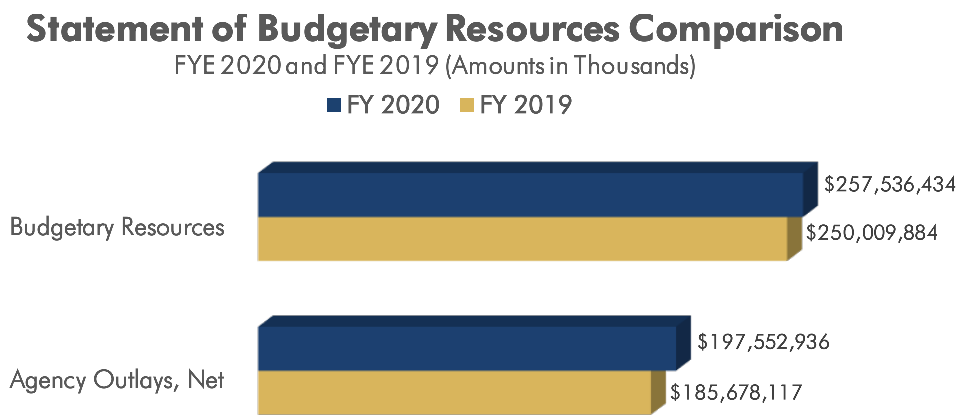
Material changes in the balances for Unexpended Appropriations and Cumulative Results of Operations, and the underlying causes driving those changes between FYE 2020 and FYE 2019, are as follows:

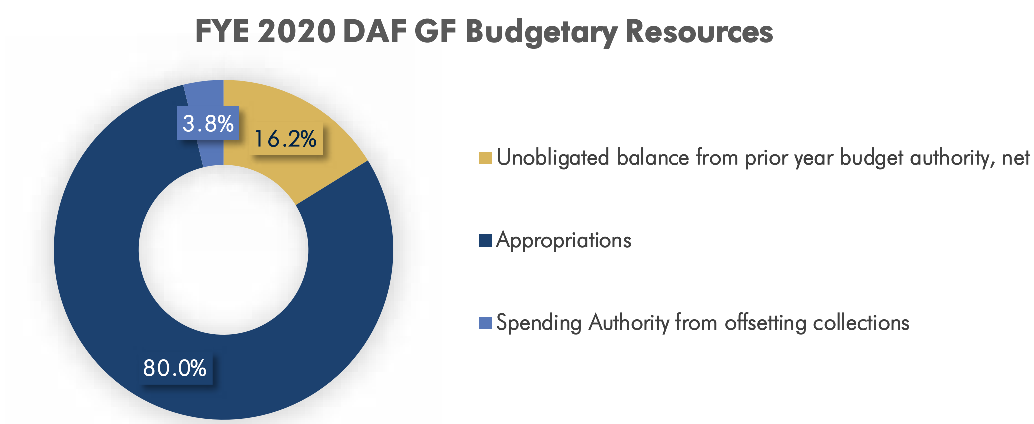
- **Unexpended Appropriations:** The DAF GF Unexpended Appropriations increased by $8.7 billion (6%). This increase is primarily attributed to a $11.8 billion increase in Appropriations Received, which is further explained within the *Statement of Budgetary Resources* section below. The increase in Appropriations Received is offset by a $3.0 billion decrease in the FY 2020 Beginning Balance in Unexpended Appropriations. The decrease in the FY 2020 Beginning Balance is driven by the Total Budgetary Financing Sources from FY 2019 consisting of Appropriations Received, Appropriations Used and other adjustments to funding.
- **Cumulative Results of Operations:** The DAF GF Cumulative Results of Operations increased by $19.8 billion (11%). The majority of this increase is attributed to a $20.3 billion decrease in Net Cost of Operations which is further explained within the *Statement of Net Cost* section above.

Combined Statement of Budgetary Resources

The Combined Statement of Budgetary Resources 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 Budgetary Resources and Net Outlays were approximately $257.5 billion and $197.6 billion at FYE 2020 and $250.0 billion and $185.7 billion at FYE 2019, respectively, representing an increase of approximately 3% in Budgetary Resources and an increase of approximately 6% in Net Outlays. A comparison of these significant balances reflected in the DAF GF's Combined Statement of Budgetary Resources and a percentage break down of the DAF GF's budgetary resources is depicted in Figure 6.

Figure 6. DAF General Fund Statement of Budgetary Resources (Unaudited)





- **Budgetary Resources:** The DAF GF Budgetary Resources increased by $7.5 billion (3%). This increase is primarily due to an increase in Appropriations of approximately $11.3 billion offset by a decrease of approximately $4.0 billion in Unobligated Balance from Prior Year Budget Authority. The increase in Appropriations is due to the following:
  - The MILCON/Family Housing Appropriation increased by $2.0 billion, with $1.0 billion of the total increase related to Disaster Relief for replacement of facilities destroyed at Tyndall Air Force Base by Hurricane Maria. The remaining increase in funding was for new weapon system beddowns and modernization of research, development, and test infrastructure.
  - The O&M appropriation increased by $2.9 billion related to funding for flying hours, prioritizing Pacing Platforms in Air Force Weapons System Sustainment.
  - The RDT&E appropriation increased by $4.6 billion due to additional funding for game-changing technologies, modernization of nuclear triad, development of future space assets, development, and operational fielding of hypersonics, unmanned autonomous vehicles, and artificial intelligence.
  - The MILPERS appropriation increased by $2.3 billion due to additional funding for the continued end-strength growth, funding to recruit, train, and develop Airmen focused on leading in Multi-Domain Operations as part of the Joint and Combined Force.

- **Net Outlays**: The DAF GF Net Outlays increased by $11.9 billion (6%). This increase is primarily attributed to a $3.3 billion increase in Procurement, a $4.6 billion increase in RDT&E, a $1.6 billion increase in O&M, and a $1.6 billion increase in MILPERS. The increase in Procurement year-over-year is a result of KC-46 Tanker related purchases, other Aircraft and support equipment purchases, and miscellaneous production charges. The increase in RDT&E is due to investments in innovative technologies, modernization of the nuclear force, and the transformation of major space capabilities to better perform in a contested environment. Further, the increase in RDT&E is also attributed to investments in developmental prototyping efforts in adaptive engines, hypersonics, space, cyber/electronic warfare, and low cost-attributable aircraft technology. The increase in O&M is primarily due to Weapon Sustainment System Contract Logistics Support. Finally, the increase in MILPERS is a result of additional personnel, increases in military pay, and other benefits.

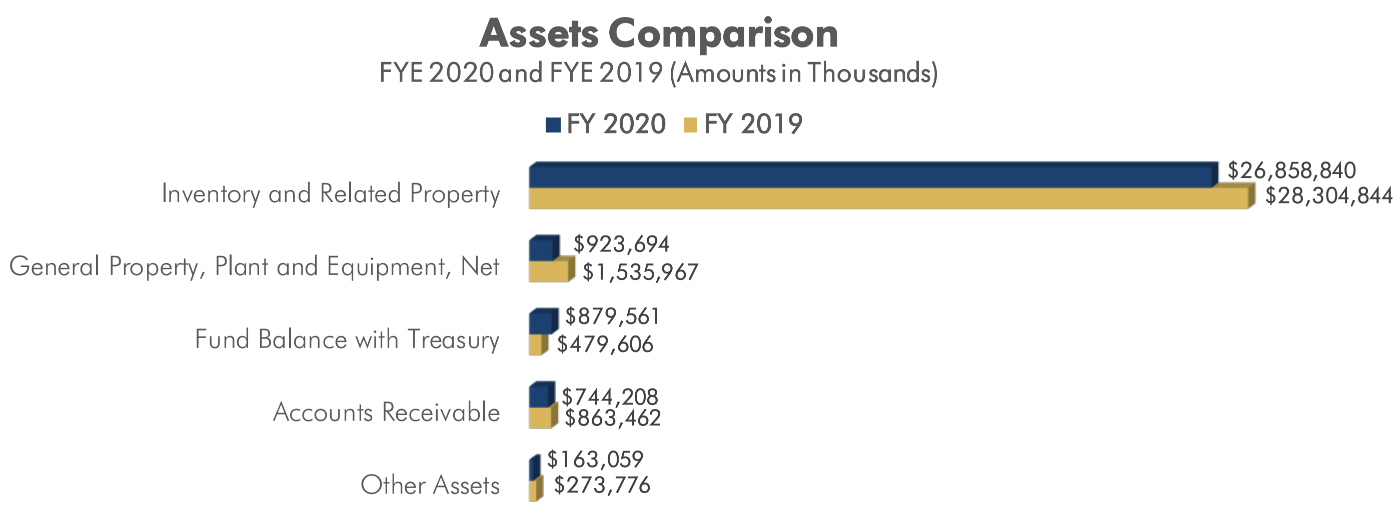
WORKING CAPITAL FUND

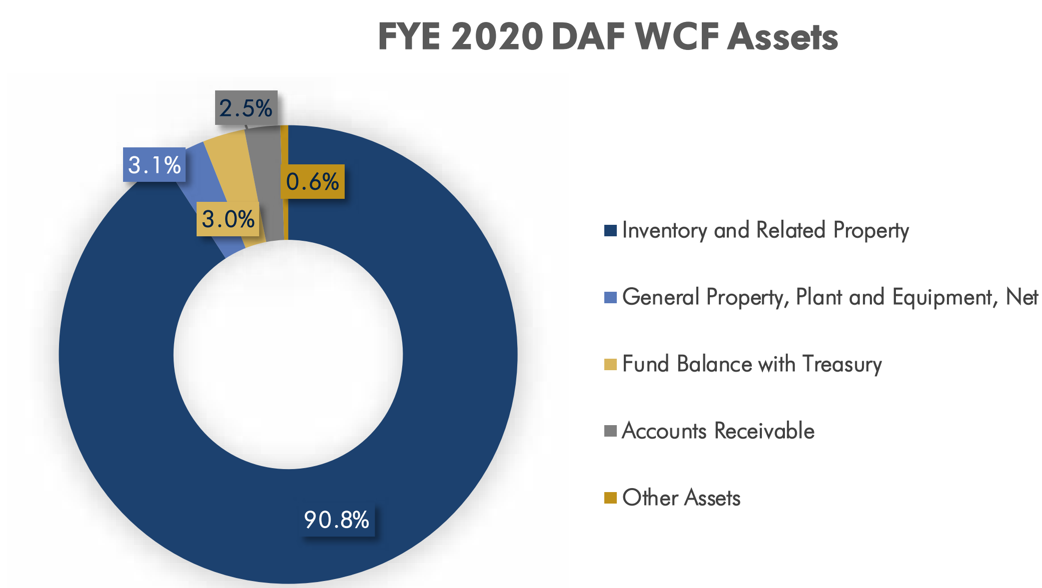
The DAF WCF activities provide maintenance services, weapon system parts, and base and medical supplies in support of the DAF core functions. The DAF WCF is designed to be a self-sustaining, "business-like" activity that generates revenue from providing goods and services. It is integral to readiness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

Consolidated Balance Sheet

The Consolidated Balance Sheet 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 FYE 2020 DAF WCF Consolidated Balance Sheet includes total assets of approximately $29.6 billion. This is a 6% overall decrease from FYE 2019. Figure 7 shows the comparison of asset types as of FYE 2020 and 2019.

Figure 7. DAF Working Capital Fund Assets (Unaudited)





Significant balances of the DAF WCF's assets, as well as material changes and underlying causes between FYE 2020 and FYE 2019, are as follows:

- **Inventory and Related Property, Net:** The DAF WCF reported $26.9 billion in Inventory and Related Property, Net at FYE 2020, compared to $28.3 billion reported at FYE 2019. The $1.4 billion decrease (5%) is driven by reductions in purchases of reparable and consumable assets to coincide with reductions in demand from both the Flying Hour Program and Consolidated Sustainment Activity Group (CSAG) Maintenance, in addition to the requirement to increase cash to prevent insolvency.
- **General Property, Plant and Equipment, Net:** The DAF WCF General Property, Plant and Equipment, Net decreased by $612.3 million (40%). This decrease is primarily attributed to the transfer of all Buildings, Structures, and Facilities to the DAF GF as directed by the Office of the Under Secretary of Defense (Comptroller) (OUSD (C)) policy memorandum, *Real Property Financial Reporting Responsibilities*.
- **Fund Balance with Treasury:** The DAF WCF Fund Balance with Treasury increased by $400.0 million (83%). This increase is primarily due to the receipt of a $475.0 million allocation of the total appropriated amount issued to Defense Working Capital Funds under the *Coronavirus Aid, Relief, and Economic Security (CARES) Act*.
- **Accounts Receivable:** The DAF WCF Accounts Receivable (Federal and Non-Federal) decreased by $119.3 million (14%). This decrease is primarily attributed to a $118.3 million decrease in Accounts Receivable (Federal). Due to a business process change in the Supply Division Flying Hour Program, Accounts Receivable (Federal) decreased by $197.9 million. This decrease is offset by an $87.3 million increase in CSAG Maintenance. In FY 2020, DAF WCF changed its business process within the Flying Hour Program to accrue approximately 50% and bill and collect the remaining 50% for estimated flying hour revenue. Prior to FY 2020, the DAF WCF accrued revenue and Accounts Receivable based on historical Flying Hour Program revenue trends. The $87.3 million increase in CSAG Maintenance is primarily attributed to the increase in revenue recognized year-over-year at the Oklahoma City and Warner Robins Air Force Sustainment Centers.
- **Other Assets (Non-Federal):** The DAF WCF Other Assets (Non-Federal) decreased by $110.7 million (40%). In FY 2020, the DAF WCF reviewed transactions recorded in Other Assets (Intragovernmental) to comply with DoD Financial Management Regulation Volume 6B, Chapter 13, *Adjustments, Eliminations, and Other Special Intragovernmental Reconciliation Requirements,* and determined that the transactions should be recorded as In-transit Inventory instead of Other Assets (Non-Federal).

The DAF WCF reported total liabilities of approximately $1.5 billion at FYE 2020. This is approximately a 5% overall decrease from FYE 2019. Figures 8 and 9 show the comparison of liability types as of FYE 2020 and FYE 2019.

Figure 8. DAF Working Capital Fund Liabilities (Unaudited)

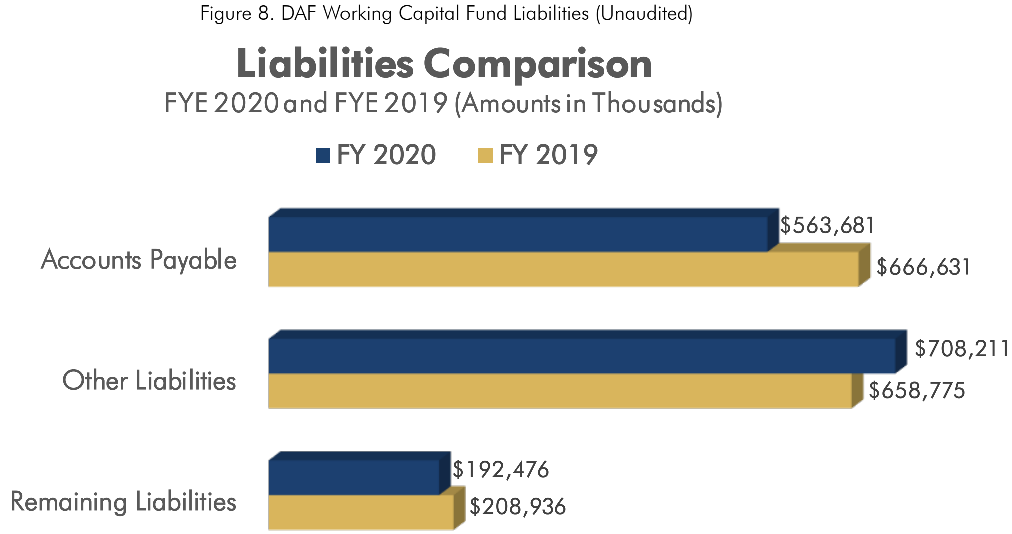
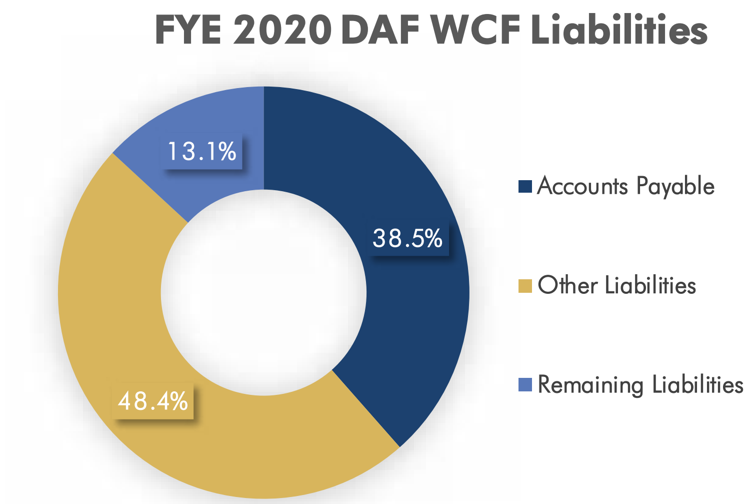


Figure 9. DAF Working Capital Fund Liabilities (Unaudited)



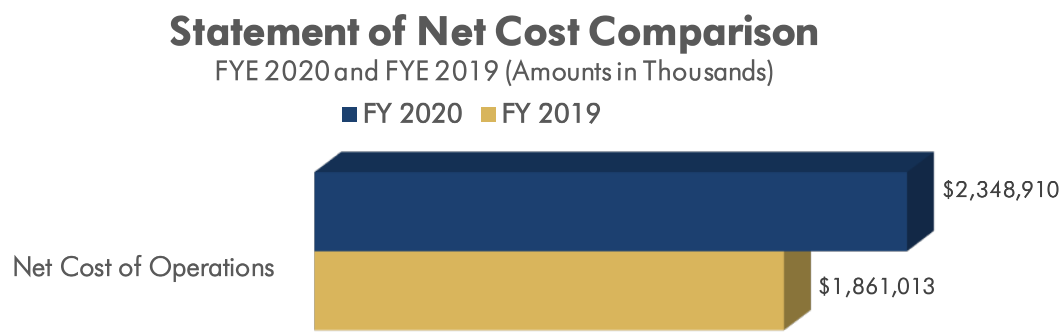
Material changes and underlying causes related to the DAF WCF's liabilities between FYE 2020 and 2019 are as follows:

- **Accounts Payable:** The DAF WCF Accounts Payable decreased by $103.0 million (15%). This decrease is largely attributed to a $92.1 million decrease in Accounts Payable (Non-Federal), which is the result of reductions in contract repair services coupled with reductions in purchases of reparable and consumable assets in the Supply Division. This variance is due to decreased demand in the Flying Hour Program and Supply Division Maintenance, along with the requirement to increase cash to prevent insolvency.
- **Other Liabilities:** The DAF WCF Other Liabilities increased by $49.4 million (8%). This increase is largely attributed to an increase in both the accrual for employee benefits associated to salary and wages for civilian personnel, and the accrued leave liability.

Consolidated Statement of Net Cost

The Consolidated Statement of Net Cost presents the gross cost incurred by the DAF WCF to conduct its operations less any exchange revenues earned from its activities. The FYE 2020 DAF WCF Net Cost of Operations was approximately $2.3 billion. Figure 10 displays the comparison of this balance for FYE 2020 and 2019.

Figure 10. DAF Working Capital Fund Statement of Net Cost (Unaudited)

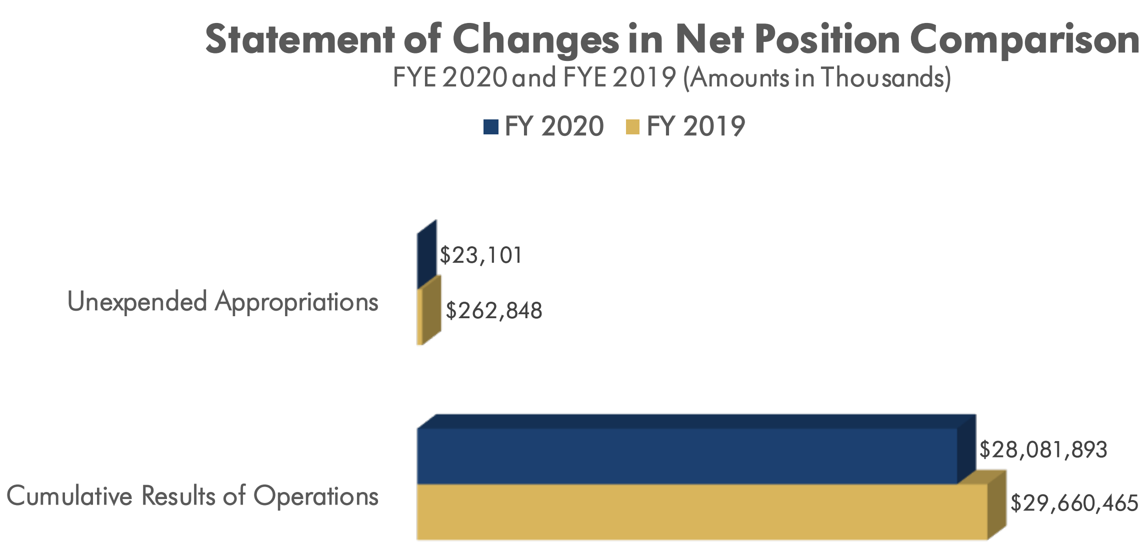


The $487.9 million (26%) increase in the DAF WCF's Net Cost of Operations from FYE 2019 to FYE 2020 is attributed to a $368.9 million decrease in Earned Revenue, coupled with a $119.0 million increase in Gross Costs. The decrease in Earned Revenue is attributed to the decrease in revenue from the sale of reparable and consumable items.

Consolidated Statement of Changes in Net Position

The Consolidated Statement of Changes in Net Position represents the total Net Position, which is composed of Unexpended Appropriations and Cumulative Results of Operations. At FYE 2020, the DAF WCF net position was approximately $28.1 billion, compared to $29.9 billion at FYE 2019, approximately a 6% decrease. Figure 11 shows the comparison of DAF WCF Unexpended Appropriations and Cumulative Results of Operations as of FYE 2020 and FYE 2019.

Figure 11. DAF Working Capital Fund Statement of Changes in Net Position Comparison (Unaudited)



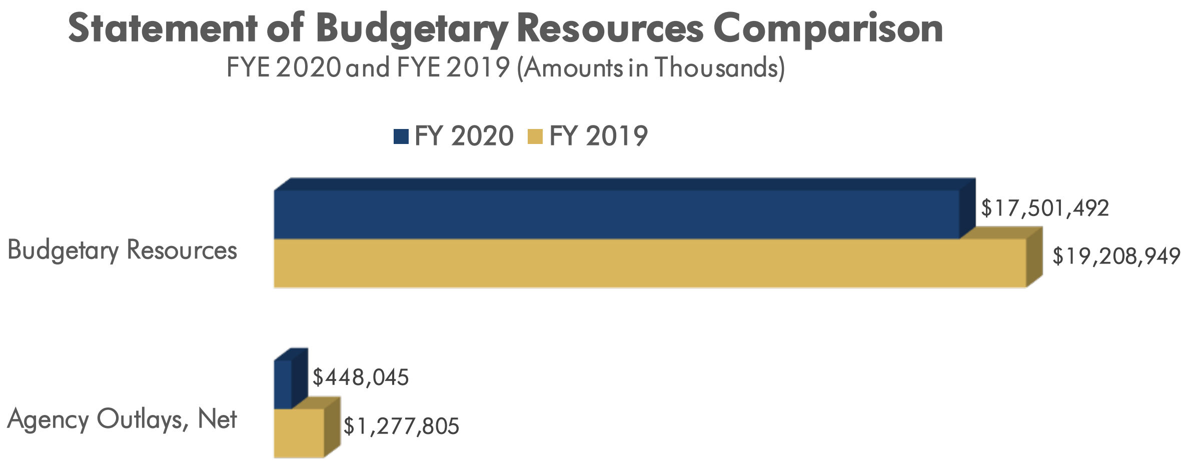
Material changes and underlying causes related to DAF WCF's Statement of Changes in Net Position between FYE 2020 and 2019 are as follows:

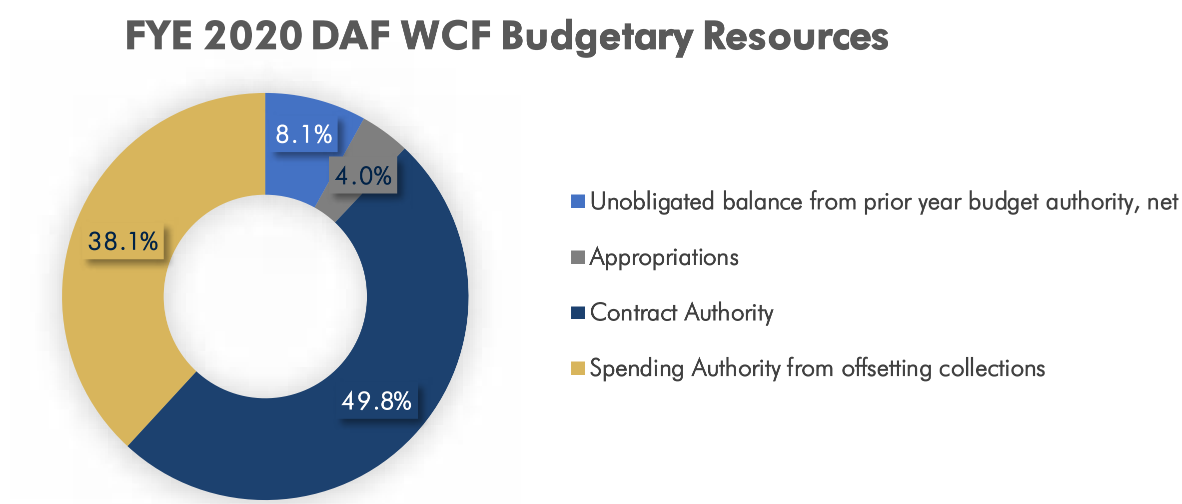
- **Unexpended Appropriations:** The DAF WCF Unexpended Appropriations decreased by $239.7 million (91%). This decrease is the result of the receipt of a $233.9 million appropriation transfer of unobligated balances in September FY 2019, in accordance with the Omnibus 2019 Reprogramming Action.
- **Cumulative Results of Operations:** The DAF WCF Cumulative Results of Operations decreased by $1.6 billion (5%). This decrease is primarily attributed to the following:
  - **Appropriations Used:** The DAF WCF Appropriations Used increased by $852.9 million due to the use of all current year appropriations received and the use of $239.8 million of the FY 2019 unexpended appropriation balance. Comparatively, only $81.8 million of the Medical Dental Division War Reserve Materiel Appropriation was used in FY 2019.
  - **Transfers-In/Out Without Reimbursement (Budgetary Financing Sources):** The DAF WCF Transfers-In/Out Without Reimbursement (Budgetary Financing Sources) increased by $153.0 million due to the receipt of an unobligated balance transfer-in received in FY 2020 that was not received in FY 2019.
  - **Transfers-In/Out Without Reimbursement (Other Financing Sources):** The DAF WCF Transfers-In/Out Without Reimbursement (Other Financing Sources) decreased by $541.4 million as a result of the transfer of all Buildings, Structures, and Facilities to the DAF GF as directed in OUSD(C) policy memorandum, *Real Property Financial Reporting Responsibilities*. This policy directs that all Real Property facilities under the jurisdiction of the DoD, which are used by an activity or agency of the DoD (other than a military department), shall be under the jurisdiction of a military department designated by the Secretary of Defense.
  - **Other (Other Financing Sources):** The DAF WCF Other Financing Sources, Other increased by $354.4 million. The DAF WCF transferred in $45.3 million in Other Financing Sources in FY 2020, compared to a transfer out of $309.1 million in FY 2019. This increase is attributed to additional Inventory Transfers In Without Reimbursement in FY 2020 compared to Inventory Transfers Out Without Reimbursement in FY 2019.

Combined Statement of Budgetary Resources

The DAF WCF's Budgetary Resources is 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 for FYE 2020 were approximately $17.5 billion, a decrease of 9% compared to $19.2 billion at FYE 2019. A comparison of these significant balances reflected in the DAF WCF's Combined Statement of Budgetary Resources and a percentage break down of the DAF WCF's budgetary resources is depicted in Figure 12.

Figure 12. DAF Working Capital Fund Budgetary Resources (Unaudited)





Material changes and underlying causes related to the DAF WCF's Combined Statement of Budgetary Resources between FYE 2020 and FYE 2019 are as follows:

- **Budgetary Resources:** Budgetary Resources decreased by $1.7 billion (9%). This decrease is primarily driven by a $2.2 billion decrease in Contract Authority, which is attributed to budget reductions in Contract and Organic Repair services, coupled with a reduction in the purchase of reparable assets through the buy program within the CSAG Supply Division. These budgetary adjustments were required due to reductions in demand from both the Flying Hour Program and CSAG Maintenance, along with the requirement to increase cash to prevent insolvency.
- **Net Outlays:** Net Outlays decreased by $829.8 million (65%). The decrease in Net Outlays is attributed to the same factors described above for Budgetary Resources.

CORONAVIRUS DISEASE 2019 RESPONSE FUNDING

In December 2019, a novel strain of COVID-19 was reported and was officially declared a pandemic by the World Health Organization on March 11, 2020. In response to the impacts of COVID-19, the President of the United States signed multiple bills into law to assist with preventing the spread of the virus and to mitigate the negative economic impacts. One of these laws, the *CARES Act* (H.R. 748-240; Public Law 116-136), signed on March 27, 2020, provided supplemental appropriations to the DAF totaling $712.9 million. In addition, the DAF reprogrammed $1.0 billion for COVID-19 related impacts. Of the *CARES Act* funds received and reprogrammed, $1.6 billion was obligated, with the remainder available in future FYs.

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 (FASAB) 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, *Financial Reporting Requirements*, 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.

An F-22 Raptor assigned to the 3rd Wing deploys chaff and flare countermeasures while maneuvering over Joint Base Elmendorf-Richardson (JBER), Alaska, as part of JBER Salutes, a two-day event to show appreciation to service members and nearly 100 Anchorage-area "COVID Heroes" and their guests. (Photo credit: Alejandro Peña)

ANALYSIS OF SYSTEMS, CONTROLS, AND LEGAL COMPLIANCE

The DAF 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* (FFMIA) and the *Federal Managers' Financial Integrity Act* (FMFIA) for internal controls that address financial and non-financial reporting, financial systems, and non-financial 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* (OMB A-123), and the Government Accountability Office (GAO)-14-704G, *Standards for Internal Control in the Federal Government* (the Green Book). Based on the results of this assessment, the DAF achieved the following management assurance levels as of September 30, 2020:

- Internal Controls over Reporting (ICOR) – reasonable assurance, except for 21 material weaknesses
- Internal Controls over Operations (ICO) – reasonable assurance, except for 13 material weaknesses
- Internal Controls over Financial Systems (ICOFS) – reasonable assurance, the DAF internal controls over financial systems conform to the objective of FFMIA and OMB A-123, Appendix D, except for two material weaknesses
- Entity Level Controls, including fraud – reasonable assurance, except for one material weakness that is already included in the ICOR material weakness, *Oversight and Monitoring of Internal Control.*

Refer to the Other Information section of the Agency Financial Report 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.

INTERNAL CONTROLS GOVERNANCE

In FY 2020, the DAF continued to leverage the existing Enterprise Productivity Improvement Council that meets quarterly to serve as the Risk Management Council and Senior Management Council for the DAF with oversight of enterprise risk management and internal control activities over operations. Primary responsibilities of the Risk Management Council include determining enterprise applicability for proposed enterprise risks, assigning risk owners to manage approved enterprise risks, and holding risk and material weakness owners accountable for driving risk response plans and corrective action plans through to completion. Primary responsibilities of the Senior Management Council include approval of annual internal control objectives and expectations, monitoring of deficiencies in internal control in accordance with OMB A-123 and the Green Book, and overseeing 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 its role as the SAT, the ESC continued to assess the implementation progress of corrective action plans for financial reporting and financial systems material weaknesses. Additionally, the DAF designed an Enterprise Governance Risk and Compliance solution to streamline and automate the OMB A-123 program. It will serve as the official repository for objectives, risks, controls, tests of controls, conclusions, deficiencies, and corrective action plans.

INTERNAL CONTROL OVER REPORTING

In FY 2020, 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 21 total uncorrected material weaknesses, comprised of 11 DAF GF and 10 DAF WCF material weaknesses.

The tables below include the 21 material weaknesses in internal control over reporting, along with the corresponding corrective actions.

Table 1. Fiscal Year 2020 Material Weaknesses in Internal Control over Reporting

Uncorrected DAF GF Internal Control over Reporting Material Weaknesses			
Internal Control Reporting Category	Title of Material Weakness	Summary of Corrective Actions	Targeted Correction Date
Budget-to-Report	Accumulating and Preparing Financial Statements	Enhance or establish controls over the Agency Financial Report, the assessment and implementation of federal accounting standards, and the quarterly financial statement variance analysis.	FY 2024
Multiple	Oversight and Monitoring of Internal Controls	Assess the DAF GF's current fraud reduction plan and entity level control environment; identify areas for enhancements. Develop service provider monitoring guide to monitor and validate the performance of the service providers.	FY 2022
Acquire-to-Retire	Property and Materials Held by Others	Design a process and implement Defense Property Accountability System for full accountability of property and materials held by others.	FY 2026
Plan-to-Stock	Operating Materials and Supplies (OM&S)	Improve the process to value and record newly acquired OM&S and enhance procedures to record ongoing OM&S activities.	FY 2026
Acquire-to-Retire	Real Property	Complete inventories of Real Property on a timely basis and implement procedures to record full cost of future Real Property facility construction in progress and depreciation.	FY 2025
Budget-to-Report	Integration and Reconciliation of Financial Systems	Develop and implement an integrated financial management system to meet federal system requirements and comply with federal accounting standards with the ability to post transactions and report in compliant format.	FY 2028
Budget-to-Report	Fund Balance with Treasury	Perform historical trend analysis to track cleared undistributed transactions and to determine estimated posting for accrual journal voucher entries. Conduct statistical sampling to validate trend results.	FY 2021
Plan-to-Stock	Establishing Opening Balances for Assets Used in Operations	Establish the completeness of the assets population as well as gather documentation to support the value of the assets population.	FY 2026
Budget-to-Report	Contingent Legal Liabilities	Implement new quarterly reconciliation and cut-off controls and continue to perform case and payment sample testing. Implement liability estimation methodology that is compliant with generally accepted accounting principles.	FY 2021
Acquire-to-Retire	General Equipment (Including Military Equipment)	Resolve variances from historical General Accounting and Finance System - Reengineered journal vouchers to substantiate equipment general ledger account codes.	FY 2021
Budget-to-Report	Contract Financing Payments	Document and establish process to verify balances; monitor and test controls.	FY 2022

Uncorrected DAF WCF Internal Control over Reporting Material Weaknesses

Internal Control Reporting Category	Title of Material Weakness	Summary of Corrective Actions	Targeted Correction Date
Budget-to-Report	Fund Balance with Treasury	Perform historical trend analysis to track cleared undistributed transactions. Conduct statistical sampling to determine estimated posting for journal voucher entries.	FY 2021
Order-to-Cash	Earned Revenue	Perform revenue risk assessments, validate design and effectiveness of control activities, maintain sufficient documentation, and monitor sustainment.	FY 2024
Plan-to-Stock	Inventory Held by DAF Working Capital Fund	Improve Depot, Base, and Medical/Dental inventory count procedures, controls over inventory transactions, and in-transit accountability.	FY 2022
Plan-to-Stock	Inventory Held by Others	Develop a process to routinely monitor variances between Defense Logistics Agency and DAF WCF and adjust the two sets of records to the actual inventory on hand. Address issues with inventory held by contractors and other defense organizations.	FY 2022
Budget-to-Report	Contract Financing Payments	Document and establish process to assess balances; monitor and test controls.	FY 2022
Plan-to-Stock	Establishing Opening Balances for Assets Used in Operations	Remediate inventory valuation issues and validate go-forward strategy and timing of baselining efforts. Execute SFFAS 48, *Opening Balances for Inventory, OM&S, and Stockpile Supplies*, baseline provision based on gathering supporting documentation or using recently established accounting guidance to estimate values.	FY 2025
Acquire-to-Retire	General Property, Plant and Equipment	Develop General Equipment Process Guide. Perform General Equipment risk assessment, design and implement effective control activities, evaluate control gaps, maintain sufficient documentation, and monitor controls.	FY 2021
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
Multiple	Oversight and Monitoring of Internal Controls	Implement and execute the DAF WCF A-123 Program. Develop and maintain supporting documentation for the Statement of Assurance as evidence that the DAF WCF identified assessable units, developed corrective action plans and tracked progress toward remediation.	FY 2021
Multiple	Integration and Reconciliation of Financial Systems	Develop and implement an integrated financial management system to meet federal system requirements, comply with federal accounting standards, and post transactions and report in compliant formats.	FY 2028

INTERNAL CONTROL OVER FINANCIAL SYSTEMS

The DAF is committed to improving financial and financial feeder Information Technology (IT) operations across the enterprise and has established a goal of achieving a modernized, sustainable, and audit-compliant portfolio of financial and financial 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 best practices. The financial and financial feeder IT Strategy leverages industry best practices with an aggressive timeline for migrating data and applications to the cloud, consolidating or retiring systems and reducing infrastructure, executing on a future architecture, and achieving compliance with regulatory standards.

In FY 2020, the DAF made progress in modernizing its legacy systems by implementing scalable and integrable solutions to improve operational effectiveness and compliance with regulatory requirements. For example, the Theater Integrated Combat Munitions System was deployed in FY 2020 as the DAF's future state application for worldwide conventional munitions configuration management and is expected to replace existing legacy systems. The DAF also made progress to improve compliance with FFMIA by implementing the Defense Enterprise Accounting and Management System Release 12.

The DAF implemented a comprehensive audit strategy to proactively identify and remediate the most significant risks and deficiencies impacting material financial statement line items and key IT systems. In accordance with applicable requirements and standards (e.g., FFMIA and Federal Information System Controls Audit Manual (FISCAM)), the DAF targeted high priority IT systems (DAF owned and third-party) by conducting proactive internal control assessments to ensure Notice of Finding and Recommendations and Self-Identified Deficiency conditions are identified, remediated, and do not reoccur.

The DAF submitted 80 IT corrective action plans to the IPA for closure. For example, the DAF implemented corrective action plans to improve the monitoring and evaluation of risks associated with third-party service providers by implementing two additional service provider monitoring procedures. These procedures focused on correctly identifying the total population of service providers and enhancing DAF monitoring of Service Organization Control report deficiencies and related corrective actions. Lastly, the DAF is leveraging automation to remediate audit findings (e.g., robotics process automation) and reduce its reliance on manual controls and processes. Robotics process automation implementation decreased the number of hours required of each user while maintaining compliance with complex business rules and produced standardized outputs that can be used across the enterprise.

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 2020 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 integrated financial management systems 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 integrated financial management systems 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 2020, the DAF implemented a top-down, risk-based approach to identify and manage key risks that could impede or impair the delivery of the DAF strategic objectives. One of the key benefits of this approach is the ability to escalate common themes and critical risks identified from across the Major Commands, Direct Reporting Units, and Functional Communities. The table below describes the 13 material weaknesses in internal control over operations, along with the corresponding corrective actions.

Table 3. Fiscal Year 2020 Material Weaknesses in Internal Control over Operations

Uncorrected Internal Control over Operations Material Weaknesses			
Internal Control Reporting Category	Title of Material Weakness	Summary of Corrective Actions	Targeted Correction Date
Contract Administration	Defense Contract Management Agency Contracts (DAF GF and DAF WCF)	Accelerate performance of contract audits and reconciliations to a monthly basis; review and support of rate settlement work; and validate contractor estimates for de-obligations.	FY 2024
Other	Overseas Housing Allowance (OHA) (DAF GF)	Complete quality assurance reviews of at least 10% of OHA transactions to ensure controls are effective and policies and procedures are adequate, including training; results to be documented for Air Force Audit Agency validation.	FY 2021
Other	Energy Meter Management (DAF GF)	Develop a meter implementation plan to address funding, personnel and tools to enable the effective use of meters.	FY 2021
Security	Enterprise Information Protection Capability (DAF GF and DAF WCF)	Update and publish Air Force Instruction (AFI) for security clearance assignments, timely submission of clearance investigation requests, and status reporting.	FY 2021
Information Technology	Segregation of Duties in Defense Travel System (DTS) Controls (DAF GF and DAF WCF)	Update Air Force DTS Business Rules with enhanced guidance on DTS permission levels. Perform permission and voucher approval audits and annual Staff Assisted Visits at the installation level.	FY 2023
Personnel and Organizational Management	Foreign Government Employment (DAF GF)	Establish a standard repeatable internal control process to periodically communicate with and identify approvals for foreign government personnel.	FY 2021

Uncorrected Internal Control over Operations Material Weaknesses			
Internal Control Reporting Category	Title of Material Weakness	Summary of Corrective Actions	Targeted Correction Date
Information Technology	Electronic Records Cyber Hygiene (DAF GF and DAF WCF)	Update and publish AFI to document and annually test the IT recovery plan.	FY 2021
Other	Criminal Data Reporting Requirements (DAF GF)	Further codify the DAF Criminal Justice Information Cell with Initial Operating Capability to oversee all criminal data and reporting with Air Force Office of Special Investigations.	FY 2023
Security	Cybersecurity of Network Component Purchases (DAF GF and DAF WCF)	Develop and document a policy requiring assets at the network component level be identified as requiring change management under a configuration management plan.	FY 2021
Security	Cyber Security Control of Assessment Systems (DAF GF)	Develop a new system for compliance tracking.	FY 2021
Comptroller and Resource Management	Marketing and Recruiting Programs (DAF GF)	Institute marketing and advertising, financial management, program management, and contracting training for component recruiting personnel.	FY 2022
Security	Networked Data Protection (DAF GF and DAF WCF)	Perform Air Force Privacy Office workload studies and associated manning adjustments as necessary to provide privacy program oversight, centrally manage breach reporting, and review Air Force privacy impact assessments, system of record notices, and justification memoranda.	FY 2022
Comptroller and Resource Management	F-35 Cooperative Training (DAF GF)	Require the designated organization to establish oversight responsibility to verify personnel execute the program in accordance with established guidance.	FY 2022

DEPARTMENT OF THE AIR FORCE
WASHINGTON DC 20330-1000

OFFICE OF THE UNDER SECRETARY

OCT 0 1 2020

MEMORANDUM FOR SECRETARY OF DEFENSE

SUBJECT: Annual Statement of Assurance Required Under the Federal Managers' Financial Integrity Act (FMFIA) for Fiscal Year 2020

- In performing the duties of the Under Secretary of the Air Force, I recognize the Department of the Air Force 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 Air Force conducted its assessment of risk and internal control in accordance with the OMB Circular No. A-123, "Management's Responsibility for Enterprise Risk Management and Internal Control"; and the Green Book, GAO-14-704G, "Standards for Internal Control in the Federal Government." Based on the results of the assessment, the Department of the Air Force can provide reasonable assurance, except for the (36) material weaknesses and (1) significant deficiency reported in the *"Material Weaknesses and Significant Deficiencies Template,"* that internal controls over operations, reporting, and compliance are operating effectively as of September 30, 2020.

- The Department of the Air Force conducted its assessment of the effectiveness of internal controls over operations in accordance with OMB Circular No. A-123, the GAO Green Book, and the FMFIA. Based on the results of the assessment, the Department of the Air Force can provide reasonable assurance, except for the (13) material weaknesses and (1) significant deficiency reported in the *"Material Weaknesses and Significant Deficiencies Template,"* that internal controls over operations and compliance are operating effectively as of September 30, 2020.

- The Department of the Air Force 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. Based on the results of the assessment, the Department of the Air Force can provide reasonable assurance, except for the (21) material weaknesses reported in the *"Material Weaknesses and Significant Deficiencies Template,"* that internal controls over reporting (including internal and external reporting) and compliance are operating effectively as of September 30, 2020.

- The Department of the Air Force also conducted an internal review of the effectiveness of the internal controls over the integrate financial management systems in accordance with FMFIA and OMB Circular No. A-123, Appendix D. Based on the results of this assessment, the Air Force can provide reasonable assurance, except for the (2) nonconformances reported in the *"Material Weaknesses and Significant Deficiencies Template,"* that the internal controls over the financial systems are in compliance with the FMFIA, Section 4; FFMIA, Section 803; and OMB Circular No. A-123, Appendix D, as of September 30, 2020. The Department of the Air Force has conducted an assessment of 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. Based on the results of the assessment, the Department of the Air Force can provide reasonable assurance, except for the (1) material weakness that is included within the financial reporting oversight and monitoring material weakness in the *"Significant Deficiencies and Material Weaknesses Template"*, that entity-level controls including fraud controls are operating effectively as of September 30, 2020.

If there are any questions regarding this Statement of Assurance for FY 2020, my point of contact is Mr. Mike Mason and can be reached at 618-741-6090 or michael.j.mason22.civ@mail.mil.

John P. Roth
Performing the Duties
of the Under Secretary of the Air Force
by Delegation

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

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 Office of Management and Budget, Congress, and the Comptroller General of the United States.

The DAF started FY 2020 with seven open ADA cases and ended the year with 10 cases remaining. During the year, the DAF opened an additional 10 new cases, for a total of 17 open cases in FY 2020. The DAF was able to close seven of these cases, none of which resulted in a reportable ADA violation, thereby resulting in the remaining number of 10 open cases at year-end. Of the remaining 10 cases, one is expected to close as "no ADA violation" once corrective actions are complete. The other nine cases remain under investigation with the outcome yet to be determined.

COMPLIANCE WITH OTHER KEY LEGAL AND REGULATORY REQUIREMENTS

As of September 30, 2020, 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 Agency Financial Reports.

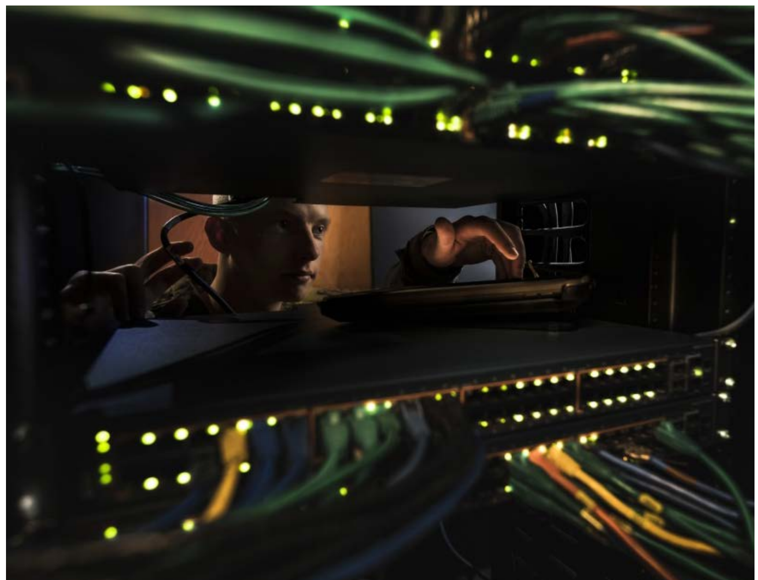
A B-1B Lancer assigned to the 28th Bomb Wing is taxied to its parking spot at Ellsworth Air Force Base, South Dakota. The B-1 returned to base after supporting a Bomber Task Force mission in the Indo-Pacific region. (Photo credit: Tech. Sgt. Jette Carr)

FORWARD-LOOKING INFORMATION

The DAF is the world's preeminent force in air, space, and cyberspace. The DAF maintains that distinction by upholding the objectives of global vigilance, reach and power, and remaining true to the vision statement: The World's Greatest Air Force—Powered by Airmen, Fueled by Innovation. In the upcoming decade, the DAF will face an increasingly complex security environment, a new era of great power competition, and challenges to U.S. military dominance. To stay ahead of adversaries, the DAF must evolve business management practices and commit to seeking greater effectiveness through more agile and innovative processes. The DAF will continue to strive to achieve mission goals and support the 2018 National Defense Strategy (NDS) in FY 2021 and beyond. Due to the rapidly changing global strategic environment, the DAF faces a myriad of emerging risks and challenges, but the DAF is committed to optimizing and innovating business operations. These challenges and risks include:

COMPLEX INFORMATION TECHNOLOGY SYSTEMS MAY CHALLENGE EFFECTIVE DECISION-MAKING

The DAF maintains a complex Information Technology systems environment consisting of multiple non-integrated systems requiring manual interventions. The complexity of interfacing these systems may result in data integrity and completeness issues, each of which will challenge effective decision-making. To mitigate these risks, the DAF is implementing a wide array of initiatives including accelerating efforts to integrate the complete population of transactions and enhancing accounting data analytic capabilities. Through the implementation of an Enterprise Financial System Strategy, the DAF is prioritizing the modernization and consolidation of systems as well as the retirement of legacy systems. The DAF continues to invest in digital engineering, agile software development, and open systems architectures. The DAF is transitioning away from in-house communication networks to an Enterprise Information Technology as a Service to allow the DAF to focus more on warfighting and less on the maintenance of the DAF networks.


Airman 1st Class Thomas Schoening, a cyber transport systems specialist assigned to the 153rd Airlift Wing, Wyoming Air National Guard, oversees server room operations at the Cheyenne Air National Guard Base, Wyoming. (Photo Illustration credit: Staff Sgt. Jon Alderman)

CYBERSPACE AND CYBER CAPABILITY VULNERABILITIES MAY LEAD TO EXPOSURE TO CYBER THREATS

The expansion of threats in cyberspace from adversary nations, non-state terrorists, hackers, and criminal organizations, poses risks to military personnel, infrastructure, and equipment. Adversaries seek to collect intelligence, target critical infrastructure, manipulate information, conduct cyber-attacks, and disrupt or extort critical U.S. Defense Contractors. The DAF relies on cyberspace capabilities to conduct operations throughout all domains. Having secure access to cyberspace is essential to carrying out successful missions. The DAF is focused on increasing its ability to deter, detect, defeat, and recover from cyber-attacks. This involves strengthening various programs and capabilities including critical investments in cyber operations, cyber mission forces, Joint capabilities, and weapon system cyber resiliency. The DAF is constantly at work, under the newly reactivated 16th Air Force (Air Forces Cyber), to deter adverse action and defend friendly networks and information. The DAF is also closely examining all friendly systems and capabilities to identify and mitigate potential cyber vulnerabilities to reduce the potential for adversary exploitation.

EMERGING ADVERSARY COMMERCIAL AND MILITARY CAPABILITIES MAY THREATEN SPACE SUPERIORITY

Space has become the new global frontier. In the foreseeable future, the U.S. will see increased competition from nations as they expand their space capabilities. The U.S. has consistently been the dominant force in space, heavily depending on space-based satellites and sensors in carrying out civilian, commercial, and military critical functions. Recently, U.S. space dominance has been threatened by adversaries actively pursuing warfighting and counter-space capabilities to neutralize U.S. space capabilities. To mitigate these risks, the United States Space Force (USSF) was established on December 20, 2019 as the newest branch of the Armed Forces, a historic milestone for the nation. USSF is tasked with protecting U.S. interests and superiority in space and outpacing future threats. In the next decade, USSF will pursue three objectives under the Defense Space Strategy: Maintain Space Superiority; Provide Space Support to National, Joint, and Combined Operations; and Ensure Space Stability. The DAF will continue to support the USSF with its mission and objectives and is developing plans to transfer more than 6,000 personnel into the USSF in FY 2021. The DAF is committed to prioritizing funds to modernize space equipment and maintain superior space capabilities.

CHALLENGES WITH RECRUITING, TRAINING, AND RETAINING FORCES MAY LEAD TO RESTRICTED MANPOWER

Diverse, resilient, and ready Airmen are the most valuable assets and are the bedrock of the DAF's readiness in executing the NDS. The demand for Air and Space professionals will continue to rise in the future with emerging threats domestically, globally, and in space. These threats demand a force that is better trained, equipped, and disciplined to be successful in future endeavors, as exemplified in the DAF's Core Values: Integrity First, Service Before Self, and Excellence in All We Do. As such, the DAF is committed to improving recruitment efforts to better identify candidates who have the essential skills that position them to meet future challenges. The DAF will modernize training environments to create more realistic and tactically relevant schemes, thereby allowing forces to be better prepared and more successful on the battlefield. The DAF appraisal and promotions systems will be enhanced to more accurately identify Airmen's skills, performance, and future potential. That information will be utilized to better align Airmen to opportunities that will continue to develop and utilize their talents. The DAF will build on aviator retention efforts by providing additional incentives, greater flexibility, and focusing on Airmen's well-being to support military personnel retention.

Airmen and training instructors participate in a U.S. Air Force basic military training graduation and coining ceremony for the 331st Training Squadron at the Pfingston Reception Center on Joint Base San Antonio-Lackland, Texas. (Photo credit: Johnny Saldivar)

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FINANCIAL SECTION

Airmen assigned to Joint Base Charleston, South Carolina, display the American flag in honor of 1st Lt. David Schmitz, a 77th Fighter Squadron pilot, while flying over Joint Base Charleston. Two F-16 Fighting Falcons from the 169th Fighter Wing, McEntire Joint National Guard Base flew in formation behind the C-17 Globemaster III to honor Schmitz, who was recently killed in an F-16 crash at Shaw AFB. (Photo credit: Senior Airman William Brugge)

John P. Roth

"The financial statement audit remains a top priority for the Department of the Air Force."

Message from the Chief Financial Officer

For the Fiscal Year 2020 Agency Financial Report

November 12, 2020

It is my privilege to join Secretary Barrett in presenting the Department of the Air Force's Agency Financial Report for Fiscal Year 2020. The Agency Financial Report provides the American people with an assessment of our financial performance and demonstrates our continued commitment to be responsible stewards of public funds.

In Fiscal Year 2020, our Air Force Financial Improvement and Audit Remediation program was reoriented to proactively target the most impactful audit remediation activities. Our audit priorities focused on downgrading key material weaknesses to significant deficiencies. Although our auditors issued a disclaimer of opinion, we made strides toward downgrading these material weaknesses.

While working to remediate these weaknesses, we faced challenges due to complex and disparate legacy Information Technology systems, system integration issues, recurring data quality issues, and immature data analytics capabilities. To mitigate these challenges, we have implemented an Information Technology modernization strategy to reduce our Information Technology portfolio and enhance our data analytics environment.

We also continued to focus on the execution of the 2018 National Defense Strategy by performing an assessment to determine the *Air Force We Need*. Key organizational changes were made to drive toward future force capabilities, such as the establishment of the United States Space Force, which now stands as a full and equal branch of the Armed Forces. In preparation for the 2021 budget submission, we conducted a detailed review of our operational portfolios and made difficult decisions by accepting calculated short-term risks to better align our business processes with the 2018 National Defense Strategy.

The financial statement audit remains a top priority for the Department of the Air Force. Although we have achieved significant progress thus far, we remain committed to improving the quality, reliability, efficiency, and effectiveness of our fiscal operations.

John P. Roth
Assistant Secretary of the Air Force
(Financial Management and Comptroller)

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

November 12, 2020

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 2020 and FY 2019 (Project No. D2020-D000FT-0069.000, Report No. DODIG-2021-0016)

We contracted with the independent public accounting firm of Ernst & Young, LLP, (EY) to audit the Department of the Air Force General Fund Financial Statements and related notes as of and for the fiscal years ended September 30, 2020, and 2019. The contract required EY to provide a report on internal control over financial reporting and compliance with laws and other matters, and to report on whether the Department of the Air Force General Fund's financial management systems substantially complied with the requirements of the Federal Financial Management Improvement Act of 1996. The contract required EY to conduct the audit in accordance with generally accepted government auditing standards (GAGAS); Office of Management and Budget audit guidance; and the Government Accountability Office/Council of the Inspectors General on Integrity and Efficiency "Financial Audit Manual," June 2018, Updated April 2020. 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 Department of the Air Force 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 Department of the Air Force General Fund FY 2020 and FY 2019 Financial Statements and related notes.

EY's separate report, "Internal Control Over Financial Reporting," discusses 12 material weaknesses related to the Department of the Air Force General Fund's internal controls over financial reporting.* Specifically, the "Internal Control over Financial Reporting" report describes the following material weaknesses.

- The Department of the Air Force General Fund's lack of system integration and reconciliation prevented management from obtaining timely, accurate, and reliable information to make effective business decisions.
- The Department of the Air Force General Fund did not have sufficient policies, procedures, and internal controls to report all current year real property activity; sufficiently review and monitor accountable property data; record construction-in-progress; and identify a complete population of real property.
- The Department of the Air Force General Fund did not have sufficient policies, procedures, and internal controls over military equipment, which prevented it from sufficiently monitoring and reviewing accountable property data and accurately valuing military equipment.
- The Department of the Air Force General Fund lacked policies, procedures, and internal controls to confirm it identified, valued, and reported all other general equipment.
- The Department of the Air Force General Fund did not have policies, procedures, and internal controls to accurately value and report the Operating Materials and Supplies balance.
- The Department of the Air Force General Fund did not have sufficient oversight of property and materials managed and held by contractors and other defense organizations. In addition, the Department of the Air Force General Fund lacked oversight of the Joint Strike Fighter spare parts and associated costs.

* 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.

- The Department of the Air Force General Fund did not have sufficient policies, procedures and internal controls over the Fund Balance With Treasury reconciliation process. In addition, the Department of the Air Force General Fund lacked internal controls over the monthly undistributed journal voucher process and did not sufficiently monitor the Defense Finance and Accounting Service.

- The Department of the Air Force General Fund did not have adequate internal controls over accounts payable, expenses, and the cash disbursement process. In addition, the Department of the Air Force General Fund had inadequate internal controls over the financial reporting of contract financing payments and insufficient internal controls over the accounting for joint programs and shared vendor contracts.

- The Department of the Air Force General Fund did not have sufficient policies and procedures to substantiate the completeness, accuracy, and presentation and disclosure of contingent legal liabilities.

- The Department of the Air Force General Fund lacked sufficient financial reporting processes and internal controls to ensure that complete and accurate financial statements, including related note disclosure, were prepared on a timely basis.

- The Department of the Air Force General Fund did not fully implement a formal internal control program that would allow it to substantially comply with OMB Circular No. A-123 and the Federal Managers Financial Integrity Act. The Department of the Air Force General Fund lacked an effective internal control program over financial reporting and compliance with financial laws and regulations, complete process narratives, and sufficient monitoring of external parties.

- Department of the Air Force General Fund financial information systems controls and computing environment deficiencies collectively constituted a material weakness in the design and operation of information systems controls over financial data. Specifically, the information systems had deficiencies related to security management, access controls, configuration management, segregation of duties, and interface controls.

EY's additional report, "Compliance and Other Matters," also discusses two instances of noncompliance with applicable laws and regulations. Specifically, EY's report describes instances in which the Department of the Air Force General Fund's financial management systems did not comply with the Federal Financial Management Improvement Act and the Federal Managers' Financial Integrity Act.

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 in accordance with GAGAS, was not intended to enable us to express, and we do not express, an opinion on the Department of the Air Force General Fund FY 2020 and FY 2019 Financial Statements and related notes. Furthermore, we do not express conclusions on the effectiveness of internal control over financial reporting, on whether the Department of the Air Force General Fund's financial systems substantially complied with Federal Financial Management Improvement Act of 1996 requirements, or on compliance with laws and other matters. Our review disclosed no instances where EY did not comply, in all material respects, with GAGAS. EY is responsible for the attached November 12, 2020, reports, and the conclusions expressed within the reports.

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

Lorin T. Venable

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

Attachments:
As stated

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Report of Independent Auditors

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

Report on the Financial Statements

We were engaged to audit the accompanying financial statements of the Department of the Air Force General Fund (DAF GF), which comprise the consolidated balance sheets as of September 30, 2020 and 2019, and the related consolidated statements of net cost, consolidated statements of changes in net position and combined statements of budgetary resources for the years then ended, and the related notes to the financial statements (the financial statements).

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on conducting the audit in accordance with auditing standards generally accepted in the United States, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and U.S. Office of Management and Budget (OMB) Bulletin No. 19-03, *Audit Requirements for Federal Financial Statements*. Because of the matters described in the Basis for Disclaimer of Opinion paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Departures from U.S. Generally Accepted Accounting Principles

As described in Note 1, there are several areas where the DAF GF is not following US GAAP. Collections, obligations and outlays presented in the financial statements are misstated for the activity related to joint procurement programs and shared access vendor contracts. Additionally, a portion of the real property balance presented at September 30, 2020 does not reflect all the activity during the current and prior fiscal years.

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

Basis for Disclaimer of Opinion

The DAF GF continues to have unresolved accounting issues and material weaknesses in internal controls that cause the DAF GF to be unable to provide sufficient evidential support for complete and accurate financial statements on a timely basis. As a result, we cannot determine the effect of the lack of sufficient appropriate audit evidence on the DAF GF's financial statements as of and for the years ended September 30, 2020 and 2019.

Disclaimer of Opinion

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

Other Matters

Required Supplementary Information

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

Other Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we also have issued our reports dated November 12, 2020 on our consideration of the DAF GF's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of those reports is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the DAF GF's internal control over financial reporting or on compliance. Those reports are an integral part of an engagement to perform an audit in accordance with *Government Auditing Standards* in considering the DAF GF's internal control over financial reporting and compliance.

Ernst + Young LLP

November 12, 2020

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

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

We were engaged to audit, in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States and the U.S. Office of Management and Budget (OMB) Bulletin No. 19-03, *Audit Requirements for Federal Financial Statements*, the financial statements of the Department of the Air Force General Fund (DAF GF), which comprise the consolidated balance sheet as of September 30, 2020 and the related consolidated statement of net cost, consolidated statement of changes in net position and combined statement of budgetary resources for the year then ended, and the related notes to the financial statements and have issued our report thereon dated November 12, 2020. Our report disclaims an opinion on such financial statements because the DAF GF was not able to provide sufficient appropriate audit evidence due to matters discussed further in the Basis for Disclaimer of Opinion paragraph.

Internal Control Over Financial Reporting

In connection with our engagement to audit the financial statements, we considered the DAF GF's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the DAF GF's internal control. Accordingly, we do not express an opinion on the effectiveness of the DAF GF's internal control. We did not consider all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982 (FMFIA), such as those controls relevant to preparing performance information and ensuring efficient operations.

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, 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 XII. 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 XIII. and XIV. to be significant deficiencies.

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

Material Weaknesses

I. Integration and reconciliation of financial systems

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

We identified the following:

- Inability to validate the completeness of transactions underlying the financial statements
- Insufficient processes to address DEAMS software upgrade issues
- Transactions not recorded in accordance with the United States Standard General Ledger (USSGL)

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II. 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, which prevents the DAF GF from substantiating the reported balance on the financial statements and notes. Significant efforts are still needed to remediate identified weaknesses, including the following:

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

III. Military Equipment – Military Equipment is a sub-set of General Equipment and includes several categories of assets including aircraft and satellites. While the DAF GF made progress in Fiscal Year 2020 (FY20), continued efforts are needed to value military equipment and reconcile the accountability systems to the balances reflected in the financial statements.

We identified the following:
- Insufficient controls over financial reporting of military equipment
- Insufficient review and monitoring of APSR data
- Process to assign value to military equipment needs improvement

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

We identified the following:
- Lack of sufficient documentation of accounting policies, procedures and controls
- Inability to identify a complete population of GE-Other
- Insufficient controls over financial reporting of GE-Other

V. 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 notes.

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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

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

We identified the following:

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

VII. 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) as part of its process to reconcile the general ledger to the U.S. Treasury as well as track variances. The DAF GF, however, does not have sufficient policies, procedures and internal controls in place over CCAS and its reconciliation process.

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
- Lack of sufficient monitoring over DFAS

VIII. 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.

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We identified the following:

- Lack of sufficient documentation of accounting policies, procedures and controls
- Lack of or inadequate controls over accounts payable, expenses, cash disbursement and obligation processes
- Insufficient controls over the accounting for joint procurement programs and shared access vendor contracts
- Insufficient controls over financial reporting of CFP

IX. Contingent Legal Liabilities (CLL) – The DAF GF's contingent liabilities include CLL where 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 lack of sufficient policies and procedures prevents the DAF GF from substantiating the completeness, accuracy and presentation and disclosure of CLL.

We identified the following:

- Lack of sufficient documentation of accounting policies, procedures and controls
- Insufficient processes and controls to identify, track and consistently report claims
- Insufficient processes and controls to assess, report and disclose CLL

X. Accumulating and Preparing Financial Statements – The financial reporting compilation function is central to any entity's internal control environment and ability to support an audit. 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 disclosures, are prepared on a timely basis. Additionally, the DAF GF needs to improve its ability to recruit, develop and retain qualified personnel.

We identified the following:

- Lack of sufficient centralized financial statement analytical and review functions
- Lack of assessment, monitoring and effective implementation of recent accounting guidance
- Enhanced financial statement review procedures are needed

XI. Oversight and Monitoring of Internal Control – FMFIA requires federal entities to establish internal control, perform ongoing evaluations of the adequacy of the entity's system of internal control and prepare related reports. OMB Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*, Appendix A, *Management of Reporting and Data Integrity Risk* provides a methodology for agency management to assess, document, and report on internal control over reporting. The DAF

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GF has not fully implemented its internal control program that would allow it to substantially comply with OMB Circular A-123, Appendix A.

We identified the following:

- Lack of an effective internal control program over financial reporting and compliance with financial-related laws and regulations
- Lack of specificity in monitoring of third-party service providers

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

We identified the lack of sufficient controls in the following areas:

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

Significant Deficiencies

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

We identified the following:

- 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

XIV. 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 the reimbursable agreements/customer orders.

We identified the following:

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

Management's Response to Findings

DAF GF's responses to the findings identified in our engagement and relevant comments from the DAF GF's management are provided in their accompanying letter dated November 12, 2020. Management's response was not subjected to the auditing procedures applied in the engagement to audit the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control. This report is an integral part of an engagement to perform an audit in accordance with *Government Auditing Standards* in considering the entity's internal control. Accordingly, this communication is not suitable for any other purpose.

Ernst + Young LLP

November 12, 2020

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Appendix A

<u>Material Weaknesses</u>

I. INTEGRATION AND RECONCILIATION OF FINANCIAL SYSTEMS

The following deficiencies aggregated into this material weakness:

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

The DAF GF has a large and complex systems environment consisting of multiple non-integrated systems that use non-standard data structures. The systems environment is composed of legacy mainframe and standalone systems along with the DAF GF's enterprise resource planning system (ERP), Defense Enterprise Accounting and Management System (DEAMS). The lack of a fully integrated system prevents management from obtaining timely, accurate and reliable information to make effective business decisions. The DAF GF continues to rely on both manual re-entry of data into multiple systems and complex system interfaces that are not fully reconciled, which limits the ability to fully validate beginning and ending balances, and financial activity. The lack of integration prevents information/data from processing without significant manual intervention. Additionally, many of the DAF GF's corrective actions to date have resulted in workarounds (e.g., additional reconciliations, journal vouchers) to address identified weaknesses given current system or resource limitations. The next significant step in the evolution of the DAF GF's financial control environment needs to be the inclusion of a multi-layer analysis, review, repair and remediation cycle. The DAF GF 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.

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

The DAF GF has not fully designed and implemented sufficient data management controls for the timely resolution of errors during data transfer between feeder systems and the DAF GF's general ledgers. 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.

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Inability to accurately categorize or identify all relevant transactions

The DAF GF lacks controls to consistently and accurately classify, categorize or identify all relevant transactions within its financial reporting systems. This inhibits the DAF GF's ability to perform data analysis, validate the completeness and accuracy of its universe of transactions, as well as provide sufficient evidence in a timely manner.

- **Inability to identify transactions by business process**—While the DAF GF has developed business rules to classify certain transactions, these rules are neither complete nor accurate for all processes and there is a large population of uncategorized transactions. For example, Mechanization of Contract Administration Services (MOCAS) transactions do not directly interface to DEAMS and must be manually entered. A DFAS technician must indicate it is a MOCAS transaction in the description field, however there is a risk that a complete MOCAS population cannot be identified within DEAMS if this description is not entered.
- **Inability to consistently identify internal reclassifications**—There is not a consistent ability to identify internal reclassifications that do not have an impact to the financial statements (i.e., data element changes).
- **Lack of unique identifiers for certain transactions**—There are instances in the DAF GF's data that lack uniquely identifying data elements, inhibiting the ability to determine if the transaction is a duplicate, an internal reclassification or a valid transaction.
- **Lack of data elements necessary to reconcile feeder systems to the general ledger**—As Military Standard Requisitioning and Issue Procedures (MILSTRIP) General Supply transactions post at a summary level in the general ledger, a reconciliation is needed between detailed budgetary feeder system transactions and the summary file. A detail to summary reconciliation is still in development. As a result, the DAF GF is unable to provide evidence to support the recorded MILSTRIP general supply obligations and disbursements in the general ledger.

Numerous manual workarounds or adjustments are used

Journal vouchers (JVs)—Due to the lack of a fully integrated system, the DAF GF records a significant volume of JVs to account for ongoing activity as well as address errors in processing. Some of these JVs are not adequately supported (e.g., trading partner adjustments) or mapped to the Treasury Financial Manual (TFM). Additionally, the use of manual JVs or on-the-top adjustments that are booked at a summary level can inhibit the auditability of the amounts being recorded and further management analysis.

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. Given the significant use of MORDs throughout the organization for varied

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purposes, the DAF GF lacks sufficient centralized oversight to understand and monitor how MORDs are being used, including whether they are in accordance with established policies and whether they are appropriately supported. While the DAF GF has taken action to further analyze its use of MORDs and revise related guidance, the entity has not consistently documented controls around the preparation and approval of MORDs.

(b) Insufficient processes to address DEAMS software upgrade issues

DEAMS underwent an Oracle upgrade to version R12 in November 2019. The upgrade was necessary for vendor support and sustainability purposes. The DAF GF had insufficient processes and controls to identify, troubleshoot, and remediate significant errors or system complications in a timely manner. Due to a variety of issues encountered during the upgrade, the DAF GF was unable to provide Q1-Q3 DEAMS trial balances or detailed universe of transaction (UoT) data for audit purposes until August 2020. The DAF GF also did not fully assess and/or document the resulting implications to other functional or financial business processes or the impact on the entity's ability to execute certain internal controls. For example, the DAF GF was unable to complete timely reconciliations of the Defense Civilian Pay System (DCPS) to DEAMS as the necessary data was not available until October 2020.

(c) 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. As a result, transactions are not always recorded appropriately. For example, the DAF GF records progress payments as advances rather than incurred expenses, construction in progress (CIP) or inventory in development, as appropriate.

Recommendations:

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

- Inability to validate the completeness of transactions underlying the financial statements:
    - Continue to implement and develop feeder system reconciliation processes for the identified systems to support completeness of the financial statements, including validation of beginning and ending balances, as well as financial activity.
    - Ensure that variances identified in any universe of transactions reconciliation are investigated and remediated on a timely basis. Evaluate whether changes can be made to the existing business processes to prevent future variances.
    - Perform an analysis of the period-end reconciling items that documents the appropriate adjustments for any unrecorded transactions. If an adjustment cannot be determined, or if DAF GF management decides to not make an adjustment, the DAF GF should

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    - 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 policies and procedures, such as denoting a common data string to identify transactions at all levels.
    - Evaluate whether additional centralized oversight is needed to monitor whether JVs and MORDs are being used for the intended purposes as stated within the entity's policy and are appropriately reviewed and approved.
- Insufficient processes to address DEAMS software upgrade issues:
    - Continue efforts to perform the necessary research to identify and resolve all known issues resulting from the upgrade and, if applicable, make the appropriate adjustments to support and correct the balances presented within DEAMS.
    - Complete an evaluation of the potential entity-wide impact of delays and issues resulting from the R12 upgrade. Develop a process to incorporate these considerations into implementation plans for future system upgrades.
    - If manual workarounds are necessary, ensure they are outlined and documented properly.
- Transactions not recorded in accordance with the USSGL:
    - Improve monitoring over the general ledger, 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.

II. REAL PROPERTY

Real Property (RP) consists of land, buildings, structures and linear structures. RP asset information and activity (e.g., acquisitions, transfers and disposals) are recorded within the Accountable Property System of Record (APSR) as utilized by the installation Real Property Office (RPO) as well as other applicable organizations within the functional community. Currently, the DAF GF is in the process of transitioning all RP data and related tracking from their current system of record referred to as the Automated Civil Engineering System-Real Property (ACES-RP) to NexGen-IT. Therefore, some installations operate on ACES-RP while others have completed the migration to NexGen-IT.

The following deficiencies aggregated into this material weakness:

(a) Lack of sufficient documentation of accounting policies, procedures and controls

The complete end-to-end processes, procedures and key controls for portions of the real property process are not fully documented. The DAF GF's process cycle memorandum (PCM) lacks policies and procedures to sufficiently identify the financial reporting risks and corresponding controls. For example, the PCM includes references to relevant guidance for impairment, but has not fully designed a process to evaluate and recognize impairments.

Additionally, the DAF GF has not fully designed or implemented reconciliation controls between its APSRs and general ledgers (i.e., ACES-RP to GAFS-R and NexGen-IT to DEAMS), including an assessment of the appropriateness of posting logic used to generate financial reporting.

(b) Inability to report all recent real property activity

In January 2019, the DAF GF initiated baseline valuation adjustments for RP assets utilizing Plant Replacement Values (PRV). PRV is an acceptable deemed cost methodology under Statement of Federal Financial Accounting Standards (SFFAS) 50, *Establishing Opening Balances for General Property, Plant and Equipment*. These adjustments led to significant fluctuations in the value being reported as RP. The DAF GF subsequently determined that additional validation, reconciliation and remediation efforts are necessary to validate the data inputs used to calculate PRV. Until these efforts are completed, the DAF GF has reversed all current-year activity recorded to GAFS-R by ACES-RP and DEAMS by NexGen-IT. The DAF GF, however, has recorded additional top-side journal vouchers to record recent activity, including:

- Estimated depreciation for FY19 and FY20
- Transfers-in and accumulated depreciation from other Defense Agencies (as discussed further in section (d) below)
- Projects recorded resulting from CIP being relieved in FY20 from the United States Army Corps of Engineers (USACE), DAF GF's primary construction agent, as well as related depreciation expense

RP and related activity accounts may be misstated, but the amount of the misstatement cannot be determined.

(c) Insufficient review and monitoring of APSR data

Assets have various characteristics recorded in the APSRs based upon the nature and category of the asset. Although some data elements are non-financial in nature, much of this information has a direct or indirect impact on the DAF GF's financial statements. The DAF GF does not have sufficient review and monitoring controls over the completeness and accuracy of key data fields contained within its APSRs that hinder appropriate asset valuation in accordance with SFFAS 50 (e.g., Category Code, Unit of Measure), depreciation calculations (e.g., placed in service dates) or the determination of rights and obligations.

As indicated above, the DAF GF is in the process of migrating real property data from ACES-RP to NexGen-IT. While the DAF GF has developed detailed instructions for the migration, there are insufficient oversight and monitoring controls over the highly manual migration process. There is

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currently not a formalized process to ensure all applicable facility information is corrected in a timely and accurate manner before migration. The DAF GF has stated that the migration will still proceed despite known data readiness errors resulting in potential loss of asset records or information.

(d) Further procedures are needed to identify the complete population of real property assets

Buildings and Structures

Enhanced controls are needed to validate that the APSRs contain a complete and accurate listing of all buildings and structures. We identified a lack of sufficient controls to ensure APSRs are updated timely to reflect new assets or remove assets that have been disposed.

The October 2019 update to the Department of Defense (DoD) Financial Management Regulation (FMR) 7000.14-R, Volume 4, Chapter 24-Real Property requires the installation host to report Real Property assets on their financial statements. Installation hosts are Military Departments (i.e., the DAF GF, as well as Army and Navy) or the Washington Headquarters Services (WHS) on whose installation a RP asset is located. The DAF GF has not fully implemented this policy nor established sufficient controls over the completeness and accuracy of related transfers of Real Property assets. The DAF GF recorded a transfer-in of RP assets from DoD agencies based on amounts as reported by the DoD agencies and the Department of the Air Force Working Capital Fund, which were not validated by the DAF GF. Additionally, the DAF GF is still in the process of performing reconciliations and recording the applicable transfers with the other Military Departments and WHS, as applicable.

Linear Structures and Land

The DAF GF has not completed its assessment as to whether its APSR contains a complete and accurate population of linear structures. Additionally, under SFFAS 50, entities have an option to exclude land and land rights from the general property, plant and equipment balance and instead disclose specific acreage information. The DAF GF has not completed its acreage reconciliation efforts as controls have not yet been fully finalized, communicated or implemented at the installation level.

(e) Insufficient procedures in place to monitor and report real property CIP

The two primary construction agents (CA) used by the DAF GF to manage military construction (MILCON) of real property assets are USACE and the Naval Facilities Engineering 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 prevent full implementation of SFFAS 6, *Accounting for Property, Plant and Equipment*, 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 risks to the financial statement line items, relevant assertions, and general ledger accounts that comprise the RP cycle.
  - 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.
- Identify, design, and document 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.
- Develop more robust training of all applicable groups within the RP community regarding the financial statement impact of changes made within the APSRs.
- Assess if updates to policy or guidance are needed to clarify the respective roles and responsibilities of all applicable civil engineering (CE) parties (i.e., Real Property Office, Engineering Flight, Operations Flight, Base Civil Engineer) 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 a complete and accurate data set, the DAF GF should assess the validity of Real Property asset data and key inputs within the APSRs.
- Develop controls to assess the completeness and accuracy of transfers in and out to comply with the RP financial reporting policy.
- Implement and communicate appropriate policies and procedures intended to both complete and ensure a successful data migration as well as to monitor and evaluate the migration after it occurs at the respective installations that include but are not limited to the following:
  - For data cleansing, consider appropriate methodology to include less manual rework of data prior to migration.
  - Retain sufficient documentation of validation of APSR data pre- and post-migration confirming a successful transfer of all RP assets.

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  - Identify exceptions resulting from the migration and include appropriate protocols to resolve those exceptions in a timely manner. Justify the corrective action used to manually adjust or update any asset listings.
- Develop procedures and internal controls at the installation level to effectively establish and subsequently monitor the use of various technology and data sources to aid in the identification and reconciliation of underground linear structure assets.
- Ensure the appropriate tools and models are developed to assist in the accurate measurement of land acreage.
- Reconcile real property construction activity reported by constructions agents to DAF GF expenditure data.
- Evaluate current processes to determine appropriate actions needed for accumulating historical cost in accordance with SFFAS 6.

III. MILITARY EQUIPMENT

Military Equipment (ME) assets are a sub-set of General Equipment. Aircraft and satellites represent the vast majority of the DAF GF's ME balance, which also includes aircraft pods, missiles, mine-resistant ambush protected vehicles (MRAPs) and remotely piloted aircraft systems (RPA).

The following deficiencies aggregated into this material weakness:

(a) Insufficient controls over financial reporting of military equipment

Controls have not been implemented to fully reconcile balances for military equipment in its APSRs to the financial statements. In FY20, the DAF GF began developing a quarterly ME rollforward with the intent to validate that assets reported in the APSRs agree to the financial statements, identify any anomalous activity/balances and support other financial reporting objectives. While the DAF GF has made progress in FY20, this rollforward effort has not yet been completed and unresolved variances remain outstanding.

(b) Insufficient review and monitoring of APSR data

While the DAF GF has begun to develop data quality dashboards to facilitate a quarterly review of key APSR inputs, these efforts are not yet complete and do not currently address all relevant ME APSRs. Additionally, the DAF GF lacks sufficient monitoring over automated depreciation calculations. For example, we identified instances where key data inputs had not been entered timely and/or accurately, resulting in changes to depreciation calculations, some of which impacted multiple periods.

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(c) Process to assign value to military equipment needs improvement

CIP is the amount of direct labor, direct material, and overhead incurred in the construction of property, plant and equipment for which the entity will be accountable for financial reporting purposes. In accordance with SFFAS 6, management is responsible for capitalizing the cost of assets as those costs are incurred and recording them as CIP within the financial statements.

Aircraft and Satellites: The DAF GF is in the process of developing a quarterly ME CIP analysis for aircraft and satellites, which is also known as the entity's "Go-Forward" valuation approach. The DAF GF has already developed, or intends to develop, a separate Go-Forward valuation analysis for each equipment designator that is currently undergoing or anticipated to undergo production. During our review of several Go-Forward models, we identified the following:

- The models are compiled using a highly manual process to accumulate data from contracts, third-party contractors, and other reports that lack a comprehensive reconciliation with the actual historical costs recorded throughout the DAF GF general ledger accounts.
- The models remain in draft form and do not sufficiently evidence management's review to address the risks posed by the manual compilation and linkage of various data points.
- There is not a documented methodology to facilitate the consistent identification of capitalizable costs across equipment designators nor a defined process to identify and accumulate costs related to aircraft modifications.

All other military equipment: While the DAF GF has stated that the entity has not recently acquired or modified missiles and MRAPs and does not have a significant volume of assets in production within these asset classes, the entity lacks a defined methodology to account for these assets in accordance with SFFAS 6 if current production levels were to change.

The lack of sufficient controls and general ledger reconciliations over all CIP-related accounts prevent full implementation of SFFAS 6, which inhibits the DAF GF's ability to make an unreserved assertion that its balances comply with SFFAS 6 prospectively and SFFAS 50 retrospectively.

Additionally, the procedures to record CIP do not consider the impact of the DAF GF's improper accounting of Contract Financing Payments (CFP) (refer to Item VIII. below).

Recommendations:

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

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- Reconcile balances recorded in the financial statements to the balances in underlying asset listings:
  - Perform timely reconciliations of general ledger accounts and require variances be investigated and resolved. If applicable, adjust the financial statements because of this research.
  - Develop complete and detailed control documentation (e.g., Standard Operating Procedures (SOPs) for the creation and review of the reconciliation.
- Perform regular review of key data inputs in the APSR to allow for timely identification and correction of errors.
- Complete efforts over the Go-Forward valuation model:
  - Develop applicable management review controls over key risks and assumptions within the Go-Forward model.
  - Develop a complete, consistent, and detailed documentation (e.g. SOP) for creating and reviewing the Go-Forward model, including steps for remediating identified anomalies and assessment of key assumptions.
  - Continue efforts to integrate the Go-Forward analysis with the Fixed Asset Rollforward to support the complete balance of assets required for presentation in the financial statements and related disclosures.
  - Consider implementation of automated CIP processes and general ledger reconciliations to reduce or eliminate the need for significant manual compilation and linkage of financial data.
- Determine whether further action is needed to establish a process to accumulate costs for other ME asset classes beyond aircraft and satellites.

IV. OTHER GENERAL EQUIPMENT

The DAF GF's Other General Equipment (GE-Other) includes, but is not limited to, support equipment, vehicles, and special tooling and special test equipment.

The following deficiencies aggregated into this material weakness:

(a) Lack of sufficient documentation of accounting policies, procedures and controls

The complete end-to-end processes, procedures and key controls for portions of the GE-Other process are not accurately and/or fully documented. Additionally, the DAF GF has not fully developed or implemented the accounting and valuation methodologies set forth in SFFAS 6 or SFFAS 50 for GE-Other.

(b) Inability to identify a complete population of other general equipment

During FY19, other general equipment data was migrated from the legacy APSR to a new APSR, the Defense Property Accountability System (DPAS). The DAF GF is still in the process of developing its controls for the accounting of GE-Other within DPAS and certain assets still require additional validation prior to being reported. As a result, the DAF GF is currently unable to provide a complete population of GE-Other for FY20.

(c) Insufficient controls over financial reporting of other general equipment

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.

Recommendations:

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

- Continue to develop sufficient controls and policies within the DPAS APSR to consistently recognize, measure, and disclose DAF GF-held equipment in accordance with SFFAS 6 and SFFAS 50.
- Continue efforts to identify the complete population all GE-Other assets and corresponding validation efforts over the asset data being entered into DPAS.
- Perform the necessary research to support the separate identification of and applicable adjustments to correct the GE-Other balances presented within the financial statements.

V. 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 processes, procedures and key controls for portions of the OM&S process are not accurately and/or fully documented, including insufficient considerations related to segregation of duties and the timely recording of transactions.

During FY20, the DAF GF transitioned the munitions APSR to the Theater Integrated Combat Munitions System (TICMS). The DAF GF has not fully identified, assessed and responded to the financial statement risks associated with the TICMS migration. For example, there is not a documented assessment of how the Defense Logistics Management Standards for recording logistics transactions are aligned with respective transactions in the TFM. PCM documentation also was not updated to include revised processes and new TICMS capabilities.

Additionally, the DAF GF has not evaluated and/or fully documented its assessment of the following in accordance with relevant accounting standards, including:

- Appropriateness of posting logic used to generate reports for financial reporting
- Alignment of munition condition codes to USSGL accounts
- Alignment of logistics supply categories to USSGL accounts

These examples highlight the importance of coordination between the financial management and the functional community regarding the accounting/financial reporting impact of non-financial data maintained by the functional community.

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

Controls have not been implemented to reconcile balances being reported for OM&S in its APSRs to the financial statements and identified variances have not been investigated or resolved. Additionally, the DAF GF does not perform reconciliations between OM&S proprietary and corresponding budgetary transactions.

(c) Lack of sufficient accounting processes to value and report OM&S

The DAF GF has not implemented nor applied the costing and valuation methodologies set forth in SFFAS 3, *Accounting for Inventory and Related Property,* or SFFAS 48, *Opening Balances for Inventory, Operating Materials and Supplies, and Stockpile Materials*. The DAF GF has not demonstrated a systemic capability to integrate OM&S actual historical costs 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.
- Establish criteria, as well as policies and procedures on how to implement the proper use of Logistic Supply Condition Codes and Logistic Supply Categories.
- Enhance coordination between financial and logistics stakeholders to identify, assess and respond to the impact of logistics transactions on information used for financial reporting.

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- Develop and implement APSR to general ledger reconciliations. When variances are identified, take actions to timely 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. Complete the analysis of OM&S accounting treatment for consumption vs. purchase method.
- Establish a formalized plan and timeline for completion of efforts for those OM&S assets utilizing the consumption method to account for inventory and related property under SFFAS 3. This plan should include the systemic components necessary to properly integrate and calculate Moving Average Cost that reconcile to the APSR acquisition, logistics, and financial (GL and Payment) system transactions.
- Complete any open efforts for beginning balance valuation in accordance with SFFAS 48 and any related implementation guidance and ensure that supporting documentation is retained for opening balances.

VI. PROPERTY AND MATERIALS HELD BY OTHERS

The following deficiencies aggregated into this material weakness:

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

The DAF GF's OM&S balance includes approximately $30 billion of munitions. Of that balance, the Army performs munitions inventory management services for approximately $10 billion of munitions. During FY20, the DAF GF implemented TICMS, which now allows the DAF GF to receive transactional-level quantity updates from Army's Logistics Modernization Program (LMP) system. However, the DAF GF is still in the process of establishing further ongoing reconciliation controls between TICMS and LMP.

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

Also included in OM&S are supplies managed by DLA. The DAF GF relies on the DLA to report inventory quantities on hand at period end through the Distribution Standard System application. The DAF GF does not have sufficient policies or procedures in place to perform reconciliations for assets managed by DLA and reported by the DAF GF. When there are discrepancies, the DAF GF adjusts their inventory counts to the amounts reported by DLA without reconciliation.

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

Government property in the custody of contractors includes government furnished equipment (GFE) and contractor-acquired property. The DAF GF lacks policies and procedures to sufficiently maintain accountability for, and to financially report, property in the custody of

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contractors. The DAF GF is unable to provide a complete listing of GFE assets and has not developed or implemented controls for the recording and monitoring of GFE. Additionally, the DAF GF lacks sufficient controls over contactor inventory control points (C-ICP). C-ICP represents the portion of DAF GF-owned OM&S assets that are maintained at commercial entity locations for wholesale distribution. The DAF GF has not developed sufficient policies and internal controls to identify, validate and financially report all C-ICP programs and is unable to determine the materiality of C-ICP programs currently not reporting.

(d) Insufficient oversight of the accounting for JSF spare parts and associated costs

The F-35 Lightning II (also known as the Joint Strike Fighter (JSF)) program is a joint, multinational acquisition program intended to develop and field a family of next-generation strike fighter aircraft for the DAF GF, Navy and Marine Corps, as well as other international partners and foreign military sales customers. As one of the program participants, the DAF GF contributes a percentage of the annual procurement costs to the global pool of assets that are owned by the JSF program. The F-35 Program procures "whole" spares under annual sustainment contracts and retains ownership of these spares until these spares are installed on a participant's F-35. As a result, the DAF GF's interest in the spare part pool equates to a percentage of the pool's future benefit to be received. The DAF GF currently does not report an asset on the balance sheet to represent this future benefit. To address this issue, the DAF GF is working with the JSF Program office to develop a formalized process for accounting and reporting for the future benefit of the spare pool and issuance (expensing) of spares on the DAF GF financial statements.

Recommendations:

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

- Improve oversight of OM&S managed by Army and DLA:
  - Munitions
    - Design and appropriately document procedures to ensure the accurate, timely and consistent execution of the reconciliation between Army and DAF GF records.
  - Supplies
    - Design and implement internal controls related to the review of DLA Managed Inventory balances. These should include controls to assess the completeness and accuracy of information reported.
    - Develop a process to routinely monitor variances between DLA and the DAF GF.
- Improve oversight of GFP and other materials held by contractors:
  - Complete actions to obtain a complete population of property held by contractors.

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    - Develop sufficient oversight procedures to effectively monitor contractors, including the development of reconciliations between DAF GF and contractor records.
- Insufficient oversight of the accounting for JSF spare parts and associated costs:
    - Develop policies and procedures for the accounting and reporting of the DAF GF's investment in the spare pool.

VII. FUND BALANCE WITH TREASURY

Fund Balance with Treasury (FBwT) is an asset account that shows the available budget spending authority of federal agencies. Fund balance reconciliations are key controls for supporting the existence, completeness, and accuracy of the budget authority and outlays reported on the Statements of Budgetary Resources.

The following deficiencies aggregated into this material weakness:

(a) Lack of sufficient documentation of accounting policies, procedures and controls

The complete end-to-end processes, procedures and key controls for portions of the FBwT reconciliation process are not accurately and/or fully documented. For example, we identified specific review controls over inputs into and outputs from the Consolidated Cash Accountability System (CCAS) 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 needed

Each month, the DAF GF 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 GF had identified significant differences between activity posted by the U.S. Treasury and that posted in DDRS-B. The differences were adjusted in a post-closing adjustment to DDRS-B (the "undistributed JVs") so that the financial statements of the DAF GF reflect the balance reported by the U.S. Treasury.

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. The DAF GF has begun developing a historical trend analysis as part of its efforts to identify and resolve why transactions are unmatched, as well as more accurately estimate how unmatched transactions clear over time. However, these efforts are not yet complete. The DAF GF expects that the root causes identified in conjunction with the historical trend analysis will enable the entity to develop long-term corrective actions to reduce those variances, some of which are caused by known deficiencies within other business processes (e.g., procure to pay) and reported in other material weaknesses within this report.

While the CCAS reconciliation is used to systematically measure and track the unmatched data between the DAF GF's general ledgers and the U.S. Treasury, this process is not completed before the undistributed JVs are posted. During our testing, we identified instances where the undistributed JVs did not reconcile to the CCAS reports. Additionally, undistributed items are not cleared in a timely manner and a significant amount remained unresolved at year end.

(c) Lack of sufficient monitoring over DFAS

The DAF GF is responsible for monitoring the effectiveness of internal controls over processes being executed by its third-party service providers. During our procedures over the CCAS reconciliation process performed by DFAS, we were unable to obtain sufficient audit evidence for the following:

- The DAF GF's monitoring of the accuracy and timely maintenance of applicable process documentation.
- The implementation of a control that would allow the DAF GF to validate the accuracy and completeness of the CCAS outputs/reconciliations.
- Performance of completeness checks over the DAF GF data between the source files used in the CCAS reconciliation and the source system.
- The implementation of a control that would effectively allow the DAF GF to monitor modifications within the CCAS reconciliation scripts and process.
- The implementation of a control that would effectively allow the DAF GF to monitor the effectiveness of the FBwT reconciliations performed by DFAS prior to the CCAS month-end process.
- The DAF GF's review of the undistributed JVs and how the reconciliation between DAF GF's general ledgers to the U.S. Treasury are supported each period with transaction level detail.

Recommendations

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

- Evaluate the design of the monthly undistributed JV process to validate that the JV packages are reviewed each period to confirm the JVs are fully supported by CCAS.
- Develop control objectives to resolve variances between the GL and the U.S. Treasury in a supportable manner each period.

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- Continue to work with DFAS to verify that the documentation related to the CCAS reconciliation is updated timely and is adequate for consistent monitoring and reperformance. This includes, but not limited to, maintaining adequate documentation over the source files that are used in the reconciliation, the reconciliation process, and the outputs.
- Assess the existing internal control environment and confirm controls are in place to validate the completeness of the FBwT reconciliation and accuracy of transaction mapping.
- Evaluate the existing FBwT reconciliation control environment to identify the need for additional monitoring and review controls throughout the entire CCAS reconciliation process.
- Implement review procedures over the documentation on changes made to the CCAS reconciliation script to allow the DAF GF oversight over changes in the business logic and evidence the review procedures in written documentation (e.g., SOP, PCM).

VIII. 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 the systemic interoperability and audit trail of its acquisition, logistical, and accounting processes and systems data from asset procurement through receipt, invoicing, payment, and valuation. The complete end-to-end processes, procedures and key controls are not accurately and/or fully documented for accounts payable (AP), expenses, disbursements, obligations, contracting and key subprocesses from the procure to pay (P2P) and plan to stock business processes, including, but not limited to Vendor Pay, MOCAS and MILSTRIP.

In some instances, the DAF GF also was unable to provide sufficient supporting documentation in a timely manner.

(b) Lack of or inadequate controls over AP, expenses, cash disbursement and obligation processes

The DAF GF lacks or has inadequate controls, including the design of controls, over the following:

- **Recording transactions in the appropriate period**—The DAF GF lacks controls to record expense transactions appropriately and accurately in the period that the transaction occurred.
- **AP and cash disbursements**—The DAF GF lacks controls to monitor the aging of its accounts payable, including evaluating unpaid invoices and whether remaining balances

are valid. Internal controls also have not been fully designed or implemented to confirm the accuracy and completeness over accounts payable and disbursements.

- **MOCAS contracts**—The DAF GF has not developed controls to validate that contract obligations are recorded and/or interfaced between MOCAS and the accounting systems timely.

The lack of or inadequate controls over AP, expenses, cash disbursement and obligations processes has a downstream impact on other processes, such as FBwT, Military Equipment, and OM&S. This can result in significant fluctuations in costs and asset balances from period to period, which may be caused by material inaccuracies in the related accounts.

(c) Insufficient controls over the accounting for joint procurement programs and shared access vendor contracts

The DAF GF has indicated that amounts presented for collections, obligations and outlays related to joint procurement programs and shared access vendor contracts may not be materially correct. While the activity for these programs and contracts may be accounted for in accordance with DoD policies, in some instances, the accounting treatment may not be in accordance with U.S. Generally Accepted Accounting Principles (US GAAP). Collections, obligations and outlays of the DAF GF are misstated by any difference between DAF GF expenditures and the DAF GF actual specific allocations of contract cost, which cannot be calculated. Additionally, due to a lack of 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 US GAAP.

(d) Insufficient controls over financial reporting of contract financing payments

CFP are authorized disbursements to a contractor prior to acceptance of supplies or services by the Government and are reported by the DAF GF as a component of Other Assets. MOCAS is the primary system utilized to administer contracts with CFP. The DAF GF lacks sufficient controls over the financial reporting of CFP, including:

- Insufficient monitoring of the MOCAS CFP balance for accuracy and completeness, including the lack of reconciliation between the MOCAS CFP sub-ledger population and the general ledger.
- Improper reporting of CFP related to capitalized equipment, OM&S and inventory as "Other Assets." The capitalized costs incurred before assets are placed in service should instead be recognized in GPP&E (CIP) or I&RP (OM&S in Development) as appropriate.

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Recommendations:

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

- Update and finalize the PCMs that document the end-to-end processes for AP, expenses and related P2P subprocesses.
- Develop a plan for the systemic capability and integration necessary across acquisition, logistical, and financial systems to achieve proper asset valuation in accordance with GAAP.
- Update policies and procedures to document year-end processes for identifying, monitoring and recording transactions in the current period.
- Implement monitoring over the accrual processes to ensure that accruals are recorded completely and accurately in the correct period.
- Update policies and procedures to determine that appropriate supporting documentation is provided in a timely manner to support transactions/balances recorded in the financial statements and related disclosures.
- Develop an aging schedule over the Accounts Payable balance to accurately track unpaid invoices and avoid late payments.
- Coordinate with service providers as appropriate to ensure that obligations (contracts) are recorded in MOCAS and the accounting systems on a timely basis.
- Implement the following due to insufficient controls over the accounting for joint procurement programs and shared access vendor contracts:
  - The DAF GF should implement monitoring procedures over recorded disbursements and collections to validate they represent transactions incurred by the DAF GF.
  - The DAF GF should continue to coordinate with the Office of the Undersecretary of Defense (Comptroller), DFAS and others to determine if the current accounting policies are GAAP compliant and what, if any, corrective actions are needed to move to a GAAP compliant policy.
- Implement the following due to insufficient controls over financial reporting of contract financing payments:
  - Develop and implement a beginning-to-end process to properly record contract financing payments, including reporting in the appropriate financial statement lines.
  - Determine whether financial statement balances reflect an accurate and complete population of contract financing payments by:
    - Identifying and validating a complete MOCAS contract financing population.
    - Developing and implementing a reconciliation between the MOCAS contracting financing population and the general ledger.

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IX. CONTINGENT LEGAL LIABILITIES

The DAF GF's contingent legal liabilities (CLL) are those where 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 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 CLL process are not accurately and/or fully documented. For example, the DAF GF has not fully considered the reporting impact of legal matters involving other agencies/entities.

(b) Insufficient processes and controls to identify, track and consistently report claims

The Air Force Legal Operations Agency (AFLOA) is comprised of multiple Divisions/Branches. Divisions/Branches may use different tools or systems to record, track and monitor claims. While there are efforts underway at the AFLOA Headquarters level for the quarterly review and consolidation process used to derive the CLL accrual, applicable reviews and related controls have not been consistently and effectively implemented across the Divisions/Branches. As a result, the DAF GF is currently unable to provide a complete and consolidated listing of open and closed claims.

(c) Insufficient processes and controls to assess, report and disclose CLL

For a significant number of claims, the DAF GF does not consider an assessment of the likelihood of an unfavorable outcome when calculating the total future liability associated with legal claims for financial reporting. The DAF GF also does not consistently disclose the range of loss for cases determined to be reasonably possible.

Recommendations:

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

- Further develop and maintain standard policies, procedures, and controls at various levels of the AFLOA organization over the consistent recording and reporting of legal liability.
- Evaluate the current tools and/or systems and consider the feasibility of centralizing the system used to record and monitor claims to assist in the development of standardized processes across the organization. Manual workarounds may be necessary until a full systems solution is implemented.

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- Analyze the current population of claims impacting the reported legal liability and revise the methodology to a GAAP-compliant approach while considering the following suggested items:
  - Perform research/analysis on the consolidated listing of claims to better segment the population to perform an individual or aggregate likelihood of loss assessment.
  - Assess the reasonableness of the payout rate used to project future loss (e.g. Divisions/Branches with insufficient historical data, anomalies in historical data).

X. ACCUMULATING AND PREPARING FINANCIAL STATEMENTS

The following deficiencies aggregated into this material weakness:

(a) Lack of sufficient centralized financial statement analytical and review functions

EY identified an overall lack of sufficient monitoring across DAF GF processes; however, the area of most concern is financial reporting. The below listing highlights several areas where we identified a lack of sufficient monitoring:

- Unposted transactions
- Lack of sufficient review and approval of journal vouchers
- Negative unliquidated obligations
- Abnormal conditions

In addition, we identified several accounting or posting logic errors, which are discussed further in section (c) of the Integration and Reconciliation of Financial Systems section, which could have been detected and corrected prior to reporting had an effective monitoring process been in place.

The DAF GF does not have a sufficient number of trained accounting personnel to perform monitoring over its financial reporting environment to compensate for the insufficient data infrastructure. Finally, the DAF GF relies on its service provider, DFAS, to perform data analytics, reconciliations and other key data functions without the necessary capability/capacity to fully monitor or review DFAS' work.

(b) Lack of assessment, monitoring and effective implementation of recent accounting guidance

The DAF GF does not have a formal process established to effectively assess, monitor and implement recent accounting guidance issued by the Federal Accounting Standards Advisory Board (FASAB) or other accounting guidance (e.g., DoD FMR updates, Defense Audit Remediation Working Group (DARWG) papers). While DAF GF leadership is actively involved in working groups to stay abreast of new guidance, there is no one group that is responsible for ensuring the full implementation for financial reporting purposes.

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The DAF GF has not completed the process of evaluating the effects that will result from adopting the pronouncements and other guidance issued by FASAB which are already effective. This includes, but is not limited to, SFFAS 47, *Reporting Entity*, and SFFAS 49, *Public-Private Partnerships*. The effect on the financial statement amounts is not currently determinable by the DAF GF and could be material.

(c) Enhanced financial statement review procedures are needed

While significant progress has been made, the DAF GF needs to continue to enhance its process for the preparation and review of its Agency Financial Report (AFR). Specifically, we identified instances of the following:

- Inaccurate balances reported in the financial statements and notes.
- Supporting documentation that did not adequately support amounts included in the disclosures or could not be provided in a timely manner.
- Lack of complete and accurate disclosures.
- Insufficient commentary included in management's discussion and analysis, including an inability to fully explain major changes in balances or activity.

The DAF GF should continue to work across the organization to ensure that the appropriate input is being provided to decrease the probability of error and increase the usefulness of the AFR as a mechanism to communicate to the public the successes, plans and annual results of the DAF GF.

In addition, in accordance with section II.3.3 of the Office of Management and Budget (OMB) Circular A-136, *Financial Reporting Requirements* (Circular A-136), and Statement of Federal Financial Accounting Concepts (SFFAC) 2, *Entity and Display,* the Statement of Net Cost should present gross and net cost information for major organization and programs, as well as data related to its outputs and outcomes. The DAF GF currently accumulates amounts reported in its Statements of Net Cost by major appropriation groups funded by Congress and not by major organization and programs as required.

Recommendations:

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

- Invest in hiring, training and retaining additional qualified accountants across the entity, as necessary, for the purpose of implementing a more comprehensive oversight program.
- Dedicate resources to track and coordinate the assessment of the impact and implementation of recent guidance and technical updates commensurate with the size and complexity of the DAF GF's operations:

  - Perform reviews of Circular A-136 requirements to ensure updated guidance is evaluated and incorporated in a timely manner.
  - Develop white papers to document the DAF GF's consideration of the guidance and plan for implementation.
- Continue to develop reviews by business process areas to ensure disclosures are complete, accurate and compliant with financial reporting guidance.
- Improve the presentation of the Statements of Net Cost:
  - Determine the major organizations and programs most relevant to the DAF GF.
  - Implement processes to capture costs by major organization and program.

XI. OVERSIGHT AND MONITORING OF INTERNAL CONTROL

The following deficiencies aggregated into this material weakness:

(a) Lack of an effective internal control program over financial reporting and compliance with financial-related laws and regulations

OMB Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control* (Circular A-123), defines management's responsibility for enterprise risk management and internal control in Federal agencies. The Financial Managers' Financial Integrity Act of 1982 (FMFIA) requires federal entities to establish internal controls in accordance with the GAO's Standards for Internal Control in the Federal Government (the GAO Green Book). The GAO Green Book defines entity level controls as controls that have a pervasive effect on an entity's internal control. It establishes five components of internal control: Control Environment, Risk Assessment, Control Activities, Information and Communication, and Monitoring. In accordance with the GAO Green Book, management must effectively design, implement, and operate each of the components of internal control for the components to be effective. Based on our review of the DAF GF's FY 2020 Statement of Assurance, the description of activities related to the Circular A-123 program, and also through discussions with the DAF GF, we noted that the DAF GF has not fully implemented an effective internal control program over financial reporting and compliance with financial-related laws and regulations in compliance with Circular A-123, Appendix A.

While the DAF GF A-123 program is still in its development stage, the DAF GF has made some progress during FY20, including the development of training programs focused on introductory risk and control concepts and standardized templates such as the entity-level control, fraud control and deficiency evaluation templates. The DAF GF also enhanced its control evaluation matrix (CEM) template for assessing, linking, and documenting financial statement risks to key controls for significant processes. These efforts demonstrate steps forward; however, as identified in earlier sections of this report, we identified instances where the DAF GF-prepared process cycle memorandums were either incomplete or inaccurate or were inconsistent with the CEMs. Further efforts are also needed across the entity to document controls over the accuracy and reliability of

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externally reported financial information produced by the DAF GF or derived from an external party that are used in control activities or in the recording of financial transactions.

(b) Lack of specificity in monitoring of third-party service providers

For several business processes, including financial reporting, military and civilian payroll, and disbursing and receiving, the DAF GF relies on service organizations (e.g., DFAS) for information that affects financial reporting of the financial statements. The service organization's systems are subject to separate audit examinations to determine the design and operating effectiveness of the service organization's controls to achieve the overall control objectives for various business processes. Service providers design processes and related controls with the assumption that Complementary User Entity Controls (CUECs) would be placed in operation by user entities (i.e., the DAF GF). The application of these controls by user entities is necessary to achieve the control objectives within the service organization reports. The DAF GF's Service Provider Team has the responsibility to determine the completeness of the population of service organizations, determine whether the associated service organization controls (SOC) reports are being properly reviewed by DAF GF, and ensure that CUECs are being reviewed, monitored, and assessed by their respective assessible unit(s). Additionally, each of the DAF GF's business process assessable units are responsible for understanding and evaluating CUECs, ensuring the business process incorporates applicable control activities, as well as understanding the impact of results within service organization reports. While measurable progress has been made in the monitoring process, a full implementation of documented policies, procedures, and process cycle memos to effectively assess and monitor DAF GF's service organizations is required to determine control effectiveness and risk mitigation across the DAF GF's respective assessable units.

Recommendations:

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

- Enhance the processes and procedures related to the Statement of Assurance by providing training and identifying roles and responsibilities to validate that the DAF GF-identified assessable units have developed management control plans, performed risk assessments, performed ongoing monitoring, developed corrective action plans and tracked progress towards remediation.
- Fully execute the assessment process contained in Circular A-123, Appendix A, to assess the effectiveness of internal control over financial reporting and compliance with financial-related laws and regulations.
- Maintain adequate and updated supporting documentation for all phases/steps outlined in Circular A-123, Appendix A.
- Increase the resources dedicated to the Circular A-123 program to completely execute all aspects of the program requirements on an on-going basis.

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- Perform updates to process narratives, policies and procedures to completely accurately reflect current key financial processes and the critical path of information flow involved in each class of transactions from initiation to financial reporting.
- Fully execute policies and procedures to document control gaps related to service organizations, including the CUECs in PCMs and related control documentation.
- Enhance internal communication to assess how service organization controls, CUECs, and complementary subservice organization controls (CSOCs) relate to the DAF GF's identified risks of material misstatement.
- Assess and respond in written documentation to gaps in the DAF GF's service organization monitoring and control exceptions identified in SOC reports.

XII. FINANCIAL INFORMATION SYSTEMS

Information system (IS) controls are fundamental to the confidentiality, integrity, and availability of all applications and the financial data they store, process, and transmit. Our assessment of the IT controls and the computing environment identified deficiencies in the design and operation of information systems controls in the following areas:

- Access Controls (AC): Controls provide reasonable assurance that the access to system resources is consistent with job duties and restricted to authorized individuals.
- Configuration management (CM): Controls provide reasonable assurance that changes to the information system are authorized and operating as intended.
- Segregation of Duties (SoD): Controls provide reasonable assurance that incompatible duties are effectively segregated.
- Interface Controls (IC): Controls provide reasonable assurance that data from feeder systems is reliable, valid, complete, and properly converted from the feeder systems into the applications they support.
- Security Management (SM): Controls provide reasonable assurance that overarching system risk management policies and procedures are in place.

Weaknesses in such controls can compromise the integrity of sensitive data and increase the risk that such data may be inappropriately used and disclosed in the DAF GF's financial statements, IT environment, and financial applications.

The DAF GF has made progress in remediating prior year findings, while continuing to focus on modernization efforts of their legacy applications and infrastructure, migration of its accounting and financial systems to the DEAMS, TICMS and NexGen-IT processing environments and leveraging of new technologies to standardize business and IT processes. As new financially significant applications are commissioned, it is critical to effectively plan and fully integrate information systems controls during the implementation to avoid any weaknesses in the DAF GF IT controls environment post implementation.

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(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 modified.

The following access control weaknesses in aggregate, represent a significant risk to the DAF GF IT environment (relevant to the financial applications):

- Access was not restricted to authorized users and was not assigned in accordance with the principle of least privilege.
- Policies and procedures for account authorization, provisioning, and termination were not documented.
- Procedures were not consistently followed for monitoring unused IDs, locked IDs, terminated users, access provisioning, or access re-certifications.
- Procedures for monitoring and auditing security violations and sensitive user activities, including activities of privileged users, were not documented, not being performed, or not configured appropriately within systems.
- Periodic reviews of sensitive and non-sensitive user access were not performed appropriately.
- 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.
- Access controls associated with the use of third-party systems have not been fully implemented.
- Inactive or unauthorized users are not disabled or removed timely and in accordance with organization defined policies.
- Systemic prevention of excessive concurrent sessions was not appropriately implemented and configured.
- The completeness and accuracy of system- and manually-generated reports are not being verified by management responsible for reviewing these reports.
- Oracle database profiles are not reviewed and maintained (addition, removal, modification) regularly and appropriately.
- Password complexity and password lockout requirements were not being enforced.

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(b) Configuration Management/Change Controls

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

The following change control weaknesses in aggregate as discussed below represent a significant risk to the DAF GF IT environment (relevant to the financial applications):

- Adequate policies and procedures defining configuration management requirements have not been developed.
- Developers were granted inappropriate access to make modifications directly to the production environment and delete system files within application modules.
- Configuration changes are not properly reviewed, approved, tested and documented.
- Configuration changes to production environments are not being monitored to verify their appropriateness.
- The release and migration of application code, configurations, and databases are not monitored for potentially unauthorized changes.
- Direct changes to data in production may be made unmonitored and without any required documentation, testing (if applicable), or approval.
- The completeness and accuracy of system and manually generated reports are not being verified by management responsible for reviewing these reports.

(c) Segregation of Duties

SoD controls provide policies, procedures, and an organizational structure to prevent one or more individuals from controlling key aspects of computer-related operations without detection, and thereby conducting unauthorized actions or gaining unauthorized access to assets or records. Proper implementation of these controls separates duties in both procedure and practice, 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, is not appropriately monitored and assessed.

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

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- Access rights and responsibilities were not appropriately restricted to independent users and assigned in accordance with SoD policies.
- Policies and procedures were not always comprehensive and did not address potential SoD conflicts within the applications.
- Controls were not in place to verify conflicting roles were not assigned to individuals during the access provisioning process, and for known conflicts where SoD concerns were identified, subsequent logging and review of a user's activity was not in place and monitored for appropriateness.
- Conflicting roles that were deemed necessary or required due to a business need were not documented and assessed on a regular basis.
- Users were assigned access to allow them to perform both administrator and end user functions.
- The completeness and accuracy of system- and manually generated reports are not being verified by management responsible for reviewing these reports.

(d) Interface Controls

Interface controls consist of those controls over the timely, accurate, and complete processing of information between applications on an ongoing basis.

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

- Interface agreements are not reviewed on a periodic basis to ensure they are accurate.
- Documented interface agreements do not comprehensively describe edits and validation checks along with error handling processes.
- Logs of interface processing activities are not retained to support subsequent auditing and monitoring. Error reporting of failed interface processing activities has not been implemented in some systems.
- Interface files are not protected from unauthorized access and modification prior to processing.
- Validation checks are not consistently implemented across interfaces to prevent the processing of duplicate or inaccurate data.
- Reconciliations are not being performed between source and target systems to verify completeness and accuracy of processing.
- The completeness and accuracy of system and manually generated reports are not being verified by management responsible for reviewing these reports.

(e) Security Management

A security management program is the foundation of a security control structure and a reflection of senior management's commitment to addressing security risks. The security management program should establish a framework and continuous cycle of activity for assessing risk, developing and implementing effective security procedures, and monitoring the effectiveness of these procedures. Without a well-designed program, security controls may be inadequate; responsibilities may be unclear, misunderstood, or improperly implemented; and controls may be inconsistently applied.

The following security management weaknesses in aggregate represent a significant risk to the DAF GF IT environment (relevant to the financial applications):

- Security controls were not regularly assessed for appropriateness, monitored, or tested in order to verify compliance.
- Plans of action and milestones (POA&Ms) were not prioritized and periodically tracked to completion, including testing and monitoring of corrective actions.
- For systems hosted by the Defense Information Systems Agency (DISA), assessments over CUECs and inherited controls identified in the SOC report were not performed.

Recommendations:

The DAF GF should implement controls to address deficiencies in access controls, configuration management, segregation of duties, interface and security management 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.
    - Review changes and execution procedures completed by third parties and contractors.
    - Monitor the application and database(s) for potentially unauthorized changes.
    - Implement controls verifying the completeness and accuracy of management reports.

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- Interface controls:
  - Implement stronger systemic checks for completeness and accuracy of interface file processing, to include tracking and logging procedures and protection from unauthorized access.
  - Maintain appropriate and comprehensive documentation covering all interfaces.
  - Document procedures for performing interface error handling and correction.
- Security Management:
  - Define and implement consistent procedures related to periodic security controls assessments and testing.
  - Prioritize and monitor POA&M progress, and test and monitor corrective actions.
  - Review applicable SOC reports and associated CUEC implementation.

Significant Deficiencies

XIII. ENVIRONMENTAL AND DISPOSAL LIABILITIES

(a) Insufficient procedures in place to record all environmental and disposal liabilities

The DAF GF estimates environmental and disposal liabilities (E&DL) related to the restoration and other environmental clean-up efforts of real property assets. Environmental Restoration Liabilities (ERA) represent the future costs associated with identifying, investigating, remediating, and monitoring environmental contaminations within the United States, including program management costs. Other Environmental Liabilities (OEL) is comprised of the four remaining items: Environmental Corrective Action (ECA), Environmental Response at Operational Range (EROR), Environmental Closure Requirements (ECR) and Asbestos (ASB). Restoration and OEL estimates are triggered by two different activities: asset-driven or event-driven. ECR and ASB 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 APSRs to determine the completeness of population for which a liability needs to be determined. As discussed in the Real Property material weakness above, the DAF GF's APSRs may not capture all real property assets. 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.

(b) Insufficient review over the estimate rollforward process through fiscal year-end

For Base Realignment and Closure (BRAC) and Restoration, additional assessments are performed for sites at year-end that have had significant changes in site conditions or required remedies since the original cost estimate was developed at June 30. The BRAC and 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.

(c) 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 BRAC and Restoration that require investigation and/or clean-up. RACER is a third-party software operated and maintained by AECOM Technical Services, Inc. (AECOM) through a contract with USACE. AECOM is tasked with maintaining and updating the multiple different databases that RACER 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. While the DAF GF demonstrated progress by developing plans for a retrospective review, further analysis and evaluation of key factors are necessary given the complexity and unique nature of the applicable populations. These factors include, but are not limited to, the various types of sites and related technologies, the variance threshold, and the applicable sample sizes and precision used to evaluate the actual to estimates review.

The RACER Verification, Validation, and Accreditation (VV&A) process involves the review and input of the various DoD users in addition to the DAF GF. It is performed on a periodic basis to review key factors impacting the estimation of clean-up activities for various environmental sites. The DAF GF does not have a sufficient process in place to assess the reviews and updates to key inputs performed by other entities within the VV&A process which may impact the DAF GF's clean-up activities. The lack of an effective retrospective review process at the program level limits the DAF GF's ability to develop a comprehensive understanding of the impact of RACER inputs on the accuracy of the entity's recorded estimates.

Recommendations:

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

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- Insufficient procedures to record all E&DL—real property assets:
    - Evaluate the appropriateness and timeliness of established corrective action plans to both address the risks or errors identified and support the reporting of complete and accurate estimates of OEL.
- Insufficient procedures to record all E&DL—military equipment and weapon systems:
    - Obtain and assess data to support the development of the related E&DL associated to each major asset category.
    - Evaluate the appropriateness of current E&DL cost estimation models to accurately estimate environmental disposal costs.
- Further develop existing rollforward controls to consider the materiality of changes in estimates for BRAC and Restoration sites both individually and in the aggregate.
- Continue to further evaluate and analyze contract cost information to effectively develop and implement a complete process to compare actual contract costs to E&DL estimates as computed by RACER or any other cost estimation software.
- Continue to refine a plan and approach to execute the retrospective review process. This will allow the DAF GF to gain more insight into the accuracies of inputs, cost assemblies, and technologies utilized within RACER.
- Develop a specific set of roles and responsibilities for DAF GF representatives involved in the VV&A process to effectively monitor and evidence the specific review procedures tasked to the DAF GF.
- Establish a process requiring DAF GF representatives to perform and evidence review procedures of RACER updates impacting the entity as validated by other agencies/users. Additionally, these processes should include subsequent monitoring and validation of updates made to the RACER system by the responsible parties.

XIV. REIMBURSABLE PROGRAMS

(a) Insufficient controls over financial reporting of reimbursable agreements

The DAF GF must match current-year reimbursable authority received from customer orders to the corresponding obligations incurred for that order. If these amounts are not in balance, funds may need to be returned to the customer or de-obligated prior to the end of the fiscal year. The DAF GF performs balancing at various times during the year and forces reconciling balances on journal vouchers. There is a lack of supporting documentation and unique identifiers for these balancing transactions.

The DAF GF also does not have sufficient procedures in place to ensure that transactions associated with intra-DAF GF reimbursable agreements are appropriately eliminated from the financial statements and related disclosures.

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(b) Lack of sufficient reviews over reimbursable activity

As part of our testing, we identified several instances that indicate a lack of sufficient review, including:

- Reimbursable codes in the Job Order Cost Accounting System II (JOCAS) are not regularly reviewed against updated DoD guidance. This could lead to the DAF GF either over- or under-charging a customer depending on whether the costs are reimbursable.
- Lack of timely identification and action to resolve stale open reimbursable orders.
- Insufficient documentation supporting the review of receipt and acceptance for goods and services when performed in conjunction with a reimbursable order to ensure customer billings are correct.

Recommendations:

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

- Insufficient controls over financial reporting of reimbursable agreements:
  - Evaluate the causes for why unfilled customer orders and obligations created to fulfill those orders are not in balance. Depending on the causes identified, policies and procedures may need to be updated to fully address requirements to:
    - Minimize time lags between the disbursement of funding to meet the contractual obligations and the billing/collection from the customer.
    - Return funding to the customer promptly if the DAF GF knows the funding will not be fully utilized.
    - Properly record reimbursable obligations initially as reimbursable budget authority rather than direct budget authority, in order to prevent reclassifying at a later date.
  - Develop policies and procedures to eliminate intra-fund transactions as appropriate.
- Lack of sufficient reviews over reimbursable activity:
  - Establish a process to regularly assess and update reimbursable codes within JOCAS, as well as those assigned to particular customers.
  - Implement and document a review of the reasonableness of charges and the customer bill, including ensuring the goods received or services performed comply with the requirements of the agreement.
  - Enhance the current process to determine stale balances are being monitored and ensure customers are billed and collected from in a timely manner.
  - Develop or update policies to sufficiently support that goods provided or services performed satisfy the criteria of the order and include evidence of receipt and acceptance for the expenses incurred.

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

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

We were engaged to audit, in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States and the U.S. Office of Management and Budget (OMB) Bulletin No. 19-03, *Audit Requirements for Federal Financial Statements,* the financial statements of the Department of the Air Force General Fund (DAF GF), which comprise the consolidated balance sheet as of September 30, 2020, and the related consolidated statement of net cost, consolidated statement of changes in net position and combined statement of budgetary resources for the year then ended, and the related notes to the financial statements and have issued our report thereon dated November 12, 2020. Our report disclaims an opinion on such financial statements because the DAF GF was not able to provide sufficient appropriate audit evidence due to matters discussed further in the Basis for Disclaimer of Opinion paragraph.

Compliance and Other Matters

In connection with our engagement to audit the financial statements of the DAF GF, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statements, as well as the requirements referred to in the Federal Financial Management Improvement Act of 1996 (FFMIA) (P.L. 104-208). However, providing an opinion on compliance with those provisions was not an objective of our engagement, and accordingly, we do not express such an opinion.

The results of our tests disclosed instances of noncompliance and other matters that are required to be reported under *Government Auditing Standards* and OMB Bulletin No. 19-03, as described below. Additionally, if the scope of our work had been sufficient to enable us to express an opinion on the financial statements, other instances of noncompliance or other matters may have been identified and reported herein.

Our Report on Internal Control over Financial Reporting dated November 12, 2020 includes additional information related to the financial management systems and internal controls that were found not to comply with the requirements, relevant facts pertaining to the noncompliance, and our recommendations to the specific issues presented.

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FFMIA

Under FFMIA, we are required to report whether the DAF GF's financial management systems substantially comply with federal financial management systems requirements, applicable federal accounting standards, and the United States Standard General Ledger (USSGL) at the transaction level. To meet this requirement, we performed tests of compliance with FFMIA Section 803(a) requirements. The results of tests disclosed instances in which the DAF GF's financial management systems did not substantially comply with federal financial management systems requirements, applicable federal accounting standards or the USSGL.

(a) Federal financial management system requirements

As referenced in Fiscal Year (FY) 2020 DAF GF Statement of Assurance, the DAF GF identified that financial systems and financial portions of mixed systems do not substantially meet FFMIA or OMB Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control* (Circular A-123) Appendix D.

EY also identified this material weakness as part of the Financial Information Systems material weakness, contained in the Report on Internal Control over Financial Reporting, where we identified noncompliance with federal financial management system requirements for multiple systems. Weaknesses identified include those associated with security management, access controls/user access, configuration management/change controls, segregation of duties and interface controls. These financial system deficiencies prevent the DAF GF from being compliant with federal financial management system requirements and inhibit the DAF GF's ability to prepare complete and accurate financial reports.

(b) Noncompliance with applicable federal accounting standards

As referenced in the FY 2020 DAF GF Statement of Assurance and Note 1 to the financial statements, the DAF GF identified that the design of legacy financial systems does not allow the DAF GF to comply with applicable federal accounting standards, including not being able to collect and record financial information on an accrual accounting basis. EY also identified noncompliance with federal accounting standards during our testing, which was included in our Report on Internal Control over Financial Reporting.

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

As referenced in the FY 2020 DAF GF Statement of Assurance, the DAF GF identified that the design of legacy financial systems does not allow the DAF GF to comply with the USSGL at the transaction level. EY also identified noncompliance with USSGL posting logic during our testing, which was included in our Report on Internal Control over Financial Reporting.

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FMFIA

Federal Managers' Financial Integrity Act (FMFIA) of 1982 requires federal entities to establish internal controls, perform ongoing evaluations of the adequacy of the systems of internal control and prepare related reports.

The DAF GF was not able to provide evidence that they are in compliance with significant aspects of OMB Circular A-123, which implemented FMFIA. The DAF GF provided a FY 2020 Statement of Assurance, however there was not sufficient appropriate audit evidence that each process identified by the DAF GF fully completed an organizational risk assessment, identified relevant risks related to the financial statement assertions, documented the internal control standards as it relates to those assertions, performed internal control testing, and reported and tracked control deficiencies at the control level. Based on the evidence received, EY noted that the DAF GF has started to implement an OMB Circular A-123 testing strategy, however the DAF GF is unable to provide evidence that the extent of testing and review performed is sufficient to meet the requirements of FMFIA.

Management's Response to Findings

DAF GF's responses to the findings identified in our engagement and relevant comments from the DAF GF's management responsible for addressing the noncompliance are provided in their accompanying letter dated November 12, 2020. Management's response was not subjected to the auditing procedures applied in the engagement to audit the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of compliance and the results of that testing, and not to provide an opinion on the entity's compliance. This report is an integral part of an engagement to perform an audit in accordance with *Government Auditing Standards* in considering the entity's compliance. Accordingly, this communication is not suitable for any other purpose.

Ernst + Young LLP

November 12, 2020

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DEPARTMENT OF THE AIR FORCE GENERAL FUND

The DAF GF principal statements and related notes summarize financial information for the DAF GF for the FY ended September 30, 2020 and are presented on a comparative basis with information previously reported for the FY ended September 30, 2019. In FY 2020, the United States Space Force is reported as part of the DAF GF's financial statements. The principal statements and related notes have been prepared to report financial position pursuant to the requirements of the *Chief Financial Officers Act of 1990*, the *Government Management Reform Act of 1994*, and the Office of Management and Budget Circular (OMB) A-136, *Financial Reporting Requirements* (OMB A-136).

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

Consolidated Balance Sheets

The Consolidated Balance Sheets, as of September 30, 2020 and 2019, 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, 2020 and 2019. 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, 2020 and 2019.

Combined Statements of Budgetary Resources

The Combined Statements of Budgetary Resources present the budgetary resources available to the DAF GF during FYs 2020 and 2019, the status of these resources at September 30, 2020 and 2019, and the outlays of budgetary resources for the FYs ended September 30, 2020 and 2019.

Department of the Air Force General Fund
CONSOLIDATED BALANCE SHEETS
As of September 30, 2020 and 2019

(Amounts in Thousands)

	2020 Consolidated (Unaudited)	2019 Consolidated (Unaudited)
ASSETS (Note 2)		
Intragovernmental:		
Fund Balance with Treasury (Note 3)	$ 154,429,804	$ 149,015,716
Investments (Note 5)	7	7
Accounts Receivable, Net (Note 6)	543,391	481,903
Other Assets (Note 10)	230,460	220,320
Total Intragovernmental Assets	$ 155,203,662	$ 149,717,946
Cash and Other Monetary Assets (Note 4)	$ 212,811	$ 151,145
Accounts Receivable, Net (Note 6)	242,457	236,593
Operating Materials & Supplies, Net (Note 8)	60,308,030	54,375,358
General Property, Plant and Equipment, Net (Note 9)	160,284,264	146,302,264
Other Assets (Note 10)	18,510,169	16,736,643
TOTAL ASSETS	$ 394,761,393	$ 367,519,949
STEWARDSHIP LAND AND HERITAGE ASSETS (Note 9)		
LIABILITIES (Note 11)		
Intragovernmental:		
Accounts Payable	$ 2,817,079	$ 3,471,367
Other Liabilities (Note 15 & Note 17)	2,519,534	1,980,022
Total Intragovernmental Liabilities	$ 5,336,613	$ 5,451,389
Accounts Payable	$ 5,919,939	$ 7,681,623
Military Retirement and Other Federal Employment Benefits (Note 13)	977,150	1,023,809
Environmental and Disposal Liabilities (Note 14)	12,315,466	13,533,127
Other Liabilities (Note 15 & Note 17)	8,622,798	6,731,410
TOTAL LIABILITIES	$ 33,171,966	$ 34,421,358
COMMITMENTS AND CONTINGENCIES (Note 17)		
NET POSITION		
Unexpended Appropriations - Other Funds	$ 159,000,202	$ 150,291,356
Cumulative Results of Operations - Dedicated Collections (Note 20)	51,948	34,245
Cumulative Results of Operations - Other Funds	202,537,277	182,772,990
TOTAL NET POSITION	$ 361,589,427	$ 333,098,591
TOTAL LIABILITIES AND NET POSITION	$ 394,761,393	$ 367,519,949

The accompanying notes are an integral part of these statements.

Department of the Air Force General Fund
CONSOLIDATED STATEMENTS OF NET COST
For Years Ended September 30, 2020 and 2019

(Amounts in Thousands)

	2020 Consolidated (Unaudited)	2019 Consolidated (Unaudited)
Program Costs		
Military Personnel	$ 41,310,006	$ 38,406,865
Operations, Readiness & Support	60,259,609	61,490,173
Procurement	32,870,421	59,605,703
Research, Development, Test & Evaluation	47,589,424	44,401,927
Family Housing & Military Construction	2,693,194	2,917,386
Gross Costs	$ 184,722,654	$ 206,822,054
(Less: Earned Revenue)	(10,150,299)	(11,975,527)
Net Cost of Operations	$ 174,572,355	$ 194,846,527

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 Years Ended September 30, 2020 and 2019

(Amounts in Thousands)		2020 Consolidated (Unaudited)		2019 Consolidated (Unaudited)
UNEXPENDED APPROPRIATIONS:				
Beginning Balances (Includes Funds from Dedicated Collections - See Note 18)	$	150,291,356	$	153,326,272
Beginning balances, as adjusted		150,291,356		153,326,272
Budgetary Financing Sources:				
Appropriations Received		207,687,406		195,851,242
Appropriations transferred-in/out		(425,658)		(118,046)
Other adjustments (+/-)		(4,348,521)		(4,807,401)
Appropriations used		(194,204,381)		(193,960,711)
Total Budgetary Financing Sources (Includes Funds from Dedicated Collections - See Note 18)	$	8,708,846	$	(3,034,916)
Total Unexpended Appropriations (Includes Funds from Dedicated Collections - See Note 18)	$	159,000,202	$	150,291,356
CUMULATIVE RESULTS OF OPERATIONS				
Beginning Balances	$	182,807,235	$	175,385,252
Prior Period Adjustments:				
Changes in accounting principles (+/-)		0		1,281,781
Beginning balances, as adjusted (Includes Funds from Dedicated Collections - See Note 18)	$	182,807,235	$	176,667,033
Budgetary Financing Sources:				
Other adjustments (+/-)		(25,302)		0
Appropriations used		194,204,381		193,960,711
Non-exchange revenue		923		3,215
Donations and Forfeitures of Cash and Cash Equivalents		18,311		7,594
Transfers-in/out without reimbursement		79,321		74,420
Other Financing Sources:				
Transfers-in/out without reimbursement (+/-)		1,434,837		6,974,017
Imputed financing from costs absorbed by others		633,951		853,779
Other (+/-)		(1,992,077)		(887,007)
Total Financing Sources (Includes Funds from Dedicated Collections - See Note 18)	$	194,354,345	$	200,986,729
Net Cost of Operations (+/-) (Includes Funds from Dedicated Collections - See Note 18)		174,572,355		194,846,527
Net Change		19,781,990		6,140,202
Cumulative Results of Operations (Includes Funds from Dedicated Collections - See Note 18)		202,589,225		182,807,235
NET POSITION	$	361,589,427	$	333,098,591

The accompanying notes are an integral part of these statements.

Department of the Air Force General Fund
COMBINED STATEMENTS OF BUDGETARY RESOURCES
For Years Ended September 30, 2020 and 2019

(Amounts in Thousands)

	2020 Consolidated (Unaudited)	2019 Consolidated (Unaudited)
Budgetary Resources:		
Unobligated balance from prior year budget authority, net (discretionary and mandatory)	$ 41,673,281	$ 45,687,157
Appropriations (discretionary and mandatory)	205,984,214	194,708,989
Spending Authority from offsetting collections (discretionary and mandatory)	9,878,939	9,613,738
Total Budgetary Resources	$ 257,536,434	$ 250,009,884
Status of Budgetary Resources:		
New obligations and upward adjustments (total)	$ 218,765,207	$ 212,402,167
Unobligated balance, end of year:		
Apportioned, unexpired accounts	33,640,042	32,388,888
Exempt from apportionment, unexpired accounts	34,491	18,050
Unapportioned, unexpired accounts	6,430	1,302
Unexpired unobligated balance, end of year	33,680,963	32,408,240
Expired unobligated balance, end of year	5,090,264	5,199,477
Unobligated balance, end of year (total)	38,771,227	37,607,717
Total Budgetary Resources	$ 257,536,434	$ 250,009,884
Outlays, net:		
Outlays, net (total) (discretionary and mandatory)	197,745,985	186,143,926
Distributed offsetting receipts (-)	(193,049)	(465,809)
Agency Outlays, net (discretionary and mandatory)	$ 197,552,936	$ 185,678,117

The accompanying notes are an integral part of these statements.

Fiscal Year 2020

DEPARTMENT OF THE AIR FORCE GENERAL FUND

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.

Note 1 Summary of Significant Accounting Policies

A. Reporting Entity

The DAF encompasses the Headquarters Air Force (HAF) and Field Organizations. The HAF includes the Secretary of the Air Force who is responsible for all affairs of the DAF and reports to the Secretary of Defense. The HAF also includes the Chief of Staff who is responsible for the efficiency of the DAF and the preparation of its forces for military operations, as well as the Chief of Space Operations who is responsible for the efficiency of the United States Space Force (USSF) and the preparation of its forces for military operations. The 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 DAF.

On December 20, 2019, as part of the *National Defense Authorization Act* for FY 2020, the USSF became the sixth branch of the U.S. Armed Forces, established as a Military Service within the DAF. The Air Force Space Command was re-designated as the USSF as an initial step in creating the USSF. The Secretary of the Air Force has overall responsibility for the USSF, under the guidance and direction of the Secretary of Defense. In FY 2020, USSF activity is reported in the financial statements of the DAF.

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, a sovereign entity. One implication of this is that liabilities cannot be liquidated without legislation that provides resources and legal authority to do so.

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 overall mission is to deliver sovereign options for the defense of the United States of America and its global interests to "Aim High…Fly, Fight, Win" in air, space, and cyberspace. The DAF carries out its mission by adhering to a strategic framework of core values consisting of Integrity First, Service Before Self, and Excellence in All We Do. In addition, the DAF is committed to providing Global Vigilance, Global Reach, and Global Power, while defending and protecting the U.S.

The USSF serves as an independent Military Service. The USSF's duties include protecting the interests of the U.S. in space; deterring aggression in, from, and to space; and conducting space operations. The USSF trains and equips space forces in order to protect both U.S. and allied interests in space.

C. Basis of Presentation

These 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. 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* (OMB A-136), the DoD Financial Management Regulation (FMR), and in accordance with Federal Generally Accepted Accounting Principles (GAAP) for federal entities as described by the Federal Accounting Standards Advisory Board (FASAB). The accompanying financial statements account for all resources for which the DAF GF is responsible, unless otherwise noted. Accounting standards require all reporting entities to disclose that accounting standards allow certain presentations and disclosures to be modified, if needed, to prevent the disclosure of classified information.

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

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

D. Basis of Accounting

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

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

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

The DAF GF is continuing to evaluate the effects that will result from fully adopting recent accounting standards and other authoritative guidance issued by FASAB. These pronouncements listed below are expected to have an impact on the DAF GF's financial statements; however the DAF GF is currently unable to determine the full impact that adopting the below 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 this 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 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, 2020.

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

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

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

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

6) SFFAS 56, *Classified Activities*. Issued on October 4, 2018. Effective Date: Upon issuance.

SFFAS 56 permits certain modifications to prevent the disclosure of classified information in an unclassified General Purpose Federal Financial Report.

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

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

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

As this Technical Release serves as implementation guidance for SFFAS 50, the DAF GF is in the process of adopting this Technical Release as of September 30, 2020.

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

As this Technical Release serves as implementation guidance for SFFAS 48 and SFFAS 50, the DAF GF is in the process of adopting this Technical Release as of September 30, 2020.

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.

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.

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 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, Accounts Receivable, and unearned revenue to the buyer-side internal DoD accounting offices. Due to the inability to provide detailed transaction level data to support general ledger account code beginning balances, the DAF GF is currently unable to reconcile all buyer and seller data with their respective trading partners. The DoD is implementing a replacement system, called Government Invoicing (G-Invoicing), which incorporates the necessary elements to enable the DoD to correctly report, reconcile, and eliminate intragovernmental balances. G-Invoicing will directly impact amounts reported on the DAF GF's Balance Sheet and Statement of Net Cost, including Accounts Payable, Accounts Receivable, Earned Revenue, and expenses.

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

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

F. Non-Entity Assets

Non-Entity Assets are not available for use in the DAF GF's normal operations. The DAF GF has stewardship accountability and reporting responsibility for Non-Entity Assets. An example of a Non-Entity Asset is the portion of Fund Balance with Treasury (FBwT) that consists of deposit funds.

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

G. Fund Balance with Treasury

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

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

In addition, DFAS and the USACE Finance Center report to the U.S. Treasury by appropriation on interagency transfers, collections received, and disbursements issued. The U.S. Treasury records these transactions in the applicable FBwT account.

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

H. Cash and Other Monetary Assets

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

The majority of Cash and all Foreign Currency is classified as non-entity and is restricted. Amounts reported consist primarily of Cash and Foreign Currency held by disbursing officers to carry out their paying, collecting, and Foreign Currency accommodation exchange missions.

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 4, *Cash and Other Monetary Assets*.

I. Investments and Related Interest

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

The DAF GF invests in non-marketable, market-based U.S. Treasury securities issued to federal agencies by the U.S. Treasury's Bureau of the Fiscal Service. These securities are not traded on any financial exchange, but are priced consistently with publicly traded U.S. Treasury securities.

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

J. Accounts Receivable

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

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

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

K. Direct Loans and Loan Guarantees

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

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

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

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

OMB A-11, *Preparation, Submission, and Execution of the Budget,* Part 5 and OMB A-136, specify disclosure requirements for government direct loans and loan guarantees.

As discussed above within *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, 2020.

For additional information, refer to Note 7, *Direct Loans and Loan Guarantees, Non-Federal Borrowers.*

L. Operating Materials & Supplies, Net

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

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

For excess, obsolete, and unserviceable (EOU) inventory transferred to the Defense Logistics Agency (DLA) Disposition Services, the net realizable value will generally be zero.

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 & Supplies, Net*.

M. General Property, Plant and Equipment

The DAF GF normally records General PP&E at the estimated historical cost. The DAF GF has established a deemed cost opening balance for some of its equipment in accordance with SFFAS 50. To establish the equipment opening balances, the DAF GF accumulated information related to program funding and associated equipment, equipment useful lives, program acquisitions, and disposals. Opening balances for equipment were then established using expenditure, acquisition, and disposal information. The DAF GF, when applicable, will continue to use alternative methods in establishing opening balances for General PP&E in accordance with SFFAS 50.

The DAF GF capitalizes General PP&E acquisitions per the 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 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 (DPAS) 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 elected not to 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 (CAP) 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 CAP has a useful life of at least two years and the value of CAP meets or exceeds the DAF GF's capitalization threshold, GAAP requires the CAP to be reported on the DAF GF's Balance Sheet when title passes to the DAF GF or when the General PP&E is delivered to the DAF GF.

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

N. Other Assets

Other Assets include those assets, such as military and civil service employee pay advances, travel advances, and certain contract financing payments, not reported elsewhere on the DAF GF's Balance Sheet.

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

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

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

O. Leases

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

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

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

P. Accounts Payable

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

Q. Liabilities

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

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

R. Environmental and Disposal Liabilities

E&DL are estimated costs for the anticipated remediation, cleanup, and disposal costs resulting from the use of the DAF GF's assets or operations. Consistent with SFFAS 6, recognition of an anticipated environmental liability begins when the asset is placed in service. At this time, the DAF GF cannot determine if any additional Contingent Liabilities associated with environmental disposals should be recorded due to a lack of available data to estimate environmental liabilities for certain asset classes.

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

S. Other Liabilities

Other Liabilities consist of categories of liabilities that do not relate to E&DL. Other Liabilities may be federal or non-federal. Such liabilities include Advances from Others, FECA Reimbursement to the Department of Labor, Disbursing Officer Cash, Deposit Funds, Judgment Funds, Custodial Liabilities, Contingent Liabilities, Accrued Funded Payroll, Accrued Unfunded Annual Leave, Contract Holdbacks, and Employer Contributions and Payroll Taxes. 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.

The DAF GF executes project agreements pursuant to the framework cooperative agreement with foreign governments. These agreements give rise to obligations reported in the DAF GF's financial statements, pursuant to legal authority, appropriated funds, and none are contingent. The DAF GF does not enter into treaties and other international agreements that create Contingent Liabilities.

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

U. Military and Civilian Retirement Benefits

As an employer entity, the DAF GF recognizes the annual cost of its civilian employees' pension, other retirement benefit plans and other postemployment benefit plans including health and life insurance plans. However, as the administering entity, the Office of Personnel Management (OPM) 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, *Military Retirement and Other Federal Employment Benefits* and Note 19, *General Disclosures Related to the Statements of Net Cost*.

V. Revenues and Other Financing Sources

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

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

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

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

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

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

In accordance with SFFAS 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financing 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 does not include nonmonetary support provided by U.S. allies for common defense and mutual security in amounts reported in the Statements of Net Cost and in Note 24, *Reconciliation of Net Cost to Net Outlays*. The U.S. has cost sharing agreements with countries having a mutual or reciprocal defense agreement, where U.S. troops are stationed, or where the U.S. Fleet is in a port.

W. Recognition of Expenses

For financial reporting purposes, DoD policy requires the recognition of operating expenses in the period incurred. Estimates are made for major items including, but not limited to, payroll expenses, E&DL, Contingent Liabilities, and deemed cost for Military Equipment. Some accounts such as civilian pay, military pay, and Accounts Payable are presented on the accrual basis of accounting on the financial statements.

X. Treaties for Use of Foreign Bases

The DAF GF has the use of land, buildings, and other overseas facilities obtained through various international treaties and agreements negotiated by the Department of State. The DAF GF purchases capital assets overseas with appropriated funds. However, the host country retains title to the land and capital improvements. In accordance with the DoD FMR Volume 4, Chapter 24, the DAF GF reports these assets on its Balance Sheet when an agreement exists between the U.S. and the host nation/foreign government and the agreement conveys a right to construct and operate facilities; the DAF GF funded the asset's acquisition (e.g., 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.

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

Y. Use of Estimates

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

Z. Parent-Child Reporting

The DAF GF is a party to allocation transfers with other federal agencies as a transferring (parent) entity or receiving (child) entity. An allocation transfer is an entity's legal delegation of authority to obligate budget authority and outlay funds on its behalf. Generally, all financial activity related to allocation transfers (e.g., budget authority, obligations, outlays) is reported in the financial statements of the parent entity. Exceptions to this general rule apply to specific funds for which OMB has directed that all activity be reported in the financial statements of the child entity. These exceptions include U.S. Treasury-Managed Trust Funds, Executive Office of the President (EOP), and all other funds specifically designated by OMB.

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

AA. Transactions with Foreign Governments and International Organizations

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

AB. Fiduciary Activities

Fiduciary Activities 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 that the DAF GF must uphold. 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*.

AC. Tax Exempt Status

As an agency 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.

Note 2 Non-Entity Assets

As of September 30		2020 (Unaudited)		2019 (Unaudited)
(Amounts in Thousands)				
Intragovernmental Assets				
Fund Balance with Treasury	$	526,486	$	383,750
Total Intragovernmental Assets	$	526,486	$	383,750
Non-Federal Assets				
Cash and Other Monetary Assets	$	212,811	$	151,145
Accounts Receivable		930		673
Total Non-Federal Assets	$	213,741	$	151,818
Total Non-Entity Assets	$	740,227	$	535,568
Total Entity Assets	$	394,021,166	$	366,984,381
Total Assets	$	394,761,393	$	367,519,949

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

Intragovernmental Fund Balance with Treasury represents amounts in the DAF GF's deposit fund and two suspense fund accounts (Uniformed Services Thrift Savings Plan Suspense and Thrift Savings Plan Suspense) that are not available for the DAF GF use.

Non-Federal Cash and Other Monetary Assets represent disbursing officers' cash and undeposited collections as reported on the Statement of Accountability (Standard Form 1219). These assets are held by Disbursing Officers as agents of the U.S. Treasury.

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

Note 3 Fund Balance with Treasury

As of September 30	2020 (Unaudited)	2019 (Unaudited)
(Amounts in Thousands)		
Status of Fund Balance with Treasury		
Unobligated Balance		
Available	$ 33,674,533	$ 32,406,938
Unavailable	5,096,694	5,200,782
Total Unobligated Balance	$ 38,771,227	$ 37,607,720
Obligated Balance not yet Disbursed	$ 119,089,433	$ 114,432,869
Non-Budgetary Fund Balance with Treasury		
Clearing accounts	$ 7,293	$ (24,629)
Deposit funds	526,486	383,750
Total Non-Budgetary Fund Balance with Treasury	$ 533,779	$ 359,121
Non-Fund Balance with Treasury Budgetary Accounts		
Investments - Treasury Securities	$ (7)	$ (7)
Unfilled Customer Orders without Advance	(2,946,611)	(2,493,498)
Receivables and Other	(1,018,017)	(890,489)
Total Non-Fund Balance with Treasury Budgetary Accounts	$ (3,964,635)	$ (3,383,994)
Total Fund Balance with Treasury	$ 154,429,804	$ 149,015,716

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

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

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

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

Non-Budgetary FBwT includes accounts without budgetary authority, such as deposit funds, clearing accounts, and non-entity FBwT.

Non-FBwT Budgetary Accounts include Investments, Unfilled Customer Orders without Advance, and Accounts Receivable that reduce budgetary resources.

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 Department of Agriculture for execution on their behalf in the amount of $146.7 thousand as of September 30, 2020. 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 $23.3 million as of September 30, 2020. In addition, the DAF GF held Cash and Cash equivalents for fiduciary activities in the amount of $528.5 thousand as of September 30, 2020. These amounts are not reported in FBwT in accordance with Statement of Federal Financial Accounting Standards 31, *Accounting for Fiduciary Activities*.

The FBwT reported in the financial statements has been adjusted to reflect the DAF GF's balance as reported by the U.S. Treasury. The differences between FBwT in the DAF GF's general ledgers and FBwT reflected in the U.S. Treasury accounts are attributed to transactions that have not been posted to the individual detailed accounts in the DAF GF's general ledger, as a result of timing differences or the inability to obtain valid accounting information, prior to the issuance of the financial statements. The following adjustments were necessary for the DAF GF to reconcile their general ledger to the U.S. Treasury: $133.3 million in net undistributed collections ($244.2 million in gross undistributed collections), and $2.0 billion in net undistributed disbursements ($2.8 billion in gross undistributed disbursements). When research is completed, these transactions will be recorded in the appropriate individual detailed accounts in the DAF GF's general ledger accounts.

The DAF GF has $2.6 billion of funds in expired appropriations that were returned to the U.S. Treasury as of September 30, 2020.

Note 4 Cash and Other Monetary Assets

As of September 30	2020 (Unaudited)	2019 (Unaudited)
(Amounts in Thousands)		
Cash	$ 72,153	$ 54,644
Foreign Currency	140,658	96,501
Total Cash, Foreign Currency, & Other Monetary Assets	$ 212,811	$ 151,145

Cash and Foreign Currency are Non-Entity Assets and consist of cash held by Disbursing Officers. 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 $50.1 million and $32.0 million in cash held from dedicated collections as of September 30, 2020 and September 30, 2019, respectively. For additional information, refer to Note 18, *Funds from Dedicated Collections*.

Note 5 Investments and Related Interest

As of September 30	2020 (Unaudited)			
	Cost	Amortized (Premium) / Discount	Investments, Net	Market Value Disclosure
(Amounts in Thousands)				
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	2019 (Unaudited)			
	Cost	Amortized (Premium) / Discount	Investments, Net	Market Value Disclosure
(Amounts in Thousands)				
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

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

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

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

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

Note 6 Accounts Receivable, Net

As of September 30	2020 (Unaudited)		
	Gross Amount Due	Allowance For Estimated Uncollectibles	Accounts Receivable, Net
(Amounts in Thousands)			
Intragovernmental Receivables	$ 544,965	$ (1,574)	$ 543,391
Non-Federal Receivables (From the Public)	279,489	(37,032)	242,457
Total Accounts Receivable	$ 824,454	$ (38,606)	$ 785,848

As of September 30	2019 (Unaudited)		
	Gross Amount Due	Allowance For Estimated Uncollectibles	Accounts Receivable, Net
(Amounts in Thousands)			
Intragovernmental Receivables	$ 481,903	$ N/A	$ 481,903
Non-Federal Receivables (From the Public)	264,046	(27,453)	236,593
Total Accounts Receivable	$ 745,949	$ (27,453)	$ 718,496

Accounts Receivable represents the DAF GF's claim for payment from federal and non-federal entities. In the fourth quarter of FY 2020, the DAF GF recorded a receivable allowance for Intragovernmental Receivables of $1.6 million in accordance with Technical Bulletin 2020-1, *Loss Allowance for Intragovernmental Receivables*, which was issued in the second quarter of FY 2020. 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 Direct Loans and Loan Guarantees, Non-Federal Borrowers

Direct Loans and Loan Guarantees Programs

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

Since inception of the MHPI program, no direct loan project has ever defaulted on its obligations to the MHPI. The DAF GF recognizes that situations may arise that necessitate the modification of the terms of certain direct loan agreements to ensure the sustainability of the 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.

The following modification was completed during the period:

- On December 5, 2019, the Office of Management and Budget (OMB) approved a restructure of the three-base group project consisting of Barksdale Air Force Base (AFB), Langley AFB, and Joint Base Anacostia Bolling, known as the BLB group project. The modification was completed on May 8, 2020. The restructure included a modification of the government direct loan and was not the result of debt issues. The restructure is a sustainment restructure designed to keep the project competitive within its marketplace to ensure the long-term sustainability and viability of the project. The modification cost, using DAF GF budgetary authority, was $56.1 million. As a condition of the restructure, the DAF GF also obtained a balanced concession from the project owner.

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

- Two DAF GF projects, Air Education and Training Command Group I (AETC I) and Robins AFB Phase I, had debt coverage ratios of less than 1.1, requiring the application of additional risk of repayment factors during the FY 2020 subsidy re-estimates for the FY 2021 President's Budget. The DAF GF is monitoring the Robins AFB project closely and reviewing restructure options for long-term financial viability. See below for additional detail on AETC I due to the catastrophic impact of Hurricane Michael at Tyndall AFB in October 2018.

- In October 2018, Tyndall AFB suffered a direct hit by Hurricane Michael and all 867 privatized units (813 end state and 54 excess units) sustained damage resulting in the largest loss in the history of DAF GF privatized housing. All units were damaged and the Basic Allowance for Housing (BAH) at Tyndall was suspended. Tyndall provided 42.0% of total Net Operating Income for the AETC I project's government direct loan. The AETC I project consists of Altus AFB, Oklahoma; Luke AFB, Arizona; Sheppard AFB, Texas; and Tyndall AFB, Florida. OMB approved a 12-month forbearance of the AETC I government direct loan for the period of January 2019–December 2019, which is now in an interest-only period pending the development of the Tyndall AFB restoration plan.

The DAF GF and Project Owner have adopted a two-phased approach, working closely with the senior lender in establishing a plan to restore and rebuild homes at Tyndall. The Phase I Tyndall restoration was approved by OMB on October 4, 2019. The Phase I plan uses funds from the Non-Debt Sized Units (separate units under the same project, but which have a separate cash flow waterfall) at the Northern Group and Western Group MHPI projects to loan funds to the AETC Group I project through a credit facility to address a funding shortfall in the proposed restoration plan in Phase I. The loan is non-recourse, no interest, and payable at the end of the AETC I lease term. The Phase I plan also includes the DAF GF take-back of 274 units for demolition at an estimated cost of $4.0 million. By the end of the calendar year 2020, a total of 97 homes are anticipated to be online and available for occupancy.

Phase II will include a restructure of the AETC I project to ensure long-term sustainment and is anticipated to include adjustments to the government direct loan. While the insurance coverages for the AETC I project are comparable to those required by commercial lenders and investors for natural catastrophic events, the insurance payout will not provide all funding required to restore and rebuild the proposed housing end-state (593 homes). Some factors leading to a reduced end state for Tyndall include the following:

- The AETC I project is responsible for funding the 5.0% policy deductible ($11.0 million);
- The complex calculation formula for the policy payout is affected by depreciation offsets and planned restoration activities;
- The Senior Lender required a pay down of the senior loan in the amount of $33.0 million to compensate for the loss of income attributable to the 274 homes that will not be rebuilt; and
- The reduced end state of 593 supports existing missions at Tyndall AFB and is expected to meet the needs of future missions under strategic basing actions.

At the end of first quarter of FY 2020, the DAF GF became aware that the project was experiencing delays in receiving the next major tranche of insurance proceeds ($100.0 to $200.0 million layer of funding). Insurers that owe the next $100.0 million of insurance proceeds are disputing the validity of the remaining claim. The Project Owner is working the dispute with its insurance broker and legal counsel and requested the use of the Reinvestment Account funds to pay actual and future litigation costs. Ongoing delays affect the delivery schedule of the units and may place repayment of the government direct loan at risk.

Additionally, the DAF GF is planning to perform government direct loan modifications at Scott AFB, Dover AFB, Offutt AFB and Robins I housing projects in FY 2022. A brief summary and current status is as follows:

- **Scott AFB** – Shortfalls ($60.0 million for sustainment at project mid-term and $162.0 million by end of lease with 0.0% mid-term reinvestment funded) driven by large deferred fee/preferred return balances never expected to be repaid; no funds ever reach the Reinvestment Account. The DAF GF received an initial restructure proposal from the Project Owner in August 2020 and is currently developing a counter proposal for submission to the Project Owner.
- **Dover AFB** – Shortfalls ($20.0 million for sustainment by end of lease with only 30.0% reinvestment funded at mid-term) driven by large deferred fees never expected to be repaid; no funds ever reach the Reinvestment Account. The DAF GF received an initial restructure proposal from the Project Owner in August 2020 and is currently developing a counter proposal for submission to the Project Owner.
- **Offutt AFB** – Shortfalls ($20.0 million for sustainment at project mid-term with 0.0% mid-term reinvestment funded) driven by weak BAH growth, occupancy challenges and outdated units that are not competitive with the market; no funds ever reach the Reinvestment Account. The DAF GF and Project Owner are currently negotiating the terms of a potential restructure to resolve these shortfalls.
- **Robins I** – Shortfalls ($3.2 million for debt service, $36.0 million for sustainment by end of lease term, and no mid-term reinvestment funded) driven by low occupancy, higher than projected operating expenses, and preferred return balances that are never expected to be repaid resulting in no cash flow to the Reinvestment Account. The DAF GF is in continued discussions with the Project Owner on options to restructure the project.

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

Note 8 Operating Materials & Supplies, Net

As of September 30	2020 (Unaudited)		
	OM&S, Gross	Revaluation Allowance	OM&S, Net
(Amounts in Thousands)			
Held for Use	$ 47,765,974	$ N/A	$ 47,765,974
Held in Reserve for Future Use	1,084,863	N/A	1,084,863
Held for Repair	11,457,193	0	11,457,193
Excess, Obsolete, and Unserviceable	987,654	(987,654)	0
Total	$ 61,295,684	$ (987,654)	$ 60,308,030

As of September 30	2019 (Unaudited)		
	OM&S, Gross	Revaluation Allowance	OM&S, Net
(Amounts in Thousands)			
Held for Use	$ 40,807,159	$ N/A	$ 40,807,159
Held in Reserve for Future Use	1,406,243	N/A	1,406,243
Held for Repair	12,161,956	0	12,161,956
Excess, Obsolete, and Unserviceable	507,121	(507,121)	0
Total	$ 54,882,479	$ (507,121)	$ 54,375,358

General Composition of Operating Materials & Supplies

Operating Materials & Supplies (OM&S) consists of tangible personal property to be consumed in normal operations. Excluded are 1) goods that have been acquired for use in constructing Real Property or in assembling equipment to be used by the entity, 2) stockpile materials, 3) goods held under price stabilization programs, 4) foreclosed property, 5) seized and forfeited property, and 6) inventory. Repairables are assets that are cost-effective to repair and include, but are not limited to, high-value munitions, cruise missiles, spare engines, uninstalled missile motors, and aerial targets. Consumables are those assets that are not cost effective to repair and include, but are not limited to, low-value munitions and spare parts.

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

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

Contractor-Inventory Control Point (C-ICP) represents the portion of the DAF GF owned OM&S assets that are maintained at commercial entity locations. C-ICPs are responsible for possession, management, and logistical support of assets as assigned by the DAF GF.

Currently, the DAF GF cannot disclose an Allowance for Repair as required by Statement of Federal Financial Accounting Standards (SFFAS) 3, *Accounting for Inventory and Related Property*. Additionally, the DAF GF does not record Excess, Obsolete, and Unserviceable OM&S at a net realizable value as required by SFFAS 3, but is actively working to implement corrective actions to properly report these amounts.

Restrictions on the Use of OM&S

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

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

The DAF GF assigns OM&S items to a category based on asset type and condition. Held for Use includes all materiel available for issuance. Held in Reserve for Future Use includes suspended stock, which is OM&S with one of the following conditions: 1) awaiting inspection to determine its condition, 2) inventory returned from customers or users to storage warehouses and awaiting condition classification, 3) inventory held at storage warehouses pending litigation or negotiation with contractors or common carriers, 4) quality-deficient inventory returned by customers or users due to technical deficiencies, and 5) inventory returned by salvage activities for which the material condition cannot be determined. Held for Repair generally includes all economically repairable materiel as defined by the Military Standard Transaction Reporting and Accounting Procedures Manual (DLM 4000.25-2-M). Held for Repair represents unserviceable repairable, unserviceable incomplete, suspended (in work), and suspended (reclaimed items, awaiting condition determination) recorded at Moving Average Cost (MAC) or standard price. MAC is not necessarily moving average historical cost. Excess, Obsolete, and Unserviceable includes all materiel that managers determine to be more costly to repair than to replace and only includes unserviceable OM&S. To date, the DAF GF has not confirmed any proceeds received from the disposal of OM&S assets, and therefore, the Net Realizable Value (NRV) is currently reported as zero.

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

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

OM&S Value

Currently, not all logistics systems maintain the historical cost data necessary to comply with SFFAS 3. Therefore, the DAF GF is not making an unreserved assertion with respect to this line item. Munitions purchased prior to 2016 are valued based on the Federal Logistics Information System catalogue price. Munitions purchased after 2016 are valued based on actual historical cost. Spare engines, aerial targets, uninstalled missile motors, and cruise missiles are valued based on estimated historical cost.

The Comprehensive Engine Maintenance System (CEMS) calculates MAC for Spare Engines. The Reliability and Maintainability Information Systems (REMIS) 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 OM&S spare parts and OM&S located at C-ICP locations at MAC.

The DAF GF's accounting system uses transaction type codes provided by Mechanization of Contract Administration

Services (MOCAS) to determine how to record transactions. MOCAS was not designed to have separate transaction type codes to identify and account for contract financing payments at the level required to accurately determine the USSGL posting to the proper work in process type asset account, including OM&S In-Development. Until system modifications are made, contract financing payments, as disclosed in Note 10, *Other Assets*, are overstated and work in process type assets (including OM&S In-Development) are understated.

Other Department of the Air Force Disclosures

C-ICP represents $13.2 billion and $11.7 billion of the DAF GF's OM&S as of September 30, 2020 and 2019, respectively. 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, Excess, Obsolete, and Unserviceable, Held for Future Use, and Held for Repair. Without the required additional data (acquisitions, transfers in, amounts consumed, transfers out, trading partner data, etc.), the DAF GF can only report the net change between prior period ending balances and the values reported as current period ending balances. The DAF GF does not currently use MAC for C-ICP assets because there is no accountable property system of record (APSR) to perform the MAC calculation. In addition, the DAF GF does not require contractors to report SFFAS 3 compliant data that uses the MAC valuation method. The DAF GF has identified C-ICP Programs and issued a Contract Data Requirements List requiring financial reporting on a quarterly basis. However, the DAF GF has identified that not all C-ICP Programs are submitting required Chief Financial Officer Reporting or reporting through the Automated Logistics Management Support System. Excess, Obsolete, and Unserviceable C-ICP inventory is not being recorded at NRV as required by SFFAS 3.

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

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

Note 9 General PP&E, Net

As of September 30	2020 (Unaudited)							
(Amounts in Thousands)	Depreciation/ Amortization Method	Service Life		Acquisition Value		(Accumulated Depreciation/ Amortization)		Net Book Value
Major Asset Classes								
Buildings, Structures, and Linear Structures*	S/L	20, 40, 45*	$	95,519,571	$	(59,109,496)	$	36,410,075
Leasehold Improvements	S/L	Lease Term		63,807		(29,210)		34,597
Software	S/L	2-5 or 10		628,945		(439,627)		189,318
General Equipment	S/L	Various		377,175,311		(269,827,570)		107,347,741
Aircraft				295,700,760		(210,888,684)		84,812,076
Other				81,474,551		(58,938,886)		22,535,665
Construction-in-Progress	N/A	N/A		16,302,533		N/A		16,302,533
Military Equipment				14,422,131		N/A		14,422,131
Real Property				1,880,402		N/A		1,880,402
Total General PP&E			$	489,690,167	$	(329,405,903)	$	160,284,264

As of September 30	2019 (Unaudited)							
(Amounts in Thousands)	Depreciation/ Amortization Method	Service Life		Acquisition Value		(Accumulated Depreciation/ Amortization)		Net Book Value
Major Asset Classes								
Buildings, Structures, and Linear Structures*	S/L	20 or 40*	$	88,063,230	$	(52,299,855)	$	35,763,375
Leasehold Improvements	S/L	Lease Term		63,807		(27,371)		36,436
Software	S/L	2-5 or 10		628,944		(439,627)		189,317
General Equipment	S/L	Various		364,542,544		(261,982,414)		102,560,130
Aircraft				288,277,666		(205,924,077)		82,353,589
Other				76,264,878		(56,058,337)		20,206,541
Construction-in-Progress	N/A	N/A		7,753,006		N/A		7,753,006
Military Equipment				6,325,412		N/A		6,325,412
Real Property				1,427,594		N/A		1,427,594
Total General PP&E			$	461,051,531	$	(314,749,267)	$	146,302,264

Legend for Valuation Methods

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

* Estimated useful service life is 20 years for structures and linear structures, and 40 or 45 years for buildings. For additional information, refer to the Buildings, Structures, and Linear Structures section below.

As of September 30	2020 (Unaudited)
(Amounts in Thousands)	
General PP&E, Net beginning of year	$ 146,302,264
Capitalized Acquisitions	28,407,502
Dispositions	(1,910,192)
Depreciation Expense	(13,793,631)
Transfers In/(Out) Without Reimbursement	1,278,321
General PP&E, Net End of Year	$ 160,284,264

General Property, Plant and Equipment

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

Buildings, Structures, and Linear Structures

As the DAF GF continues to improve the underlying systems and data used to support Real Property values reported on the DAF GF's financial statements, interim adjustments occur while more permanent solutions are planned and executed to address root causes. In the second quarter of FY 2019, the DAF GF prematurely revalued Real Property using Plant Replacement Value (PRV) within the accountable property systems of record (APSRs), which will eventually be used to implement deemed cost valuation for Real Property in accordance with SFFAS 50. The revaluation was premature as a significant number of underlying data elements utilized to calculate the PRV were inaccurate resulting in misstatements requiring manual adjustment. To prevent a material misstatement in FY 2020, the DAF GF recorded two on-top journal vouchers (JV):

- To reverse all FY 2020 activity recorded to the general ledgers from the APSRs, effectively recording the Real Property balance at its pre-PRV value as of September 30, 2019 (The DAF GF similarly reversed a portion of FY 2019 activity in FY 2019)
- To record an estimated FY 2020 annual depreciation value based on the same estimation methodology utilized in FY 2019 with useful lives of 20 years for structures and linear structures and 40 years for buildings.

Further, the DAF GF reports Real Property within the jurisdiction of DAF GF installations in its financial statements because it is the designated installation host. This includes Real Property on the DAF GF installations used and occupied by DoD agencies. As the installation host, the DAF GF 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 (WHS) or other DoD components, and license or permit with a non-DoD governmental agency, transferring the right to control the use of DAF GF Real Property to the other organization. The transfer of the right to control the use of Real Property does not transfer jurisdiction and the asset remains an asset under the jurisdiction of the DAF GF.

Since the DAF GF recorded a JV that removed all APSRs activity, DoD agency transfers that occurred in the DAF GF Real Property APSRs throughout FY 2020 will not be captured in Real Property balances. As part of the DAF GF's efforts to comply with the DoD Financial Management Regulation (FMR) Volume 4, Chapter 24, the DAF GF recorded on-top JVs to account for the transferred-in assets from DoD agencies and the DAF WCF, which mirrored those JVs provided by the DoD agencies and the DAF WCF. The DAF GF plans to record the transfers from other Military Departments beginning in FY 2021. The DAF GF's existing Real Property have been maintained at historical cost, whereas the assets transferred in from other DoD agencies were recorded using the transferor's valuation methodology, which included deflated PRV and historical cost. The transfer values were accepted as provided by the DoD agencies and DAF WCF, and were not subsequently validated.

Additionally, the DAF GF recorded a JV for the FY 2020 United States Army Corps of Engineers (USACE) military construction assets to include gross values (based on USACE transfers-out amounts), depreciation expense and estimated accumulated depreciation. All of these USACE assets were capitalized as buildings. Depreciation for the USACE buildings was calculated using an estimated useful life of 45 years consistent with the FMR Volume 4, Chapter 24 useful lives for buildings that have a supportable historical cost balance.

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 FY 2020, 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 write-off IUS balances in a future period as permitted by SFFAS 50.

General Equipment

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

Aircraft – Represents the most significant portion of General Equipment and is comprised of 11 categories of aircraft based on mission types: attack, bomber, transport, electronic, fighter, trainer, helicopter, vertical takeoff and landing, utility, glider, and remotely piloted aircraft systems. In FY 2020, the DAF GF continued to work toward establishing opening balances for these assets in accordance with SFFAS 50. 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. Refer to Note 20, *Disclosures Related to the Statement of Changes in Net Position,* for a description of the alternative valuation methods used to establish opening balances, as well as Military Equipment's prior period adjustment recorded in FY 2019.

Other General Equipment – Includes satellites, missiles, pods, and mine resistant ambush protected vehicles. In FY 2020, the DAF GF continued to work toward establishing opening balances for these assets in accordance with SFFAS 50.

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

The DAF GF is unable to identify or establish accountability for the complete population of GFE. 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, which is expected to occur in future FYs, the DPAS will provide the DAF GF enhanced oversight capabilities for tracking, monitoring, and financially reporting assets in the possession of contractors.

Construction-in-Progress

Military Equipment – The DAF GF began reporting Construction-in-Progress (CIP) for selected Military Equipment assets under development as of September 30, 2017. The methodology to estimate CIP is based on the capitalizable expenditures during the period by program and by contract. CIP is reduced based on delivered assets placed in service, which are then recorded in the APSR. The DAF GF currently reports CIP balances for all 12 aircraft platforms and five variants of satellite assets currently in production. This CIP balance does not include costs associated with the construction of capital improvements/modifications.

Real Property – The DAF GF constructs Real Property and works closely with other Military Departments, the 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. In FY 2020, only USACE CIP was recorded. CIP from other construction agents, whether internal or external, was not recorded as it was reversed out, along with all other FY 2020 Real Property activity as disclosed in the Buildings, Structures, and Linear Structures section above.

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

Restrictions on the use or convertibility of General PP&E

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

Heritage Assets

Heritage Assets For Year Ended September 30, 2020 (Physical Count)					
Heritage Asset Categories	Measurement Quantity	As of 9/30/19	Additions (+)	Deletions (-)	As of 9/30/20
Buildings, Structures, and Linear Structures	Each	5,804	156	0	5,960
Archaeological Sites	Sites	3,473	0	1,277	2,196
Museum Collection Items (Objects, Not Including Fine Art)	Each	135,322	419	527	135,214
Museum Collection Items (Fine Art)	Each	15,063	13	9	15,067

Heritage assets consist of Buildings, Structures, and Linear Structures; Archeological Sites; and Museum Collections. Heritage assets have characteristics of natural, cultural, educational, architectural, or artistic significance. The DAF GF defines these as follows:

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

The determination of Buildings, Structures, and Linear Structures, as well as Archaeological Sites, to be listed on the NRHP comes from the appropriate base civil engineering group with concurrence by the relevant State Historic Preservation Officer (SHPO). Guidelines for determining eligibility for listing on the NRHP are located in the Code of Federal Regulations (CFR), Title 36, Part 60, Section 60.4. Each State's Historic Preservation Office assists the DAF GF with the identification, evaluation, protection, and enhancement of heritage assets located within the state. As the DAF GF's installations are located in several states, the DAF GF coordinates with the respective State's Historic Preservation Office when determining an asset's historical designation and heritage asset categorization.

The DAF GF has become a large-scale owner of historic buildings, structures, archeological sites and artifacts, aircraft, and other cultural resources. The DAF GF's policy is to preserve its heritage assets including items of historical, cultural, educational, or artistic importance. The DAF GF, with minor exceptions, uses the buildings and structures in its daily activities and includes the buildings and structures on the Balance Sheet as multi-use heritage assets. If an asset is classified as a single use heritage asset, the asset is not depreciated, nor recorded on the DAF GF's Balance Sheet. The DAF GF is in the process of validating assets that are recorded as a multi-use heritage asset as opposed to a single use heritage asset. The DAF GF does not receive any heritage assets through donation or devise. For information related to deferred maintenance and repairs, including heritage assets, refer to the DAF GF's *Required Supplementary Information* section.

Buildings, Structures, and Linear Structures

As mentioned above, Buildings, Structures, and Linear Structures that are classified as Heritage Assets are those that are listed on, or eligible for listing on the NRHP, including multi-use facilities. Each base's civil engineering group, as part of their overall responsibility, maintains these facilities in accordance with the NHPA, and *The Secretary of Interior's Standards for The Treatment of Historic Properties*. The DAF GF reported 5,804 Buildings, Structures, and Linear Structures on the DAF GF installations to be Heritage Assets as of September 30, 2019. The number of Buildings, Structures, and Linear structures considered Heritage Assets as of September 30, 2020 is 5,960, an increase of 156 historic facilities. Buildings, Structures, and Linear Structures as of September 30, 2019 shown above does not agree to Buildings, Structures, and Linear Structures as of September 30, 2019 as disclosed in the FY 2019 DAF Agency Financial Report (AFR) due to the timing of when reliable data became available in FY 2019.

These facilities are subject to NHPA Section 106 review and consultation requirements whenever the DAF GF undertakings might affect their historic characteristics. Section 106 reviews ensure SHPOs, tribal leaders, local leaders and preservation groups, and other party's concerns are taken into account when the DAF GF decides to adversely affect Heritage Asset buildings, structures, and linear structures. Hundreds of Section 106 (now moved from Title 16 U.S. Code (U.S.C.) to Title 54 U.S.C., § 306108) reviews are in effect at any given time; many take more than a year to complete. Many are part of *National Environmental Policy Act* reviews, called the Environmental Impact Analysis Process (EIAP) in the DAF GF.

Archaeological Sites

Prehistoric and historic Archaeological Sites considered Heritage Assets are sites that have been identified, evaluated, and determined to be eligible for, or are listed on, the NRHP, and like Buildings, Structures, and Linear Structures, are subject to NHPA Section 106 review and consultation requirements. The DAF GF reported 3,473 Archeological Sites as Heritage Assets as of September 30, 2019. The number of Archaeological Sites considered Heritage Assets as of September 30, 2020 is 2,196, a decrease of 1,277. This cohort of archaeological Heritage Assets is a subset of nearly 22,559 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 mid-year Environmental Management Review data call.

Museum Collection Items, Objects

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

During the period of October 1, 2019 through September 30, 2020 there have been 419 objects added to the collection, which had 135,322 objects as of September 30, 2019. These additions are a result of private donations, transfers from the DAF GF or other federal entities, curatorial administrative actions such as class code changes, accession breakouts, etc. and the continued documentation of newly reported artifacts at the DAF GF activities worldwide. There were 527 objects deaccessioned from the collection as having been determined not to meet historic property criteria, were in poor condition, or were transferred to other federal historical activities resulting in a collection of 135,214 objects as of September 30, 2020. As part of the NMUSAF's active collection management process, the accession and deaccession of objects is continuous.

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

Museum Collection Items, Fine Art

In addition to its artifact collection, the NMUSAF holds a Fine Art collection separate from the Air Force Art Program Collection totaling 985 items as of September 30, 2019. During the period, the NMUSAF recorded three additions to the program, and nine deletions resulting in 979 items as of September 30, 2020. Containing original oils, drawings, sketches, and sculptures, these Fine Art holdings are in direct support of NMUSAF exhibit requirements.

An additional art collection held by the Air Force Art Program also contains original oils, drawing, sketches, and sculptures. As of September 30, 2019, those items totaled 14,078. These paintings were a direct result of the artists visiting bases and operations throughout the DAF. The Air Force Art Program saw an increase of 10 pieces based upon those visits resulting in 14,088 items as of September 30, 2020.

The NMUSAF and Air Force Fine Arts Program combined held a total of 15,063 and 15,067 pieces of art as of September 30, 2019 and September 30, 2020, respectively.

General PP&E Land and Stewardship Land

GENERAL PP&E LAND AND STEWARDSHIP LAND For Year Ended September 30, 2020 (Acres in Thousands)					
Facility Code	Facility Title	As of 9/30/19	Additions (+)	Deletions (-)	As of 9/30/20
9110	Government Owned Land	1,592	0	52	1,540
9111	State Owned Land	0	0	0	0
9120	Withdrawn Public land	5,629	0	2	5,627
9130	Licensed and Permitted Land	728	0	0	728
9140	Public Land	0	0	0	0
9210	Land Easement	20	0	10	10
9220	In-leased Land	102	0	0	102
9230	Foreign Land	297	0	0	297
9900	Land Rights	95	18	0	113
Total		8,463	18	64	8,417

The table above presents combined acreage amounts for both General PP&E Land and Stewardship Land. Total General PP&E and Stewardship Land acreage as of September 30, 2019 as shown above does not agree to the General PP&E and Stewardship Land acreage as of September 30, 2019 in the FY 2019 DAF AFR. This is primarily due to the remapping of land facility codes in the DAF GF's Real Property Database submission to comply with OSD's Real Property Classification System changes in land facility codes.

The DAF GF is currently not able to accurately categorize land between General PP&E Land and Stewardship Land. Efforts are ongoing to derive separate land acreage amounts to report in each of these categories. 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. Ongoing efforts include the development of a land parcel map to reconcile land deeds to the land masses of the DAF GF installations, the development of a Real Property Reconciliation Tool to reconcile amounts included in the APSRs with Geographic Information System maps, the implementation of new controls around the review of land deeds, and a DAF GF-wide effort to migrate to full compliance with Real Property Information Model (RPIM) version 10 and SFFAS 50 re-baselining Real Property values.

General PP&E Land is land and land rights (such as easements) acquired for or in combination with General PP&E, and land acquired with the intent to construct General PP&E. 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 resulting FY 2018 adjustments to the respective beginning balances constituted a Change in Accounting Principle as defined in SFFAS 21, *Reporting Corrections of Errors and Changes in Accounting Principles*. The DAF GF reported $0.0 opening balance for General PP&E Land in FY 2020 and will expense General PP&E Land acquisitions in future periods.

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

Note 10 Other Assets

As of September 30	2020 (Unaudited)	2019 (Unaudited)
(Amounts in Thousands)		
Intragovernmental Other Assets		
Advances and Prepayments	$ 230,460	$ 220,320
Total Intragovernmental Other Assets	$ 230,460	$ 220,320
Non-Federal Other Assets		
Outstanding Contract Financing Payments	$ 18,474,114	$ 16,718,818
Advances and Prepayments	36,055	17,825
Total Non-Federal Other Assets	$ 18,510,169	$ 16,736,643
Total Other Assets	$ 18,740,629	$ 16,956,963

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 Outstanding Contract Financing Payments (OCFP).

OCFP, a separate classification of Advances and Prepayments, includes $18.5 billion in FY 2020 in contract financing payments made in contemplation of the future performance of services, receipt of goods, incurrence of expenditures or receipt of other assets. In comparison, FY 2019 OCFP included $16.7 billion in contract financing payments.

Note 11 Liabilities Not Covered by Budgetary Resources

As of September 30		2020 (Unaudited)		2019 (Unaudited)
(Amounts in Thousands)				
Intragovernmental Liabilities				
Federal Employees' Compensation Act	$	177,219	$	183,258
Other		538,115		271,310
Total Intragovernmental Liabilities	$	715,334	$	454,568
Non-Federal Liabilities				
Accounts Payable	$	401,815	$	342,310
Military Retirement and Other Federal Employment Benefits		974,796		1,021,517
Environmental and Disposal Liabilities		11,382,032		12,680,772
Other Liabilities		3,854,567		2,892,768
Total Non-Federal Liabilities	$	16,613,210	$	16,937,367
Total Liabilities Not Covered by Budgetary Resources		17,328,544		17,391,935
Total Liabilities Covered by Budgetary Resources		15,843,422		17,029,423
Total Liabilities	$	33,171,966	$	34,421,358

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

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

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

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

Military Retirement and Other Federal Employment Benefits 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 *Federal Employees' Compensation Act* benefits provided to federal employees or their beneficiaries as a result of work-related deaths, disability, or occupational disease. For additional details and disclosures, refer to Note 13, *Military Retirement and Other Federal Employment Benefits*.

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

Other Non-Federal 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 Debt

Debt is established when the Military Housing Privatization Initiative (MHPI) borrows funds from the U.S. Treasury to provide loans to the private sector for the acquisition, construction, and rehabilitation of suitable housing for military families. When the private sector repays the loans, MHPI returns the funds to the U.S. Treasury. No additional debt was incurred from September 30, 2019 through September 30, 2020.

For additional information on activities related to the MHPI, refer to Note 7, *Direct Loan and Loan Guarantees, Non-Federal Borrowers*, and Note 25, *Public-Private Partnerships*.

Note 13 Military Retirement and Other Federal Employment Benefits

As of September 30	2020 (Unaudited)		
	Liabilities	(Assets Available to Pay Benefits)	Unfunded Liabilities
(Amounts in Thousands)			
Other Benefits			
Federal Employees' Compensation Act	$ 974,796	$ 0	$ 974,796
Other	2,354	(2,354)	0
Total Other Benefits	$ 977,150	$ (2,354)	$ 974,796
Total Military Retirement and Other Federal Employment Benefits	$ 977,150	$ (2,354)	$ 974,796

As of September 30	2019 (Unaudited)		
	Liabilities	(Assets Available to Pay Benefits)	Unfunded Liabilities
(Amounts in Thousands)			
Other Benefits			
Federal Employees' Compensation Act	$ 1,021,517	$ 0	$ 1,021,517
Other	2,292	(2,292)	0
Total Other Benefits	$ 1,023,809	$ (2,292)	$ 1,021,517
Total Military Retirement and Other Federal Employment Benefits	$ 1,023,809	$ (2,292)	$ 1,021,517

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) 2020 were also used to adjust the methodology's historical payments to current-year constant dollars.

Consistent with past practice, these projected annual benefit payments have been discounted to present value based on interest rate assumptions on the U.S. Treasury's Yield Curve for the U.S. Treasury Nominal Coupon (TNC) Issues (the TNC Yield Curve) to reflect the average duration of income payments and medical payments. Discount rates were based on averaging the TNC Yield Curves for the current and prior four years for FY 2020 and FY 2019, respectively. Interest rate assumptions utilized for discounting were as follows:

Discount Rates
For wage benefits:
2.4% in Year 1 and Years thereafter;
For medical benefits:
2.3% 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
2020	N/A	N/A
2021	1.9%	3.2%
2022	2.1%	3.2%
2023	2.2%	3.6%
2024	2.2%	4.0%
2025 and thereafter	2.3%	3.9%

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 2020 to the average pattern observed during the most current three CBYs, and 4) a comparison of the estimated liability per case in FY 2021 projection to the average pattern for the projections of the most recent three years.

Other

The Other Federal Employment Benefits liability category under Other Benefits 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. The Other Federal Employment Benefits liability is covered by budgetary resources.

Note 14 Environmental and Disposal Liabilities

As of September 30	2020 (Unaudited)	2019 (Unaudited)
(Amounts in Thousands)		
Environmental Liabilities—Non-Federal		
Accrued Environmental Restoration Liabilities		
Active Installations—Installation Restoration Program and Building Demolition and Debris Removal	$ 6,707,072	$ 7,459,455
Active Installations—Military Munitions Response Program	352,468	310,645
Other Accrued Environmental Liabilities—Non-BRAC		
Environmental Corrective Action	415,745	986,461
Environmental Closure Requirements	406,852	319,302
Asbestos	1,203,774	1,132,514
Base Realignment and Closure Installations		
Installation Restoration Program	2,468,278	2,542,839
Military Munitions Response Program	18,605	13,937
Environmental Corrective Action / Closure Requirements	501	0
Asbestos	558	595
Environmental Disposal for Military Equipment / Weapons Programs		
Non-Nuclear Powered Military Equipment	741,613	767,379
Total Environmental and Disposal Liabilities	$ 12,315,466	$ 13,533,127

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

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

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

- *Comprehensive Environmental Response, Compensation, and Liability Act* (CERCLA)
- *Superfund Amendments and Reauthorization Act*
- *Clean Water Act*
- *Safe Drinking Water Act*
- *Clean Air Act*
- *Resource Conservation and Recovery Act* (RCRA)
- *Toxic Substances Control Act*
- *Atomic Energy Act*
- *Nuclear Waste Policy Act*
- *Low Level Radioactive Waste Policy Amendments Act*

Types of Environmental Liabilities and Disposal Liabilities Identified

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

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

Accrued Environmental Restoration Liabilities

The DAF GF has environmental liabilities associated with remedial actions eligible for DERP funding. The DAF GF has environmental liabilities associated with the Installation Restoration Program (IRP) and Building Demolition and Debris Removal (BD/DR) category. These remedial actions may address CERCLA (e.g., hazardous substances, pollutants, and contaminants), RCRA (e.g., hazardous waste or hazardous constituents), military munitions (e.g., Unexploded Ordnance (UXO) or Waste Military Munitions (WMM)), or demolition and removal of unsafe buildings and structures at facilities or sites. Cleanup costs ineligible for DERP funding are reported as Other Accrued Environmental Liabilities – Non-BRAC (OEL).

The DAF GF also has environmental liabilities associated with the Military Munitions Response Program (MMRP) category defined as response actions (e.g., the identification, investigation, and removal actions, remedial actions, or a combination of removal and remedial actions) to address military munitions (e.g., UXO or WMM) or the chemical residues of munitions at locations other than operational ranges. As of September 30, 2020, the DAF GF has 2,493 IRP and BD/DR sites and 257 MMRP sites across 143 active installations funded by DERP. As of September 30, 2020, the DAF GF estimated and reported $7.1 billion for Accrued Environmental Restoration Liabilities. This amount includes $6.7 billion in Active Installations – IRP and BD/DR and $352.5 million in Active Installations – MMRP.

Other Accrued Environmental Liabilities – Non-BRAC

As of September 30, 2020, the DAF GF reported estimated liabilities of $415.7 million for Environmental Corrective Action (ECA), $406.9 million for Environmental Closure Requirements (ECR), and $1.2 billion for Asbestos. Under ECA, the DAF GF has costs for Overseas Remediation and remedial action at Air National Guard (ANG) sites not eligible for funding under DERP. As of September 30, 2020, the DAF GF did not record an environmental liability for Environmental Response at Operational Ranges (EROR) for Munitions Constituents (MCs) migrating off an operational range. Under ECR, the DAF GF has estimated costs related to environmental closure of the following asset categories: underground storage tanks (USTs), aboveground storage tanks (ASTs), non-hazardous waste landfills, septic tanks, septic lagoons/ponds, and hazardous waste storage facilities. As of September 30, 2020, the DAF GF did not record an environmental liability for underground oil water separators (OWSs), aboveground OWSs, wastewater treatment tanks and basins, pipelines and piping, water supply wells, and solid waste incinerators 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. Under asbestos, the DAF GF has estimated costs for both friable and non-friable asbestos related to building-type assets. As of September 30, 2020, the DAF GF did not record an environmental liability for non-building assets 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.

Base Realignment and Closure Installations

The DAF GF BRAC environmental cleanup cost estimate is based on 746 IRP and 25 MMRP sites across 40 BRAC installations. As of September 30, 2020, the DAF GF estimated and reported $2.5 billion for BRAC installations. This amount is comprised of approximately $2.5 billion in IRP liabilities, $18.6 million in MMRP liabilities, $0.5 million in Environmental Corrective Action/Closure Requirements, and $0.6 million in Asbestos liabilities.

Environmental Disposal for Military Equipment/Weapons Programs

As of September 30, 2020, the DAF GF reported liabilities for the environmental disposal of fixed-wing aircraft, helicopters, missiles, and Mine-Resistant Ambush Protected (MRAP) vehicles totaling $741.6 million. As of September 30, 2020, the DAF GF did not record an environmental disposal liability for remotely piloted and 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 asset counts used in the calculation of the Environmental and Disposal Liability (E&DL) estimation process differs from the counts used in the Chief Financial Officer Report, as the E&DL calculation includes non-capital assets, as well as assets that are in storage. The DAF GF determined that no future outflows of cash exist for the environmental disposal of satellites, as all satellites and their components are destroyed before reentry into the Earth's atmosphere, thus no liability was reported in either FY 2019 or FY 2020.

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

Accrued Environmental Restoration Liabilities

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

The DAF GF uses one or more of the following methods to estimate the Cost-to-Complete (CTC) cleanup and disposal activities: pre-negotiated contract costs, historical costs, engineering estimates, parametric estimates, and cost estimation software (e.g., Remedial Action Cost Engineering and Requirements (RACER)). CTC estimates consider, on a current cost basis, all activities performed for the full duration of IRP and BD/DR, and MMRP, inclusive of program management costs. 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. 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; the total estimated cleanup cost is recognized upon identification of the liability.

Other Accrued Environmental Liabilities – Non-BRAC

Environmental Corrective Actions:

The DAF GF uses one or more of the following methods to estimate CTCs: pre-negotiated contract costs, historical costs, engineering estimates, parametric estimates, and cost estimation software (e.g., RACER). CTC estimates consider, on a current cost basis, all activities to be performed for the full duration of ECA, inclusive of program management costs. In addition to pre-set values included in the RACER software, the DAF GF can add UDCs to customize and refine estimates within RACER. 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; the total estimated cleanup cost is recognized upon identification of the liability.

Environmental Closure Requirements:

Business rules are applied to data from the Real Property accountable property systems of record (APSRs) (e.g., Automated Civil Engineer System – Real Property (ACES-RP) and Next Generation Information Technology (NexGen IT)) to isolate the assets with ECR. The DAF GF uses one or more of the following approaches to generate estimates for assets with ECR: cost estimating software (e.g., RACER), historical costs, and engineering estimates. Estimates leverage industry-standard cost factors or comparable historical projects, bids, and expenditures. In addition to pre-set values included in the RACER software, the DAF GF can add UDCs to customize and refine estimates within RACER. However, reliable information required to calculate a closure cost is not available for all ECR assets identified, and thus the reported balance reflects the ECR assets that are probable and reasonably estimable given the data available, as of September 30, 2020.

Asbestos:

Business rules are applied to Real Property data from the APSRs to isolate the Potentially Asbestos Containing (PAC) asset population. Two separate cost estimation methodologies are used to generate liabilities for PAC building assets: 1) a power equation to estimate survey costs; and 2) look-up tables to estimate abatement costs based on building size, age, and type.

The PAC asset population consists of both friable (immediate health threat) and non-friable (not an immediate health threat) asbestos assets with a probable survey and abatement cost. However, reliable information required to calculate a survey and abatement cost is not available for all PAC assets identified, and thus the reported balance reflects the PAC assets that are probable and reasonably estimable given the data available, as of September 30, 2020.

As of September 30, 2020, the estimated amount of cleanup cost or the range of the estimated amount of cleanup costs for asbestos survey and abatement cannot be reasonably measured for assets not measured in, or convertible to, square feet (e.g., non-building type assets). Sufficient information is not currently available to determine if the asbestos survey and abatement costs will materially affect the DAF GF's financial position or results of operation.

Base Realignment and Closure Installations

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

The DAF GF uses one or more of the following methods to produce CTC estimates: pre-negotiated contract costs, historical costs, engineering estimates, parametric estimates, and cost estimation software (e.g., RACER). CTC estimates consider, on a current cost basis, all activities 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. These environmental liabilities are not associated with an asset having a useful life; the total estimated cleanup cost is recognized upon identification of the liability. No costs are recognized through the accretion method (see the *Unrecognized Portion of Estimated Total Cleanup Cost Associated with General Property, Plant and Equipment* section below).

Uncertainty Regarding Accounting Estimates Used to Calculate the Reported Environmental Liabilities

The DAF GF has unrecognized portions of the estimated total closure and post-closure liabilities as of September 30, 2020, 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 further investigation of the environmental sites disclose contamination different than what is known at the time of the estimates.

Title 40 Code of Federal Regulations, *Environmental Protection Agency* (EPA), §266.202 (the EPA Regulation) exempts military munitions on active and inactive military ranges from the definition of hazardous waste. The EPA Regulation effectively excludes military munitions on an active military range from the definition of solid waste until a formal decision to close the range occurs or MCs migrate off the military range. Therefore, these military munitions do not meet the criteria of an environmental liability. As of September 30, 2020, the DAF GF has identified off-range migration at Whiteman Air Force Base (AFB); however, the full extent is not known at this time. Thus, the liability is not measurable and has not been recorded.

For ECR, the DAF GF has identified assets within the septic lagoons-ponds categories that are probable, but not measurable, as of September 30, 2020, therefore a liability has not been recorded for closure and post-closure costs associated with these assets.

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

Estimated environmental liabilities are adjusted each year for price growth (inflation) and increases in labor rates and materials. As of September 30, 2020, there are no changes to the environmental liability estimates due to changes in laws, regulations, agreements with regulatory agencies, and advances in technology. The Air Force is not aware of any pending changes, but the liability can change in the future due to changes in laws, regulations, changes in agreements with regulatory agencies, and advances in technology.

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

For Accrued Environmental Restoration Liabilities, OEL – ECA, and OEL – Asbestos, the DAF GF applied inflation factors to bring historical costs forward to current-year dollars, 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 based on the OSD raw inflation rates for Operations and Maintenance.

The DAF GF applied an inflation factor to BRAC historical cost estimates to bring costs forward to current-year dollars, in accordance with the Office of the Under Secretary of Defense (Comptroller) memorandum, Inflation Guidance – FY 2021 President's Budget, (December 19, 2019) for military construction.

There is also uncertainty regarding recorded cost estimates for the emerging contaminants (Perfluorooctane Sulfonic Acid (PFOS) and Perfluorooctanoic Acid (PFOA)), at some installations due to the lack of promulgated cleanup standards and limited information. As of September 30, 2020, the DAF GF has ongoing actions to investigate, assess, and mitigate contamination. As additional results are obtained and more details are known, these activities will provide a basis for estimating increases to future liability estimates over the next several years.

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

For Real Property for which the DAF GF has calculated an estimated environmental liability, the DAF GF records the entire liability rather than accreting these costs over the life expectancy of the asset or the physical capacity (e.g., operating landfills). As a result, there is no unrecognized portion of the estimated total closure and post-closure liabilities for Real Property. The DAF GF has evaluated that there are no such liabilities requiring use of the accretion method that would be materially significant to the overall environmental liability.

The DAF GF has an unrecognized portion of the estimated total cleanup cost associated with military equipment/weapons programs (fixed-wing aircraft, helicopters, and MRAPs). The DAF GF uses the useful life of these underlying asset categories to determine an annual amount of the total estimated cleanup costs to be expensed each year. The unrecognized estimated total cost, which will be expensed over the remaining useful life of the assets, is $39.2 million.

The DAF GF has an unrecorded liability for remaining military equipment/weapons programs asset categories (remotely-piloted aircraft, vertical take-off and landing aircraft, and aircraft pods) where there is a lack of reliable information to calculate an estimated environmental liability. The liabilities reported for military equipment/weapons programs may change as more data becomes available and cost estimation methodologies are fully developed, executed, and refined.

The DAF GF has an unrecorded liability for the remaining ECR asset categories and asbestos assets for which there is a lack of reliable information to calculate an estimated environmental liability. Specifically, the DAF GF has not reported a liability associated with the following ECR asset categories: pipelines and piping, underground OWSs, aboveground OWSs, wastewater treatment tanks and basins, solid waste incinerators, and water supply wells. Additionally, the DAF GF has not reported a liability for non-building assets with asbestos on active installations. Therefore, the liabilities reported for ECR and asbestos may change as more data becomes available and cost estimation methodologies are fully developed, executed, and refined.

Other Disclosures

Year-over-Year Changes

APSR data remains a significant driving factor behind year-over-year changes in environmental liabilities. As corrective action plans related to the completeness and accuracy of Real Property inventory data continue to be implemented, the population of Real Property is subject to change. ECR and asbestos balances are dependent on movements and changes in APSR data.

Accrued Environmental Restoration Liabilities

The total DAF GF Accrued Environmental Restoration Liabilities decreased by 9.1% from September 30, 2019 to September 30, 2020. The decrease in the IRP programming is mostly due to receiving congressional plus ups that allowed Per-and Poly-fluoroalkyl Substances (PFAS) requirements to be executed earlier than planned. In addition, PFAS remedial investigations were programmed at the installation level resulting in the enterprise-wide project cost-to-complete being deleted.

Other Accrued Environmental Liabilities – Non-BRAC (OEL)

The total DAF GF OEL decreased by 16.9% from September 30, 2019 to September 30, 2020.

Environmental Corrective Action:

The DAF GF reported an estimated environmental liability for ECA of $415.6 million as of September 30, 2020. This was a decrease of $570.7 million from September 30, 2019 to September 30, 2020. The key driver to this fluctuation were changes in probable and measurable future PFOS/PFOA expenditures at ANG sites.

Environmental Closure Requirements:

The DAF GF reported an estimated environmental liability for ECR assets of $406.9 million as of September 30, 2020. This was a net increase of $87.6 million from September 30, 2019 to September 30, 2020. In FY 2020, environmental liabilities were reported for one additional asset category (hazardous waste storage facilities). Key drivers to this fluctuation were changes in Real Property inventory.

Asbestos:

The DAF GF reported an estimated environmental liability for asbestos of $1.2 billion as of September 30, 2020. This was an increase of $71.3 million from September 30, 2019 to September 30, 2020. Key drivers to this fluctuation were changes in Real Property inventory and the inflation factors applied to historical costs used to generate liability estimates.

BRAC Installations

The total DAF GF BRAC environmental liabilities decreased by 2.7% from September 30, 2019 to September 30, 2020.

BRAC IRP:

The DAF GF BRAC IRP line decreased by $74.6 million from September 30, 2019 to September 30, 2020. Of the $74.6 million decrease, $90.9 million is due to a reduction in out-year management costs. The management requirements outside of the Future Year Defense Plan (FYDP) are calculated in alignment with OSD guidance. The ratio of program management costs to site level requirements within the FYDP was calculated using the most recently reported position, which decreased overall from the previous year. The increase in Total Obligation Authority (TOA) in the FYDP caused a lower ratio of program management cost compared to site level cost, which drove the out-year (FY 2027 through FY 2084) program management calculation down. The total decrease was offset by increases to the IRP program primarily associated with PFAS requirements.

BRAC MMRP:

The DAF GF BRAC MMRP line increased by $4.7 million from September 30, 2019 to September 30, 2020. This increase is due to the following: additional cleanup activities at former George AFB for larger excavation areas and munitions footprint, new requirements at former Wurtsmith AFB and former Grissom AFB to conduct comprehensive site evaluation and complete site closure documentation.

BRAC Environmental Corrective Action/Closure Requirements:

The DAF GF BRAC ECA/ECR line increased by $0.5 million from September 30, 2019 to September 30, 2020 due to the following: discovery of USTs at the former George AFB; excavation of previously unidentified USTs discovered during construction at the former Kelly AFB; and, reimbursement to the Alaska Department of Transportation & Public Facilities for removal of petroleum contaminated soil and drums during redevelopment efforts at the former Kulis ANGS.

BRAC Asbestos:

Th DAF GF BRAC Asbestos line decreased by $0.04 million from September 30, 2019 to September 30, 2020, due to unliquidated obligations for Chanute asbestos abatement and repair.

Environmental Disposal for Military Equipment/Weapons Programs

Non-Nuclear Powered Military Equipment:

The E&DL for military equipment/weapons programs, non-nuclear powered military equipment decreased from $767.4 million in September 30, 2019 to $741.6 million in September 30, 2020. This was due to a decrease in the published labor rates used for the disposal of aircrafts in FY 2020. The E&DL for fixed-wing aircrafts and helicopters decreased from $257.4 million to $223.0 million due to a decrease in published labor rates. The E&DL for MRAPs increased from $1.8 to $2.0 million due to an increased disposal labor rate, as well as an increased asset count as of year-end. The E&DL for missiles increased from $508.2 to $516.6 million due to inflation.

Ongoing Corrective Action Impacts:

Due to ongoing implementation of corrective action plans across the OEL program, updates to the estimated liabilities associated with OEL sub-line items are expected to continue through FY 2024. Until full implementation of these programmatic changes are complete, balances will reflect only a portion of the liabilities at year end. The DAF GF understands that additional assets on active installations with ECR and asbestos liabilities exist but are not yet reported due to ongoing implementation of corrective actions. These corrective actions are focused on assessing the remaining ECR and asbestos assets. There are six remaining asset categories with ECR: pipelines and piping, underground OWSs, aboveground OWSs, wastewater treatment tanks and basins, solid waste incinerators, and water supply wells. Corrective actions are ongoing to assess non-building PAC assets. To help mitigate significant financial statement impacts of asset related environmental liabilities not yet estimated, the DAF GF focused its efforts to identify and estimate environmental liabilities for assets with the most significant and material impact to ECR and asbestos liabilities using subject matter experts and current Real Property inventories to make those determinations.

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

Emerging Contaminants

Emerging contaminants are newly identified contaminants that require future cleanup. Recently, PFOS/PFOA was identified. PFAS are a group of manmade chemicals used for a wide variety of residential, commercial and industrial purposes including: nonstick cookware, stain-resistant fabric and carpet, some food packaging, and firefighting foam. In 2016, the EPA established health advisory levels in drinking water for two types of PFCs: PFOS and PFOA, which are components of legacy Aqueous Film Forming Foam (AFFF) that the DAF GF began using in the 1970s as a firefighting agent to extinguish petroleum fires. PFOS and PFOA are classified as emerging contaminants because they do not have established regulatory standards, but evolving science has identified potential risk to humans and regulatory standards are under consideration. As the DAF GF continues to investigate and the EPA continues to refine standards, cost estimates may increase. The DAF GF's investigation work and mitigation actions are guided by the CERCLA, applicable state laws, and the EPA's lifetime drinking water health advisory of 70 parts per trillion. Other emerging contaminants could be identified in the future and would follow a similar process.

Note 15 Other Liabilities

As of September 30	2020 (Unaudited)		
	Current Liability	Non-Current Liability	Total
(Amounts in Thousands)			
Intragovernmental			
Advances from Others	$ 1,456,447	$ 0	$ 1,456,447
Deposit Funds and Suspense Account Liabilities	7,219	0	7,219
Disbursing Officer Cash	212,994	0	212,994
Judgment Fund Liabilities	516,636	0	516,636
Federal Employees' Compensation Act Reimbursement to the Department of Labor	80,519	96,700	177,219
Custodial Liabilities	0	1,058	1,058
Employer Contribution and Payroll Taxes Payable	126,465	0	126,465
Other Liabilities	21,496	0	21,496
Total Intragovernmental Other Liabilities	$ 2,421,776	$ 97,758	$ 2,519,534
Non-Federal			
Accrued Funded Payroll and Benefits	$ 2,848,532	$ 0	$ 2,848,532
Advances from Others	251,949	0	251,949
Deposit Funds and Suspense Accounts	526,561	0	526,561
Accrued Unfunded Annual Leave	3,337,146	0	3,337,146
Contract Holdbacks	43,862	0	43,862
Employer Contribution and Payroll Taxes Payable	91,878	0	91,878
Contingent Liabilities	0	517,421	517,421
Other Liabilities	1,005,449	0	1,005,449
Total Non-Federal Other Liabilities	$ 8,105,377	$ 517,421	$ 8,622,798
Total Other Liabilities	$ 10,527,153	$ 615,179	$ 11,142,332

As of September 30	2019 (Unaudited)					
	Current Liability		Non-Current Liability		Total	
(Amounts in Thousands)						
Intragovernmental						
Advances from Others	$	1,305,181	$	0	$	1,305,181
Deposit Funds and Suspense Account Liabilities		(24,634)		0		(24,634)
Disbursing Officer Cash		151,219		0		151,219
Judgment Fund Liabilities		263,747		0		263,747
Federal Employees' Compensation Act Reimbursement to the Department of Labor		81,522		101,736		183,258
Custodial Liabilities		0		599		599
Employer Contribution and Payroll Taxes Payable		93,078		0		93,078
Other Liabilities		7,574		0		7,574
Total Intragovernmental Other Liabilities	$	1,877,687	$	102,335	$	1,980,022
Non-Federal						
Accrued Funded Payroll and Benefits	$	2,530,188	$	0	$	2,530,188
Advances from Others		236,799		0		236,799
Deposit Funds and Suspense Accounts		383,755		0		383,755
Accrued Unfunded Annual Leave		2,591,488		0		2,591,488
Contract Holdbacks		622,986		0		622,986
Employer Contribution and Payroll Taxes Payable		64,365		0		64,365
Contingent Liabilities		0		301,267		301,267
Other Liabilities		562		0		562
Total Non-Federal Other Liabilities	$	6,430,143	$	301,267	$	6,731,410
Total Other Liabilities	$	8,307,830	$	403,602	$	8,711,432

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

Deposit Funds and Suspense Accounts represent liabilities for receipts held in suspense temporarily for distribution to another fund or entity, or held as an agent for others and paid at the direction of the owner.

The abnormal balance in Intragovernmental Deposit Funds and Suspense Accounts Liabilities of $24.6 million as of September 30, 2019, was due to a process change beginning in fourth quarter of FY 2016. Beginning in June 2020, the DAF GF began moving balances from the Intragovernmental Payment and Collection (IPAC) account via an allocation on a monthly basis to a related line of accounting with the intent of eventually clearing out this IPAC account. As a result of these activities there is a normal balance at September 30, 2020 for Intragovernmental Deposit Funds and Suspense Account 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 U.S. Treasury under various authorities. Disbursing Officer Cash is non-entity, restricted cash.

Judgment Fund Liabilities represent the reimbursable amount due from the DAF GF to the U.S. Treasury Judgment Fund. In the event of an unfavorable judgment against the Federal Government, settlements will be paid by the U.S. Treasury Judgment Fund on behalf of the DAF GF, which may or may not be reimbursable.

Federal Employees' Compensation Act (FECA) Reimbursement to the Department of Labor represents liabilities for billed amounts payable in FY 2020 and FY 2021 unbilled amounts, including both incurred and an estimated accrual. Refer to Note 13, *Military Retirement and Other Federal Employment Benefits*, for the estimated FECA actuarial liability.

Custodial Liabilities represents liabilities for collections reported as non-exchange revenues where the DAF GF is acting on behalf of another Federal Entity.

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.

Intragovernmental Other Liabilities primarily consists of unemployment compensation liabilities.

The DAF GF's life and other insurance programs covering civilian employees are provided through the Office of Personnel Management (OPM). The DAF GF does not negotiate the insurance contracts and incurs no liabilities directly to the insurance companies. Employee payroll withholdings related to the insurance and employer matches are submitted to OPM.

Accrued Funded Payroll and Benefits includes the life insurance program, Federal Employee Group Life Insurance plan, which is a term life insurance benefit with varying amounts of coverage selected by the employee. The Federal Employees Health Benefits Program is comprised of different types of health plans that are available to federal employees for individual and family coverage for healthcare. OPM, as the administrating 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.

Accrued Unfunded Annual Leave is based on the employees' leave balances at the end of the quarter. Due to the Coronavirus Disease 2019, employees used less leave in FY 2020 than in FY 2019.

Contract Holdbacks are amounts withheld from grantees or contractors pending completion of related contracts. For FY 2020, Contract Holdbacks include $43.9 million for contracts authorization progress payments based on cost as defined in the Federal Acquisition Regulation (FAR). 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, 2019 and September 30, 2020. As such, the DAF GF does not record Contract Holdbacks in accordance with GAAP.

Contingent legal liabilities comprise $458.0 million of the total $517.4 million in Contingent Liabilities as of September 30, 2020. For additional information, refer to Note 17, *Commitments and Contingencies*.

Non-Federal Other Liabilities primarily consists of accrued estimated costs related to the construction of aircraft and satellites. The DAF GF recorded additional accruals in FY 2020 based on percentage of completion data provided by vendors.

Note 16 Leases

Operating Leases

As of September 30	2020 (Unaudited)			
	Asset Category			
	Land and Buildings	Equipment	Other	Total
(Amounts in Thousands)				
Federal				
Fiscal Year				
2021	$ 36	$ 0	$ 0	$ 36
2022	34	0	0	34
2023	34	0	0	34
2024	34	0	0	34
2025	34	0	0	34
After 5 Years	34	0	0	34
Total Federal Future Lease Payments	$ 206	$ 0	$ 0	$ 206
Non-Federal				
Fiscal Year				
2021	$ 4,918	$ 0	$ 23,547	$ 28,465
2022	3,788	0	24,017	27,805
2023	2,893	0	24,498	27,391
2024	2,354	0	24,988	27,342
2025	1,381	0	25,487	26,868
After 5 Years	1,207	0	25,997	27,204
Total Non-Federal Future Lease Payments	$ 16,541	$ 0	$ 148,534	$ 165,075
Total Future Lease Payments	$ 16,747	$ 0	$ 148,534	$ 165,281

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 expands 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. The Military Housing Privatization Initiative (MHPI) is the only class of Real Property leases; the incremental borrowing rate for the MHPI government direct loans that were used as a source of funds for most MHPI projects were based on a 30-year U.S. Treasury rate in the year of obligation. Lease terms span from five to fifty years based on mission requirements.

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 and their ultimate disposition is unknown. In the event of an unfavorable judgment against the Federal Government, some of the settlements are expected to be paid from the U.S. Treasury Judgment Fund. In some cases, the DAF GF does not have to reimburse the Judgment Fund. Reimbursement is required for cases under either the *Contracts Disputes Act* or the *Notification and Federal Employee Antidiscrimination and Retaliation Act*. Amounts to be reimbursed to the Judgment Fund as of September 30, 2020 and September 30, 2019 are reported in Note 15, *Other Liabilities*, Judgment Fund Liabilities.

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 Legal Contingent Liabilities are included within the Contingent Liabilities amount reported in Note 15, *Other Liabilities*, Contingent Liabilities for September 30, 2020 and September 30, 2019.

Summary of Legal Contingent Liabilities as of September 30	2020 (Unaudited) Estimated Range of Loss		
	Accrued Liabilities	Lower End	Upper End
(Amounts in Thousands)			
Legal Contingent Liabilities Probable	$ 458,041	$ 0	$ 0
Reasonably Possible	$ 0	$ 10,550	$ 561,491

Summary of Legal Contingent Liabilities as of September 30	2019 (Unaudited) Estimated Range of Loss		
	Accrued Liabilities	Lower End	Upper End
(Amounts in Thousands)			
Legal Contingent Liabilities Probable	$ 236,354	$ 0	$ 0
Reasonably Possible	$ 0	$ 100,500	$ 500,000

The Legal Contingent Liability amount of $458.0 million as of September 30, 2020 and $236.4 million as of September 30, 2019 recorded in the financial statements is an estimate based on the average payout rate on claims for the previous three years. This estimation methodology is not in compliance with Federal Generally Accepted Accounting Principles (GAAP) because it results in a liability being recorded for cases where the likelihood of loss is reasonably possible or remote. The DAF GF has a significant number of cases to evaluate for financial reporting purposes as required under GAAP, which makes the process challenging. The DAF GF is working to develop an efficient and sustainable GAAP-compliant estimation methodology.

As of September 30, 2020, legal claims exist for which the estimated loss amount or the range of loss cannot be reasonably measured. The ultimate outcomes in these matters cannot be predicted at this time. Sufficient information 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 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 present the DAF GF commitments and contingencies.

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 framework cooperative activity agreements with foreign governments. All of these agreements give rise to obligations that are appropriately reported in DAF GF's financial statements, pursuant to legal authority and appropriated funds; none are contingent.

At this time, the DAF GF has not performed a review of the possible environmental contingent liabilities that may exist due to a lack of available data to estimate environmental contingent liabilities for certain asset classes.

Commitments

The amount of obligations related to cancelled appropriations for which the DAF GF has a contractual commitment for payment is $2.2 billion.

Note 18 Funds from Dedicated Collections

Combined Balance Sheet - Funds from Dedicated Collections

As of September 30	2020 (Unaudited)			
	General Gift Fund	Wildlife Conservation Fund	Air Force Cadet Fund	Combined Total
(Amounts in Thousands)				
Assets				
Fund Balance with Treasury	$ 35,258	$ 2,321	$ 12,527	$ 50,106
Investments	7	0	0	7
Accounts and Interest Receivable	1	0	0	1
Other Assets	1,341	0	0	1,341
Total Assets	$ 36,607	$ 2,321	$ 12,527	$ 51,455
Liabilities and Net Position				
Accounts Payable and Other Liabilities	281	(651)	216	(154)
Total Liabilities	$ 281	$ (651)	$ 216	$ (154)
Cumulative Results of Operations	36,326	2,972	12,311	51,609
Total Liabilities and Net Position	$ 36,607	$ 2,321	$ 12,527	$ 51,455

As of September 30	2019 (Unaudited)			
	General Gift Fund	Wildlife Conservation Fund	Air Force Cadet Fund	Combined Total
(Amounts in Thousands)				
Assets				
Fund balance with Treasury	$ 19,524	$ 2,489	$ 9,985	$ 31,998
Investments	7	0	0	7
Accounts and Interest Receivable	2	0	0	2
Other Assets	1,340	0	0	1,340
Total Assets	$ 20,873	$ 2,489	$ 9,985	$ 33,347
Liabilities and Net Position				
Accounts Payable and Other Liabilities	186	(657)	215	(256)
Total Liabilities	$ 186	$ (657)	$ 215	$ (256)
Cumulative Results of Operations	20,687	3,146	9,770	33,603
Total Liabilities and Net Position	$ 20,873	$ 2,489	$ 9,985	$ 33,347

Combined Statement of Net Cost — Funds from Dedicated Collections

For the period ended September 30	2020 (Unaudited)			
	General Gift Fund	Wildlife Conservation Fund	Air Force Cadet Fund	Combined Total
(Amounts in Thousands)				
Gross Program Costs	$ 2,672	$ 1,170	$ 318	$ 4,160
Less: Earned Revenue	0	996	2,859	3,855
Net Program Costs	$ 2,672	$ 174	(2,541)	305
Net Cost of Operations	$ 2,672	$ 174	$ (2,541)	$ 305

For the period ended September 30	2019 (Unaudited)			
	General Gift Fund	Wildlife Conservation Fund	Air Force Cadet Fund	Combined Total
(Amounts in Thousands)				
Gross Program Costs	$ 3,613	$ 1,033	$ 589	$ 5,235
Less: Earned Revenue	0	(1,468)	(3,766)	(5,234)
Net Program Costs	3,613	(435)	(3,177)	1
Net Cost of Operations	$ 3,613	$ (435)	$ (3,177)	$ 1

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

For the period ended September 30	2020 (Unaudited)			
	General Gift Fund	Wildlife Conservation Fund	Air Force Cadet Fund	Combined Total
(Amounts in Thousands)				
Net Position, Beginning of the Period	$ 20,687	$ 3,146	$ 9,770	$ 33,603
Budgetary Financing Sources	18,311	0	0	18,311
Less: Net Cost of Operations	2,672	174	(2,541)	305
Change in Net Position	$ 15,639	$ (174)	$ 2,541	$ 18,006
Net Position, End of Period	$ 36,326	$ 2,972	$ 12,311	$ 51,609

For the period ended September 30	2019 (Unaudited)			
	General Gift Fund	Wildlife Conservation Fund	Air Force Cadet Fund	Combined Total
(Amounts in Thousands)				
Net Position, Beginning of the Period	$ 17,170	$ 2,605	$ 6,590	$ 26,365
Budgetary Financing Sources	7,593	106	3	7,702
Other Financing Sources	(463)	0	0	(463)
Less: Net Cost of Operations	3,613	(435)	(3,177)	1
Change in Net Position	$ 3,517	$ 541	$ 3,180	$ 7,238
Net Position, End of Period	$ 20,687	$ 3,146	$ 9,770	$ 33,603

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

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

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

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

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

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

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

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

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

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

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

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

Note 19 General Disclosures Related to the Statements of Net Cost

As of September 30	2020 (Unaudited)	2019 (Unaudited)
(Amount in Thousands)		
Military Personnel		
Gross Cost	$ 41,310,006	$ 38,406,865
Less: Earned Revenue	(655,933)	(449,945)
Net Program Costs	$ 40,654,073	$ 37,956,920
Operations, Readiness & Support		
Gross Cost	$ 60,259,609	$ 61,490,173
Less: Earned Revenue	612,142	117,753
Net Program Costs	$ 60,871,751	$ 61,607,926
Procurement		
Gross Cost	$ 32,870,421	$ 59,605,703
Less: Earned Revenue	(5,657,744)	(7,928,059)
Net Program Costs	$ 27,212,677	$ 51,677,644
Research, Development, Test & Evaluation		
Gross Cost	$ 47,589,424	$ 44,401,927
Less: Earned Revenue	(4,361,784)	(3,672,442)
Net Program Costs	$ 43,227,640	$ 40,729,485
Family Housing & Military Construction		
Gross Cost	$ 2,693,194	$ 2,917,386
Less: Earned Revenue	(86,980)	(42,834)
Net Program Costs	$ 2,606,214	$ 2,874,552
Consolidated		
Gross Cost	$ 184,722,654	$ 206,822,054
Less: Earned Revenue	(10,150,299)	(11,975,527)
Total Net Cost	$ 174,572,355	$ 194,846,527

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

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

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

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

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

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

Note 20 Disclosures Related to the Statements 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 $1.7 billion. The SBR is presented on a combined basis in accordance with the Office of Management and Budget Circular A-136, *Financial Reporting Requirements*. This presentation differs from the SCNP, which is presented on a consolidated basis.

Year Ended September 30, 2020 (Unaudited) Reconciliation of Appropriations on the Statement of Budgetary Resources to Appropriations Received on the Statement of Changes in Net Position	*(Amounts in Thousands)*
	Total
Appropriations, Statement of Budgetary Resources	$ 205,984,214
Less: Appropriations Received, Statement of Changes in Net Position	207,687,406
Total Reconciling Amount	$ **(1,703,192)**
Items Reported as Reductions to Appropriations, Statement of Budgetary Resources	
Permanent and Temporary Reductions	$ (1,766,594)
Items Reported in Appropriations, Statement of Budgetary Resources	
Transfers	41,236
Trust and Special Fund Receipts	22,166
Total Reconciling Amount	$ **(1,703,192)**

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

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

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

Year Ended September 30, 2020 (Unaudited) Reconciliation of Combined Dedicated Collections and Other Funds to Consolidated Dedicated Collections and Other Funds			*(Amounts in Thousands)*
Consolidating Net Position	Combined	Consolidating Eliminations	Consolidated
Cumulative Results of Operations – Dedicated Collections	$ 51,609	$ 339	$ 51,948
Cumulative Results of Operations – Other Funds	202,537,616	(339)	202,537,277
Unexpended Appropriations – Other Funds	159,000,202	0	159,000,202
Total Net Position	$ **361,589,427**	$ **0**	$ **361,589,427**

Year Ended September 30, 2019 (Unaudited) Reconciliation of Combined Dedicated Collections and Other Funds to Consolidated Dedicated Collections and Other Funds			*(Amounts in Thousands)*
Consolidating Net Position	Combined	Consolidating Eliminations	Consolidated
Cumulative Results of Operations – Dedicated Collections	$ 33,603	$ 642	$ 34,245
Cumulative Results of Operations – Other Funds	182,773,632	(642)	182,772,990
Unexpended Appropriations – Other Funds	150,291,356	0	150,291,356
Total Net Position	$ **333,098,591**	$ **0**	$ **333,098,591**

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

Prior Period Adjustment

In FY 2019, the DAF GF recorded a $1.3 billion prior period adjustment to adjust the value of Military Equipment - Aircraft pursuant to the 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*. SFFAS 50 provides alternative valuation methods for establishing opening balances for General Property, Plant and Equipment when historical records are unavailable and existing systems are unable to provide the information necessary for producing historical cost asset values in accordance with Federal Generally Accepted Accounting Principles. The alternative valuation methods used to establish opening balances for Military Equipment, 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.

Other Financing Sources, Other

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

Note 21 Disclosures Related to the Statements 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, 2020 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, *Direct Loans and Loan Guarantees, Non-Federal Borrowers*, and Note 25, *Public-Private Partnerships*.

Available Borrowing/Contract Authority, End of Period

There was no available borrowing authority remaining at the end of FY 2020 and FY 2019.

Undelivered Orders at the End of the Period

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

As of September 30	2020 (Unaudited)	2019 (Unaudited)
(Amount in Thousands)		
Intragovernmental		
Unpaid	$ 22,311,174	$ 23,461,613
Prepaid/Advanced	1,181,331	1,024,255
Total Intragovernmental	$ 23,492,505	$ 24,485,868
Non-Federal		
Unpaid	$ 83,985,923	$ 76,560,654
Prepaid/Advanced	18,510,169	16,736,643
Total Non-Federal	$ 102,496,092	$ 93,297,297
Total Budgetary Resources Obligated for Undelivered Orders at the End of the Period	$ 125,988,597	$ 117,783,165

Legal Arrangements Affecting the Use of Unobligated Balances

A portion of the DAF GF's unobligated balances represent trust fund receipts collected in FY 2020 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 2020 refer to Note 20, *Disclosures Related to the Statement of Changes in Net Position*.

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

The table below presents a reconciliation between the Budgetary Resources, New Obligations and Upward Adjustments, Distributed Offsetting Receipts, and Net Outlays from FY 2019 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 2021 President's Budget. The FY 2022 Budget will display the FY 2020 actual values and will be available at a later date at https://www.whitehouse.gov/omb/budget.

Explanation of Differences between the SBR and the Budget of the U.S. Government (Amounts in Billions)				
As of September 30	Fiscal Year 2019 Actual			
	Budgetary Resources	New Obligations & Upward Adjustments (Total)	Distributed Offsetting Receipts	Agency Outlays, Net
Combined Statement of Budgetary Resources	$ 250.0	$ 212.4	$ 0.5	$ 186.1
Differences				
Expired accounts that are excluded from the Budget of the U.S. Government*	$ -5.2	$ 0	$ 0	$ 0
Budget of the U.S. Government	$ 244.8	$ 212.4	$ 0.5	$ 186.1

**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 year ended September 30, 2020.

Other Disclosures

Expired Unobligated Balance

The SBR reflects Unobligated Expired Appropriations in the amount of $5.1 billion (2.0% of Total Budgetary Resources). The DAF GF strives to obligate as close as prudently possible to 100.0% of available budget authority before it expires. Its internal controls and systems for administrative control of funds are designed to avoid over-obligating or over-expending funds in violation of the *Anti-Deficiency Act*. The enormous number of contracts, projects, and activities (e.g., construction projects, complex acquisitions, cutting edge/high risk technology efforts, and contingency operations) that must be carried out without exceeding available budget authority do result in liabilities that must be recorded against finite unobligated expired appropriation balances. Consequently, some level of unobligated expired appropriations must be available for recording adjustments to existing obligations, as authorized by § 1553 of Title 31 U.S. Code (U.S.C.).

Apportionment Categories

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

(Amounts in Billions)		
Type	Direct	Reimbursable
Category A	$ 107.7	$ 4.9
Category B	$ 100.7	$ 5.4
Exempt	$ 0	$ 0
Total	$ 208.4	$ 10.3

Permanent Indefinite Appropriations

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

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

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

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

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

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

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

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

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

Appropriations Received

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

Note 22 Disclosures Related to Incidental Custodial Collections

The DAF GF collected $22.9 million of Incidental Custodial Revenues during the year ended September 30, 2020, which were generated primarily from the collection of Accounts Receivable related to cancelled accounts. These funds are not available for use by the DAF GF. At the end of each FY, the accounts are closed and the balances are rendered to the U.S. Treasury.

Note 23 Fiduciary Activities

Non-Entity Assets

As of September 30	2020 (Unaudited)	2019 (Unaudited)
(Amounts in Thousands)		
Fiduciary Net Assets, Beginning of Year	$ 1,752	$ 2,780
Contributions	33,221	40,718
Distributions To and On Behalf of Beneficiaries	(34,445)	(41,746)
Increase/(Decrease) in Fiduciary Net Assets	$ (1,224)	$ (1,028)
Fiduciary Net Assets, End of Period	$ 528	$ 1,752

Schedule of Fiduciary Net Assets

As of September 30	2020 (Unaudited)	2019 (Unaudited)
(Amounts in Thousands)		
Fiduciary Assets		
Fund Balance with Treasury	$ 528	$ 1,752
Total Fiduciary Net Assets	$ 528	$ 1,752

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 established to provide members of the uniformed services serving in a designated combat zone the opportunity to build their financial savings.

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

Note 24 Reconciliation of Net Cost to Net Outlays

As of September 30	2020 (Unaudited)		
	Intragovernmental	With the public	Total
(Amounts in Thousands)			
Net Cost of Operations (SNC)	$ 34,011,245	$ 140,561,110	$ 174,572,355
Components of Net Cost That are Not Part of Net Outlays:			
Property, Plant, and Equipment Depreciation	$ 0	$ (13,793,631)	$ (13,793,631)
Property, Plant, and Equipment Disposal & Revaluation	0	(1,910,192)	(1,910,192)
Other	(62,281)	(7,542,179)	(7,604,460)
Increase/(decrease) in Assets:			
Account Receivable	57,251	5,863	63,114
Other Assets	131,533	1,835,193	1,966,726
(Increase)/Decrease in Liabilities:			
Accounts Payable	385,867	2,385,163	2,771,030
Salaries and Benefits	(33,393)	(345,919)	(379,312)
Environmental and Disposal Liabilities	0	1,217,661	1,217,661
Other Liabilities (Unfunded Leave, Unfunded FECA, Actuarial FECA)	(323,001)	(2,011,406)	(2,334,407)
Other Financing Sources:			
Federal Employee Retirement Benefit Costs Paid by OPM and Imputed to the Agency	(610,519)	0	(610,519)
Transfers Out (In) Without Reimbursement	(79,321)	0	(79,321)
Other Imputed Financing	(23,432)	0	(23,432)
Total Components of Net Cost That Are Not Part of Net Outlays	$ (557,296)	$ (20,159,447)	$ (20,716,743)
Components of Net Outlays That Are Not Part of Net Cost:			
Acquisition of Capital Assets	$ 0	$ 30,013,829	$ 30,013,829
Acquisition of Inventory	0	14,868,281	14,868,281
Other	(28,644)	(27,384)	(56,028)
Total Components of Net Outlays That Are Not Part of Net Cost	$ (28,644)	$ 44,854,726	$ 44,826,082
Net Outlays	$ 33,425,305	$ 165,256,389	$ 198,681,694
Agency Outlays, Net, Statement of Budgetary Resources			$ 197,552,936
Reconciling Difference			$ 1,128,758

As of September 30	2019 (Unaudited)		
	Intragovernmental	With the public	Total
(Amounts in Thousands)			
Net Cost of Operations (SNC)	$ 34,679,453	$ 160,167,074	$ 194,846,527
Components of Net Cost That are Not Part of Net Outlays:			
Property, Plant, and Equipment depreciation	$ 0	$ (11,530,110)	$ (11,530,110)
Property, Plant, and Equipment Disposal & Revaluation	0	(2,265,591)	(2,265,591)
Other	(21,053)	2,859,123	2,838,070
Increase/(decrease) in Assets:			
Account Receivable	(222,537)	7,156	(215,381)
Other Assets	143,331	(6,623,892)	(6,480,561)
(Increase)/decrease in Liabilities:			
Accounts Payable	(966,097)	(3,933,809)	(4,899,906)
Salaries and Benefits	(9,503)	(45,033)	(54,536)
Environmental and Disposal Liabilities	0	(1,157,433)	(1,157,433)
Other Liabilities (Unfunded Leave, Unfunded FECA, Actuarial FECA)	(289,528)	3,315,310	3,025,782
Other Financing Sources:			
Federal Employee Retirement Benefit Costs Paid by OPM and Imputed to the Agency	(823,868)	0	(823,868)
Transfers Out (In) Without Reimbursement	(74,420)	0	(74,420)
Other imputed financing	(29,911)	0	(29,911)
Total Components of Net Cost That Are Not Part of Net Outlays	$ (2,293,586)	$ (19,374,279)	$ (21,667,865)
Components of Net Outlays That Are Not Part of Net Cost:			
Acquisition of Capital Assets	$ 0	$ 13,472,365	$ 13,472,365
Acquisition of inventory	0	6,977,486	6,977,486
Other	(6,247)	(19,923)	(26,170)
Total Components of Net Outlays That Are Not Part of Net Cost	$ (6,247)	$ 20,429,928	$ 20,423,681
Net Outlays	$ 32,379,620	$ 161,222,723	$ 193,602,343
Agency Outlays, Net, Statement of Budgetary Resources			185,678,117
Reconciling Difference			$ 7,924,226

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 $1.1 billion is due to the DAF GF financial system limitations, causing budgetary data to not reconcile with proprietary expenses and capitalized assets.

Note 25 Public-Private Partnerships

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

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

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

Military Housing Privatization Initiative

Funding

Federal funding for the MHPI agreements was provided through the DAF GF budgetary resources and/or the U.S. Treasury through government direct loan disbursements at development completion or completed phases of development; limited loan guarantees of private debt against base closure, significant deployment or significant downsizing; and direct upfront cash equity contribution and/or through differential lease payments for a stated period of time. The table below shows the consolidated actual and estimated amounts paid and received in FY 2020 for each MHPI agreement.

MHPI Funding

Agreements/Contracts	Fiscal Year 2020			
	Actual Amount Received	Actual Amount Paid	Estimated Amount to be Received	Estimated Amount to be Paid
Direct Loans 27 Projects	$ 246,356,283	$ 246,356,283	$ 74,665,707	$ 14,666,414
Loan Guarantees 6 Projects	$ 1,035,692	$ 6,400,991	$ 1,025,456	$ 6,344,202
Equity Investments 4 Projects	$ 0	$ 0	$ 0	$ 0
Estimated Total 27 Projects	$ 247,391,975	$ 252,757,274	$ 75,691,163	$ 21,010,616

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 (buildings, structures, facilities, and in some cases utility infrastructure) to the MHPI P3 organized as a single purpose, bankruptcy remote, or 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 Approval and Congressional notification (10 U.S. Code (U.S.C.) § 2884). There are no contractual requirements for additional federal contributions to the LLCs.

As a result of Pub. L. 115-91 § 603, Pub. L. 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.

From September 1, 2018 forward, Pub L. 116-92 § 606 directs that payments to the MHPI entities of 5.0% of BAH will occur monthly until Congress modifies or rescinds this direction.

The following table represents the aggregated federal contribution amounts paid to the MHPI Program and LLCs through September 30, 2020:

Air Force Contributions		
Funding contributions to DoD MHPI program	$	674.8M
Real Property contributions to the LLCs (value of Real Property Assets conveyed, per Office of Management and Budget (OMB) scoring documents)	$	2.6B
DAF GF direct payments as required by Pub. L. 116-92 § 606 (5.0% BAH) for FY 2020	$	49.7M
DAF GF basic allowance for housing (BAH) under § 403 of title 37 to members living in privatized housing for FY 2020. The number of units of military family housing upon which these estimated payments are made is 41,835, and the number of units of military unaccompanied housing units upon which these estimated payments are made is 110.	$	871.8M
DoD Contributions*		
Direct Cash Contributions	$	89.5M
Differential Lease Payments	$	16.5M
Direct loans Disbursed	$	1.86B

**These financial amounts represented above are presented in the DoD's consolidated financial statements and their respective note disclosures and are not presented within the DAF GF's financial statements.*

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 $871.8 million in FY 2020. The number of military family housing units upon which these estimated payments were made is 41,835 in FY 2020. The number of units of military unaccompanied housing upon which these estimated payments were made is 110 in FY 2020. 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 5.0% of BAH to the MHPI entities for a projected total of $4.4 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 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.

The following table represents the aggregated contributions by the private partners to the LLCs through September 30, 2020:

Contributions by Private Partners		
Direct cash contributions	$	338.8M
Bonds/Loans contributed	$	5.1B
Real Property and land contributions	$	1.2M

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

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

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

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

Contractual Terms Governing Incentive Fees

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

Risk of Loss

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

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

The four DAF GF equity investment 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 Lease of Property (LOP) or, in the case of grouped projects, through the Master Development and Management Agreement (MDMA).

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

The entity cash flow is dependent on congressional authorization and appropriation of basic allowance for housing, which becomes a third-party payment for rent to the MHPI entity. The DAF GF can influence but cannot control the authorization and appropriation process. Additionally, as a result of ongoing congressional review of the MHPI program and the FY 2020 NDAA, there may be changes to the relationship between the DAF GF and the entity based on congressional action. Changes, once fully implemented from the FY 2020 NDAA (Pub. L. 116-92 § 606), will potentially impact the revenue stream of projects. The full impact is not measurable at this time. If or when action is taken, the DAF GF will disclose any financial changes or impact that this may pose/cause. There is potentially a remote impact, which is not measurable at this time.

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 of 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 investments 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 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.

Early Termination Requirements:

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.

Other Potential Public Private Partnership Arrangements

The DAF GF conducted a review of certain agreements, which may have created a Public Private Venture (PPV)/P3.

This review encompassed enhanced use leases and privatized utilities. This analysis supports that these contracts and agreements do not constitute a PPV/P3 and do not require disclosure under SFFAS 47, *Reporting Entity,* or SFFAS 49. The DAF GF has not yet completed the entity-wide review of renewable energy program out-leases, utility energy savings contracts, power purchase agreements, and energy savings performance contracts. It is possible that one or more of these relationships could constitute a PPV/P3.

Refer to Note 7, *Direct Loan and Loan Guarantees, Non-Federal Borrowers* and Note 12, *Debt*.

Note 26 Disclosure Entities and Related Parties

Effective in FY 2018, Statement of Federal Financial Accounting Standards 47, *Reporting Entity,* requires agencies to disclose certain information for disclosure entities and related parties. The DAF GF is still in the early stages of implementing this significant standard and completing a full impact analysis. Once the DAF GF fully implements this new standard, the DAF GF will be able to provide a thorough disclosure for Disclosure Entities and Related Parties.

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

Note 27 COVID-19 Activity

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

Coronavirus Aid, Relief and Economic Security Act

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

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

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

The table below represents the appropriations received by the DAF GF as of September 30, 2020.

DAF GF Appropriations in the CARES Act (P.L. 116-136)

Appropriation *(Amounts in Millions)*	Enactment	Reprogramming	Net
Personnel, Air Force	$ 0	$ 106.1	$ 106.1
Personnel, Air Force National Guard	$ 482.2	$ (424.8)	$ 57.4
Personnel, Air Force Reserve	$ 0	$ 16.7	$ 16.7
Operations and Maintenance, Air Force	$ 155.0	$ 783.3	$ 938.3
Operations and Maintenance, Air National Guard	$ 75.8	$ (58.8)	$ 17.0
Operations and Maintenance, Air Force Reserve	$ 0	$ 19.7	$ 19.7
Research, Development, Test & Evaluation, Air Force	$ 0	$ 60.0	$ 60.0
Procurement, Air Force	$ 0	$ 32.1	$ 32.1
DAF GF Total	$ **713.0**	$ **534.3**	$ **1,247.3**

Other Information

The DAF GF received $713.0 million in funding, as well as $534.3 million in transfers of current year authority. The funding and transfers received were for special training, base support, mission support operations, test and evaluation support, and payroll/other personnel costs. The DAF GF disbursed $838.2 million. Disbursements for COVID-19 prevention, preparation, and response include payroll/other personnel costs, administrative costs, training, mobilization and preparedness, operations support programs, and base support. As of September 30, 2020, there was $557.4 million in undelivered orders and an abnormal balance of $248.6 million in Accounts Payable. Refer to Note 1.D., *Summary of Significant Accounting Policies – Basis of Accounting,* regarding business and system limitations that result in the DAF GF disclosing abnormal balances.

The impact on the DAF GF's assets, liabilities, costs, revenues, and net position as a result of COVID-19 cannot yet be determined.

For information related to the impacts of COVID-19 on the Accrued Unfunded Annual Leave balance, refer to Note 15, *Other Liabilities*.

Note 28 Subsequent Events

Subsequent events were evaluated from the balance sheet date through November 12, 2020, which is the date the financial statements were available to be issued. The DAF GF concluded that no events or transactions occurred or are pending that would have a material effect on the financial statements.

Fiscal Year 2020

DEPARTMENT OF THE AIR FORCE GENERAL FUND

Required Supplementary Information

DISAGGREGATED STATEMENT OF BUDGETARY RESOURCES

For the Years Ended September 30, 2020 and 2019

(Amounts in Thousands)

	Research, Development, Test & Evaluation	Procurement	Military Personnel
Budgetary Resources			
Unobligated balance from prior year budget authority, net (discretionary and mandatory)	$ 7,386,588	$ 22,653,196	$ 1,141,281
Appropriations (discretionary and mandatory)	45,538,913	48,942,880	40,630,634
Spending Authority from offsetting collections (discretionary and mandatory)	4,675,752	944,036	691,903
Total Budgetary Resources	$ 57,601,253	$ 72,540,112	$ 42,463,818
Status of Budgetary Resources			
New obligations and upward adjustments (total)	$ 49,661,435	$ 54,054,722	$ 41,194,605
Unobligated balance, end of year:			
Apportioned, unexpired accounts	7,567,578	17,338,080	320,043
Exempt from apportionment, unexpired accounts	0	0	17
Unapportioned, unexpired accounts	5,125	0	0
Unexpired unobligated balance, end of year	$ 7,572,703	$ 17,338,080	$ 320,060
Expired unobligated balance, end of year	367,115	1,147,310	949,153
Unobligated balance, end of year (total)	$ 7,939,818	$ 18,485,390	$ 1,269,213
Total Budgetary Resources	$ 57,601,253	$ 72,540,112	$ 42,463,818
Outlays, Net			
Outlays, net (total) (discretionary and mandatory)	$ 43,437,029	$ 50,981,847	$ 39,907,751
Distributed offsetting receipts (-)	0	0	0
Agency Outlays, net (discretionary and mandatory)	$ 43,437,029	$ 50,981,847	$ 39,907,751

The accompanying notes are an integral part of these statements.

(Amounts in Thousands)

	Family Housing & Military Construction	Operations, Readiness & Support	2020 Combined	2019 Combined
Budgetary Resources				
Unobligated balance from prior year budget authority, net (discretionary and mandatory)	$ 5,209,349	$ 5,282,867	$ 41,673,281	$ 45,687,157
Appropriations (discretionary and mandatory)	5,402,270	65,469,517	205,984,214	194,708,989
Spending Authority from offsetting collections (discretionary and mandatory)	(100)	3,567,348	9,878,939	9,613,738
Total Budgetary Resources	$ 10,611,519	$ 74,319,732	$ 257,536,434	$ 250,009,884
Status of Budgetary Resources				
New obligations and upward adjustments (total)	$ 2,377,502	$ 71,476,943	$ 218,765,207	$ 212,402,167
Unobligated balance, end of year:				
Apportioned, unexpired accounts	8,021,394	392,947	33,640,042	32,388,888
Exempt from apportionment, unexpired accounts	0	34,474	34,491	18,050
Unapportioned, unexpired accounts	0	1,305	6,430	1,302
Unexpired unobligated balance, end of year	$ 8,021,394	$ 428,726	$ 33,680,963	$ 32,408,240
Expired unobligated balance, end of year	212,623	2,414,063	5,090,264	5,199,477
Unobligated balance, end of year (total)	$ 8,234,017	$ 2,842,789	$ 38,771,227	$ 37,607,717
Total Budgetary Resources	$ 10,611,519	$ 74,319,732	$ 257,536,434	$ 250,009,884
Outlays, Net				
Outlays, net (total) (discretionary and mandatory)	$ 2,097,255	$ 61,322,103	$ 197,745,985	$ 186,143,926
Distributed offsetting receipts (-)	0	(193,049)	(193,049)	(465,809)
Agency Outlays, net (discretionary and mandatory)	$ 2,097,255	$ 61,129,054	$ 197,552,936	$ 185,678,117

The DAF has performance measures based on missions and outputs. The DAF 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 will break out programs by major appropriation groupings.

The accompanying notes are an integral part of these statements.

Real Property Deferred Maintenance and Repair

Real Property Deferred Maintenance and Repair For Fiscal Year 2020* (Excludes Military Family Housing) (In Millions of Dollars)						
	2020 (Unaudited)			2019 (Unaudited)		
	Plant Replacement Value	Required Work (Deferred Maintenance & Repair)	Percentage (Required Work/ Plant Replacement Value)	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)	$ 277,050	$ 22,988	8.3%	$ 285,055	$ 28,550	10.0%
Category Buildings, Structures, and Linear Structures (Heritage Assets)	$ 36,940	$ 2,085	5.6%	$ 32,428	$ 1,841	5.7%
Inactive Real Property**						
Category Buildings, Structures, and Linear Structures (Excess Facilities or Planned for Replacement)	$ 14,723	$ 3,477	23.6%	$ 19,152	$ 643	3.4%

** Due to systems limitations, information on Real Property Deferred Maintenance and Repair values in the table above reflects available data as of June 30, 2020 and June 30, 2019.*

*** The amount of Inactive Real Property, Required Work (Deferred Maintenance & Repair) for FY 2019 has been restated to correct an error previously reported in the FY 2019 Agency Financial Report.*

Military Family Housing - Real Property Deferred Maintenance and Repair For Fiscal Year 2020* (In Millions of Dollars)						
	2020 (Unaudited)			2019 (Unaudited)		
	Plant Replacement Value	Required Work (Deferred Maintenance & Repair)	Percentage (Required Work/ Plant Replacement Value)	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)	$ 7,909	$ 1,919	24.3%	$ 10,802	$ 1,737	16.1%
Category Buildings, Structures, and Linear Structures (Heritage Assets)	$ 114	$ 31	27.2%	$ 100	$ 4	4.0%
Inactive Real Property						
Category Buildings, Structures, and Linear Structures (Excess Facilities or Planned for Replacement)	$ 98	$ 36	36.7%	$ 87	$ 0	0.0%

** Due to systems limitations, information on Real Property Deferred Maintenance and Repair values in the table above reflects available data as of June 30, 2020 and June 30, 2019.*

General Overview/Policy

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

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

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

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

Maintenance and Repair Policies and Procedures

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

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

Maintenance and Repair Ranking and Prioritization

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

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

Factors Used to Determine Acceptable Facility Condition Standards

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

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

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

Deferred Maintenance and Repair and Associated Measurements

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

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

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

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

Reporting Process

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

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

Deferred Maintenance and Repair Exclusions	
Assets for which DM&R Not Reported	**Rationale for Exclusion**
Future or To Be Acquired APSR facility records without an assigned RPUID Real Property Unique Identifier (RPUID)	Real Property without an assigned RPUID is considered a future facility and is not capitalized in the APSR until issued an RPUID. The DAF GF has identified these APSR records and is making progress on a corrective action plan to resolve.
Some assets not yet entered in APSRs due to changes in Host Installation reporting guidance contained in OUSD Memo Real Property Financial Reporting Responsibilities Policy Update (FMP 19-05), dated March 15, 2019	Real Property record not fully compliant with accountability guidance nor in the APSRs.
8,621 RPUIDs were not included in DAF GF DM&R process calculation due to missing or incorrect data. The DM&R for these RPUIDs is estimated (by extrapolation of calculated RPUIDs) to be approximately $1-2B, but cannot be verified.	Not included due to apparent APSR data issues identified during calculation process. The DAF GF has identified these RPUIDs and is making progress on a corrective action plan to resolve each issue.

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

Deferred Maintenance and Repair Amounts for FY 2020

For FY 2020, the DAF GF's DM&R Business Process Improvement initiative resulted in improvements to the accuracy and auditability of reported DM&R values. The DAF GF SMS condition assessment data is not yet 100% complete for all Real Property; therefore, Life Cycle Forecasting methodologies were used for DM&R calculation for some Real Property. These Life Cycle Forecasting calculation methodologies to estimate DM&R are as follows:

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

Historically the DAF GF's reported DM&R amount has generally increased year-to-year due to under funding and delays in maintenance execution. This year the DM&R number decreased by $2.3 billion, from $32.8 billion to $30.5 billion. The decrease year-over-year is due in part to a delay in some DAF bases inputting maintenance and repair information into the SMS system. A significant portion of the variation of FY 2020 DM&R compared to FY 2019 DM&R is that for the FY 2020 submittal, the DAF GF has implemented a significantly improved, more rigorous, and reproducible process for DM&R estimation compared to the approach used in previous FYs. This process includes additional validation of Real Property system and SMS data.

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

Equipment Deferred Maintenance and Repair

Equipment Deferred Maintenance and Repair
For Fiscal Year Ended September 30, 2020
(In Millions of Dollars)

Major Categories	PY DM&R	PB-61 Amounts	Adjustments	Totals
Aircraft	$ 417	$ 13,834	$ (13,390)	$ 444
Automotive Equipment	$ 0	$ 5	$ (5)	$ 0
Combat Vehicles	$ 0	$ 47	$ (47)	$ 0
Construction Equipment	$ 0	$ 0	$ 0	$ 0
Electronics and Communications Systems	$ 9	$ 3,343	$ (3,333)	$ 10
Missiles	$ 0	$ 699	$ (699)	$ 0
Ships	$ 0	$ 0	$ 0	$ 0
Ordnance Weapons and Munitions	$ 0	$ 75	$ (75)	$ 0
General Purpose Equipment	$ 1	$ 207	$ (193)	$ 14
All Other Items Not Identified to above Categories	$ 0	$ 14	$ (14)	$ 0
Total	$ **427**	$ **18,224**	$ **(17,756)**	$ **468**

Deferred Maintenance and Repairs for FY 2020

Weapon System Sustainment (WSS) is very diverse and encompasses over 120 weapon systems throughout the world and supports 12 Service Core Functions. Those weapon systems consist of fly (fixed-wing and rotary wing) and non-fly systems. Fly systems are maintained to meet airworthiness standards and all weapon systems are sustained to perform their assigned mission by the most economical means. Most requirements within WSS are considered Capitalized General Plant, Property and Equipment (General PP&E).

Defining and Implementing Maintenance and Repair Policies in Practice

As permitted under SFFAS 42, several different basis of estimate methodologies determine maintenance and repair requirements. For example, Programmed Depot Maintenance is a calendar driven interval developed by the Operational Safety, Suitability and Effectiveness authority for the weapon system. During the development of WSS maintenance and repair requirements, approved Force Structure changes are incorporated. Maintenance and repair requirements change from the time of publishing in support of the Program Objective Memorandum (POM) to development of the execution plan for the upcoming execution year. This reflects the most current requirement and funded customer order to support organic depot workload for planning materials and labor. During the WSS mid-year execution review, program office personnel receive guidance to reduce maintenance and repair requirements to what will execute that year unless deferred to another year. If this action would drive deferred maintenance and repair, the requirement remains as unfunded. One of two follow-on actions will occur depending on what 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 during the normal scheduled requirements development in support of the next POM, which leaves sufficient lead-time for development of capacity.

Ranking and Prioritizing Maintenance and Repair Activities

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

Factors Considered in Setting Acceptable Condition

WSS entity defines acceptable condition using Life-cycle costing.

Significant Changes from the Prior Year and Related Events

The total projected deferred requirements of $468.0M is due to deferring:

- A-10 – $42.8M: Eight Air National Guard (ANG) aircraft depot overhauls deferred due to scheduled structure inspection timing, wing availability, and depot capacity.
- Aeronautical Missiles and Weapons – $2.2M (active duty):
  - $1.7M: Miniature Air-Launched Decoy (MALD) operational flight software sustainment due to funding shortfalls.
  - $0.5M: MALD Contract Logistics Support Management of non-warranty repairs due to funding shortfalls.
- B-52 (TF33 Engine) – $7.9M: Four Air Force Reserve Command (AFRC) engine overhauls deferred due to AFRC's decision to realign funding to cover other command higher priority bills.
- C-17 – $39.5M (active duty):
  - $21.4M: Two Projector sustainment upgrade efforts deferred due to funding shortfalls.
  - $12.8M: Training system obsolescence recovery deferred due to funding shortfalls.
  - $5.3M: One aircraft depot overhaul deferred due to funding shortfalls.
- C-130H – $53.6M:
  - $2.5M: Active duty Aircrew Training System sustainment deferred due to insufficient funds.
  - $31.7M: Six ANG aircraft depot overhauls deferred due to engineering wing inspections, part supportability issues, and personnel availability due to Coronavirus Disease 2019 (COVID-19).
  - $19.4M: Three AFRC aircraft depot overhauls deferred due to capacity constraints.
- C-130J – $31.1M:
  - $4.0M: One ANG aircraft depot overhaul deferred due to engineering wing inspections, part supportability issues, and personnel availability due to COVID-19.
  - $14.8M: Active duty Trainer Unique Maintenance & Aircrew Training System sustainment updates for hardware, software, courseware obsolescence deferred due to insufficient funds.
  - $12.3M: Three active duty aircraft depot overhauls deferred due to depot backlog.
- C-37 – $4.1M: Active duty aircraft interior refurbishment deferred due to insufficient funds.
- C-40 – $5.5M:
  - $4.9M: One ANG aircraft refurbishment deferred, pending results of sustaining engineering studies
  - $0.6M: Active duty auxiliary power unit overhaul and over-and-above inspection deferred due to schedule change.
- E-9 – $0.2M: Active duty strip and paint deferred due to funding shortfalls.

- F-15C/D – $131.6M:
  - $127.2M: Twenty-six ANG aircraft depot overhauls deferred due to parts availability issues as well as a software deferral based on delays driven in part by COVID-19.
  - $0.3M: Active duty ALE-45 due to delays caused by COVID-19.
  - $0.4M: Active duty ALR-56C due to delays caused by COVID-19.
  - $3.7M: One active duty depot overhauls deferred due to delays caused by COVID-19.
- F-15-E – $0.9M: Active duty ALE-45 and ALR-56 Operational Flight Program, lab support and deficiency investigations deferred due to delays caused by COVID-19.
  - $11.2M: Twenty-two ANG aircraft depot overhauls deferred due to parts availability and depot capacity
  - $6.4M: Four AFRC aircraft depot overhauls deferred due to capacity constraints.
  - $1.8M: One AFRC aircraft depot overhaul due to AFRC's decision to realign SAG 011M funding to cover other command higher priority bills.
  - $10.2M: Active duty System Capability Upgrade 11 software sustainment software deferred due to funding shortfall.
  - $0.5M: One scheduled active duty organic radar absorbent material intake paint in support of Air Education and Training Command and Air Combat Command inspections deferred due to depot constraints.
  - $1.0M: Six active duty D-model upper flange repairs deferred, in order to accomplish concurrently with the Service Life Extension Program, to allow funding for unplanned drop in maintenance due to age of aircraft.
  - $1.15M: Active duty inspection, enlarge radii and repair of upper and lower fuselage bulkhead radii on bulkheads deferred due to depot constraints.
  - $4.3M: Four active duty Pre-block Structural Sustainment Program Aircraft deferred due to depot constraints.
  - $5.5M: Active duty Aircrew Training System Digital Eye Piece deferred due to U.S. Government and contractor resource limitations.
- Missile – $0.1: Active duty Minuteman III Wing Code Processing System code change deferred due to delays caused by COVID-19.
- KC-10 – $10.8M: Three active duty engine overhauls deferred due to funding shortfalls.
- KC-135 – $71.4M:
  - $15.0M: One ANG engine overhaul deferred due to depot capacity and one aircraft deferred due to a trunnion (landing gear component) crack preventing the aircraft from arriving at depot.
  - $24.3M: Two AFRC aircraft depot overhauls deferred due to AFRC's decision to realign SAG 011M funding to cover other command higher priority bills.
  - $31.6: (KC-135/F108 Engine) – Eight AFRC engine overhauls deferred due to AFRC's decision to realign SAG 011M funding to cover other command higher priority bills.
  - $0.5M: Active duty Common Interface Computer and Flight Data Recorder/Cockpit Voice Recorder software support deferred, due to contract renegotiations.
- Loaders – $14.4M (active duty):
  - $7.3M: 22 Halverson loader depot maintenance activities (variable tasks) deferred due to funding shortfalls.
  - $1.7M: Six Halverson loader depot maintenance activities (fixed tasks) deferred due to funding shortfalls.
  - $5.4M: One Tunner loader depot maintenance activity (variable task) deferred due to funding shortfalls.

- Military Satellite Communications Systems Directorate NC3 Terminals – $0.6M: Active duty hardness maintenance/hardness surveillance deferred to FY21 to fund higher priorities.
- Storage Sustainment – $2.4M: Active duty T-37 storage sustainment deferred due to program office delaying disposal of 37 aircraft.
- Support Equipment and Vehicles – $0.1M: Active duty Tank Automotive and Armaments Command inspection and maintenance activities deferred due to delays caused by COVID-19.
- U.S. Nuclear Detonation Detection System – $6.8M: Active duty software maintenance due to insufficient funds.

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

November 12, 2020

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 2020 and FY 2019 (Project No. D2020-D000FT-0070.000, Report No. DODIG-2021-015)

We contracted with the independent public accounting firm of Ernst & Young LLP, (EY) to audit the Department of the Air Force Working Capital Fund Financial Statements and related notes as of and for the fiscal years ended September 30, 2020, and 2019. The contract required EY to provide a report on internal control over financial reporting and compliance with laws and other matters, and to report on whether the Department of the Air Force Working Capital Fund's financial management systems substantially complied with the requirements of the Federal Financial Management Improvement Act of 1996. The contract required EY to conduct the audit in accordance with generally accepted government auditing standards (GAGAS); Office of Management and Budget audit guidance; and the Government Accountability Office/Council of the Inspectors General on Integrity and Efficiency "Financial Audit Manual," June 2018, Updated April 2020. 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 Department of the Air Force 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 Department of the Air Force Working Capital Fund FY 2020 and FY 2019 Financial Statements and related notes.

EY's separate report, "Internal Control Over Financial Reporting," discussed 10 material weaknesses related to the Department of the Air Force Working Capital Fund's internal controls over financial reporting.* Specifically, the "Internal Control Over Financial Reporting" report describes the following material weaknesses.

- The Department of the Air Force Working Capital Fund's lack of system integration and reconciliation prevented management from obtaining timely, accurate, and reliable information to make effective business decisions.

- The Department of the Air Force Working Capital Fund did not have sufficient internal controls and procedures for inventory counts, inventory valuation, inventory movement transactions, and in-transit inventory. In addition, the Department of the Air Force Working Capital Fund could not support the value of the opening balance for inventory.

- The Department of the Air Force Working Capital Fund did not have sufficient oversight of inventory managed and held by contractors and other defense organizations. In addition, the Department of the Air Force Working Capital Fund could not support the value of the opening balance for this category of inventory.

- The Department of the Air Force Working Capital Fund incorrectly recognized maintenance revenue; lacked policies, procedures, and internal controls for "Flying Hours" and supply revenue recognition; and could not provide invoice level accounts receivable subledgers.

- The Department of the Air Force Working Capital Fund did not have sufficient processes to record ongoing General Property, Plant, and Equipment (GPP&E) activity; lacked sufficient documentation of accounting policies, procedures, and internal controls for GPP&E; and could not support the valuation of opening balance GPP&E population.

- The Department of the Air Force Working Capital Fund did not have sufficient policies, procedures, and internal controls over the Fund Balance With Treasury reconciliation process. In addition, the Department of the Air Force Working Capital Fund lacked internal controls over the monthly undistributed journal voucher process and did not sufficiently monitor the Defense Finance and Accounting Service.

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* 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.

- The Department of the Air Force Working Capital Fund did not have adequate internal controls over accounts payable, gross costs, and the cash disbursement process. In addition, the Department of the Air Force Working Capital Fund had inadequate internal controls over the financial reporting of contract financing payments.

- The Department of the Air Force Working Capital Fund lacked sufficient financial reporting processes and internal controls to ensure that complete and accurate financial statements, including related note disclosure, were prepared on a timely basis.

- The Department of the Air Force Working Capital Fund did not fully implement a formal internal control program that would allow it to substantially comply with OMB Circular No. A-123 and the Federal Managers Financial Integrity Act. The Department of the Air Force Working Capital Fund lacked an effective internal control program over financial reporting and compliance with financial laws and regulations, complete process narratives, and sufficient monitoring of external parties.

- Department of the Air Force Working Capital Fund financial information systems controls and computing environment deficiencies collectively constituted a material weakness in the design and operation of information systems controls over financial data. Specifically, the information systems had deficiencies related to security management, access controls, configuration management, segregation of duties, and interface controls.

EY's additional report, "Compliance and Other Matters," also discusses two instances of noncompliance with applicable laws and regulations. Specifically, EY's report describes instances in which the Department of the Air Force Working Capital Fund's financial management systems did not comply with the Federal Financial Management Improvement Act and the Federal Managers' Financial Integrity Act.

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 in accordance with GAGAS, was not intended to enable us to express, and we do not express, an opinion on the Department of the Air Force Working Capital Fund FY 2020 and FY 2019 Financial Statements and related notes.

Furthermore, we do not express conclusions on the effectiveness of internal control over financial reporting, on whether the Department of the Air Force Working Capital Fund's financial systems substantially complied with Federal Financial Management Improvement Act of 1996 requirements, or on compliance with laws and other matters. Our review disclosed no instances where EY did not comply, in all material respects, with GAGAS. EY is responsible for the attached November 12, 2020, 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

Attachment(s):
As stated

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Report of Independent Auditors

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

Report on the Financial Statements

We were engaged to audit the accompanying financial statements of the Department of the Air Force Working Capital Fund (DAF WCF), which comprise the consolidated balance sheets as of September 30, 2020 and 2019, and the related consolidated statements of net cost, consolidated statements of changes in net position and combined statements of budgetary resources for the years then ended, and the related notes to the financial statements (the financial statements).

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on conducting the audit in accordance with auditing standards generally accepted in the United States, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and U.S. Office of Management and Budget (OMB) Bulletin No. 19-03, *Audit Requirements for Federal Financial Statements*. Because of the matters described in the Basis for Disclaimer of Opinion paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Departures from U.S. Generally Accepted Accounting Principles

As described in Note 1, the DAF WCF has not implemented certain accounting standards related to accounting issues for the Department of Defense and the Federal government. The effect of these matters on the financial statement amounts and related disclosures involved is not currently determinable by the DAF WCF and could be material.

Basis for Disclaimer of Opinion

The DAF WCF continues to have unresolved accounting issues and material weaknesses in internal controls that cause the DAF WCF to be unable to provide sufficient evidential support for complete and accurate financial statements on a timely basis. As a result, we cannot determine the effect of the lack of sufficient appropriate audit evidence on the DAF WCF's financial statements as of and for the years ended September 30, 2020 and 2019.

Disclaimer of Opinion

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

Other Matters

Required Supplementary Information

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

Other Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we also have issued our reports dated November 12, 2020 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,

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grant agreements and other matters. The purpose of those reports is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the DAF WCF's internal control over financial reporting or on compliance. Those reports are an integral part of an engagement to perform an audit in accordance with *Government Auditing Standards* in considering the DAF WCF's internal control over financial reporting and compliance.

Ernst & Young LLP

November 12, 2020

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

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

We were engaged to audit, in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States and the U.S. Office of Management and Budget (OMB) Bulletin No. 19-03, *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, 2020 and the related consolidated statement of net cost, consolidated statement of changes in net position and combined statement of budgetary resources for the year then ended, and the related notes to the financial statements and have issued our report thereon dated November 12, 2020. Our report disclaims an opinion on such financial statements because the DAF WCF was not able to provide sufficient appropriate audit evidence due to matters discussed further in the Basis for Disclaimer of Opinion paragraph.

Internal Control Over Financial Reporting

In connection with our engagement to audit the financial statements, we considered the DAF WCF's internal control over financial reporting (internal control) as a basis for designing 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. As described below, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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

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

Material Weaknesses

I. Integration and reconciliation of financial systems - To ensure that the entire population of financial transactions has been recorded in the financial statements, it is necessary to reconcile feeder systems to the general ledger. The DAF WCF has a large and complex systems environment consisting of multiple non-integrated systems that use non-standard data and requires numerous manual workarounds. The lack of an integrated system prevents management from obtaining timely, accurate and reliable information to make effective business decisions. The DAF WCF continues to rely on both manual re-entry of data into multiple systems and complex system interfaces that are not fully reconciled. The lack of integration prevents information/data from processing without significant manual intervention.

We identified the following:

- Inability to validate the completeness of transactions underlying the financial statements
- Lack of monitoring over posting logic compliance with the USSGL
- Inability to maintain and/or provide supporting documentation in a timely manner

II. Inventory held by the DAF WCF – Inventory is a component of Inventory and Related Property, Net within the consolidated balance sheet. The balance includes supplies and spare parts at bases and maintenance depots, as well as parts awaiting or undergoing repair for reuse. The value of individual pieces is determined using different methods depending on their nature. Acquired supplies and parts are valued based upon acquisition cost while repairable or repaired parts are 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

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- Lack of sufficient policies, procedures and controls over inventory movement transactions
- Inability to identify and value in-transit inventory
- Valuation of the opening balance population for inventory held by the DAF WCF cannot be supported

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

We identified the following:

- Insufficient oversight of inventory managed by the Defense Logistics Agency (DLA)
- Insufficient oversight of inventory held by contractors and other defense organizations
- Valuation of the opening balance population for inventory held by others cannot be supported

IV. Earned revenue and accounts receivable – The DAF WCF recognizes revenue and related accounts receivable balances for large scale long-term maintenance projects using a percentage of completion calculation. The DAF WCF recognizes "Flying Hours" revenue based upon the flying hours executed. The DAF WCF recognizes 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 sufficient documentation of accounting policies, procedures and controls for "Flying Hours" revenue
- Lack of sufficient documentation of accounting policies, procedures and controls for supply revenue
- Inability to support invoice level accounts receivable subledgers

V. General Property, Plant and Equipment (GPP&E) – GPP&E includes general equipment, software and construction-in-progress. We found that although certain accountability processes are effective, the DAF WCF does not have procedures in place to identify, value and reflect current additions and deletions of GPP&E in its financial statements or to reconcile the accountability systems to the balances reflected in the financial statements.

We identified the following:

- Enhanced processes are needed to record ongoing GPP&E activity

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- Lack of sufficient documentation of accounting policies, procedures and controls for GPP&E
- Valuation of the opening balance population of GPP&E cannot be supported

VI. Fund Balance with Treasury (FBwT) – FBwT is an asset account that shows the available budget spending authority of federal agencies. During our testing of FBwT controls, 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
- Lack of sufficient monitoring over DFAS

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

We identified the following:
- Lack of sufficient documentation of accounting policies, procedures and controls for gross costs
- Lack of or inadequate controls over accounts payable, gross costs, cash disbursement, and obligations processes
- Insufficient controls over financial reporting of CFP

VIII. Accumulating and Preparing Financial Statements – The financial reporting compilation function, along with the recording of journal vouchers, is central to any entity's internal control environment and ability to support an audit. While the DAF WCF has made progress in improving its financial reporting, several critical areas are not yet resolved. The DAF WCF's financial reporting process lacks sufficient processes and internal controls to ensure that complete and accurate financial statements, including related note disclosures, are prepared on a timely basis.

We identified the following:
- Lack of sufficient centralized financial statement analytical and review functions

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- Lack of assessment, monitoring and effective implementation of recent accounting guidance
- Enhanced financial statement review procedures are needed

IX. Oversight and Monitoring of Internal Control – FMFIA requires federal entities to establish internal control, perform ongoing evaluations of the adequacy of the entity's system of internal control and prepare related reports. OMB Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*, Appendix A, *Management of Reporting and Data Integrity Risk* provides a methodology for agency management to assess, document and report on internal control over reporting. The DAF WCF has not fully implemented its internal control program that would allow it to substantially comply with OMB Circular A-123, Appendix A.

We identified the following:
- Lack of an effective internal control program over financial reporting and compliance with financial-related laws and regulations
- Lack of complete narratives for significant processes of the DAF WCF
- Lack of sufficient monitoring of external parties

X. Financial Information Systems – Our assessment of the DAF WCF's Information Technology (IT) controls and the computing environment identified deficiencies which collectively constitute a material weakness in the design and operation of information systems controls over financial data. Based on our testing, we identified the lack of sufficient controls in the following areas:

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

Management's Response to Findings

The DAF WCF's responses to the findings identified in our engagement and relevant comments from the DAF WCF's management are provided in their accompanying letter dated November 12, 2020. Management's response was not subjected to the auditing procedures applied in the engagement to audit the financial statements and, accordingly, we express no opinion on it.

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Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control. This report is an integral part of an engagement to perform an audit in accordance with *Government Auditing Standards* in considering the entity's internal control. Accordingly, this communication is not suitable for any other purpose.

Ernst + Young LLP

November 12, 2020

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Appendix A – Material Weaknesses

I. INTEGRATION AND RECONCILIATION OF FINANCIAL SYSTEMS

The following deficiencies aggregated into this material weakness:

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

The DAF WCF does not have a complete understanding of its universe of transactions. This assessment is critical for management to understand and document the mapping of the internal processes, flow of data and controls performed to ensure output data is complete and accurate. Additionally, many of the DAF WCF's corrective actions to date have resulted in workarounds (e.g., additional reconciliations, journal vouchers) to address identified weaknesses given current system or resource limitations. The next significant step in the evolution of the DAF WCF's financial control environment needs to be the inclusion of a multi-layer analysis, review, repair and remediation cycle. The DAF WCF will need to implement and operate a sustainable and auditable business environment through enhanced integration and innovation capabilities deployed in a targeted and coordinated manner. During our procedures, we identified the following:

- The Supply Management Activity Group (SMAG) utilizes the following feeder systems: Integrated Logistics Systems-Supply (ILS-S), Defense Medical Logistics Standard Support (DMLSS) and Financial Inventory Accounting and Billing System (FIABS). These feeder systems process through the Standard Material Accounting System (SMAS) and then to General Accounting and Finance System – Re-engineered (GAFS-R). Approximately 300 trial balances are summarized from the SMAG feeder systems. While the Defense Finance and Accounting Service (DFAS) performs a count to determine whether all trial balances have been included and accounted for, there are insufficient procedures to determine whether all the activity has been interfaced completely and accurately.
- Accountable Property System of Record (APSR) reconciliations are reconciliations that occur in order to assert that the feeder files (i.e., FIABS, ILS-S, DMLSS, Defense Industrial Financial Management System (DIFMS), SMAS) to the corporate general ledger (GAFS-R) are complete and accurate. While progress was made in the current year, the DAF WCF was unable to provide complete and accurate reconciliations for FY20 as part of the Statement of Budgetary Resources Automated Reconciliation Tool (SBR-ART). The DAF WCF did not investigate and remediate reconciling items identified in the SBR-ART.
- DIFMS detail to DIFMS summary data is not fully reconciled. DIFMS is the maintenance side general ledger system that flows into GAFS-R. DIFMS sends summarized data to GAFS-R on a quarterly basis. The DAF WCF was unable to provide sufficient supporting documentation to substantiate the underlying detail data has been reconciled with the summary posting.

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- 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 DIFMS and GASF-R beginning balances which impacted the reconciliation and 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 Assessible Unit in order to reconcile the DAF WCF universe of transaction to the financial statements. The QDD is currently not completed until approximately two months after quarter-end, which does not allow the DAF WCF to remediate variances identified in a timely manner.
- 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.

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, 2020, the Department of Defense (DoD) reporting entity making sales or providing services ("seller-side") was the basis for reporting most of the DAF WCF's intra-DoD balances.

There was no reconciliation at the agreement or document level to the trading partner adjustments made. Trading partner adjustments are recorded in Defense Departmental Reporting System – Audited Financial Statements (DDRS-AFS) as top-side adjustments and are identified as unsupported by DFAS.

The above examples demonstrate the complexity of the system environment and the need for a robust understanding of the flow of data to the financial statements. As a result, the DAF WCF was unable to support whether the transactions recorded in the financial statements were complete or accurate.

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(b) Lack of monitoring over posting logic compliance with the USSGL

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). This mapping allows transactions to properly post and ultimately impact the intended financial statement line item.

FIABS, SMAS and DIFMS all apply posting logic. 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).

(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 across nearly all areas:

- Improper management and retention of supporting documentation. (e.g., support agreement, customer order/acceptance, delegation of authority, customer voucher)
- Lack of consistent implementation of documentation standards for maintaining complete records.
- Inability to provide supporting documentation to auditors in a consistent and timely manner.
- Lack of sufficient review controls around estimates to address and document the estimate model, range, key assumption, and risks to the financial statements. Further, there is no process in place to evaluate the risk profile of estimates and determine if the estimate warrants classification as a significant estimate.
- 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, 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 noncompliance with applicable laws and regulations.

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Recommendations:

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

- Develop a better understanding of the Universe of Transactions to ensure all systems and transactions are accurately accounted for and reflected in SBR-ART reconciliations.
    - Implement a timely remediation process that determines the cause and magnitude of unmatched files.
    - Develop a trend analysis on unmatched files to discover trends which could be used to reduce the number of unmatched files in the future and identify root causes within the reconciliation processes.
- Implement and document a formal reconciliation and review process to determine whether each inbound feeder file is complete before or after processing the file into GAFS-R.
- Develop an adequate internal control process to ensure lower level feeder systems reconcile to either SMAS or GAFS-R.
- Ensure an appropriate detail to summary reconciliation is performed for DIFMS.
- Develop/enhance the process to perform a quarterly detail level UTB to ATB reconciliation using the full detail data sets, including appropriate identification of JV's, to ensure the completeness and accuracy of the data as it flows from the general ledger to the financial statements.
- Implement a QDD process which allows for the resolution of variances within the reporting period following quarter end, including procedures to ensure variances are identified and remediated before quarterly financial statements are issued.
- 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.
- 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.
- Address the DAF WCF/DFAS ability to access and provide supporting documentation for all significant transactions.
- Update the DAF WCF policies and procedures to ensure its internal controls provide adequate support for material amounts on the basic consolidated financial statements pertaining to beginning budgetary and proprietary financial statement balances.
- Establish an understanding of the necessary key supporting documentation and its required retention period with service organizations.

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- Implement a process to identify estimates within the financial statements and review their risk profiles to determine if the estimation risk warrants classification as a significant estimate.

II. INVENTORY HELD BY THE DAF WCF

The following deficiencies aggregate into this material weakness:

(a) Lack of sufficient inventory count procedures and controls

Inventory held by the DAF WCF is categorized as depot inventory, base possessed inventory, and Medical Dental Division (MDD) inventory. Complete and accurate information on inventory values and quantities are critical to the reliability of the financial statements.

- The DAF WCF does not have a formal policy or a standard operating procedure (SOP) in place for annual physical or cycle count procedures for individual depots. As a result of counts not being performed for depot inventory, errors and findings are not reviewed centrally by Air Force Material Command (AFMC) to ensure material errors do not exist within the inventory records.
- The DAF WCF has implemented a formal policy and SOP for cycle count procedures for base possessed inventory. Cycle counts are performed throughout the year as determined by each base's cycle count plan. Cycle count results are summarized and reviewed at each base on a monthly basis. However, the procedures performed to review cycle count results are not sufficiently documented, do not include the validation of the completeness and accuracy of key reports from ILS-S utilized to perform the review, and do not specify the threshold or criteria used to identify items requiring further investigation. Further, cycle count results are not reviewed centrally by AFMC or others to ensure material errors do not exist within the consolidated inventory records.
- The DAF WCF does not have a formal policy or SOP in place for physical count procedures for MDD War Reserve Material (WRM) production inventory. No physical inventory counts are currently being performed for MDD WRM production inventory.

(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*

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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.
- Sufficient controls do not exist over the manual entry of MAC values for certain transactions within ILS-S. These control deficiencies have resulted in errors in the MAC recorded for transactions.
- DLA inputs inventory pricing data into a pricing system used in the MDD MAC calculation. The DAF WCF has not documented a process narrative or associated controls for DLA's involvement in the MDD inventory valuation process.

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:

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- 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. In fiscal 2020, 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 in the books of the DAF WCF.
- If an item is determined to be obsolete, impaired or condemned as a result of engineering inspecting the asset, the DAF WCF records an impairment charge to reduce the value of the asset to zero. The DAF WCF does not change the condition code to unserviceable until the assets have been reviewed by the engineering group at the base. Instances where there was a substantial lag between the determination that a part was unusable and the time when the condition code (and therefore the allowance) was changed existed. This lag between classifying assets from repairable to unserviceable or condemned leading to possible cutoff and valuation errors.

(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.

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- The induction of inventory into FIABS is performed within multiple feeder systems. Discrepancies resulting from induction are researched and resolved. Evidence of the research and resolution of these discrepancies is not consistently maintained. Further, system generated information used to determine discrepancies has not been verified as complete and accurate.
- The DAF WCF personnel utilize degraded operations procedures to record inventory movements when ILS-S is not online. Degraded operations transactions are manually recorded within a log and then manually transferred into ILS-S once it is back online. Sufficient review procedures currently are not in place to verify the completeness and accuracy of degraded operations activity entered into ILS-S.
- The DAF WCF did not always follow DoD policies and procedures for tracking inventory movement when re-warehousing inventory at certain base possessed locations. This caused errors within the ILS-S inventory subledger.

(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 in the current year, the DAF WCF remains unable to appropriately identify and value in-transit inventory at the item and transaction level. The balance of in-transit inventory recorded was primarily determined by an aging-based estimation methodology which lacks appropriate precision. This likely causes misstatements in inventory balances. During our procedures, we had the following observations related to inventory-in transit:

- When inventory is shipped from one location of the DAF WCF to another, the inventory is removed from the local base's subledger upon shipment. The DAF WCF is unable to identify inventory in-transit, as the receiving base does not recognize the inventory until inducted. When the inventory arrives at its destination, it is the responsibility of the receiving base to recognize the inventory in ILS-S.
- Shipments are processed via manual entry into ILS-S or FIABS. We identified instances where, during the asset transportation process, either an individual at the receiving base or at the shipping base, created errors in the system when the shipments were recorded. As a result, discrepancies were caused in the subledger.

When MDD inventory is shipped from one location of the DAF WCF to another, the inventory is removed from the shipping base's subledger upon shipment. The DAF WCF is unable to identify MDD inventory in-transit at the asset level, as the receiving base does not recognize the inventory until inducted.

(e) Valuation of the opening balance population for inventory held by the DAF WCF cannot be supported

The DAF WCF has not completed the process of evaluating the impact to the value of inventory, operating materials and supplies, and stockpile materials that will result from adopting SFFAS 48, *Opening Balances for Inventory, Operating Material and Supplies, and Stockpile Materials*. The DAF WCF was unable to provide adequate documentation to support the historical cost of inventory in ILS-S. Further, there were a number of inventory items with a MAC value of zero within the inventory subledger. The DAF WCF confirmed that a zero MAC value is commonly assigned for assets that the DAF WCF procured prior to 2004 for which no subsequent procurement activity has occurred. The DAF WCF is unable to determine the historical cost of this inventory.

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

- Create an SOP and associated internal controls for annual and/or cycle counts that will be used among all depots and ensure that AFMC is involved in administering the policy. A centralized group should review the results of all physical counts to ensure there are not material errors within the inventory records.
- Create an SOP and associated internal controls for annual and/or cycle counts that will be implemented for MDD WRM production inventory.
- Create an SOP and associated internal controls to ensure AFMC, or a centralized group, reviews the results of all base possessed inventory cycle counts to ensure that there are no material errors within the inventory records.
- Design control activities which prevent or detect the identified risks of material misstatement; such as, incomplete or inaccurate system information used in the performance of a control.
- Maintain appropriate evidence of the design and execution of the control activities.

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.

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- Design and implement effective control activities which prevent, or detect and correct incorrect, manual entries of MAC data for transactions within ILS-S.

Related to inventory valuation – Accumulation of Cost

- Establish policies and procedures so that the repair allowance is calculated consistently with SFFAS 3. This should include updating the LRC for the results of the annual budget process and reflecting the updates in the repair allowance account.
- Perform a review of the inventory items that have been inducted to be repaired at period end and record a reserve for assets that will be condemned and are awaiting engineering review.

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.
- Create a policy for the DAF WCF to reconcile inventory quantities from other systems that track inventory movement and are not updated within ILS-S
- Review existing policies related to the accounting for inventory during re-warehousing to ensure they are sufficiently detailed and properly implemented.

Related to in-transit inventory

- Develop policies and procedures related to in-transit inventory. Specifically, the DAF WCF should consider creating a sub-account for in-transit materials in order to maintain appropriate transaction and subledger records in ILS-S and FIABS. This sub-account could be charged when the asset departs from the local base and then reduced upon arrival to the receiving destination.
- Implement controls over the ILS-S system to prevent double counting and misplacement of inventory from occurring.
- Create a sub-account for MDD WRM in-transit materials in order to maintain appropriate records in DMLSS at the asset level.

Related to valuation of opening balances

- Develop policies and procedures pertaining to the valuation of opening balances of inventory, operating materials and supplies, and stockpile materials in consideration of SFFAS 48. Select which valuation method or methods should be applied to make a reasonable estimate of valuation.

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III. INVENTORY HELD BY OTHERS

Inventory balances for the DAF WCF are approximately $26.9 billion as of September 30, 2020. Of the $26.9 billion of DAF WCF inventory, approximately 43% of this inventory balance ($11.7 billion) is managed by the DLA. The DAF WCF relies on the DLA to report inventory quantities on hand at period end through the Distribution Standard System (DSS) application.

The following deficiencies aggregate into this material weakness:

(a) Insufficient oversight of inventory managed by DLA

We identified that the DAF WCF does not have controls in place to ensure balances being recorded through the DLA DSS are complete and accurate. DLA DSS is a feeder system which flows into the inventory subledger. The DAF WCF current policy is to record inventory quantities reported by DLA, which results in discrepancies 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.

(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. A reconciliation was performed by the DAF WCF between the data from various inventory feeder systems impacting contractor and other defense organization inventory and the data which ultimately flows to the inventory subledger, FIABS. As a result of this reconciliation, the DAF WCF identified that there are quantity differences and potential duplicate records between the inventory subledger and the identified feeder systems. We identified the following conditions regarding the reconciliation:

- While progress has been made in determining and resolving the underlying causes of the quantity differences within the reconciliation, all differences have not been resolved.
- Interfaces between the feeder systems and the inventory subledger have not been identified and validated for completeness and accuracy.
- Dollar values have not been applied to all quantity differences to assess their complete financial statement impact.
- Controls to assess the completeness and accuracy of the various data sources which are used in the reconciliation have not been established.
- A standard operating procedure and ongoing internal controls pertaining to the reconciliation have not been developed.

The DAF WCF was unable to provide sufficient supporting documentation to substantiate inventory managed and/or possessed by third party contractors or other defense organizations and recorded within the feeder systems flowing into the inventory subledger. The DAF WCF has indicated that there has been no historical requirement for contractors to report inventory statistics to the DAF WCF. Further, inventory balances and activity are not monitored between the two parties in a timely manner in order to accurately research and resolve discrepancies. Discrepancies identified between the DAF WCF and contractor or other defense organization inventory are rectified by adjusting the DAF WCF records.

We identified instances where the DAF WCF prepared process narratives pertaining to inventory managed by contractors or other defense organizations were either incomplete or inaccurate. Specifically, descriptions of the process and associated internal controls for material components of the process pertaining to Depot Maintenance Interservice Agreement (DMISA) and Performance Based Logistics (PBL) inventory, were not included within the DAF WCF-prepared process narratives.

The DAF WCF does not always perform a timely review of asset receipts processed by external contractors or other defense organizations, which can result in incomplete or inaccurate receipts being reflected within the DAF WCF's financial statements.

(c) Valuation of the opening balance population for inventory held by others cannot be supported

The DAF WCF is unable to support the opening balance population of inventory held by third parties on behalf of the DAF WCF.

Recommendations:

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

- Design and implement internal controls related to the DLA managed inventory process. These should include controls to assess the completeness and accuracy of the beginning balance information reported within the DLA DSS system. In addition, the controls should ensure the ongoing interface from DLA DSS to the inventory subledger is operating effectively.
- Design and implement controls to document management's review of the DLA DSS service auditors report (i.e., SOC-1 Report) evidencing internal controls for DLA managed inventory have been designed and executed appropriately.
- 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:

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  - 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.
- Provide greater oversight and monitoring of contractor and other defense organization inventory by putting in place periodic review controls for this category of inventory.
- Implement policies and procedures to ensure a reconciliation is performed on a monthly basis between detailed inventory balances held by others and the DAF WCF inventory listings.
- Obtain a population of all found on base (FOB) transactions within FIABS and implement controls and procedures requiring timely review and approval of FOB transactions

IV. EARNED REVENUE AND ACCOUNTS RECEIVABLE

The following deficiencies aggregate into this material weakness:

(a) Incorrect application of the percentage of completion revenue recognition method for maintenance revenue

The DAF WCF recognizes revenue for large scale long-term maintenance projects using a percentage of completion calculation. The DAF WCF is incorrectly applying the percentage of completion calculation per SFFAS 7, *Accounting for Revenue and Other Financing Sources*. Currently, the DAF WCF does not have a system in place to routinely monitor and update total estimated costs of a project, and therefore, is recognizing revenue as a percentage of the initial estimated costs of the project rather than actual costs. By not identifying and monitoring projects where the total cost incurred will exceed (or not meet) the amount of costs initially estimated, the DAF WCF is incorrectly matching revenues to expenses in the reporting period. Additionally, the complete end-to-end processes, procedures and key controls for the maintenance revenue processes are not accurately and/or fully documented.

(b) Lack of sufficient documentation of accounting policies, procedures and 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

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of actual billings. We identified that the review performed of the year-end "Flying Hours" revenue accrual was not sufficiently documented or of sufficient rigor. In addition, the DAF WCF 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 sufficient documentation of accounting policies, procedures and controls for supply revenue

The DAF WCF recognizes supply revenue upon the sale of an inventory item. Prices are entered into various pricing systems and interface to ILS-S, FIABS or DMLSS to measure revenue. We identified that sufficient controls are not in place to ensure accurate approved prices are used to measure revenue. In addition, sufficient controls were not 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 project throughout the life of the project.
- Update the 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.
- Develop sufficient controls to reconcile and monitor the accounts receivable subsidiary ledger at the invoice level to the general ledger.

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V. GENERAL PROPERTY PLANT & EQUIPMENT

The following deficiencies aggregate into this material weakness:

(a) Enhanced processes are needed to record GPP&E activity

The DAF WCF's GPP&E balance is primarily comprised of general equipment. The DAF WCF has recorded general equipment within the consolidated balance sheet that has been deemed unrepairable or obsolete due to the assets being removed from service. The DAF WCF has not developed procedures to periodically evaluate general equipment condition, identify any assets that are deemed unrepairable or obsolete, and make corresponding adjustments to its recorded value.

Further, as discussed within the Integration and Reconciliation of Financial Systems section above, the reconciliations of the APSR to the financial statements are not complete. Taken together, these deficiencies would allow acquisitions or dispositions of property to be unrecorded and that lack of recording to remain undetected.

(b) Lack of sufficient documentation of accounting policies, procedures and controls for GPP&E

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. Additionally, the complete end-to-end processes, procedures and key controls for portions of the GPP&E processes are not accurately and/or fully documented.

(c) Valuation of the opening balance population of GPP&E cannot be supported

The DAF WCF has not developed appropriate policies and procedures or maintained sufficient support pertaining to the valuation of opening balances of GPP&E in consideration of SFFAS 50, *Establishing Opening Balances for Property, Plant, and Equipment* (SFFAS 50) and its alternative valuation methods. In addition, the DAF WCF has not developed policies and procedures or maintained sufficient support pertaining to the determination of in-service dates of general equipment based upon receiving documents or other appropriate evidence in consideration of SFFAS 50.

Recommendations:

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

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- Establish a process to periodically assess the condition of general equipment and record an impairment of any assets that are deemed unrepairable or obsolete. Develop entity-level monitoring and oversight controls over the individual installation's execution.
- Introduce a quarterly journal voucher to record the impairment of general equipment for unrepairable or obsolete assets.
- 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.
- Develop policies and procedures pertaining to the valuation of opening balances of general equipment in consideration of SFFAS 50. Select which valuation method or methods should be applied to make a reasonable estimate of valuation.
  - Develop policies and procedures pertaining to the establishment of in-service dates for opening balances of general equipment in consideration of SFFAS 50.

VI. FUND BALANCE WITH TREASURY

Fund Balance with Treasury (FBwT) is an asset account that shows the available budget spending authority of federal agencies. Fund balance reconciliations are key controls for supporting the existence, completeness, and accuracy of the budget authority and outlays reported on the Statements of Budgetary Resources.

The following deficiencies 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 (CCAS) 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.

While the CCAS 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. During our testing, we identified instances where the undistributed JVs did not reconcile to the CCAS reports. Additionally, undistributed items are not cleared in a timely manner and a significant amount remain unresolved at year end.

(c) Lack of sufficient monitoring over DFAS

The DAF WCF is responsible for monitoring the effectiveness of internal control over processes being executed by its third-party service providers. During our procedures over the CCAS reconciliation process performed by DFAS, we were unable to obtain sufficient audit evidence for the following:

- The DAF WCF's monitoring of the accuracy and timely maintenance of applicable process documentation
- The implementation of a control that would allow the DAF WCF to validate the accuracy and completeness of the CCAS outputs/reconciliations
- Performance of completeness checks over the DAF WCF data between the source files used in the CCAS reconciliation and the source system
- The implementation of a control that would effectively allow the DAF WCF to monitor modifications within the CCAS reconciliation script and process
- The implementation of a control that would effectively allow the DAF WCF to monitor the effectiveness of the FBwT reconciliations performed by DFAS prior to CCAS month-end process
- The DAF WCF's review of the undistributed JVs and how the reconciliation between the DAF WCF's general ledgers to the U.S. Treasury are supported each period with transaction level detail

Recommendations

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

- Develop control objectives to resolve variances between the GL and the U.S. Treasury in a supportable manner each period.
- Continue to work with DFAS to verify that the documentation related to the CCAS reconciliation is updated timely and adequately for consistent monitoring and reperformance. This includes, but not limited to adequate documentation over the source files that are used in the reconciliation, the reconciliation process, and the outputs.
- Evaluate the existing FBwT reconciliation control environment to identify the need for additional monitoring and review controls throughout the entire CCAS reconciliation process.
- Implement review procedures over the documentation on changes made to the CCAS 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).

VII. ACCOUNTS PAYABLE, GROSS COSTS AND CONTRACT FINANCING

The following deficiencies aggregate into this material weakness:

(a) Lack of sufficient documentation of accounting policies, procedures and controls for accounts payable, gross costs and cash disbursements processes

The DAF WCF has not fully demonstrated the systemic interoperability and audit trail of its acquisition, logistical, and accounting processes and systems data from asset procurement through receipt, invoicing, payment, and valuation. The complete end-to-end processes, procedures and key controls are not accurately and/or fully documented for portions of the accounts payable, gross costs, disbursements, obligations, contracting and key subprocesses from the procure to pay (P2P) and plan to stock business processes, including but not limited to; Maintenance Expense, Supply Expense, MDD Expense, Vendor Pay, Mechanization of Contract Administration Services (MOCAS), and Military Standard Requisitioning and Issue Procedures (MILSTRIP).

(b) Lack of, or inadequate controls over accounts payable, gross costs, cash disbursement, and obligations processes

The DAF WCF lacks or has inadequate controls, including design of controls, over the following:

- **Recording transactions in the appropriate period**—The DAF WCF lacks controls to record expense transactions appropriately and accurately in the period that the transaction occurred.
- **AP and cash disbursements**—The DAF WCF lacks controls to monitor the aging of its accounts payable, including evaluating unpaid invoices and whether remaining balances

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are valid. Internal controls also have not been fully designed or implemented to confirm the accuracy and completeness over accounts payable and disbursements.

- **MOCAS contracts**—The DAF WCF has not developed controls to validate that contract obligations are recorded and/or interfaced between MOCAS and the accounting systems timely.

The lack of inadequate controls over AP, gross costs, cash disbursements and obligations processes has a downstream impact on other processes, such as FBwT, inventory held by DAF WCF, and inventory held by others.

(c) Insufficient controls over financial reporting of contract financing payments

CFP are authorized disbursements to a contractor prior to acceptance of supplies or services by the Government and are reported by the DAF WCF as a component of Other Assets. MOCAS is the primary system utilized to administer contracts with CFP. The DAF WCF lacks sufficient controls over the financial reporting of CFP, including:

- Insufficient monitoring of the MOCAS CFP balance for accuracy and completeness, including the lack of reconciliation between the MOCAS CFP sub-ledger population and the general ledger.
- Improper reporting of CFP related to capitalized equipment and inventory as "Other Assets." The capitalized costs incurred before assets are placed in service should instead be recognized in GPP&E (construction-in-progress) or inventory and related property (inventory in development) as appropriate.

Recommendations:

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

- Design control activities which prevent or detect the identified risks of material misstatement such as incomplete or inaccurate system information used in the performance of a control and inappropriate segregation of duties.
- Maintain appropriate evidence of the design and execution of control activities.
- Update policies and procedures to document year-end processes for identifying, monitoring and recording transactions in the current period.
- Implement monitoring over the accrual processes to ensure that accruals are recorded timely and accurately.
- Update policies and procedures to determine that appropriate supporting documentation can be provided in a timely manner to support transactions/balances recorded in the financial statements.

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- Develop an aging schedule over the Accounts Payable balance to accurately track unpaid invoices and avoid late payments.
- Coordinate with service providers as appropriate to ensure that obligations (contracts) are recorded in MOCAS and the accounting systems on a timely basis.
- Develop robust controls over financial reporting of contract financing payments.
- Develop and implement a beginning-to-end process to properly record contract financing payments, including reporting in the appropriate financial statement line.
- Determine whether financial statement balances reflect an accurate and complete population of contract financing payments by:
    - Identifying and validating a complete MOCAS contract financing population.
    - Developing and implementing a reconciliation between MOCAS contracting financing population and the general ledger.

VIII. ACCUMULATING AND PREPARING FINANCIAL STATEMENTS

The following deficiencies aggregate into this material weakness:

(a) Lack of sufficient centralized financial statement analytical and review functions

We identified an overall lack of sufficient monitoring across the DAF WCF processes; however, the area of most concern is financial reporting. The below listing highlights several areas where we identified a lack of sufficient monitoring:

- Unsupported transactions
- Approval and identification of journal vouchers accumulated within the trial balance
- Ineffective monitoring of abnormal balances
- Improper budgetary to proprietary tie-point balancing

In addition, we identified several accounting or posting logic errors, which are discussed further in section (b) of the Integration and Reconciliation of Financial Systems section, which could have been detected and corrected prior to reporting had an effective monitoring process been in place.

The DAF WCF does not have a sufficient data analytics infrastructure or unique data elements to timely perform monitoring of accounting data and transactions. Additionally, the DAF WCF does not have a sufficient number of trained accounting personnel to perform monitoring over its financial reporting environment to compensate for the insufficient data infrastructure. Finally, the DAF WCF relies on its service provider, DFAS, to perform data analytics, reconciliations and other key data functions without the necessary capability or capacity to fully monitor or review DFAS' work. During FY20, the DAF WCF established a new Accounting Oversight & Data Analysis branch to begin addressing these conditions.

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(b) Lack of assessment, monitoring and effective implementation of recent accounting guidance

The DAF WCF does not have a formal process established to effectively assess, monitor, and implement recent accounting guidance issued by the Federal Accounting Standards Advisory Board (FASAB) or other accounting guidance issued by the Office of the Secretary of Defense (OSD) (e.g., DoD Financial Management Regulation updates, Defense Audit Remediation Working Group (DARWG) papers). While the DAF WCF leadership is actively involved in working groups to stay abreast of new guidance, there is not one group that is responsible for ensuring the full implementation for financial reporting purposes.

As described in Note 1 to the financial statements, the DAF WCF has not completed the process of evaluating the effects that will result from adopting certain pronouncements and other guidance issued by FASAB, which are already effective. The effect on the financial statements amounts involved is not currently determinable by the DAF WCF and could be material.

(c) Enhanced financial statement review procedures are needed

While progress has been made, the DAF WCF needs to continue to enhance its process for the preparation and review of its AFR. Specifically, we identified instances of the following:

- Inaccurate balances reported in the notes to the financial statements
- Supporting documentation that did not adequately support amounts included in the notes or could not be provided in a timely manner
- Lack of complete and accurate disclosures
- Insufficient commentary included in management's discussion and analysis

The DAF WCF should continue to work across the organization to increase the usefulness of the AFR as a mechanism to communicate to the public the successes, plans, and annual results of the DAF WCF. Some variances identified during our audit procedures were unable to be corrected by the DAF WCF as the correction would not comply with Office of the Secretary of Defense policy.

In accordance with II.3.3 of OMB Circular A-136, *Financial Reporting Requirements*, and paragraphs 86-99 Statement of Federal Financial Accounting Concepts (SFFAC) 2, *Entity and Display,* the Statement of Net Cost should present gross and net cost information for major organization and programs, as well as data related to its outputs and outcomes. The DAF WCF currently accumulates amounts reported in its Statement of Net Cost by major appropriation groups funded by Congress and not by major organization and programs as required. In addition, within Note 16 *Reconciliation of Net Cost to Net Outlays*, there are uncorrected misstatements in the classification of activity amongst the "Acquisition of capital assets" and "Other" lines. There also is an uncorrected reconciling difference in the reconciliation. The exact amounts of these misstatements cannot be quantified at this time.

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Recommendations:

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

- Invest in hiring, training, and retaining additional qualified accountants across the entity, as necessary, for the purpose of implementing a more comprehensive oversight program.
- Develop effective controls to prevent abnormal balances from inaccurately being recorded in the financial records. Review the financial statements produced by DFAS to assess their accuracy including to confirm that no abnormal balances exist.
- Enhance internal control procedures for journal vouchers, including evaluating whether sufficient policies and procedures exist to ensure proper review and approval of a complete population of journal vouchers.
- Dedicate resources to track and coordinate the assessment of the impact and implementation of recent guidance and technical updates commensurate with the size and complexity of the DAF WCF's operations.
    - Perform reviews of OMB Circular A-136 requirements to ensure updated guidance is evaluated and incorporated in a timely manner.
    - Develop white papers to document the DAF WCF's consideration of the guidance and plan for implementation.
    - Assess current checklists used in the financial reporting process to determine if checklists need to include enhanced review procedures.
- Continue to develop reviews by business process areas to ensure disclosures are complete, accurate, and compliant with financial reporting guidance.
- Statement of Net Cost
    - Determine the major organizations and programs most relevant to the DAF WCF.
    - Implement processes to capture costs by major organization and program.

IX. OVERSIGHT AND MONITORING OF INTERNAL CONTROL

The following deficiencies aggregate into this material weakness:

(a) Lack of an effective internal control program over financial reporting and compliance with financial-related laws and regulations

OMB Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*, defines management's responsibility for enterprise risk management and internal control in Federal agencies. FMFIA requires federal entities to establish internal controls in accordance with the GAO's Standards for Internal Control in the Federal Government (the GAO Green Book). The GAO Green Book defines entity level controls as controls that have a pervasive effect on an

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entity's internal control. It establishes five components of internal control: Control Environment, Risk Assessment, Control Activities, Information and Communication, and Monitoring. In accordance with the GAO Green Book, management must effectively design, implement, and operate each of the components of internal control for the components to be effective. Based on our review of the DAF WCF's FY 2020 Statement of Assurance, the description of activities related to the OMB Circular A-123 program, and also through discussions with the DAF WCF, the DAF WCF has not fully implemented an effective internal control program over financial reporting and compliance with financial-related laws and regulations in compliance with OMB Circular A-123, Appendix A.

While the DAF WCF A-123 program is still in its development stage, the DAF WCF has made some progress during FY20, including the development of training programs focused on introductory risk and control concepts and standardized templates such as the entity-level control, fraud control and deficiency evaluation templates. The DAF WCF also enhanced its cycle memorandum to more accurately document the financial statement risks and key controls for significant processes. These efforts demonstrate steps forward, however, as identified in other sections of this report, we identified instances where the DAF WCF prepared process cycle memorandums were either incomplete or inaccurate. Further efforts are also needed across the organization to document controls over the accuracy and reliability of externally reported financial information produced by the DAF WCF or derived from an external party that are used in control activities or in the recording of financial transactions.

(b) Lack of complete narratives for significant processes of the DAF WCF

During our walkthroughs and site visits, we identified instances where the DAF WCF-prepared process narratives were incomplete. Specifically, process narratives were incomplete for the inventory revaluation allowance, the depot operating materials and supplies, the supply revenue rate setting, the excess, obsolete, and unserviceable inventory, the benefit expense, the imputed financing cost, certain DMISA, certain contractor, and the Federal Employee Compensation Act (FECA) liability processes. Further, the DAF WCF-prepared process narratives did not include all existing interface, application, and technology dependent manual controls which mitigated risks of material misstatement (RMM's). Additionally, EY identified that rate setting and asset pricing was excluded from the scope of the DAF WCF process narrative over supply revenue.

(c) Lack of sufficient monitoring of external parties

For several business processes, including financial reporting, military and civilian payroll, and disbursing and receiving, the DAF WCF relies on service organizations (e.g., DFAS) for information that affects financial reporting of the financial statements. The service organizations' systems are subject to separate audit examinations to determine the design and operating effectiveness of the service organization's controls to achieve the overall control objectives for various business processes. Service providers design processes and related controls with the assumption that Complementary User Entity Controls ("CUECs") would be placed in operation by user entities (i.e., the DAF WCF). The application of these controls by user entities is necessary to achieve the control objectives within the service organization reports. The DAF WCF's Service Provider Team has the responsibility to determine the completeness of the population of service organizations, determine whether the associated service organization controls (SOC) reports are being properly reviewed by the DAF WCF, and ensure that CUECs are being reviewed, monitored, and assessed by their respective assessable unit(s). Additionally, each of the DAF WCF's business process assessable units are responsible for understanding and evaluating CUECs, ensuring the business process incorporates applicable control activities, as well as understanding the impact of results within service organization reports. While measurable progress has been made, in the monitoring process, a full implementation of documented policies, procedures, and process cycle memos to effectively assess and monitor the DAF WCF's service organizations is required to determine control effectiveness and risk mitigation across the DAF WCF's respective assessable units.

Recommendations:

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

- Enhance the process and procedures related to the Statement of Assurance by providing training and identifying roles and responsibilities to validate that the DAF WCF identified assessable units, developed management control plans, performed risk assessments, performed ongoing monitoring, developed corrective action plans, and tracked progress towards remediation.
- Fully execute the assessment process contained in OMB A-123, Appendix A, to assess the effectiveness of internal control over financial reporting and compliance with financial-related laws and regulations.
- Maintain adequate and updated supporting documentation and for all phases / steps outlined in OMB A-123, Appendix A.
- Increase the resources dedicated to the A-123 program to completely execute all aspects of the program requirements on an on-going basis.
- Update the DAF WCF-prepared process narratives to include a description of all material aspects of the processes and all existing controls which mitigate RMM's.
- Update the ILS-S and FIABS supply revenue cycle memos to include the customer rate setting/pricing process.
- Fully execute policies and procedures to document control gaps related to service organizations, including CUEC's, in process cycle memos and related control documentation.
- Enhance internal communication to assess how service organization controls, CUECs, and complementary subservice organization controls (CSOCs) relate to the DAF WCF's identified risks of material misstatement.

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- Assess and respond in written documentation to gaps in the DAF WCF's service organization monitoring and control exceptions identified in SOC reports.

X. FINANCIAL INFORMATION SYSTEMS

Information system (IS) controls are fundamental to the confidentiality, integrity, and availability of all applications and the financial data they store, process, and transmit. Our assessment of the IT controls and the computing environment identified deficiencies in the design and operation of information systems controls in the following areas:

- Access Controls (AC): Controls provide reasonable assurance that the access to system resources is consistent with job duties and restricted to authorized individuals.
- Configuration management (CM): Controls provide reasonable assurance that changes to the information system are authorized and operating as intended.
- Segregation of Duties (SoD): Controls provide reasonable assurance that incompatible duties are effectively segregated.
- Interface Controls (IC): Controls provide reasonable assurance that data from feeder systems is reliable, valid, complete, and properly converted from the feeder systems into the applications they support.
- Security Management (SM): Controls provide reasonable assurance that overarching system risk management policies and procedures are in place.

Weaknesses in such controls can compromise the integrity of sensitive data and increase the risk that such data may be inappropriately used and disclosed in the DAF WCF's financial statements, IT environment, and financial applications.

The DAF WCF has made progress in remediating prior year findings, while continuing to focus on modernization efforts of their legacy applications and infrastructure and leveraging of new technologies to standardize business and IT processes. As new financially significant applications are commissioned, it is critical to effectively plan and fully integrate information systems controls during the implementation to avoid any weaknesses in the DAF WCF IT controls environment post implementation.

(a) Access Controls

Access controls include those related to protecting system boundaries, user identification and authentication, authorization, protecting sensitive system resources, audit and monitoring, and physical security. When properly implemented, access controls can help verify that critical systems assets are physically safeguarded and that logical access to sensitive computer programs and data is granted to users only when authorized and appropriate. Weaknesses in such controls can

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compromise the integrity of sensitive data and increase the risk that such data may be inappropriately used and/or modified.

The following access control weaknesses in aggregate, represent a significant risk to 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.
- 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.
- Access controls associated with the use of third-party systems have not been fully implemented.
- Inactive or unauthorized users are not disabled or removed timely and in accordance with organization defined policies.
- Systemic prevention of excessive concurrent sessions was not appropriately implemented and configured.
- The completeness and accuracy of system- and manually-generated reports are not being verified by management responsible for reviewing these reports.
- Oracle database profiles are not reviewed and maintained (addition, removal, modification) regularly and appropriately.
- Password complexity and password lockout requirements were not being enforced.

(b) Configuration Management/Change Controls

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

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The following change control weaknesses in aggregate as discussed below represent a significant risk to the DAF WCF IT environment (relevant to the financial applications):

- Adequate policies and procedures defining configuration management requirements have not been developed.
- Developers were granted inappropriate access to make modifications directly to the production environment and delete system files within application modules.
- Configuration changes are not properly reviewed, approved, tested and documented.
- Configuration changes to production environments are not being monitored to verify their appropriateness.
- The release and migration of application code, configurations, and databases are not monitored for potentially unauthorized changes.
- Direct changes to data in production may be made unmonitored and without any required documentation, testing (if applicable), or approval.
- The completeness and accuracy of system and manually generated reports are not being verified by management responsible for reviewing these reports.

(c) Segregation of Duties

SoD controls provide policies, procedures, and an organizational structure to prevent one or more individuals from controlling key aspects of computer-related operations without detection, and thereby conducting unauthorized actions or gaining unauthorized access to assets or records. Proper implementation of these controls separates duties in both procedure and practice, 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, is 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.

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- Conflicting roles that were deemed necessary or required due to a business need were not documented and assessed on a regular basis.
- Users were assigned access to allow them to perform both administrator and end user functions.
- The completeness and accuracy of system- and manually generated reports are not being verified by management responsible for reviewing these reports.

(d) Interface Controls

Interface controls consist of those controls over the timely, accurate, and complete processing of information between applications on an ongoing basis.

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

- Interface agreements are not reviewed on a periodic basis to ensure they are accurate.
- Documented interface agreements do not comprehensively describe edits and validation checks along with error handling processes.
- Logs of interface processing activities are not retained to support subsequent auditing and monitoring. Error reporting of failed interface processing activities has not been implemented in some systems.
- Interface files are not protected from unauthorized access and modification prior to processing
- Validation checks are not consistently implemented across interfaces to prevent the processing of duplicate or inaccurate data.
- Reconciliations are not being performed between source and target systems to verify completeness and accuracy of processing.
- The completeness and accuracy of system- and manually generated reports are not being verified by management responsible for reviewing these reports.

(e) Security Management

A security management program is the foundation of a security control structure and a reflection of senior management's commitment to addressing security risks. The security management program should establish a framework and continuous cycle of activity for assessing risk, developing and implementing effective security procedures, and monitoring the effectiveness of these procedures. Without a well-designed program, security controls may be inadequate; responsibilities may be unclear, misunderstood, or improperly implemented; and controls may be inconsistently applied.

The following security management weaknesses in aggregate represent a significant risk to the DAF WCF IT environment (relevant to the financial applications):

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- Security controls were not regularly assessed for appropriateness, monitored, or tested in order to verify compliance.
- Plans of action and milestones (POA&Ms) were not prioritized and periodically tracked to completion, including testing and monitoring of corrective actions.
- For systems hosted by the Defense Information Systems Agency (DISA), assessments over CUECs and inherited controls identified in the SOC report were not performed.

Recommendations:

The DAF WCF should implement controls to address deficiencies in access controls, configuration management, segregation of duties, interface and security management 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.
  - Review changes and execution procedures completed by third parties and contractors.
  - Monitor the application and database(s) for potentially unauthorized changes.
  - Implement controls verifying the completeness and accuracy of management reports.
- Interface controls:
  - Implement stronger systemic checks for completeness and accuracy of interface file processing, to include tracking and logging procedures and protection from unauthorized access.
  - Maintain appropriate and comprehensive documentation covering all interfaces.
  - Document procedures for performing interface error handling and correction.
- Security Management:
  - Define and implement consistent procedures related to periodic security controls assessments and testing.
  - Prioritize and monitor POA&M progress, and test and monitor corrective actions.
  - Review applicable SOC reports and associated CUEC implementation.

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

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

We were engaged to audit, in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States and the U.S. Office of Management and Budget (OMB) Bulletin No. 19-03, *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, 2020, and the related consolidated statement of net cost, consolidated statement of changes in net position and combined statement of budgetary resources for the year then ended, and the related notes to the financial statements and have issued our report thereon dated November 12, 2020. Our report disclaims an opinion on such financial statements because the DAF WCF was not able to provide sufficient appropriate audit evidence due to matters discussed further in the Basis for Disclaimer of Opinion paragraph.

Compliance and Other Matters

In connection with our engagement to audit the financial statements of the DAF WCF, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statements, as well as the requirements referred to in the Federal Financial Management Improvement Act of 1996 (FFMIA) (P.L. 104-208). However, providing an opinion on compliance with those provisions was not an objective of our engagement, and accordingly, we do not express such an opinion.

The results of our tests disclosed instances of noncompliance and other matters that are required to be reported under *Government Auditing Standards* and OMB Bulletin No. 19-03, as described below. Additionally, if the scope of our work had been sufficient to enable us to express an opinion on the financial statements, other instances of noncompliance or other matters may have been identified and reported herein.

Our Report on Internal Control over Financial Reporting dated November 12, 2020 includes additional information related to the financial management systems and internal controls that were found not to comply with the requirements, relevant facts pertaining to the noncompliance, and our recommendations to the specific issues presented.

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FFMIA

Under FFMIA, we are required to report whether the DAF WCF's financial management systems substantially comply with federal financial management systems requirements, applicable federal accounting standards, and the United States Standard General Ledger (USSGL) at the transaction level. To meet this requirement, we performed tests of compliance with FFMIA Section 803(a) requirements. The results of tests disclosed instances in which the DAF WCF's financial management systems did not substantially comply with federal financial management systems requirements, applicable federal accounting standards or the USSGL.

(a) Federal financial management system requirements

As referenced in Fiscal Year (FY) 2020 DAF WCF Statement of Assurance, the DAF WCF identified that financial systems and financial portions of mixed systems do not substantially meet FFMIA or OMB Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control* (Circular A-123) Appendix D.

EY also identified this material weakness as part of the Financial Information Systems material weakness, contained in the Report on Internal Control over Financial Reporting, where we identified noncompliance with federal financial management system requirements for multiple systems. Weaknesses identified include those associated with security management, access controls/user access, configuration management/change controls, segregation of duties and interface controls. These financial system deficiencies prevent the DAF WCF from being compliant with federal financial management system requirements and inhibit the DAF WCF's ability to prepare complete and accurate financial reports.

(b) Noncompliance with applicable federal accounting standards

As referenced in the FY 2020 DAF WCF Statement of Assurance and Note 1 to the financial statements, the DAF WCF identified that the design of legacy financial systems does not allow the DAF WCF to comply with applicable federal accounting standards, including not being able to collect and record financial information on an accrual accounting basis. EY also identified noncompliance with federal accounting standards during our testing, which was included in our Report on Internal Control over Financial Reporting.

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

As referenced in the FY 2020 DAF WCF Statement of Assurance, the DAF WCF identified that the design of legacy financial systems does not allow the DAF WCF to comply with the USSGL at the transaction level. EY also identified noncompliance with the USSGL posting logic during our testing, which was included in our Report on Internal Control over Financial Reporting.

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FMFIA

Federal Managers' Financial Integrity Act (FMFIA) of 1982 requires federal entities to establish internal controls, perform ongoing evaluations of the adequacy of the systems of internal control and prepare related reports.

The DAF WCF was not able to provide evidence that they are in compliance with significant aspects of OMB Circular A-123, which implemented FMFIA. The DAF WCF provided a FY 2020 Statement of Assurance, however there was not sufficient appropriate audit evidence that each process identified by the DAF WCF fully completed an organizational risk assessment, identified relevant risks related to the financial statement assertions, documented the internal control standards as it relates to those assertions, performed internal control testing, and reported and tracked control deficiencies at the control level. Based on the evidence received, EY noted that the DAF WCF has started to implement an OMB Circular A-123 testing strategy, however the DAF WCF is unable to provide evidence that the extent of testing and review performed is sufficient to meet the requirements of FMFIA.

Management's Response to Findings

The DAF WCF's responses to the findings identified in our engagement and relevant comments from the DAF WCF's management responsible for addressing the noncompliance are provided in their accompanying letter dated November 12, 2020. Management's response was not subjected to the auditing procedures applied in the engagement to audit the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of compliance and the results of that testing, and not to provide an opinion on the entity's compliance. This report is an integral part of an engagement to perform an audit in accordance with *Government Auditing Standards* in considering the entity's compliance. Accordingly, this communication is not suitable for any other purpose.

Ernst + Young LLP

November 12, 2020

DEPARTMENT OF THE AIR FORCE WORKING CAPITAL FUND

The DAF WCF principal statements and related notes summarize financial information for the DAF WCF for the FY ended September 30, 2020 and are presented on a comparative basis with information previously reported for the FY ended September 30, 2019. 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, 2020 and 2019, 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, 2020 and 2019. 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, 2020 and 2019.

Combined Statements of Budgetary Resources

The Combined Statements of Budgetary Resources present the budgetary resources available to the DAF WCF during FYs 2020 and 2019, the status of these resources at September 30, 2020 and 2019, and the outlays of budgetary resources for the FYs ended September 30, 2020 and 2019.

Department of the Air Force Working Capital Fund
CONSOLIDATED BALANCE SHEETS
As of September 30, 2020 and 2019

(Amounts in Thousands)

	2020 Consolidated (Unaudited)	2019 Consolidated (Unaudited)
ASSETS (Note 2)		
Intragovernmental		
Fund Balance with Treasury (Note 3)	$ 879,561	$ 479,606
Accounts Receivable, Net (Note 4)	741,975	860,247
Total Intragovernmental Assets	$ 1,621,536	$ 1,339,853
Accounts Receivable, Net (Note 4)	$ 2,233	$ 3,215
Inventory and Related Property, Net (Note 5)	26,858,840	28,304,844
General Property, Plant and Equipment, Net (Note 6)	923,694	1,535,967
Other Assets (Note 7)	163,059	273,776
TOTAL ASSETS	$ 29,569,362	$ 31,457,655
LIABILITIES (Note 8)		
Intragovernmental		
Accounts Payable	$ 155,465	$ 166,352
Other Liabilities (Note 10 & Note 11)	63,886	58,690
Total Intragovernmental Liabilities	$ 219,351	$ 225,042
Accounts Payable	$ 408,216	$ 500,279
Military Retirement and Other Federal Employment Benefits (Note 9)	192,476	208,936
Other Liabilities (Note 10 & Note 11)	644,325	600,085
TOTAL LIABILITIES	$ 1,464,368	$ 1,534,342
COMMITMENTS AND CONTINGENCIES (Note 11)		
NET POSITION		
Unexpended Appropriations - Other Funds	$ 23,101	$ 262,848
Cumulative Results of Operations - Other Funds	28,081,893	29,660,465
TOTAL NET POSITION	$ 28,104,994	$ 29,923,313
TOTAL LIABILITIES AND NET POSITION	$ 29,569,362	$ 31,457,655

The accompanying notes are an integral part of these statements.

Department of the Air Force Working Capital Fund
CONSOLIDATED STATEMENTS OF NET COST
For Years Ended September 30, 2020 and 2019

(Amounts in Thousands)

	2020 Consolidated (Unaudited)	2019 Consolidated (Unaudited)
Program Costs		
Operations, Readiness & Support	$ 14,725,742	$ 14,606,717
Gross Costs	$ 14,725,742	$ 14,606,717
(Less: Earned Revenue)	(12,376,832)	(12,745,704)
Net Cost of Operations	$ 2,348,910	$ 1,861,013

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 Years Ended September 30, 2020 and 2019

(Amounts in Thousands)	2020 Consolidated (Unaudited)	2019 Consolidated (Unaudited)
UNEXPENDED APPROPRIATIONS:		
Beginning Balances	$ 262,848	$ 33,158
Beginning balances, as adjusted	$ 262,848	$ 33,158
Budgetary Financing Sources:		
Appropriations Transferred-In/Out	$ 694,999	$ 311,518
Appropriations Used	(934,746)	(81,828)
Total Budgetary Financing Sources	$ (239,747)	$ 229,690
Total Unexpended Appropriations	$ 23,101	$ 262,848
CUMULATIVE RESULTS OF OPERATIONS		
Beginning Balances	$ 29,660,465	$ 31,543,789
Beginning balances, as adjusted	$ 29,660,465	$ 31,543,789
Budgetary Financing Sources:		
Appropriations Used	$ 934,746	$ 81,828
Non-Exchange Revenue	4	6
Transfers-In/Out Without Reimbursement	153,000	0
Other Financing Sources:		
Transfers-In/Out Without Reimbursement (+/-)	(554,346)	(12,939)
Imputed Financing From Costs Absorbed By Others	191,670	217,949
Other (+/-)	45,264	(309,155)
Total Financing Sources	$ 770,338	$ (22,311)
Net Cost of Operations (+/-)	$ 2,348,910	$ 1,861,013
Net Change	$ (1,578,572)	$ (1,883,324)
Cumulative Results of Operations	$ 28,081,893	$ 29,660,465
NET POSITION	$ 28,104,994	$ 29,923,313

The accompanying notes are an integral part of these statements.

Department of the Air Force Working Capital Fund
COMBINED STATEMENTS OF BUDGETARY RESOURCES
For Years Ended September 30, 2020 and 2019

(Amounts in Thousands)		2020 Consolidated (Unaudited)		2019 Consolidated (Unaudited)
Budgetary Resources:				
Unobligated balance from prior year budget authority, net (discretionary and mandatory)	$	1,412,247	$	1,527,387
Appropriations (discretionary and mandatory)		694,999		77,644
Contract Authority (discretionary and mandatory)		8,718,622		10,964,575
Spending Authority from offsetting collections (discretionary and mandatory)		6,675,624		6,639,343
Total Budgetary Resources	$	17,501,492	$	19,208,949
Status of Budgetary Resources:				
New obligations and upward adjustments (total)	$	16,246,003	$	17,949,702
Unobligated balance, end of year:				
Apportioned, unexpired accounts		1,255,489		1,259,247
Unexpired unobligated balance, end of year	$	1,255,489	$	1,259,247
Unobligated balance, end of year (total)	$	1,255,489	$	1,259,247
Total Budgetary Resources	$	17,501,492	$	19,208,949
Outlays, net:				
Outlays, net (total) (discretionary and mandatory)	$	448,045	$	1,277,805
Agency Outlays, net (discretionary and mandatory)	$	448,045	$	1,277,805

The accompanying notes are an integral part of these statements.

Fiscal Year 2020

DEPARTMENT OF THE AIR FORCE WORKING CAPITAL FUND

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.

Note 1 Summary of Significant Accounting Policies

A. Reporting Entity

The DAF encompasses the Headquarters Air Force (HAF) and Field Organizations. The HAF includes the Secretary of the Air Force who is responsible for all affairs of the DAF and reports to the Secretary of Defense. The HAF also includes the Chief of Staff who is responsible for the efficiency of the DAF and the preparation of its forces for military operations. The 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 DAF.

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, a sovereign entity. One implication of this is that liabilities cannot be liquidated without legislation that provides resources and legal authority to do so.

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 overall mission is to deliver sovereign options for the defense of the United States of America and its global interests to "Aim High…Fly, Fight, Win" in air, space, and cyberspace. The DAF carries out its mission by adhering to a strategic framework of core values consisting of Integrity First, Service Before Self, and Excellence in All We Do. In addition, the DAF is committed to providing Global Vigilance, Global Reach, and Global Power, while defending and protecting the U.S.

The stock and industrial revolving fund accounts were created by the *National Security Act of 1947*, as amended in 1949 and codified in U.S. Code 10 § 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 is the Inventory Control Point. The Supply Division manages items that are generally related to weapon systems and ground support, and include both depot level and non-depot level reparables.

Maintenance Division activities of CSAG are authorized to perform: 1) overhaul, conversion, reclamation, progressive maintenance, modernization, software development, storage, modification, and repair of aircraft, missiles, engines, accessories, components, and equipment, 2) the manufacture of parts and assemblies required to support the foregoing, and 3) the furnishing of other authorized services or products for the DAF and other DoD and non-DoD agencies. As directed by the Air Force Materiel Command or higher authority, the Maintenance Division may furnish the above-mentioned products or services to agencies of other departments or instrumentalities of the U.S. Government, and to private parties and other agencies, as authorized by law.

The SMAG-R consists of three business divisions: General Support Division (GSD), Medical-Dental Division, and Air Force Academy Division. GSD procures and manages consumable supply items related to maintenance, the Flying Hour Program, and installation functions. Most of these items are used in support of field and depot maintenance of aircraft, ground and airborne communication systems, and other support systems and equipment. The Medical-Dental Division procures and manages medical supply items and equipment necessary to maintain an effective Air Force health care system for the active military, retirees, and their dependents. The Air Force Academy Division procures and manages a retail inventory of uniforms, academic supplies, and other recurring issue requirements for the Cadet

Wing of the United States Air Force Academy. Inventory procurement is only for mandatory items as determined by the Cadet Uniform Board.

C. Basis of Presentation

These 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. 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* (OMB A-136), the DoD Financial Management Regulation (FMR), and in accordance with Federal Generally Accepted Accounting Principles (GAAP) for federal entities as prescribed by the Federal Accounting Standards Advisory Board (FASAB). The accompanying financial statements account for all resources for which the DAF WCF is responsible, unless otherwise noted. Accounting standards allow certain presentations and disclosures to be modified, if needed, to prevent the disclosure of classified information.

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

D. Basis of Accounting

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

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

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

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

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

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

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

The DAF WCF plans to utilize deemed cost to value beginning balances for Inventory and Related Property (I&RP), as permitted by SFFAS 48. However, systems required to account for historical cost for I&RP in accordance with SFFAS 3, *Accounting for Inventory and Related Property,* are not yet fully in place. Therefore, the DAF WCF is not making an unreserved assertion with respect to this 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, 2020.

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

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

5) SFFAS 55, *Amending Inter-entity Cost Provisions*. Issued on May 31, 2018. Effective Date: Reporting periods beginning after September 30, 2018.

Pursuant to SFFAS 55, DoD FMR, Volume 4, Chapter 24, *Inter-Entity Costs,* directs all DoD components not to recognize imputed costs and corresponding imputed financing from non-business type activities other than inter-entity costs for personnel benefits and the U.S. Treasury Judgment Fund settlements. This election is permitted under SFFAS 55. However, as a business-type activity, the DAF WCF is required to recognize imputed costs and imputed financing for goods and services received from other federal entities at no cost, or at a cost less than the full cost. The DAF WCF is in the process of adopting this SFFAS.

6) SFFAS 56, *Classified Activities*. Issued on October 4, 2018. Effective Date: Upon issuance.

SFFAS 56 permits certain modifications to prevent the disclosure of classified information in an unclassified General Purpose Federal Financial Report.

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

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

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

As this Technical Release serves as implementation guidance for SFFAS 50, the DAF WCF is in the process of adopting this Technical Release as of September 30, 2020.

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

As this Technical Release serves as implementation guidance for SFFAS 48 and SFFAS 50, the DAF WCF is in the process of adopting this Technical Release as of September 30, 2020.

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.

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 following known transactions were not recorded consistent with GAAP and are believed to be materially misstated in the financial statements (not an exhaustive list).

1) Accounting errors recorded in prior years and impacting the current year financial statements have not been recorded and corrected in accordance with GAAP.

2) Transactions that should have been recorded in prior years, were recorded in the current year.

E. Accounting for Intragovernmental and Intergovernmental Activities

The Treasury Financial Manual (TFM), Volume 1, Part 2, Chapter 4700, *Agency Reporting Requirements for the Financial Report of the United States Government*, provides guidance for reporting and reconciling intragovernmental balances. Accounting standards require an entity to eliminate intra-entity activity and balances from consolidated financial statements to prevent overstatement caused by the inclusion of business activity between entity components. Intragovernmental cost and exchange revenue represent transactions made between two reporting entities within the Federal Government. Cost and earned revenue with the public represent exchange transactions made between the reporting entity and a non-federal entity. Generally, seller entities within the DoD provide summary seller-side balances for revenue, Accounts Receivable, and unearned revenue to the buyer-side internal DoD accounting offices. Due to the inability to provide detailed transaction level data to support general ledger account code beginning balances, the DAF WCF is currently unable to reconcile all buyer and seller data with their respective trading partners. The DoD is implementing a replacement system, called Government Invoicing (G-Invoicing), which incorporates the necessary elements to enable the DoD to correctly report, reconcile, and eliminate intragovernmental balances. G-Invoicing will directly impact amounts reported on the DAF 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 WCF. Once SFFAS 55 is fully implemented, the DAF WCF will recognize the general nature of imputed costs only for business-type activities and other costs specifically required by OMB A-136, including 1) employee pension, post-retirement health, and life insurance benefits, 2) post-employment benefits for terminated and inactive employees, to include unemployment and workers compensation under the *Federal Employees' Compensation Act* (FECA), and 3) losses in litigation proceedings that are paid from the U.S. Treasury Judgment Fund. Unreimbursed costs of goods and services other than those identified above are not included in the DAF WCF's financial statements.

For additional information, refer to Note 12, *General Disclosures Related to the Statements of Net Cost*.

F. Non-Entity Assets

Non-Entity Assets are not available for use in the DAF WCF's normal operations. The DAF WCF has stewardship accountability and reporting responsibility for Non-Entity Assets.

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

G. Fund Balance with Treasury

The DAF WCF's monetary resources of collections and disbursements are maintained in U.S. Treasury accounts. The disbursing offices of the Defense Finance and Accounting Service (DFAS), the Military Departments, the U.S. Army Corps of Engineers (USACE), and the Department of State's financial service centers process most of the DAF WCF's cash collections, disbursements, and adjustments worldwide. Each disbursing station reports to the U.S. Treasury on checks issued, electronic fund transfers, interagency transfers, and deposits.

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

In addition, DFAS and the USACE Finance Center report to the U.S. Treasury by appropriation on interagency transfers, collections received, and disbursements issued. The U.S. Treasury records these transactions to the applicable FBwT account.

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

H. Accounts Receivable

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

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

For additional information, refer to Note 4, *Accounts Receivable, Net*.

I. Inventory and Related Property, Net

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 method (MAC).

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 for a lethal joint force. 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 & 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 Property, Plant and Equipment (General PP&E) used in the performance of its mission with a useful life of two or more years and with an acquisition cost that equals or exceeds capitalization thresholds. When applicable, the DAF WCF will continue to use alternative methods in establishing opening balances for General PP&E in accordance with SFFAS 50.

The DAF WCF's capitalization threshold for General PP&E is $250.0 thousand. This capitalization threshold applies to asset acquisitions and modifications/improvements placed into service after September 30, 2013. General PP&E assets acquired prior to October 1, 2013 were capitalized at prior threshold levels ($100.0 thousand for Equipment and $20.0 thousand for Real Property). The DAF WCF depreciates all General PP&E on a straight-line basis.

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

For additional information, refer to Note 6, *General Property, Plant and Equipment, Net.*

K. Other Assets

Other Assets include those assets, such as military and civil service employee pay advances, travel advances, and certain contract financing payments not reported elsewhere on the DAF WCF's Balance Sheet.

The DAF WCF conducts business with commercial contractors under two primary types of contracts: fixed price and cost reimbursable. The DAF WCF may provide financing payments to contractors to alleviate the potential financial burden from long-term contracts. Contract financing payments are defined in the Federal Acquisition Regulations, Part 32, as authorized disbursements to a contractor prior to acceptance of supplies or services by the Government. Contract financing payment clauses are incorporated in the contract terms and conditions and may include advance payments, performance-based payments, commercial advances and interim payments, progress payments based on cost, and interim payments under certain cost-reimbursement contracts.

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

For additional information, refer to Note 7, *Other Assets*.

L. Accounts Payable

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

M. Liabilities

Liabilities represent the probable future outflow or other sacrifice of resources as a result of past transactions or events; however, no liability can be paid by the DAF WCF without proper budget authority. Liabilities Covered by Budgetary Resources are liabilities for which funding will otherwise be available to pay amounts when due. Liabilities Not Covered by Budgetary Resources, for example, Other Federal Employment Benefits liabilities, represent amounts owed in excess of available funds or other amounts, where there is no certainty that the funds will be available. Liabilities that are not funded by the current year resources are classified as Liabilities Not Covered by Budgetary Resources.

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

N. Other Liabilities

Other liabilities may be federal or non-federal. Such liabilities include FECA Reimbursement to the Department of Labor, Custodial Liabilities, Employer Contribution and Payroll Taxes Payable, Accrued Funded Payroll and Benefits, Advances from Others, Accrued Unfunded Annual Leave, Contract Holdbacks, and Non-Federal Other Liabilities.

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.

The DAF WCF executes project agreements pursuant to the framework cooperative agreement with foreign governments. These agreements give rise to obligations reported in the DAF WCF's financial statements, pursuant to legal authority, appropriated funds, and none are contingent. The DAF WCF does not enter into treaties and other international agreements that create contingent liabilities.

For additional information, refer to Note 11, *Commitments and Contingencies.*

P. Military and Civilian Retirement Benefits

For information, refer to Note 9, *Military Retirement and Other Federal Employment Benefits.*

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 are not assets to the Government as a whole. Budgetary obligations are legal obligations for goods, services, or amounts to be paid based on statutory provisions. After budgetary obligations are incurred, the U.S. Treasury will make disbursements to liquidate the budgetary obligations and finance those disbursements in the same way it finances all disbursements, using some combination of receipts, other inflows, and borrowing from the public if there is a budget deficit.

WCFs conduct business-like activities and receive funding to establish an initial corpus through an appropriation or a transfer of resources from existing appropriations or funds. This corpus finances operations and transactions that flow through the fund. Each WCF obtains the goods and services sold to customers on a reimbursable basis and maintains the corpus. Reimbursable receipts fund future operations and generally are available in their entirety for use without further congressional action. At various times, Congress provides additional appropriations to execute its missions or to supplement the WCF as an infusion of cash when revenues are inadequate to cover costs within the corpus.

The primary sources of revenue recorded within the DAF WCF result from the following activities:

1. The sale of repair services such as a) the repair of aircraft, missiles, engines, accessories, components, and equipment, and b) the remanufacture of parts and assemblies required to support the foregoing;

2. Inventory issued to the Flying Hour Program. Instead of recognizing revenue based on the sale price of a spare part, revenue is recognized on a rate charged for a flying hour;

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 Financing 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 nonmonetary support provided by U.S. allies for common defense and mutual security in amounts reported in the Statements of Net Cost and in Note 16, *Reconciliation of Net Cost to Net Outlays*. The U.S. has cost sharing agreements with countries having a mutual or reciprocal defense agreement, where U.S. troops are stationed, or where the U.S. Fleet is in a port.

R. Recognition of Expenses

For financial reporting purposes, DoD policy requires the recognition of operating expenses in the period incurred. Estimates are made for major items such as payroll expenses, Accounts Payable and unbilled revenue. Some accounts such as civilian pay and Accounts Payable are presented on the accrual basis of accounting on the financial statements.

The DoD has issued guidance under which DoD Components may expense OM&S using the purchase method of accounting rather than the consumption method. The DAF WCF uses the consumption method to recognize expense for OM&S. OM&S are expensed when consumed.

S. Use of Estimates

The DAF WCF's management makes assumptions and reasonable estimates in the preparation of financial statements based on current conditions, which may affect the reported amounts. Actual results could differ materially from the estimated amounts. Significant estimates include such items as percentage of completion revenue recognition for maintenance services and actuarial liabilities related to workers' compensation.

CSAG Maintenance recognizes revenue using the percentage of completion method. Estimated Total Costs are not evaluated and/or changed during the life of the project. The End Item Sales Price (EISP) is used as the total amount of cost that can be used in the revenue calculation. If actual total costs of the project ever reach the EISP, revenue stops being recorded, however, costs will continue to be recorded until the project is financially closed. Management monitors open projects where total incurred costs exceeded the total amount of recognized revenue.

T. Transactions with Foreign Governments and International Organizations

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

U. Tax Exempt Status

As an agency 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.

Note 2 Non-Entity Assets

As of September 30	2020 (Unaudited)	2019 (Unaudited)
(Amounts in Thousands)		
Non-Federal Assets		
Accounts Receivable	$ 11	$ 7
Total Non-Entity Assets	$ 11	$ 7
Total Entity Assets	$ 29,569,351	$ 31,457,648
Total Assets	$ 29,569,362	$ 31,457,655

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

Non-Federal Accounts Receivable consists of amounts associated with interest, fines, and penalties due on debt. Generally, the DAF WCF cannot use the proceeds and must remit them to the U.S. Treasury unless permitted by law.

Note 3 Fund Balance with Treasury

As of September 30	2020 (Unaudited)	2019 (Unaudited)
(Amounts in Thousands)		
Status of Fund Balance with Treasury		
Unobligated Balance		
Available	$ 1,255,489	$ 1,259,247
Total Unobligated Balance	$ 1,255,489	$ 1,259,247
Obligated Balance not yet Disbursed	$ 9,754,458	$ 9,630,146
Non-Fund Balance with Treasury Budgetary Accounts		
Unfilled Customer Orders without Advance	$ (4,486,388)	$ (3,930,287)
Contract Authority	(4,674,343)	(5,393,355)
Receivables and Other	(969,655)	(1,086,145)
Total Non-Fund Balance with Treasury Budgetary Accounts	$ (10,130,386)	$ (10,409,787)
Total Fund Balance with Treasury	$ 879,561	$ 479,606

The U.S. Treasury records cash receipts and disbursements on the DAF WCF's behalf. Funds are available only for the purposes for which the funds were appropriated. The DAF WCF's Fund Balance with Treasury (FBwT) consists of appropriation accounts and revolving funds.

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

The Unobligated Balance is classified as Available or Unavailable and represents the cumulative amount of budgetary authority set aside to cover outstanding future obligations. The Available balance consists primarily of the unexpired, unobligated balance that has been apportioned and is available for new obligations. Certain unobligated balances are restricted for future use and are not apportioned for current use. The DAF WCF has no restrictions on unobligated balances.

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

Non-FBwT Budgetary Accounts include Contract Authority, Unfilled Customer Orders without Advance, and Accounts Receivable that reduces budgetary resources.

The FBwT reported in the financial statements has been adjusted to reflect the DAF WCF's balance as reported by the U.S. Treasury. The difference between FBwT in the DAF WCF's general ledgers and FBwT reflected in the U.S. Treasury accounts is attributed to transactions that have not been posted to the individual detailed accounts in the DAF WCF's general ledger, as a result of timing differences or the inability to obtain valid accounting information prior to the issuance of the financial statements. The DAF WCF made $282.5 million in net adjustments, 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 accounts.

The DAF WCF received $475.0 million under the *Coronavirus Aid, Relief, and Economic Security (CARES) Act*, and an additional $280.5 million from the FY 2020 *Reprogramming Action* (FY20-13 PA). For additional information on the *CARES Act* funding, refer to Note 19, *COVID-19 Activity*.

Note 4 Accounts Receivable, Net

As of September 30	2020 (Unaudited)		
	Gross Amount Due	Allowance For Estimated Uncollectibles	Accounts Receivable, Net
(Amounts in Thousands)			
Intragovernmental Receivables	$ 742,507	$ (532)	$ 741,975
Non-Federal Receivables (From the Public)	2,506	(273)	2,233
Total Accounts Receivable	$ 745,013	$ (805)	$ 744,208

As of September 30	2019 (Unaudited)		
	Gross Amount Due	Allowance For Estimated Uncollectibles	Accounts Receivable, Net
(Amounts in Thousands)			
Intragovernmental Receivables	$ 860,247	$ N/A	$ 860,247
Non-Federal Receivables (From the Public)	3,326	(111)	3,215
Total Accounts Receivable	$ 863,573	$ (111)	$ 863,462

Accounts Receivable represents the DAF WCF's claim for payment from federal and non-federal entities. In the fourth quarter of FY 2020, the DAF WCF recorded a loss receivable allowance for Intragovernmental Receivables of $531.5 thousand in accordance with Technical Bulletin 2020-1, *Loss Allowance for Intragovernmental Receivables*, which was issued in the second quarter of FY 2020. 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	2020 (Unaudited)	2019 (Unaudited)
(Amounts in Thousands)		
Inventory, Net	$ 26,721,764	$ 28,178,750
Operating Materials & Supplies, Net	137,076	126,094
Total Inventory and Related Property, Net	$ 26,858,840	$ 28,304,844

As of September 30	2020 (Unaudited)			
	Inventory, Gross	Revaluation Allowance	Inventory, Net	Valuation Method
(Amounts in Thousands)				
Held for Sale	$ 13,819,860	$ 0	$ 13,819,860	MAC
Held for Repair	18,351,888	(5,454,013)	12,897,875	MAC, LRC
Work-in-Process	4,029	0	4,029	MAC
Excess, Obsolete, and Unserviceable	171,815	(171,815)	0	NRV
Total	$ 32,347,592	$ (5,625,828)	$ 26,721,764	

As of September 30	2019 (Unaudited)			
	Inventory, Gross	Revaluation Allowance	Inventory, Net	Valuation Method
(Amounts in Thousands)				
Held for Sale	$ 15,791,050	$ 0	$ 15,791,050	MAC
Held for Repair	18,009,152	(5,624,274)	12,384,878	MAC, LRC
Work-in-Process	2,822	0	2,822	MAC
Excess, Obsolete, and Unserviceable	270,237	(270,237)	0	NRV
Total	$ 34,073,261	$ (5,894,511)	$ 28,178,750	

Legend for Valuation Methods:

LRC = Latest Repair Cost MAC = Moving Average Cost NRV = Net Realizable Value

General Composition of Inventory

Inventory includes weapon system consumable and reparable parts, base supply items, and medical-dental supplies. Inventory is tangible personal property that is Held for Sale or Held for Repair for eventual sale, in the process of production for sale, to be consumed in the production of goods for sale, or in the provision of services for a fee.

Restrictions

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.

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

The DAF WCF assigns inventory items to a category based on asset type and condition.

Held for Sale includes all materiel available for issuance.

Held for Repair represents unserviceable (but repairable) items that are more economical to repair than to procure. Held for Repair items are recorded at Moving Average Cost (MAC), as it relates to gross costs. Inventory, Net is calculated as MAC less the repair allowance for the asset.

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.

The repair allowance is determined utilizing the allowance method.

Inventory Adjustments

In FY 2019, the DAF WCF recorded two material adjustments that impacted I&RP and Gross Costs. In the second quarter, the DAF WCF recorded an adjustment of $1.4 billion to increase I&RP and to decrease Gross Costs to correct negative net inventory values within the inventory records. A second adjustment of $3.4 billion was recorded to decrease I&RP and to increase Gross Costs by $3.0 billion disclosed within the Statement of Net Cost and decrease Other Financing Sources by $0.4 billion disclosed within the Statement of Changes in Net Position to reflect the value of inventory in-transit.

Operating Materials and Supplies, Net

As of September 30	2020 (Unaudited)		
	OM&S, Gross	OM&S, Net	Valuation Method
(Amounts in Thousands)			
Held for Use	$ 137,076	$ 137,076	MAC
Total	$ 137,076	$ 137,076	

As of September 30	2019 (Unaudited)		
	OM&S, Gross	OM&S, Net	Valuation Method
(Amounts in Thousands)			
Held for Use	$ 126,094	$ 126,094	MAC
Total	$ 126,094	$ 126,094	

Legend for Valuation Methods:

MAC = Moving Average Cost

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

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	2020 (Unaudited)				
	Depreciation/ Amortization Method	Service Life	Acquisition Value	(Accumulated Depreciation/ Amortization)	Net Book Value
(Amounts in Thousands)					
Major Asset Classes					
Software	S/L	2-5 or 10	$ 1,174,759	$ (1,124,228)	$ 50,531
General Equipment	S/L	Various	3,220,731	(2,531,702)	689,029
Construction-in-Progress	N/A	N/A	184,134	N/A	184,134
Total General PP&E			$ 4,579,624	$ (3,655,930)	$ 923,694

As of September 30	2019 (Unaudited)				
	Depreciation/ Amortization Method	Service Life	Acquisition Value	(Accumulated Depreciation/ Amortization)	Net Book Value
(Amounts in Thousands)					
Major Asset Classes					
Buildings and Structures	S/L	20, or 40*	$ 1,524,202	$ (930,372)	$ 593,830
Software	S/L	2-5 or 10	1,169,886	(1,123,267)	46,619
General Equipment	S/L	Various	3,455,004	(2,823,620)	631,384
Construction-in-Progress	N/A	N/A	264,134	N/A	264,134
Total General PP&E			$ 6,413,226	$ (4,877,259)	$ 1,535,967

Legend for Valuation Methods

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

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

As of September 30	2020 (Unaudited)
(Amounts in Thousands)	
General PP&E, Net beginning of year	$ 1,535,967
Capitalized acquisitions	139,972
Transfers in/(out) without reimbursement	(559,833)
Depreciation and Amortization expense	(192,412)
Total General PP&E, Net end of year	$ 923,694

On September 30, 2020, the DAF WCF transferred $562.2 million in Real Property facilities that it occupies—within the jurisdictions of the DAF—to the DAF GF. It no longer reports Real Property in its financial statements. This pertains to all Real Property used and occupied by the DAF WCF including Real Property that is funded by WCF outlays that are being recovered through the capital recovery rate. The DAF WCF may enter into a Memoranda of Agreement with the DAF GF, the installation host, to transfer the right to control the use of DAF GF Real Property to the DAF WCF. The transfer of the right to control the use of Real Property does not transfer jurisdiction and the asset remains an asset of the DAF GF acting as installation host.

The DAF WCF does not have any restrictions on the use or convertibility of General Property, Plant and Equipment (General PP&E), nor does the DAF WCF have a material impairment that requires a disclosure in accordance with Statement of Federal Financial Accounting Standards 44, *Accounting for Impairment of General Property, Plant and Equipment Remaining in Use*. Refer to Note 1.J., *Summary of Significant Accounting Policies - General Property, Plant and Equipment,* for the capitalization threshold.

The DAF WCF's accounting system uses transaction type codes provided by Mechanization of Contract Administration Services (MOCAS) to determine how to record transactions. MOCAS was not designed to have separate transaction type codes to identify and account for contract financing payments at the level required to accurately determine the U.S. Standard General Ledger posting to the proper work in process type asset account including General PP&E Construction-In-Progress (CIP). Until system modifications are made, contract financing payments, as disclosed in Note 7, *Other Assets*, are overstated and work in process type assets (including General PP&E CIP) are understated.

Note 7 Other Assets

As of September 30	2020 (Unaudited)	2019 (Unaudited)
(Amounts in Thousands)		
Non-Federal Other Assets		
Outstanding Contract Financing Payments	$ 161,921	$ 125,810
Advances and Prepayments	276	247
Other Assets (With the Public)	862	147,719
Total Non-Federal Other Assets	$ 163,059	$ 273,776
Total Other Assets	$ 163,059	$ 273,776

Outstanding Contract Financing Payments (OCFP), a separate classification of Advances and Prepayments, includes $161.9 million in FY 2020 in contract financing payments made in contemplation of the future performance of services, receipt of goods, incurrence of expenditures or receipt of other assets. In comparison, FY 2019 OCFP included $125.8 million in contract financing payments.

As discussed in Note 6, *General Property, Plant and Equipment, Net*, the transaction codes used by the DAF WCF's accounting system were not designed to identify and account for contract financing payments at the level required to accurately determine the U.S. Standard General Ledger (USSGL) posting to the proper work in process type asset account. Until system modifications are made, contract financing payments disclosed above are overstated and work in process type assets are understated.

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

The $862.1 thousand in FY 2020 Non-Federal Other Assets - Other Assets is primarily comprised of the Consolidated Sustainment Activity Group's labor costs that have been recorded in the Time and Attendance logistics system, but have not yet updated the appropriate labor account in the accounting system. In comparison, the $147.7 million recorded in FY 2019, is primarily comprised of the $147.5 million in Supply Management Activity Group's assets returned to federal vendors that was reclassified from Intragovernmental to Non-Federal.

In the fourth quarter of FY 2019, the DAF WCF coded $147.5 million in Federal Other Assets to the Army, Navy and Defense Logistics Agency for elimination; however, these amounts were challenged by the trading partners, and transaction level details were requested to support the amounts. The DAF WCF could not provide the transaction level details to support the beginning opening period balances, and as a result, the elimination was cancelled, and the Intragovernmental balance was reclassified to the Non-Federal account.

Intragovernmental Other Assets is zero as of September 30, 2020 due to a process change reclassifying assets recorded in the Other Assets account to the in-transit inventory account.

Note 8 Liabilities Not Covered by Budgetary Resources

As of September 30	2020 (Unaudited)	2019 (Unaudited)
(Amounts in Thousands)		
Intragovernmental Liabilities		
Federal Employees' Compensation Act	$ 34,909	$ 37,482
Total Intragovernmental Liabilities	$ 34,909	$ 37,482
Non-Federal Liabilities		
Military Retirement and Other Federal Employment Benefits	$ 192,476	$ 208,936
Other Liabilities	0	115,703
Total Non-Federal Liabilities	$ 192,476	$ 324,639
Total Liabilities Not Covered by Budgetary Resources	$ 227,385	$ 362,121
Total Liabilities Covered by Budgetary Resources	$ 1,236,983	$ 1,172,221
Total Liabilities	$ 1,464,368	$ 1,534,342

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

The $34.9 million in Intragovernmental Liabilities is comprised of the portion of the total DAF *Federal Employees' Compensation Act* (FECA) liability allocated to the DAF WCF for known claims.

Military Retirement and Other Federal Employment Benefits 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, *Military Retirement and Other Federal Employment Benefits*.

In FY 2019, Other Non-Federal Liabilities was comprised of a portion of the total DAF civilian accrued leave liability allocated to the DAF WCF and included amounts for accrued annual leave, restored annual leave (including Base Realignment and Closure restored), credit hours, compensatory hours, and frozen annual leave. The balance decreased from $115.7 million to $0.0 due to a change in how the DAF WCF records the liability. In the first quarter of FY 2019, the DAF WCF began reporting the accrued leave liability as an unfunded liability consistent with the DAF GF. Upon further review of the DoD Standard Reporting Chart of Accounts and the DoD Financial Management Regulation, the DAF WCF determined that the unused annual leave liability should be recorded as a funded liability. In the first quarter of FY 2020, the DAF WCF prospectively began recording the accrued leave liability as a funded liability.

Note 9 Military Retirement and Other Federal Employment Benefits

As of September 30	2020 (Unaudited)		
	Liabilities	(Assets Available to Pay Benefits)	Unfunded Liabilities
(Amounts in Thousands)			
Other Benefits			
Federal Employees' Compensation Act	$ 192,476	$ 0	$ 192,476
Total Military Retirement and Other Federal Employment Benefits	$ 192,476	$ 0	$ 192,476

As of September 30	2019 (Unaudited)		
	Liabilities	(Assets Available to Pay Benefits)	Unfunded Liabilities
(Amounts in Thousands)			
Other Benefits			
Federal Employees' Compensation Act	$ 208,936	$ 0	$ 208,936
Total Military Retirement and Other Federal Employment Benefits	$ 208,936	$ 0	$ 208,936

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.

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) 2020 were also used to adjust the methodology's historical payments to current-year constant dollars.

Consistent with past practice, these projected annual benefit payments have been discounted to present value based on interest rate assumptions on the U.S. Treasury's Yield Curve for the U.S. Treasury Nominal Coupon (TNC) Issues (the TNC Yield Curve) to reflect the average duration of income payments and medical payments. Discount rates were based on averaging the TNC Yield Curves for the current and prior four years for FY 2020 and FY 2019, respectively. Interest rate assumptions utilized for discounting were as follows:

Discount Rates
For wage benefits:
2.4% in Year 1 and Years thereafter;
For medical benefits:
2.3% 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
2020	N/A	N/A
2021	1.9%	3.2%
2022	2.1%	3.2%
2023	2.2%	3.6%
2024	2.2%	4.0%
2025 and thereafter	2.3%	3.9%

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 2020 to the average pattern observed during the most current three CBYs, and 4) a comparison of the estimated liability per case in FY 2021 projection to the average pattern for the projections of the most recent three years.

Note 10 Other Liabilities

As of September 30	2020 (Unaudited)		
	Current Liability	Non-Current Liability	Total
(Amounts in Thousands)			
Intragovernmental			
Federal Employees' Compensation Act Reimbursement to the Department of Labor	$ 15,861	$ 19,048	$ 34,909
Custodial Liabilities	11	0	11
Employer Contribution and Payroll Taxes Payable	28,966	0	28,966
Total Intragovernmental Other Liabilities	$ 44,838	$ 19,048	$ 63,886
Non-Federal			
Accrued Funded Payroll and Benefits	$ 424,064	$ 0	$ 424,064
Advances from Others	176,175	0	176,175
Contract Holdbacks	196	0	196
Other Liabilities	43,890	0	43,890
Total Non-Federal Other Liabilities	$ 644,325	$ 0	$ 644,325
Total Other Liabilities	$ 689,163	$ 19,048	$ 708,211

As of September 30	2019 (Unaudited)		
	Current Liability	Non-Current Liability	Total
(Amounts in Thousands)			
Intragovernmental			
Federal Employees' Compensation Act Reimbursement to the Department of Labor	$ 16,674	$ 20,808	$ 37,482
Custodial Liabilities	8	0	8
Employer Contribution and Payroll Taxes Payable	21,200	0	21,200
Total Intragovernmental Other Liabilities	$ 37,882	$ 20,808	$ 58,690
Non-Federal			
Accrued Funded Payroll and Benefits	$ 240,917	$ 0	$ 240,917
Advances from Others	186,708	0	186,708
Accrued Unfunded Annual Leave	115,703	0	115,703
Contract Holdbacks	12,388	0	12,388
Other Liabilities	44,369	0	44,369
Total Non-Federal Other Liabilities	$ 600,085	$ 0	$ 600,085
Total Other Liabilities	$ 637,967	$ 20,808	$ 658,775

Federal Employees' Compensation Act (FECA) Reimbursement to the Department of Labor represents liabilities for billed amounts payable and unbilled amounts, including both an incurred and an estimated accrual. Refer to Note 9, *Military Retirement and Other Federal Employment Benefits*, for the estimated FECA actuarial liability.

Custodial Liabilities represent liabilities for collections reported as non-exchange revenues where the DAF WCF is acting on behalf of another federal entity.

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

Office of Personnel Management (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.

Accrued Funded Payroll and Benefits include life and other insurance programs and accrued annual leave. The DAF WCF's life and other insurance programs covering civilian employees are provided through the 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.

The portion of the total DAF civilian accrued leave liability allocated to the DAF WCF includes amounts for accrued annual leave, restored annual leave (including Base Realignment and Closure restored), credit hours, compensatory hours, and frozen annual leave. In the first quarter of FY 2019, the DAF WCF began reporting the accrued leave liability as an unfunded liability consistent with the DAF GF. Upon further review of the DoD Standard Reporting Chart of Accounts and the DoD Financial Management Regulation, the DAF WCF determined that the unused annual leave liability should be recorded as a funded liability. In the first quarter of FY 2020, the DAF WCF prospectively began recording the accrued leave liability as a funded liability within Non-Federal Accrued Funded Payroll and Benefits.

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

Contract Holdbacks are amounts earned by contractors or suppliers during the production period but not yet paid to the contractor/supplier to ensure future performance. For FY 2020, Contract Holdbacks include $196.2 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, 2019 and September 30, 2020. As such, the DAF WCF does not record Contract Holdbacks in accordance with Federal Generally Accepted Accounting Principles.

Non-Federal Other Liabilities primarily consist of accrued liabilities established in the Consolidated Sustainment Activity Group Supply, which offset inventory owned and managed on behalf of foreign governments under a Cooperative Logistics Supply Support Agreement.

Note 11 Commitments and Contingencies

Legal Contingencies

The DAF WCF is a party in various administrative proceedings and legal actions related to claims for environmental damage, 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 General Disclosures Related to the Statements of Net Cost

As of September 30	2020 (Unaudited)		2019 (Unaudited)	
(Amounts in Thousands)				
Operations, Readiness & Support				
Gross Cost	$	14,725,742	$	14,606,717
Less: Earned Revenue		(12,376,832)		(12,745,704)
Total Net Cost	$	2,348,910	$	1,861,013

In FY 2019, the DAF WCF recorded an adjustment of $1.4 billion that increased I&RP and decreased Gross Costs to correct negative net inventory values within the inventory records. A second adjustment of $3.4 billion to decrease I&RP with corresponding adjustments of $3.0 billion to increase Gross Costs and $0.4 billion to decrease Other Financing Sources (non-exchange) was disclosed within the Statement of Change in Net Position to reflect the value of inventory in-transit.

As mentioned in Note 1.Q., *Summary of Significant Accounting Policies - Revenue and Other Financing Sources,* the three primary sources of revenue for the DAF WCF are from the sale of repair services, revenue from the Flying Hour Program, and the sale of reparable and consumable items. For the year ended September 30, 2020, consolidated revenue for each revenue stream is $4.5 billion, $4.2 billion, and $2.0 billion, respectively. The remaining $1.7 billion is associated to gains.

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 Standards and Concepts 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 Statements of Changes in Net Position

Pursuant to Statement of Federal Financial Accounting Standards (SFFAS) 55, *Amending Inter-entity Cost Provisions,* DoD Financial Management Regulation, Volume 4, Chapter 24, *Inter-Entity Costs,* directs all DoD components not to recognize imputed costs and corresponding imputed financing from non-business type activities other than inter-entity costs for personnel benefits and the U.S. Treasury Judgment Fund settlements. This election is permitted under SFFAS 55. However, as a business-type activity, the DAF WCF is also required to recognize imputed costs and imputed financing for goods and services received from other federal entities at no cost or at a cost less than the full cost. The DAF WCF is in the process of adopting this SFFAS.

The DAF WCF received $475.0 million of the $1.5 billion allocated to the Defense Working Capital Funds under division B, Title III, of the FY 2020 *Coronavirus Aid, Relief, and Economic Security Act* (P.L.116-136). For additional information, refer to Note 19, *COVID-19 Activity*.

Appropriations Received on the Statement of Changes in Net Position (SCNP) does not agree with Appropriations (discretionary and mandatory) on the Statement of Budgetary Resources (SBR). The $695.0 million in appropriations recorded in the DAF WCF were transferred from the Defense Working Capital Fund, and are included in the Appropriation line item on the SBR; however, they are reported as “Appropriations Transferred In/Out,” and not as “Appropriations Received” on the SCNP.

Other is comprised of capitalizations for which the DAF WCF could not determine the trading partner and reclassified from Other Financing Sources Transfers-In/Out Without Reimbursement.

Note 14 Disclosures Related to the Statements 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

The DAF WCF has a difference between the beginning of the year unobligated balance and the prior year's ending balance. This difference is attributed to the receipt of a $153.0 million unobligated balance transfer from the FY 2020 reprogramming action, Defense Working Capital Fund Prior Approval Request (FY20-13 PA). The DAF WCF received $280.5 million in funding from the FY 2020 reprogramming action, of which $153.0 million was provided through an unobligated balance transfer, and the remaining $127.5 million was provided through an appropriation transfer.

Undelivered Orders at the End of the Period

As of September 30	2020 (Unaudited)	2019 (Unaudited)
(Amounts in Thousands)		
Intragovernmental		
Unpaid	$ 2,311,018	$ 2,088,911
Total Intragovernmental	$ 2,311,018	$ 2,088,911
Non-Federal		
Unpaid	$ 6,088,228	$ 6,282,044
Prepaid/Advanced	162,197	126,056
Total Non-Federal	$ 6,250,425	$ 6,408,100
Total Budgetary Resources Obligated for Undelivered Orders at the End of the Period	$ 8,561,443	$ 8,497,011

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 2019 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 2021 President's Budget. The FY 2022 Budget will display the FY 2020 actual values and will be available at a later date at https://www.whitehouse.gov/omb/budget/.

Explanation of Differences between the SBR and the Budget of the U.S. Government				
As of September 30	Fiscal Year 2019 Actual (Amounts in Billions)			
	Budgetary Resources	New Obligations & Upward Adjustments (Total)	Distributed Offsetting Receipts	Agency Outlays, Net
Department of the Air Force Working Capital Fund Statement of Budgetary Resources	$ 19.2	$ 17.9	$ 0.0	$ 1.3
Adjustments				
United States Transportation Command Statement of Budgetary Resources*	$ 8.9	$ 8.2	$ 0.0	$ (0.1)
Combined Department of the Air Force Working Capital Fund and United States Transportation Command	$ 28.1	$ 26.1	$ 0.0	$ 1.2
Budget of the U.S. Government	$ 28.1	$ 26.1	$ 0.0	$ 1.2

**United States Transportation Command's (USTRANSCOM) financial results are not consolidated within the DAF WCF's financial results; however, the DAF WCF is required to report USTRANSCOM's cash in the DAF WCF's Budget of the U.S. Government.*

Contributed Capital

For information on the appropriation that the DAF WCF received under division B, Title III, of the FY 2020 *Coronavirus Aid, Relief, and Economic Security Act* (P.L. 116-136), refer to Note 19, *COVID-19 Activity*.

Note 15 Disclosures Related to Incidental Custodial Collections

The DAF WCF collected $6.8 thousand of incidental custodial revenues during the year ended September 30, 2020, 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 U.S. Treasury.

Note 16 Reconciliation of Net Cost to Net Outlays

As of September 30	2020 (Unaudited)		
	Intragovernmental	With the public	Total
(Amounts in Thousands)			
Net Cost of Operations	$ (7,955,797)	$ 10,304,707	$ 2,348,910
Components of Net Cost That are Not Part of Net Outlays:			
Property, plant, and equipment depreciation	$ 0	$ (192,412)	$ (192,412)
Property, plant, and equipment disposal & revaluation	0	1,041,581	1,041,581
Other	(22,838)	(10,965,977)	(10,988,815)
Increase/(decrease) in assets:			
Account Receivable	(97,546)	(981)	(98,527)
Other assets	0	(110,717)	(110,717)
(Increase)/decrease in liabilities:			
Accounts payable	(24,816)	114,788	89,972
Salaries and benefits	(7,766)	(183,148)	(190,914)
Other Liabilities (Unfunded Leave, Unfunded Federal Employees' Compensation Act, Actuarial Federal Employees' Compensation Act	17,548	132,642	150,190
Other financing sources:			
Federal employee retirement benefit costs paid by Office Personnel Management and Imputed to the agency	(191,670)	0	(191,670)
Total Components of Net Cost That Are Not Part of Net Outlays	$ (327,088)	$ (10,164,224)	$ (10,491,312)
Components of Net Outlays That Are Not Part of Net Cost:			
Acquisition of capital assets	$ 0	$ 4,329,843	$ 4,329,843
Acquisition of inventory	3,812,793	919,540	4,732,333
Other	(4)	0	(4)
Total Components of Net Outlays That Are Not Part of Net Cost	$ 3,812,789	$ 5,249,383	$ 9,062,172
Other Temporary Timing Differences			
Net Outlays	$ (4,470,096)	$ 5,389,866	$ 919,770
Agency Outlays, Net, Statement of Budgetary Resources			$ 448,045
Reconciling Difference			$ 471,725

As of September 30	2019 (Unaudited)		
	Intragovernmental	With the public	Total
(Amounts in Thousands)			
Net Cost of Operations	$ (8,115,156)	$ 9,976,169	$ 1,861,013
Components of Net Cost That are Not Part of Net Outlays:			
Property, plant, and equipment depreciation	$ 0	$ (179,800)	$ (179,800)
Property, plant, and equipment disposal & revaluation	0	147,417	147,417
Other	(19,285)	(10,262,764)	(10,282,049)
Increase/(decrease) in assets:			
Account Receivable	125,760	(656)	125,104
Other assets	(124,161)	132,985	8,824
(Increase)/decrease in liabilities:			
Accounts payable	(23,273)	(73,703)	(96,976)
Salaries and benefits	(2,883)	(16,798)	(19,681)
Other Liabilities (Unfunded Leave, Unfunded Federal Employees' Compensation Act, Actuarial Federal Employees' Compensation Act	9,997	(115,432)	(105,435)
Other financing sources:			
Federal employee retirement benefit costs paid by Office Personnel Management and Imputed to the agency	(217,950)	0	(217,950)
Total Components of Net Cost That Are Not Part of Net Outlays	$ (251,795)	$ (10,368,751)	$ (10,620,546)
Components of Net Outlays That Are Not Part of Net Cost:			
Acquisition of capital assets	$ 0	$ 4,577,548	$ 4,577,548
Acquisition of inventory	4,232,363	897,580	5,129,943
Other	(6)	0	(6)
Total Components of Net Outlays That Are Not Part of Net Cost	$ 4,232,357	$ 5,475,128	$ 9,707,485
Other Temporary Timing Differences			
Net Outlays	$ (4,134,594)	$ 5,082,546	$ 947,952
Agency Outlays, Net, Statement of Budgetary Resources			$ 1,277,805
Reconciling Difference			$ (329,853)

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

The table above illustrates this reconciliation of key differences between net cost and net outlays. The reconciling differences of $471.7 million and ($329.9) million as of September 30, 2020 and 2019, respectively, are due to the DAF WCF's financial system limitations, causing budgetary data to not reconcile with proprietary expenses and capitalized assets. This difference is a previously identified deficiency. In addition, the DAF WCF identified that there are uncorrected misstatements in the classification of activity amongst the Acquisition of Capital Assets, Property, Plant, and Equipment Disposal and Revaluation, and Other lines within the table above. The DAF WCF is unable to make the identified reclassification adjustments as these adjustments would not be in accordance with the current OSD policy. The issue is currently being researched to identify necessary corrective actions with plans for implementation in FY 2021.

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, 2020.

Note 18 Disclosure Entities and Related Parties

Effective in FY 2018, the Statement of Federal Financial Accounting Standards 47, *Reporting Entity,* requires agencies to disclose certain information for disclosure entities and related parties. The DAF WCF is still in the early stages of implementing this significant standard and completing a full impact analysis. When the DAF WCF fully implements this new standard, the DAF WCF will provide a thorough disclosure for Disclosure Entities and Related Parties.

Note 19 COVID-19 Activity

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

Coronavirus Aid, Relief, and Economic Security Act

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

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

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

The table below represents the appropriations received by the DAF WCF as of September 30, 2020.

DAF WCF Appropriations in the CARES Act (P.L. 116-136)

Appropriation Enactment *(Amounts in Millions)*	Received	Obligated	Carry-Over	Expended	Disbursed
Department of the Air Force Working Capital Fund - Maintenance	$ 321.5	$ 321.5	$ 0.0	$ 321.5	$ 321.5
Department of the Air Force Working Capital Fund - Supply	$ 153.5	$ 153.5	$ 0.0	$ 153.5	$ 153.5
Department of the Air Force Working Capital Fund - Total	$ 475.0	$ 475.0	$ 0.0	$ 475.0	$ 475.0

Other Information

The DAF WCF received $475.0 million of the $1.5 billion allocated to the Defense Working Capital Funds under division B, Title III, of the FY 2020 CARES Act. It was provided to support the cash balances of the DAF WCF and to mitigate cash solvency issues that were occurring prior to the COVID-19 outbreak. It was also provided to place the DAF WCF in a better position to support DoD readiness requirements without interruption, to protect the industrial base, and to maintain solvency within the account due to reduced revenue driven by COVID-19 impacts.

The Consolidated Sustainment Activity Group–Maintenance division was provided a $321.5 million appropriation to address the anticipated impact on cash liquidity and budgetary resources due to reduced revenue driven by production issues and COVID-19 impacts. Throughout FY 2019 and continuing into FY 2020, depot maintenance experienced production issues within engines, aircraft, and exchangeable workloads due to parts availability. This resulted in reduced throughput and caused a loss in the cash corpus. When depot maintenance cannot produce, revenue cannot be earned. As a result, $267.0 million of the appropriation received in budgetary resources was used to “replace” the reduced revenue driven by COVID-19 impacts and cover obligations incurred to maintain normal operations and maintain liquidity throughout the pandemic. The remaining $54.5 million was used to cover the additional overhead costs/obligations driven by COVID-19 impacts. In the depots, 20%–50% of the workforce were on Weather and Safety Leave due to local governments’ stay-at-home guidance. This resulted in the transfer of direct labor costs to indirect labor costs (e.g., overhead), and caused a loss in both cash corpus and budgetary resources.

The Consolidated Sustainment Activity Group–Supply division was provided a $153.5 million appropriation to address the anticipated impact on cash liquidity and to maintain solvency within the account due to reduced revenue (customer orders), resulting from reductions in the Flying Hour Program and depot maintenance production issues, driven by COVID-19 impacts. Since the appropriation was provided to mitigate the impacts resulting from reduced revenue, it was used in the same fashion that customer orders are used, and financed obligations incurred with the use of Contract Authority.

Note 20 Subsequent Events

Subsequent events were evaluated from the balance sheet date through November 12, 2020, which is the date the financial statements were available to be issued. The DAF WCF concluded that no events or transactions occurred or are pending that would have a material effect on the financial statements.

Fiscal Year 2020

DEPARTMENT OF THE AIR FORCE WORKING CAPITAL FUND

Required Supplementary Information

DISAGGREGATED STATEMENT OF BUDGETARY RESOURCES

For the Years Ended September 30, 2020 and 2019

(Amounts in Thousands)

	Operations, Readiness & Support	2020 Combined	2019 Combined
Budgetary Resources			
Unobligated balance from prior year budget authority, net (discretionary and mandatory)	$ 1,412,247	$ 1,412,247	$ 1,527,387
Appropriations (discretionary and mandatory)	694,999	694,999	77,644
Contract Authority (discretionary and mandatory)	8,718,622	8,718,622	10,964,575
Spending Authority from offsetting collections (discretionary and mandatory)	6,675,624	6,675,624	6,639,343
Total Budgetary Resources	$ 17,501,492	$ 17,501,492	$ 19,208,949
Status of Budgetary Resources			
New obligations and upward adjustments (total)	$ 16,246,003	$ 16,246,003	$ 17,949,702
Unobligated balance, end of year:			
Apportioned, unexpired accounts	1,255,489	1,255,489	1,259,247
Unexpired unobligated balance, end of year	1,255,489	1,255,489	1,259,247
Unobligated balance, end of year (total)	$ 1,255,489	$ 1,255,489	$ 1,259,247
Total Budgetary Resources	$ 17,501,492	$ 17,501,492	$ 19,208,949
Outlays, Net			
Outlays, net (total) (discretionary and mandatory)	$ 448,045	$ 448,045	$ 1,277,805
Agency Outlays, net (discretionary and mandatory)	$ 448,045	$ 448,045	$ 1,277,805

The accompanying notes are an integral part of these statements.

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MANAGEMENT RESPONSE LETTER

DEPARTMENT OF THE AIR FORCE
WASHINGTON DC

OFFICE OF THE ASSISTANT SECRETARY

12 November 2020

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 Audit Reports prepared for the Fiscal Year 2020 General Fund and Working Capital Fund financial statements. We acknowledge and concur with the disclaimer of opinion that resulted from your audit findings, which are included in your report of Internal Control Over Financial Reporting and in your report of Compliance and Other Matters. We continue to learn from these audits and are committed to improving our financial management operations in the upcoming fiscal years.

In Fiscal Year 2020, we revamped our audit strategy to accelerate the timeline towards a clean audit opinion. We proactively targeted critical material weaknesses, including the Department of the Air Force's Fund Balance with Treasury, Contingent Legal Liabilities, and General Equipment (Including Military Equipment).

The execution of our audit strategy has been challenged by the global COVID-19 pandemic. Although the extent of the impact of COVID-19 is currently unknown, we will diligently continue our efforts to assess and alleviate its effects on our business operations to the extent possible.

Additionally, the complexity of our Information Technology environment and limited data analytics continue to be key challenges in Fiscal Year 2020. Undisputedly, modernizing our complex and disparate Information Technology environment will take time. In the interim, we have begun the process to reduce our legacy Information Technology portfolio with the implementation of an Information Technology modernization strategy—including automating portions of our control environment through Robotics Process Automation and centralizing and maturing our data analytics environment to support remediation activities. We remain steadfast in our commitment to mitigate these challenges and execute the audit strategy.

Sincerely,

John P. Roth
Assistant Secretary of the Air Force
(Financial Management and Comptroller)

Financing the Fight

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OTHER INFORMATION

Senior Airman Sara Gutherie, 911th Aircraft Maintenance Squadron instruments and controls technician, adjusts her headset to communicate with maintainers inside the C-17 Globemaster III during an inspection at the Pittsburgh International Airport Air Reserve Station, Pennsylvania. Maintenance Airmen communicate with each other through headsets while inspecting a variety of aircraft functions. (Photo credit: Joshua J. Seybert)

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 22 material weaknesses identified by the Independent Public Accountant (IPA) during the DAF's financial statement audit.

Table 1. Fiscal Year 2020 Summary of Financial Statement Audit

Audit Opinion: Disclaimer of Opinion							
Restatement: No							
Material Weakness	Beginning Balance	New	Resolved	Consolidated	Ending Balance	DAF GF	DAF WCF
Integration and Reconciliation of Financial Systems	2	-	-	-	2	1	1
Operating Materials and Supplies	1	-	-	-	1	1	-
Property and Materials Held by Others	1	-	-	-	1	1	-
Inventory Held by DAF WCF	1	-	-	-	1	-	1
Inventory Held by Others	1	-	-	-	1	-	1
General Property, Plant and Equipment	1	-	-	-	1	-	1
Real Property	1	-	-	-	1	1	-
General Equipment (including Military Equipment)	1	-	-	(1)	-	-	-
Military Equipment	-	1	-	-	1	1	-
Other General Equipment	-	1	-	-	1	1	-
Earned Revenue and Accounts Receivable	1	-	-	-	1	-	1
Fund Balance with Treasury	2	-	-	-	2	1	1
Accumulating and Preparing Financial Statements	2	-	-	-	2	1	1
Oversight and Monitoring of Internal Control	2	-	-	-	2	1	1
Contingent Legal Liabilities	1	-	-	-	1	1	-
Contract Financing Payments	2	-	-	(2)	-	-	-
Accounts Payable, Expenses/ Gross Costs and Accounting for Contract Financing Payments	-	2	-	-	2	1	1
Establishing Opening Balances for Assets Used in Operations	2	-	-	(2)	-	-	-
Financial Information Systems	2	-	-	-	2	1	1
Total Material Weaknesses	23	4	-	(5)	22	12	10

As required, the DAF managers establish and assess internal control over reporting, mission-essential operations, and financial management systems. Management-identified weaknesses are determined by assessing internal controls, as required by the *Federal Managers' Financial Integrity Act of 1982* (FMFIA), the *Federal Financial Management Improvement Act of 1996* (FFMIA), and Office of Management and Budget (OMB) Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control* (OMB A-123). Assessments of internal controls fall into one of the following categories:

- FMFIA Section 2, *Effectiveness of Internal Control over 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.

Table 2. Fiscal Year 2020 Summary of Management Assurances

Effectiveness of Internal Control over Reporting (FMFIA Section 2)					
Statement of Assurance: Modified Assurance					
Material Weakness	Beginning Balance	New	Resolved	Consolidated	Ending Balance
Accumulating and Preparing Financial Statements (DAF GF)				1	1
Oversight and Monitoring of Internal Controls (formerly 'Oversight and Monitoring') (DAF GF)	1				1
Property and Materials Held by Others (DAF GF)				1	1
Operating Materials & Supplies (DAF GF)	1				1
Real Property (formerly 'Real Property Valuations') (DAF GF)	1				1
Integration and Reconciliation of Financial Statements (DAF GF)				1	1
Fund Balance with Treasury (DAF GF)	1				1
Establishing Opening Balances for Assets (and related liabilities) used in Operations (DAF GF)		1			1
Contingent Legal Liabilities (DAF GF)		1			1
General Equipment (Including Military Equipment) (DAF GF)		1			1
Contract Financing Payments (formerly 'Multi Service Contract Accounting Department of Defense Accounting Policies') (DAF GF)	1				1
Financial Reporting (DAF GF)	1			(1)	0
Statement of Net Cost (DAF GF)	1			(1)	0
Reconciliation of Net Cost of Budget to Operations (DAF GF)	1			(1)	0
Intragovernmental Eliminations (DAF GF)	1			(1)	0
Government Furnished Equipment (DAF GF)	1			(1)	0

Effectiveness of Internal Control over Reporting (FMFIA Section 2)					
Statement of Assurance: Modified Assurance					
Material Weakness	Beginning Balance	New	Resolved	Consolidated	Ending Balance
Contractor-Inventory Control Point (DAF GF)	1			(1)	0
Inaccurate Financial Records (DAF GF)	1			(1)	0
Miscellaneous Obligations/Reimbursement Documents (DAF GF)	1			(1)	0
Lack of Complete Universe of Transactions (DAF GF and DAF WCF)	1			(1)	0
Fund Balance with Treasury (DAF WCF)	1				1
Earned Revenue (DAF WCF)	1				1
Inventory Held by Air Force Working Capital Fund (DAF WCF)	1				1
Inventory Held by Others (DAF WCF)	1				1
Contract Financing Payments (DAF WCF)		1			1
Establishing Opening Balances for Assets Used in Operations (DAF WCF)	1				1
General Property, Plant and Equipment (DAF WCF)	1				1
Accumulating and Preparing Financial Statements (DAF WCF)	1				1
Oversight and Monitoring of Internal Controls (DAF WCF)	1				1
Integration and Reconciliation of Financial Systems (formerly 'Integration and Reconciliation of Legacy Financial Systems') (DAF WCF)	1				1
Establishing Opening Budgetary Balances (DAF WCF)	1			(1)	0
In transit Inventory (DAF WCF)	1			(1)	0
Total Material Weaknesses	25	4	0	(8)	21

Effectiveness of Internal Control over Operations (FMFIA Section 2)					
Statement of Assurance: Modified Assurance					
Material Weakness	Beginning Balance	New	Resolved	Consolidated	Ending Balance
Defense Contract Management Agency Contracts (DAF GF and DAF WCF)	1				1
Overseas Housing Allowance (DAF GF)	1				1
Energy Meter Management (DAF GF)	1				1
Air Force Review Boards Agency Case Backlogs (DAF GF)	1		(1)		0
Enterprise Information Protection Capability (DAF GF and DAF WCF)	1				1
Defense Travel System Controls (DAF GF and DAF WCF)	1				1
Foreign Government Employment (DAF GF)	1				1
Electronic Records Hygiene (DAF GF and DAF WCF)	1				1
Criminal History Data Reporting Requirements (DAF GF)	1				1
Cybersecurity of Network Component Purchases (DAF GF and DAF WCF)	1				1
Cyber Security Control of Assessment Systems (DAF GF)	1				1
Marketing and Recruiting Programs (DAF GF)		1			1
Networked Data Protection (DAF GF and DAF WCF)		1			1
F-35 Cooperative Training (DAF GF)		1			1
Total Material Weaknesses	11	3	(1)	0	13

Conformance With Federal Financial Management Systems Requirements (FMFIA Section 4)					
Statement of Assurance: Modified Assurance					
Material Weakness	Beginning Balance	New	Resolved	Consolidated	Ending Balance
Financial Information Systems (DAF GF)	1				1
Financial Information Systems (DAF WCF)	1				1
Total Material Weaknesses	2	0	0	0	2

Compliance With Section 803(A) Of The Federal Financial Management Improvement Act (FFMIA)		
	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
USSGL at Transaction Level	Lack of compliance noted	Lack of compliance noted

FRAUD REDUCTION REPORT

The *Payment Integrity Information Act of 2019*, which repealed and incorporated the *Fraud Reduction and Data Analytics Act of 2015*, requires federal agencies to improve financial and administrative controls related to assessing and mitigating fraud risks. It requires federal agencies to improve development and use of data analytics to detect, prevent, and respond to fraud by incorporating the leading practices identified in the Government Accountability Office's (GAO) *Framework for Managing Fraud Risks in Federal Programs*. Additionally, the Office of Management and Budget (OMB) Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control* (OMB A-123), directs agencies to adhere to the GAO Fraud Risk Management (FRM) Framework. Furthermore, GAO-14-704G, *Standards for Internal Control in the Federal Government* (the Green Book) promulgates standards for assessing fraud risk. As of September 30, 2020, the DAF has multiple programs and strategies in place, or in development, to prevent, detect, and respond to fraud.

AIR FORCE OFFICE OF SPECIAL INVESTIGATIONS

The Air Force Office of Special Investigations (OSI) is the federal law enforcement and counterintelligence agency for the Air Force and United States Space Force (USSF). In accordance with DoD Instruction (DoDI) 5505.02, *Criminal Investigations of Fraud Offenses*, OSI has the primary responsibility for investigating all allegations of fraud within the DAF involving:

- Contract and procurement actions
- Allegations of fraud involving the Defense Finance and Accounting Service
- Defense Logistics Agency services and distribution activities impacting the DAF
- Allegations of fraud across all Air Force and USSF installations
- Matters regarding the Army and Air Force Exchange Service
- Fraud perpetrated against TRICARE by beneficiaries
- Any other allegations of fraud and corruption across the DoD and Combatant Commands that relate to DAF activities

OSI works with the Department of Justice on criminal and civil prosecutions, with the Deputy General Counsel (Contractor Responsibility) (SAF/GCR) on procurement fraud remedies, and with System Program Offices on contractual remedies. OSI fraud investigations have been responsible for over $1.0 billion in recoveries to the DAF and U.S. Government. Further, OSI provides fraud prevention training across the Air Force, USSF, and the DoD.

QUALITY ASSURANCE PROGRAM

The Quality Assurance Program (QAP) oversees financial management (FM)-related fraud prevention and detection by designating a Quality Assurance Manager (QAM) at each DAF installation. QAMs are responsible for administering FM Quality Assurance and are the focal point for fraud prevention and awareness (e.g., training, communication, and reviews) within the DAF's FM organizations. Additionally, the QAP assists with fraud monitoring through a series of financial metrics that measure the performance of key Military Pay, Civilian Pay, and Travel Pay processes. These processes are considered high priority due to leadership's strategic goal to deliver financial management excellence through providing outstanding financial customer service and to pay vendors accurately and timely. Furthermore, the QAP implements multiple methods for preventing, detecting, and responding to fraud:

Fraud awareness training and education:

- Introductory briefings on local fraud prevention measures for new hires
- Fraud related items, including fraud cases external to the DAF, are distributed across organizations to raise awareness of potential fraud scenarios
- Mandatory annual fraud, waste, abuse, and mismanagement briefings
- Fraud indicators familiarization
- Ethics training

Guidelines for mitigating controls:

- Comptroller access guides require the base comptroller's review and signature attesting that adequate internal controls are in place for individuals with access to multiple systems
- The QAM must check for fraud, waste, abuse, and mismanagement in every review or audit conducted

Clear instructions for DAF installations to report any suspected fraud to the following individuals:

- Air Force Office of Special Investigations
- Security Forces Investigative Unit
- Air Force Audit Agency
- Wing Inspector General
- Staff Judge Advocate (local legal office)

COMPLAINTS RESOLUTION PROGRAM

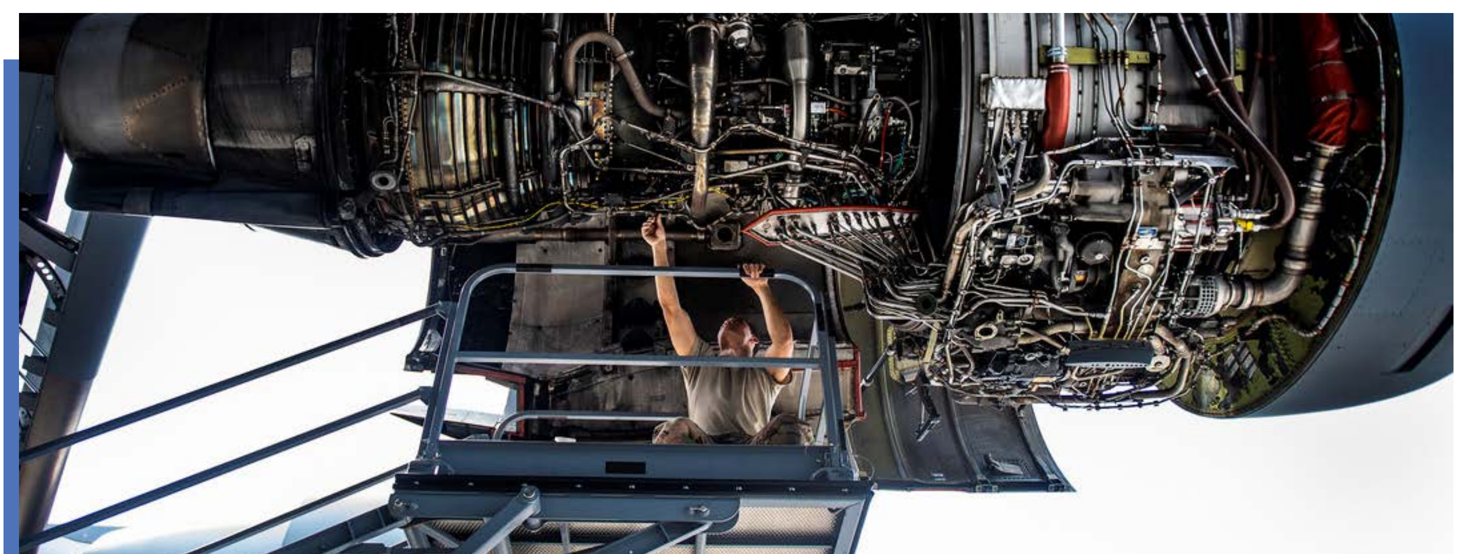
The Complaints Resolution Directorate supports the DoD's Office of the Inspector General with the complaints resolution program. The program verifies that fraud investigations are conducted and complaints are managed, monitored, and reported accordingly.

PROCUREMENT FRAUD REMEDIES PROGRAM

The SAF/GCR is responsible for the DAF's Procurement Fraud Remedies Program and is the designated Suspending/Debarring Official for the DAF. The program monitors and coordinates remedies in significant procurement fraud cases in accordance with DoDI 7050.05, *Coordination of Remedies for Fraud and Corruption Related to Procurement Activities*.

ENTERPRISE RISK MANAGEMENT AND INTERNAL CONTROL PROGRAM

The Deputy Chief Management Officer and the Assistant Secretary of the Air Force for Financial Management and Comptroller lead the DAF's enterprise risk management and internal control program. The program manages risks and internal controls over operations, reporting, and compliance with applicable laws and regulations to enable the DAF to more efficiently and effectively achieve its mission and strategic objectives. Fraud is an important factor in managing these risks and is considered in risk assessments at both the enterprise level and at the process level, which includes risk assessments associated with financial reporting and financial systems.



Staff Sgt. Andre Rivera, 911th Maintenance Squadron jet propulsion technician, inspects a C-17 Globemaster III engine during a Home Station Check inspection at the Pittsburgh International Airport Air Reserve Station, Pennsylvania. (Photo credit: Joshua J. Seybert)

COMPREHENSIVE FRAUD RISK MANAGEMENT STRATEGY

In addition to these existing programs, the DAF is currently designing a comprehensive FRM strategy that it plans to implement in FY 2021, which will incorporate existing programs and provide a more holistic approach to FRM. Prior to designing the strategy, the DAF first assessed the current state of its FRM governance and activities against the leading practices identified in the GAO Framework for Managing Fraud Risks. Additionally, the DAF conducted its first comprehensive assessment of internal control activities related to fraud within high-priority fraud focus areas identified by the DoD FRM Strategy (travel cards, government purchase cards, payroll and benefits, procurement [including large contracts], asset safeguards, and information technology). This assessment involved the evaluation of internal control activities for proper design, implementation, and operating effectiveness, and identified opportunities to improve upon existing fraud prevention and detection measures.

The DAF incorporated the results of these assessments into the design of the FRM Strategy. The FRM Strategy will enable the DAF to align its FRM Program efforts to that of DoD's FRM Strategy and will include the following elements:

- Governance, Roles and Responsibilities
- Comprehensive Communication and Training
- Annual Fraud Risk Assessments in accordance with the GAO Green Book
- Annual Fraud Control Assessments
- Data Analytics
- Corrective Action Plans

The DAF's FRM Strategy will be refreshed on an annual basis and will incorporate results of fraud risk and control assessments, fraud data analytics, and input from the DAF's FRM stakeholders, other programs, and external oversight bodies.

Airmen from the 31st and 731st Munition Squadrons compete in the Rapid Aircraft Generation and Employment (RAGE) weapons-loading competition at Aviano Air Base, Italy. Dressed as the legendary, Rosie the Riveter, the first all-female team, or "Bouncing Bettys," took first place in the RAGE event by demonstrating preparation and communication which are bedrocks for success in any military conflict. (Photo credit: Airman 1st Class Ericka A. Woolever)

BIENNIAL REVIEW OF USER FEES

The *Chief Financial Officers Act of 1990* and the Office of Management and Budget (OMB) 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. Based on the current FY review, the DAF did not identify any required adjustments. The DAF will perform another review of user fees in FY 2022.

AIR FORCE THUNDERBIRDS CONDUCT FLYOVERS AS A THANK-YOU TO COVID-19 RESPONDERS

In April, the Air Force Thunderbirds—along with the Navy's Blue Angels—began the "America Strong" tour, during which the Military Services' premiere demonstration teams traversed the country to honor everyday heroes.

The tour began in New York, New Jersey, and Pennsylvania in April with sky-high salutes to the first responders, essential employees, and U.S. troops on the frontlines of the Coronavirus Disease 2019 pandemic.

The U.S. Air Force Air Demonstration Squadron "Thunderbirds" fly over parts of Colorado during an Air Force Salutes flyover. (Photo credit: Staff Sgt. Cory W. Bush)

GLOSSARY OF ACRONYMS

AC	Access Controls
ACC	Air Combat Command
ACES-RP	Automated Civil Engineer System - Real Property
ACF	Area Cost Factor
ADA	Anti-Deficiency Act
AETC	Air Education and Training Command
AFB	Air Force Base
AFCEC	Air Force Civil Engineer Center
AFCEC/CZTQ	Air Force Civil Engineer Center/Environmental Equality Technical Support Branch
AFFF	Aqueous Film Forming Foam
AFGSC	Air Force Global Strike Command
AFI	Air Force Instruction
AFLOA	Air Force Legal Operations Agency
AFMC	Air Force Materiel Command
AFR	Agency Financial Report
AFRC	Air Force Reserve Command
AFSOC	Air Force Special Operations Command
AFSPC	Air Force Space Command
AMC	Air Mobility Command
ANG	Air National Guard
AP	Accounts Payable
APSR	Accountable Property System of Record
ASB	Asbestos
AST	Aboveground Storage Tank
ATB	Adjusted Trial Balance
BAH	Basic Allowance for Housing
BCE	Base Civil Engineer
BD/BR	Building Demolition and Debris Removal
BRAC	Base Realignment and Closure
CA	Construction Agents
CAP	Contractor-Acquired Property
CARES Act	Coronavirus Aid, Relief, and Economic Security Act
CBY	Charge-Back Year

CCAS	Consolidated Cash Accountability System
CE	Civil Engineering
CEM	Control Evaluation Matrix
CEMS	Comprehensive Engine Maintenance System
CERCLA	Comprehensive Environmental Response, Compensation, and Liability Act
CFP	Contract Financing Payments
CFR	Code of Federal Regulations
C-ICP	Contractor-Inventory Control Point
CIP	Construction in Progress
CLL	Contingent Legal Liabilities
CM	Corrective Maintenance
CM	Configuration Management
CMSAF	Chief Master Sergeant of the Air Force
COLA	Cost of Living Adjustment
COVID-19	Coronavirus Disease 2019
CPI-M	Consumer Price Index Medical
CSAF	Chief of Staff of the Air Force
CSAG	Consolidated Sustainment Activity Group
CSO	Chief of Space Operations
CSOC	Complementary Subservice Organization Control
CTC	Cost-to-Complete
CUEC	Complementary User Entity Controls
DAF	Department of the Air Force
DAF GF	Department of the Air Force General Fund
DAF WCF	Department of the Air Force Working Fund
DAFBOP	Department of the Air Force Business Operations Plan
DARWG	Defense Audit Remediation Working Group
DCPS	Defense Civilian Pay System
DDRS-AFS	Defense Departmental Reporting System - Audited Financial Statements
DDRS-B	Defense Departmental Reporting System-Budgetary
DEAMS	Defense Enterprise Accounting and Management System
DERP	Defense Environmental Restoration Program
DFAS	Defense Finance and Accounting Service
DFC	Development Finance Corporation
DIFMS	Defense Industrial Financial Management System
DISA	Defense Information Systems Agency

DLA	Defense Logistics Agency
DM&R	Deferred Maintenance and Repair
DMISA	Depot Maintenance Interservice Agreement
DMLSS	Defense Medical Logistics Standard Support
DoD	Department of Defense
DoDI	Department of Defense Instruction
DOL	Department of Labor
DoT	Department of Transportation
DPA	Defense Production Act
DPAS	Defense Property Accountability System
DRU	Direct Reporting Unit
DSS	Distribution Standard System
DTS	Defense Travel System
E&DL	Environmental and Disposal Liability
ECA	Environmental Corrective Action
ECR	Environmental Closure Requirements
EIAP	Environmental Impact Analysis
EISP	End Item Sales Price
EO	Executive Order
EOP	Executive Office of the President
EOU	Excess, obsolete, and unserviceable
EPIC	Enterprise Productivity Improvement Council
ERA	Environmental Restoration Liabilities
EROR	Environmental Response at Operational Range
ERP	Enterprise Resource Planning System
ESC	Executive Steering Committee
EY	Ernst & Young
FAR	Federal Acquisition Regulation
FASAB	Federal Accounting Standards Advisory Board
FBwT	Fund Balance with Treasury
FECA	Federal Employees' Compensation Act
FFMIA	Federal Financial Management Improvement Act
FHIF	Family Housing Improvement Fund
FIABS	Financial Inventory Accounting and Billing System
FISCAM	Federal Information System Controls Audit Manual
FMFIA	Federal Managers' Financial Integrity Act

FMR	Financial Management Regulation
FMS	Foreign Military Sales
FOA	Field Operating Agency
FOB	Free On Board
FRM	Fraud Risk Management
FY	Fiscal Year
FYDP	Future Year Defense Plan
FYE	Fiscal Year End
GAAP	Federal Generally Accepted Accounting Principles
GAFS-R	General Accounting and Finance System–Re-engineered
GAGAS	Generally Accepted Government Auditing Standards
GAO	Government Accountability Office
GPP&E	General Property, Plant and Equipment
GE-Other	Other General Equipment
GFE	Government Furnished Equipment
GFP	Government Furnished Property
G-Invoicing	Government Invoicing
GL	General Ledger
GSD	General Support Division
HAF	Headquarters Air Force
I&RP	Inventory and Related Property
I&RP	Inventory in Development
IC	Interface Controls
ICO	Internal Controls Over Operations
ICOFS	Internal Controls Over Financial Systems
ICOR	Internal Controls Over Reporting
ILS-S	Integrated Logistics Systems-Supply
IPA	Independent Public Accountant
IPAC	Intragovernmental Payment and Collection
IRP	Installation Restoration Program
IS	Information Systems
ISR	Intelligence, Surveillance, and Reconnaissance
IT	Information Technology
IUS	Internal Use Software
JCS	Joint Chiefs of Staff
JOCAS	Job Order Cost Accounting System II

JSF	Joint Strike Fighter
JV	Journal Voucher
LAC	Latest Acquisition Cost
LLC	Limited Liability Company
LMP	Logistics Modernization Program
LOE	Line of Effort
LOP	Lease of Property
LRC	Latest Repair Cost
MAC	Moving Average Cost
MAJCOM	Major Command
MALD	Miniature Air-Launched Decoy
MC	Munition Constituent
MDD	Medical Dental Division
MDMA	Master Development and Management Agreement
ME	Military Equipment
ME/WP	Military Equipment and Weapon Programs
MHPI	Military Housing Privatization Initiative
MILCON	Military Construction
MILPERS	Military Personnel
MILSTRIP	Military Standard Requisitioning and Issue Procedures
MMRP	Military Munitions Response Program
MOCAS	Mechanization of Contract Administration Services
MORD	Miscellaneous Obligation and Reimbursement Document
MRAP	Mine-Resistant Ambush Protected
NAVFAC	Naval Facilities Engineering Command
NDAA	National Defense Authorization Act
NDBOP	National Defense Business Operations Plan
NDS	National Defense Strategy
NextGen-IT	Next Generation Information Technology
NHPA	National Historic Preservation Act
NMSUAF	National Museum of the United States Air Force
NRHP	National Register of Historic Places
NRV	Net Realizable Value
NSN	National Stock Number
O&M	Operations and Maintenance
OASD EI&E	Office of the Assistant Secretary of Defense Energy, Installations, and Environment

OCFP	Outstanding Contract Financing Payments
OEL	Other Accrued Environmental Liabilities – Non-BRAC
OHA	Overseas Housing Allowance
OM&S	Operating Materials and Supplies
OMB	Office of Management and Budget
OPM	Office of Personnel Management
OSD	Office of the Secretary of Defense
OSI	Office of Special Investigations
OUSD	Office of the Under Secretary of Defense
OWS	Oil Water Separators
P2P	Procure to Pay
P3s	Public-Private Partnerships
PAC	Potentially Asbestos Containing
PACAF	Pacific Air Forces
PBL	Performanced Based Logistics
PCM	Process Cycle Memorandum
PFAS	Poly-fluoroalkyl Substances
PFOA	Perfluorooctanoic Acid
PFOS	Perfluorooctanoic Sulfonic Acid
PIF	Performance Incentive Fee
PIP	Performance Incentive Plan
POA&Ms	Plans of Action and Milestones
POM	Program Objective Memorandum
PPV	Public Private Venture
PRV	Plant Replacement Value
PUC	PRV Unit Cost
QAM	Quality Assurance Manager
QAP	Quality Assurance Program
QDD	Quantitative Drill Down
RACER	Remedial Action Cost Engineering and Requirements
RAF	Royal Air Force
RCRA	Resource Conservation and Recovery Act
RDT&E	Research, Development, Test, and Evaluation
REMIS	Reliability and Maintainability Information Systems
RMM	Risks of Material Misstatement
RP	Real Property

RPA	Remotely Piloted Aircraft Systems
RPAD	Real Property Asset Database
RPCS	Real Property Categorization System
RPIM	Real Property Information model
RPO	Real Property Office
RPUID	Real Property Unique Identifier
SAF/GCR	Deputy General Counsel (Contractor Responsibility)
SAT	Senior Assessment Team
SBR	Statement of Budgetary Resources
SBR-ART	Statement of Budgetary Resources Automated Reconciliation Tool
SCNP	Statement of Changes in Net Position
SDP	Savings Deposit Program
SFFAC	Statement of Federal Financial Accounting Concepts
SFFAS	Statement of Federal Financial Accounting Standard
SHPO	State Historic Preservation Officer
SM	Security Management
SMAG-R	Supply Management Activity Group – Retail
SMAS	Standard Material Accounting System
SMS	Sustainment Management Systems
SNC	Statement of Net Cost
SOC	Service Organization Controls
SoD	Segregation of Duties
SOF	Special Operations Forces
SOP	Standard Operating Procedures
SpOC	Space Operations Command
SSAE	Statement of Standards for Attestation Engagements
SSC	Space Systems Command
STAR	Space Training and Readiness
STARCOM	Space Training and Readiness Command
TFM	Treasury Financial Manual
TICMS	Theater Integrated Combat Munitions System
TNC	Treasury Nominal Coupon
TOA	Total Obligation Authority
U.S.	United States
U.S.C	U.S. Code

UDC	User Defined Costs
USACE	U.S. 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
US GAAP	U.S. Generally Accepted Accounting Principles
USSF	United States Space Force
USSGL	U.S. Standard General Ledger
UST	Underground Storage Tank
UTB	Unadjusted Trial Balance
UXO	Unexploded Ordnance
VV&A	Verification, Validation, and Accreditation
WHS	Washington Headquarters Services
WMM	Waste Military Munitions
WRM	War Reserve Material
WSS	Weapons System Sustainment

BACK COVER CREDIT

Staff Sgt. Alfer Thompson, a radio frequency transmission systems journeyman, assigned to the 130th Engineering and Installation Squadron, is greeted by his wife Camille and daughter Maegan at Salt Lake International Airport, Utah. Thompson, along with other members of his unit, returned home after a six-month deployment in the Middle East. (Photo credit: Tech. Sgt. John Winn)

FOR MORE INFORMATION OR TO CONTACT US:

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