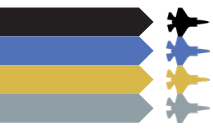




# DEPARTMENT OF THE AIR FORCE

AGENCY FINANCIAL REPORT  
FISCAL YEAR 2023



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# MESSAGE FROM THE SECRETARY OF THE AIR FORCE



8 November 2023

On behalf of all the Airmen and Guardians proudly serving in our great nation’s Air Force and Space Force, I am pleased to present the Fiscal Year 2023 Agency Financial Report. This in-depth report provides a transparent view into the Department of the Air Force’s finances and how we used appropriated resources to carry out our air, space, and cyberspace missions.

The Department of the Air Force has undergone six full financial statement audit cycles. Our teams are continuing to push the audit remediation effort, leveraging lessons learned and collaborating across the enterprise to develop and implement solutions aimed at reducing our material weaknesses, which can be found in the *Analysis of Systems, Controls, and Legal Compliance* section and within the *Reports of the Independent Public Accountant*.

In Fiscal Year 2023, the Department of the Air Force continued its support for the Secretary of Defense’s audit priorities and targeted the largest dollar value line items on our balance sheet for remediation, i.e., Fund Balance with Treasury and Military Equipment. These significant efforts improved overall controls and our oversight of balances, accountability of budgetary resources, and monitoring of our Service Providers.

The audit continues to highlight the risks posed by our large population of systems that were not designed or developed to meet current cyber and financial requirements. We are aggressively working to reduce our system footprint and modernize our enduring architecture. The Department of the Air Force also took major steps in strengthening our cybersecurity posture by continuing to execute against our Identity, Credential, and Access Management onboarding roadmap, bringing multi-factor authentication and more robust access management capabilities to our systems. The Department of the Air Force prioritized an interoperability initiative to tackle interconnectivity issues stemming from dated and disparate systems.

While audits tend to shine a bright light on deficiencies, they also illuminate pathways for real and meaningful change. The Department of the Air Force is seizing those opportunities and revolutionizing the way we do business. We are optimizing our workforce by replacing tedious, manual processes with process automation. We are enhancing readiness by improving the accuracy of amounts, locations, and condition of assets within our systems. We are reducing cyber security threats by introducing more encompassing, enterprise-wide security solutions that are designed to prevent unauthorized access and reduce risk. We are also enhancing our operational systems by moving toward more tightly integrated systems that are ‘purpose built’ to achieve the requirements of today and the scalability for tomorrow’s needs.

I am proud of the work done by the Department of the Air Force in Fiscal Year 2023 and remain confident that our team has emerged stronger and smarter, united in our goal of transforming our processes, systems, and capabilities. Our efforts are vital to ensure our Airmen and Guardians have what they need, when they need it, and that the American public can have confidence that the Department of the Air Force is a trusted steward of the funds we are provided. *One Team, One Fight!*



Frank Kendall



A front-facing view of an F-35 fighter jet. The image is dominated by the clear, spherical canopy, which reflects the sky and clouds. Below the canopy, the nose of the aircraft is visible, showing several sensor pods and the intake openings. The background is a bright blue sky with scattered white clouds. The overall composition is symmetrical and centered.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

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*An aircraft from the USAF F-35 Lightning II Demonstration Team at the Kentucky Air National Guard Base for the Thunder Over Louisville air show. The annual event featured more than 20 military and civilian aircraft.  
—Photo: U.S. Air National Guard photo by Dale Greer*

# OVERVIEW



The USAF Air Demonstration Squadron "Thunderbirds" fly F-16 Fighting Falcons above the McChord Field flightline during their rehearsal for the Joint Base Lewis-McChord Airshow and Warrior Expo (JAWE) at Joint Base Lewis-McChord, WA. The mission of the JAWE is to foster goodwill to educate and familiarize attendees with the people, mission, and equipment of the DAF, Army, and other armed services while continuing to provide installation-wide mission support.

—Photo: USAF photo by Airman 1<sup>st</sup> Class Kylee Tyus

The Department of the Air Force (DAF) was established under the *National Security Act of 1947*, becoming one of three military departments within the Department of Defense (DoD). The DAF is comprised of the United States (U.S.) Air Force (USAF) and the U.S. Space Force (USSF). The USAF was created in 1907 as a functional component of the U.S. Army and is the fifth branch of the U.S. Armed Forces. On December 20, 2019, as part of the Fiscal Year (FY) 2020 *National Defense Authorization Act*, the USSF became the sixth branch of the U.S. Armed Forces, established as a Military Service within the DAF. For FY 2023, the USSF is reported as part of the DAF General Fund (GF) financial statements.

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

## MANAGEMENT'S DISCUSSION AND ANALYSIS

This section contains a narrative composed of the overview, missions, and organization of the DAF; a high-level discussion of performance goals, objectives, and results over the past FY; an analysis of the financial

statements; an analysis of systems, controls, and legal compliance; and forward-looking information. Information for the DAF GF and the DAF Working Capital Fund (WCF) are included within this section.

## FINANCIAL SECTION

This section includes a message from the Chief Financial Officer, principal financial statements (Consolidated Balance Sheets, Consolidated Statements of Net Cost, Consolidated Statements of Changes in Net Position, and Combined Statements of Budgetary Resources), associated notes, Required Supplementary Information, the Report of Independent Auditors, and the Management Response Letter. This information is presented separately for the DAF GF and the DAF WCF. The DAF GF captures core DAF administrative and operational tasks. Comparatively, the DAF WCF captures business-like acquisition and repair activities primarily funded through sales revenue, rather than Congressional appropriations.

## OTHER INFORMATION SECTION

The final section is composed of the summary of the financial statement audit and management assurances, the results of the DAF's biennial review of user fees, climate-related financial risk and the glossary of acronyms.



## MISSION

The DAF requires the right size and mix of agile capabilities to compete, deter, and win in a more competitive and dangerous international security environment than the U.S. has encountered in generations. As part of the joint force, the combined effort across military departments, the DAF's first responsibility is to integrate air and space capabilities across domains. To ensure continued success in the increasingly complex security environment, the USAF and the USSF have respectively outlined core missions and lines of effort (LOE) to meet the DAF's mission objectives.



Two HH-60G Pave Hawks fly overhead during exercise Fury Horizon 23 at Avon Park Air Force Range, FL. The combat search and rescue exercise is designed to sharpen the wing's sustained wartime contingency operations in a contested and operationally limited environment by engaging with realistic tactical challenges during a mass rescue.  
—Photo: USAF photo by Senior Airman Nicole Koreen



# MISSION



A T-38 Talon assigned to 50<sup>th</sup> Fighter Training Squadron (FTS), Columbus Air Force Base (AFB), MS, sits on the flightline at MacDill AFB, FL. Students with the 50<sup>th</sup> FTS train on advanced aircraft handling, tactical navigation, and fluid maneuvering.

—Photo: USAF photo by Airman 1<sup>st</sup> Class Zachary Foster

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

The USAF consistently executes against five core functions:

» **AIR SUPERIORITY**...*freedom from attack and the freedom to attack*

Air superiority ensures that advantages of the other USAF 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.

» **GLOBAL STRIKE**...*any target, any time*

The USAF'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 USAF aircraft.

» **RAPID GLOBAL MOBILITY**...*delivery on demand*

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



# MISSION

## » INTELLIGENCE, SURVEILLANCE, AND RECONNAISSANCE...eyes and ears on adversaries

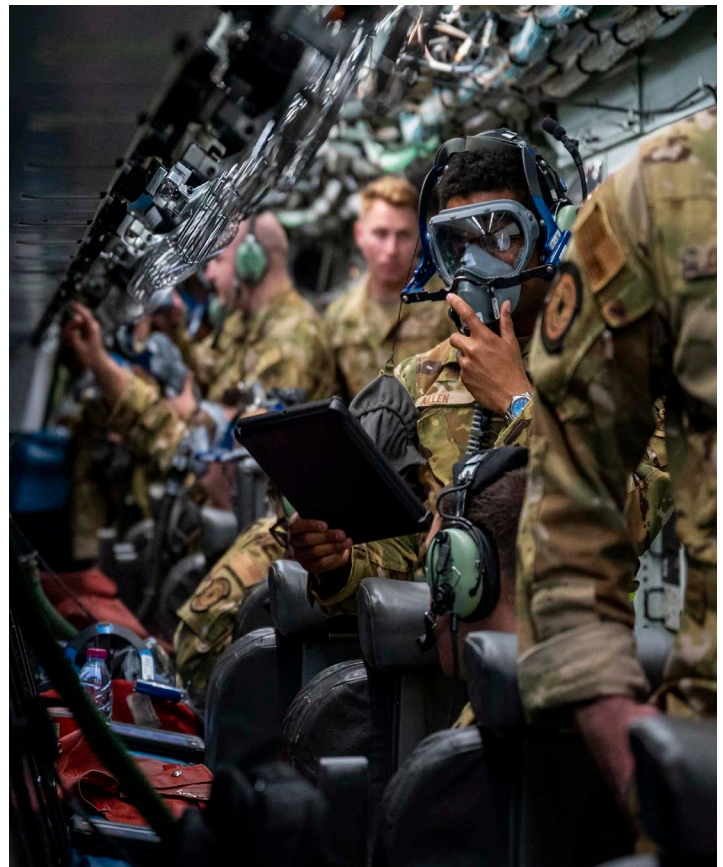
The USAF conducts intelligence, surveillance, and reconnaissance (ISR) missions to analyze, inform, and provide joint force commanders with the knowledge needed to achieve decision advantage. ISR helps maintain deterrence, contain crises, and achieve success in battle. Through a mix of aircraft, satellites,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



Staff Sgt. Cesar Lozano, 921<sup>st</sup> Contingency Response Squadron aerial port mobility team member, waits to unload a C-130 Hercules during exercise Agile Flag 23-1 at Savannah Air National Guard Base, GA. The 621<sup>st</sup> Contingency Response Wing worked alongside the 4<sup>th</sup> Fighter Squadron from Hill Air Force Base (AFB), UT, aircraft and Airmen from Mountain Home AFB, ID, as well as total force partners from MT, MS, and CT.  
—Photo: USAF photo by Staff Sgt. Scott Warner

## » COMMAND AND CONTROL...total flexibility

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

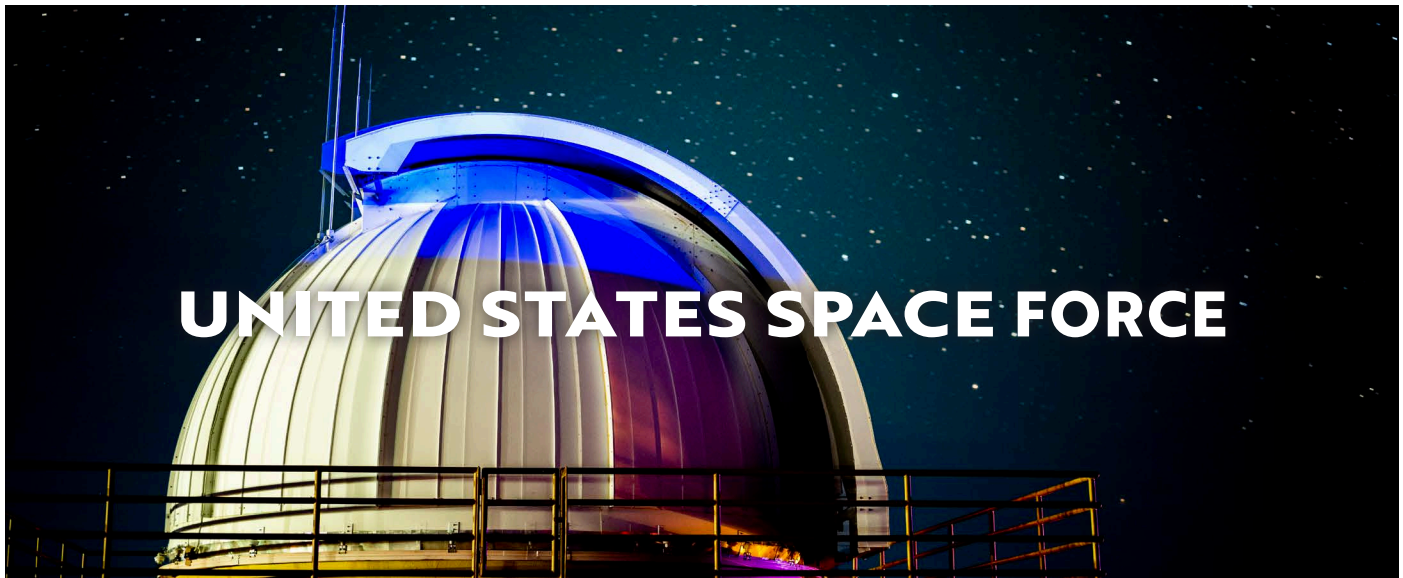


USAF Senior Airman Gregory Allen, 763<sup>rd</sup> Expeditionary Reconnaissance Squadron airborne cryptologic language analyst, checks his flight mask on an RC-135 Rivet Joint during Operation Agile Spartan at Naval Support Activity Souda Bay, Greece. This exercise not only highlighted Al Udeid Air Base's commitment of maintaining readiness and deterrence toward adversaries in the U.S. Central Command's area of responsibility, but also the 379<sup>th</sup> Air Expeditionary Wing's ability to rapidly generate combat airpower and engage in agile combat employment scenarios. The month-long, multinational operation demonstrated interoperability between regional partners, improved response capabilities, and further enhanced security throughout the region.  
—Photo: USAF photo by Senior Airman Leon Redfern





# MISSION



Astrophotography showcasing the Ground-based Electrical Optical Deep Space Surveillance facility, operated by the 15<sup>th</sup> Space Surveillance Squadron (SPSS), Detachment 1, at the White Sands Missile Range, NM. The 15<sup>th</sup> SPSS is comprised of a blended organizational structure with assigned personnel from Space Operations Command and the Air Force Research Laboratory. —Photo: USSF photo by Airman 1st Class Kaitlin Castillo

The USSF's mission statement is: *Secure our Nation's interests in, from, and to space.* The success of the USSF is dependent on three LOEs: Field Combat-Ready Forces, Amplify the Guardian Spirit, and Partner to Win.

## » LINE OF EFFORT #1...*Field Combat-Ready Forces*

The USSF's first LOE focuses on building resilient, ready, and combat-credible forces. A resilient force can withstand, fight through, and recover from attacks. A ready force has the trained personnel, equipment, and sustainment capacity to accomplish missions and tasks in a high-intensity operational environment. A combat-credible force has demonstrated the ability to conduct offensive and defensive operations against an adversary. Ultimately, the USSF must field combat-ready forces prepared to outcompete rivals, deter aggressors, and defeat enemies.

## » LINE OF EFFORT #2...*Amplify the Guardian Spirit*

The USSF's second LOE focuses on unleashing the creativity, innovation, determination, and patriotism of the force through the Guardian Spirit. The Guardian Spirit is a collective representation of what it means to be a member of the USSF. Those who exhibit the Guardian Spirit share three core traits: principled public servant, space-minded warfighter, and bold and collaborative problem-solver.

Amplifying the Guardian Spirit starts with taking care of Guardians. The USSF continuously enhances its military and civilian personnel management processes to ensure they are transparent, predictable, and professional. Guardian talent and expertise is the USSF's most important operational advantage. The U.S. benefits from a strong Space Force and the Space Force is strongest when Guardians thrive.

## » LINE OF EFFORT #3...*Partner to Win*

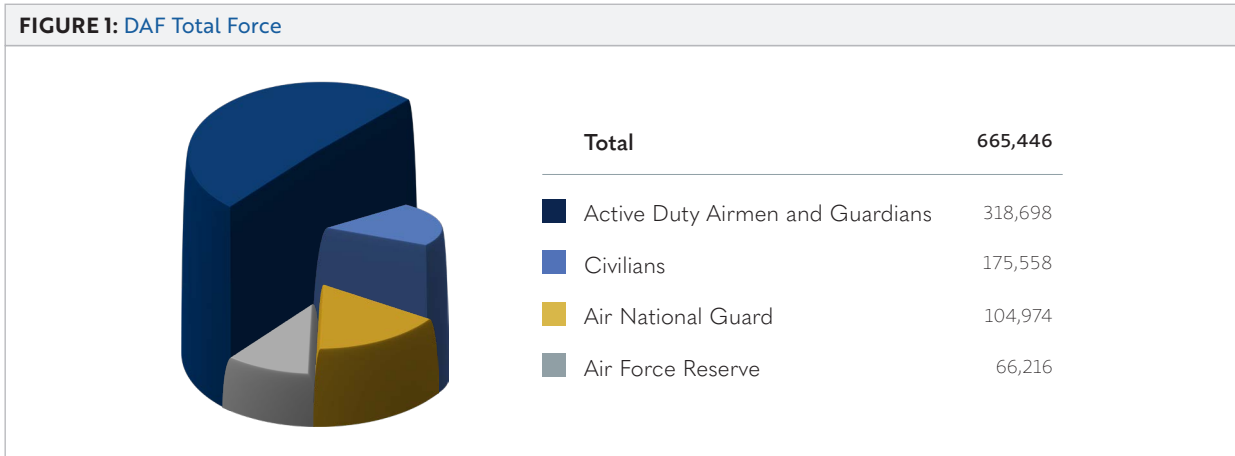
The USSF's third LOE focuses on strengthening the partnerships that the USSF relies on to accomplish its roles and missions. The USSF cannot succeed without robust joint, coalition, international, interagency, academic, and commercial partnerships. These partnerships allow the USSF to build enduring advantages — they expand the capacity, capability, and resiliency of space forces. To continue building these partnerships, the USSF will eliminate barriers to collaboration and place Guardians in positions where they can strengthen critical partnerships. These partnerships will ensure cooperation will continue even under geopolitical, financial, and adversarial stress.



# ORGANIZATIONAL STRUCTURE

The Total Force of the DAF consists of 665,446 active duty (including enlisted and officers) Airmen and Guardians, Air National Guard (ANG), Air Force Reserve, and Civilian personnel. This combined strength allows the Total Force to accomplish a variety of missions with varying requirements—all while operating as one DAF.

**FIGURE 1: DAF Total Force**



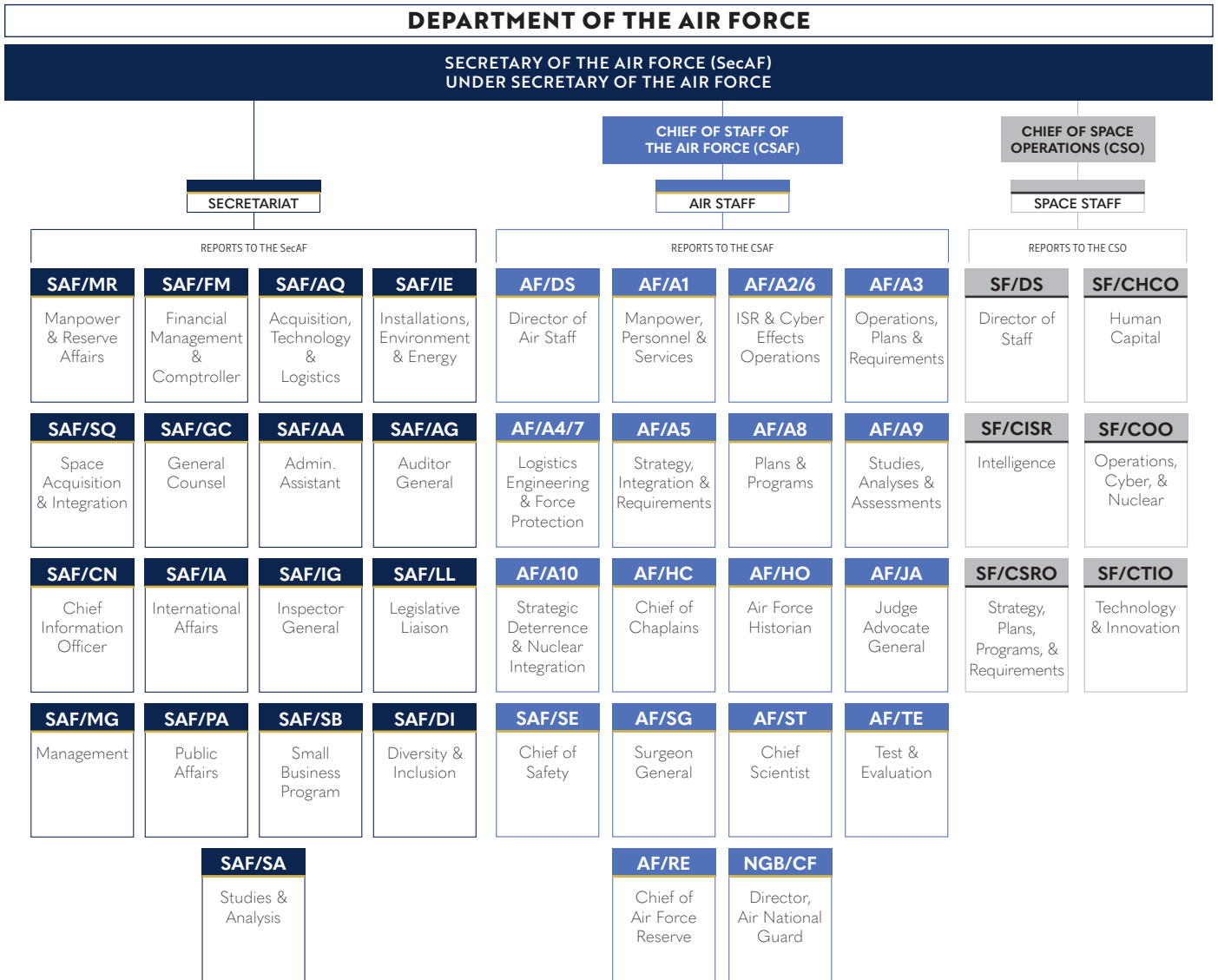
The majority of the Total Force consists of active duty officers, enlisted Airmen, and Guardians. The reserve component is made up of the Air Force Reserve ([see the Air Force Reserve Command](#) in the United States Air Force Major Commands section below) and the ANG.

The ANG has both a federal and state mission. This dual mission, a provision of the U.S. Constitution, results in each guardsman holding membership in the National Guard of his or her state and in the National Guard of the U.S. The ANG’s federal mission is to maintain well-trained, well-equipped units available for prompt mobilization during war and to provide assistance during national emergencies. During peacetime, the combat-ready units and support units are assigned to USAF Major Commands (MAJCOMs) to carry out missions compatible with training, mobilization readiness, humanitarian, and contingency operations. The ANG provides almost half of the DAF’s tactical airlift support, combat communications functions, aeromedical evacuations, and aerial refueling. In addition, the ANG has total responsibility for air defense of the entire U.S. When the ANG units are not mobilized or under federal control, they report to the governor of their respective state, territory, or the commanding general of the District of Columbia National Guard. Under state law, the ANG provides protection of life; property; and preserves peace, order, and public safety. These missions are accomplished through emergency relief support during natural disasters, search and rescue operations, support to civil defense authorities, maintenance of vital public services, and counterdrug operations.

Civilian personnel are indispensable to the management, operation, and continuity of the DAF. Civilians serve in leadership roles throughout the DAF, around the globe, and across organizational levels. The DAF employs civilians in a full range of occupations and services providing stability with the ability to support multiple commanders over years of service. Another major component of the DAF is the Civil Air Patrol. Although not included in the Total Force count, the Civil Air Patrol is a Total Force partner and auxiliary of the DAF. The Civil Air Patrol is America’s premier public service organization for carrying out emergency services and disaster relief missions nationwide. The Civil Air Patrol’s vigilant citizen volunteers are there to search for and find lost individuals, provide comfort in times of disaster, and work to keep the homeland safe.

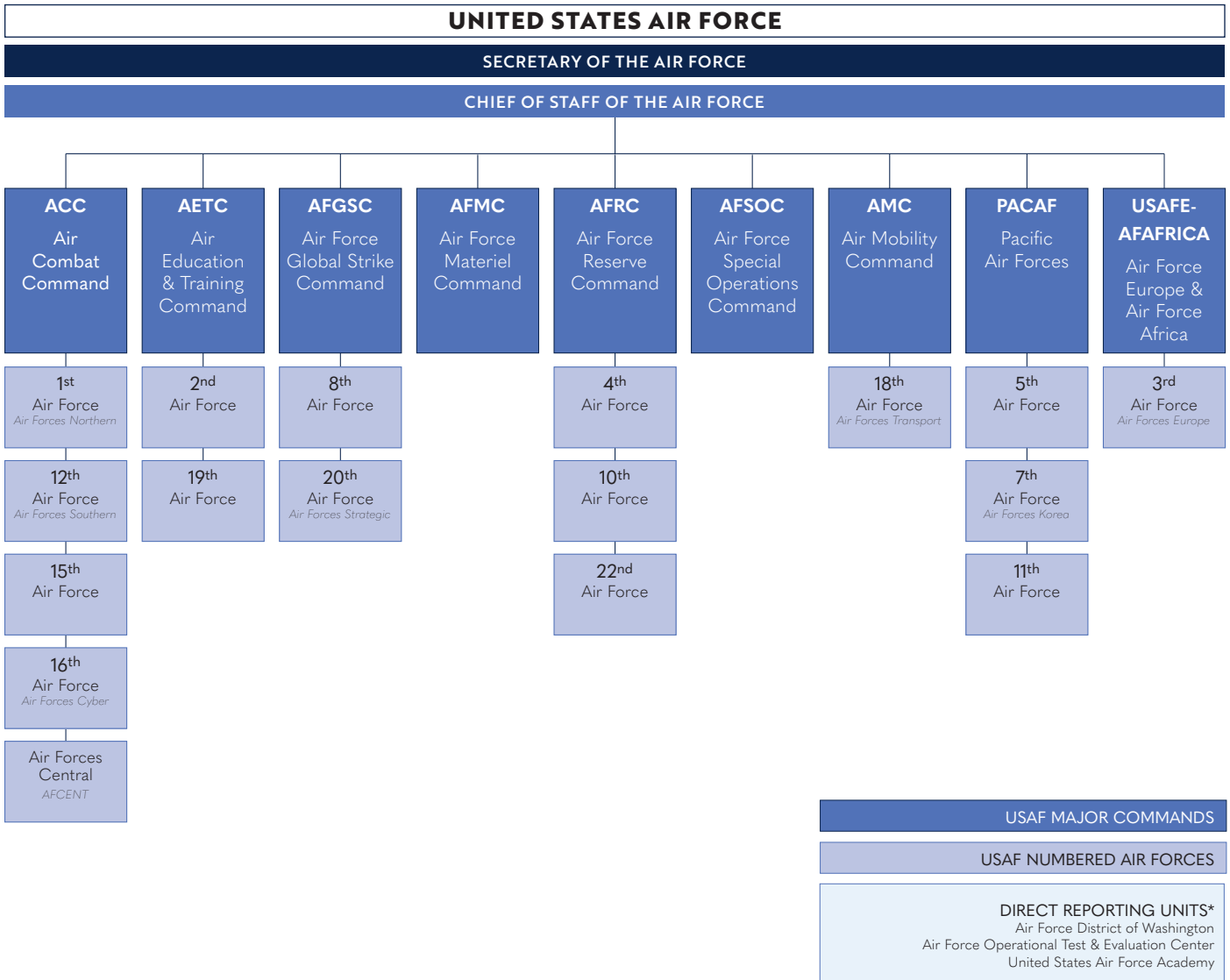
# ORGANIZATIONAL STRUCTURE

**FIGURE 2: Headquarters, Department of the Air Force**



# ORGANIZATIONAL STRUCTURE

**FIGURE 3: USAF Command Structure**

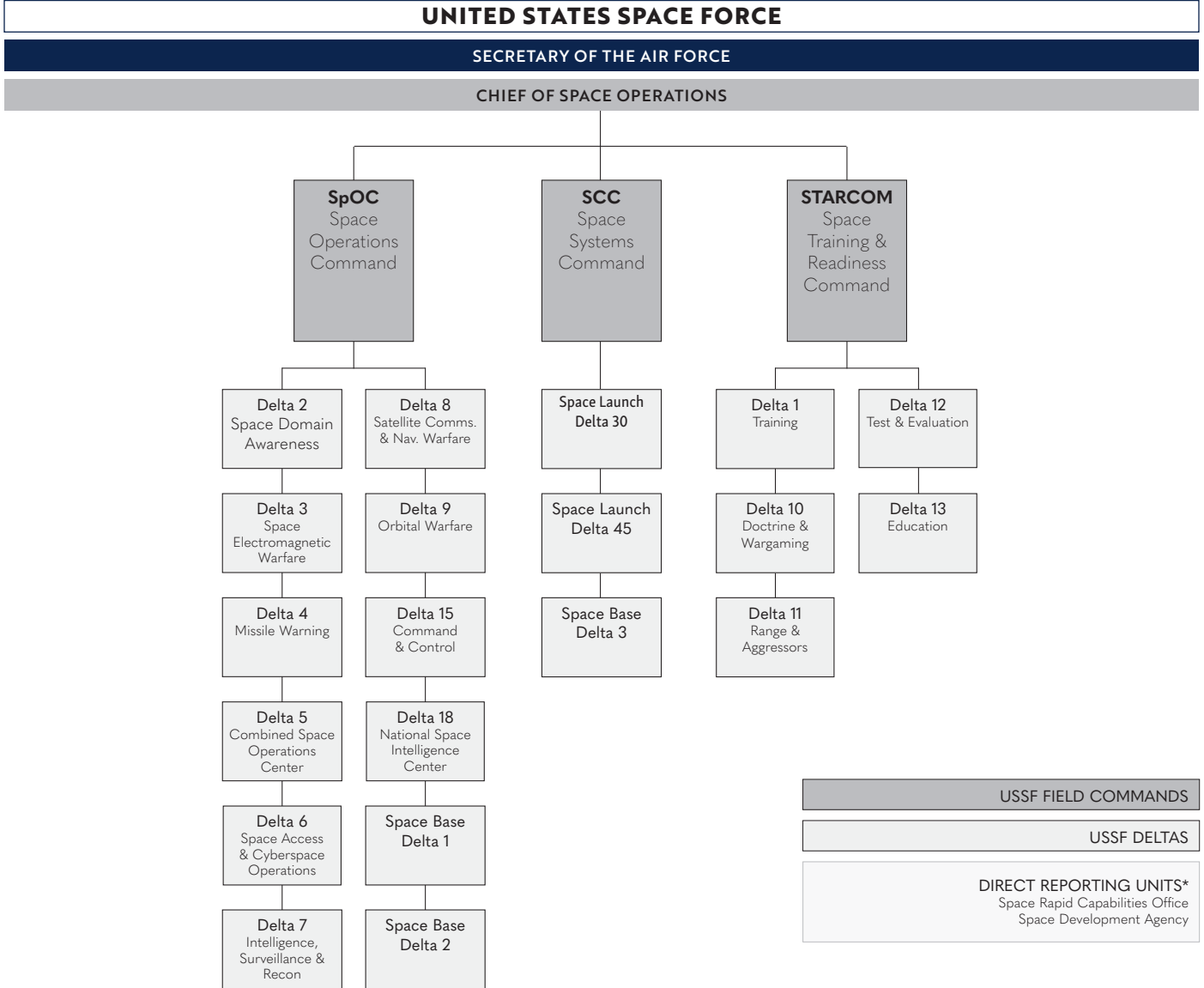


As of 30 September 2023

\* For more information on Direct Reporting Units, see pages 15-16

# ORGANIZATIONAL STRUCTURE

**FIGURE 4: USSF Command Structure**



As of 30 September 2023

\* For more information on Direct Reporting Units, see pages 15-16

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# ORGANIZATIONAL STRUCTURE

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## THE DEPARTMENT OF THE AIR FORCE

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

### THE SECRETARIAT

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

### THE CHIEF OF STAFF OF THE AIR FORCE

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

### THE CHIEF OF SPACE OPERATIONS

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



# ORGANIZATIONAL STRUCTURE

## FIELD ORGANIZATIONS

Direct Reporting Units (DRUs), Field Operating Agencies (FOAs), USAF MAJCOMs, USSF Field Commands (FLDCOMs) and their subordinate elements constitute the field organizations that carry out the DAF mission.

DRUs have specialized and restricted missions and are directly subordinate to the Chief or to his or her representative on the Air Staff. Currently, the USAF has three DRUs: the Air Force District of Washington, the Air Force Operational Test and Evaluation Center, and the United States Air Force Academy, while the USSF has two DRUs: the Space Rapid Capabilities Office and the Space Development Agency.



### AIR FORCE DISTRICT OF WASHINGTON (AFDW)

- » **Mission:** Contingency Response, Ceremonial Honors, and Operational Support...Across the Nation's Capital and Worldwide
- » **Vision:** Renowned for Excellence, Prepared to Respond

AFDW serves as the USAF service component for coordination purposes to the Joint Task Force (JTF) National Capital Region (NCR) and the supporting command to JTF-NCR Medical. AFDW executes USAF operations and supports Joint Force and Inter-Agency operations in the NCR while providing superior support to combatant commanders and USAF elements worldwide. AFDW exercises Uniform Code Military Justice authority over, and provides manpower, personnel, legal, chaplain, finance, logistics, and safety support for designated USAF activities located within the NCR, selected FOAs, and selected USAF elements.

For more information about AFDW, go to: [www.afdw.af.mil](http://www.afdw.af.mil)



### AIR FORCE OPERATIONAL TEST AND EVALUATION CENTER (AFOTEC)

- » **Mission:** Inform the Warfighter and Acquisition Through Operational Test
- » **Vision:** Leader of the Test Enterprise – Accelerating Change

AFOTEC evaluates the capability of systems to meet Warfighter needs by planning, executing, and reporting independent operational assessments, tests, and evaluations. From concept development to system fielding, AFOTEC evaluates a system's overall operational mission capability under realistic conditions. AFOTEC's mission requires lock-step efforts with its acquisition partners focused on shortening the combat capability delivery timeline.

For more information about AFOTEC, go to: [www.afotec.af.mil](http://www.afotec.af.mil)



### UNITED STATES AIR FORCE ACADEMY (USAFA)

- » **Mission:** Educate, train and inspire men and women to become officers of character motivated to lead the United States Air Force and Space Force in service to our Nation.
- » **Vision:** Serve as the Air and Space Forces' premier institution for developing leaders of character.

The USAFA was established on April 1, 1954, as a military service academy dedicated to training Airmen. With the establishment of the USSF, the USAFA is now the premier



# ORGANIZATIONAL STRUCTURE

undergraduate commissioning source for both the USAF and the USSF. The USAFA provides a world-class education that combines athletics, character and leadership development, and military training to forge USAF and USSF officers who are ready to lead on day one. The USAFA utilizes a dynamic and diverse mix of civilian and military faculty to teach lessons with real-world applications that will prepare cadets to serve their country and succeed in their careers. As a public university and a military service academy, the USAFA is leading the way into an increasingly complex future, driving advancement and innovation in air, space, and cyberspace, among countless other fields.

For more information about USAFA, go to: [www.usafa.af.mil](http://www.usafa.af.mil) and [www.usafa.edu](http://www.usafa.edu)



## SPACE RAPID CAPABILITIES OFFICE (SPACE RCO)

» **Mission:** Deliver timely and operationally relevant space superiority and resilience capabilities to the warfighter

Space RCO was established via the FY 2018 *National Defense Authorization Act* (NDAA) with subsequent authorities defined in the FY 2019 NDAA. The Space RCO has a specialized, restricted, and unique mission; it was created in response to the National Defense Strategy calling for improvements to defense acquisition. Space RCO employs four key operating principles for going faster in space acquisition: short and narrow chain of command; early and consistent warfighter involvement; small integrated and empowered program teams; and embedded functional support: human resources, contracting, finance, information technology, and security.

For more information about Space RCO, go to: [www.spaceforce.mil/space-rapid-capabilities-office](http://www.spaceforce.mil/space-rapid-capabilities-office)



## SPACE DEVELOPMENT AGENCY (SDA)

The SDA was established on March 12, 2019 and transferred to the USSF as a DRU on October 1, 2022. Its charge is to create and sustain lethal; resilient; threat-driven; and affordable military space capabilities that provide persistent, resilient, global, low-latency surveillance to deter or defeat adversaries. SDA will quickly deliver needed space-based capabilities to the joint warfighter to support terrestrial missions through development, fielding, and operation of the Proliferated Warfighter Space Architecture. SDA capitalizes on a unique business model that values speed and lowers costs by harnessing commercial development to achieve a proliferated architecture and enhance resilience.

For more information about SDA, go to: [www.sda.mil](http://www.sda.mil)

FOAs are a subdivision of the DAF and are directly subordinate to a DAF Headquarters Functional Manager. FOAs perform field activities beyond the scope of any MAJCOM, and their activities are unique and associated with the DAF-wide mission. Currently, the DAF has more than 20 active FOAs. For more information about each of the FOAs, go to: [FOAs](#)





# PUTTING THE AIRMAN IN CHAIRMAN

On September 29, 2023, Air Force Gen. CQ Brown, Jr., was sworn in as the 21<sup>st</sup> Chairman of the Joint Chiefs of Staff, becoming the first Airman to serve as the nation's highest ranking military officer and principal military advisor to the President, Secretary of Defense, and National Security Council since 2005. Bringing with him 38 years' (and counting) experience of service to our nation's defense, Gen. Brown stressed the importance of accelerating change at the relinquishment of office ceremony at Joint Base Myer-Henderson, sticking with the mantra that has come to define his three-year tenure as the Chief of Staff of the Air Force.

Prior to his ascension to Chairman, Gen. Brown served as the Chief of Staff of the Air Force. As the senior uniformed Air Force officer, he was responsible for the organization, training, and equipping of nearly 700,000 active-duty, Guard, Reserve, and civilian forces serving at home and abroad. Gen. Brown's service as Chief of Staff of the Air Force will be remembered for his unrelenting drive to continue pushing the innovation needle. His signature "Accelerate Change or Lose" approach laid the blueprint for Airmen, Guardians, Senior Leaders, and industry partners to press the operational, technical, and culture envelope at a pace that will ensure continued U.S. airpower superiority in an ever-evolving landscape. Gen. Brown also worked tirelessly to foster a culture that encouraged the development of innovative solutions from anybody, anywhere, at any time.

*"When I became Chief of Staff of the Air Force three years ago, I expressed the need to accelerate change,"* said Gen. Brown. *"My conviction has not wavered. The journey of change must continue to strengthen our national security."*

[CLICK HERE TO FIND OUT MORE ABOUT GEN. CHARLES Q. BROWN, JR.](#)

Chief of Staff of the Air Force, Gen. CQ Brown, Jr. make remarks before presenting the Operation Homefront Military Child of the Year Award to Air Force recipient Louis Geer during a ceremony in Arlington, VA.  
—Photo: USAF photo by Eric Dietrich

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# ORGANIZATIONAL STRUCTURE

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*Lt. Col. Wendy Cook, 49<sup>th</sup> Health Care Operations Squadron (HCOS) outgoing commander, receives a final salute from 49<sup>th</sup> HCOS members during a change of command ceremony at Holloman Air Force Base, NM. The ceremony is an American military tradition that represents a formal transfer of authority and responsibility from one commanding officer to another.  
—Photo: USAF photo by Airman 1<sup>st</sup> Nicholas Paczkowski*

Currently, there are nine active MAJCOMs that are assigned specific responsibilities on a functional basis in the U.S., as well as on a geographic basis overseas. MAJCOMs accomplish USAF worldwide activities and further organize, administer, equip, and train their subordinate elements to accomplish assigned missions. MAJCOM headquarters have a full range of functional staff, excluding functions that have been centralized elsewhere for USAF-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 USAF's primary war-fighting instrument. Composite wings operate more than one kind of aircraft and may be configured as self-contained units designated for quick air intervention anywhere in the world. Other wings continue to operate a single aircraft type, ready to join air campaigns anywhere they are needed. Air-base and specialized-mission wings, such as training, intelligence, and test, also support the USAF 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 USAF (as applicable). A component MAJCOM is the USAF component to a Unified Combatant Command. Each of the active MAJCOMs, along with their respective mission, vision statements, and functional responsibilities, are described below.

# ORGANIZATIONAL STRUCTURE



## AIR COMBAT COMMAND (ACC)

- » **Mission:** Organizes, trains, and equips combat ready Airmen to control and exploit the Air (and Space)
- » **Vision:** Warrior Airmen, committed to excellence, trained and ready to fly, fight, and win...airpower anytime, anywhere

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

For more information about ACC, go to: [www.acc.af.mil](http://www.acc.af.mil)



## AIR EDUCATION AND TRAINING COMMAND (AETC)

- » **Mission:** Find, recruit, train, and educate the Airmen the nation needs
- » **Vision:** Develop Airmen with the competencies to win the high-end competition

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 USAF. AETC provides basic military training, initial and advanced technical training, flight training, and professional military and degree granting professional education.

For more information about AETC, go to: [www.aetc.af.mil](http://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 USAF's entire bomber force, to include B-52, B-1, and B-2 wings; the Long-Range Strike Bomber program; the USAF Nuclear Command, Control, and Communications systems; and operational and maintenance support to organizations within the nuclear enterprise.

For more information about AFGSC, go to: [www.afgsc.af.mil](http://www.afgsc.af.mil)



# ORGANIZATIONAL STRUCTURE



## AIR FORCE MATERIEL COMMAND (AFMC)

- » **Mission:** Powering the world's greatest Air Force...We develop, deliver, support, and sustain war-winning capabilities
- » **Vision:** One AFMC – integrated, 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 USAF weapon systems. From cradle to grave, AFMC provides the work force and infrastructure necessary to ensure the U.S. remains the world's most respected air force.

For more information about AFMC, go to: [www.afmc.af.mil](http://www.afmc.af.mil)



## AIR FORCE RESERVE COMMAND (AFRC)

- » **Mission:** Provide combat-ready forces to fly, fight, and win
- » **Vision:** Reserve Citizen Airmen – An agile, combat-ready force answering our nation's call...Always there!

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

For more information about AFRC, go to: [www.afrc.af.mil](http://www.afrc.af.mil)



## AIR FORCE SPECIAL OPERATIONS COMMAND (AFSOC)

- » **Mission:** Enables the joint force by delivering Special Operations Forces (SOF) Mobility, Strike, ISR, and Air-to-Ground capabilities across the spectrum of competition and conflict
- » **Vision:** Peerless and professional Air Commandos. Always ready to answer our Nation's call. Unconventional airpower...Any Place, Any Time, Anywhere

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

For more information about AFSOC, go to: [www.afsoc.af.mil](http://www.afsoc.af.mil)



# ORGANIZATIONAL STRUCTURE



## AIR MOBILITY COMMAND (AMC)

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

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

For more information about AMC, go to: [www.amc.af.mil](http://www.amc.af.mil)



## PACIFIC AIR FORCES (PACAF)

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

» **Vision:** An agile, accurately postured, undeterred, and lethal force capable of dedicating peerless effects from cooperation to conflict

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

For more information about PACAF, go to: [www.pacaf.af.mil](http://www.pacaf.af.mil)



## U.S. AIR FORCES IN EUROPE-AIR FORCES AFRICA (USAFE-AFAFRICA)

» **Mission:** Defend vital U.S. interests, deter aggression, and deepen relationships with Allies and partners by projecting combat-ready airpower in Europe and Africa

» **Vision:** Europe and Africa's airpower partner of choice – forward, agile, ready

USAFE-AFAFRICA is the air component for two DoD unified commands – United States European Command (USEUCOM) and United States Africa Command (USAFRICOM). USAFE-AFAFRICA executes the USAF's, USEUCOM's, and USAFRICOM's missions with forward-based airpower and infrastructure to conduct and enable theater and global operations.

For more information about USAFE-AFAFRICA, go to: [www.usafe.af.mil](http://www.usafe.af.mil)



# ORGANIZATIONAL STRUCTURE



Service members in the 75<sup>th</sup> Intelligence, Surveillance and Reconnaissance Squadron (ISRS) receive their squadron patches during the 75<sup>th</sup> ISRS activation ceremony at Peterson Space Force Base, CO. A few of the key components of the reaper patch is the red triangle, which signifies the 75<sup>th</sup> ISRS's mission of targeting; the Polaris Star "glint," which symbolizes the guiding light of security and alludes to a constant presence and vigilance in space now and in the future; and the scale armor background exemplifies the squadron's strength and flexibility in the protection and defense of the space domain.

—Photo: USSF photo by Airman 1st Class Cody Friend

Currently, there are three active FLDCOMs that are assigned specific responsibilities on a functional basis to accomplish USSF worldwide activities and further organize, administer, equip, and train their subordinate elements to accomplish assigned missions. FLDCOM headquarters have a full range of functional staff, excluding functions that are centralized elsewhere for USSF-wide execution. In FY 2023, the USSF activated three new Component FLDCOMs: U.S. Space Forces Indo-Pacific, U.S. Space Forces Korea, and U.S. Space Forces Central. These Component FLDCOMs present forces to DoD combatant commands and integrate USSF with the joint force. FLDCOMs are hierarchically organized by Space Deltas, Space Base Deltas, and Squadrons. Space Deltas focus on executing complex missions to empower rapid decision-making, Space Base Deltas focus on providing installation support functions to the Space Deltas, and Squadrons provide specific operational or support capabilities.



On March 10, 2023, 15 Guardians made history as part of the first all-Space Force flight to graduate from Officer Training School (OTS). Lima "Lasers" Flight not only completed the 8-week training course to commission as Second Lieutenants, they excelled, winning the Commandant's Cup, which is presented to the team who best displays courage, resiliency, and hardiness of spirit throughout a series of demanding physical and mental team challenges.

"These officers are the pioneers of a new era in space operations," said Col. Keolani Bailey, OTS commandant. "Their achievements will inspire future generations of Guardians with character, connection, commitment, and courage."

A key focus of Secretary of the Air Force Frank Kendall's Operational Imperatives, the need to protect America's space capabilities and the services it provides to our joint forces, as well as to defeat adversaries' space capabilities, only continues to grow. The officers who graduated, and those who will continue to come next, will help lead the nation in a new era of space exploration and security.

A newly minted challenge coin commemorates Officer Training School's Lima Flight as the first all-Space Force Guardian flight to commission at OTS, as depicted on the coin on right. The coin on the left pays tribute to the Tuskegee Airmen, the namesake of the OTS Mustangs student squadron, in which the flight is assigned.

—Photo: USSF Capt. Casey Rodriguez



# ORGANIZATIONAL STRUCTURE

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



## SPACE OPERATIONS COMMAND (SpOC)

- » **Mission:** Protects America and our Allies in, from, and to space...now and into the future
- » **Vision:** America's Space Warfighters—Always Ready, Always Innovative, Always Above

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

For more information about SpOC, go to: [www.spoc.spaceforce.mil](http://www.spoc.spaceforce.mil)



## SPACE SYSTEMS COMMAND (SSC)

- » **Mission:** Develops, acquires, equips, and sustains lethal and resilient space capabilities
- » **Vision:** Leverage partnerships and innovation to deter and dominate any future contest in space

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

For more information about SSC, go to: [www.ssc.spaceforce.mil](http://www.ssc.spaceforce.mil)



## SPACE TRAINING AND READINESS COMMAND (STARCOM)

- » **Mission:** Prepare the USSF to prevail in competition and conflict through innovative education, training, doctrine, and test
- » **Vision:** Prepare every Guardian, Develop superior space capabilities, and Deliver warfighting solutions

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

For more information about STARCOM, go to: [www.starcom.spaceforce.mil](http://www.starcom.spaceforce.mil)

# PERFORMANCE GOALS, OBJECTIVES, AND RESULTS

The DAF possesses a unique set of competencies and capabilities to achieve its national security priorities of defending the homeland, deterring strategic attacks, deterring aggression, and building a resilient Joint Force and defense ecosystem. However, the DAF is increasingly facing a more complex and contested global security environment marked by increased strategic competition, rapid technological changes, and new concepts of warfare. To outpace these challenges and to achieve its priorities, the DAF made concentrated efforts to support the DoD's five strategic priorities:

**FIGURE 5: DoD's Strategic Goals**



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

## TAKING CARE OF OUR PEOPLE

Holding true to Secretary of the Air Force Frank Kendall's pledged priority of taking care of our people, the DAF has begun implementing the *Brandon Act* throughout USAF and USSF installations. Named in honor of Navy Aviation Electrician's Mate 3<sup>rd</sup> Class Brandon Caserta, who died by suicide in 2018, the *Brandon Act* makes accessing mental health care and support easier and faster for service members while requiring leadership to take those concerns seriously.

*"Few things are more important than improving access to mental health care and every improvement matters,"* said Chief Master Sgt. of the Space Force Roger A. Towberman.

Now, when Airmen and Guardians voluntarily request a mental health referral—which can be made for any reason—by contacting their commander or supervisor (E-6 or above), it invokes the *Brandon Act*. Once a request has been made under the *Brandon Act*, the commander/supervisor must contact the mental health clinic and request an appointment for the member the same or next day, which can be done either face-to-face, telephonic, or via telehealth appointment.

*"The care and well-being of our Airmen is always our top priority,"* said Chief Master Sgt. of the Air Force JoAnne S. Bass. *"I'm encouraged by initiatives, like the Brandon Act, that ensure our people have multiple paths to seeking care for mental health concerns they are experiencing."*

Chief Master Sgt. of the Air Force JoAnne S. Bass provides a mentoring session backstage during the DAF Diversity, Equity, Inclusion and Accessibility Conference at The George Washington University in Washington, D.C. This year's conference theme was "Respect, Recruit, Retain and Ready," which aimed to empower all Airmen and Guardians.  
—Photo: USAF photo by Capt. Shane Ellis





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# PERFORMANCE GOALS, OBJECTIVES, AND RESULTS

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## STRATEGIC PRIORITIES AND RELATED ACCOMPLISHMENTS

### STRATEGIC PRIORITY #1: TRANSFORM THE FOUNDATION OF THE FUTURE FORCE

The DAF recognizes the rapidly evolving and volatile global environment and the complex challenges it presents. Sustained strategic competition demands increased readiness and effectiveness. Current practices are not designed to address the DAF's most critical challenges. As such, the DAF is transitioning to processes and systems that reward rapid experimentation, acquisition, and fielding. The DAF is incorporating new ideas and concepts that will help solve key operating challenges and is accelerating transformative efforts in all areas of mission support, integrated deterrence, and readiness. This will ensure the delivery of agile and effective support to the warfighter as well as continued investments in interoperability capabilities and in connecting joint, allied, and partner teams. These efforts will ensure the DAF can sustain and strengthen deterrence and investments that build enduring advantages.

#### ***DAF Accomplishments in Support of Strategic Priority #1:***

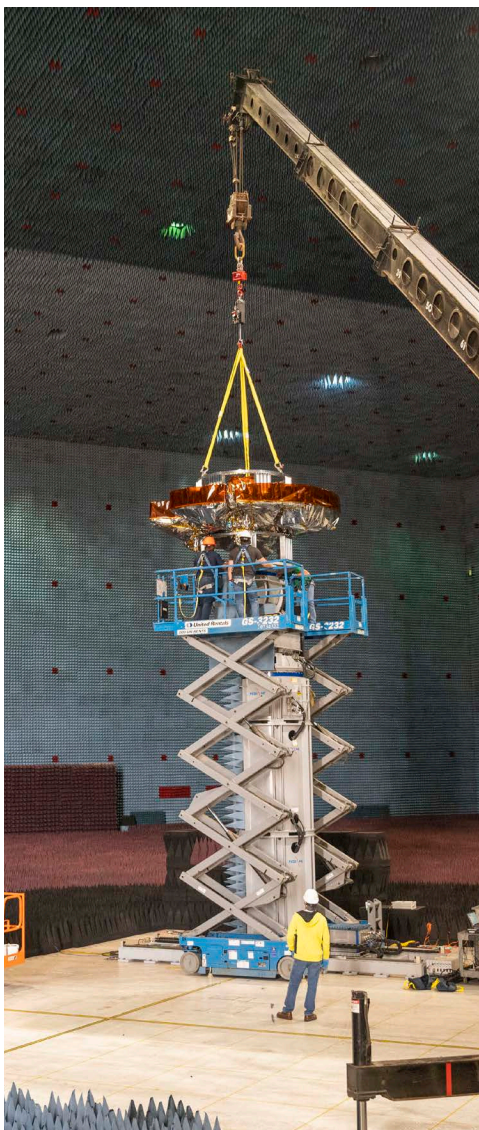
- » The DAF created a new Space Test Course, which will instruct Guardians on test and evaluation processes, in order to conduct robust and methodical system testing on space-flight equipment. The course will allow Guardians to receive formal instruction and practical experience. The course will cover the full spectrum test and evaluation of mission systems and topics critical to the space domain, such as orbital mechanics, electromagnetic spectrum, sensor sciences, and the space environment.
- » The DAF introduced a research and analysis toolkit that will allow commanders to tailor training; make informed decisions; and determine limitations, opportunities, and challenges on one of the DAF's biggest adversaries.
- » The DAF published its Global Futures Report, which assessed four potential operating environments Airmen may have to navigate in before the turn of the century. The report will be used to inform planners, strategists, and wargame scenarios positioning the DAF to anticipate, prepare, and operate in the future.
- » The Space Training and Readiness Command released its Space Doctrine Publication 4-0, *Sustainment*, which articulated best practices to approach sustainment of operations in the space domain throughout the competition continuum.
- » The USAF introduced its new "Air Force Future Operating Concept," which articulates how Airmen will successfully fight in the future and deliver airpower to deter and stop aggression by a peer adversary. The new operating concept supports the National Defense Strategy through the convergence of the "Air Force Force Generation" deployment model, the Secretary of the Air Force's Operational Imperatives, and the Chief of Staff of the Air Force's Action Orders.

# PERFORMANCE GOALS, OBJECTIVES, AND RESULTS

## STRATEGIC PRIORITY #2: MAKE THE RIGHT TECHNOLOGY INVESTMENTS

The DAF recognizes that the key to its military advantage is maintaining its technological edge. Mission success is enabled by the DAF's ability to seek innovative approaches and integrate new capabilities and technology. To outpace its strategic competition in highly contested environments, the DAF continues to champion research, science, technology, engineering, and innovation. The DAF will continue its investments in research and development and implement institutional reforms that integrate its data, software, and artificial intelligence efforts to deliver critical capabilities to the warfighter.

### DAF Accomplishments in Support of Strategic Priority #2:



The Benefield Anechoic Facility recently tested its first space satellite in decades. Anticipated to launch in late 2023, Navigation Technology Satellite-3 will be the DoD's first experimental, integrated navigation satellite system in nearly 50 years.  
—Photo: USSF Photo by Adam Bowles

- » The USSF, alongside the Air Force Research Laboratory and Universities Space Research Association, established a new University Consortium Research Opportunity to address space science and technology challenges. This opportunity will include Beyond Geostationary Earth Orbit Operations and Space Domain Awareness and will facilitate applied research to develop transformational space domain technology. This initiative will advance capabilities that can be transitioned and integrated into current and future USSF space systems.
- » The DAF awarded a \$1.2 billion contract to begin work on the E-7A weapon system. The E-7A will provide advanced Airborne Moving Target Indication and Battle Management, Command and Control capabilities, and advanced Multi-Role Electronically Scanned Array radar that enhances airborne battle management and enables greater airborne battlespace awareness through precise, real-time air picture.
- » The DAF awarded a \$112.0 million contract to advance the cloud-based command and control (CBC2) component of the Advance Battle Management System. CBC2 uses modern agile software methodologies to revolutionize how the DAF approaches battle management. It helps unlock available data to accelerate information flow from the sensor to the decision maker and improves the DAF's ability to assess any situation and act before an adversary does.
- » The DAF began testing on Navigation Technology Satellite-3 (NTS-3), which when formally launched will be the DoD's first experimental, integrated navigation satellite system in nearly 50 years. NTS-3 will deliver new capabilities that will provide warfighters superior advantages in the battlefield. It will push the boundary of today's space-based position, navigation, and timing technology, paving the way for a more robust, resilient, and responsive architecture for satellite technology.
- » The DAF developed an artificial intelligence-based software to conduct data analysis and better examine and predict operational outcomes. It will provide leaders with quicker access to interpret data and make impactful decisions.



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# PERFORMANCE GOALS, OBJECTIVES, AND RESULTS

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## STRATEGIC PRIORITY #3: STRENGTHEN RESILIENCY AND ADAPTABILITY OF OUR DEFENSE ECOSYSTEM

The DAF is increasingly facing transboundary threats, whether it be from adversaries or acts of nature such as climate change. As a result, the DAF must focus its efforts on strengthening resiliency and adapting and fortifying its defense ecosystem. Fortification will depend on the DAF's ability to maximize readiness; combat climate, energy, and environmental challenges; enhance its cybersecurity environment; increase the resiliency of its Command, Control, and Communications (C3) capabilities; and engage in development, research, testing, and evaluation with its allies and partners. To operate in contested environments and preserve its operational capability, the DAF must ensure it can produce and sustain the full range of capabilities needed to give the U.S. and its allies a competitive advantage. As one of the biggest threats facing the nation, the DAF must continue to combat environmental challenges to reduce the adverse effects of climate change and ensure the resiliency of infrastructure critical to national security. As almost every facet of civilian and military life is dependent on the cyberspace domain, it's critical that the DAF is prepared to defend and secure its systems against adversaries operating in a contested cyberspace. By ensuring and defending its C3 capabilities, the DAF's commanders and decision makers will be able to rapidly evaluate, select, and execute effective courses of action to accomplish the mission. Lastly, by strengthening relationships with its allies and partners, the DAF will be able to develop superior technology that will better deter aggression and contain threats, thereby increasing readiness, domain awareness, and decision-making.

### **DAF Accomplishments in Support of Strategic Priority #3:**

- » The USSF activated Space Delta 15, a command-and-control organization within Space Operations Command, which provides mission-ready forces in support of the National Space Defense Center's protect and defend space mission.
- » The USSF also activated the new 75<sup>th</sup> Intelligence, Surveillance, and Reconnaissance Squadron, which will be responsible for integrating kinetic and non-kinetic targeting for the joint force across several orbital regimes.
- » The DAF unveiled a first look at the B-21 Raider, a long-range highly survivable stealth bomber capable of delivering a mix of conventional and nuclear munitions. Once placed into service, the B-21 will play a major role in supporting national security objectives and assuring U.S. allies and partners across the globe.
- » The USSF completed SPACE FLAG 23-1, which provided advanced and simulated combat training to both U.S. and coalition forces in a U.S. European Command scenario. The USSF was able to plan and execute simulated combat operations in real time throughout the entirety of the exercise.
- » The Space Development Agency, a direct reporting unit of the USSF, successfully launched Tranche 0 Satellites, which will demonstrate the low-latency communication links to support the warfighter with a resilient network of integrated capabilities, including tracking of advanced missile threats, from low-Earth orbit. These satellites will lay the foundation for a constellation that will serve as the backbone for the DoD's vision for all-domain operations
- » The DAF released its Climate Action Plan which defines how the DAF will preserve operational capability, increase resiliency, and do its part to help mitigate future climate impacts through specific and measurable objectives and key results. The plan lays out its enterprise-wide approach to ensuring policies, technology innovation, and evolving operations remain relevant in a changing climate.

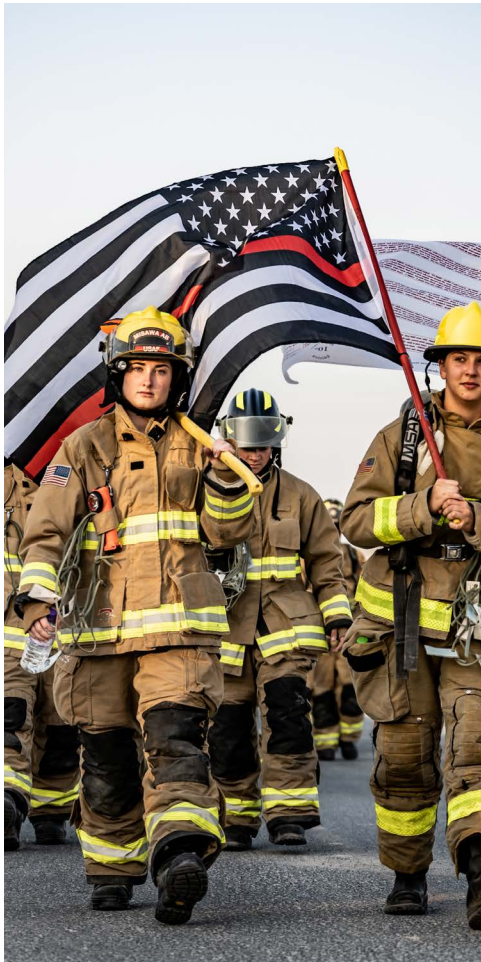


# PERFORMANCE GOALS, OBJECTIVES, AND RESULTS

## STRATEGIC PRIORITY #4: TAKE CARE OF OUR PEOPLE AND CULTIVATE THE WORKFORCE WE NEED

Dedicated and selfless Airmen and Guardians enable the DAF to meet the challenges imposed by the complex strategic environment. They enhance the peaceful instruments of diplomacy, sustain deterrence, and ensure credible consequences for aggressions. As the DAF's greatest competitive advantage, the DAF is creating a future force with the capabilities and competencies to win and thrive. The DAF understands that its most sacred duty is to provide Airmen and Guardians with the tools they need to be successful. As such, the DAF is committed to maximizing opportunities for all its members to serve to their fullest potential. As the DAF's mission capabilities rests with its people, the DAF's future hinges on recruiting and retaining a diverse and talented force. By focusing on attracting, recruiting, retaining, and training its workforce, the DAF will ensure that its future force is well equipped to meet and keep pace with the threats facing the DAF. By enhancing readiness through a diverse and inclusive force, it will foster innovation and collaboration and enable the force to best represent the population it is dedicated to protecting.

### DAF Accomplishments in Support of Strategic Priority #4:



Airmen from the 386<sup>th</sup> Expeditionary Civil Engineer Squadron stride forward during the 9/11 memorial ruck march at Ali Al Salem Air Base, Kuwait. Service members from the U.S., Canada, Italy, and Denmark gathered for a moment of silence followed by a ruck march in remembrance of the innocent lives lost during the attacks on 9/11.

—Photo: USAF photo by Staff Sgt. Kevin Long

- » The DAF recently released its Women, Peace, and Security (WPS) Strategic Action Plan to operationalize WPS concepts across the Air and Space Forces. The Plan includes three objectives to implement the WPS Framework: training Gender Advisors and Gender Focal Points to implement principles across core DAF functions, employing the framework throughout doctrine and operations, and integrating WPS into security cooperation activities with partner nations to support women's meaningful participation in defense and security sectors.
- » The DAF established the "Fortify the Force Initiative Team," a cross-functional team that will combat barriers to mental health, wellness, and resilience for Airmen, Guardians, and their families.
- » The DAF held its first Space Force Child Care Community Forum (SFCCCCF) in direct response to Guardian feedback related to childcare challenges. The SFCCCCF will allow Guardians and their families to engage with USSF Senior Leaders and childcare subject matter experts to address their questions, processes, and policies impacting childcare.
- » The USSF released the Guardian Spirit handbook, which guides Guardians on how to live the four Guardian values – Character, Connection, Commitment, and Courage. The handbook sets the foundation for Guardians to advance the five aspirational objectives listed in the Guardian Ideal, the Space Force's foundational talent management document: Connect in a Collaborative Environment, Lead Digital Enablement, Generate and Engage Talent, Develop and Employ Talent, and Integrate Resiliency.
- » The USAF introduced a new "Ready Airmen Training" program to support the "Air Force Force Generation" deployment model. This program will ensure that Airmen have the necessary skillsets to survive and operate during contingencies both at home station and deployed, including remote and contested environments.

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# PERFORMANCE GOALS, OBJECTIVES, AND RESULTS

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## STRATEGIC PRIORITY #5: ADDRESS INSTITUTIONAL MANAGEMENT PRIORITIES

The DAF must reform business operations to generate lasting institutionalized resources to support its 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 to new and evolving threats. 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 capability. By focusing on standardization and simplification, the DAF will enable greater productivity, trustworthiness, security, and innovation in its management practice and increase the effectiveness and efficiency of decision making.

### **DAF Accomplishments in Support of Strategic Priority #5:**

- » The DAF GF downgraded its Fund Balance with Treasury material weakness, which greatly enhanced the auditability of the DAF GF's Balance Sheet and puts the DAF closer to achieving its auditability goals.
- » The DAF developed an approach to onboard financial management and feeder systems to Identity, Credential, and Access Management services, which impacts the root causes behind 62% of Information Technology Notice of Findings and Recommendations.
- » The DAF utilized its new enterprise Governance, Risk, and Compliance tool to deploy an end-to-end business process repository for the DAF's controls. This tool resulted in a central, unified view of the DAF's internal control environment and provided real-time data to identify, prioritize, and inform Audit Roadmap responses to risks.
- » The DAF successfully onboarded the DAF GF into its Integrated Master Schedule ServiceNow Solution, thereby allowing the DAF to reduce burdensome workflow efforts associated with audit progress reporting. The ServiceNow solution's real-time analytical capabilities provided DAF leadership with a more accurate measure of progress and enabled an enhanced level of quality decision making.
- » The DAF's Chief Data and Artificial Intelligence Office partnered with the Office of Studies and Analysis to present the first "Data, Analytics, and Artificial Intelligence" Forum. The forum served as a catalyst to sharing data, analytics, and artificial intelligence as a part of an effort to support initiatives like the DoD's Joint All-Domain Command and Control and the DAF's Advanced Battle Management System.

## GOVERNANCE AND ACCOUNTABILITY

The DAF is committed to continuously monitoring performance and ensuring accountability for its operations and related activities through its Risk Management and Internal Control Governance Bodies. These governance bodies are comprised of senior-level executives and include the Risk Management Council (RMC), the Senior Management Council (SMC), and the Executive Steering Committee (ESC) which serves as the Department's Senior Assessment Team (SAT). The RMC oversees the establishment of the Agency's enterprise risk profile, regular assessment of risk, and development of appropriate risk response. The SMC provides oversight and monitoring of the effectiveness of internal controls over operations. The ESC/SAT provides oversight and monitoring of the effectiveness of internal controls for financial reporting and financial systems.



An Air Force Band bagpiper performs during the change of responsibility ceremony for the Chief Master Sergeant of the Space Force (CMSSF) at Joint Base Andrews, MD. CMSSF John F. Bentivegna succeeded CMSSF Roger A. Towberman as the second CMSSF, the senior enlisted advisor to the chief of space operations.  
—Photo: USSF photo by Eric Dietrich

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# ANALYSIS OF FINANCIAL STATEMENTS

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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 Number (No.) A-136, *Financial Reporting Requirements*. These limitations prevented the Independent Public Accountant from issuing an opinion on the FY 2023 DAF financial statements.

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

- » Consolidated Balance Sheets (BS)
- » Consolidated Statements of Net Cost (SNC)
- » Consolidated Statements of Changes in Net Position (SCNP)
- » Combined Statements of Budgetary Resources (SBR)

## GENERAL FUND

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

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



# ANALYSIS OF FINANCIAL STATEMENTS

In FY 2023, the DAF GF corrected errors identified in FY 2022 balances. Accordingly, FY 2022 balances related to General Equipment – Aircraft and General Equipment – Other were restated. This restatement resulted in a \$3.3 billion impact to the BS, \$401.3 million impact to the SNC, and \$3.3 billion impact to the SCNP for FY 2022 balances. As a result, the FY 2022 numbers presented in this section reflect restated balances. For additional information related to prior period adjustments for the General Property, Plant, and Equipment (PP&E) balances, refer to DAF GF [Note 27, Restatements](#).

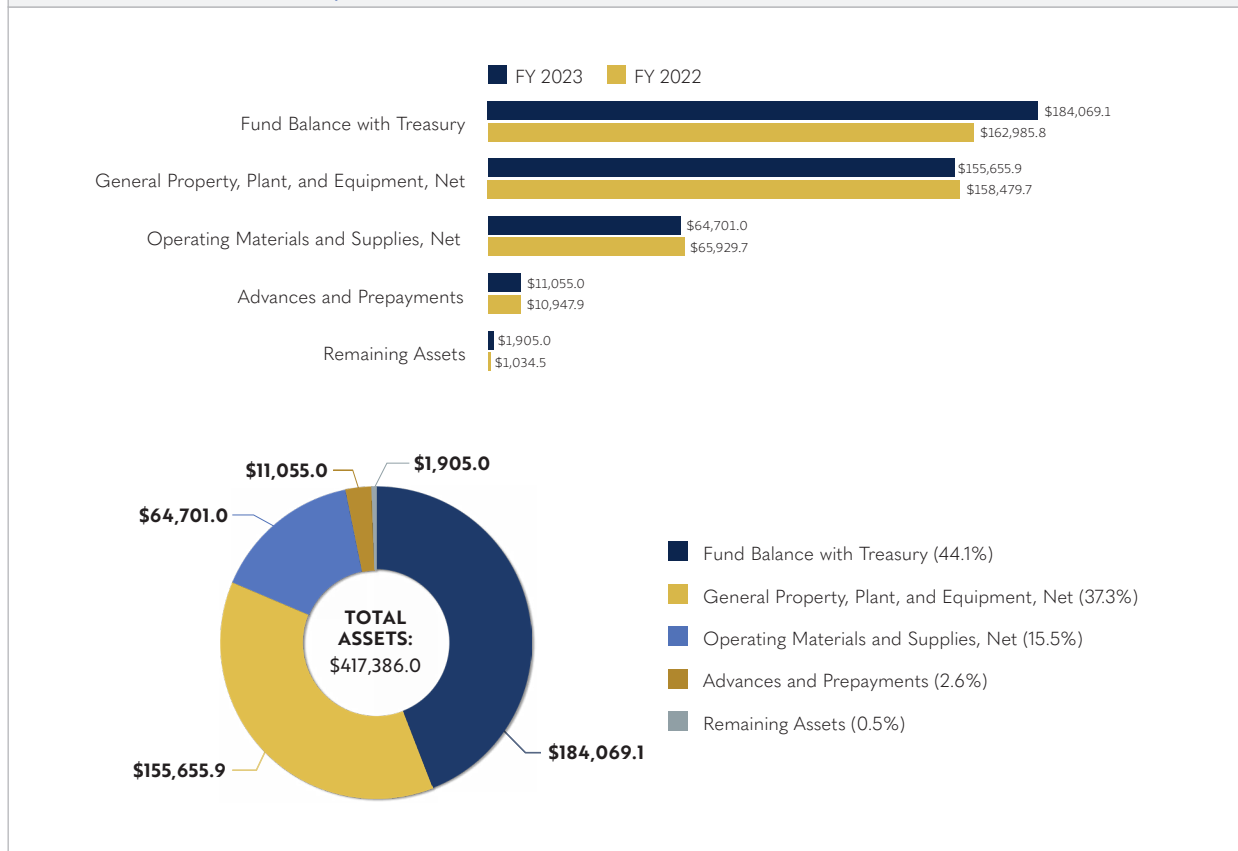
## CONSOLIDATED BALANCE SHEETS

The Consolidated BS, which represents the DAF GF's financial position as of September 30, 2023, and September 30, 2022, reports the DAF GF's amounts of future economic benefits owned or managed by the DAF GF (assets) against the amounts owed (liabilities) and the amounts that comprise the difference (net position).

The DAF GF's \$417.4 billion in assets at Fiscal Year End (FYE) 2023 is predominantly comprised of Fund Balance with Treasury (FBwT); General PP&E; Operating Materials & Supplies; and Advances and Prepayments; which together represent 99.5% of the DAF GF's assets. This is approximately a 4.5% overall increase from FYE 2022, in which assets were \$399.4 billion (restated).

Significant changes and underlying causes related to the DAF GF's assets between FYE 2023 and 2022 are primarily related to FBwT which increased by \$21.1 billion (12.9%). This increase is attributed to increase in funding across the DAF GF appropriations for modernization efforts, civilian and military end-strength growth, readiness, and space activities.

**FIGURE 6: DAF GF's Asset Comparison (Restated) | DAF GF's FYE 2023 Assets (in millions) (unaudited)**



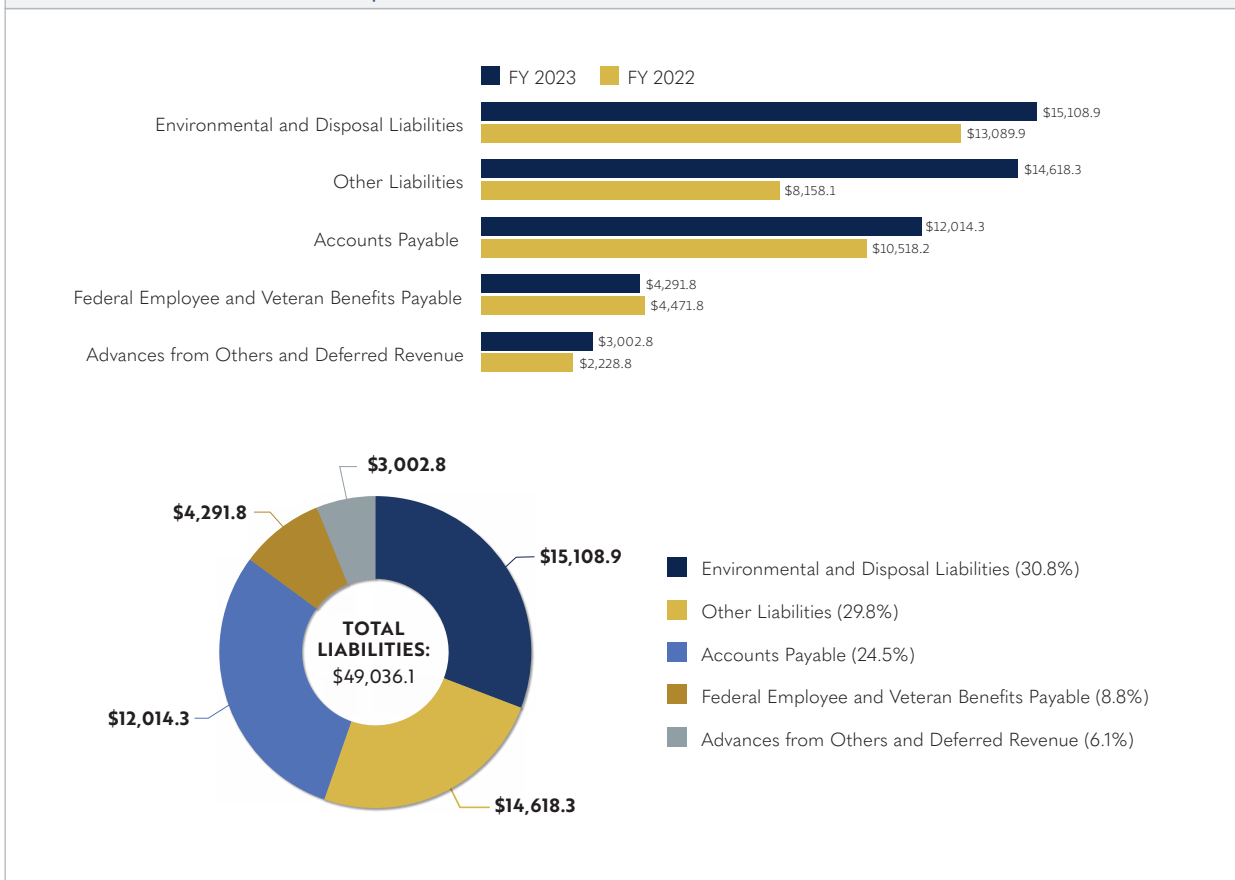


# ANALYSIS OF FINANCIAL STATEMENTS

The DAF GF's \$49.0 billion of liabilities at FYE 2023 is predominantly comprised of Environmental and Disposal Liabilities (E&DL), Other Liabilities, Accounts Payable, and Federal Employee and Veteran Benefits Payable, which together represent 93.9% of the DAF GF's liabilities. This is approximately a 27.3% overall increase from FYE 2022, in which liabilities were \$38.5 billion.

The increase of approximately \$10.5 billion is primarily driven by additional expense accruals for Military Equipment Construction-In-Process (CIP); E&DL modification of assumptions used for the Remedial Action Cost Engineering and Requirements estimates; and increases in accounts payable related to facilities sustainment, restoration, and the execution of more construction contracts.

**FIGURE 7: DAF GF's Liabilities Comparison | DAF GF's FYE 2023 Liabilities (in millions) (unaudited)**





# ANALYSIS OF FINANCIAL STATEMENTS

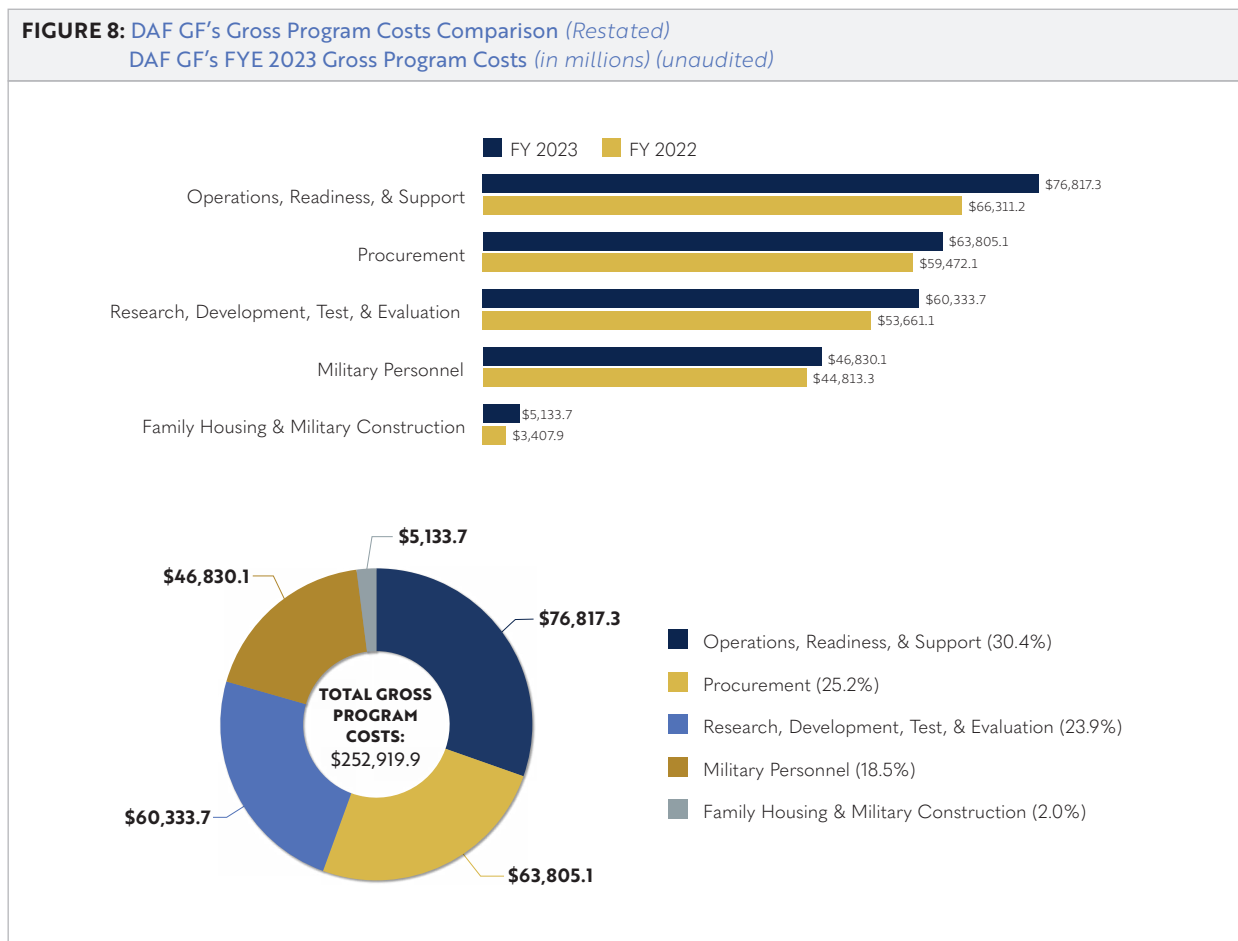
## CONSOLIDATED STATEMENTS OF NET COST

The Consolidated SNC represents the net cost of programs and organizations of the DAF GF supported by appropriations or other means for the years ended September 30, 2023, and September 30, 2022. It provides gross and net cost information related to the amount of output or outcome for a given program or organization administered by a responsible reporting entity. The DAF GF Net Cost of Operations was \$240.9 billion at FYE 2023 and \$217.9 billion (restated) at FYE 2022, which is a 10.6% increase from FYE 2022.

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.

The DAF GF Gross Costs increased by \$25.3 billion (11.1%) as a result of a number of factors, mainly DAF GF Operations, Readiness, and Support, Procurement, and RDT&E activities. These program costs increased as a result of civilian payroll increases and inflation, aircraft and research programs, the official transfer of the Space Development Agency to USSF, and additional expense accruals for military equipment CIP and E&DL modifications as mentioned above.

**FIGURE 8: DAF GF's Gross Program Costs Comparison (Restated)**  
 DAF GF's FYE 2023 Gross Program Costs (in millions) (unaudited)

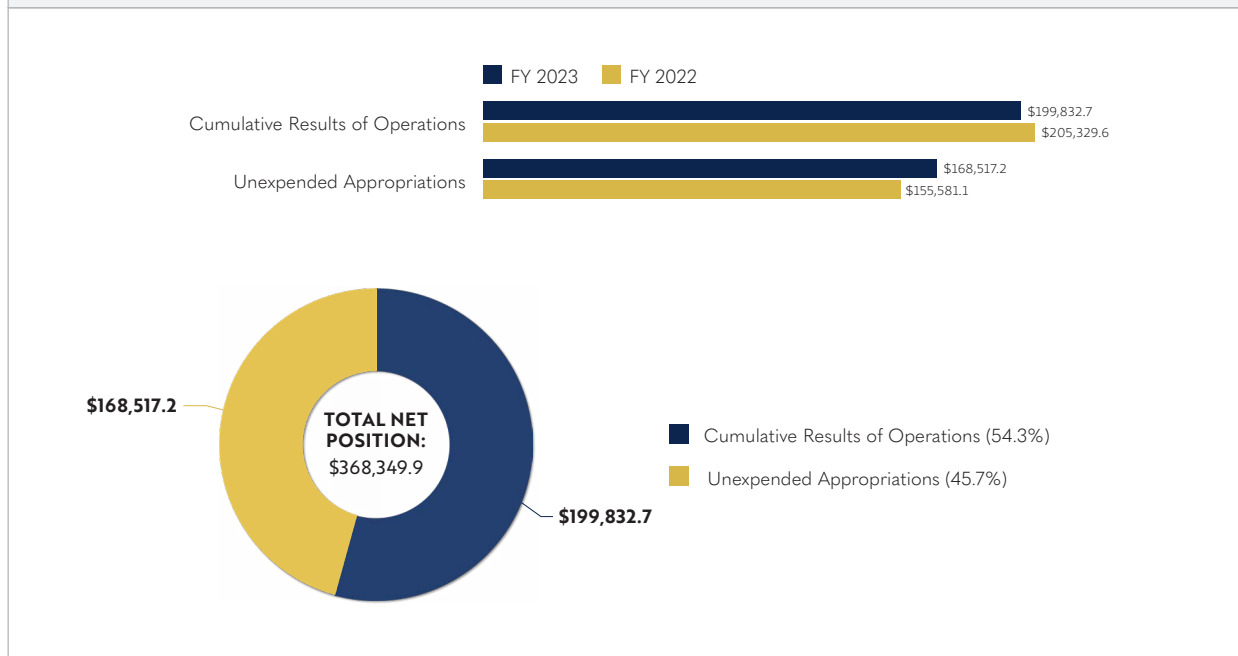


# ANALYSIS OF FINANCIAL STATEMENTS

## CONSOLIDATED STATEMENTS OF CHANGES IN NET POSITION

The Consolidated SCNPs represent the total Net Position, which is composed of Cumulative Results of Operations and Unexpended Appropriations. At FYE 2023, the DAF GF's net position was approximately \$368.3 billion, compared to \$360.9 billion (restated) at FYE 2022, approximately a 2.1% increase. This increase is attributed to increase in funding across the DAF GF appropriations for modernization efforts, civilian and military end-strength growth, readiness, and space activities.

**FIGURE 9: DAF GF's Net Position Comparison | DAF GF's FYE 2023 Total Net Position (in millions) (unaudited)**



## COMBINED STATEMENTS OF BUDGETARY RESOURCES

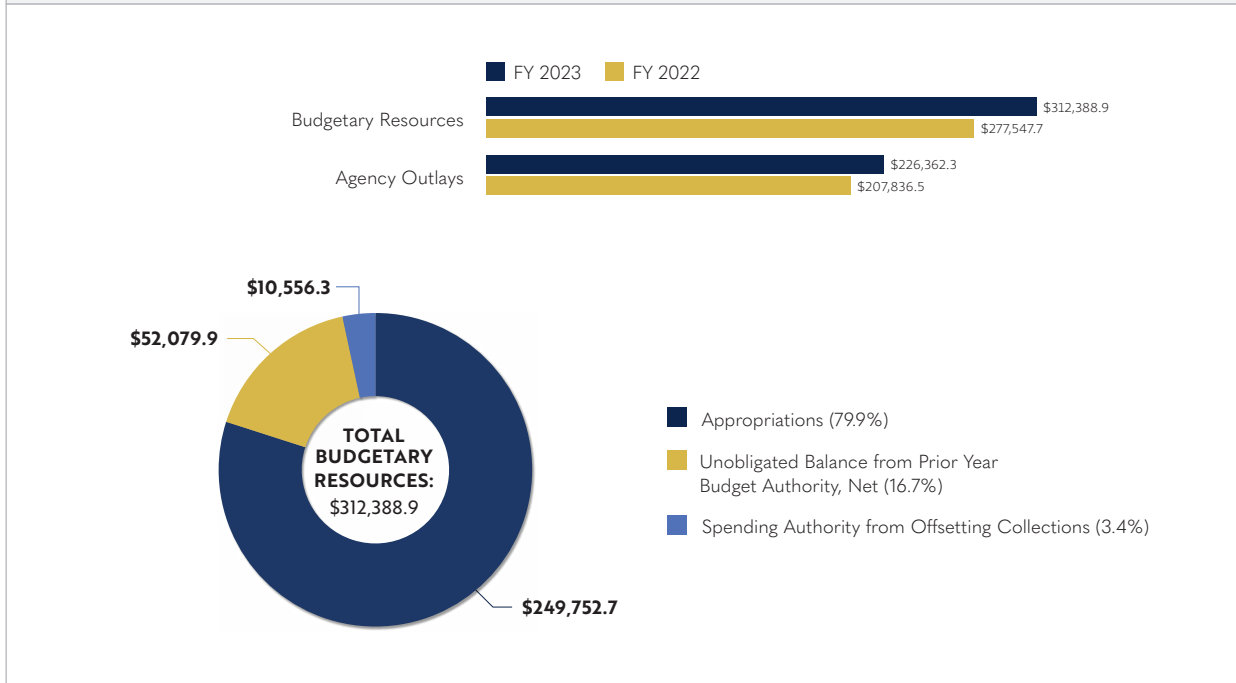
The Combined SBR provides information on the budgetary funding available to the DAF GF. The DAF GF's resources consist primarily of funds received from two sources: appropriations from Congress for the current FY and unobligated balances from prior FYs. The DAF GF's Budgetary Resources and Net Outlays were approximately \$312.4 billion and \$226.4 billion at FYE 2023 and \$277.5 billion and \$207.8 billion at FYE 2022, respectively, representing an increase of approximately 12.6% in Budgetary Resources and an increase of approximately 9.0% in Net Outlays.

The FY 2023 enacted appropriations of \$249.8 billion represent 79.9% of total budgetary resources compared to 80.2% in FY 2022. The DAF GF obligated \$272.4 billion, or 87.2%, of the Total Budgetary Resources in FY 2023, and the remaining \$40.0 billion, or 12.8%, of available funding remained unobligated as of the end of FY 2023, compared to 85.1% and 14.9% respectively in FY 2022.



# ANALYSIS OF FINANCIAL STATEMENTS

**FIGURE 10: DAF GF's Statement of Budgetary Resources Comparison**  
 DAF GF's FYE 2023 Sources of Budgetary Resources (in millions) (unaudited)



The DAF GF's Budgetary Resources increased by \$34.9 billion (12.6%). This increase is primarily due to an increase in funding across Appropriations of approximately \$27.3 billion, as follows:

- » The USSF appropriations increased by \$8.4 billion. The increase is primarily due to additional funding to protect and defend current space assets; develop offensive capabilities; acquisition of spacecraft, terminals, ground control systems, and communications security and training products; and pay raise and benefits for military and civilian personnel.
- » The Procurement appropriations increased by \$8.4 billion due to modernization across aircraft models, procurement for the bomber and helicopter programs, and investment in advanced munitions.
- » The Operations, Readiness, and Support appropriations increased by \$5.2 billion, primarily driven by civilian pay and benefits; facility sustainment, restoration, and modernization; and flying hour funding.
- » The RDT&E appropriations increased by \$3.4 billion due to modernization efforts for both defense missiles and aircraft.
- » The MILCON appropriations increased by \$1.2 billion, which was related to weapon system readiness, existing infrastructure investment, and the planning and design funds for future projects.



# ANALYSIS OF FINANCIAL STATEMENTS

## WORKING CAPITAL FUND

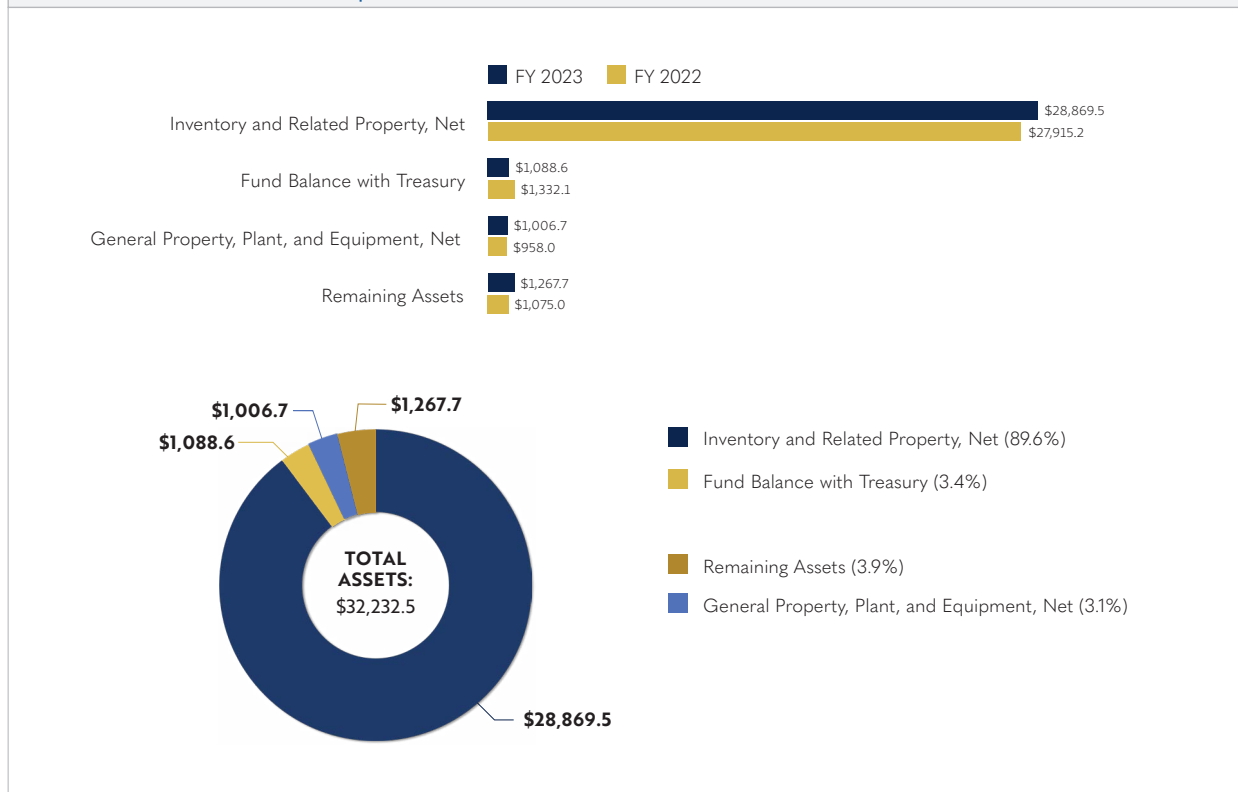
The DAF WCF activities provide maintenance services, weapon system parts, and base and medical supplies in support of the DAF core functions. The DAF WCF is designed to be a self-sustaining, “business-like” activity that generates revenue from providing goods and services. It is integral to readiness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

## CONSOLIDATED BALANCE SHEETS

The Consolidated BS, which represents the DAF WCF’s financial position as of September 30, 2023 and September 30, 2022, reports the DAF WCF’s amounts of future economic benefits owned or managed by the DAF WCF (assets) against the amounts owed (liabilities) and the amounts that comprise the difference (net position).

The DAF’s WCF \$32.2 billion in assets at FYE 2023 is predominantly comprised of Inventory and Related Property; FBwT; and General PP&E; which together represent 96.1% of the DAF WCF’s assets. This is approximately a 2.9% overall increase from FYE 2022, in which assets were \$31.3 billion. Significant changes and underlying causes related to the DAF WCF’s assets between FYE 2023 and 2022 are primarily related to Inventory and Related Property which increased \$954.3 million (3.4%). This increase is due to inventory adjustments.

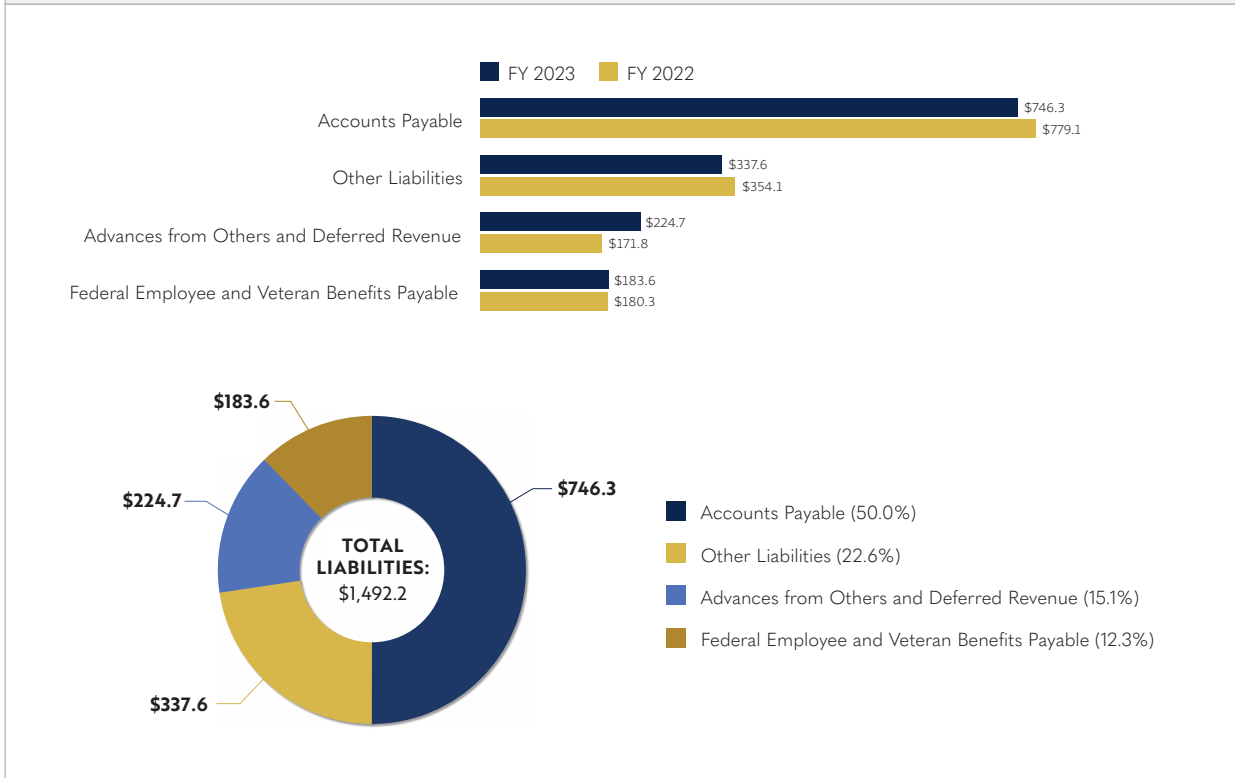
**FIGURE 11: DAF WCF’s Asset Comparison | DAF WCF’s FYE 2023 Assets (in millions) (unaudited)**



# ANALYSIS OF FINANCIAL STATEMENTS

The DAF WCF's liabilities remained unchanged from prior year at \$1.5 billion and is comprised of Accounts Payable, Other Liabilities, Advances from Others and Deferred Revenue, and Federal Employee and Veteran Benefits Payable. Significant changes and underlying causes related to the DAF WCF's liabilities between FYE 2023 and 2022 are primarily related to Advances from Others and Deferred Revenue which increased \$52.9 million (30.8%) resulting from increases in Public-Private Partnership workload, offset by a \$32.8 million decrease (4.2%) in Accounts Payable attributable to decreased station support services.

**FIGURE 12: DAF WCF's Liabilities Comparison | DAF WCF's FYE 2023 Liabilities (in millions) (unaudited)**



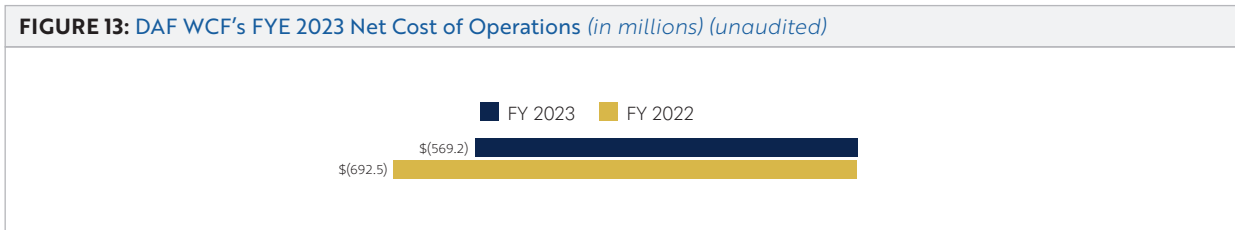
# ANALYSIS OF FINANCIAL STATEMENTS

## CONSOLIDATED STATEMENTS OF NET COST

The Consolidated SNC represents the gross cost incurred by the DAF WCF to conduct its operations less any exchange revenues earned from its activities. The FYE 2023 DAF WCF's Net Cost of Operations was approximately \$(569.2) million compared to \$(692.5) million in FY 2022.

The \$123.3 million (17.8%) increase in the DAF WCF's Net Cost of Operations from FYE 2022 to FYE 2023 is attributed to a \$1.2 billion increase in Gross Costs resulting from increases in budgetary resources and inflation factors, combined with increases in inventory losses. The increase in Gross Costs was offset by a \$1.1 billion increase in Earned Revenue, resulting from rate and price increases to account for inflation and recover prior year losses combined with increases in inventory gains.

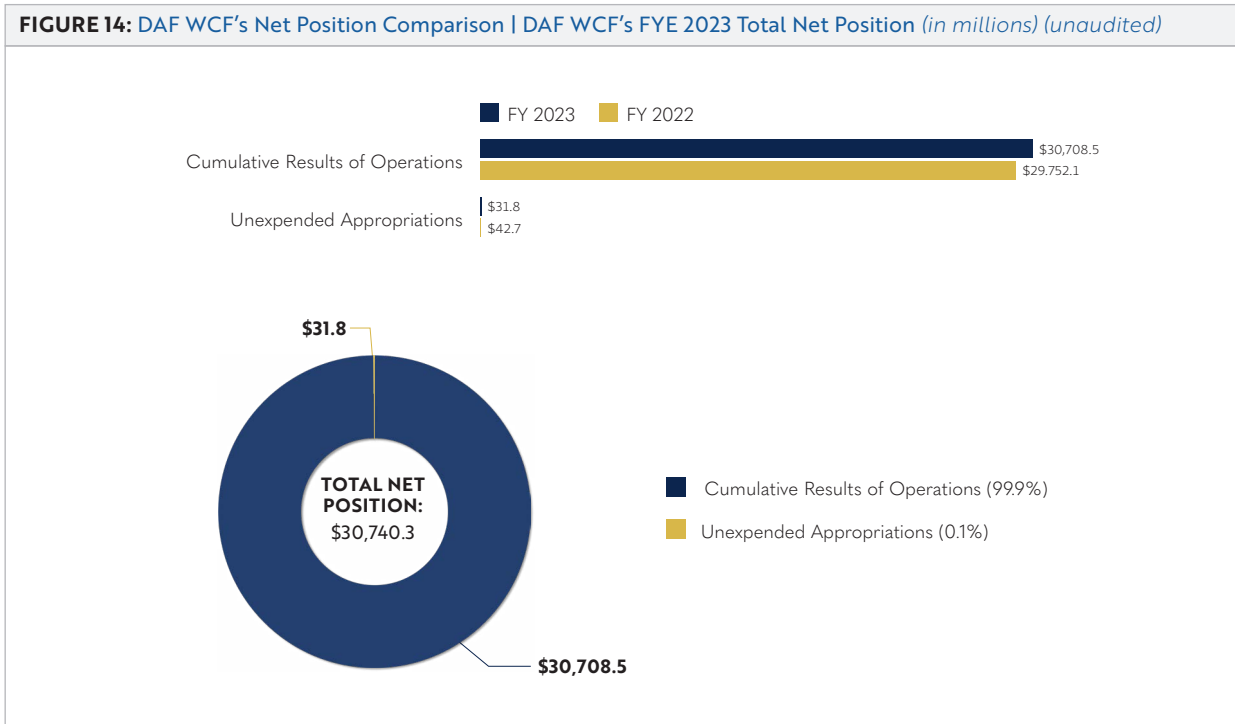
**FIGURE 13: DAF WCF's FYE 2023 Net Cost of Operations (in millions) (unaudited)**



## CONSOLIDATED STATEMENTS OF CHANGES IN NET POSITION

The Consolidated SCNP represents the total Net Position, which is comprised of Cumulative Results of Operations and Unexpended Appropriations. At FYE 2023, the DAF WCF's net position was approximately \$30.7 billion, compared to \$29.8 billion at FYE 2022, approximately a 3.0% increase.

**FIGURE 14: DAF WCF's Net Position Comparison | DAF WCF's FYE 2023 Total Net Position (in millions) (unaudited)**





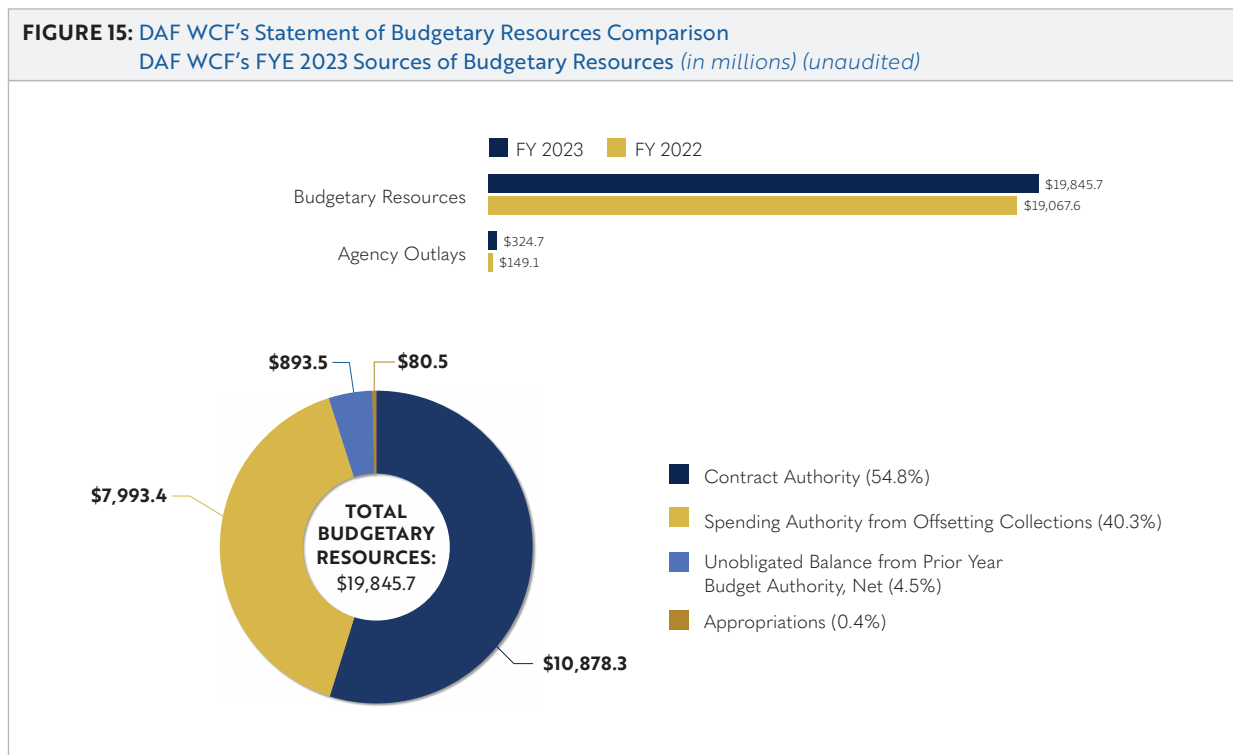
# ANALYSIS OF FINANCIAL STATEMENTS

## COMBINED STATEMENTS OF BUDGETARY RESOURCES

The Combined SBR provides information on the budgetary resources available to the DAF WCF. The DAF WCF's Budgetary Resources are a culmination of unobligated balances from the prior year budget authority, appropriations, contract authority, and spending authority from offsetting collections. The DAF WCF's Budgetary Resources and Net Outlays were approximately \$19.8 billion and \$324.7 million at FYE 2023 and \$19.1 billion and \$149.1 million at FYE 2022, respectively, representing an increase of approximately 3.7% in Budgetary Resources and an increase of approximately 117.8% in Net Outlays.

The DAF WCF's FY 2023 resources from Contract Authority and Spending Authority from offsetting collections represent \$18.9 billion or approximately 95.4% of total budgetary resources compared to \$17.8 billion or approximately 93.2% of total budgetary resources in FY 2022. The DAF WCF obligated \$18.7 billion of the \$19.8 billion Total Budgetary Resources in FY 2023 compared to \$18.2 billion of the \$19.1 billion Total Budgetary Resources in FY 2022. The remaining \$1.1 billion of available resources remained unobligated as of the end of FY 2023 compared to \$0.9 billion in FY 2022.

**FIGURE 15: DAF WCF's Statement of Budgetary Resources Comparison**  
 DAF WCF's FYE 2023 Sources of Budgetary Resources (in millions) (unaudited)



Significant changes and underlying causes related to the DAF WCF's Combined Statement of Budgetary Resources between FYE 2023 and FYE 2022 include Budgetary Resources which increased by \$778.1 million (4.1%). The DAF WCF's FY 2023 Budget Authority increased by \$1.1 billion (6.2%). This increase can be attributed to a \$0.6 billion increase in Spending Authority from Offsetting Collections resulting from increased demand for Weapon System Support services, coupled with a 5.1% maintenance rate increase to account for inflation and recover prior year losses. The additional \$0.5 billion increase is related to an increase in Supply Contract Authority resulting from material inflation, and increased requirements for pipeline spares inventory.



# ANALYSIS OF FINANCIAL STATEMENTS

## LIMITATIONS OF THE FINANCIAL STATEMENTS

The principal financial statements are prepared to report the financial position, financial condition, and results of operations, pursuant to the requirements of 31 U.S. Code, § 3515(b). The statements are prepared from records of federal entities in accordance with GAAP published by the Federal Accounting Standards Advisory Board and the formats prescribed by OMB. Reports used to monitor and control budgetary resources are prepared from the same records. Users of the statements are advised that the statements are for a component of the U.S. Government. The DAF is unable to fully implement all elements of GAAP and OMB Circular No. A-136, due to limitations of financial and non-financial management processes and systems that support the financial statements. Additional effort toward full compliance with GAAP for the accrual method of accounting is encumbered by various system limitations and the nature of the DAF activities.



USSF Sgt. Jonathan Ojeda, 527<sup>th</sup> Space Aggressor Squadron (SAS), conducts Global Positioning System (GPS) electromagnetic interference training with a GPS electromagnetic attack system at Schriever Space Force Base, CO. The 527<sup>th</sup> SAS's mission is to know, teach, and replicate modern, emerging, and integrated space threats in order to prepare service, joint, and coalition forces to fight in and through a Contested, Degraded, and Operationally-limited environment.  
—Photo: USSF photo by Ethan Johnson

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## ANALYSIS OF SYSTEMS, CONTROLS, AND LEGAL COMPLIANCE

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

### MANAGEMENT ASSURANCES

The DAF performed its annual assessment of risks and internal controls in accordance with the Office of Management and Budget (OMB) Circular Number (No.) A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*, and the Government Accountability Office-14-704G, *Standards for Internal Control in the Federal Government* (the Green Book). Based on the results of this assessment, the DAF achieved the following management assurance levels as of September 30, 2023:

- » Internal Controls over Reporting (ICOR) – reasonable assurance, except for 16 material weaknesses
- » Internal Controls over Operations – reasonable assurance, except for 12 material weaknesses
- » Internal Controls over Financial Systems – reasonable assurance, except for two material weaknesses
- » Entity Level Controls, including fraud – reasonable assurance, except for two material weaknesses that are included in the ICOR material weaknesses, Entity Level Controls (DAF GF) and Entity Level Controls (DAF WCF)

Refer to [Table 1](#) in the *Other Information: Summary of Financial Statement Audit and Management Assurances* section of the Agency Financial Report (AFR) for the listing of material weaknesses identified by the Independent Public Accountant (IPA). In its financial statement audit, the IPA does not report on deficiencies (including material weaknesses) in internal control over operations. However, the DAF management does report material weaknesses in internal control over operations. Note that differences may exist between the material weaknesses identified by the IPA and those identified by DAF management; these differences are a function of timing between the Statement of Assurance issuance and the date of the Auditor's Report. The DAF concurs with the material weaknesses identified by the IPA which are consistent with those identified by DAF management after consideration for current year material weakness changes.

### INTERNAL CONTROL GOVERNANCE

In FY 2023, the DAF leveraged the Risk Management Council (RMC) and Senior Management Council (SMC) to provide oversight of enterprise risk management and internal control activities over operations. RMC responsibilities focus on approving the DAF Enterprise Risk Profile and holding enterprise risk owners accountable for driving enterprise risk management efforts. Primary responsibilities of the SMC include monitoring deficiencies in internal control in accordance with OMB Circular No. A-123 and the Green Book to oversee the timely implementation of corrective actions related to operational material weaknesses and significant deficiencies. The DAF continued to leverage the Executive Steering Committee (ESC) to fulfill the role of the Senior Assessment Team (SAT) in FY 2023. In its role as the SAT, the ESC assesses the implementation progress of corrective action plans (CAPs) for financial reporting and financial systems material weaknesses and significant deficiencies.



# ANALYSIS OF SYSTEMS, CONTROLS, AND LEGAL COMPLIANCE

In addition, the DAF continued implementation of the Enterprise Governance, Risk, and Compliance (eGRC) tool to streamline and automate the OMB Circular No. A-123 program. In FY 2023, eGRC served as the official repository for objectives, risks, controls, tests of controls, conclusions, deficiencies, and CAPs.

## INTERNAL CONTROL OVER REPORTING

In FY 2023, 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 16 total uncorrected material weaknesses, comprised of nine DAF GF and seven DAF WCF material weaknesses.

The tables below include the 16 material weaknesses in internal control over reporting, along with the corresponding corrective actions.

**TABLE 1: Fiscal Year 2023 Material Weaknesses in Internal Control over Reporting**

UNCORRECTED DAF GF INTERNAL CONTROL OVER REPORTING MATERIAL WEAKNESSES			
INTERNAL CONTROL REPORTING CATEGORY	TITLE OF MATERIAL WEAKNESS	SUMMARY OF CORRECTIVE ACTIONS	TARGETED CORRECTION DATE
Procure-to-Pay	Accounts Payable, Expenses, and Accounting for Contract Financing Payments	Reconcile United States Standard General Ledger (USSGL) balances and develop roll forwards for Obligations, Accounts Payable, and Contract Financing Payments (CFP) line items. Design an Accounts Payable accrual methodology. Coordinate with the Defense Finance and Accounting Service (DFAS) around a Mechanization of Contract Administration Services (MOCAS) replacement strategy and implement change requests to properly post CFP transactions driving abnormal balances.	FY 2025
Multiple	Entity Level Controls	Continue to develop executive oversight and authorities for Financial Improvement and Audit Remediation (FIAR) leadership to make and enact FIAR decisions rapidly. Formalize processes for consistent integration and collaboration between functional organizations and provide a holistic understanding of risks across the enterprise.	FY 2026
Budget-to-Report	Fund Balance with Treasury	Perform historical trend analysis to determine estimated amounts for quarterly accrual journal voucher (JV) entries to enhance the accuracy of the non-Fund Balance with Treasury (FBwT) side of the undistributed JV entries. Enhance DAF monitoring over the Consolidated Cash Accountability System reconciliation through reperformance. Develop, implement, and monitor policies and procedures that mitigate the underlying root cause of variances at a voucher detail level.	FY 2023
Budget-to-Report	Integration and Reconciliation of Financial Systems	Develop and implement an integrated Financial Management system to meet federal system requirements, comply with federal accounting standards with the ability to post transactions and report in compliant format. Establish automated processes to execute reconciliations between source/feeder systems, USSGL, and financial statements.	FY 2026



# ANALYSIS OF SYSTEMS, CONTROLS, AND LEGAL COMPLIANCE

UNCORRECTED DAF GF INTERNAL CONTROL OVER REPORTING MATERIAL WEAKNESSES			
INTERNAL CONTROL REPORTING CATEGORY	TITLE OF MATERIAL WEAKNESS	SUMMARY OF CORRECTIVE ACTIONS	TARGETED CORRECTION DATE
Acquire-to-Retire	Military Equipment	Implement and continue to refine preventative and detective controls around construction-in-progress (CIP), asset entry and updates in Accountable Property System of Records (APSR), and the existence and completeness of aircraft pods.	FY 2023
Plan-to-Stock	Operating Materials and Supplies	Improve the process to value and record newly acquired Operating Materials and Supplies (OM&S) needs and enhance procedures to record ongoing OM&S activities.	FY 2026
Acquire-to-Retire	Other General Equipment	Develop and implement policies and procedures to account for full costs of new acquisitions, including CIP, for accurate financial statement reporting.	FY 2024
Acquire-to-Retire	Property and Materials Held by Others	Implement an APSR to financially report contractor managed/ possessed property not in a government APSR. Execute contract modifications, when necessary, to enforce contract oversight and vendor reporting requirements.	FY 2026
Acquire-to-Retire	Real Property	Obtain documentation to support baseline valuation using deemed cost. Implement procedures to record actual cost of Real Property, facility CIP and depreciation. Complete analysis of subledger balance changes required following finalized FY 2022 transition from legacy APSR Information Technology (IT) systems to Next Generation IT APSR system. Complete floor-to-book and book-to-floor inventory in a timely manner.	FY 2025

UNCORRECTED DAF WCF INTERNAL CONTROL OVER REPORTING MATERIAL WEAKNESSES			
INTERNAL CONTROL REPORTING CATEGORY	TITLE OF MATERIAL WEAKNESS	SUMMARY OF CORRECTIVE ACTIONS	TARGETED CORRECTION DATE
Budget-to-Report	Accounts Payable, Gross Costs and Contract Financing Payments	Reconcile USSGL balances and develop roll forwards for Obligations, Accounts Payable, and CFP line items. Design an Accounts Payable accrual methodology. Coordinate with DFAS around a MOCAS replacement strategy and implement change requests to properly post CFP transactions driving abnormal balances.	FY 2025
Multiple	Entity Level Controls (formerly '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 2028
Order-to-Cash	Earned Revenue and Accounts Receivable	Perform revenue risk assessments, validate design and effectiveness of control activities, evaluate control gaps, maintain sufficient documentation, and monitor control sustainment activities.	FY 2027
Budget-to-Report	Fund Balance with Treasury	Include supporting documentation in each DAF WCF JV package that reconciles FBwT to reported Treasury activity.	FY 2024
Budget-to-Report	Integration and Reconciliation of Financial Systems	Implement cost effective remediations in the legacy environment pending IT modernization.	FY 2028



# ANALYSIS OF SYSTEMS, CONTROLS, AND LEGAL COMPLIANCE

UNCORRECTED DAF WCF INTERNAL CONTROL OVER REPORTING MATERIAL WEAKNESSES			
INTERNAL CONTROL REPORTING CATEGORY	TITLE OF MATERIAL WEAKNESS	SUMMARY OF CORRECTIVE ACTIONS	TARGETED CORRECTION DATE
Plan-to-Stock	Inventory Held by the Department of the Air Force Working Capital Fund	Improve depot, base, and medical/dental inventory count procedures; controls over inventory transactions; and in-transit inventory accountability. Coordinate existence and completeness baseline timing with Valuation Go-Forward and Statement of Federal Financial Accounting Standard (SFFAS) 48 Baselineing efforts.	FY 2025
Plan-to-Stock	Inventory Held by Others	Develop a process to routinely monitor variances between Defense Logistics Agency and the DAF and adjust the two sets of records to the actual inventory on hand. Address issues with inventory held by contractors and other defense organizations. Coordinate existence and completeness baseline timing with Valuation Go-Forward and SFFAS 48 Baselineing efforts.	FY 2026

## INTERNAL CONTROL OVER FINANCIAL SYSTEMS

The DAF is committed to improving financial and financial feeder IT systems across the enterprise and has established a goal of achieving a modernized, sustainable, and audit-compliant portfolio of its financial systems, including feeder systems and applications, as efficiently and cost-effectively as possible. The DAF continues to make progress toward effective internal controls, standardized business processes, integrated financial/feeder systems, and a workforce marked by human capital leading practices. Critical systems to financial reporting and control span across various business functions including, but are not limited to, acquisition (Contract Information Technology), logistics (Theater Integrated Combat Munitions System, Next Generation Information Technology, Reliability and Maintainability Information System), and financial management (Defense Enterprise Accounting and Management System).

The DAF has 42 Defense Business Systems that are relevant to the DAF GF and DAF WCF financial statements. In FY 2023, these systems were substantially non-compliant with critical requirements including Federal Information Systems Control Audit Manual (FISCAM), FFMIA, and Standard Financial Information Structure. The DAF received 192 IT Notices of Findings & Recommendations (NFRs) as a result of the financial statement audit. Audit and compliance gaps were identified in critical IT general controls and business process application controls and with Federal Financial Management System Requirements. These deficiencies contributed to several entity level findings, including an overall material weakness for Financial Information Systems for both the DAF GF and DAF WCF.

In FY 2023, the DAF Business Mission Area continued to fully implement its Enterprise IT Strategy to simplify, secure, and modernize its portfolio of financial and financial feeder systems, as well as systems owned by third-party service providers that impact DAF financial statements. The DAF submitted 72 IT CAPs to the IPA for closure, with half pertaining to access controls, a primary Secretary of Defense priority. Remediating access control deficiencies helps to safeguard sensitive data from unauthorized access and misuse. In addition, the DAF continues to implement CAPs to improve the monitoring and evaluation of risks associated with third-party service providers by establishing monitoring and oversight policies, procedures, and analysis for third-party systems and processes (e.g., System and Organization Control reports, memorandums of understanding/agreements, system populations, and complementary user entity controls) in accordance with OMB Circular No. A-123. The DAF conducted internal control assessments and coordinated with the Air Force Audit Agency to begin agreed upon procedures for additional control testing. These efforts resulted in the evaluation of more than 1,000 FISCAM controls and over 2,000 FFMIA controls across 13



# ANALYSIS OF SYSTEMS, CONTROLS, AND LEGAL COMPLIANCE

applications. Assessing non-compliant or previously unassessed controls is critical for the DAF to achieve compliance with key requirements and enable auditability of material systems.

The DAF will continue to implement enhanced cross functional governance and tools to support monitoring of compliance requirements, implementation of cybersecurity solutions (e.g. Identity, Credential, and Access Management (ICAM); Security Information and Event Monitoring (SIEM); and Configuration Management), and retirement of legacy systems. For example, in FY 2023 the DAF implemented a multi-year roadmap to accelerate ICAM capabilities for critical financial systems which will meet Secretary of Defense and DAF strategic audit and cybersecurity goals. The implementation of ICAM capabilities in IT solutions will limit access to critical systems and financial data to those with a "need to know." Lastly, the DAF is leveraging automation (e.g., robotic process automation (RPA)) to remediate audit findings and reduce its reliance on manual controls and processes. RPA uses current DAF applications and systems to help monitor and execute repetitive processes. The implementation of these automations allows for reassessment and improvement of processes, the elimination of manual entries, enhancement of error-handling, and helps to address and solve audit shortcomings and NFRs. In FY 2024, the DAF will continue assessing critical requirements, validating implemented CAPs, and onboarding financial systems to key capabilities, including ICAM and SIEM.

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 2023 Material Weaknesses in Internal Control over Financial Systems**

UNCORRECTED DAF GF INTERNAL CONTROL OVER FINANCIAL SYSTEMS MATERIAL WEAKNESSES			
INTERNAL CONTROL REPORTING CATEGORY	TITLE OF MATERIAL WEAKNESS	SUMMARY OF CORRECTIVE ACTIONS	TARGETED CORRECTION DATE
Information Technology	Financial Information Systems	Develop and implement an integrated financial management system to meet federal system requirements, comply with federal accounting standards, post transactions, and report in compliant formats.	FY 2026

UNCORRECTED DAF WCF INTERNAL CONTROL OVER FINANCIAL SYSTEMS MATERIAL WEAKNESSES			
INTERNAL CONTROL REPORTING CATEGORY	TITLE OF MATERIAL WEAKNESS	SUMMARY OF CORRECTIVE ACTIONS	TARGETED CORRECTION DATE
Information Technology	Financial Information Systems	Develop and implement an integrated financial management system to meet federal system requirements, comply with federal accounting standards, post transactions, and report in compliant formats.	FY 2026



# ANALYSIS OF SYSTEMS, CONTROLS, AND LEGAL COMPLIANCE

## INTERNAL CONTROL OVER OPERATIONS

In FY 2023, the DAF leveraged the SMC to identify, assess, and monitor material weaknesses over operations.

The table below describes the 12 material weaknesses in internal control over operations, along with the corresponding corrective actions.

**TABLE 3: Fiscal Year 2023 Material Weaknesses in Internal Control over Operations**

UNCORRECTED DAF INTERNAL CONTROL OVER OPERATIONS MATERIAL WEAKNESSES			
INTERNAL CONTROL REPORTING CATEGORY	TITLE OF MATERIAL WEAKNESS	SUMMARY OF CORRECTIVE ACTIONS	TARGETED CORRECTION DATE
Information Technology - Business System Modernization	Civil Engineer Control Systems Cyber Hygiene	Deconflict guidance for Civil Engineer control system incident response, recovery, and contingency plans. Establish and implement processes to monitor training requirements, notify users when updated tools are available, and monitor cyber hygiene documentation.	FY 2024
Supply Operations	Consumable Parts Disposal	Update guidance to clearly require (a) all base-level personnel to follow the DoD and DAF guidance for demilitarization and (b) decentralized materiel support personnel to assist maintenance personnel with identification and disposal requirements of consumable items with demilitarization codes. Develop and provide training to ensure all users are aware of consumable item demilitarization and disposal requirements.	FY 2023
Contract Administration	Contracting Officer Representatives	Ensure that a qualified Contracting Officer Representative is designated for all service contracts. Retain and execute contract oversight responsibilities. Enhance existing process to further reduce improper payments.	FY 2023
Other	Criminal History Data Reporting Requirements (formerly 'Criminal Data Reporting Requirements')	Further codify DAF Criminal Justice Information Cell with Initial Operating Capability to oversee all criminal data and reporting with Air Force Office of Special Investigations.	FY 2026
Information Technology - Business System Modernization	Cybersecurity of Automatic Test Systems and Equipment (formerly 'Cyber Security Control of Assessment Systems')	Develop a new compliance tracking system.	FY 2025
Security	Cybersecurity of Network Component Purchases	Develop and document a process to ensure network component purchases are documented in the DAF accountable record upon receipt. Update the DAF Enterprise Configuration Monitoring Strategy to investigate, identify, and disseminate monitoring tools and techniques at the network component level.	FY 2027
Personnel and Organizational Management	Foreign Government Employment	Ensure recoupment actions are completed for personnel employed by a foreign government, revise Air Force Instruction to define offices responsible for communicating approval processes and establish internal control processes.	FY 2023
Force Readiness	Installation Chemical, Biological, Radiological, and Nuclear Defense Readiness	Develop and implement a new training plan.	FY 2024

# ANALYSIS OF SYSTEMS, CONTROLS, AND LEGAL COMPLIANCE

UNCORRECTED DAF INTERNAL CONTROL OVER OPERATIONS MATERIAL WEAKNESSES			
INTERNAL CONTROL REPORTING CATEGORY	TITLE OF MATERIAL WEAKNESS	SUMMARY OF CORRECTIVE ACTIONS	TARGETED CORRECTION DATE
Comptroller and Resource Management	Marketing and Recruiting Programs	Institute training, establish controls, and direct recruiting service personnel to scrutinize invoices and reconcile payments against contract and supporting documentation. Require recruiting service personnel to review the DoD Contracting Officer Handbook.	FY 2024
Security	Protection of Sensitive Information on the Network*	Reinforce data encryption controls.	FY 2024
Security	Secure Internet Protocol Router Network Access Controls	Properly configure all network components and devices.	FY 2025
Information Technology - Business System Modernization	Weapon System Cyber Hygiene	Reinforce training requirements and documentation controls.	FY 2024

\* Protection of Sensitive Information on the Network is a consolidation of Networked Data Protection and Protection of Technical and Proprietary Data



USSF Tech. Sgt. Louis Castorena, 527<sup>th</sup> Space Aggressor Squadron (SAS), conducts Global Positioning System (GPS) electromagnetic interference training with a GPS electromagnetic attack system at Schriever Space Force Base, CO. The 527<sup>th</sup> SAS's mission is to know, teach, and replicate modern, emerging, and integrated space threats in order to prepare service, joint, and coalition forces to fight in and through a Contested, Degraded, and Operationally-limited environment.  
 —Photo: USSF photo by Ethan Johnson





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# STATEMENT OF ASSURANCE

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## SECRETARY OF THE AIR FORCE WASHINGTON

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

SUBJECT: Annual Statement of Assurance (SoA) Required Under the Federal Managers' Financial Integrity Act (FMFIA) for Fiscal Year 2023 (FY23)

As Secretary of the Air Force, I recognize the Department of the Air Force (DAF) is responsible for managing risks and maintaining effective internal control to meet the objectives of Sections 2 and 4 of the FMFIA of 1982. The DAF conducted its assessment of risk and internal control in accordance with the Office of Management and Budget (OMB) Circular Number (No.) A-123, "Management's Responsibility for Enterprise Risk Management and Internal Control" and the Green Book, Government Accountability Office (GAO)-14-704G, "Standards for Internal Control in the Federal Government." This internal review included an evaluation of the internal controls around our Security Assistance Accounts (SAA) activities. Based on the results, the DAF provides reasonable assurance, except for the 12 significant deficiencies and 30 material weaknesses reported in the "Significant Deficiencies and Material Weaknesses Template," that internal controls over operations, reporting, and compliance are operating effectively as of September 30, 2023.

The DAF 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. The "Summary of Management's Approach to Internal Control Evaluation (Appendix C)" section provides specific information on how the DAF conducted this assessment. This internal review included an evaluation of the internal controls around our SAA activities. Based on the results, the DAF provides reasonable assurance, except for the eight significant deficiencies and 12 material weaknesses reported in the "Significant Deficiencies and Material Weaknesses Template," that internal controls over operations and compliance are operating effectively as of September 30, 2023.

The DAF conducted its assessment of the effectiveness of internal controls over reporting (including internal and external financial reporting) in accordance with OMB Circular No. A-123, Appendix A. The "Internal Control Evaluation (Appendix C)" section provides specific information on how the DAF conducted this assessment. This assessment included an evaluation of the internal controls around our SAA activities. Based on the results, the DAF provides reasonable assurance, except for the four significant deficiencies and 14 material weaknesses reported in the "Significant Deficiencies and Material Weaknesses Template," that internal controls over reporting (including internal and external reporting) as of September 30, 2023, and compliance are operating effectively as of September 30, 2023.



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## STATEMENT OF ASSURANCE

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The DAF conducted an internal review of the effectiveness of the internal controls over the integrated financial management systems in accordance with FMFIA and OMB Circular No. A-123, Appendix D. The “Internal Control Evaluation (Appendix C)” section provides specific information on how the DAF conducted this assessment. This internal review included an evaluation of the internal controls around our SAA activities. Based on the results, the DAF provides reasonable assurance, except for the two non-conformances reported as material weaknesses in the “Significant Deficiencies and Material Weaknesses Template,” that the internal controls over the financial systems are following the FMFIA, Section 4; FMFIA, Section 803; and OMB Circular No. A123, Appendix D, as of September 30, 2023.

The DAF assessed entity-level controls, including fraud controls, in accordance with the Green Book, OMB Circular No. A-123, the Payment Integrity Information Act of 2019, and GAO Fraud Risk Management Framework. This internal review included an evaluation of the internal controls around our SAA activities. Based on the results, the DAF provides reasonable assurance, except for the two material weaknesses reported in the “Significant Deficiencies and Material Weaknesses Template” that entity-level controls, including fraud controls, are operating effectively as of September 30, 2023.

The DAF is hereby reporting that no Anti-Deficiency Act violations have been discovered or identified during assessments of the applicable processes.

Regarding questions for the DAF’s FY23 SoA, my point of contact is Mr. Mike Mason at michael.mason.23@us.af.mil.

Frank Kendall  
Secretary of the Air Force



## ANALYSIS OF SYSTEMS, CONTROLS, AND LEGAL COMPLIANCE

### LEGAL COMPLIANCE

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

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

An ADA violation is a serious matter as it represents a violation of a federal statute. A federal employee who violates the ADA may be subject to administrative sanctions (such as suspension from duty without pay or removal from office) and/or penal sanctions (such as fines or imprisonment). Confirmed ADA violations are reported to the President of the United States through the Director of the OMB, Congress, and the Comptroller General of the United States. As of September 30, 2023, the DAF had two potential ADA cases that are in the preliminary review stage.

### COMPLIANCE WITH OTHER KEY LEGAL AND REGULATORY REQUIREMENTS

As of September 30, 2023, the DAF is in the process of developing and implementing a program to perform a comprehensive assessment of compliance with key legal and regulatory financial requirements. The DAF plans to provide the results of the compliance assessment in future AFRs.



USAF Sgt. Dwight Brown, 645<sup>th</sup> Cyberspace Squadron defensive cyber operations supervisor poses for a photo at Patrick Space Force Base, FL. The 645<sup>th</sup> Cyberspace Squadron supports Space Launch Delta 45 by working closely with intel and other agencies to identify and prevent advanced, persistent threats interfering with launch capabilities.  
—Photo: USSF photo by Senior Airman Samuel Becker



*An F-35A Lightning II flown by Maj. Kristin Wolfe, 388<sup>th</sup> Fighter Wing F-35A Demonstration Team commander, performs a dedication pass during an airshow over Kleine Brogel Air Base, Belgium. The F-35 Demo Team consists of approximately 15 Airmen to include the pilot and commander, pilot safety officers, superintendent, team chief, maintenance Airmen, aircrew flight equipment specialists, and public affairs personnel.*  
—Photo: USAF photo by Staff Sgt. Thomas Barley



## FORWARD-LOOKING INFORMATION

Throughout its history, the DAF provided unparalleled capabilities to the joint force and excelled at keeping pace with rapid changes in innovation and technology. These unique competencies led to the DAF becoming the world's preeminent force in air, space, and cyberspace. As the DAF continues to face an evolving strategic landscape, these competencies will be critical in aiding the DAF's efforts in accomplishing its missions, the Secretary of the Air Force's (SecAF) Operational Imperatives, and the priorities within the National Defense Strategy. However, emerging risks and challenges are threatening these efforts. These risks and challenges include, but are not limited to, the following:

### ***The Complex Strategic Landscape Necessitates Increased Vigilance, Modernization, and Investments to Sustain and Build on the DAF's Enduring Advantages***

The DAF possesses competencies that underwrite the entirety of the joint force and is uniquely suited to provide the cornerstone of the nation's defense. Its capabilities enhance the security and prosperity of Americans, strengthen allies and partnerships, and deter aggression and strategic attacks from aggressors. However, the DAF's stronghold is being reduced by its strategic competition, thereby limiting the DAF's ability to meet its national security objectives. To secure the nation's defense and to mitigate existing and potential threats, the DAF must continue to be vigilant and outpace its competitors. To accomplish these objectives, the DAF is orienting its decision-making processes around resiliency and lethality and ensuring its investments and resources are aligned to deter adversaries and to prevail in conflict. The new "Air Force Force Generation" deployment model, which enables the presentation of sustainable and predictable capabilities while ensuring operational preparedness, will increase readiness. Additionally, through the Agile Combat Employment concept, the DAF will enhance its forward air base availability. The DAF is also engaging in modernization efforts while divesting from platforms and capabilities that have decreasing relevance against its competitors. Future investments include technology to counter pacing threats in highly-contested environments, such as air-to-air and air-to-surface capabilities to engage mobile targets from standoff ranges and hypersonic munitions which will enable the DAF to hold high-value, time-sensitive targets at risk in contested environments from standoff distances. Lastly, the DAF will continue to prioritize investments that accomplish the SecAF's seven operational imperatives, as these will play a pivotal role in modernizing the DAF's operational posture.



On December 2, 2022, the DAF put our nation's adversaries on notice with the unveiling of the B-21 Raider, the first new, long-range strike bomber in a generation poised to become the backbone of the USAF's modernized bomber fleet.

Designed with updated stealth qualities, mission flexibility, and an open systems architecture that will allow the aircraft to evolve as the threat environment changes, the B-21 Raider is the USAF's answer to the innovative needs required to meet new and emerging threats. Set to become operational in the mid-2020s, the DAF officials envisions an ultimate fleet of at least 100 aircraft.

*"The B-21 Raider a testament to America's enduring advantages in ingenuity and innovation. And it's proof of the Department's long-term commitment to building advanced capabilities that will fortify America's ability to deter aggression, today and into the future" said Secretary of Defense Lloyd J. Austin. The B-21, Austin said, "isn't just another airplane. It's a testament to our strategy of deterrence—with the capabilities to back it up, every time and everywhere."*

The B-21 Raider was unveiled to the public at a ceremony in Palmdale, CA. Designed to operate in tomorrow's high-end threat environment, the B-21 will play a critical role in ensuring America's enduring airpower capability.  
—Photo: USAF Photo

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## FORWARD-LOOKING INFORMATION

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### ***Increased Competition and Militarization of Space Requires Modernizing Space Capabilities and Securing U.S. Access to Space***

The U.S. has consistently been the dominant force in space, heavily depending on space-based assets to support military operations in all domains. However, space has seen dramatic changes due to exponential increases in anti-satellite capabilities and proliferation of counter-space threats intended to target the joint force. These changes present new risks that threaten the nation's diplomatic, military, and economic instruments of power. As a result, the USSF's vital interest is to protect, defend, and ensure the nation's ability to operate in, from, and through a stable space domain, as space-based capabilities underwrite all instruments of national power and enable the joint force to operate effectively. Winning in this new climate requires space-enabled, multi-domain operations and a force trained on the most current operational concepts, as well as ensuring that the USSF has the right tools, talent, and experience to provide space superiority and protect the joint force, allies, and partners.

To meet these demands, the USSF is focused on increasing the resiliency of space architecture by addressing the risks facing people, platforms, and processes through systems proliferated across multiple orbits; investing in additional cyber protection; upgrading legacy systems; and integrating space capabilities from partners, thereby allowing the USSF to better prevent and respond to aggressors. The USSF will continue its transformative efforts from legacy to next-generation space systems. In the upcoming FY, the USSF will ramp up its research, development, test and evaluation of proliferated satellites; ground segment development; and interoperability testing. The USSF is also on track to deliver the first Next-Gen Overhead Persistent Infrared geosynchronous space vehicle to reduce risk and improve the transitional resiliency and effectiveness of Missile Warning/Missile Tracking, missile defense, battlespace awareness, and technical intelligence.

Further, the USSF is pursuing new solutions to sustain and expand satellite communication capabilities, such as investing in efforts to deliver a new approach to a modern, scalable, resilient, cyber-secure Wide Area Network available to the joint force at the tactical edge. The USSF is leading the transformation of communications via the emerging space data transport by investing in a warfighter capability that will provide low-latency data transport and beyond-line-of-sight targeting, with persistent regional access to the joint force. Once fully operational, this capability will serve as the backbone of data transport in support of Command, Control, Communications, and Battle Management (C3BM) and Joint All-Domain Command and Control (JADC2). Lastly, the USSF is committed to making sure that it has assured access to space and the ability to field the necessary capabilities by ensuring that the National Security Space Launch program is equipped to place essential capabilities in orbit when needed.

### ***Persistent and Sophisticated Cyber Attacks Requires Strengthening Cyberspace Operations and Securing Systems, Networks, and Data***

The DAF depends on key cyber capabilities to conduct and support operations across all domains and to enhance U.S. military advantages. However, the DAF is facing persistent threats from adversaries and hackers who are using advanced tools to attack and exploit potential vulnerabilities on DAF networks and systems. Sophisticated cyber-attacks such as intellectual property theft, penetration of critical infrastructure, and disinformation poses one of the most significant threats to national security. The DAF is focused on enhancing its ability to deter and defeat cyber threats by developing and acquiring innovative cyber tools and capabilities that continuously improve cyberspace operations and enhance interoperability and information sharing between DoD Agencies through JADC2. As part of the SecAF's second operational imperative, the DAF is working to ensure the totality of the DAF C3BM programs provide an integrated capability with the resilience and performance needed to provide the DAF, the joint force, allies, and partners with timely information and the systems to communicate, manage, and employ that information.

## FORWARD-LOOKING INFORMATION

Providing this capability is critical to enable the DAF warfighters to make effective decisions in a high-speed complex environment. As part of those efforts, the DAF developed the Advanced Battle Management System (ABMS) to accelerate communication and enhance decision making processes by acquiring, transmitting, and processing between military agencies. Recently, the ABMS was brought under the technical management of a newly created Program Executive Officer for Integrated C3BM, which will aid in efficiently and effectively deploying and achieving an operationally optimized ABMS. The DAF is also committed to acquiring replacements for systems that are aging and vulnerable to advanced attacks. Funding is targeted to enhance cyber protection by modernizing existing information systems, hardening the DAF's network infrastructure, and utilizing emerging technology. Technology such as artificial intelligence, fifth-generation wireless technology, and cloud computing will help deter and defeat cyber-attacks on information systems and logistical infrastructure. These upgrades will increase the resiliency of numerous DAF systems, including the military Positioning, Navigation, and Timing; C3BM; and Nuclear, Command, Control, Communications systems thereby limiting the frequency and severity of cyber-attacks.



Staff Sgt. Gregory Bailey, 51<sup>st</sup> Maintenance Squadron metals technician, operates an angle grinder at Osan Air Base, South Korea. In the event of an aircraft component breaking, the 51<sup>st</sup> MXS aircraft metals technology section is tasked with repairing it or fabricating a new component from scratch, ensuring the swift and efficient continuation of aircraft operations.  
—Photo: USAF photo by Staff Sgt. Thomas Sjoberg



# FORWARD-LOOKING INFORMATION

## ASSESSMENT, MEASUREMENT, AND MITIGATION OF CLIMATE-RELATED RISKS

Climate change is a dynamic threat that is reshaping the geostrategic, operational, and tactical environments with significant implications for U.S. national security and defense. Increasing temperatures and more frequent, intense, and unpredictable extreme weather conditions are exacerbating existing risks and creating new securities challenges that are detrimentally impacting the DAF's mission capabilities and its ability to train and operate effectively.

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

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

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

### REVVED UP RECRUITING

The Honorable Kristyn E. Jones, Assistant Secretary of the Air Force for Financial Management and Comptroller performing the duties of the Under Secretary of the Air Force, visited the famed Pocono Raceway in July to lend her support in the Air Force Recruiting Service (AFRS) mission at the NASCAR Cup Series. Accompanied by Brig. Gen. Christopher Amrhein (AFRS Commander) and Chief Master Sgt. Rebecca Arbona (AFRS Command Chief), Honorable Jones toured the interactive AFRS display and met with 314th Recruiting Squadron leadership, local recruiters, and new Air Force recruit members of the Delayed Entry Program where she personally engaged with the newest generation of American and their families and shared her own experiences while serving in the military.

*"We're going to take care of them as our newest Airmen," said Honorable Jones to the Airmen's families. "They're going to learn amazing things; they're going to have the opportunity to earn their degrees or advance themselves in so many ways. We could not be more proud of them."*

In addition to taking a ride in the DAF-sponsored Camaro ZL1 stock car, Honorable Jones also swore in the Delayed Entry Program recruits—along with roughly 100 new enlistees from across the Armed Forces—by conducting a joint oath of enlistment ceremony in front of the NASCAR crowd.

*"To be able to have senior leaders such as Jones see what our recruiters are doing out in the field is vital," Amrhein said. "To hear about the mission is one thing, but to be able to see what happens at the ground level really puts things into perspective and emphasizes how seriously we take our recruiting mission."*

The Honorable Kristyn Jones, Assistant Secretary of the Air Force for Financial Management and Comptroller performing the duties of the Under Secretary of the Air Force, delivers the oath of enlistment to over 100 DAF, Army, Marines, and Navy recruits at Pocono Raceway, PA. Jones visited the raceway to participate in the DAF recruiting mission at the NASCAR Cup Series race as part of a longstanding partnership with Legacy Motor Club.  
—Photo: USAF photo by Staff Sgt. Jacob B. Derry







## FORWARD-LOOKING INFORMATION

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

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

- » In addition to net-zero emissions for all installations by FY 2046, the DAF aims to achieve a 50% reduction in greenhouse gas emissions department-wide by 2033 (measured from a 2008 baseline)
- » Targeted investments to improve base resilience, starting with \$36 million in FY 2023 and increasing to \$100 million per year by FY 2027
- » Energy Resilience Readiness Exercises executed at 35 installations by the end of FY 2027, with results used to inform installation investments and facilitate mission execution from energy-efficient and climate-resilient bases

### **Key Results for Making Climate-Informed Decisions**

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

### **Key Results for Optimizing Energy Use and Pursuing Alternative Energy Sources**

- » Operational energy intensity of DAF flying missions increased 5% by FY 2027 and 7.5% by FY 2032 through standardized use of aircraft drag reduction technologies, modern software scheduling tools, and enhanced engine sustainment practices
- » 100% carbon pollution-free electricity on a net annual basis by FY 2030, including 50% 24/7 carbon pollution-free electricity
- » 100% zero emission non-tactical vehicles by FY 2035, including 100% zero emission light-duty vehicle acquisitions by FY 2027 and aircraft support equipment by FY 2032



A formation of MC-130J Commando II aircraft assigned to the 15<sup>th</sup> Special Operations Squadron fly near Hurlburt Field, FL. Crews conducted the four-ship formation flight as part of a demonstration for the 94<sup>th</sup> Joint Civilian Orientation Conference at Hurlburt Field.  
—Photo: USAF photo by Senior Airman Natalie Fiorilli



# FINANCIAL SECTION

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*Two USAF B-1B Lancers and four F-16 Falcons participate in a combined aerial exercise alongside four South Korea Air Force F-35 Lighting IIs over South Korea. Combined flight operations allow the U.S. and its allies to improve interoperability and demonstrate a combined defense capability.  
—Photo: USAF photo by 1st Lt. Cameron Silver*

## MESSAGE FROM THE CHIEF FINANCIAL OFFICER



8 November 2023

I'm honored to support Secretary Kendall in publishing the Department of the Air Force's Agency Financial Report for Fiscal Year 2023. As detailed in this report, we have prioritized the way the Department of the Air Force does business and understand our responsibility to manage taxpayer dollars effectively and efficiently.

In Fiscal Year 2023, we made significant strides to achieve our strategic audit objectives toward a clean audit opinion. Although we received a disclaimer of opinion from our auditor, personnel across the Department of the Air Force have worked tirelessly to downgrade our material weaknesses. The Department of the Air Force energized efforts to improve and remediate the General Fund's Fund Balance with Treasury material weakness, a top priority for the Secretary of Defense, and one that will significantly assist in the auditability of our General Fund's Balance Sheet. To address one of our more challenging material weaknesses, we implemented new Military Equipment controls to mitigate Information Technology system gaps, gain assurance over asset values, and validate asset population completeness.

With additional material weakness downgrades on the near horizon for both the General Fund and Working Capital Fund, the Department of the Air Force will continue making significant improvements in the accuracy and reliability of amounts, locations, and condition of assets within our systems, as well as transparency into where and how appropriations are spent.

The Department of the Air Force took major steps to strengthen our cybersecurity posture and our ability to safeguard one of our most important assets: our data. In Fiscal Year 2023, we onboarded financial management feeder systems to centralized Identity, Credential, and Access Management services (ICAM) to replace manual account management processes with state-of-the-art tools that support multi-factor authentication, common processes, and management of provisioning and de-provisioning access. Additionally, the Department of the Air Force is committed to systems modernization and establishing robust User Access Controls to better protect our data.

The Department of the Air Force fully appreciates the need to provide real-time insights into progress against our audit objectives as a part of our responsibility to keep Congress and American taxpayers informed. We have improved our ability to provide timely feedback on audit progress through Integrated Master Schedules for all our business process areas. In Fiscal Year 2023, we leveraged metrics and dashboards to drive timely remediation decisions, report real-time progress, and elevate risk areas to leadership to develop quick and actionable solutions.

The more audit cycles the Department of the Air Force completes, the clearer we see how audit challenges impact our mission. A lack of reliable data can inhibit the Department of the Air Force's ability to quickly respond to emerging threats. In solving our deficiencies, the Department of the Air Force is developing actionable solutions and leveraging innovative technologies to increase operational efficiencies, and enable timely and accurate reporting that will fuel faster and more informed decision making.

I am incredibly proud of the work we have done, recognize there is much left to do, but excited to work with our team to solve complex audit challenges and develop solutions that will improve our business systems and processes, and most importantly, support our warfighters.

Kristyn E. Jones

Assistant Secretary of the Air Force

(Financial Management and Comptroller)





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# DEPARTMENT OF THE AIR FORCE GENERAL FUND

## (UNAUDITED)

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The DAF GF principal statements and related notes summarize financial information for the DAF GF for the FY ended September 30, 2023 and are presented on a comparative basis with information restated for the FY ended September 30, 2022. The USSF is reported as part of the DAF GF's financial statements. The principal statements and related notes have been prepared to report financial position pursuant to the requirements of the *Chief Financial Officers Act of 1990*, the *Government Management Reform Act of 1994*, and the Office of Management and Budget Circular A-136, *Financial Reporting Requirements*.

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

### CONSOLIDATED BALANCE SHEETS

- » The Consolidated Balance Sheets, as of September 30, 2023 and 2022, 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, 2023 and 2022. 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, 2023 and 2022.

### COMBINED STATEMENTS OF BUDGETARY RESOURCES

- » The Combined Statements of Budgetary Resources present the budgetary resources available to the DAF GF during FYs 2023 and 2022, the status of these resources as of September 30, 2023 and 2022, and the net outlays of budgetary resources for the FYs ended September 30, 2023 and 2022.



# DEPARTMENT OF THE AIR FORCE GENERAL FUND

## CONSOLIDATED BALANCE SHEETS

AS OF SEPTEMBER 30 (AMOUNTS IN THOUSANDS)	2023 CONSOLIDATED (UNAUDITED)	RESTATED 2022 CONSOLIDATED (UNAUDITED)
<b>ASSETS</b>		
<b>Intragovernmental</b>		
Fund Balance with Treasury ( <a href="#">Note 3</a> )	\$ 184,069,128	\$ 162,985,790
Investments ( <a href="#">Note 5</a> )	7	7
Accounts Receivable, Net ( <a href="#">Note 6</a> )	1,089,285	346,113
Other Assets ( <a href="#">Note 10</a> )	164,137	174,892
<b>Total Intragovernmental</b>	<b>\$ 185,322,557</b>	<b>\$ 163,506,802</b>
<b>Other than Intragovernmental</b>		
Cash and Other Monetary Assets ( <a href="#">Note 4</a> )	\$ 94,020	\$ 183,956
Accounts Receivable, Net ( <a href="#">Note 6</a> )	557,521	329,537
Operating Materials and Supplies, Net ( <a href="#">Note 8</a> )	64,701,005	65,929,653
General Property, Plant, and Equipment, Net ( <a href="#">Note 9</a> )	155,655,864	158,479,697
Advances and Prepayments ( <a href="#">Note 10</a> )	11,055,022	10,947,878
<b>Total Other than Intragovernmental</b>	<b>\$ 232,063,432</b>	<b>\$ 235,870,721</b>
<b>Total Assets</b>	<b>\$ 417,385,989</b>	<b>\$ 399,377,523</b>
<b>Heritage Assets and Stewardship Land (<a href="#">Note 9</a>)</b>		
<b>LIABILITIES</b>		
<b>Intragovernmental</b>		
Accounts Payable	\$ 3,579,263	\$ 3,251,011
Advances from Others and Deferred Revenue ( <a href="#">Note 15</a> )	2,572,231	1,885,558
Other Liabilities ( <a href="#">Note 13</a> and <a href="#">Note 15</a> )	1,068,390	1,323,556
<b>Total Intragovernmental</b>	<b>\$ 7,219,884</b>	<b>\$ 6,460,125</b>
<b>Other than Intragovernmental</b>		
Accounts Payable	\$ 8,435,091	\$ 7,267,235
Federal Employee and Veteran Benefits Payable ( <a href="#">Note 13</a> )	4,291,789	4,471,810
Environmental and Disposal Liabilities ( <a href="#">Note 14</a> )	15,108,941	13,089,934
Advances from Others and Deferred Revenue ( <a href="#">Note 15</a> )	430,549	343,223
Other Liabilities ( <a href="#">Note 15</a> , <a href="#">Note 16</a> , and <a href="#">Note 17</a> )	13,549,872	6,834,525
<b>Total Other than Intragovernmental</b>	<b>\$ 41,816,242</b>	<b>\$ 32,006,727</b>
<b>Total Liabilities</b>	<b>\$ 49,036,126</b>	<b>\$ 38,466,852</b>
<b>Commitments and Contingencies (<a href="#">Note 17</a>)</b>		

# DEPARTMENT OF THE AIR FORCE GENERAL FUND

## CONSOLIDATED BALANCE SHEETS CONTINUED

AS OF SEPTEMBER 30 (AMOUNTS IN THOUSANDS)	2023 CONSOLIDATED (UNAUDITED)	RESTATED 2022 CONSOLIDATED (UNAUDITED)
<b>NET POSITION</b>		
Unexpended Appropriations - Funds Other than Dedicated Collections	\$ 168,517,231	\$ 155,581,068
<b>Total Unexpended Appropriations (Consolidated)</b>	<b>\$ 168,517,231</b>	<b>\$ 155,581,068</b>
Cumulative Results of Operations - Funds from Dedicated Collections <a href="#">(Note 18)</a>	41,018	45,233
Cumulative Results of Operations - Funds Other than Dedicated Collections	199,791,614	205,284,370
<b>Total Cumulative Results of Operations (Consolidated)</b>	<b>\$ 199,832,632</b>	<b>\$ 205,329,603</b>
<b>Total Net Position</b>	<b>\$ 368,349,863</b>	<b>\$ 360,910,671</b>
<b>Total Liabilities and Net Position</b>	<b>\$ 417,385,989</b>	<b>\$ 399,377,523</b>

The accompanying notes are an integral part of these statements.

# DEPARTMENT OF THE AIR FORCE GENERAL FUND

## CONSOLIDATED STATEMENTS OF NET COST

FOR THE FISCAL YEAR ENDED SEPTEMBER 30 (AMOUNTS IN THOUSANDS)	2023 CONSOLIDATED (UNAUDITED)	RESTATED 2022 CONSOLIDATED (UNAUDITED)
<b>PROGRAM COSTS</b>		
Military Personnel	\$ 46,830,124	\$ 44,813,342
Operations, Readiness, & Support	76,817,366	66,311,194
Procurement	63,805,068	59,472,068
Research, Development, Test, & Evaluation	60,333,670	53,661,141
Family Housing & Military Construction	5,133,717	3,407,868
<b>Gross Costs</b>	<b>\$ 252,919,945</b>	<b>\$ 227,665,613</b>
(Less: Earned Revenue)	(12,013,724)	(9,752,686)
<b>Net Cost of Operations</b>	<b>\$ 240,906,221</b>	<b>\$ 217,912,927</b>

The accompanying notes are an integral part of these statements.



# DEPARTMENT OF THE AIR FORCE GENERAL FUND

## CONSOLIDATED STATEMENTS OF CHANGES IN NET POSITION

FOR THE FISCAL YEAR ENDED SEPTEMBER 30 (AMOUNTS IN THOUSANDS)	2023 CONSOLIDATED (UNAUDITED)	RESTATED 2022 CONSOLIDATED (UNAUDITED)
<b>UNEXPENDED APPROPRIATIONS</b>		
Beginning Balances (Includes Funds from Dedicated Collections - <a href="#">Note 18</a> )	\$ 155,581,068	\$ 154,715,121
<b>Beginning Balances, as Adjusted</b>	155,581,068	154,715,121
Appropriations Received	249,488,026	223,648,829
Appropriations Transferred In/Out	1,141,329	(346,809)
Other Adjustments (+/-)	(3,389,205)	(4,655,888)
Appropriations Used	(234,303,987)	(217,780,185)
<b>Net Change in Unexpended Appropriations (Includes Funds from Dedicated Collections - <a href="#">Note 18</a>)</b>	\$ 12,936,163	\$ 865,947
<b>Total Unexpended Appropriations, Ending Balance (Includes Funds from Dedicated Collections - <a href="#">Note 18</a>)</b>	\$ 168,517,231	\$ 155,581,068
<b>CUMULATIVE RESULTS OF OPERATIONS</b>		
Beginning Balances	\$ 205,329,603	\$ 200,562,070
Prior Period Adjustments:		
Changes in Accounting Principles (+/-) ( <a href="#">Note 8</a> )	(729,751)	0
Corrections of Errors (+/-) ( <a href="#">Note 27</a> )	0	\$ 3,320,073
<b>Beginning Balances, as Adjusted (Includes Funds from Dedicated Collections - <a href="#">Note 18</a>)</b>	\$ 204,599,852	\$ 203,882,143
Budgetary Financing Sources:		
Other Adjustments (+/-)	(3,877)	(5,761)
Appropriations Used	234,303,987	217,780,185
Non-Exchange Revenue	25,006	2,311
Donations and Forfeitures of Cash Equivalents	5,668	6,386
Transfers In/Out without Reimbursement	338,161	845,404
Imputed Financing	1,259,576	740,971
Other	210,480	(9,109)
<b>Total Budgetary Financing Sources</b>	\$ 236,139,001	\$ 219,360,387
Net Cost of Operations (+/-) (Includes Funds from Dedicated Collections - <a href="#">Note 18</a> )	\$ 240,906,221	\$ 217,912,927
<b>Net Change in Cumulative Results of Operations</b>	\$ (4,767,220)	\$ 1,447,460
<b>Cumulative Results of Operations, Ending (Includes Funds from Dedicated Collections - <a href="#">Note 18</a>)</b>	199,832,632	205,329,603
<b>Net Position</b>	\$ 368,349,863	\$ 360,910,671

The accompanying notes are an integral part of these statements.



# DEPARTMENT OF THE AIR FORCE GENERAL FUND

## CONSOLIDATED STATEMENTS OF BUDGETARY RESOURCES

FOR THE FISCAL YEAR ENDED SEPTEMBER 30 (AMOUNTS IN THOUSANDS)	2023 CONSOLIDATED (UNAUDITED)	2022 CONSOLIDATED (UNAUDITED)
<b>BUDGETARY RESOURCES</b>		
Unobligated Balance from Prior Year Budget Authority, Net (Discretionary and Mandatory) <i>(Note 21)</i>	\$ 52,079,833	\$ 44,341,424
Appropriations (Discretionary and Mandatory)	249,752,708	222,548,965
Spending Authority from Offsetting Collections (Discretionary and Mandatory)	10,556,327	10,657,358
<b>Total Budgetary Resources</b>	<b>\$ 312,388,868</b>	<b>\$ 277,547,747</b>
<b>STATUS OF BUDGETARY RESOURCES</b>		
New Obligations and Upward Adjustments (Total)	\$ 272,350,492	\$ 236,231,384
Unobligated Balance, End of Year:		
Apportioned, Unexpired Accounts	34,871,160	36,485,031
Exempt from Apportionment, Unexpired Accounts	13,277	18,440
Unapportioned, Unexpired Accounts	6,859	38,531
<b>Unexpired Unobligated Balance, End of Year</b>	<b>\$ 34,891,296</b>	<b>\$ 36,542,002</b>
Expired Unobligated Balance, End of Year	5,147,080	4,774,361
<b>Unobligated Balance, End of Year (Total)</b>	<b>\$ 40,038,376</b>	<b>\$ 41,316,363</b>
<b>Total Budgetary Resources</b>	<b>\$ 312,388,868</b>	<b>\$ 277,547,747</b>
<b>OUTLAYS, NET</b>		
Outlays, Net (Total) (Discretionary and Mandatory)	\$ 226,306,646	\$ 208,250,459
Distributed Offsetting Receipts (+/-)	55,689	(413,949)
<b>Agency Outlays, Net (Discretionary and Mandatory)</b>	<b>\$ 226,362,335</b>	<b>\$ 207,836,510</b>

The accompanying notes are an integral part of these statements.

# NOTES TO THE PRINCIPAL STATEMENTS

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

Click Each Note for Quick Access (Online Version Only)

<b>NOTE 1</b> <i>Summary of Significant Accounting Policies</i>	<b>NOTE 2</b> <i>Non-Entity Assets</i>	<b>NOTE 3</b> <i>Fund Balance with Treasury</i>	<b>NOTE 4</b> <i>Cash and Other Monetary Assets</i>
<b>NOTE 5</b> <i>Investments, Net</i>	<b>NOTE 6</b> <i>Accounts Receivable, Net</i>	<b>NOTE 7</b> <i>Loans Receivable, Net and Loan Guarantee Liabilities</i>	<b>NOTE 8</b> <i>Operating Materials and Supplies, Net</i>
<b>NOTE 9</b> <i>General Property, Plant, and Equipment, Net</i>	<b>NOTE 10</b> <i>Other Assets</i>	<b>NOTE 11</b> <i>Liabilities Not Covered by Budgetary Resources</i>	<b>NOTE 12</b> <i>Debt</i>
<b>NOTE 13</b> <i>Federal Employee and Veteran Benefits Payable</i>	<b>NOTE 14</b> <i>Environmental and Disposal Liabilities</i>	<b>NOTE 15</b> <i>Other Liabilities</i>	<b>NOTE 16</b> <i>Leases</i>
<b>NOTE 17</b> <i>Commitments and Contingencies</i>	<b>NOTE 18</b> <i>Funds from Dedicated Collections</i>	<b>NOTE 19</b> <i>Disclosures Related to the Statement of Net Cost</i>	<b>NOTE 20</b> <i>Disclosures Related to the Statement of Changes in Net Position</i>
<b>NOTE 21</b> <i>Disclosures Related to the Statement of Budgetary Resources</i>	<b>NOTE 22</b> <i>Disclosures Related to Incidental Custodial Collections</i>	<b>NOTE 23</b> <i>Fiduciary Activities</i>	<b>NOTE 24</b> <i>Reconciliation of Net Cost to Net Budgetary Outlays</i>
<b>NOTE 25</b> <i>Public-Private Partnerships</i>	<b>NOTE 26</b> <i>Disclosure Entities and Related Parties</i>	<b>NOTE 27</b> <i>Restatements</i>	<b>NOTE 28</b> <i>Subsequent Events</i>

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## NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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### A. REPORTING ENTITY

The DAF encompasses the DAF Headquarters, USAF Field Organizations, and USSF Field Organizations. The Secretary of the Air Force has overall responsibility for the USAF and for the USSF, under the guidance and direction of the Secretary of Defense.

The USAF is led by the Chief of Staff of the Air Force who is responsible for the efficiency of the USAF and the preparation of its forces for military operations. The USAF Field Organizations are comprised of the Major Commands, Direct Reporting Units (DRUs), Field Operating Agencies, and their subordinate elements that carry out the mission of the USAF.

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

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

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

### B. MISSION OF THE REPORTING ENTITY

The DAF was created on September 18, 1947, by the *National Security Act of 1947* and operates under the direction, authority, and control of the Secretary of the USAF. As part of the FY 2020 *National Defense Authorization Act* (NDAA), the USSF became the sixth branch of the U.S. Armed Forces, established as an independent Military Service within the DAF. The DAF's mission is comprised of the USAF mission and the USSF mission.

The USAF's mission statement is: *To fly, fight, win . . . airpower anytime, anywhere*. The USSF's mission statement is: *Secure our Nation's interests in, from, and to space*.

### C. BASIS OF PRESENTATION

These comparative financial statements have been prepared to report the consolidated financial position, net cost of operations, changes in net position, and combined budgetary resources of the DAF GF, as required by the *Chief Financial Officers Act of 1990*, as amended and expanded by the *Government Management Reform Act of 1994*, and other applicable legislation. The accompanying financial statements account for all resources for which the DAF GF is responsible, unless otherwise noted. Accounting standards require all reporting entities to disclose that accounting standards allow certain presentations and disclosures to be modified, if needed, to prevent the disclosure of classified information. To the extent possible, the financial statements have been prepared from the accounting records of the DAF GF in accordance with the requirements and formats prescribed by Office of Management and Budget (OMB) Circular A-136, *Financial Reporting Requirements*, the DoD Financial Management Regulation (FMR), and in accordance with Federal Generally Accepted Accounting Principles (GAAP) as described by the Federal Accounting Standards Advisory Board (FASAB).



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## **NOTE 1** SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

### **D. BASIS OF ACCOUNTING**

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

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

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

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## NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

The DAF GF has begun to evaluate arrangements and transactions for Public-Private Partnership (P3) criteria to determine the complete population of arrangements and transactions requiring disclosure under SFFAS 49 but has not completed a full analysis of all arrangements as of September 30, 2023.

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

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

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

The requirements of SFFAS 54 were deferred to reporting periods beginning after September 30, 2023 under SFFAS 58, *Deferral of the Effective Date of SFFAS 54, Leases*. Issued on June 19, 2020. Early adoption is not permitted. For additional information, see SFFAS 60, *Omnibus Amendments 2021: Lease-Related Topics*; SFFAS 61, *Omnibus Amendments 2023: Leases-Related Topics II*; Technical Release 20, *Implementation Guidance for Leases*; and Technical Bulletin 2023-1, *Intragovernmental Leasehold Reimbursable Work Agreements*.

## NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

6. SFFAS 59, *Accounting and Reporting of Government Land*. Issued on July 30, 2021. Effective Date:
  - » Paragraphs 1 – 3: Scope. Reporting periods beginning after September 30, 2021. Early adoption is not permitted.
  - » Paragraphs 6 – 12: Required Supplementary Information Presentation. Reporting periods beginning after September 30, 2021, through periods beginning after September 2024. Early adoption is not permitted.
  - » Paragraphs 4 – 14: Basic Presentation. Reporting periods beginning after September 30, 2025. Early adoption is not permitted.
7. SFFAS 60, *Omnibus Amendments 2021: Leases-Related Topics*. Issued on November 4, 2021. Effective Date: Reporting periods beginning after September 30, 2023.
8. Technical Bulletin 2017-1, *Intragovernmental Exchange Transactions*. Issued on November 1, 2017. Effective Date: Upon issuance.
9. Technical Bulletin 2017-2, *Assigning Assets to Component Reporting Entities*. Issued on November 1, 2017. Effective Date: Upon issuance.
10. Technical Release 17, *Conforming Amendments to Technical Releases for SFFAS 50, Establishing Opening Balances for General Property, Plant, and Equipment*. Issued on April 10, 2017. Effective Date: Upon issuance.

As this Technical Release serves as implementation guidance for SFFAS 50, the DAF GF is in the process of adopting this Technical Release as of September 30, 2023.
11. Technical Release 18, *Implementation Guidance for Establishing Opening Balances*. Issued on October 2, 2017. Effective Date: Upon issuance.

As this Technical Release serves as implementation guidance for SFFAS 48 and SFFAS 50, the DAF GF is in the process of adopting this Technical Release as of September 30, 2023.
12. Technical Release 20, *Implementation Guide for Leases*. Issued on November 4, 2021. Effective Date: Reporting periods beginning after September 30, 2023.
13. Technical Release 21, *Omnibus Technical Release Amendments 2022: Conforming Amendments*. Issued on September 6, 2022. Effective Date: Upon issuance.
14. Staff Implementation Guidance 6.1, *Clarification of Paragraphs 40-41 of SFFAS 6, Accounting for Property, Plant, and Equipment, as amended*. Issued on July 17, 2018. Effective Date: Upon issuance.

This Staff Implementation Guidance clarifies specific guidance provided in SFFAS 6. The DAF GF is in the process of adopting this Staff Implementation Guidance as of September 30, 2023.
15. Interpretation 9, *Cleanup Cost Liabilities Involving Multiple Component Reporting Entities: An Interpretation of SFFAS 5 & SFFAS 6*. Issued on August 16, 2019. Effective Date: Reporting periods beginning after September 30, 2019.
16. Interpretation 10, *Clarification of Non-Federal Non-Entity FBwT Classification (SFFAS 1, Paragraph 31): An Interpretation of SFFAS 1 and SFFAS 31*. Issued on May 10, 2021. Effective Date: Upon issuance.

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

## NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### E ACCOUNTING FOR INTRAGOVERNMENTAL AND INTERGOVERNMENTAL ACTIVITIES

The Treasury Financial Manual (TFM), Volume 1, Part 2, Chapter 4700, *Federal Entity 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 Circular A-136, including: 1) employee pension, post-retirement health, and life insurance benefits; 2) post-employment benefits for terminated and inactive employees to include unemployment and workers compensation under the *Federal Employees' Compensation Act* (FECA); and 3) losses in litigation proceedings that are paid from the Treasury Judgment Fund. Unreimbursed costs of goods and services other than those identified above are not included in the DAF GF's financial statements.

For additional information, refer to [Note 19, Disclosures Related to the Statement of Net Cost](#).

### F. NON-ENTITY ASSETS

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

For additional information, refer to [Note 2, Non-Entity Assets](#).

### G. FUND BALANCE WITH TREASURY

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

## NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

FBwT is an asset of the DAF GF and a liability of the U.S. Government GF. Similarly, investments in Federal Government securities held by dedicated collections accounts are assets of the DAF GF and liabilities of the U.S. Government GF. In both cases, the amounts represent commitments by the Government to provide resources for programs, but they do not represent assets to the Government as a whole.

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

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

For additional information, refer to [Note 3, Fund Balance with Treasury](#).

### H. CASH AND OTHER MONETARY ASSETS

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

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

For additional information, refer to [Note 2, Non-Entity Assets](#), and [Note 4, Cash and Other Monetary Assets](#).

### I. INVESTMENTS

The DAF GF reports investments in Treasury securities at cost, net of amortized premiums or discounts. Premiums or discounts are amortized over the term of the investments using the effective interest rate method or another method obtaining similar results. The DAF GF's intent is to hold investments to maturity unless they are needed to finance claims or otherwise sustain operations. Consequently, no provision is made for unrealized gains or losses on these securities.

For additional information, refer to [Note 5, Investments, Net](#).



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## NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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### J. ACCOUNTS RECEIVABLE

Accounts Receivable from other federal and non-federal entities include accounts receivable, claims receivable, and refunds receivable. In accordance with Technical Bulletin 2020-1, *Loss Allowance for Intragovernmental Receivables*, the DAF GF records an allowance for Intragovernmental Receivables, in addition to recording an allowance for Other than Intragovernmental Receivables. Allowances for federal and non-federal doubtful accounts (estimated uncollectible amounts) are based upon factors such as aging of accounts receivable, debtor's ability to pay, and payment history. Although the DAF GF records an allowance for Intragovernmental Receivables, claims for accounts receivable from other federal agencies are still resolved between the agencies in accordance with the Business Rules published in Appendix 5 of the TFM Volume 1, Part 2, Chapter 4700.

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

For additional information, refer to [Note 6, Accounts Receivable, Net](#).

### K. LOANS RECEIVABLE, NET AND LOAN GUARANTEE LIABILITIES

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

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

## NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The DAF GF predominately elected to enter into MHPI P3s by entering into long-term leases with private entities, conveying existing housing and other real estate assets, and offering direct loans for 26 projects, of which five included a limited loan guarantee.

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

As discussed within Note 1 Section D above, 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, 2023.

For additional information, refer to [Note 7, Loans Receivable, Net and Loan Guarantee Liabilities](#).

### L. OPERATING MATERIALS AND SUPPLIES, NET

The DAF GF manages only military or government specific OM&S under normal conditions. Items commonly used in, and available from, the commercial sector are not included in the DAF GF's OM&S management activities. Operational cycles are irregular, and the military risks associated with stock-out positions have no commercial parallel. The DAF GF holds OM&S based on military need and support for contingencies.

The DAF GF uses the consumption method of accounting for select categories of OM&S. In FY 2023, the DAF adopted the purchases method of accounting for the two assessable units of Cruise Missiles and Aerial Targets/ Drones. This method of accounting was adopted based on the significance analysis criteria. 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.

Currently, the DAF GF cannot disclose an estimated Allowance for Repair as required by SFFAS 3. Additionally, the DAF GF does not record Excess, Obsolete, and Unserviceable (EOU) OM&S at a Net Realizable Value (NRV) as required by SFFAS 3 and in accordance with the guidance in the DoD FMR Volume 4, Chapter 4, *Inventory and Related Property*, (other than EOU transferred to the Defense Logistics Agency which has a NRV of zero) as the DAF GF is actively working to implement corrective actions to properly report these amounts.

The DAF GF, when applicable, will continue to adopt SFFAS 48 permitting alternative methods in establishing opening balances. For additional information, refer to [Note 8, Operating Materials and Supplies, Net](#).

### M. GENERAL PROPERTY, PLANT, AND EQUIPMENT

The DAF GF normally records General PP&E at the estimated historical cost. In FY 2018, the DAF GF applied the deemed cost alternative valuation method to the opening balance of General PP&E Land in accordance with SFFAS 50 and wrote off its recorded General PP&E Land value. The DAF GF reported \$0.0 opening balance for General PP&E Land in FY 2021 and will expense General PP&E Land acquisitions in future periods. The DAF GF has established a deemed cost opening balance for some of its General Equipment in accordance with SFFAS 50. To establish the General 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 General Equipment were then established using expenditure, acquisition, and disposal information. The DAF GF, when applicable, will continue to establish opening balances for General PP&E in accordance with SFFAS 6, as amended by SFFAS 50.

In FY 2023, the DAF GF recorded prior period adjustments to reclassify expenses, transfers, and losses related to asset updates in the Accountable Property Systems of Record (APSR). As such, the DAF GF restated the FY 2022

## NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

balance related to General Equipment – Aircraft and General Equipment – Other, which resulted in an impact to General PP&E on the Balance Sheet, Program Costs (Procurement and Operations, Readiness & Support) on the Statement of Net Cost, and Cumulative Results of Operations and Financing Sources Transferred In Without Reimbursement on the Statement of Changes in Net Position. For additional information, refer to [Note 27, Restatements](#).

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

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

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

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

For additional information, refer to [Note 9, General Property, Plant, and Equipment, Net](#).

### N. OTHER ASSETS

The DAF GF conducts business with commercial contractors under two primary types of contracts: fixed price and cost reimbursement. The DAF GF may provide financing payments to contractors to alleviate the potential financial burden from long-term contracts. Contract financing payments are defined in the FAR, Part 32, as authorized disbursements to a contractor prior to acceptance of supplies or services by the Government. Contract financing payment clauses are incorporated in the contract terms and conditions. Contract financing payments are not recorded in accordance with GAAP. Due to accounting system configuration limitations, the DAF GF incorrectly records Mechanization of Contract Administration Services contract financing payments as Other Assets. Some of these transactions have been reclassified to expenses and capitalized into Construction-in-Progress (CIP), as part of the Military Equipment CIP process.

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## NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

For additional information, refer to [Note 10, Other Assets](#).

### O. LEASES

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

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

For additional information, refer to [Note 16, Leases](#).

### P. ACCOUNTS PAYABLE

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

### Q. LIABILITIES

Liabilities represent the probable future outflow or other sacrifice of resources because of past transactions or events; however, no liability can be paid by the DAF GF without proper budget authority. Liabilities Covered by Budgetary Resources are appropriated funds for which funding is available to pay amounts due. Budgetary resources include new budget authority, unobligated balances of budgetary resources at the beginning of the year or net transfers of prior year balances during the year, spending authority from offsetting collections, and recoveries of unexpired budget authority through downward adjustments of prior year obligations. Liabilities are classified as not covered by budgetary resources when congressional action is needed before they can be paid.

For additional information, refer to [Note 11, Liabilities Not Covered by Budgetary Resources](#).

### R. ENVIRONMENTAL AND DISPOSAL LIABILITIES

E&DL are estimated costs for the anticipated remediation, cleanup, and disposal costs resulting from the use of the DAF GF's assets or operations. Consistent with SFFAS 5 and 6, recognition of an anticipated environmental liability begins when the asset is placed in service.

For additional information, refer to [Note 14, Environmental and Disposal Liabilities](#).

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## NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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### S. OTHER LIABILITIES

Other Liabilities may be federal or non-federal. Such liabilities include Advances from Others and Deferred Revenue, Disbursing Officer Cash, Liabilities for Non-Entity Assets, Other Liabilities, Liability for Non-Fiduciary Deposit Funds and Undeposited Collections, Liability for Clearing Accounts, FECA Reimbursement to the Department of Labor, Employer Contributions and Payroll Taxes, Accrued Funded Payroll and Leave, Withholdings Payable, Contract Holdbacks, and Contingent Liabilities.

For Contract Holdbacks, OSD issued a policy memorandum in September 2019 directing DoD components to recognize Contract Holdbacks expected to be paid within one year of the balance sheet date as Accounts Payable, and to recognize Contract Holdbacks expected to be paid after one year of the balance sheet date as Other Liabilities. Due to system limitations, the DAF GF is unable to distinguish Current from Non-Current Contract Holdbacks and reported both Current and Non-Current Contract Holdbacks as Other Liabilities as of September 30, 2023. As such, the DAF GF does not record Contract Holdbacks in accordance with GAAP.

For additional information, refer to [Note 15, Other Liabilities](#).

### T. COMMITMENTS AND CONTINGENCIES

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

For additional information, refer to [Note 17, Commitments and Contingencies](#).

### U. FEDERAL EMPLOYEE AND VETERAN BENEFITS

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

For additional information, refer to [Note 13, Federal Employee and Veteran Benefits Payable](#), and [Note 19, Disclosures Related to the Statement of Net Cost](#).

### V. REVENUES AND OTHER FINANCING SOURCES

As a component of the Government-wide reporting entity, the DAF GF is subject to the federal budget process, which involves appropriations provided both annually and on a permanent basis. The financial transactions that are supported by budgetary resources, which include appropriations, are generally the same transactions reflected in the DoD and Government-wide financial reports.

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

## NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

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

### W. RECOGNITION OF EXPENSES

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

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## NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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### X. BUDGETARY RESOURCES

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

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

### Y. TREATIES FOR USE OF FOREIGN BASES

The DAF GF has the use of land, buildings, and other overseas facilities obtained through various international treaties and agreements negotiated by the Department of State. The DAF GF purchases capital assets overseas with appropriated funds; however, the host country retains title to the land and capital improvements. In accordance with the DoD FMR Volume 4, Chapter 24, *Real Property*, the DAF GF reports these assets on its Balance Sheet when an agreement exists between the U.S. and the host nation/foreign government and the agreement conveys a right to construct and operate facilities; the DAF GF funded the asset's acquisition (i.e., purchase and construction) and/or capital improvements; the asset meets capital General PP&E useful life and threshold criteria; and the asset is used in operations. Treaty terms generally allow the DAF GF continued use of these properties until the treaty expires. In the event treaties or other agreements are terminated, use of the foreign bases is prohibited and losses are recorded for the value of any non-retrievable capital assets.

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## NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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The settlement due to the U.S. or host nation is negotiated and takes into account the value of capital investments and may be offset by the cost of environmental cleanup. Liabilities for these settlements that might be applicable in the future are not accrued until time of settlement.

For additional information, refer to [Note 9, General Property, Plant, and Equipment, Net](#), and [Note 14, Environmental and Disposal Liabilities](#).

### Z. USE OF ESTIMATES

The DAF GF's management makes assumptions and reasonable estimates in the preparation of financial statements based on current conditions, which may affect the reported amounts. Actual results could differ materially from the estimated amounts. Significant estimates include such items as E&DL, Contingent Legal Liabilities, accrual of capitalized costs for CIP (as incurred capitalizable costs are compared to vendor completion percentages), and actuarial liabilities related to workers' compensation.

### AA. PARENT-CHILD REPORTING

The DAF GF is a party to allocation transfers with other federal agencies as a transferring (parent) entity and a receiving (child) entity. An allocation transfer is an entity's legal delegation of authority to obligate budget authority and outlay funds on its behalf. A separate fund account (allocation account) is created in the Treasury as a subset of the parent fund account for tracking and reporting purposes. All allocation transfers of balances are credited to this account, and subsequent obligations and outlays incurred by the child entity are charged to this allocation account as they execute the delegated activity on behalf of the parent entity. Generally, all financial activity related to allocation transfers (e.g., budget authority, obligations, outlays) is reported in the net cost of operations, changes in net position, and budgetary resources of the parent entity. Exceptions to this general rule apply to specific funds for which OMB has directed that all activity be reported in the financial statements of the child entity. These exceptions include Treasury-Managed Trust Funds, Executive Office of the President (EOP), and all other funds specifically designated by OMB.

The DAF GF receives allocation transfers, as a child entity, for EOP (Foreign Military Sales/Military Assistance Program) meeting the OMB exception; and, activities for this fund are reported in the DAF GF financial statements.

### AB. TRANSACTIONS WITH FOREIGN 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 through the foreign military sales trust fund. Additionally, the DAF enters into strategic agreements with other countries to provide access to certain satellite constellations.

### AC. FIDUCIARY ACTIVITIES

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

For additional information, refer to [Note 23, Fiduciary Activities](#).



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## **NOTE 1** SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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### **AD. TAX EXEMPT STATUS**

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

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

In FY 2022, the format of the Balance Sheet was changed to reflect more detail for certain line items (specifically, net position), as required for all significant reporting entities by OMB Circular A-136. This change does not affect totals for assets, liabilities, or net position and is intended to allow readers of this report to see how the amounts shown on the DoD-wide Balance Sheet are reflected on the Government-wide Balance Sheet, thereby supporting the preparation and audit of the Financial Report of the U.S. Government. The mapping of United States Standard General Ledger (USSGL) accounts, in combination with their attributes, to particular Balance Sheet lines and footnotes is directed by the guidance published periodically under TFM, USSGL Bulletins, Section V, *USSGL Crosswalks to Standard External Reports*. The footnotes affected by the modified presentation are [Note 5, Investments, Net](#); [Note 14, Environmental and Disposal Liabilities](#); and [Note 24, Reconciliation of Net Cost to Net Budgetary Outlays](#). For information related to restated balances resulting from prior period adjustments, refer to [Note 27, Restatements](#).

**NOTE 2 NON-ENTITY ASSETS**

<b>AS OF SEPTEMBER 30</b> (AMOUNTS IN THOUSANDS)	<b>2023</b> (UNAUDITED)	<b>RESTATED 2022</b> (UNAUDITED)
<b>Intragovernmental</b>		
Fund Balance with Treasury	\$ 1,092,666	\$ 765,396
<b>Total Intragovernmental Assets</b>	\$ 1,092,666	\$ 765,396
<b>Other than Intragovernmental</b>		
Cash and Other Monetary Assets	\$ 94,020	\$ 183,956
Accounts Receivable	24,866	960
<b>Total Other than Intragovernmental</b>	\$ 118,886	\$ 184,916
<b>Total Non-Entity Assets</b>	\$ 1,211,552	\$ 950,312
<b>Total Entity Assets</b>	\$ 416,174,437	\$ 398,427,211
<b>Total Assets</b>	\$ 417,385,989	\$ 399,377,523

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

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

Other than Intragovernmental Cash and Other Monetary Assets represent Disbursing Officers' cash and undeposited collections as reported on the Statement of Accountability (Standard Form 1219). These assets are held by Disbursing Officers as agents of the Treasury. For additional information, refer to [Note 1.H., Summary of Significant Accounting Policies - Cash and Other Monetary Assets](#), and [Note 4, Cash and Other Monetary Assets](#).

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

## NOTE 3 FUND BALANCE WITH TREASURY

AS OF SEPTEMBER 30 (AMOUNTS IN THOUSANDS)	2023 (UNAUDITED)	2022 (UNAUDITED)
<b>STATUS OF FUND BALANCE WITH TREASURY</b>		
<b>Unobligated Balance</b>		
Available	\$ 34,884,437	\$ 36,503,471
Unavailable	5,153,939	4,812,892
<b>Total Unobligated Balance</b>	<b>\$ 40,038,376</b>	<b>\$ 41,316,363</b>
<b>Obligated Balance Not Yet Disbursed</b>	<b>\$ 147,241,866</b>	<b>\$ 125,604,801</b>
<b>Non-Budgetary Fund Balance with Treasury</b>		
Clearing Accounts	\$ 12,222	\$ 280,872
Deposit Funds	1,092,666	765,396
<b>Total Non-Budgetary Fund Balance with Treasury</b>	<b>\$ 1,104,888</b>	<b>\$ 1,046,268</b>
<b>Non-Fund Balance with Treasury Budgetary Accounts</b>		
Investments - Treasury Securities	\$ (7)	\$ (7)
Unfilled Customer Orders without Advance	(3,194,528)	(3,884,592)
Receivables and Other	(1,121,467)	(1,097,043)
<b>Total Non-Fund Balance with Treasury Budgetary Accounts</b>	<b>\$ (4,316,002)</b>	<b>\$ (4,981,642)</b>
<b>Total Fund Balance with Treasury</b>	<b>\$ 184,069,128</b>	<b>\$ 162,985,790</b>

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

The Status of FBwT reflects the budgetary resources to support FBwT and is a reconciliation between budgetary and proprietary accounts. It primarily consists of Unobligated Balance and Obligated Balance Not Yet Disbursed. The balances reflect the budgetary authority remaining for disbursement against current or future obligations.

The Unobligated Balance is classified as Available or Unavailable and represents the cumulative amount of budgetary authority set aside to cover outstanding future obligations. The Available balance consists primarily of the unexpired, unobligated balance that has been apportioned and available for new obligations. The Unavailable balance consists of expired unobligated authority from prior years that is no longer available for new obligations. The DAF GF has an immaterial amount of Unobligated Balances for trust fund accounts which are restricted for use by public laws establishing the funds.

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

Non-Budgetary FBwT includes accounts without budgetary authority, such as Clearing Accounts and Deposit Funds. Clearing Accounts include activity from suspense transactions that are temporary in nature and are recorded in accordance with DoD Financial Management Regulation Volume 12, Chapter 1, *Funds*. Deposit Funds primarily relate to payroll withholdings for which a liability is recorded as a component of Other Liabilities. Refer to [Note 15, Other Liabilities](#).

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## NOTE 3 FUND BALANCE WITH TREASURY

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

- » Investments – Treasury Securities provide the DAF GF with budgetary authority and enable the DAF GF to access funds to make future benefit payments or other expenditures. The DAF GF must redeem these securities before they become part of the FBwT.
- » Unfilled Customer Orders without Advance and Receivables and Other provide budgetary resources when reimbursements are collected, not when orders are accepted or have been earned. FBwT is only increased when reimbursements are collected.

The FBwT reported in the financial statements has been adjusted to reflect the DAF GF's balance as reported by the Treasury. The difference between FBwT in the DAF GF's general ledger and FBwT reflected in the Treasury accounts is attributable to transactions that have not been posted to the individual detailed accounts in the DAF GF's general ledger as a result of delays in posting transactions to the DAF GF's general ledger or the inability to obtain valid accounting information prior to the issuance of the financial statements. The following adjustments were necessary for the DAF GF to reconcile their general ledger to the Treasury: \$64.9 million in net undistributed collections, and (\$1.6) billion in net undistributed disbursements as of September 30, 2023. These net amounts represent the culmination of collections and disbursements throughout the period. When research is completed, these transactions will be recorded in the appropriate individual detailed accounts in the DAF GF's general ledger.

The DAF GF is unable to fully reconcile all discrepancies between the general ledger and the Treasury in a timely manner due to control gaps and issues in upstream processes (Procure to Pay, Civilian Pay, etc.). As such, the DAF GF records an additional quarterly accrual, which supplements the undistributed net disbursement adjustment, as described in the preceding paragraph. This additional quarterly adjustment is intended to more accurately reflect non-FBwT accounts included in the transactions that comprise the difference in balances between the DAF GF and the Treasury. The DAF GF performs a historical trend analysis by assessing the resolution of historical unmatched transactions. The result of this analysis has both a proprietary and budgetary impact that is reviewed and compared to previous quarter accruals for reasonableness. Accounts impacted include Advances and Prepayments, Accounts Payable, operating expenses, undelivered orders, and delivered orders.

As of September 30, 2023, the additional quarterly adjustment based on the historical trend analysis had a total budgetary impact of \$369.2 million and a net proprietary impact of (\$122.7) million.

As of September 30, 2023, the DAF GF assessed disbursements in transit to be immaterial.

The DAF GF has \$2.8 billion of funds in cancelled appropriations that were returned to the Treasury as of September 30, 2023.

## NOTE 4 CASH AND OTHER MONETARY ASSETS

AS OF SEPTEMBER 30 (AMOUNTS IN THOUSANDS)	2023 (UNAUDITED)	2022 (UNAUDITED)
Cash	\$ 59,010	\$ 54,061
Foreign Currency	35,010	129,895
<b>Total Cash, Foreign Currency, &amp; Other Monetary Assets</b>	<b>\$ 94,020</b>	<b>\$ 183,956</b>

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

The DAF GF reported \$41.0 million in cash held from dedicated collections as of September 30, 2023. For additional information, refer to [Note 18, Funds from Dedicated Collections](#).

## NOTE 5 INVESTMENTS, NET

AS OF SEPTEMBER 30 (AMOUNTS IN THOUSANDS)	2023 (UNAUDITED)					
	COST	AMORTIZED (PREMIUM) / DISCOUNT	INTEREST RECEIVABLE	INVESTMENTS, NET	UNREALIZED GAIN/(LOSS)	MARKET VALUE
<b>Intragovernmental</b>						
Non-Marketable, Market-Based						
Other Funds	\$ 7	\$ 0	\$ 0	\$ 7	\$ 0	\$ 7
<b>Total Non-Marketable, Market-Based</b>	\$ 7	\$ 0	\$ 0	\$ 7	\$ 0	\$ 7
<b>Total Intragovernmental Investments</b>	\$ 7	\$ 0	\$ 0	\$ 7	\$ 0	\$ 7

AS OF SEPTEMBER 30 (AMOUNTS IN THOUSANDS)	2022 (UNAUDITED)					
	COST	AMORTIZED (PREMIUM) / DISCOUNT	INTEREST RECEIVABLE	INVESTMENTS, NET	UNREALIZED GAIN/(LOSS)	MARKET VALUE
<b>Intragovernmental</b>						
Non-Marketable, Market-Based						
Other Funds	\$ 7	\$ 0	\$ 0	\$ 7	\$ 0	\$ 7
<b>Total Non-Marketable, Market-Based</b>	\$ 7	\$ 0	\$ 0	\$ 7	\$ 0	\$ 7
<b>Total Intragovernmental Investments</b>	\$ 7	\$ 0	\$ 0	\$ 7	\$ 0	\$ 7

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

The Treasury securities were issued to trust and special funds legally authorized to invest funds with the Treasury, including those held by a Fund from Dedicated Collections, which are an asset to the DAF GF and a liability to the Treasury. The Federal Government does not set aside assets to pay future benefits or other expenditures associated with these funds. The cash generated is deposited in the Treasury and used for general government purposes. Since the DAF GF and the Treasury are both part of the Federal Government, these assets and liabilities offset each other at a consolidated level. For this reason, they do not represent an asset or a liability in the Government-wide financial statements.

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

For additional information on the DAF GF General Gift Fund, refer to [Note 18, Funds from Dedicated Collections](#).

Cash contributions and contributions of Real Property assets have been made in connection with the DAF GF Military Housing Privatization Initiative (MHPI) agreements, which constitute Other Investments. However, these investments and related transactions are recorded only in the DoD consolidated financial statements; no transactions or amounts

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## **NOTE 5** INVESTMENTS, NET

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are recorded in the DAF GF principal financial statements. A reconciliation of MHPI investment activity for FY 2023 is currently not available. In support of the DoD consolidated financial statement disclosures for MHPI, the DAF GF is developing processes to obtain the information necessary to comply with the disclosure requirements in Statement of Federal Financial Accounting Standards 49, *Public-Private Partnerships: Disclosure Requirements*, in subsequent FYs. For additional information on the DAF GF MHPI agreements, refer to [Note 25, Public-Private Partnerships](#).

**NOTE 6** ACCOUNTS RECEIVABLE, NET

AS OF SEPTEMBER 30 (AMOUNTS IN THOUSANDS)	2023 (UNAUDITED)		
	GROSS AMOUNT DUE	ALLOWANCE FOR ESTIMATED COLLECTIBLES	ACCOUNTS RECEIVABLE, NET
Intragovernmental Receivables	\$ 1,111,234	\$ (21,949)	\$ 1,089,285
Other than Intragovernmental Receivables (From the Public)	615,546	(58,025)	557,521
<b>Total Accounts Receivable</b>	<b>\$ 1,726,780</b>	<b>\$ (79,974)</b>	<b>\$ 1,646,806</b>

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

Accounts Receivable represents the DAF GF's claim for payment from federal and non-federal entities. As of September 30, 2023, the DAF GF reported a receivable allowance for Intragovernmental Receivables balance of \$21.9 million in accordance with Technical Bulletin 2020-1, *Loss Allowance for Intragovernmental Receivables*. An allowance recorded to recognize an Intragovernmental Receivable at net realizable value on the financial statements does not alter the underlying statutory authority to collect the receivable or the legal obligation of the other intragovernmental entity to pay. For additional information regarding the method utilized to estimate the allowance for uncollectible amounts, refer to [Note 1.J., Summary of Significant Accounting Policies – Accounts Receivable](#).



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## NOTE 7 LOANS RECEIVABLE, NET AND LOAN GUARANTEE LIABILITIES

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### DIRECT LOAN AND LOAN GUARANTEE PROGRAMS

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

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

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

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

- » **Project 1** – Shortfalls (~\$20.0 million for sustainment over the next 10 years with 0.0% mid-term reinvestment funded) driven by weak Basic Allowance for Housing (BAH) growth, occupancy challenges and outdated units that are not competitive with the market. Modifying the terms of the GDL, providing additional funding to the project via a Government equity investment, pending owner evaluation of tax impacts, or a second GDL, and securing Project Owner concessions are under consideration.
- » **Project 2** – Shortfalls (~\$76.0 million for sustainment over the next 10 years with 0.0% mid-term reinvestment funded) driven by large, deferred fee/preferred return balances never expected to be repaid; no funds ever reach the Reinvestment Account. Modifying the terms of the GDL, providing additional funding to the project via a Government equity investment and securing Project Owner concessions are under consideration.
- » **Project 3** – Shortfalls (~\$5.0 million for sustainment over the next six years with ~24.0% mid-term reinvestment funded) driven by large, deferred fees that are preventing deposits to the Reinvestment Account until the deferred fees are paid in full in 2030. Modifying the terms of the GDL and securing Project Owner concessions are under consideration.
- » **Project 4** – Shortfalls (~\$70.0 million for restoration due to a natural disaster, ~\$45.0 million for sustainment over the next 10 years and 0.0% mid-term reinvestment funded) driven by the impacts from the natural disaster (low occupancy, cash flow impacts, etc.) as well as low BAH growth over the past 12 years. Modifying the terms of the GDL, providing additional funding to the project via a Government equity investment and securing Project Owner concessions are under consideration.
- » **Project 5** – Shortfalls (~\$90.0 million for sustainment over the next 10 years with 0.0% mid-term reinvestment funded) driven by low BAH growth, higher operating expenses, large preferred return balances and higher sustainment and reinvestment needs. Modifying the terms of the GDL, providing additional funding to the project via a Government equity investment and securing Project Owner concessions are under consideration.

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## **NOTE 7** LOANS RECEIVABLE, NET AND LOAN GUARANTEE LIABILITIES

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The DAF GF currently has other projects under consideration for potential modification in the future which are in the early planning stages. At this time, there is no validity due to the fluid nature of planning, budgeting, and negotiations. However, these projects will be disclosed once plans to modify these projects solidify.

For additional information on activities related to the MHPI, refer to [Note 12, Debt](#), and [Note 25, Public-Private Partnerships](#).

## NOTE 8 OPERATING MATERIALS AND SUPPLIES, NET

AS OF SEPTEMBER 30 (AMOUNTS IN THOUSANDS)	2023 (UNAUDITED)		
	OPERATING MATERIALS AND SUPPLIES, GROSS	REVALUATION ALLOWANCE	OPERATING MATERIALS AND SUPPLIES, NET
Held for Use	\$ 55,838,087	N/A	\$ 55,838,087
Held in Reserve for Future Sale	1,499,410	N/A	1,499,410
Held for Repair	7,363,508	0	7,363,508
Excess, Obsolete, and Unserviceable	418,279	(418,279)	0
<b>Total</b>	<b>\$ 65,119,284</b>	<b>\$ (418,279)</b>	<b>\$ 64,701,005</b>

AS OF SEPTEMBER 30 (AMOUNTS IN THOUSANDS)	2022 (UNAUDITED)		
	OPERATING MATERIALS AND SUPPLIES, GROSS	REVALUATION ALLOWANCE	OPERATING MATERIALS AND SUPPLIES, NET
Held for Use	\$ 55,075,073	N/A	\$ 55,075,073
Held in Reserve for Future Sale	1,903,090	N/A	1,903,090
Held for Repair	8,951,490	0	8,951,490
Excess, Obsolete, and Unserviceable	539,252	(539,252)	0
<b>Total</b>	<b>\$ 66,468,905</b>	<b>\$ (539,252)</b>	<b>\$ 65,929,653</b>

### GENERAL COMPOSITION OF OPERATING MATERIALS & SUPPLIES

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

Munitions, spare engines, and uninstalled missile motors are commonly turned in for maintenance and repair. Based on the maintenance personnel’s evaluation, OM&S turned in for maintenance and repair is assigned a supply condition code to classify the asset in terms of readiness for issue and use. If a repair is needed, the asset’s status is changed from Held for Use to Held for Repair. If a portion of munitions issued for consumption is returned or turned in, the consumed portion of the munitions issued for consumption is reported as an expense and the remaining munition(s), if any, will continue to be recorded as Held for Use. Once required maintenance or repair has been completed for a spare engine, the spare engine is reported as Held for Use or will be deployed and installed on an aircraft.

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

## NOTE 8 OPERATING MATERIALS AND SUPPLIES, NET

### RESTRICTIONS ON THE USE OF OM&S

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

### DECISION CRITERIA FOR IDENTIFYING THE CATEGORY TO WHICH OM&S ITEMS ARE ASSIGNED

The DAF GF assigns OM&S items to a category based on asset type and condition. Held for Use includes all materiel available for issuance. Held in Reserve for Future Use includes suspended stock, which is OM&S with one of the following conditions: 1) awaiting inspection to determine its condition; 2) inventory returned from customers or users to storage warehouses and awaiting condition classification; 3) inventory held at storage warehouses pending litigation or negotiation with contractors or common carriers; 4) ammunition that is only suitable for Emergency Combat use; 5) quality-deficient inventory returned by customers or users due to technical deficiencies; and 6) inventory returned by salvage activities not related to Excess, Obsolete, and Unserviceable (EOU) assets for which the material condition cannot be determined.

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

EOU includes all materiel that managers determine to be more costly to repair than to replace. To date, the DAF GF has not confirmed any proceeds received from the disposal of these EOU 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 EOU. The DAF GF is also in the process of re-classifying spare engines that are placed in long-term storage to Held in Reserve for Future Use or EOU.

The Treasury United States 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 Statement of Federal Financial Accounting Standards (SFFAS) 3, *Accounting for Inventory and Related Property*. Therefore, the DAF GF is not making an unreserved assertion with respect to this line item in accordance with SFFAS 48, *Opening Balances for Inventory, Operating Materials and Supplies, and Stockpile Materials*.

- » Munitions purchased prior to 2016 are valued based on the Federal Logistics Information System catalogue price. Munitions purchased after 2016 are valued based on actual historical cost.
- » Spare engines and uninstalled missile motors are valued based on estimated historical cost.
- » C-ICP and Base Possessed are discussed further below.

The Comprehensive Engine Maintenance System calculates MAC for spare engines. The Theater Integrated Combat Munitions System calculates MAC for munitions. Legacy system functionality and the lack of a complete asset universe prevents the DAF GF from recording MAC values located at C-ICP locations. The DAF GF's accounting system uses transaction type codes provided by Mechanization of Contract Administration Services (MOCAS) to determine how to record transactions. MOCAS was not designed to have separate transaction type codes to identify and account for contract financing payments at the level required to accurately determine the USSGL posting to the

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## NOTE 8 OPERATING MATERIALS AND SUPPLIES, NET

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proper work-in-process type asset account, including OM&S In-Development. Until system modifications are made, contract financing payments, as disclosed in [Note 10, Other Assets](#), are overstated and work-in-process type assets (including OM&S In-Development) are understated.

The DAF GF has not been able to identify a complete population of programs that contain contractor managed and possessed OM&S. In addition, some contractor systems can only provide minimal OM&S accounting data that can be used to prepare the financial statements. Although some programs report transactional data, the data provided by many other programs consists of only beginning and ending balances for each of the following asset accounts: Held for Use, EOU, Held for Future Use, and Held for Repair. Without the required additional data (acquisitions, transfers in, amounts consumed, transfers out, trading partner data, etc.), the DAF GF can only report the net change between prior period ending balances and the values reported as current period ending balances. The DAF GF has not verified whether the current Accountable Property Systems of Record (APSRs) have the capability to accurately calculate MAC for C-ICP assets. In addition, the DAF GF does not require contractors to report SFFAS 3-compliant data that uses the MAC valuation method. The DAF GF has identified C-ICP Programs and issued a Contract Data Requirements List requiring financial reporting on a quarterly basis. However, the DAF GF has identified that not all C-ICP Programs are submitting the required Chief Financial Officer Reports or reporting through the Automated Logistics Management Support System. EOU C-ICP inventory is not being recorded at 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.

In FY 2023, the DAF GF applied the purchases method, an alternative accounting treatment per SFFAS 3, for cruise missiles and aerial targets/drones. This method of accounting was adopted based on the significance analysis criteria. The purchases method accounting treatment provides that OM&S be expensed, on the Statement of Net Cost, when purchased. This change in Accounting Principle resulted in a \$729.8 million decrease to the Balance Sheet - Operating Materials and Supplies, Net and a \$729.8 million decrease to the Statement of Changes in Net Position for FY 2023 balances.

### OTHER DEPARTMENT OF THE AIR FORCE DISCLOSURES

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

## NOTE 9 GENERAL PROPERTY, PLANT, AND EQUIPMENT, NET

AS OF SEPTEMBER 30 (AMOUNTS IN THOUSANDS)	2023 (UNAUDITED)				
	DEPRECIATION/ AMORTIZATION METHOD	SERVICE LIFE	ACQUISITION VALUE	(ACCUMULATED DEPRECIATION/ AMORTIZATION)	NET BOOK VALUE
<b>MAJOR ASSET CLASS</b>					
Buildings, Structures, and Linear Structures	S/L	20, 40 or 45*	\$ 99,547,951	\$ (68,502,592)	\$ 31,045,359
Leasehold Improvements	S/L	Lease Term	44,729	(27,552)	17,177
Software	S/L	2-5 or 10	446,641	(439,627)	7,014
Software in Development	N/A	N/A	182,304	N/A	182,304
General Equipment	S/L	5-40.5	388,939,729	(279,799,405)	109,140,324
Aircraft			302,976,159	(209,751,309)	93,224,850
Other			85,963,570	(70,048,096)	15,915,474
Construction-In-Progress	N/A	N/A	15,263,686	N/A	15,263,686
Military Equipment			14,672,963	N/A	14,672,963
Real Property			590,723	N/A	590,723
<b>Total General Property, Plant, and Equipment, Net</b>			\$ 504,425,040	\$ (348,769,176)	\$ 155,655,864

AS OF SEPTEMBER 30 (AMOUNTS IN THOUSANDS)	RESTATED 2022 (UNAUDITED)				
	DEPRECIATION/ AMORTIZATION METHOD	SERVICE LIFE	ACQUISITION VALUE	(ACCUMULATED DEPRECIATION/ AMORTIZATION)	NET BOOK VALUE
<b>MAJOR ASSET CLASS</b>					
Buildings, Structures, and Linear Structures	S/L	20, 40 or 45*	\$ 98,801,009	\$ (65,921,362)	\$ 32,879,647
Leasehold Improvements	S/L	Lease Term	43,106	(27,850)	15,256
Software	S/L	2-5 or 10	446,641	(439,627)	7,014
Software in Development	N/A	N/A	182,304	N/A	182,304
General Equipment	S/L	5-40.5	392,093,194	(280,740,460)	111,352,734
Aircraft			306,726,299	(213,708,311)	93,017,988
Other			85,366,895	(67,032,149)	18,334,746
Construction-In-Progress	N/A	N/A	14,042,742	N/A	14,042,742
Military Equipment			13,242,632	N/A	13,242,632
Real Property			800,110	N/A	800,110
<b>Total General Property, Plant, and Equipment, Net</b>			\$ 505,608,996	\$ (347,129,299)	\$ 158,479,697

### LEGEND FOR VALUATION METHODS:

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

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

## NOTE 9 GENERAL PROPERTY, PLANT, AND EQUIPMENT, NET

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

AS OF SEPTEMBER 30 (AMOUNTS IN THOUSANDS)	2023 (UNAUDITED)	RESTATED 2022 (UNAUDITED)
General Property, Plant, and Equipment, Net Beginning of Year	\$ 158,479,697	\$ 159,904,365
Capitalized Acquisitions	20,462,489	21,542,400
Dispositions	(956,539)	(1,935,283)
Transfers In/(Out) Without Reimbursement	250,007	931,842
Revaluations (+/-)	(281,840)	(237,530)
Depreciation Expense	(15,407,080)	(17,283,871)
Other (+/-)	(6,890,870)	(4,442,226)
<b>General Property, Plant, and Equipment, Net End of Year</b>	<b>\$ 155,655,864</b>	<b>\$ 158,479,697</b>

### GENERAL PROPERTY, PLANT, AND EQUIPMENT

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

In FY 2023, the DAF GF corrected errors in prior year balances related to untimely updates within the Accountable Property Systems of Record (APSR) and Aircraft deemed cost acquisition cost updates. Accordingly, the balances related to General Equipment – Aircraft and General Equipment – Other were restated. These restatements resulted in a \$3.3 billion impact to the Balance Sheet – General Property, Plant, and Equipment (PP&E), \$401.3 million impact to the Statement of Net Cost, and \$3.3 billion impact to the Statement of Changes in Net Position for FY 2022 balances. Additional impact to the FY 2023 balances also resulted from this restatement. For additional information related to prior period adjustments for the General PP&E balances, refer to [Note 27, Restatements](#).

### BUILDINGS, STRUCTURES, AND LINEAR STRUCTURES

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

The DAF GF reports in its financial statements Real Property within DoD installations where the DAF GF is the designated installation host. This includes Real Property on the DAF GF installations used and occupied by other DoD agencies. As the installation host, the DAF does not report assets on its installation that were funded and are exclusively used by an entity not included in the consolidated DoD financial statements. While the DAF GF is responsible and accountable for accepting, controlling, managing, and utilizing Real Property, the DAF GF may enter

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## NOTE 9 GENERAL PROPERTY, PLANT, AND EQUIPMENT, NET

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into Memoranda of Agreement with another Military Department, Washington Headquarters Services or other DoD Components, and license or permit with a non-DoD governmental agency, transferring the right to control the use of a DAF GF Real Property to the other organization. The transfer of the right to control the use of the Real Property does not transfer jurisdiction and the asset remains under the jurisdiction of the DAF GF. The DAF GF continues to work toward compliance with DoD Financial Management Regulation Volume 4, Chapter 24, *Real Property*, by working with other Military Departments to reconcile Real Property reports.

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

### LEASEHOLD IMPROVEMENTS

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

### SOFTWARE

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

- » **Commercial Off-the-Shelf Software** – Software acquired from a vendor or other government entity, typically in the form of a license, which is ready for use with little or no changes.
- » **Developed Software** – Internally developed software is software that is developed by or under the oversight of the DAF GF Program Offices (contractor-developed), including new software and the modification of existing or purchased software or software licenses.

As of September 30, 2023, 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. Once these processes and controls are in place, the DAF GF intends to expense, in the FY of the unreserved assertion, IUS balances in a future period as permitted by SFFAS 50.

### GENERAL EQUIPMENT

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

**Aircraft** – Represents the most significant portion of General Equipment and is comprised of 11 categories of aircraft based on mission types: attack, bomber, transport, electronic, fighter, trainer, helicopter, vertical takeoff and landing, utility, glider, and remotely piloted aircraft systems. The DAF GF continues to work toward establishing opening balances for these assets in accordance with SFFAS 6, as amended by SFFAS 50. Previous alternative valuation methods used to establish opening balances, as permitted by SFFAS 50, were reasonable historical cost estimates based on: 1) cost of similar assets at the time of acquisition; 2) current cost of similar assets discounted for inflation since the time of acquisition (that is, deflating current costs to costs at the time of acquisition by general price index); or 3) other reasonable methods, including latest acquisition cost and estimation methods based on information such as, but not limited to, budget, appropriations, engineering documents, contracts, or other reports reflecting amounts to be expended.



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## NOTE 9 GENERAL PROPERTY, PLANT, AND EQUIPMENT, NET

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In instances where contracts or other key supporting documents were not available, the DAF GF used budgetary data and procurement documents to establish an opening balance for assets and modifications.

**Other General Equipment** – Includes satellites, missiles, pods, and mine resistant ambush protected vehicles. In FY 2023, the DAF GF continued to work toward establishing opening balances for these assets in accordance with SFFAS 6, as amended by 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, satellite ground control segments and special tooling and special test equipment, either as equipment in the possession of the DAF GF or as Government Furnished Equipment (GFE) in the possession of contractors. These support equipment categories have not yet been valued using deemed cost to establish opening balances under SFFAS 50. The DAF GF intends to value these equipment categories using deemed cost to establish opening balances under SFFAS 50 in future FYs.

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

### CONSTRUCTION-IN-PROGRESS

**Military Equipment** – The DAF GF reports Construction-in-Progress (CIP) for applicable Military Equipment assets under development. The methodology to estimate CIP is based on the capitalizable expenditures during the period by program and by contract. CIP is reduced based on delivered assets placed in service, which are then recorded in the APSR at actual historical cost. The DAF GF currently reports CIP balances for 11 aircraft platforms, 18 aircraft modification platforms, and six variants of satellite assets currently in production.

**Real Property** – The DAF GF constructs Real Property and works closely with other Military Departments, the U.S. Army Corps of Engineers (USACE), foreign governments, 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 and reported by USACE as a service provider for the DAF GF under a sub-allotment authority.

### RESTRICTIONS ON THE USE OR CONVERTIBILITY OF GENERAL PP&E

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

## NOTE 9 GENERAL PROPERTY, PLANT, AND EQUIPMENT, NET

### HERITAGE ASSETS

HERITAGE ASSETS FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2023 (PHYSICAL COUNT) (UNAUDITED)					
HERITAGE ASSET CATEGORIES MEASUREMENT	MEASUREMENT QUANTITY	AS OF SEPTEMBER 30, 2022	ADDITIONS (+)	DELETIONS (-)	AS OF SEPTEMBER 30, 2023
Buildings, Structures, and Linear Structures	Each	7,023	0	(113)	6,910
Archaeological Sites	Each	2,268	62	(16)	2,314
Museum Collection Items (Objects, Not Including Fine Art)	Each	135,106	473	(223)	135,356
Museum Collection Items (Fine Art)	Each	10,221	12	(26)	10,207

The DAF GF fully commits to the preservation of the USAF history, heritage, and traditions, and meets this commitment through its policy to preserve Heritage Assets, which are items of natural, cultural, educational, architectural, or artistic significance. The DAF GF defines Heritage Assets as follows:

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

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

The DAF GF, with minor exceptions, uses the buildings and structures in its daily activities and includes the buildings and structures on the Balance Sheet as multi-use Heritage Assets. If an asset is classified as a single-use Heritage Asset, the asset is not depreciated, nor recorded on the DAF GF’s Balance Sheet. The DAF GF is in the process of validating assets that are recorded as a multi-use Heritage Asset as opposed to a single-use Heritage Asset. The DAF GF does not receive any Heritage Assets through donation or devise related to Buildings, Structures, and Linear Structures and Archaeological Sites. For information related to deferred maintenance and repairs, including Heritage Assets, refer to DAF GF’s [Required Supplementary Information \(RSI\)](#) 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*

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## **NOTE 9** GENERAL PROPERTY, PLANT, AND EQUIPMENT, NET

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*Interior's Standards for The Treatment of Historic Properties.* The DAF GF reported 7,023 Buildings, Structures, and Linear Structures on the DAF GF installations and garrisons as Heritage Assets as of September 30, 2022. As of September 30, 2023, 6,910 Buildings, Structures, and Linear Structures are classified as Heritage Assets, representing a decrease of 113 during the period.

### **Archaeological Sites**

Archaeological Sites considered Heritage Assets are sites that have been identified, evaluated, and determined to be eligible for listing on, or are listed on, the NRHP. The DAF GF reported 2,268 Archaeological Sites as Heritage Assets as of September 30, 2022. As of September 30, 2023, 2,314 known Archaeological Sites are classified as Heritage Assets, representing a net increase of 46 during the period. This cohort of archaeological Heritage Assets is a subset of the over 22,300 known Archaeological Sites recorded on the DAF GF-controlled and owned lands in the U.S. and its Territories.

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

### **Museum Collection Items, Objects**

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

During the period between October 1, 2022 through September 30, 2023, there have been 473 objects added to the collection. These additions are a result of private donations, transfers from the DAF GF or other federal entities, curatorial administrative actions such as class code changes, accession breakouts, and the continued documentation of newly reported artifacts at the DAF GF activities worldwide, etc. There were 223 objects deleted due to administrative actions or deaccessioned from the collection as having been determined not to meet historic property criteria, were in poor condition, or were transferred to other federal historical activities. As part of the NMUSAF's active collection management process, the accession and deaccession of objects is continuous and balances reported represent the information at the respective time of reporting.

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

### **Museum Collection Items, Fine Art**

In addition to its artifact collection, the NMUSAF holds a Fine Art collection separate from the DAF Art Program numbering 971 items as of September 30, 2023, representing two additions in the period from October 1, 2022 to September 30, 2023. Containing original oils, drawings, sketches, and sculptures, these Fine Art holdings are in direct support of the NMUSAF exhibit requirements.

An additional art collection held by the DAF Art Program also contains original oils, drawing, sketches, textiles, and sculptures. As of September 30, 2022, those items totaled 9,234. The DAF Art Program saw a net increase of two pieces, resulting in 9,236 items as of September 30, 2023.

The NMUSAF and DAF Art Program combined held a total of 10,207 and 10,221 pieces of art as of September 30, 2023 and September 30, 2022, respectively.

## NOTE 9 GENERAL PROPERTY, PLANT, AND EQUIPMENT, NET

### GENERAL PP&E LAND AND STEWARDSHIP LAND

GENERAL PP&E LAND AND STEWARDSHIP LAND FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2023 <i>(ACRES IN THOUSANDS) (UNAUDITED)</i>					
FACILITY ANALYSIS CODE	FACILITY ANALYSIS CODE TITLE	AS OF SEPTEMBER 30, 2022	ADDITIONS (+)	DELETIONS (-)	AS OF SEPTEMBER 30, 2023
9110	Land	8,093	122	0	8,215
9900	Land Rights	132	4	0	136
Total		8,225	126	0	8,351

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

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

Information concerning deferred maintenance and repairs and estimated land acreage is discussed in the [Required Supplementary Information \(RSI\)](#) Section.

**NOTE 10 OTHER ASSETS**

<b>AS OF SEPTEMBER 30</b> <i>(AMOUNTS IN THOUSANDS)</i>	<b>2023</b> <i>(UNAUDITED)</i>	<b>2022</b> <i>(UNAUDITED)</i>
<b>Intragovernmental Other Assets</b>		
Advances and Prepayments	\$ 164,137	\$ 174,892
Total Intragovernmental Other Assets	\$ 164,137	\$ 174,892
<b>Other Than Intragovernmental Other Assets</b>		
Outstanding Contract Financing Payments	\$ 10,919,661	\$ 10,836,311
Advances and Prepayments	135,361	111,567
<b>Subtotal</b>	\$ 11,055,022	\$ 10,947,878
Less: "Outstanding Contract Financing Payments" and "Advance and Prepayments" totalled and presented on the Balance Sheet as "Advances and Prepayments"	(11,055,022)	(10,947,878)
<b>Total Other Assets</b>	\$ 164,137	\$ 174,892

Advances and Prepayments are amounts advanced or prepaid to other federal agencies. Advances are payments made before a good or a service is actually received. Prepayments are payments made to cover certain periodic expenses before those expenses are incurred, and are made in contemplation of the future performance of services, receipt of goods, incurrence of expenditures, or receipt of assets, excluding those made as Outstanding Contract Financing Payments (OCFP).

OCFP, a separate classification of Advances and Prepayments, are the DAF GF's cash disbursements to a contractor under the contract prior to the DAF GF's acceptance of goods and services. Contract financing payments may include advance payments, performance-based payments, commercial advances and interim payments, progress payments based on cost, and interim payments under certain cost-reimbursement contracts.

## NOTE 11 LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

AS OF SEPTEMBER 30 (AMOUNTS IN THOUSANDS)	2023 (UNAUDITED)	2022 (UNAUDITED)
<b>Intragovernmental Liabilities</b>		
Federal Employees' Compensation Act	\$ 167,962	\$ 162,554
Judgment Fund Liabilities	701,227	630,466
Other	9,399	9,772
<b>Total Intragovernmental Liabilities</b>	<b>\$ 878,588</b>	<b>\$ 802,792</b>
<b>Other than Intragovernmental Liabilities</b>		
Accounts Payable	\$ 1,135,417	\$ 836,286
Federal Employee and Veteran Benefits Payable	4,163,323	4,319,752
Environmental and Disposal Liabilities	13,733,437	11,852,839
Other Liabilities	219,209	278,924
<b>Total Other than Intragovernmental Liabilities</b>	<b>\$ 19,251,386</b>	<b>\$ 17,287,801</b>
<b>Total Liabilities Not Covered by Budgetary Resources</b>	<b>\$ 20,129,974</b>	<b>\$ 18,090,593</b>
<b>Total Liabilities Covered by Budgetary Resources</b>	<b>\$ 27,707,147</b>	<b>\$ 19,145,900</b>
<b>Total Liabilities Not Requiring Budgetary Resources</b>	<b>\$ 1,199,005</b>	<b>\$ 1,230,359</b>
<b>Total Liabilities</b>	<b>\$ 49,036,126</b>	<b>\$ 38,466,852</b>

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

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

Intragovernmental *Federal Employees' Compensation Act* (FECA) is comprised of the unfunded FECA liability. For additional information, refer to [Note 13, Federal Employee and Veteran Benefits Payable](#).

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

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

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

Other than Intragovernmental Federal Employee and Veteran Benefits Payable consists of various employee actuarial liabilities not due and payable during the current FY. These liabilities primarily consist of the amount recorded

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## **NOTE 11** LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

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by employer agencies for the actuarial present value of future FECA benefits provided to federal employees or their beneficiaries as a result of work-related deaths, disability, or occupational disease. For additional details and disclosures, refer to [Note 13, Federal Employee and Veteran Benefits Payable](#).

For additional details and disclosures related to Environmental and Disposal Liabilities, refer to [Note 14, Environmental and Disposal Liabilities](#).

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

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## NOTE 12 *DEBT*

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

MHPI borrowed funds for the sixth and final Government Direct Loan disbursement for a project. These funds were disbursed in May 2023. Transactions and amounts related to funds borrowed by the DAF GF from the Treasury and repayment thereof are recorded only in the DoD consolidated principal financial statements. No transactions or amounts are recorded in the DAF GF principal financial statements.

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



## NOTE 13 FEDERAL EMPLOYEE AND VETERAN BENEFITS PAYABLE

AS OF SEPTEMBER 30 (AMOUNTS IN THOUSANDS)	2023 (UNAUDITED)		
	LIABILITIES	(ASSETS AVAILABLE TO PAY BENEFITS)	UNFUNDED LIABILITIES
<b>Other Benefits</b>			
Federal Employees' Compensation Act	\$ 888,889	\$ 0	\$ 888,889
Other	3,402,900	(128,466)	3,274,434
<b>Total Other Benefits</b>	\$ 4,291,789	\$ (128,466)	\$ 4,163,323
<b>Federal Employee and Veteran Benefits Payable (presented separately on the Balance Sheet)</b>	4,291,789	(128,466)	4,163,323
Other Benefit-Related Payables Included in Intragovernmental Other Liabilities on the Balance Sheet	248,782	(71,421)	177,361
<b>Total Federal Employee and Veteran Benefits Payable</b>	\$ 4,540,571	\$ (199,887)	\$ 4,340,684

AS OF SEPTEMBER 30 (AMOUNTS IN THOUSANDS)	2022 (UNAUDITED)		
	LIABILITIES	(ASSETS AVAILABLE TO PAY BENEFITS)	UNFUNDED LIABILITIES
<b>Other Benefits</b>			
Federal Employees' Compensation Act	\$ 889,552	\$ 0	\$ 889,552
Other	3,582,258	(152,058)	3,430,200
<b>Total Other Benefits</b>	\$ 4,471,810	\$ (152,058)	\$ 4,319,752
<b>Federal Employee and Veteran Benefits Payable (presented separately on the Balance Sheet)</b>	4,471,810	(152,058)	4,319,752
Other Benefit-Related Payables Included in Intragovernmental Other Liabilities on the Balance Sheet	508,647	(336,321)	172,326
<b>Total Federal Employee and Veteran Benefits Payable</b>	\$ 4,980,457	\$ (488,379)	\$ 4,492,078

### FEDERAL EMPLOYEES' COMPENSATION ACT

The DAF GF reports an actuarial liability for the *Federal Employees' Compensation Act* (FECA). 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. 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.

## NOTE 13 FEDERAL EMPLOYEE AND VETERAN BENEFITS PAYABLE

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) 2023 were also used to adjust the methodology’s historical payments to current year constant dollars.

Consistent with past practice, these projected annual benefit payments have been discounted to present value based on interest rate assumptions on the Treasury’s Yield Curve for the Treasury Nominal Coupon (TNC) Issues (the TNC Yield Curve) to reflect the average duration of income payments and medical payments. Discount rates were based on averaging the TNC Yield Curves for the current and prior four years for FY 2023. Interest rate assumptions utilized for discounting were as follows:

DISCOUNT RATES	
	For Wage Benefits: 2.3% in Year 1 and Years thereafter
	For Medical Benefits: 2.1% in Year 1 and Years thereafter

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

CBY	COLA	CPI-M
2023	N/A	N/A
2024	4.0%	3.3%
2025	4.3%	3.2%
2026	4.4%	3.5%
2027	4.1%	3.9%
2028 and thereafter	3.1%	4.0%

The model’s resulting projections were analyzed to ensure that the estimates were reliable. The 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 2023 to the average pattern observed during the most current three CBYs; and 4) a comparison of the estimated liability per case in the FY 2024 projection to the average pattern for the projections of the most recent three years.

### OTHER BENEFITS

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

Accrued Unfunded Annual Leave, which comprises Other Benefits - Other, is based on the employees’ leave balances at the end of the FY. The DAF GF had a balance of \$3.3 billion as of September 30, 2023 in Accrued Unfunded Annual Leave.

Refer to [Note 15, Other Liabilities](#), for description of Other Benefit-Related Payables Included in Intragovernmental Other Liabilities on the Balance Sheet.

## NOTE 14 ENVIRONMENTAL AND DISPOSAL LIABILITIES

AS OF SEPTEMBER 30 (AMOUNTS IN THOUSANDS)	2023 (UNAUDITED)	2022 (UNAUDITED)
<b>ENVIRONMENTAL LIABILITIES—OTHER THAN INTRAGOVERNMENTAL</b>		
<b>Accrued Environmental Restoration Liabilities</b>		
Active Installations—Installation Restoration Program and Building Demolition and Debris Removal	\$ 8,534,183	\$ 7,017,071
Active Installations—Military Munitions Response Program	344,833	357,146
<b>Total Accrued Environmental Restoration Liabilities</b>	<b>\$ 8,879,016</b>	<b>\$ 7,374,217</b>
<b>Other Accrued Environmental Liabilities – Non-Base Realignment and Closure</b>		
Environmental Corrective Action	357,591	408,790
Environmental Closure Requirements	617,452	784,474
Asbestos	2,032,775	1,366,908
<b>Total Other Accrued Environmental Liabilities – Non-Base Realignment and Closure</b>	<b>\$ 3,007,818</b>	<b>\$ 2,560,172</b>
<b>Base Realignment and Closure Installations</b>		
Installation Restoration Program	2,459,899	2,501,336
Military Munitions Response Program	19,710	10,577
Environmental Corrective Action / Closure Requirements	122	122
Asbestos	140	749
<b>Total Base Realignment and Closure Installations</b>	<b>\$ 2,479,871</b>	<b>\$ 2,512,784</b>
<b>Environmental Disposal for Military Equipment / Weapons Programs</b>		
Non-Nuclear Powered Military Equipment	742,236	642,761
<b>Total Environmental Disposal for Military Equipment / Weapons Programs</b>	<b>\$ 742,236</b>	<b>\$ 642,761</b>
<b>Total Environmental and Disposal Liabilities</b>	<b>\$ 15,108,941</b>	<b>\$ 13,089,934</b>

An environmental liability is a probable and reasonably estimable future outflow or expenditure of resources that exists as of the financial reporting date for environmental cleanup, closure, and post-closure costs resulting from past transactions or events. The DAF GF is required to include costs for cleaning up contamination resulting from past waste disposal practices, leaks, spills, and other past activities, which has created a public human health or environmental risk. The DAF GF is also required to include costs for performing non-routine removal of hazardous waste and other associated environmental closure and post-closure activities explicitly required by permit or other policy or law at the time of asset decommissioning.

### APPLICABLE LAWS AND REGULATIONS OF CLEANUP, CLOSURE, AND/OR DISPOSAL REQUIREMENTS

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

- » *Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA)*
- » *Superfund Amendments and Reauthorization Act*
- » *Clean Water Act*



## NOTE 14 ENVIRONMENTAL AND DISPOSAL LIABILITIES

- » *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 U.S. Army Corps of Engineers (USACE) is the lead agent for Formerly Used Defense Sites at active installations, the Department of the Navy is the lead agent for nuclear-powered military equipment and spent nuclear fuel, and the Department of the Army is the executive agent for the Chemical Weapons Disposal Program, and the Department of the Navy and the Defense Logistics Agency are responsible for the Red Hill Response.

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

#### Accrued Environmental Restoration Liabilities

The DAF GF has estimated costs related to remedial actions eligible for DERP funding at 193 active installations. Accrued Environmental Restoration Liabilities consists of costs related to: 1) Active Installations – Installation Restoration Program (IRP) and Building Demolition and Debris Removal (BD/DR); and 2) Active Installations – Military Munitions Response Program (MMRP).

As of September 30, 2023, the DAF GF estimated and reported liabilities associated with 2,658 Active Sites – IRP and BD/DR. These remedial actions may address CERCLA (e.g., hazardous substances, pollutants, and contaminants), RCRA (e.g., hazardous waste or hazardous constituents), or demolition and removal of unsafe buildings and structures at facilities or sites.

As of September 30, 2023, the DAF GF estimated and reported liabilities associated with 239 Active Sites – MMRP. These response actions (e.g., the identification, investigation, and removal actions, remedial actions, or a combination of removal and remedial actions) may address military munitions (e.g., Unexploded Ordnance or Waste Military Munitions) or the chemical residues of munitions at locations other than operational ranges.

As of September 30, 2023, 17 sites created in FY 2023 did not have an associated Cost-to-Complete (CTC) reported. The reasons for the lack of programming include: 1) requirements are unknown or inestimable; 2) programming was deferred to FY 2025 Program Requirements Development cycle; and 3) no funding required.

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## **NOTE 14 ENVIRONMENTAL AND DISPOSAL LIABILITIES**

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### **Other Accrued Environmental Liabilities – Non-Base Realignment and Closure**

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

### **Base Realignment and Closure Installations**

The DAF GF has estimated costs related to BRAC Installations. BRAC Installations consist of costs related to: 1) 767 IRP sites; 2) 27 MMRP sites across 40 BRAC Installations; 3) ECA and ECR requirements at one BRAC installation; and 4) Asbestos requirements at one BRAC installation.

### **Environmental Disposal for Military Equipment / Weapons Programs**

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

As of September 30, 2023, the DAF GF estimated and reported liabilities associated with non-nuclear powered military equipment, specifically aircraft, pods, ICBMs, and MRAP vehicles.

The DAF GF determined that no future outflows of cash exist for the environmental disposal of satellites, as all satellites and their components are destroyed before reentry into the Earth's atmosphere; thus no liability is reported for FY 2023.

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

#### **Accrued Environmental Restoration Liabilities**

*Active Installations – Installation Restoration Program and Building Demolition / Debris Removal and Active Installations – Military Munitions Response Program*

The DAF GF uses one or more of the following methods to estimate the CTC cleanup and disposal activities: 1) pre-negotiated contract costs; 2) historical costs; 3) engineering estimates; and 4) cost estimating software [e.g., Remedial Action Cost Engineering and Requirements (RACER®)]. A valid engineering estimate is an estimate of a future cost for similar scope or a past paid cost for which existing invoices cannot be provided to back it up (e.g., monthly utility costs in a spreadsheet). It has a prior year or current year cost basis which is determined from the date on the cost reference. In addition to pre-set values included in the RACER® software, the DAF GF can add User Defined Costs (UDCs) to customize and refine estimates within RACER®. CTC estimates consider, on a current cost basis, all activities to be performed for the full duration of IRP and BD/DR, and MMRP, inclusive of program management costs. For projects with an undefined duration, the DAF GF uses a rolling 30-year period. These environmental liabilities are not associated with an asset having a useful life; thus, the total estimated cleanup, closure, and/or disposal cost is recognized upon identification of the liability.

#### **Other Accrued Environmental Liabilities – Non-Base Realignment and Closure**

*Environmental Corrective Actions*

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

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## **NOTE 14 ENVIRONMENTAL AND DISPOSAL LIABILITIES**

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### *Environmental Closure Requirements*

The DAF GF uses one or more of the following approaches to generate estimates for assets with OEL – ECR: 1) cost estimating software (e.g., RACER®); 2) historical costs; and 3) engineering estimates. Estimates leverage industry-standard unit costs and cost factors, or comparable historical project costs, bids, and expenditures. In addition to pre-set values included in the RACER® software, the DAF GF can add UDCs to customize and refine estimates within RACER®. However, reliable information required to calculate a closure or post-closure cost is not available for all OEL – ECR assets identified, and thus the reported balance reflects the OEL – ECR assets that are probable and reasonably estimable given the data available as of September 30, 2023.

### **Asbestos**

The DAF GF uses one or more of the following approaches to generate survey and abatement estimates for assets which are likely to contain Asbestos: 1) cost estimating software (e.g., RACER®); and 2) historical costs. However, reliable information required to calculate a survey and abatement cost is not available for all OEL – Asbestos assets identified. Thus, the reported balance reflects the OEL – Asbestos assets that are probable and reasonably estimable given the data available as of September 30, 2023.

### **Base Realignment and Closure Installations**

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

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

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

### **Environmental Disposal for Military Equipment / Weapons Programs**

#### **Non-Nuclear Powered Military Equipment**

The DAF GF uses one or more of the following approaches to generate estimates for Military Equipment/Weapons Programs (MEWP) assets: 1) historical disposal labor data and estimates for the disposal of hazardous material; 2) industry-standard cost factors; or 3) comparable historical projects, bids, and expenditures. However, reliable information required to calculate a closure cost is not available for all MEWP assets identified, and thus the reported balance reflects the MEWP assets that are probable and reasonably estimable given the data available as of September 30, 2023.

### **UNCERTAINTY REGARDING ACCOUNTING ESTIMATES USED TO CALCULATE THE REPORTED ENVIRONMENTAL LIABILITIES**

The DAF GF has unrecognized portions of the estimated total environmental liabilities as of September 30, 2023, as detailed below.

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

## NOTE 14 ENVIRONMENTAL AND DISPOSAL LIABILITIES

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

For OEL – ECA, specifically Environmental Response at Operational Ranges (EROR), Title 40 Code of Federal Regulations, *Environmental Protection Agency*, § 266.202, exempts military munitions on active and inactive military ranges from the definition of hazardous waste. The Environmental Protection Agency Regulation effectively excludes military munitions on an active military range from the definition of solid waste until a formal decision to close the range occurs or Munitions Constituents (MCs) migrate off the military range. Therefore, these military munitions do not meet the criteria of an environmental liability. The DAF GF has an on-going program to assess potential off-range migration of MCs and, as of September 30, 2023, the DAF GF has not identified off-range migration that is probable and measurable.

### **MATERIAL CHANGES IN TOTAL ESTIMATED CLEANUP, CLOSURE, AND POST-CLOSURE COSTS DUE TO CHANGES IN LAWS, TECHNOLOGY OR PLANS, AND THE PORTION OF THE CHANGE IN ESTIMATES THAT RELATES TO PRIOR PERIOD OPERATIONS**

Estimated environmental liabilities are adjusted each year for price growth (inflation) and increases in labor rates and materials. As of September 30, 2023, there are no changes to the environmental liability estimates due to decreases in prices, changes in laws, regulations, agreements with regulatory agencies, and advances in technology. The DAF GF's liability may change as a result of future changes in laws, regulations, changes in agreements with regulatory agencies, and advances in technology in regards to a projected change Per- and Polyfluoroalkyl Substances (PFAS) regulation.

### **NATURE OF ESTIMATES AND INFORMATION REGARDING POSSIBLE CHANGES DUE TO INFLATION, TECHNOLOGY, OR APPLICABLE LAWS AND REGULATIONS**

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

1. For Accrued Environmental Restoration Liabilities and OEL, in accordance with Air Force Manual 65-502, *Inflation* (October 30, 2018), the DAF GF utilizes inflation factors from the DAF GF raw inflation indices which are based on the OSD raw inflation rates for Operations and Maintenance.
2. For BRAC, in accordance with the Office of the Under Secretary of Defense (Comptroller) Memorandum, *Inflation Guidance – FY 2024 President's Budget* (February 7, 2023), the DAF GF utilizes inflation factors based on OSD raw inflation rates for Military Construction.
3. For MEWP - ICBMs, in accordance with Air Force Manual 65-502, *Inflation* (October 30, 2018), to perform this inflation adjustment, the DAF used Consumer Price Index (CPI) Data from the Bureau of Labor Statistics. Specifically, the total year CPI averages for 1998 (the year estimates were originated) and 2022 (the most recent full calendar year of CPI data available) to develop an inflation multiplier.

Refer to the [Emerging Contaminants](#) Section for potential impacts for emerging contaminants due to applicable laws and regulations.

### **UNRECOGNIZED PORTION OF ESTIMATED TOTAL CLEANUP, CLOSURE, AND POST-CLOSURE COST ASSOCIATED WITH GENERAL PROPERTY, PLANT, AND EQUIPMENT**

The DAF GF uses either the accretion method or the non-accretion method to calculate estimated environmental liabilities associated with General Property, Plant, and Equipment. Under the accretion method, a liability is recognized

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## NOTE 14 ENVIRONMENTAL AND DISPOSAL LIABILITIES

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for the estimated total cleanup, closure, and post-closure cost that is attributable to the portion of the physical capacity of an asset used or that portion of the estimated useful life of an asset that has passed since the asset was placed into service. The accretion method results in an unrecognized portion of the total cleanup, closure, and post-closure costs based on the remaining useful life or capacity of the underlying asset. Under the non-accretion method, a liability is recognized for the total estimated cleanup, closure, and post-closure cost. Under both methods, the total cleanup, closure, and post-closure costs are remeasured at least annually based on current costs.

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

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

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

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

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

Cleanup, closure, and post-closure cost estimates for environmental disposal for MEWP (aircraft, Pods, MRAPs, and ICBMs) uses the accretion method. In conformance with Statement of Federal Financial Accounting Standards (SFFAS) 6, *Accounting for Property, Plant, and Equipment*, the total estimated closure cost for each of these Military Equipment asset types is adjusted by the percentage of depreciation based on the useful life of the underlying asset. The result of this calculation is the recognized portion of the total environmental disposal liability. Estimates are remeasured at least annually to reflect current prices of goods and services (i.e., labor rates).

The DAF GF has an unrecognized portion of the estimated survey costs for OEL – Asbestos Buildings. The DAF GF uses the low-end of the range based on the SFFAS 5, *Accounting for Liabilities of the Federal Government*. The high end of the range is up to \$2.5 billion. The difference between the low-end and high-end of the range is \$572.5 million. Additionally, for OEL-ECR Oil Water Separators (OWSs), the DAF GF uses the median OWS capacity of the range of data collected due to limitations of the Real Property APSR records. The high end of the capacity range is up to \$166.5 million. The median OWS capacity produced a better estimate than any other amount within the range.

The DAF GF has an unrecognized portion of the estimated total cleanup, closure, and post-closure cost associated with environmental disposal for MEWP. The DAF GF uses the useful life of these underlying asset categories to determine an annual amount of the total estimated cleanup, closure, and post-closure cost to be expensed each year.



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## NOTE 14 ENVIRONMENTAL AND DISPOSAL LIABILITIES

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The unrecognized estimated total cost, which will be expensed over the remaining useful life of the assets, is \$61.1 million as of September 30, 2023.

### UNRECORDED LIABILITIES FOR WHICH ESTIMATES ARE NOT MEASURABLE

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

Refer to the [Emerging Contaminants](#) Section for unrecorded liabilities related to emerging contaminants.

### ONGOING CORRECTIVE ACTION IMPACTS

Due to ongoing implementation of corrective action plans across the OEL program, updates to the estimated liabilities associated with OEL sub-line items are expected to continue through FY 2026. Until full implementation of these programmatic changes is complete, balances will reflect only a portion of the liabilities at year-end.

Additional assets on active installations with OEL – ECR and OEL – Asbestos liabilities exist but are not yet reported due to ongoing implementation of corrective actions and lack of reliable information to calculate an estimated environmental liability. Corrective actions are ongoing to assess the remaining ECR assets and HVAC – Other assets likely to contain asbestos.

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

### EMERGING CONTAMINANTS

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

PFAS are a large class of man-made chemicals found in many consumer products and are present in aqueous film forming foam (AFFF) that is used by the DoD to fight petroleum fires. While DoD is only one of many users of AFFF, there is significant attention on DoD's use and the subsequent potential impact to human health and the environment. PFAS are classified as emerging contaminants because they do not have established federal regulatory standards, but evolving science has identified potential risk to humans and regulatory standards are under consideration. On August 26, 2022, the EPA issued a Notice of Proposed Rulemaking (NPRM) to designate Perfluorooctanoic Acid and Perfluorooctane Sulfonate as "hazardous substances" under CERCLA. Currently, there is no expectation for when the Final Rule will be published. As the DoD continues to investigate the EPA and state regulatory entities continue to refine and/or promulgate standards, it is likely that costs for remediation will become probable and reasonably estimable and such costs could be material to the financial statements. The DoD's investigation work and mitigation

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## **NOTE 14** ENVIRONMENTAL AND DISPOSAL LIABILITIES

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actions are guided by CERCLA and applicable state laws. Other emerging contaminants could be identified in the future and would follow a similar process.

As of September 30, 2023, PFAS liabilities are estimated and reported through the Remedial Investigation/Feasibility Study (RI/FS). Although costs for post-RI/FS actions are probable, such costs are not yet reasonably estimable because the extent of the PFAS contamination has not been determined. However, as additional data is collected and the extent of PFAS contamination is further defined, it is reasonably possible post-RI/FS costs could increase significantly. PFAS liabilities may include remediation and monitoring costs, where analytical data is available to define the minimum extent of PFAS contamination.

For additional information on activities related to legal environmental and disposal loss contingencies, refer to [Note 17, Commitments and Contingencies](#).

## NOTE 15 OTHER LIABILITIES

AS OF SEPTEMBER 30 (AMOUNTS IN THOUSANDS)	2023 (UNAUDITED)		
	CURRENT LIABILITIES	NON-CURRENT LIABILITIES	TOTAL
<b>Intragovernmental Other Liabilities</b>			
Disbursing Officer Cash	\$ 94,117	\$ 0	\$ 94,117
Liabilities for Non-Entity Assets	0	24,264	24,264
Other Liabilities	701,227	0	701,227
<b>Subtotal</b>	\$ 795,344	\$ 24,264	\$ 819,608
Other Liabilities Reported on <a href="#">Note 13, Federal Employee and Veteran Benefits Payable</a>	151,828	96,954	248,782
<b>Total Intragovernmental Other Liabilities</b>	\$ 947,172	\$ 121,218	\$ 1,068,390
<b>Other than Intragovernmental Other Liabilities</b>			
Accrued Funded Payroll and Leave	\$ 3,073,366	\$ 0	\$ 3,073,366
Withholdings Payable	7,830	0	7,830
Liability for Non-Fiduciary Deposit Funds and Undeposited Collections	1,092,666	0	1,092,666
Liability for Clearing Accounts	(206)	0	(206)
Contract Holdbacks	109,158	0	109,158
Contingent Liabilities	3,000	216,209	219,209
Other Liabilities with Related Budgetary Obligations	9,071,413	(23,564)	9,047,849
<b>Total Other than Intragovernmental Other Liabilities</b>	\$ 13,357,227	\$ 192,645	\$ 13,549,872
<b>Total Other Liabilities</b>	\$ 14,304,399	\$ 313,863	\$ 14,618,262

## NOTE 15 OTHER LIABILITIES

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

### INTRAGOVERNMENTAL OTHER LIABILITIES

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

Intragovernmental Liabilities for non-entity assets represents offsetting liabilities for non-entity assets where the DAF GF is acting on behalf of another federal entity.

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

Intragovernmental Other Liabilities on the Balance Sheet is no longer reported on a single note in accordance with the streamlined Balance Sheet format (for additional information, refer to [Note 1.AE., Significant Accounting Policies - Standardized Balance Sheet, the Statement of Changes in Net Position, and Related Footnotes - Comparative Year Presentation](#)). Certain United States Standard General Ledger accounts on the Balance Sheet line Intragovernmental

## NOTE 15 OTHER LIABILITIES

Other Liabilities are required to be reported on [Note 13, Federal Employee and Veteran Benefits Payable](#), while others are reported on this [Note 15, Other Liabilities](#). The amounts from the Balance Sheet Intragovernmental Other Liabilities reported on Note 13 are aggregated and also included above as the line Other Liabilities Reported on [Note 13, Federal Employee and Veteran Benefits Payable](#). This presentation maintains the tie out of total Intragovernmental Other Liabilities on the tables to the Balance Sheet.

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

- » Liability for Non-Fiduciary Deposit Funds and Undeposited Collections and Liability for Clearing Accounts represent liabilities for receipts held in suspense temporarily for distribution to another fund or entity, or held as an agent for others and paid at the direction of the owner and liabilities that offset undistributed disbursements. The net amount of these may be presented as an overall positive or negative balance.
- » FECA Reimbursement to the DOL represents liabilities for billed amounts payable in FY 2023 and FY 2024 unbilled amounts, including both incurred and an estimated accrual. Refer to [Note 13, Federal Employee and Veteran Benefits Payable](#), for the estimated FECA actuarial liability.
- » Employer Contribution and Payroll Taxes Payable represents the employer portion of payroll taxes and benefit contributions for health benefits, retirement, life insurance, and voluntary separation incentive payments.

### OTHER THAN INTRAGOVERNMENTAL OTHER LIABILITIES

Accrued Funded Payroll and Leave and Withholdings Payable consists of estimates for salaries, wages, and other compensation earned by employees but not disbursed as of September 30, 2023. Earned annual and other vested compensatory leave is accrued as it is earned and reported on the Balance Sheet. The liability is reduced as leave is taken. Each year, the balances in the accrued leave accounts are adjusted to reflect the liability at current pay rates and leave balances. Sick leave and other types of non-vested leave are expensed when used. Accrued Funded Payroll and Withholdings Payable also include the life insurance program, Federal Employee Group Life Insurance plan, which is a term life insurance benefit with varying amounts of coverage selected by the employee. The Federal Employees Health Benefits Program is comprised of different types of health plans that are available to federal employees for individual and family coverage for healthcare. Office of Personnel Management (OPM), as the administering agency, establishes the types of insurance, options for coverage, the premium amounts to be paid by the employees and the amount of benefit received. The DAF GF has no role in negotiating these insurance contracts and incurs no liabilities directly to the insurance companies. Employee payroll withholding related to the insurance and employer contributions are submitted to OPM. Any portions of accrued leave for which funding is not available are recorded as Accrued Unfunded Annual Leave. For additional information on Accrued Unfunded Annual Leave, refer to [Note 13, Federal Employee and Veteran Benefits Payable](#).

For additional information on Liability for Non-Fiduciary Deposit Funds and Undeposited Collections and Liability for Clearing Accounts, refer above.

Contract Holdbacks are amounts withheld from grantees or contractors pending completion of related contracts. For FY 2023, Contract Holdbacks include \$109.2 million for contracted progress payments based on cost as defined in the Federal Acquisition Regulation.

## NOTE 15 OTHER LIABILITIES

Contingent Liabilities is comprised of \$219.2 million in Contingent Legal Liabilities as of September 30, 2023. For additional information, refer to [Note 17, Commitments and Contingencies](#).

Other Liabilities with Related Budgetary Obligations primarily consists of accrued estimated costs related to the construction of aircraft and satellites. The DAF GF recorded additional accruals in FY 2023 based on percentage of completion data provided by vendors.

### ADVANCES FROM OTHERS AND DEFERRED REVENUE

AS OF SEPTEMBER 30 (AMOUNTS IN THOUSANDS)	2023 (UNAUDITED)	2022 (UNAUDITED)
Intragovernmental	\$ 2,572,231	\$ 1,885,558
Other than Intragovernmental	\$ 430,549	\$ 343,223

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

## NOTE 16 LEASES

AS OF SEPTEMBER 30 (AMOUNTS IN THOUSANDS)	2023 (UNAUDITED)			
	ASSET CATEGORY			
	LAND AND BUILDINGS	EQUIPMENT	OTHER	TOTAL
<b>Intragovernmental</b>				
Fiscal Year				
2024	\$ 3	\$ 0	\$ 0	\$ 3
2025	3	0	0	3
2026	3	0	0	3
2027	3	0	0	3
2028	3	0	0	3
After 5 Years	3	0	0	3
<b>Total Intragovernmental Future Lease Payments</b>	<b>\$ 18</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 18</b>
<b>Other than Intragovernmental</b>				
Fiscal Year				
2024	\$ 6,301	\$ 0	\$ 26,145	\$ 32,446
2025	5,598	0	26,667	32,265
2026	2,816	0	27,201	30,017
2027	2,248	0	27,745	29,993
2028	1,809	0	28,300	30,109
After 5 Years	1,669	0	28,866	30,535
<b>Total Intragovernmental Future Lease Payments</b>	<b>\$ 20,441</b>	<b>\$ 0</b>	<b>\$ 164,924</b>	<b>\$ 185,365</b>
<b>Total Future Lease Payments</b>	<b>\$ 20,459</b>	<b>\$ 0</b>	<b>\$ 164,924</b>	<b>\$ 185,383</b>

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

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

## NOTE 17 COMMITMENTS AND CONTINGENCIES

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

In the event of an unfavorable judgment against the Federal Government, some of the settlements are expected to be paid from the Treasury Judgment Fund. In some cases, the DAF GF does not have to reimburse the Judgment Fund. For non-reimbursable Judgment Fund payments, in accordance with the Federal Accounting Standards Advisory Board (FASAB) Interpretation of Federal Accounting Standards 2: *Accounting for Treasury Judgment Fund Transactions: An Interpretation of SFFAS 4 and SFFAS 5* (Interpretation 2), once the Judgment Fund has paid a settlement, the contingent legal liability should no longer be reported and an imputed cost and a corresponding imputed financing source in the amount of the payment should be reported. The cumulative FY amount of non-reimbursable settlements paid by the Judgment Fund as of September 30, 2023 and 2022 was \$166.7 million and \$20.2 million, respectively. Reimbursement by the DAF GF to the Judgment Fund is required for cases under either the *Contracts Disputes Act* or the *Notification and Federal Employee Antidiscrimination and Retaliation Act*. Once the Judgment Fund has paid a reimbursable settlement, the contingent legal liability should no longer be reported by the DAF GF and instead a Judgment Fund Liability should be recorded in the amount to be reimbursed. The Judgment Fund liability as of September 30, 2023 and 2022 was \$701.2 million and \$630.5 million, respectively, as reported in Other Liabilities on the Balance Sheet.

In accordance with Statement of Federal Financial Accounting Standards (SFFAS) 5, *Accounting for Liabilities of the Federal Government*, as amended by SFFAS 12, *Recognition of Contingent Liabilities Arising from Litigation: An Amendment of SFFAS 5, Accounting for Liabilities of the Federal Government*, an assessment should be made as to whether the likelihood of an unfavorable outcome is considered probable, reasonably possible, or remote. A contingent liability should be recorded for material contingencies where an unfavorable outcome is considered probable and the amount of potential loss is measurable. No amounts have been accrued for contingencies where the likelihood of an unfavorable outcome is less than probable, where the amount or range of potential loss cannot be estimated due to a lack of sufficient information, or for immaterial contingencies. The presented amounts accrued for Contingent Legal Liabilities (CLL) are included within the Contingent Liabilities amount reported in [Note 15, Other Liabilities](#), Contingent Liabilities as of September 30, 2023 and 2022.

AS OF SEPTEMBER 30 (AMOUNTS IN THOUSANDS)	2023 (UNAUDITED) ESTIMATED RANGE OF LOSS		
	ACCRUED LIABILITIES	LOWER END	UPPER END
Contingent Legal Liabilities Probable	\$ 219,209	\$ 0	\$ 0
Reasonably Possible	\$ 0	\$ 130,821	\$ 410,823

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



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## NOTE 17 COMMITMENTS AND CONTINGENCIES

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As of September 30, 2023, legal claims exist for which an adverse outcome was assessed as either probable or reasonably possible but for which the estimated loss amount or the range of loss cannot be reasonably measured. Consequently, no amount has been recorded as a contingent liability for these claims. The claimed amounts for these claims evaluated as probable totaled approximately \$171.2 million and \$159.0 million as of September 30, 2023 and 2022, respectively; the claimed amounts for these claims evaluated as reasonably possible totaled approximately \$809.3 million and \$939.5 million as of September 30, 2023 and 2022, respectively. The ultimate outcomes in these matters cannot be predicted at this time. Sufficient information through the legal process of discovery, comparable cases establishing precedent or other factors is not currently available to determine if the ultimate resolution of the proceeding, actions, and claims will materially affect the DAF GF's financial position or results of operations.

As of September 30, 2023, Air Force held legal claims related to United States Army Corps of Engineers construction projects funded by Air Force sub-allotted funds. An adverse outcome was assessed as probable and the estimate of loss was determined to be \$3.0 million. An adverse outcome was assessed as reasonably possible and the range of the estimate of loss was determined to be \$0 to \$276.9 million. These amounts are included within the table above.

### OTHER CONTINGENCIES

The DAF GF determined that internal administrative claims (IACs) representing claims being adjudicated within the DAF GF and not through a court, board, outside agency, or other third-party legal entity with the authority to adjudicate the rights and obligations of the parties involved, should not be included in the process to determine the CLL. As of September 30, 2023, the DAF GF documented IACs within the Office of the Judge Advocate General relating to foreign claims, general torts, medical law, aviation, and environmental torts. IACs are analyzed by litigators to determine whether, in accordance with Generally Accepted Accounting Principles, they must be accrued and/or disclosed as a threatened/unasserted litigation contingent liability. The DAF GF conducted an analysis of IACs as of September 30, 2023 to estimate the potential unfavorable outcome of these claims based on the average payout of IACs for the current and two previous years. The analysis included total IAC claimed amounts of \$1.4 billion outstanding and \$3.2 billion outstanding as of September 30, 2023 and 2022, respectively, with an estimated potential loss of \$5.2 million and \$4.5 million, respectively, based on the historical average payout rate. In the event of a loss, most of these claims will be paid by the Judgment Fund, and all such payments will be on a non-reimbursable basis.

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

For additional information on activities related to non-legal environmental and disposal loss contingencies, refer to [Note 14, Environmental and Disposal Liabilities](#).

### CONTRACTUAL OBLIGATIONS

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

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## **NOTE 17** COMMITMENTS AND CONTINGENCIES

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### **COMMITMENTS**

The amount of obligations related to cancelled appropriations for which the DAF GF has a contractual commitment for payment was \$1.0 billion and \$2.9 billion as of September 30, 2023 and 2022, respectively.

## NOTE 18 FUNDS FROM DEDICATED COLLECTIONS

<b>Combined Balance Sheet - Funds from Dedicated Collections</b>				
<b>AS OF SEPTEMBER 30</b> <i>(AMOUNTS IN THOUSANDS)</i>	<b>2023 (UNAUDITED)</b>			
	<b>GENERAL GIFT FUND</b>	<b>WILDLIFE CONSERVATION FUND</b>	<b>AIR FORCE CADET FUND</b>	<b>COMBINED TOTAL</b>
<b>Intragovernmental</b>				
Fund Balance with Treasury	\$ 17,468	\$ 3,442	\$ 20,139	\$ 41,049
Investments, Net	8	0	0	8
<b>Total Intragovernmental</b>	17,476	3,442	20,139	41,057
<b>Other than Intragovernmental</b>				
Accounts Receivable, Net	\$ 3	\$ 0	\$ 0	\$ 3
General Property, Plant, and Equipment, Net	1,341	0	0	1,341
<b>Total Other than Intragovernmental</b>	1,344	0	0	1,344
<b>Total Assets</b>	\$ 18,820	\$ 3,442	\$ 20,139	\$ 42,401
<b>Intragovernmental</b>				
Accounts Payable	\$ 0	\$ 0	\$ 0	\$ 0
<b>Total Intragovernmental</b>	0	0	0	0
<b>Other than Intragovernmental</b>				
Accounts Payable	\$ 396	\$ 515	\$ 472	\$ 1,383
Other Liabilities:				
Other	0	0	0	0
<b>Total Other Liabilities</b>	0	0	0	0
<b>Total Other than Intragovernmental</b>	\$ 396	\$ 515	\$ 472	\$ 1,383
<b>Total Liabilities</b>	\$ 396	\$ 515	\$ 472	\$ 1,383
<b>Cumulative Results of Operations</b>	\$ 18,424	\$ 2,927	\$ 19,667	\$ 41,018
<b>Total Liabilities and Net Position</b>	\$ 18,820	\$ 3,442	\$ 20,139	\$ 42,401

## NOTE 18 FUNDS FROM DEDICATED COLLECTIONS

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

## NOTE 18 FUNDS FROM DEDICATED COLLECTIONS

<b>Combined Statement of Net Cost - Funds from Dedicated Collections</b>				
<b>AS OF SEPTEMBER 30</b> <i>(AMOUNTS IN THOUSANDS)</i>	<b>2023 (UNAUDITED)</b>			
	<b>GENERAL GIFT FUND</b>	<b>WILDLIFE CONSERVATION FUND</b>	<b>AIR FORCE CADET FUND</b>	<b>COMBINED TOTAL</b>
Gross Program Costs	\$ 8,153	\$ 1,784	\$ 1,012	\$ 10,949
Less: Earned Revenue	0	(1,065)	0	(1,065)
Net Program Costs	\$ 8,153	\$ 719	\$ 1,012	\$ 9,884
<b>Total Intragovernmental</b>	<b>\$ 8,153</b>	<b>\$ 719</b>	<b>\$ 1,012</b>	<b>\$ 9,884</b>

<b>AS OF SEPTEMBER 30</b> <i>(AMOUNTS IN THOUSANDS)</i>	<b>2022 (UNAUDITED)</b>			
	<b>GENERAL GIFT FUND</b>	<b>WILDLIFE CONSERVATION FUND</b>	<b>AIR FORCE CADET FUND</b>	<b>COMBINED TOTAL</b>
Gross Program Costs	\$ (531)	\$ 736	\$ 1,031	\$ 1,236
Less: Earned Revenue	0	(1,618)	(5,145)	(6,763)
Net Program Costs	\$ (531)	\$ (882)	\$ (4,114)	\$ (5,527)
<b>Total Intragovernmental</b>	<b>\$ (531)</b>	<b>\$ (882)</b>	<b>\$ (4,114)</b>	<b>\$ (5,527)</b>

## NOTE 18 FUNDS FROM DEDICATED COLLECTIONS

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

FOR THE FISCAL YEAR ENDED SEPTEMBER 30 (AMOUNTS IN THOUSANDS)	2023 (UNAUDITED)			
	GENERAL GIFT FUND	WILDLIFE CONSERVATION FUND	AIR FORCE CADET FUND	COMBINED TOTAL
Beginning Balance	\$ 20,908	\$ 3,646	\$ 20,679	\$ 45,233
Beginning Balance, as Adjusted	20,908	3,646	20,679	45,233
Donations and Forfeitures of Cash and Cash Equivalents	5,669	0	0	5,669
Other	0	0	0	0
Less: Net Cost of Operations	8,153	719	1,012	9,884
<b>Net Change in Cumulative Results of Operations</b>	<b>\$ (2,484)</b>	<b>\$ (719)</b>	<b>\$ (1,012)</b>	<b>\$ (4,215)</b>
<b>Net Position, End of Period</b>	<b>\$ 18,424</b>	<b>\$ 2,927</b>	<b>\$ 19,667</b>	<b>\$ 41,018</b>

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

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

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

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## **NOTE 18 FUNDS FROM DEDICATED COLLECTIONS**

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

### **GENERAL GIFT FUND [10 U.S. CODE (U.S.C.) § 2601]**

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

### **WILDLIFE CONSERVATION FUND [16 U.S.C. § 670A]**

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. § 9459]**

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

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

## NOTE 19 DISCLOSURES RELATED TO THE STATEMENT OF NET COST

AS OF SEPTEMBER 30 (AMOUNTS IN THOUSANDS)	2023 (UNAUDITED)	RESTATED 2022 (UNAUDITED)
<b>Major Programs</b>		
<b>Air Force Materiel Command</b>		
Gross Cost	\$ 145,405,417	\$ 139,060,463
Less: Earned Revenue	(8,530,030)	(6,803,762)
Net Program Costs	\$ 136,875,387	\$ 132,256,701
<b>Space Systems Command</b>		
Gross Cost	\$ 19,019,035	\$ 17,276,719
Less: Earned Revenue	(869,928)	(772,157)
Net Program Costs	\$ 18,149,107	\$ 16,504,562
<b>Air National Guard</b>		
Gross Cost	\$ 17,565,825	\$ 15,281,805
Less: Earned Revenue	(283,342)	(316,974)
Net Program Costs	\$ 17,282,483	\$ 14,964,831
<b>Air Combat Command</b>		
Gross Cost	\$ 14,013,828	\$ 12,945,883
Less: Earned Revenue	(302,955)	(140,591)
Net Program Costs	\$ 13,710,873	\$ 12,805,292
<b>Air Force District of Washington</b>		
Gross Cost	\$ 10,583,125	\$ 9,838,551
Less: Earned Revenue	(898,211)	(632,843)
Net Program Costs	\$ 9,684,914	\$ 9,205,708
<b>Air Mobility Command</b>		
Gross Cost	\$ 11,006,895	\$ 7,160,562
Less: Earned Revenue	(82,914)	(62,528)
Net Program Costs	\$ 10,923,981	\$ 7,098,034
<b>Air Force Reserve Command</b>		
Gross Cost	\$ 8,328,031	\$ 7,172,835
Less: Earned Revenue	(79,912)	(77,724)
Net Program Costs	\$ 8,248,119	\$ 7,095,111
<b>Other</b>		
Gross Cost	\$ 26,997,789	\$ 18,928,795
Less: Earned Revenue	(966,432)	(946,107)
Net Program Costs	\$ 26,031,357	\$ 17,982,688
<b>Total</b>		
Gross Cost	\$ 252,919,945	\$ 227,665,613
Less: Earned Revenue	(12,013,724)	(9,752,686)
<b>Net Cost of Operations</b>	<b>\$ 240,906,221</b>	<b>\$ 217,912,927</b>



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## **NOTE 19** DISCLOSURES RELATED TO THE STATEMENT OF NET COST

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The Statement of Net Cost (SNC) represents the net cost of DAF GF programs and organizations 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 displays the gross and net cost information using "major program." The DAF GF categorized applicable net costs to each program and allocated the remaining costs not directly traceable or assignable to a specific program using both a service-based and a percentage allocation method. The "Other" line incorporates combined gross costs and earned revenue amounts for remaining Major Commands, Field Commands, Field Operating Agencies, Direct Reporting Units, and applicable Combatant Commands. The DAF will continue to refine this SNC disclosure methodology.

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

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

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

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

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

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

The Appropriations Received on the Statement of Changes in Net Position (SCNP) do not agree with Appropriations on the Statement of Budgetary Resources (SBR) in the amount of \$264.7 million. The SBR is presented on a combined basis in accordance with the Office of Management and Budget Circular A-136, *Financial Reporting Requirements*. This presentation differs from the SCNP, which is presented on a consolidated basis.

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2023 (UNAUDITED)		(AMOUNTS IN THOUSANDS)
Reconciliation of Appropriations on the Statement of Budgetary Resources to Appropriations Received on the Statement of Changes in Net Position		Total
Appropriations, Statement of Budgetary Resources	\$	249,752,708
Less: Appropriations Received, Statement of Changes in Net Position		249,488,026
<b>Total Reconciling Amount</b>	<b>\$</b>	<b>264,682</b>
<b>Items Reported as Reductions to Appropriations, Statement of Budgetary Resources</b>		
Permanent and Temporary Reductions	\$	(571,356)
<b>Items Reported as Reductions to Appropriations, Statement of Budgetary Resources</b>		
Transfers		829,305
Trust and Special Fund Receipts		6,733
<b>Total Reconciling Amount</b>	<b>\$</b>	<b>264,682</b>

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 satisfying of specific legal requirements are not immediately available for obligation.

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2023 (UNAUDITED)			
Reconciliation of Combined Dedicated Collections and Other Funds to Consolidated Dedicated Collections and Other Funds			
CONSOLIDATING NET POSITION	COMBINED	CONSOLIDATING ELIMINATIONS	CONSOLIDATED
Cumulative Results of Operations – Dedicated Collections	\$ 41,018	\$ 0	\$ 41,018
Cumulative Results of Operations – Other Funds	199,791,614	0	199,791,614
Unexpended Appropriations – Other Funds	168,517,231	0	168,517,231
<b>Total Net Position</b>	<b>\$ 368,349,863</b>	<b>\$ 0</b>	<b>\$ 368,349,863</b>

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

FOR THE RESTATED FISCAL YEAR ENDED SEPTEMBER 30, 2022 (UNAUDITED)			(AMOUNTS IN THOUSANDS)
Reconciliation of Combined Dedicated Collections and Other Funds to Consolidated Dedicated Collections and Other Funds			
CONSOLIDATING NET POSITION	COMBINED	CONSOLIDATING ELIMINATIONS	CONSOLIDATED
Cumulative Results of Operations – Dedicated Collections	\$ 45,233	\$ 0	\$ 45,233
Cumulative Results of Operations – Other Funds	205,284,370	0	205,284,370
Unexpended Appropriations – Other Funds	155,581,068	0	155,581,068
<b>Total Net Position</b>	<b>\$ 360,910,671</b>	<b>\$ 0</b>	<b>\$ 360,910,671</b>

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

**OTHER DISCLOSURES****Cumulative Results of Operations – Other**

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

**Prior Period Adjustment**

In FY 2023, the DAF GF determined that errors existed in prior year financial statements in relation to reported transactions and balances for General Equipment – Aircraft and General Equipment – Other. The DAF GF adjusted for these known errors through prior period adjustments.

For additional information related to these prior period adjustments, refer to [Note 27, Restatements](#).

## NOTE 21 DISCLOSURES RELATED TO THE STATEMENT OF BUDGETARY RESOURCES

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

### NET ADJUSTMENTS TO UNOBLIGATED BALANCE, BROUGHT FORWARD, OCTOBER 1

There were no material adjustments as of September 30, 2023 to the budgetary resources available at the beginning of the year.

### TERMS OF BORROWING AUTHORITY USED

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

### AVAILABLE BORROWING/CONTRACT AUTHORITY, END OF PERIOD

There was no available borrowing authority remaining for the FY ended September 30, 2023.

### UNDELIVERED ORDERS AT THE END OF THE PERIOD

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

AS OF SEPTEMBER 30 (AMOUNTS IN THOUSANDS)	2023 (UNAUDITED)	2022 (UNAUDITED)
<b>Intragovernmental</b>		
Unpaid	\$ 12,040,811	\$ 22,815,466
Prepaid/Advanced	1,106,028	1,192,907
<b>Total Intragovernmental</b>	\$ 13,146,839	\$ 24,008,373
<b>Other than Intragovernmental</b>		
Unpaid	\$ 111,801,924	\$ 86,482,238
Prepaid/Advanced	11,055,022	10,947,878
<b>Total Other than Intragovernmental</b>	\$ 122,856,946	\$ 97,430,116
<b>Total Budgetary Resources Obligated for Undelivered Orders at the End of the Period</b>	\$ 136,003,785	\$ 121,438,489

### LEGAL ARRANGEMENTS AFFECTING THE USE OF UNOBLIGATED BALANCES

A portion of the DAF GF's unobligated balances represent trust fund receipts collected in FY 2023 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 2023, refer to [Note 20, Disclosures Related to the Statement of Changes in Net Position](#).

## NOTE 21 DISCLOSURES RELATED TO THE STATEMENT OF BUDGETARY RESOURCES

### EXPLANATION OF DIFFERENCES BETWEEN THE SBR AND THE BUDGET OF THE U.S. GOVERNMENT

The table below presents a reconciliation between the Budgetary Resources, New Obligations and Upward Adjustments, Distributed Offsetting Receipts, and Net Outlays from FY 2022 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 2024 President’s Budget. The Budget with the actual amounts for the current year (FY 2023) will be available at a later date at [The President’s Budget | The White House](https://www.whitehouse.gov/the-press-office/2023/02/02/fy-2024-budget).

EXPLANATION OF DIFFERENCES BETWEEN THE STATEMENT OF BUDGETARY RESOURCES AND THE BUDGET OF THE U.S. GOVERNMENT				
AS OF SEPTEMBER 30 (AMOUNTS IN BILLIONS)	FY 2022 ACTUAL (UNAUDITED)			
	BUDGETARY RESOURCES	NEW OBLIGATIONS AND UPWARD ADJUSTMENTS (Total)	DISTRIBUTED OFFSETTING RECEIPTS	AGENCY OUTLAYS, NET
Combined Statement of Budgetary Resources	\$ 277.5	\$ 236.2	\$ (0.4)	\$ 207.8
Differences				
Expired accounts that are excluded from the Budget of the U.S. Government*	\$ (4.8)	\$ 0	\$ 0	\$ 0
Budget of the U.S. Government	\$ 272.7	\$ 236.2	\$ (0.4)	\$ 207.8

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

### CONTRIBUTED CAPITAL

There was no infusion of capital received for the FY ended September 30, 2023.

### OTHER DISCLOSURES

#### Expired Unobligated Balance

The SBR reflects Unobligated Expired Appropriations in the amount of \$5.1 billion (1.6% 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 31 U.S. Code (U.S.C.) § 1553.

#### 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.

**NOTE 21** DISCLOSURES RELATED TO THE STATEMENT OF BUDGETARY RESOURCES

(AMOUNTS IN BILLIONS)			
TYPE		DIRECT	REIMBURSABLE
CATEGORY A	\$	130.4	\$ 5.5
CATEGORY B	\$	129.7	\$ 6.7
EXEMPT	\$	0	\$ 0
<b>TOTAL</b>	\$	260.1	\$ 12.2

**Permanent Indefinite Appropriations**

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

- » DAF GF General Gift Fund [10 U.S.C. § 2601]
- » Wildlife Conservation Fund [16 U.S.C. § 670a]
- » Air Force Cadet Fund [10 U.S.C. § 9459]
- » Medicare-Eligible Retiree Health Fund Contribution, Air Force [10 U.S.C. § 1116]
- » Medicare-Eligible Retiree Health Fund Contribution, Reserve Personnel, Air Force [10 U.S.C. § 1116]
- » Medicare-Eligible Retiree Health Fund Contribution, National Guard Personnel, Air Force [10 U.S.C. § 1116]

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

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

**Appropriations Received**

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

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**NOTE 22** *DISCLOSURES RELATED TO INCIDENTAL CUSTODIAL COLLECTIONS*

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The DAF GF collected \$235.5 million of incidental custodial revenues during the FY ended September 30, 2023, which were generated primarily from the collection of Accounts Receivable related to cancelled accounts. These funds are not available for use by the DAF GF. At the end of each FY, the accounts are closed and the balances are rendered to the Treasury.

**NOTE 23 FIDUCIARY ACTIVITIES**

<b>Schedule of Fiduciary Activities</b>		
<b>FOR THE FISCAL YEAR ENDED SEPTEMBER 30</b> <i>(AMOUNTS IN THOUSANDS)</i>	<b>2023</b> <i>(UNAUDITED)</i>	<b>2022</b> <i>(UNAUDITED)</i>
Fiduciary Net Assets, Beginning of Year	\$ (7,830)	\$ (5,282)
Contributions	19,785	21,350
Distributions To and On Behalf of Beneficiaries	(21,458)	(23,898)
Increase/(Decrease) in Fiduciary Net Assets	\$ (1,673)	\$ (2,548)
<b>Fiduciary Net Assets, End of Period</b>	<b>\$ (9,503)</b>	<b>\$ (7,830)</b>

<b>Schedule of Fiduciary Net Assets</b>		
<b>AS OF SEPTEMBER 30</b> <i>(AMOUNTS IN THOUSANDS)</i>	<b>2023</b> <i>(UNAUDITED)</i>	<b>2022</b> <i>(UNAUDITED)</i>
<b>Fiduciary Assets</b>		
Fund Balance with Treasury	\$ (9,503)	\$ (7,830)
<b>Fiduciary Net Assets, End of Period</b>	<b>\$ (9,503)</b>	<b>\$ (7,830)</b>

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

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

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



## NOTE 24 RECONCILIATION OF NET COST TO NET BUDGETARY OUTLAYS

AS OF SEPTEMBER 30 (AMOUNTS IN THOUSANDS)	2023 (UNAUDITED)		
	INTRAGOVERNMENTAL	OTHER THAN INTRAGOVERNMENTAL	TOTAL
<b>Net Cost of Operations</b>	\$ 42,108,731	\$ 198,797,490	\$ 240,906,221
<b>COMPONENTS OF NET COST NOT PART OF NET BUDGETARY OUTLAYS</b>			
Change in General Property, Plant, and Equipment, Net	\$ 0	\$ (2,823,833)	\$ (2,823,833)
Change in Inventory and Related Property, Net	0	(1,228,649)	(1,228,649)
Increase/(Decrease) in Assets:			
Accounts Receivable, Net	149,145	227,983	377,128
Other Assets	(86,878)	17,208	(69,670)
(Increase)/Decrease in Liabilities:			
Accounts Payable	266,150	(1,167,856)	(901,706)
Environmental and Disposal Liabilities	0	(2,019,007)	(2,019,007)
Federal Employee and Veteran Benefits Payable	0	180,021	180,021
Other Liabilities	(355,757)	(6,475,310)	(6,831,067)
Financing Sources:			
Imputed Cost	(1,259,576)	0	(1,259,576)
<b>Total Components of Net Cost Not Part of Net Budgetary Outlays</b>	\$ (1,286,916)	\$ (13,289,443)	\$ (14,576,359)
<b>COMPONENTS OF NET BUDGETARY OUTLAYS NOT PART OF NET COST</b>			
Financing Sources:			
Donated Revenue	\$ 0	\$ (5,668)	\$ (5,668)
<b>Total Components of Net Budgetary Outlays Not Part of Net Cost</b>	\$ 0	\$ (5,668)	\$ (5,668)
<b>MISCELLANEOUS RECONCILING ITEMS</b>			
Transfers (In)/Out Without Reimbursements	\$ (247,045)	\$ 0	\$ (247,045)
Distributed Offsetting Receipts	0	0	0
Other	0	935,913	935,913
<b>Total Other Reconciling Items</b>	\$ (247,045)	\$ 935,913	\$ 688,868
<b>Net Outlays</b>	\$ 40,574,770	\$ 186,438,292	\$ 227,013,062
<b>Budgetary Agency Outlays, Net (Statements of Budgetary Resources)</b>			\$ 226,362,335
<b>Unreconciled Difference</b>			\$ 650,727



## NOTE 24 RECONCILIATION OF NET COST TO NET BUDGETARY OUTLAYS

AS OF SEPTEMBER 30 (AMOUNTS IN THOUSANDS)	RESTATED 2022 (UNAUDITED)		
	INTRAGOVERNMENTAL	OTHER THAN INTRAGOVERNMENTAL	TOTAL
<b>Net Cost of Operations</b>	\$ 36,577,053	\$ 181,335,874	\$ 217,912,927
<b>COMPONENTS OF NET COST NOT PART OF NET BUDGETARY OUTLAYS</b>			
Change in General Property, Plant, and Equipment, Net	\$ 0	\$ (1,424,667)	\$ (1,424,667)
Change in Inventory and Related Property, Net	0	1,632,515	1,632,515
Increase/(Decrease) in Assets:			
Accounts Receivable, Net	(101,867)	24,403	(77,464)
Other Assets	52,884	(7,289,450)	(7,236,566)
(Increase)/Decrease in Liabilities:			
Accounts Payable	245,252	(1,578,064)	(1,332,812)
Environmental and Disposal Liabilities	0	(287,767)	(287,767)
Federal Employee and Veteran Benefits Payable	0	(9,758)	(9,758)
Other Liabilities	(492,292)	(747,776)	(1,240,068)
Financing Sources:			
Imputed Cost	(740,971)	0	(740,971)
<b>Total Components of Net Cost Not Part of Net Budgetary Outlays</b>	\$ (1,036,994)	\$ (9,680,564)	\$ (10,717,558)
<b>COMPONENTS OF NET BUDGETARY OUTLAYS NOT PART OF NET COST</b>			
Financing Sources:			
Donated Revenue	\$ 0	\$ (6,386)	\$ (6,386)
<b>Total Components of Net Budgetary Outlays Not Part of Net Cost</b>	\$ 0	\$ (6,386)	\$ (6,386)
<b>MISCELLANEOUS RECONCILING ITEMS</b>			
Transfers (In)/Out Without Reimbursements	\$ (820,206)	\$ 0	\$ (820,206)
Distributed Offsetting Receipts	0	(101)	(101)
Other	167,294	1,541,425	1,708,719
<b>Total Other Reconciling Items</b>	\$ (652,912)	\$ 1,541,324	\$ 888,412
<b>Net Outlays</b>	\$ 34,887,148	\$ 173,190,247	\$ 208,077,395
<b>Budgetary Agency Outlays, Net (Statements of Budgetary Resources)</b>			\$ 207,836,510
<b>Unreconciled Difference</b>			\$ 240,885

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**NOTE 24 RECONCILIATION OF NET COST TO NET BUDGETARY OUTLAYS**

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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 \$650.7 million as of September 30, 2023 is attributed to the DAF GF financial system limitations, causing budgetary data to not reconcile with proprietary expenses and capitalized assets. The difference is primarily attributed to receipt and suspense accounts that do not have a budgetary resource.

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## NOTE 25 PUBLIC-PRIVATE PARTNERSHIPS

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The Statement of Federal 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

MHPI authority stems from the *National Defense Authorization Act* (NDAA) for FY 1996, Public Law 104-106 (110 Stat 186, Section 2801), as amended. 10 U.S. Code (U.S.C.) § 2871-2894a codifies the Military Department Secretaries' MHPI authority for acquisition and improvement of military housing. MHPI allows the DAF GF to work with the private sector entities (Private Partners) to build, renovate and sustain military housing by obtaining private capital to leverage government dollars. By engaging in P3 MHPI agreements, the DAF GF benefits through the use of private industry expertise and tools, improving the condition of military housing more expediently and efficiently than the traditional military construction process would allow.

#### Funding

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

At inception of an MHPI agreement, the DAF GF enters into a long-term land lease (generally 50 years), and conveys the associated Real Property assets (e.g., buildings, structures, facilities, and, in some cases, utility infrastructure) to the MHPI P3 organized as a single purpose, bankruptcy remote Limited Liability Company (LLC). The MHPI program provides local family housing at 63 installations (31 projects). All of the DAF's MHPI agreements were initiated between 1998 - 2013.

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)

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## **NOTE 25** PUBLIC-PRIVATE PARTNERSHIPS

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requires a statement of scored cost including the conveyance or lease as determined by the Office of Management and Budget (OMB) approval and congressional notification [10 U.S.C. § 2884]. There are no contractual requirements for additional federal contributions to the LLCs.

As a result of Public Law 115-91 § 603, Public Law 115-232 § 606, as amended by § 3036(a) and 3037 of the FY 2020 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 37 U.S.C. § 403(b)(3)(A)(i) of the military pay statute for the area in which the covered housing exists.

The following table represents the aggregated contribution amounts paid to the MHPI Program, LLCs, and Limited Partnerships (LPs) Private Partners as of September 30, 2023 and September 30, 2022:

## NOTE 25 PUBLIC-PRIVATE PARTNERSHIPS

DAF GF INITIAL CONTRIBUTIONS FROM THE MHPI PROGRAM TO THE LLCs & LPS*	2023	2022	ESTIMATED AMOUNT TO BE PAID OVER EXPECTED LIFE***
Direct cash contributions	\$ 674.8 million	\$ 674.8 million	\$ 674.8 million
Real Property contributions to the LLCs & Limited Partnerships (LPs) [value of Real Property Assets (RPA) conveyed, per OMB scoring documents]	\$ 2.7 billion	\$ 2.7 billion	\$ 2.7 billion
Bonds	\$ 0.0 million	\$ 0.0 million	
Direct loans disbursed	\$ 1.9 billion	\$ 1.8 billion	\$ 1.9 billion
DAF GF ON-GOING CONTRIBUTIONS TO THE DOD MHPI PROGRAM*	2023	2022	ESTIMATED AMOUNT TO BE PAID OVER EXPECTED LIFE***
DoD direct payments**	\$ 311.3 million	\$ 249.3 million	Unknown
BAH under § 403 of Title 37 to members living in privatized housing	\$ 1.0 billion	\$ 925.2 million	Unknown
Differential lease payments	\$ 16.5 million	\$ 16.5 million	\$ 16.5 million
Property, cash, bonds, and loans	\$ 0.0 million	\$ 0.0 million	\$ 0.0 million
PRIVATE PARTNER INITIAL CONTRIBUTION TO THE MHPI PROGRAM	2023	2022	ESTIMATED AMOUNT TO BE PAID OVER EXPECTED LIFE***
Direct cash contributions	\$ 338.8 million	\$ 338.8 million	\$ 338.8 million
Real Property contributions to the LLCs and LPs	\$ 1.2 million	\$ 1.2 million	\$ 1.2 million
Bonds	\$ 5.1 billion	\$ 5.1 billion	\$ 5.1 billion
PRIVATE PARTNER ON-GOING CONTRIBUTION TO THE MHPI PARTNERSHIP	2023	2022	ESTIMATED AMOUNT TO BE PAID OVER EXPECTED LIFE***
Direct cash contributions	\$ 58.0 million	\$ 0.0 million	\$ 58.0 million
Bonds/loans contributed	\$ 0.0 million	\$ 0.0 million	\$ 0.0 million
Real Property and land contributions	\$ 0.0 million	\$ 0.0 million	\$ 0.0 million

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

\*\* If the Military Member uses MHPI, the associated BAH amount is considered to be an indirect third-party payment from the DAF.

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

The expected life of the P3 is the term or period for which the entity is likely to participate in the P3. Similar agreements or contracts may be combined. As provided in SFFAS 49, the DAF GF does not estimate the future amount of BAH to be paid to MHPI entities. This is due to the uncertainties associated with the number of members residing in MHPI housing year over year, the paygrade of members residing in MHPI housing, and the potential changes in the BAH rates which occur in the annual NDAA's and are implemented through annual appropriations to the DAF GF. Further, it is a Service Member's discretionary choice to live in MHPI housing.

Service Members may choose to spend their BAH in MHPI housing, non-MHPI housing, or purchase housing. There is no commitment or guarantee on the part of the DAF GF to any MHPI entity to ensure a minimum number of military residents in MHPI housing.

Based on certain criteria, the projects may be authorized to allow Other Eligible Tenants (OETs). OETs could be military retirees, DoD civilians, or other civilians. OETs do not provide or receive money from the project or the Government. MHPI entity's audited financial statements do not differentiate rental income by tenant military status and there is no requirement for the entity to do so. Therefore, the funding received from non-military tenants is also not estimable.

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## NOTE 25 PUBLIC-PRIVATE PARTNERSHIPS

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

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

The DAF GF may contribute budget authority to restructure a project in financial distress through a modification of the GDL under OMB Circular A-11, *Preparation, Submission and Execution of the Budget*, Part 5, Section 185, *Federal Credit*, or by providing a government equity contribution under 10 U.S.C. § 2875. Unless the DAF GF is already part of the LLC entity that owns the project, the DAF GF would become a non-managing member of the LLC.

### **Contractual Terms Governing Incentive Fees**

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

### **Risk**

The DoD's risk of loss is the initial cash contribution to the program, the risk of default on a GDL and the risk of a Guaranty Threshold Event under a Loan Guaranty Agreement will occur. In addition, the DAF GF risks failing to deliver on its goal to provide quality housing services to Service members. The Private Partner's risk of loss includes the recovery of the initial cash contributions, inability to repay bonds and/or loans, and the loss of a long-term revenue source. Each MHPI lockbox agreement prescribes how funds flow through accounts ("waterfall") and can vary from project to project. This hierarchy ensures payments to "must pay" accounts, such as operating expenses and debt, occur first with certain 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.

## NOTE 25 PUBLIC-PRIVATE PARTNERSHIPS

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

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

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

The following are 10 U.S.C. § 2873 projects with sustainment challenges.\*

PROJECT	DESCRIPTION
Project 1	Sustainment and mid-term reinvestment shortfalls
Project 2	
Project 3	
Project 4	
Project 5	

\* Refer to Note 7, Loans Receivable, Net and Loan Guarantee Liabilities for additional details.



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## NOTE 25 PUBLIC-PRIVATE PARTNERSHIPS

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

Changes, once fully implemented from the FY 2020 NDAA (Public Law 116-92 § 606), Section 2811 of FY 2021 NDAA (Public Law 116-283), and Section 2811 of FY 2022 NDAA (Public Law 117-81) will potentially impact the revenue stream of projects. The full impact is not measurable at this time. If or when action is taken, the DAF GF will disclose any financial changes or impact that this may pose or cause. There is potentially a remote impact, which is not measurable at this time.

### Gains and Losses

In accordance with DoD FMR Volume 4, Chapter 7, *Investments and Other Assets*, the DAF GF must disclose its relationships with the P3 private entities and the DoD will recognize any gains or losses associated with the contributions to the private entity in the DoD consolidated financial statements. This revised guidance provides detailed instruction on recording initial cash and non-cash asset contributions and recording yearly gains and losses as well as at the dissolution of the agreements. The policy includes GAAP-compliant methodology to report profits and losses on the initial and ongoing contributions to the investments.

### Risk of Termination or Non-Compliance

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

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

### Other Potential Public-Private Partnership Arrangements

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

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

For additional information, refer to [Note 7, Loans Receivable, Net and Loan Guarantee Liabilities](#), and [Note 12, Debt](#).

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## **NOTE 26** *DISCLOSURE ENTITIES AND RELATED PARTIES*

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

The DAF GF has Public-Private Partnership (P3) agreements that meet the criteria for disclosure as related parties. For disclosures related to P3 contributions, risks, and operations, refer to [Note 25, Public-Private Partnerships](#).

## NOTE 27 **RESTATEMENTS**

### PRIOR PERIOD ADJUSTMENT

In FY 2023, the DAF GF determined that errors existed in prior year financial statements in relation to reported transactions and balances for General Equipment – Aircraft and General Equipment – Other requiring the following prior period adjustment:

1. For General Equipment – Aircraft / General Aircraft – Other: Reclassify expenses, transfers, and losses to a prior fiscal period that posted in FY 2023 as a result of asset corrections and transactional activity within the Accountable Property Systems of Record (APSR). The primary driver was the satellite deemed cost acquisition cost changes.
2. For General Equipment – Aircraft: Reclassify expenses to a prior fiscal period that posted in FY 2023 as a result of Aircraft deemed cost acquisition cost updates.
3. For General Equipment – Other: Reclassify expenses and transfers to a prior fiscal period that posted in FY 2023 as a result of the delay in input into the APSR.

As a result of the prior period adjustments, the DAF GF restated the FY 2022 balances (which is the earliest period presented in the FY 2023 DAF GF financial statements). These prior period adjustments impacted the following financial statement line items for FY 2022:

<b>DAF GF Restatement Impact to the Balance Sheet</b>				
<b>AS OF SEPTEMBER 30, 2022</b> <i>(AMOUNTS IN THOUSANDS)</i>	<b>UNADJUSTED</b>	<b>ADJUSTED</b>	<b>RESTATED</b>	
General Property, Plant, and Equipment	\$ 155,227,745	\$ 3,251,952	\$ 158,479,697	
<b>Total Other than Intragovernmental</b>	\$ 232,618,769	\$ 3,251,952	\$ 235,870,721	
<b>Total Assets</b>	\$ 396,125,571	\$ 3,251,952	\$ 399,377,523	
Cumulative Results of Operations - Funds Other than Dedicated Collections	\$ 202,032,418	\$ 3,251,952	\$ 205,284,370	
<b>Total Cumulative Results of Operations (Consolidated)</b>	\$ 202,077,651	\$ 3,251,952	\$ 205,329,603	
<b>Total Net Position</b>	\$ 357,658,719	\$ 3,251,952	\$ 360,910,671	
<b>Total Liabilities and Net Position</b>	\$ 396,125,571	\$ 3,251,952	\$ 399,377,523	

## NOTE 27 **RESTATEMENTS**

<b>DAF GF Restatement Impact to the Statement of Net Cost</b>			
<b>FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2022</b> <i>(AMOUNTS IN THOUSANDS)</i>	<b>UNADJUSTED</b>	<b>ADJUSTED</b>	<b>RESTATED</b>
Program Costs: Procurement	\$ 59,153,132	\$ 318,936	\$ 59,472,068
Program Costs: Research, Development, Test & Evaluation	\$ 66,228,845	\$ 82,349	\$ 66,311,194
<b>Gross Costs</b>	\$ 227,264,328	\$ 401,285	\$ 227,665,613
<b>Net Cost of Operations</b>	\$ 217,511,642	\$ 401,285	\$ 217,912,927

<b>DAF GF Restatement Impact to the Statement of Changes in Net Position</b>			
<b>FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2022</b> <i>(AMOUNTS IN THOUSANDS)</i>	<b>UNADJUSTED</b>	<b>ADJUSTED</b>	<b>RESTATED</b>
Correction of Errors (+/-)	\$ 0	\$ 3,320,073	\$ 3,320,073
<b>Beginning Balances, as Adjusted (Includes Funds from Dedicated Collections - <a href="#">Note 18</a>)</b>	\$ 200,562,070	\$ 3,320,073	\$ 203,882,143
Transfers in Without Reimbursement	\$ 512,240	\$ 333,164	\$ 845,404
<b>Total Budgetary Financing Sources</b>	\$ 219,027,223	\$ 333,164	\$ 219,360,387
Net Cost of Operations (+/-) (Includes Funds from Dedicated Collections - <a href="#">Note 18</a> )	\$ 217,511,642	\$ 401,285	\$ 217,912,927
<b>Net Change in Cumulative Results of Operations</b>	\$ 1,515,581	\$ (68,121)	\$ 1,447,460
<b>Cumulative Results of Operations Ending (Includes Funds from Dedicated Collections - <a href="#">Note 18</a>)</b>	\$ 202,077,651	\$ 3,251,952	\$ 205,329,603
<b>Net Position</b>	\$ 357,658,719	\$ 3,251,952	\$ 360,910,671

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## **NOTE 28** *SUBSEQUENT EVENTS*

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Subsequent events were evaluated from the Balance Sheet date through November 8, 2023, which is the date the financial statements were available to be issued. The DAF GF concluded that no events or transactions occurred or are pending that would have a material effect on the financial statements.

# DISAGGREGATED STATEMENT OF BUDGETARY RESOURCES

## DEPARTMENT OF THE AIR FORCE GENERAL FUND REQUIRED SUPPLEMENTARY INFORMATION

Disaggregated Statement of Budgetary Resources

FOR THE FISCAL YEARS ENDED 2023 AND 2022 (AMOUNTS IN THOUSANDS)	RESEARCH, DEVELOPMENT, TEST & EVALUATION	PROCUREMENT	MILITARY PERSONNEL
<b>BUDGETARY RESOURCES</b>			
Unobligated Balance from Prior Year Budget Authority, Net (Discretionary and Mandatory) <i>(Note 21)</i>	\$ 11,647,956	\$ 23,694,976	\$ 2,170,753
Appropriations (Discretionary and Mandatory)	61,779,373	59,542,643	46,499,283
Spending Authority from Offsetting Collections (Discretionary and Mandatory)	5,753,945	164,113	472,928
<b>Total Budgetary Resources</b>	<b>\$ 79,181,274</b>	<b>\$ 83,401,732</b>	<b>\$ 49,142,964</b>
<b>STATUS OF BUDGETARY RESOURCES</b>			
New Obligations and Upward Adjustments (Total)	\$ 68,372,755	\$ 61,908,758	\$ 48,571,811
Unobligated Balance, End of Year:			
Apportioned, Unexpired Accounts	10,238,501	20,206,210	84,081
Exempt from Apportionment, Unexpired Accounts	0	0	0
Unapportioned, Unexpired Accounts	5,125	129	0
Unexpired Unobligated Balance, End of Year	\$ 10,243,626	\$ 20,206,339	\$ 84,081
Expired Unobligated Balance, End of Year	564,893	1,286,635	487,072
<b>Unobligated Balance, End of Year (Total)</b>	<b>\$ 10,808,519</b>	<b>\$ 21,492,974</b>	<b>\$ 571,153</b>
<b>Total Budgetary Resources</b>	<b>\$ 79,181,274</b>	<b>\$ 83,401,732</b>	<b>\$ 49,142,964</b>
<b>OUTLAYS, NET</b>			
Outlays, Net (Total) (Discretionary and Mandatory)	\$ 55,062,402	\$ 49,878,291	\$ 46,171,118
<b>Distributed Offsetting Receipts (-)</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Agency Outlays, Net (Discretionary and Mandatory)</b>	<b>\$ 55,062,402</b>	<b>\$ 49,878,291</b>	<b>\$ 46,171,118</b>

# DISAGGREGATED STATEMENT OF BUDGETARY RESOURCES

## DEPARTMENT OF THE AIR FORCE GENERAL FUND REQUIRED SUPPLEMENTARY INFORMATION

### Disaggregated Statement of Budgetary Resources

FOR THE FISCAL YEARS ENDED 2023 AND 2022 (AMOUNTS IN THOUSANDS)	FAMILY HOUSING & MILITARY CONSTRUCTION	OPERATIONS, READINESS, & SUPPORT	2023 COMBINED	2022 COMBINED
<b>BUDGETARY RESOURCES</b>				
Unobligated Balance from Prior Year Budget Authority, Net (Discretionary and Mandatory) ( <i>Note 21</i> )	\$ 5,688,193	\$ 8,877,955	\$ 52,079,833	\$ 44,341,424
Appropriations (Discretionary and Mandatory)	4,659,758	77,271,651	249,752,708	222,548,965
Spending Authority from Offsetting Collections (Discretionary and Mandatory)	0	4,165,341	10,556,327	10,657,358
<b>Total Budgetary Resources</b>	<b>\$ 10,347,951</b>	<b>\$ 90,314,947</b>	<b>\$ 312,388,868</b>	<b>\$ 277,547,747</b>
<b>STATUS OF BUDGETARY RESOURCES</b>				
New Obligations and Upward Adjustments (Total)	\$ 6,162,304	\$ 87,334,864	\$ 272,350,492	\$ 236,231,384
Unobligated Balance, End of Year:				
Apportioned, Unexpired Accounts	3,986,758	355,610	34,871,160	36,485,031
Exempt from Apportionment, Unexpired Accounts	0	13,277	13,277	18,440
Unapportioned, Unexpired Accounts	0	1,605	6,859	38,531
Unexpired Unobligated Balance, End of Year	\$ 3,986,758	\$ 370,492	\$ 34,891,296	\$ 36,542,002
Expired Unobligated Balance, End of Year	198,889	2,609,591	5,147,080	4,774,361
<b>Unobligated Balance, End of Year (Total)</b>	<b>\$ 4,185,647</b>	<b>\$ 2,980,083</b>	<b>\$ 40,038,376</b>	<b>\$ 41,316,363</b>
<b>Total Budgetary Resources</b>	<b>\$ 10,347,951</b>	<b>\$ 90,314,947</b>	<b>\$ 312,388,868</b>	<b>\$ 277,547,747</b>
<b>OUTLAYS, NET</b>				
Outlays, Net (Total) (Discretionary and Mandatory)	\$ 2,756,806	\$ 72,438,029	\$ 226,306,646	\$ 208,250,459
<b>Distributed Offsetting Receipts (+/-)</b>	<b>0</b>	<b>55,689</b>	<b>55,689</b>	<b>(413,949)</b>
<b>Agency Outlays, Net (Discretionary and Mandatory)</b>	<b>\$ 2,756,806</b>	<b>\$ 72,493,718</b>	<b>\$ 226,362,335</b>	<b>\$ 207,836,510</b>

# REAL PROPERTY DEFERRED MAINTENANCE AND REPAIR

REAL PROPERTY DEFERRED MAINTENANCE AND REPAIR (IN MILLIONS OF DOLLARS)	2023 (UNAUDITED)*		
	PLANT REPLACEMENT VALUE	REQUIRED WORK (DEFERRED MAINTENANCE & REPAIR)	PERCENTAGE (REQUIRED WORK/PLANT REPLACEMENT VALUE)
<b>ACTIVE REAL PROPERTY</b>			
Category Buildings, Structures, and Linear Structures (Enduring Facilities)	\$ 541,556	\$ 37,468	6.9%
Category Buildings, Structures, and Linear Structures (Enduring Facilities) - Including Military Housing	\$ 10,465	\$ 3,721	35.6%
Category Buildings, Structures, and Linear Structures (Heritage Assets)	\$ 57,503	\$ 3,100	5.4%
Category Buildings, Structures, and Linear Structures (Heritage Assets) - Including Military Housing	\$ 267	\$ 173	64.8%
<b>INACTIVE REAL PROPERTY</b>			
Category Buildings, Structures, and Linear Structures (Excess Facilities or Planned for Replacement)	\$ 26,332	\$ 2,315	8.8%
Category Buildings, Structures, and Linear Structures (Excess Facilities or Planned for Replacement) ) - Including Military Housing	\$ 69	\$ 10	14.5%

REAL PROPERTY DEFERRED MAINTENANCE AND REPAIR (IN MILLIONS OF DOLLARS)	2022 (UNAUDITED)*		
	PLANT REPLACEMENT VALUE	REQUIRED WORK (DEFERRED MAINTENANCE & REPAIR)	PERCENTAGE (REQUIRED WORK/PLANT REPLACEMENT VALUE)
<b>ACTIVE REAL PROPERTY</b>			
Category Buildings, Structures, and Linear Structures (Enduring Facilities)	\$ 353,642	\$ 24,448	6.9%
Category Buildings, Structures, and Linear Structures (Enduring Facilities) - Including Military Housing	\$ 12,003	\$ 260	2.2%
Category Buildings, Structures, and Linear Structures (Heritage Assets)	\$ 43,688	\$ 1,754	4.0%
Category Buildings, Structures, and Linear Structures (Heritage Assets) - Including Military Housing	\$ 153	\$ 6	3.9%
<b>INACTIVE REAL PROPERTY</b>			
Category Buildings, Structures, and Linear Structures (Excess Facilities or Planned for Replacement)	\$ 16,109	\$ 1,519	9.4%
Category Buildings, Structures, and Linear Structures (Excess Facilities or Planned for Replacement) ) - Including Military Housing	\$ 176	\$ 5	2.8%

\* FY 2023 Data is as of September 2023 using FY23 UFC Pricing Guide information, while FY 2022 Data is as of August 2022; using FY21 UFC Pricing Guide Information.





# REAL PROPERTY DEFERRED MAINTENANCE AND REPAIR

## GENERAL OVERVIEW/POLICY

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

The DAF GF policy related to DM&R is to accomplish essential facility maintenance and repair to keep Real Property assets in a functional and safe condition so they can be used for their designated purpose.

Maintenance and repairs include preventive maintenance; corrective maintenance; replacement of Real Property parts, systems, or components; and other activities needed to preserve or maintain the asset to a safe and working condition. These requirements are assessed on an annual basis for probability of asset failure and potential consequential risk to mission.

## MAINTENANCE AND REPAIR POLICIES AND PROCEDURES

### Maintenance and Repair Process and Application

Department of the Air Force Instruction (DAFI) 32-1020, *Planning and Programming Built Infrastructure Projects*, provides policy guidance for the planning and programming of Real Property maintenance, repair, and construction projects for Facility Sustainment, Restoration, and Modernization funding. DAFI 32-1001, *Civil Engineer Operations* provides further details about maintenance and inspection processes and responsibilities.

Organizations at all DAF GF levels are responsible for employing a sustainable, resilient, asset management approach for maintenance and repairs. The Air Force Civil Engineer Center (AFCEC) assists installations for the identification and justification of facility maintenance and repair projects.

### Maintenance and Repair Ranking and Prioritization

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

WORK PRIORITIES	
WORK PRIORITY	WORK TYPE
1	Emergency Work
2A	Preventive Maintenance and Physical Plant Operations
2B	Contingency Projects
3A (High)	Scheduled Sustainment Work (Corrective Maintenance)
3B (Medium)	Scheduled Sustainment Work (Corrective Maintenance)
3C (Low)	Scheduled Sustainment Work (Corrective Maintenance)
4A	Scheduled Enhancement Work
4B	All Other Enhancement Work



# REAL PROPERTY DEFERRED MAINTENANCE AND REPAIR

## Factors Used to Determine Acceptable Facility Condition Standards

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

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

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

## REPORTING PROCESS

The DAF GF reported DM&R includes both capitalized and non-capitalized Real Property, as well as General and Stewardship Assets.

The DAF GF continually updates the Real Property accountable property systems of record (APSR), Next Generation Information Technology (NexGen IT), throughout the year. In the last quarter of the FY, Real Property ASPR data is pulled from NexGen IT. Real Property APSR data is aggregated with data derived from Sustainment Management Systems (SMS) (i.e., BUILDER and PAVER) with non-reportable Real Property Unique Identifiers (RPUIDs) being removed. Subsequent analysis is performed using this aggregated data, or other Life Cycle Forecast data as applicable, to obtain a DM&R value for each reportable asset record.

The Real Property APSR data is verified and validated to comply with current OSD Real Property Categorization System changes and Real Property Information Model business rules. AFCEC works directly with the installations to research and resolve any errors throughout the year in preparation of the formal Real Property Asset Data that is reported to OSD later in the calendar year.

Not all assets recorded in the APSR are used in the DM&R calculations; therefore, they are not reported as part of the DM&R. The DAF GF used Financial Reporting Organization and Interest Type coding in the APSR to determine the population of facilities for which it calculated a DM&R value. These criteria were used instead of Sustainment Organization and Sustainment Fund codes due to known APSRs data shortcomings in sustainment coding. 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.

## DEFERRED MAINTENANCE AND REPAIR AMOUNTS FOR FY 2022

Historically, the DAF GF's reported DM&R amount has generally increased year-to-year due to significant under funding and associated delays in maintenance execution. It is anticipated this amount will increase based on funding projections. This year, the overall DM&R value increased by \$18.8 billion, from \$28.0 billion in FY 2022 to \$46.8 billion in FY 2023. The primary drivers are as follows:

- » The number of DM&R-reportable assets increased from 139,705 in FY 2022 to 144,923 in FY 2023.



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## REAL PROPERTY DEFERRED MAINTENANCE AND REPAIR

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- » The number of assets with DM&R values determined from condition assessments increased from 65,407 in FY 2022 to 72,463 in FY 2023. This represents an increase from 46.8% in FY 2022 to 50.1% in FY 2023 of the total reportable inventory, while the DM&R dollar values from these assessments increased by 110%.
- » Increased DM&R values for Facilities (excluding Housing), is due in part to:
  - › Additional assets added to the inventory and proportion of DM&R calculated from condition assessment-based data increased.
  - › Improved data quality due to decentralized Facilities Sustainment and Restoration incentive program which led to more comprehensive inspections and additional components being reported in SMS platforms.
  - › SMS BUILDER Cost Book values saw significant increases for FY 2023 due to inflation, increased labor/material costs, and continuation of supply chain issues/risks.
  - › SMS PAVER Cost Book values saw significant increases depending on materiel type.
  - › Reportable RPUIDs include assets from all fund sources, including those funded through other appropriations where the DAF may lack condition information.
- » Increased DM&R values for Housing are the result of:
  - › Additional Housing assets with condition assessment-based data available due to ongoing housing planning efforts in the Pacific Air Forces Area of Responsibility.
- » For assets that did not have condition assessment-based data, alternate calculations were performed factoring-in similar assets that did have condition assessment-based data. The assets using the alternate calculations also exhibited increases similar to above.

The overall PRV value increased by \$210.4 billion, from \$425.8 billion in FY 2022 to \$636.2 billion in FY 2023. The increased PRV values can be primarily attributed to changes in the PRV Unit Costs (PUCs) issued by OSD as part of the Unified Facilities Criteria (UFC) and implemented in August 2023. Due to timing issues, the PUC values used in FY 2022 were from the FY 2021 UFC pricing guide, so the increase is compounded. From FY 2021 (used last year) to FY 2023, there was an average 62% increase across all PUCs. In addition to PRV itself, the FY 2023 PUCs were incorporated in alternate calculation methodologies to determine DM&R values of assets that did not have available condition assessment-based data. This resulted in a corresponding DM&R increase.

# EQUIPMENT DEFERRED MAINTENANCE AND REPAIR

## EQUIPMENT DEFERRED MAINTENANCE AND REPAIR FOR FY ENDED SEPTEMBER 30, 2023 (IN MILLIONS OF DOLLARS)

MAJOR CATEGORIES	PRIOR YEAR DEFERRED MAINTENANCE AND REPAIR	PB-61 AMOUNTS	ADJUSTMENTS	TOTAL
Aircraft	\$ 407.1	\$ 16,249.3	\$ (16,104.9)	\$ 144.4
Automotive Equipment	\$ 0.0	\$ 6.2	\$ (6.2)	\$ 0.0
Combat Vehicles	\$ 0.0	\$ 19.8	\$ (19.8)	\$ 0.0
Construction Equipment	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.0
Electronics and Communications Systems	\$ 25.7	\$ 2,221.7	\$ (2,216.7)	\$ 5.0
Missiles	\$ 0.4	\$ 862.0	\$ (862.0)	\$ 0.0
Ships	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.0
Ordnance Weapons and Munitions	\$ 0.0	\$ 93.3	\$ (93.3)	\$ 0.0
General Purpose Equipment	\$ 0.0	\$ 204.6	\$ (204.6)	\$ 0.0
All Other Items Not Identified to Above Categories	\$ 0.0	\$ 23.9	\$ (23.9)	\$ 0.0
<b>Total</b>	\$ 433.2	\$ 19,680.8	\$ (19,531.4)	\$ 149.4

### DEFERRED MAINTENANCE AND REPAIRS FOR FY 2022

Weapon System Sustainment (WSS) is very diverse and encompasses 105 weapon systems. 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 Property, Plant, and Equipment.

### DEFINING AND IMPLEMENTING MAINTENANCE AND REPAIR POLICIES IN PRACTICE

As permitted under Statements of Federal Financial Accounting Standards (SFFAS) 42, *Deferred Maintenance and Repairs, amending SFFAS 6, 14, 29 and 32*, several different basis of estimate methodologies determine maintenance and repair requirements. For example, Programmed Depot Maintenance is a calendar driven interval developed by the Operational Safety, Suitability and Effectiveness authority for the weapon system. During the development of WSS maintenance and repair requirements, approved Force Structure changes are incorporated. Maintenance and repair requirements change from the time of publishing in support of the Program Objective Memorandum (POM) to development of the execution plan for the upcoming execution year. This reflects the most current requirement and funded customer order to support organic depot workload for planning materials and labor. During the WSS mid-year execution review, program office personnel receive guidance to reduce maintenance and repair requirements to what will execute that year unless deferred to another year. If this action would drive deferred maintenance and repair, the requirement remains as unfunded. One of two follow-on actions will occur depending on what 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.



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# EQUIPMENT DEFERRED MAINTENANCE AND REPAIR

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## 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 PRIOR YEAR AND RELATED EVENTS

The total projected deferred requirements of \$149.4 million is due to deferrals in Active Duty, Air Force Command, and/or Air National Guard, of which the most significant are as follows:

- » **C-5 Galaxy/Super Galaxy** - \$59.5 million deferred due to a shortfall in funding.
- » **C-17** - \$22.2 million deferred due to a shortfall in funding to support aircraft depot inductions.
- » **F-16 Fighting Falcon** - \$46.6 million deferred due to redesigns, supply chain issues, depot capacity, and manpower constraints.



# LAND

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

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

Pursuant to SFFAS 59, paragraphs 4 and 5, temporary land rights are excluded from RSI – Land. As a result, FY 2022 balances were restated to remove temporary land rights. Based on information available from the Federal Real Property Council, *2023 Guidance for Real Property Inventory Reporting*, the DAF GF classified its reported General PP&E Land and Stewardship Land by predominant use category for FY 2023 and FY 2022 as summarized in the table below.

ESTIMATED ACREAGE BY PREDOMINANT USE (ACREAGE IN THOUSANDS)				
	COMMERCIAL	CONSERVATION AND PRESERVATION	OPERATIONAL	TOTAL ESTIMATED ACREAGE
As of September 30, 2023	0	437	7,767	8,204
As of September 30, 2022	0	506	7,676	8,182
<b>Held for Disposal or Exchange</b>				
As of September 30, 2023	0	0	0	0
As of September 30, 2022	0	0	0	0



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

November 8, 2023

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 2023  
and FY 2022

(Project No. D2023-D000FT-0058.000, Report No. DODIG-2024-014)

We contracted with the independent public accounting firm of Ernst & Young, LLP (EY) to audit the Department of the Air Force (DAF) General Fund Financial Statements and related notes as of and for the fiscal years ended September 30, 2023, and 2022. The contract required EY to provide a report on internal control over financial reporting and compliance with provisions of applicable laws and regulations, contracts, and grant agreements, and to report on whether the DAF's financial management systems substantially complied with the requirements of the Federal Financial Management Improvement Act of 1996. The contract required EY to conduct the audit in accordance with generally accepted government auditing standards (GAGAS); Office of Management and Budget audit guidance; and the Government Accountability Office/Council of the Inspectors General on Integrity and Efficiency, "Financial Audit Manual," Volume 1, May 2023, Volume 2, May 2023, and Volume 3, June 2023. EY's Independent Auditor's Reports are attached.

EY's audit resulted in a disclaimer of opinion. EY could not obtain sufficient, appropriate audit evidence to support the reported amounts within the DAF General Fund Financial Statements. As a result, EY could not conclude whether the financial statements and related notes were presented fairly and in accordance with Generally Accepted Accounting Principles. Accordingly, EY did not express an opinion on the DAF General Fund FY 2023 and FY 2022 Financial Statements and related notes.

EY's separate report, "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*," discusses nine material



weaknesses related to the DAF General Fund's internal controls over financial reporting.\* Specifically, EY's report stated that the DAF did not:

- establish entity-level controls that provided a basis for effective financial reporting;
- integrate and reconcile feeder systems to the general ledger to ensure that it accurately recorded the entire population of financial transactions on its financial statements in a timely manner;
- ensure the effective design and operation of financial information systems;
- develop sufficient policies, procedures, and internal controls over Accounts Payable, expenses, and contract financing payments;
- develop sufficient policies and internal controls to value and manage Military Equipment;
- develop policies, procedures, and internal controls to identify, value, and report all other General Equipment;
- develop sufficient policies, procedures, and internal controls to value and report an accurate Operating Materials and Supplies balance;
- oversee, monitor, and accurately report property and materials managed and held by contractors and other defense organizations; or
- develop policies, procedures, and internal controls to report complete and accurate Real Property.

EY's additional report, "Report of Independent Auditors on Compliance and Other Matters Based on an Engagement to Audit the Financial Statements Performed in Accordance with *Government Auditing Standards*," discusses two instances of noncompliance with provisions of applicable laws and regulations, contracts, and grant agreements. Specifically, EY's report describes instances in which the DAF's financial management systems did not comply with the Federal Financial Management Improvement Act of 1996 and the Federal Managers' Financial Integrity Act of 1982.

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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.





In connection with the contract, we reviewed EY's reports and related documentation and discussed them with EY's representatives. Our review, as differentiated from an audit of the financial statements and related notes in accordance with GAGAS, was not intended to enable us to express, and we do not express, an opinion on the DAF General Fund FY 2023 and FY 2022 Financial Statements and related notes. Furthermore, we do not express conclusions on the effectiveness of internal controls over financial reporting, on whether the DAF's financial systems substantially complied with Federal Financial Management Improvement Act of 1996 requirements, or on compliance with provisions of applicable laws and regulations, contracts, and grant agreements. Our review disclosed no instances where EY did not comply, in all material respects, with GAGAS. EY is responsible for the attached November 8, 2023 reports and the conclusions expressed within the reports.

We appreciate the cooperation and assistance received during the audit. If you have any questions, please contact me.

FOR THE INSPECTOR GENERAL:

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

Attachments:

As stated



Ernst & Young LLP  
1775 Tysons Boulevard  
Tysons, VA 22102

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

## Report of Independent Auditors

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

### Report on the Audit of the Financial Statements

#### *Disclaimer of Opinion*

We were engaged to audit the financial statements of the Department of the Air Force General Fund (the DAF GF), which comprise the consolidated balance sheets as of September 30, 2023 and 2022, and the related consolidated statements of net cost and changes in net position and combined statements of budgetary resources for the years then ended, and the related notes (collectively referred to as the “financial statements”).

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

#### *Basis for Disclaimer of Opinion*

The DAF GF continues to have unresolved accounting issues and material weaknesses in internal controls that cause the DAF GF to be unable to provide sufficient evidential support for complete and accurate financial statements on a timely basis. As a result of these matters, we were unable to determine whether any adjustments might have been found necessary in respect of recorded or unrecorded balances and the elements making up the DAF GF’s financial statements as of and for the years ended September 30, 2023 and 2022.

#### *Departures from U.S. Generally Accepted Accounting Principles*

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

The DAF GF has not implemented certain accounting standards for the Department of Defense and the federal government. The effect of these matters on the DAF GF’s financial statements as of and for the years ended September 30, 2023 and 2022 is not currently determinable by the DAF GF and could be material.



### ***Responsibilities of Management for the Financial Statements***

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free of material misstatement, whether due to fraud or error.

### ***Auditor's Responsibilities for the Audit of the Financial Statements***

Our responsibility is to conduct an audit of the DAF GF's financial statements in accordance with auditing standards generally accepted in the United States of America, in accordance with the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*), and in accordance with the provisions of Office of Management and Budget Bulletin No. 24-01, *Audit Requirements for Federal Financial Statements*, and to issue an auditor's report. However, because of the matters described in the Basis for Disclaimer of Opinion section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

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

### ***Required Supplementary Information***

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

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we also have issued our reports dated November 8, 2023 on our consideration of the DAF GF's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant



agreements, and other matters. The purpose of those reports is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the DAF GF's internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the DAF GF's internal control over financial reporting and compliance.

*Ernst + Young LLP*

November 8, 2023



Ernst & Young LLP  
1775 Tysons Boulevard  
Tysons, VA 22102

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

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

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

We were engaged to audit, in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*) and the provisions of Office of Management and Budget (OMB) Bulletin No. 24-01, *Audit Requirements for Federal Financial Statements*, the financial statements of the Department of the Air Force General Fund (the DAF GF), which comprise the consolidated balance sheet as of September 30, 2023, and the related consolidated statements of net cost and changes in net position and combined statement of budgetary resources for the year then ended, and the related notes (collectively referred to as the “financial statements”) and have issued our report thereon dated November 8, 2023. Our report disclaims an opinion on the financial statements because the DAF GF continues to have unresolved accounting issues and material weaknesses in internal controls that cause the DAF GF to be unable to provide sufficient evidential support for complete and accurate financial statements on a timely basis.

### **Report on Internal Control Over Financial Reporting**

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

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



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 IX. to be material weaknesses.

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

### Material Weaknesses

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

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

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

II. Integration and Reconciliation of Financial Systems

To ensure that the entire population of financial transactions has been recorded in the financial statements, it is necessary to reconcile feeder systems to the general ledger. The DAF GF has a complex systems environment consisting of many non-integrated systems that use non-standard and non-compliant data structures. The systems environment is composed of legacy mainframe, standalone systems and micro-applications, along with its newer general ledger, Defense Enterprise Accounting and Management System (DEAMS). These systems are not integrated and require numerous manual workarounds. The lack of



a fully integrated system prevents the DAF GF's management from obtaining timely, complete, accurate and reliable information to make effective business decisions. The DAF GF continues to rely on both manual re-entry of data into multiple systems and complex system interfaces that are not fully reconciled. The lack of integration prevents information/data from processing without significant manual intervention.

We identified the following:

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

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

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

IT General Controls

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

Application Controls

- Interface controls

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

We identified the following:

- Lack of sufficient documentation of accounting policies, procedures and controls
- Inadequate controls over accounts payable, contract financing payments, expenses, cash disbursement and obligation processes
- Insufficient controls over the accounting for joint procurement programs and shared access vendor contracts



- V. Military Equipment (ME) – ME is a sub-set of General Equipment and includes several categories of assets including aircraft and satellites. In FY23, the DAF GF continued to make notable updates and enhancements to the design and implementation of key financial reporting controls.

Although measurable progress was made, we identified the following:

- Lack of consistent and timely documentation of controls to value military equipment construction in progress (CIP)
- Lack of supportable policy for Aircraft Modification useful life
- Insufficient controls over inventory management for Aircraft Pods

- VI. Other General Equipment (GE-Other) – GE-Other includes equipment such as support equipment, vehicles, special tooling, special test equipment, general equipment held by others and information technology hardware. The DAF GF has not developed sufficient controls to identify, value and report all GE-Other.

We identified the following:

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

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

We identified the following:

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

- VIII. Property and Materials Held by Others – The DAF GF has shared service arrangements with other branches of the military, other defense organizations and commercial contractors to hold inventory and equipment to avoid duplication of efforts. Generally, the inventory held by others is reported as OM&S and equipment is reported as other general equipment in the financial statements. We found that in many of these instances the DAF





GF is heavily reliant upon the other party to provide activity and balances related to those materials.

We identified the following:

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

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

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

### Significant Deficiencies

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

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



We identified the following:

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

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

We identified the following:

- Lack of sufficient documentation of accounting policies, procedures and controls
- Insufficient controls over financial reporting of reimbursable agreements
- Lack of sufficient reviews over reimbursable activity

### ***DAF GF's Response to Findings***

*Government Auditing Standards* requires the auditor to perform limited procedures on the DAF GF's response to the findings identified in our engagement and described in the accompanying letter (Management Response Letter as listed in the Table of Contents) dated November 8, 2023. The DAF GF's response was not subjected to the other auditing procedures applied in the engagement to audit the financial statements and, accordingly, we express no opinion on the response.

### ***Purpose of This Report***

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



### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 8, 2023 on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of compliance and the results of that testing, and not to provide an opinion on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the DAF GF's compliance.

*Ernst + Young LLP*

November 8, 2023



## Appendix A

### Material Weaknesses

#### I. ENTITY LEVEL CONTROLS

Entity management has a fundamental responsibility to develop and maintain effective internal control, which provides assurance that significant weaknesses in the design or operation of internal control, that could adversely affect the entity's ability to meet its objectives, would be prevented or detected in a timely manner. Establishing Entity Level Controls (ELCs) is a primary step in developing and operating an effective system of internal control. ELCs are internal controls that have a pervasive effect on an organization, generally operate at a high level and establish a basis for the effective operation of controls addressing specific accounts and assertions. ELCs begin at the top of an organization with enterprise-wide leadership involvement. The DAF GF has maintained governance activities to fulfill the responsibilities of the Risk Management Council (RMC), the Senior Management Council (SMC), and the Executive Steering Committee (ESC) (functioning as its Senior Assessment Team) as described in OMB Circular A-123.

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

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

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

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

The Deputy Assistant Secretary for Financial Operations (SAF/FMF and SAF/FM CIO) has the primary responsibility for the DAF's financial statement audit readiness and compliance; however, efforts supporting financial statement audit and audit remediation requires inputs from the entire



organization, including major commands (MAJCOMs), field commands (FIELDCOMs) and Headquarters Air and Space Force organizations. Continued improvements in financial management capabilities, whether by redesigned business processes, modernized IT systems, or other efforts, facilitate better decision making and oversight of DAF priorities by enterprise-wide leadership.

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

- **Corrective action plans do not always reflect the entity-wide impact of an identified deficiency**—The DAF GF continues to enhance its governance activities as part of its OMB Circular A-123 and Enterprise Risk Management programs. However, it is not entirely apparent, or fully documented, how the DAF GF’s enterprise-wide leadership is fully integrated in the evaluation of risks and in determining the best course of action for the entity as a whole. Furthermore, the DAF GF’s Corrective Action Plan (CAP) development, timelines and/or remediation efforts does not always include how expected changes to IT systems or business processes effect the entity-wide risks to internal control over financial reporting.
- **Insufficient communication and assessment of the financial statement impact resulting from ongoing operations**—For example, the DAF GF has not assessed the impact of the United States Space Force (USSF) on the entity’s financial statements and internal control over financial reporting. Also, the organization has not fully assessed how certain non-financial data in mixed systems (e.g., logistics systems) impacts the financial statements.

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

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

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

- **Lack of a formalized and fully implemented IT governance strategy for financial and financially relevant systems** —An overarching Business Mission Area (BMA) Enterprise IT strategy for governance over IT strategic direction, financial and financial feeder system portfolio modernization, knowledge management, data analytics, workforce training/education, and enterprise-wide monitoring program for all application consolidations and data migration efforts has not been formalized and fully implemented.
- **Inconsistent integration and collaboration between functional organizations throughout the system consolidation lifecycle leading to a lack of a holistic understanding of risks**



**and mitigation strategies across the enterprise**— The financial management portfolio board with representation from The Office of the Assistant Secretary of the Air Force for Acquisition, Technology and Logistics (SAF/AQ), the Defense Finance Accounting Service (DFAS), Deputy Under Secretary of the Air Force, Management (SAF/MG) among others meets on a monthly basis to discuss the current status of application consolidation/modernization, status of CAPs and related matters. However, the financial management portfolio board's oversight is limited to systems in the Financial Management and Comptroller functional organization. Additional functional organizations (e.g., A1, A4, AQ) in the DAF GF exercise oversight of financially relevant systems within their portfolio; however, these efforts are not sufficiently integrated. Internal controls and specifically IT controls are not fully integrated during new application implementation and/or legacy application modernization. For example, enhanced project accounting could occur through the use of integrated modules incorporating processes such as procurement, accounts payable and property/equipment/inventory.

During the current year, the DAF leadership has established a Corrective Action Plan (CAP) and identified completion of precursory milestones. For example, the DAF has created a designated Business Mission Area (BMA) roadmap, charter, and governance model, emphasizing functional coordination. Management has also identified six desired outcomes for improving BMA performance and aligning organization goals to existing efforts: (1) IT modernization for BMA, (2) Space-Force BMA integration, (3) rapid Airman & Guardian capability improvements, (4) advance digital governance, (5) enhance BMA security, and (6) improve BMA efficiencies. Although advancements made by DAF leadership were identified, the full institution of these goals and objectives is ongoing and consistent as well as timely implementation of future remediation activities merit continued focus from DAF management.

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

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

We recognize in the prior year that the DAF GF management developed an enterprise-wide Financial Management (FM) Strategic Plan that encompasses a renewed focus to develop and retain a highly-skilled FM Team and implement an FM Human Capital Strategy. In FY23, DAF completed an FM Workforce Organizational Assessment that included collection and analysis of



quantitative and qualitative data to identify skills gaps and workforce improvement opportunities. However, the following conditions indicate a need for enhanced focus on the Green Book requirement to demonstrate a commitment to recruiting, developing, and retaining competent individuals:

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

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

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

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

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

As the DAF GF works through its existing material weaknesses, performing a timely and complete analysis of relevant accounting guidance is a critical step in the development of appropriate corrective actions responsive to risks of material misstatement to the financial statements. The DAF GF has not fully established a process to effectively assess, monitor and implement accounting guidance issued by the Federal Accounting Standards Advisory Board (FASAB). The effect on the financial statement amounts involved is not currently determinable by the DAF GF and could be material.

*Enhanced financial statement review procedures are needed*

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

- Supporting documentation that did not adequately support amounts included in the disclosures or could not be provided in a timely manner.
- Inability to fully understand and explain major changes in balances or activity.
- Noncompliance with the requirements of Circular A-136, *Financial Reporting Requirements*, such as the lack of complete and accurate disclosures.



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

### **Recommendations:**

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

- Enhanced integration and oversight of risks by enterprise-wide leadership is needed:
  - Enhance the CAP guidance and process to ensure that FM and the functional communities have an integrated action plan that not only identifies the requirements for FM and the risk of material misstatements but is also clear as to assessing and coordinating those steps provided and executed by the other communities.
  - Continue to execute and refine, as necessary, the maturity model related to the detailed framework for risk identification and communication from all levels within the organization (such as DAF's Leadership Enterprise Risk Survey introduced in late FY23; or AU/OPR level questionnaires) with a focus on all critical aspects of internal control over financial reporting (e.g., business processes, ELCs, critical IT systems, impacts of resource constraints, etc.).
  - Continue to develop mechanisms, including the Integrated Master Schedule and DAF's new FY23 Interface and Interoperability process, to enforce accountability and collaboration across the entity (e.g., SAF/FMF, functional communities, IT organization) to understand and address the accounting and internal control implications and challenges.
  - Enhance formal lines of communication about ongoing operational activities that prioritize the objectives of developing an internal control environment and business processes with the financial community for assessment beyond audit response and CAP efforts.
- Enterprise IT strategy has not been formalized and fully implemented:
  - Finalize the DAF Enterprise IT strategic plan to consistently implement overarching IT governance over IT strategic direction, financial and financial feeder system modernization, and enterprise-wide monitoring program for all application consolidations and data migration efforts. Consider including the following elements:
    - Plan to continually retire/decommission legacy applications and reduce the number of duplicated system functions to simplify the FM Portfolio.
    - Formalize processes that allow for consistent integration and collaboration between functional organizations throughout the system consolidation lifecycle and provide a holistic understanding of risks across the enterprise.
    - Continue to prioritize remediation of IT findings based on severity of the finding and the impact on downgrading applicable financial business processes while





- continuing to integrate the IT modernization plan and timelines as part of this prioritization effort.
- Implement automated control processes to assist in sustaining effective controls over the long-term (i.e., Identity, Credential, and Access Management; Security Information and Event Management; and Vulnerability Management). There should be a holistic strategy to implementing these solutions rather than operating/implementing them in silos.
  - Best practices learned from successful remediation of CAPs should be shared and implemented for relevant CAPs for other applications especially during system modernization efforts.
  - Bridge potential workforce requirement gaps through enhanced documentation and knowledge management practices by creating opportunities for knowledge sharing that help transfer knowledge up, down, and across the organization.
- Lack of sufficient and/or sufficiently trained resources:
    - Continue to develop and enhance core and specialized training to further enhance competencies in internal control concepts and accounting topics.
    - Assess the impact on the resources needed to support manual workarounds against the additional investment that may be necessary to address any IT system limitations causing such manual activities. Align these considerations to the organization's IT strategic vision and priorities impacting internal control over financial reporting.
    - Clarify the competencies, roles, responsibilities and expectations of key roles and responsibilities in relation to internal control over financial reporting.
    - Develop appropriate succession and contingency plans for key roles to address the need to replace personnel over the long term, as well as respond to any sudden personnel changes.
  - Additional emphasis needed to meet external financial reporting objectives:
    - Dedicate resources to track and coordinate the assessment of the impact and implementation of accounting guidance and technical updates.
    - Continue to review OMB Circular A-136 requirements to ensure updated guidance is evaluated and incorporated in a timely manner.
    - Continue to develop reviews by business process areas to ensure disclosures are complete, accurate and compliant with financial reporting guidance.

## II. INTEGRATION AND RECONCILIATION OF FINANCIAL SYSTEMS

A modernized IT system environment is critical to an entity's ability to fulfill its established missions. Well-designed information systems promote stronger financial management, enhance control over the entity's resources and provides timely access to better data for decision-making purposes.

Although the DAF GF is progressing towards modernized financial systems, the entity's system environment continues to include legacy mainframe and standalone systems. This includes the



DAF GF's legacy general ledger system, General Accounting and Finance System-Reengineered (GAFS-R). While the DAF GF is prioritizing investment on more modernized IT systems, such as DEAMS, the DAF GF needs to fully evaluate and mitigate the impact of known deficiencies as long as significant financial statement activity flows through its legacy environment.

As the DAF GF continues to transition to modern systems, it is critical that the entity does not just replicate its existing environment and internal control processes just with newer, yet still non-integrated, systems. Instead, the entity needs to continue to define its requirements (mission-based, IT and financial management) and redesign processes as appropriate to take advantage of the benefits of system integration. Otherwise, the DAF GF will continue to experience many of the similar challenges discussed within this report and further inhibit the entity's ability to produce timely and auditable financial statements and remediate existing material weaknesses.

The following deficiencies aggregated into this material weakness:

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

The DAF GF's system environment, which includes legacy systems and more modernized systems relies on both manual re-entry of data into multiple systems and complex system interfaces that are not fully reconciled. This limits the entity's ability to fully validate beginning and ending balances and financial activity. The lack of integration prevents information/data from processing without significant manual intervention. Additionally, many of the DAF GF's corrective actions to date have resulted in workarounds (e.g., additional reconciliations, journal vouchers) to address identified weaknesses.

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

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

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



sufficient interface controls between GAFS-BL and CRIS. As a result, DAF GF is currently unable to support the operating effectiveness of any control utilizing GAFS-BL data queried via CRIS.

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

The DAF GF has not fully designed and implemented sufficient data management controls for the timely resolution of errors during data transfer between feeder systems and GAFS-BL or GAFS-R. The DAF GF's data does not always contain sufficient or accurate data elements to enable effective data transfer. If an incoming transaction does not contain the necessary data elements, or there are other issues with the transaction, the transaction may not post in the general ledger. These transactions are suspended pending further review and analysis. While the DAF GF, in working with DFAS, has created a variety of reconciliations to research and address these errors, these errors are not always resolved in a timely manner. No provision is made to reflect the unreconciled activity in period-end financial statements.

Similar to the legacy environment, the DAF GF has not fully designed and implemented sufficient data management controls for the timely resolution of errors during data transfer between feeder systems and DEAMS. There are transactions on error reports that are not resolved at period-end and the DAF GF does not record a period-end adjustment to reflect the value of unresolved transactions that should have been posted to DEAMS.

*Inability to accurately categorize or identify all relevant transactions*

The DAF GF is in the process of creating a quantitative drilldown (QDD), a custom report that will be utilized to provide additional detail on transactions within GAFS-R and DEAMS. The QDD for each of the general ledgers is intended to extract and categorize data into the applicable category and/or business process; however, the QDD is not yet complete. As a result, the DAF GF lacks controls to consistently and accurately categorize or identify all relevant transactions within each of its financial reporting systems.

- **Inability to identify transactions by business process**—While the DAF GF has developed business rules to categorize certain transactions, these rules are neither complete nor accurate for all processes and there is a large population of uncategorized transactions in both GAFS-R and DEAMS.
- **Lack of unique identifiers for certain transactions**—There are instances in the DAF GF's data in GAFS-R and DEAMS that lack uniquely identifying data elements, inhibiting the ability to determine if the transaction is a duplicate, an internal reclassification or a valid transaction.



### *Inability to support JVs or other manual workarounds*

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

**Miscellaneous obligation and reimbursement documents (MORDs)**—MORDs are intended to be used to temporarily record known obligations or reimbursements when the required documents to support the obligation/reimbursable transactions are not immediately available, as well as other limited purposes. Although there is significant usage of MORDs throughout the organization for varied purposes, the DAF GF is unable to provide a complete and accurate listing of all MORDs by various MORD types. While the entity has evaluated its overall MORD guidance, the DAF GF has not sufficiently assessed the related control activities for material MORD activity impacting its business processes/assessable units.

### **(b) Transactions not recorded in accordance with the USSGL**

The DAF GF does not have controls to configure the posting logic in its general ledgers to be compliant with the United States Standard General Ledger (USSGL) or sufficient controls to link business events to the correct posting logic. Not all transactions in GAFS-R or DEAMS posting logic are appropriately mapped to validate their compliance with the TFM. As a result, transactions are not always recorded appropriately. For example, the legacy system automatically records progress payments as advances rather than incurred expenses, construction in progress (CIP) or inventory in development, as appropriate.

### **(c) Insufficient processes over DEAMS system design**

As discussed above, DEAMS is currently one of the DAF GF's two general ledgers along with GAFS-R. The DAF GF is scheduled to "sunset" GAFS-R in future fiscal periods. As a result, the entity needs to continue to define its requirements for DEAMS (mission-based, IT and financial management) and consider whether redesigned processes may be necessary. While DEAMS has the capability to be an enterprise resource planning system, we identified several systems and related business processes that are not currently integrated or directly interfaced with DEAMS.

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

- Cannot appropriately post progress payments due to system limitations.
- Allows for the DEAMS trial balance and related activity to be out of balance.



- Lack of sufficient system integration and monitoring of direct data changes.

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

### **Recommendations:**

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

- Inability to validate the completeness of transactions underlying the financial statements:
  - Continue to implement and develop feeder system reconciliation processes for the identified systems to support completeness of the financial statements, including validation of beginning and ending balances, as well as financial activity.
  - Ensure that variances identified in any universe of transactions reconciliation are investigated and remediated on a timely basis. Evaluate whether changes can be made to the existing business processes to prevent future variances.
  - Establish further integration between business process and IT system owners to allow for timely communication and assessment of system deficiencies for systems utilized in the execution of key financial reporting controls.
  - Perform an analysis of the period-end reconciling items that documents the appropriate adjustments for any unrecorded transactions. If an adjustment cannot be determined, or if the DAF GF management decides to not make an adjustment, the DAF GF should document the impact of not recording an adjustment, including an assessment of the impact of these unrecorded transactions on the financial statements.
  - Evaluate current policies and procedures against current practice to identify root causes. Identify inconsistencies in current procedures, such as denoting a common data string to identify transactions at all levels and support the implementation of these changes across the financial system and financial feeder system landscape.
  - Continue efforts to develop interoperability across the financial and financial feeder systems and further refine the QDD at a sufficiently precise level of detail to accurately classify, categorize, and identify transactions within DEAMS and GAFS-R, including MORDs and JVs. These efforts should incorporate involvement and input from key stakeholders and business process leads.
  - Continue to address other applicable findings related to GAFS-R system environment and related transaction quality based on the materiality of transactions still processed by the system by developing a solution that supports the interoperability of financial and financial feeder systems at the detailed transaction level.
  - Identify the risks that are related to the financial statement line items, relevant assertions, and general ledger accounts by MORDs. Based on the risks, the DAF GF should perform the following:



- Continue documenting 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.
    - Continue to update the entity's financial reporting environment in response to previously reported findings or other ongoing efforts.
  - Consider performing an entity-wide analysis over DEAMS and GAFS-R JVs to evaluate if additional centralized oversight is needed to monitor whether JVs are being used for the intended purposes as stated within the entity's policy and are appropriately reviewed and approved.
  - Evaluate formalizing a process to ensure sufficient monitoring and oversight related to transactions primarily handled by DFAS.
  - Consider implementing system changes to DEAMS to post transactions through the normal course of business whenever possible. As part of this process, where applicable, the DAF GF should identify areas where systematic JVs can be utilized in instances where manual JVs are recorded.
  - Continue to assess, based on GAFS-R decommissioning timelines, whether additional internal controls are needed to compensate for known deficiencies as long as material activity is reported within GAFS-R.
- Transactions not recorded in accordance with the USSGL:
  - Perform an analysis to determine the impact on financial statements of noncompliant posting or other system logic within GAFS-R.
  - Improve monitoring over GAFS-R and DEAMS, including establishment of posting logic data validation procedures, to identify and correct accounting that does not comply with the TFM and take corrective actions.
- Insufficient processes over DEAMS system design:
  - In collaboration with all relevant parties, analyze the system limitations described above and other known instances:
    - Determine which conditions may already be part of ongoing remediation efforts.
    - For those not currently part of ongoing corrective actions, determine whether additional system changes or revised processes may be necessary to facilitate more automated and integrated solutions. Consider the long-term requirements for resources and funding that is necessary to effectively implement any additional changes.
    - Minimize customizations to existing systems and redesign business processes as necessary to leverage system capabilities, instead of utilizing manual processes, to support financial reporting.
  - As the DAF GF moves towards decommissioning GAFS-R and other legacy systems, and related business processes transition to DEAMS, continue to consider the impact on the design and functionality of DEAMS.



- Assess the increased usage of additional system edit checks and/or controls prior to posting to the accounting system of record to prevent processing errors rather than relying primarily on detective controls.

### III. FINANCIAL INFORMATION SYSTEMS

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

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

IT general controls support the continued functioning of application controls, the automated aspects of IT-dependent manual controls and the production of complete and accurate information produced by the entity. Weaknesses in such controls can compromise the integrity of data and increase the risk that such data may be inappropriately used and disclosed in the DAF GF's financial statements, IT environment, and financial applications.

The DAF GF continues to make progress in remediating prior year IT findings. For example, program and functional management for the Defense Enterprise Accounting and Management System (DEAMS) resolved many prior-year control deficiencies related to key control areas, including access, configuration management, and segregation of duties.

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

For example, insufficient consideration of the impact of relevant IT system findings and prior year



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

For fiscal year 2023 (FY23), a majority of the DAF GF's in-scope financial applications had ineffective IT general controls. Further, the majority of audit findings identified in the current year across all applications are related to access controls/segregation of duties, change management and interface deficiencies.

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

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

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

#### **(a) Access Controls**

Access controls include those related to protecting system boundaries, user identification and authentication, authorization, protecting sensitive system resources, audit and monitoring, and





physical security. When properly implemented, access controls can help verify that critical systems assets are physically safeguarded and that logical access to sensitive computer programs and data is granted to users only when authorized and appropriate. Weaknesses in such controls can compromise the integrity of sensitive data and increase the risk that such data may be inappropriately used and/or disclosed.

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

- Access was not restricted to authorized users and was not assigned in accordance with the principle of least privilege.
- Policies and procedures for account authorization, provisioning, and termination were not documented.
- Procedures were not consistently followed for monitoring terminated users, access provisioning, or access re-certifications.
- Procedures for monitoring and auditing 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.
- Auditing and monitoring of system activities was not established.
- Passwords were not being changed in accordance with defined frequencies.
- Shared passwords for group accounts are not adequately protected.
- Inactive or unauthorized users are not disabled or removed timely and in accordance with organization defined policies.
- The completeness and accuracy of system and manually generated reports are not being verified by management responsible for reviewing these reports.
- Password complexity and password lockout requirements were not being enforced.
- Security settings (e.g., session time out) are not enforced based on system security plan.
- Role based access control is not enforced to restrict users from combining incompatible roles/functions.

#### **(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 application business process (BP) controls and sensitive data; these deficiencies also 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 review requirements have not been developed.
- Developers were granted inappropriate access to make modifications directly to the production environment.
- Changes are not properly reviewed, approved, tested, and documented.
- 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 are able to be made unmonitored and without any required documentation, testing (if applicable), or approval.
- The completeness and accuracy of system and manually generated reports are not being verified by management responsible for reviewing these reports.
- Access to application source code is not appropriately restricted and monitored.

#### **(c) Segregation of Duties (SoD)**

SoD controls provide policies, procedures, and an organizational structure to prevent one or more individuals from controlling key aspects of computer-related operations without detection, and thereby conducting unauthorized actions or gaining unauthorized access to assets or records. Proper implementation of these controls separates duties in both procedure and practice, preventing a single user from having access or responsibility for tasks that should be completed by separate personnel for a strong control environment. Weaknesses in such controls can compromise the review processes and detective control procedures in applications, increasing the risk that user activities, especially for sensitive transactions, are not appropriately monitored and assessed.

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

- Access rights and responsibilities were not appropriately restricted to independent users and assigned in accordance with SoD policies.
- 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; for example, users were able to add, modify, and delete user access to the application, while also having access to process and modify production data.
- The completeness and accuracy of system and manually generated reports are not being verified by management responsible for reviewing these reports.

#### **(d) Security Management**

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

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

- Inherited and shared security controls were not regularly assessed for appropriateness, monitored, or tested to verify compliance.
- For systems that have IT processes, such as infrastructure hosting, managed by a service organization (e.g., DISA), not all SOC reports are not being properly reviewed for impacts of SOC findings as well as applicability of CUECs.
- There is an inconsistent integration and collaboration between functional organizations throughout the system consolidation lifecycle leading to a lack of a holistic understanding of risks and mitigations across the enterprise.

#### **(e) Interface Controls**

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

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

- System program management teams have not implemented an effective interface strategy and design
- Program management teams have not implemented effective interface processing procedures, which would include the assurance that:
  - Interfaces are processed completely, accurately, and only once in the proper period
  - Interface errors are rejected, isolated and corrected in a timely manner
  - Access to interface data and processes are properly restricted



## Recommendations:

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

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

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

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

- Access controls / user access / segregation of duties:
  - Implement monitoring and review controls for users with elevated access privileges.
  - Implement procedures to document (1) requests of access specific to system roles and permissions, (2) authorized justifications for access, and (3) appropriate approvals for said access.
  - Document and follow procedures related to user account management and segregation of duties, including the entire life cycle from access provisioning to recertification, inactivity restrictions, and termination procedures. Segregate roles and where conflicting roles are required or unavoidable, document business rationale and monitor activities of users.
  - Restrict user access to a single account and eliminate shared accounts.
  - Review access logs and perform follow-up investigation of potential security violations.
  - Implement strong password management policies.
  - Implement controls verifying the completeness and accuracy of management reports.
- Configuration management / change controls:
  - Develop appropriate configuration management policies and procedures.
  - Segregate developer access between development and production environments.
  - Document and retain adequate evidence of change requests, testing, and approvals.
  - Monitor the application, database(s), and operating system(s) for potentially unauthorized changes.
  - Implement controls verifying the completeness and accuracy of management reports.
  - Restrict access to application source code to only authorized users.



- Implement or leverage existing logging capabilities to produce and retain complete and accurate audit trails of changes to production code, application configurations, data directly modified by database accounts and key reports.
- Security Management:
  - Finalize the DAF Enterprise IT strategic plan to consistently implement overarching IT governance over IT strategic direction, financial and financial feeder system modernization, and enterprise-wide monitoring program for all application consolidations and data migration efforts.
  - Define and implement consistent procedures related to periodic security controls assessments and testing.
  - Prioritize and monitor POA&M progress, and test and monitor corrective actions.
  - Review applicable SOC reports and associated CUEC implementation. For those service organizations where a SOC report is not performed, implement and conduct appropriate oversight and monitoring over the execution of inherited controls.
- Interface controls:
  - Implement stronger systemic checks for completeness and accuracy of interface file processing, to include tracking and logging procedures and protection from unauthorized access.
  - Maintain and periodically review appropriate and comprehensive documentation covering all interfaces.
  - Document and follow procedures for performing interface error handling and correction.
- Data completeness and accuracy – applicable to all control areas:
  - Perform and retain documentation of procedures to verify the completeness and accuracy of data used for management review controls and reporting.

#### **IV. ACCOUNTS PAYABLE, EXPENSES AND ACCOUNTING FOR CONTRACT FINANCING PAYMENTS**

The following deficiencies aggregated into this material weakness:

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

The DAF GF has not fully demonstrated its integration and consideration of financial reporting risks that extend across multiple business processes, and its development and retention of adequate documentation of its acquisition, logistics, and accounting processes, and the completeness and accuracy of data from asset procurement through receipt, invoicing and payment. For example, this includes areas such as accounts payable (AP), contract financing payments (CFP), expenses, disbursements, obligations, contracting and key subprocesses from the procure to pay (P2P) and plan to stock business processes, including, but not limited to Vendor Pay, Mechanization of



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

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

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

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

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

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



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

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

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

**Recommendations:**

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

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



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

## V. MILITARY EQUIPMENT

Military Equipment (ME) assets are a sub-set of General Equipment. Aircraft and satellites represent the vast majority of the DAF GF's ME balance, which also includes aircraft pods, missiles, and mine-resistant ambush protected vehicles (MRAPs). The DAF GF uses the Reliability and Maintainability Information System (REMIS) as the accountable property system of record (APSR) for aerospace vehicles and MRAPs, while Reliability, Availability, Maintainability for Pods (RAMPOD) is the APSR for aircraft pods.

In FY23, the DAF GF continued to make notable updates and enhancements to the design and implementation of key financial reporting controls, particularly those related to the valuation of construction in progress (CIP). DAF continued to enhance the execution of financial management review controls related to ME account rollforwards and ongoing APSR data reviews to remediate period-end outstanding anomalies or variances.

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





## **(a) Lack of consistent and timely documentation of controls to value military equipment CIP**

### *Aircraft and Aircraft Modifications*

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

During our assessment of the Program Office reviews, we identified the following deficiencies which indicate ineffective control execution:

- Instances where the Program Office quarterly reviews were not completed timely prior to AFLCMC Center Level oversight review.
- Inconsistent documentation of review procedures performed to support key model inputs, particularly percentage complete, capitalization determination, and production schedule timing.
- Inability to provide timely support for questions or discrepancies identified during our testing of the MEV model.

While the AFLCMC Center Level oversight review control identified and addressed numerous errors or instances of incomplete documentation at the Program Office level, there were instances where certain key assumptions could not be sufficiently supported following the AFLCMC Center Level review.

### *Satellites*

Similar to AFLCMC, Space Systems Command (SSC) Program Offices are responsible for the updating of data and the ongoing maintenance of the valuation models for Satellite CIP. While AFLCMC has a single established oversight function, SSC has designed and implemented their oversight into two separate functions due to center structure and operations. This included the design and implementation of a CFO review for each designated mission area and a SSC/FM review over the application of these to a model.



During our assessment of the Program Office reviews, we identified the following deficiencies which indicate ineffective control execution:

- Inconsistent documentation of review procedures performed to support key model inputs, particularly capitalization determination and asset allocation methodologies.
- Inaccurate methods utilized to accurately support capitalization and estimated percent complete determinations.
- Inability to fully resolve questions or discrepancies identified during our testing of the MEV model.

While the SSC CFO and SSC/FM oversight and SAF/FMFA review controls identified and addressed numerous errors or instances of incomplete documentation at the Program Office level, there were instances where certain key assumptions could not be sufficiently supported following the oversight reviews. More specifically, due to the decentralized and manual compilation process utilized to update the Program Office MEV models, it was not always evident how errors identified during quarterly reviews or the DAF's inception-to-date analysis were corrected within the model and/or further assessed as to materiality.

**(b) Lack of supportable policy for Aircraft Modification useful life**

Modifications are considered separate assets to the base aircraft asset within REMIS, resulting in separately identifiable acquisition values, placed in service dates and useful lives. The DAF has not sufficiently assessed useful lives for its aircraft modifications, which generally either extend the useful life of an aircraft or enhance capabilities. While the DAF may utilize engineering estimates, the entity typically uses a general practice of one-half of the useful life of the base aircraft asset as their modification useful life. The DAF has not completed an analysis to support the appropriateness of this practice or obtained engineering estimates to support the modification useful lives currently being utilized. Similarly, the DAF has not assessed the impact of the modification useful life on the useful life of the base asset.

**(c) Insufficient controls over inventory management for Aircraft Pods**

The DAF has not completed its procedures to determine the completeness and accuracy of pods assets currently recorded in RAMPOD. The DAF has not sufficiently designed and/or implemented annual pod inventory controls, including for pods managed by DLA. We identified incomplete and/or unresolved annual pod inventory reconciliations, including instances of pods not included in RAMPOD as well as insufficient support for certain in-transit pods.

**Recommendations:**

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



- Continue to enhance and refine existing AFLCMC/SSC oversight review controls to:
  - Incorporate and evidence further consideration of the extent of review procedures performed. This should be particularly focused on those procedures evaluating key Program Office estimates and assumptions as well as those review procedures involving quantitative and qualitative expectations and judgments.
  - Further design incremental procedures to be performed at the oversight level to compensate for known Program Office control deficiencies, when applicable. Establish additional training to be provided on a continual basis to further enhance the Program Office personnel's understanding of the requirements for the creation and review of the MEV Models.
- Continue to enhance and communicate formalized review and documentation requirements for Program Office personnel to evidence procedures performed over the MEV models to support key assumptions, including those obtained from third parties, and complete updates and review procedures in a timely manner.
- Establish additional training to be provided on a continual basis to further enhance the Program Office personnel's understanding of the requirements for the creation and review of the MEV Models.
- Develop and provide a policy for modifications based on relevant guidance for estimation of useful life. Considerations should include the unique nature of various modifications on an aircraft (e.g., service life extensions, radar, communications).
- Evaluate the potential depreciation considerations for aircraft assets that have a net book value at the time of modification.
- Define the appropriate oversight function within AFLCMC and further design and implement preventative periodic monitoring controls over Program Offices to:
  - Ensure the timely entry of REMIS asset records and/or changes to key inputs.
  - Review the reasonableness and supportability behind the changes to key asset inputs prior to entry.
- As the DAF GF continues to refine the design and implementation of preventative controls over inputs to REMIS, consider evaluating the use of automated system changes or edit checks to aid in preventing potential anomalies from occurring.
- Enhance the design of pod inventory management controls and current policies to:
  - Maintain sufficient evidence of the execution of the annual inventory/reconciliation procedures, including pods held by others
  - Timely investigate and correct identified discrepancies
  - Accurately report transfer/movement of pods

## VI. OTHER GENERAL EQUIPMENT

The DAF GF's Other General Equipment (GE-Other) includes support equipment, vehicles, special tooling, special test equipment, general equipment held by others (e.g., contractors) and information technology hardware.



The following deficiencies aggregated into this material weakness:

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

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

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

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

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

Controls have not been implemented to fully reconcile balances being reported for GE-Other to the financial statements and identified variances have not been investigated or resolved. The DAF GF is currently unable to identify, analyze and report values for each sub-asset class comprising GE-Other. Additionally, the DAF GF has not fully developed or implemented the accounting and valuation methodologies set forth in SFFAS 6 or SFFAS 50, *Establishing Opening Balances for General Property, Plant, and Equipment* (SFFAS 50).

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

**Recommendations:**

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

- Continue to develop sufficient controls and policies around the DPAS APSR to consistently recognize, measure, and disclose equipment in accordance with SFFAS 6 and SFFAS 50.
- Continue efforts to identify the complete population of all GE-Other assets and corresponding validation efforts over the asset data being entered into DPAS.
- Perform reconciliations between the balances reported in DPAS and the general ledger. Take actions to resolve identified variances, if any.



- Perform accounting analyses to identify all transactions that require both budgetary and proprietary accounting.

## VII. OPERATING MATERIALS AND SUPPLIES

The majority of Operating Materials and Supplies (OM&S) is comprised of munitions, spare engines, uninstalled missile motors, OM&S held by others and other weapon system spare parts.

The following deficiencies aggregated into this material weakness:

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

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

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

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



- The DAF GF has not evaluated and/or fully documented its assessment of the following in accordance with relevant accounting standards, including:
  - Appropriateness of posting logic used to generate reports for financial reporting
  - Alignment of munition condition codes to USSGL accounts
  - Alignment of logistics supply categories to USSGL accounts
- The DAF GF lacks a centralized review and monitoring control over all physical inventory counts to ensure completeness, accuracy and timely completion. The DAF GF's physical inventory policy responds to general asset safeguarding, but does not respond to the risk of material misstatements to the financial statements at year-end as it does not contain rollforward procedures from the last physical inventory count to the year-end.

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

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

Additionally, the DAF GF does not perform reconciliations between OM&S proprietary and corresponding budgetary transactions.

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

The DAF GF has not implemented nor applied the costing and valuation methodologies set forth in SFFAS 3, *Accounting for Inventory and Related Property* (SFFAS 3), or SFFAS 48, *Opening Balances for Inventory, Operating Materials and Supplies, and Stockpile Materials* (SFFAS 48). The DAF GF has not demonstrated a systemic capability to integrate OM&S actual historical costs, including purchase, production and transportation costs, and calculate moving average cost (MAC) in accordance with SFFAS 3 across its acquisition, logistical and financial (both general ledger and payment) systems. The DAF GF also lacks policies and procedures for the proper valuation of excess, obsolete, and unserviceable OM&S and repair allowances.

#### **Recommendations:**

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

- Evaluate and redesign controls where roles and responsibilities of the control owner include a combination of authority, custody, and accounting to enforce segregation of duties.
- Identify, assess and respond to the financial statement risks associated with OM&S system migrations and sustainment. Specifically, the DAF GF should analyze and document APSR



systems' logic to validate TFM compliance for logistics transactions that result in financial transactions.

- Establish criteria, as well as policies and procedures on how to implement the proper use of Logistic Supply Condition Codes and Logistic Supply Categories impacting financial reporting.
- Document end-to-end process flows including the documentation of controls, applications and related business processes that are aligned to the flow of financial information from initiation to reporting. This flow should contain an accurate and complete population of events that result in financial transactions and include all relevant applications and interfaces between systems. This effort requires enhanced coordination between financial and logistics stakeholders to identify, assess and respond to the impact of logistics transactions on information used for financial reporting.
- Develop and implement APSR to general ledger reconciliations. When variances are identified, take actions to resolve the variances.
- Perform accounting analyses to identify all transactions that require both budgetary and proprietary accounting.
- Update policies to reflect the entity's accounting position for OM&S accounting methods. Complete the analysis of OM&S accounting treatment for consumption vs. purchases method for the remaining asset classes that have not implemented the purchases method.
  - Should the consumption method be adopted, establish a formalized plan and timeline for completion of efforts for those OM&S assets to account for inventory and related property under SFFAS 3. This plan should include the systemic components and controls necessary to properly integrate from an internal control over financial reporting perspective and calculate MAC that reconcile to the APSR acquisition, logistics, and financial (general ledger and payment) system transactions.
- Complete any open efforts for beginning balance valuation in accordance with SFFAS 48 and any related implementation guidance and ensure that purchase, production and transportation costs are accumulated and supporting documentation is available and retained.
- Institute review and monitoring controls to ensure physical inventory counts are monitored for completeness, accuracy and timely completion. Furthermore, implement and document alternative procedures to rollforward the periodic physical inventory counts to year end.

## **VIII. PROPERTY AND MATERIALS HELD BY OTHERS**

The DAF GF has shared service arrangements with other branches of the military, other defense organizations and commercial contractors to hold inventory and equipment to avoid duplication of



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

The following deficiencies aggregated into this material weakness:

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

The Army performs munitions inventory management services for approximately a third of the entity's total munitions. The DAF GF utilizes TICMS, which provides for the DAF GF to receive transactional-level quantity updates from Army's Logistics Modernization Program (LMP) system via a standardized DLMS interface. TICMS has the capability to detect mismatches in inventory quantity for a given stock number at a Department of Defense Activity Address Code (DoDAAC) level via a live Inventory Mismatch Report. However, the DAF GF has not fully developed controls around the evaluation and resolution of the variances identified through this reconciliation process between TICMS and LMP. In addition, the DAF GF has not developed a comprehensive asset level reconciliation process for all National Stock Number and DoDAACs between TICMS and LMP.

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

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

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

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

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

Government property in the custody of contractors includes government furnished equipment (GFE) and contractor-acquired property. GFE is included within GE-Other and contractor-acquired property can either be OM&S or GE-Other. The DAF GF lacks policies and procedures to sufficiently maintain accountability for, and to financially report, property in the custody of contractors. The DAF GF is unable to provide a complete listing of GFE and contractor-acquired





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

Additionally, the DAF GF lacks sufficient oversight and monitoring controls over contractor inventory control points (C-ICP). C-ICP represents the portion of DAF GF-owned OM&S assets that are maintained at commercial entity locations for wholesale distribution. The DAF GF has not developed sufficient policies and internal controls to identify, validate and financially report all C-ICP programs and is unable to determine the materiality of C-ICP programs currently not reporting. At a program level, the DAF GF has not developed oversight and monitoring controls to evaluate and assess contractor executed procedures that have a financial impact, such as recording new receipts, beginning balances, MAC calculations, updating condition codes and performing periodic physical inventory counts.

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

The JSF program is a joint, multinational acquisition program intended to develop and field a family of next-generation strike fighter aircraft for the DAF GF, Navy and Marine Corps, as well as other international partners and foreign military sales customers. As one of the program participants, the DAF GF contributes a percentage of the annual procurement costs to the global pool of assets, including spares and equipment. The DAF GF currently does not report an asset on the balance sheet to represent this future benefit. To address this issue, the DAF GF is working with the JSF Program office to develop a formalized process for accounting and reporting.

**Recommendations:**

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

- Improve oversight of OM&S managed by Army and DLA:
  - Munitions
    - Continue to design and implement oversight and monitoring controls, specifically munitions balances posted by service providers, including end-to-end process flow, controls and third party monitoring controls impacting internal control over financial reporting to validate the completeness and accuracy of balances posted.
    - Design and implement comprehensive asset level reconciliation controls for all NSNs and DoDAACs between Army LMP and TICMS.
  - Supplies
    - Design and implement internal controls related to the review of DLA Managed Inventory balances. These should include oversight and monitoring controls to assess the completeness and accuracy of information reported.



- Develop a process to routinely monitor variances between DLA and the DAF GF and determine a resolution.
  - Evaluate and document its assessment of controls performed by DLA and all DLA functions material to the DAF GF's internal control environment. In addition, develop third party monitoring controls in response to service organization risks.
- Improve oversight and monitoring of GFP and contractor-acquired property:
  - Complete actions to obtain complete populations of property held by contractors.
  - Develop sufficient oversight and monitoring controls to effectively monitor contractors, including the development of reconciliations between the DAF GF and contractor records. In addition, these oversight and monitoring controls should be designed to evaluate and assess contractor executed procedures that have a financial impact and are important to internal control over financial reporting, such as recording new receipts, beginning balances, MAC calculations, updating condition codes and performing periodic physical inventory counts.
- Insufficient oversight and monitoring of the accounting for JSF spare parts and equipment:
  - Continue to work with the JSF Program office to develop and implement policies and procedures to properly account for, monitor and report its share of JSF assets.

## IX. REAL PROPERTY

Real Property consists of land, buildings, structures and linear structures. Real property asset information and activity (e.g., acquisitions, transfers and disposals) are recorded within the APSR by the installation Real Property Office (RPO) as well as other applicable organizations.

The following deficiencies aggregated into this material weakness:

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

The complete end-to-end processes, procedures and key controls for portions of the real property process are not sufficiently assessed and documented. The DAF GF's PCM lacks policies and procedures to sufficiently identify the financial reporting risks and corresponding controls. This includes, but is not limited to, an insufficient assessment of relevant IT applications and tools, insufficient oversight and monitoring of third parties, as well as the lack of sufficiently designed and executed controls over the completeness and accuracy of data used in execution of key controls.

### **(b) Insufficient controls over financial reporting of real property**

Sufficient controls have not been designed and/or implemented to reconcile real property balances and activity in its APSR to the financial statements. Additionally, the DAF GF has not fully



assessed the posting logic for various financial and non-financial data elements utilized by NexGen-IT in the generation of financial amounts.

**(c) Insufficient review and monitoring of APSR data**

Assets have various characteristics recorded in the APSR based upon the nature and category of the asset. Although some data elements are non-financial in nature, much of this information has a direct or indirect impact on the DAF GF's financial statements and the entity's ability to implement SFFAS 50. SFFAS 50 allows for the Plant Replacement Value (PRV) to be used as a starting point for establishing replacement cost, which is one of the established alternative valuation methods under the standard. The DAF GF has not fully implemented sufficient review and monitoring controls over the completeness and accuracy of key data fields contained within its APSR that impact PRV (e.g., category code, unit of measure), depreciation calculations (e.g., placed in service dates) or the determination of rights and obligations. Air Force Civil Engineer Center/CIT-A is implementing a Data Quality Monitoring program to centralize the monitoring process. This includes the development of tools to automate the review of various Real Property Information Model (RPIM) data elements in accordance with defined requirements. The DAF GF is currently developing a process for identification, communication and timely resolution of any anomalies identified as part of this review; however, this process is not yet complete.

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

*Buildings and Structures*

Enhanced controls are needed to validate that the APSR contain a complete and accurate listing of all buildings and structures. During FY23, the DAF GF worked to enhance its controls over existence and completeness, including the timely update of the APSR; however, this process is not yet complete.

The DoD Financial Management Regulation (FMR) requires the installation host to report Real Property assets on their financial statements. Installation hosts are Military Departments (i.e., the DAF GF, as well as Army and Navy) or the Washington Headquarters Services (WHS) on whose installation a Real Property asset is located. The DAF GF is still in the process of performing reconciliations and recording the applicable transfers with the other Military Departments and WHS, as applicable.

*Linear Structures and Land*

While the DAF GF has continued to develop its planned corrective actions, the entity has not completed its assessment as to whether its APSR contains a complete and accurate population of linear structures. Additionally, under SFFAS 50, entities have an option to exclude land and land rights from the general property, plant and equipment balance and instead disclose specific acreage



information. The DAF GF has not completed its acreage reconciliation efforts as controls have not yet been fully finalized, communicated or implemented across all installations.

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

The two primary construction agents (CA) used by the DAF GF to manage military construction (MILCON) of real property assets are U.S. Army Corps of Engineers (USACE) and the Naval Facilities Engineering Systems Command (NAVFAC). During the construction phase of the project, the CAs track and report incurred construction costs to the DAF GF. The DAF GF has not developed sufficient controls to reconcile its data with that provided by the CAs. The DAF GF also has not evaluated the completeness and accuracy of CIP categories other than MILCON.

The lack of sufficient controls over CIP prevents full implementation of SFFAS 6 which inhibits the DAF GF's ability to make an unreserved assertion that its balances comply with SFFAS 6 prospectively and SFFAS 50 retrospectively.

**Recommendations:**

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

- Identify the significant financial-related risks that are posed to the financial statement line items, relevant assertions, and general ledger accounts that comprise the Real Property cycle.
  - Document the process flow of transactions that generate those financial risks and the process owners responsible for assessing the risks.
  - Identify and document the corresponding key controls that address those financial risks to accurately account and report the financial statement line item.
- Enhance integration between SAF/FMFA and the RP functional community in the assessment of current posting logic gaps.
- Assess if additional updates to policy or guidance are needed to clarify the respective roles and responsibilities of all applicable civil engineering (CE) parties (i.e., RPO, Engineering Flight, Operations Flight, Base Civil Engineer) and other parties (e.g., USACE) for the timely and accurate identification, communication and subsequent reporting of RP asset acquisitions and dispositions.
- As the accurate computation of PRV is dependent on APSR data, the DAF GF should monitor the completeness and accuracy of Real Property asset data and key inputs within the APSR.
- Continue to develop a rollforward/reconciliation process and related controls to monitor asset balances and activity period-over-period to:
  - Validate whether assets reported in subledger systems agree to the amounts reported in the financial statements,
  - Identify anomalous activity and balances, and
  - Support other financial reporting objectives.



- Develop controls to assess the completeness and accuracy of transfers in and out to comply with the RP financial reporting policy.
- Develop procedures and internal controls at the installation level to effectively establish and subsequently monitor the use of various technology and data sources to aid in the identification and reconciliation of underground linear structure assets.
- Ensure the appropriate tools and models are developed to assist in the accurate measurement of land acreage. Consider the impacts, if any, presented by SFFAS 59, *Accounting and Reporting of Government Land*, that relate to the accounting treatment of land.
- Reconcile real property construction activity reported by constructions agents to the DAF GF expenditure data.
- Evaluate current processes to determine appropriate actions needed for accumulating historical cost in accordance with SFFAS 6.

### **Significant Deficiencies**

## **X. CONTINGENT LEGAL LIABILITIES**

The DAF GF is a party in various administrative proceedings, legal actions and other claims awaiting adjudication that may result in settlements or decisions adverse to the entity. The DAF GF currently has twenty-two reporting offices that are organized under seven divisions. Each of these reporting offices are responsible for assessing each claim filed against the DAF GF and providing the necessary information to the Air Force Judge Advocate (AF/JA) Headquarters. While the DAF GF has implemented a GAAP-compliant methodology for the measurement and reporting of contingent legal liabilities, continued enhancements are needed to the entity's processes and controls to ensure that the population of claims being assessed is complete and accurate.

We identified the need for enhanced processes and controls to:

- Identify track, record, and support a complete and accurate population of Administrative Tort Claims throughout the claim lifecycle.
- Track and monitor claims filed at the installation level, which generally represent claims for amounts below \$25,000.
- Verify the accuracy of the data elements recorded in the case tools/systems, Reporting Office Unit Report of Contingent Liability (URCL) and Consolidated Quarterly Contingent Legal Liability Report (CLLR) (e.g., date opened/closed, claim amount, case status, etc.).
- Track and monitor settlements paid and awaiting payment by the U.S. Treasury Judgment Fund.



## Recommendations:

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

- Continue to evaluate the design and future implementation of the Contingent Legal Case Management System (CL CMS) to centralize and further enhance the entity's processes and procedures for recording and reporting legal cases/claims across the organization.
- Continue to enhance the entity's assessment over the current end-to-end business process and related key controls. This may include, but is not limited to, the following:
  - The identification, recording, and tracking of claims/cases filed against the entity throughout its lifecycle (e.g., progression of the claim/case lifecycle that changes the status/information and subsequent evaluation or treatment of the claim/case).
  - Evaluation of the process performed by the installation level personnel, communication/coordination between AF/JA and the installation to determine responsible party, and subsequent recording and reporting of these claims/cases.
- Continue to enhance the periodic assessment and monitoring over the population of administrative tort claims to ensure a complete, accurate, and consistent recording of the population.
- Continue to develop and execute applicable analyses and reconciliations to ensure consistent and accurate reporting of the Judgment Fund payments and related liabilities.

## XI. ENVIRONMENTAL AND DISPOSAL LIABILITIES

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

The complete end-to-end processes, procedures, and key controls for portions of the environmental and disposal liabilities (E&DL) process are not accurately and/or fully documented. For example, the DAF GF has not designed sufficient controls for the review of third-party inputs that are used in the determination of a portion of the liability.

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

The DAF GF estimates E&DL related to the restoration and other environmental clean-up efforts of real property assets. Restoration Account (ERA) Liabilities represent the future costs associated with identifying, investigating, remediating, and monitoring environmental contaminations within the United States, including program management costs. Other Environmental Liabilities (OEL) is comprised of the four remaining items: Environmental Corrective Action (ECA), Environmental Response at Operational Range (EROR), Environmental Closure Requirements (ECR) and Asbestos. Restoration and OEL estimates are triggered by two different activities: asset-driven or event-driven. ECR and Asbestos fall under asset-driven liabilities which are reported under OEL



within the financial statements. Asset-driven liabilities are based on the characteristics of a particular real property asset and, therefore, are heavily dependent on information from the real property APSR to determine the completeness of the population for which a liability needs to be determined. As discussed in the real property material weakness above, the DAF GF's APSR may not capture all real property assets. In addition to the reliance on the real property APSR, the DAF GF lacks sufficient internal cost data to support the development of the Asbestos estimate resulting in the reliance on data generated from other comparable entities. The DAF GF has also not fully developed or implemented estimation methodologies for all asset categories within ECR or for Asbestos. For event-driven liabilities, the DAF currently lacks a sufficient control process to support a complete population of Restoration sites that require an environmental liability. As a result, the associated E&DL may not consider a complete population of the associated liability.

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. While the DAF GF provided documentation for remaining ME/WP categories not previously received, due to timing there was not sufficient time to conclude on the completeness of those categories. .

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

Additional assessments are performed for Restoration sites at year-end that have had significant changes in site conditions or required remedies since the original cost estimate was developed at June 30<sup>th</sup>. Restoration programs only conduct the rollforward process at the individual site-level. Therefore, there is not sufficient consideration of fluctuations or significant changes that may occur at the project, installation, and/or regional levels, that in aggregate, could have a material impact at the program-wide level.

**(d) Lack of sufficient processes to compare actual contract costs to recorded estimates**

The DAF GF often utilizes the Remedial Action Cost Engineering and Requirements (RACER) software to forecast costs for contaminated sites including Base Realignment and Closure, Restoration and OEL that require investigation and/or clean-up. RACER is a third-party software operated and maintained by AECOM Technical Services, Inc. (AECOM) through a contract with USACE. AECOM is tasked with maintaining and updating the multiple different databases that RACER stores including, but not limited to, technology/assembly costs, per diem rates, area cost factors, and inflation rates.

The RACER Verification, Validation, and Accreditation (VV&A) process is performed on a periodic basis to review key factors impacting the estimation of clean-up activities for various environmental sites. This process involves the review and input of the various Department of Defense (DoD) users in addition to the DAF GF. While progress has been made to formalize



certain policies and procedures around the verification process, the DAF GF has not sufficiently designed and/or implemented controls to fully assess the validation portion of the VV&A process over the effectiveness and suitability of RACER when compared to actual clean-up costs. The DAF also has not sufficiently performed a service organization risk assessment or implemented the appropriate monitoring and oversight controls, which may impact the completeness and accuracy of RACER estimated clean-up activities within DAF GF's E&DL balance.

The DAF GF has not completed the development and implementation of a process to compare and assess actual costs to recorded estimates for reasonableness for Restoration and OEL. While the DAF GF demonstrated progress by developing plans for a retrospective review for Restoration, further analysis and evaluation of key factors are necessary given the complexity and unique nature of the applicable populations. These factors include, but are not limited to, the various types of sites and related technologies, the variance threshold, and the applicable sample sizes and precision used to evaluate the actual to estimates review.

### **Recommendations:**

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

- Insufficient procedures to record all E&DL—real property assets:
  - Monitor the remedial actions taken to address the completeness and accuracy of real property APSR data.
  - Develop and refine processes to accumulate sufficient and reliable internal data to support the development of the related E&DL estimate across all real property assets.
  - Continue efforts to develop and implement applicable estimation models and methodologies for ECR and Asbestos. Establish the appropriate controls to prevent or detect and correctly identify risks of misstatement across all components of ECR and Asbestos on a timely basis.
- Insufficient procedures to record all E&DL—ME/WP:
  - Obtain and assess data to support the development of the related E&DL associated to each major asset category.
  - Evaluate the appropriateness of current E&DL cost estimation models to accurately estimate environmental disposal costs.
- Further develop existing rollforward controls to consider the materiality of changes in estimates for Restoration sites both individually and in the aggregate.
- Continue to further evaluate and analyze contract cost information to effectively develop and implement a complete process to compare actual contract costs to E&DL estimates as computed by RACER or any other cost estimation software.
- Continue to enhance the VV&A process to ensure validation activities are performed to verify that RACER produced estimates are accurate and suitable for continued used in estimating the environmental liability. The DAF should design sufficient controls over the service





organization and IT environment risks when using RACER, which could include the requesting an execution of a SOC report and DAF implementation of CUECs.

## **XII. REIMBURSABLE PROGRAMS**

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

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

### **(b) Insufficient controls over financial reporting of reimbursable agreements**

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

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

### **(c) Lack of sufficient reviews over reimbursable activity**

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

- Lack of organization-wide controls to monitor and review reimbursable transactions occurring at the base level, including the consistency in execution of those processes.
- Reimbursable codes in the Job Order Cost Accounting System II (JOCAS) are not regularly reviewed against updated DoD guidance. This could lead to the DAF GF either over- or under-charging a customer depending on whether the costs are reimbursable.
- Lack of timely identification and action to resolve stale open reimbursable orders.



- Insufficient documentation supporting the review of receipt and acceptance for goods and services when performed in conjunction with a reimbursable order to ensure customer billings are correct.

### **Recommendations:**

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

- Lack of sufficient documentation of accounting policies, procedures and controls:
  - Identify the risks that are posed to the financial statement line items, relevant assertions, and general ledger accounts that comprise disbursements, billings and collections within the RBAE Grantor and Acceptor cycles. Based on the risks, the DAF GF should perform the following:
    - Document the process flow of transactions, including the IT systems, that generate those risks and the process owners responsible for assessing the risks.
    - Identify and document the corresponding key controls that address those risks to adequately account and report the financial statement line item, including the cross-cutting controls that are shared with other areas (e.g., FBwT).
  - Develop an adequate understanding of the processes and relevant controls performed and implemented by service organizations and the scope of any related SOC reports. Implement appropriate monitoring and oversight controls, including necessary CUECs.
- Insufficient controls over financial reporting of reimbursable agreements:
  - Evaluate the causes for why unfilled customer orders and obligations created to fulfill those orders are not in balance. Depending on the causes identified, policies and procedures may need to be updated.
    - Minimize time lags between the disbursement of funding to meet the contractual obligations and the billing/collection from the customer.
    - Return funding to the customer promptly if the DAF GF knows the funding will not be fully utilized.
    - Properly record reimbursable obligations initially as reimbursable budget authority rather than direct budget authority, in order to prevent reclassifying at a later date.
  - Develop policies and procedures to eliminate intra-fund transactions as appropriate.
- Lack of sufficient reviews over reimbursable activity:
  - Develop management review controls that adequately monitor activity occurring at the base level to evidence controls are consistently executed across the DAF GF as part of both RBAE processes. Identify, design, and document any additional controls that should be in place for all processes required to comply with relevant accounting standards including financial statement line items and notes to the financial statements.
  - Enhance the current process to determine stale balances are being monitored and ensure customers are billed and collected from in a timely manner.



- Develop or update policies to sufficiently support whether goods provided, or services performed, satisfy the criteria of the order and include evidence of receipt and acceptance for the expenses incurred.



Ernst & Young LLP  
1775 Tysons Boulevard  
Tysons, VA 22102

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

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

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

We were engaged to audit, in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*) and the provisions of Office of Management and Budget (OMB) Bulletin No. 24-01, *Audit Requirements for Federal Financial Statements*, the financial statements of the Department of the Air Force General Fund (the DAF GF), which comprise the consolidated balance sheet as of September 30, 2023, and the related consolidated statements of net cost and changes in net position and combined statement of budgetary resources for the year then ended, and the related notes (collectively referred to as the “financial statements”) and have issued our report thereon dated November 8, 2023. Our report disclaims an opinion on the financial statements because the DAF GF continues to have unresolved accounting issues and material weaknesses in internal controls that cause the DAF GF to be unable to provide sufficient evidential support for complete and accurate financial statements on a timely basis.

### **Report on Compliance and Other Matters**

In connection with our engagement to audit the financial statements, we performed tests of the DAF GF’s compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statements as well as the requirements referred to in the Federal Financial Management Improvement Act of 1996 (FFMIA). However, providing an opinion on compliance with those provisions was not an objective of our engagement, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and the provisions of OMB Bulletin No. 24-01, as described below. Additionally, if the scope of our work had been sufficient to enable us to express an opinion on the financial statements, other instances of noncompliance or other matters may have been identified and reported herein.

Our Report of Independent Auditors on Internal Control over Financial Reporting dated November 8, 2023 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.



## FFMIA

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

### (a) Noncompliance with federal financial management system requirements

As referenced in the Fiscal Year (FY) 2023 DAF GF Statement of Assurance, the DAF GF identified that financial systems and financial portions of mixed systems do not substantially meet the requirements of FFMIA or OMB Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control* (Circular A-123) Appendix D.

EY also identified this material weakness as part of the Financial Information Systems material weakness, contained in the Report of Independent Auditors on Internal Control over Financial Reporting, where we identified noncompliance with federal financial management system requirements for multiple systems. Deficiencies identified include those associated with security management, access controls/user access, configuration management/change controls, segregation of duties 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 2023 DAF GF Statement of Assurance and Note 1 to the financial statements, the DAF GF identified that the financial systems and financial portions of mixed systems do not allow the DAF GF to comply with applicable federal accounting standards, including not being able to collect and record financial information on an accrual accounting basis. EY also identified noncompliance with federal accounting standards during our testing, which was included in our Report of Independent Auditors on Internal Control over Financial Reporting.

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

As referenced in the FY 2023 DAF GF Statement of Assurance, the DAF GF identified that the design of financial systems and financial portions of mixed systems do not allow the DAF GF to comply with the USSGL at the transaction level. EY also identified noncompliance with USSGL posting logic during our testing, which was included in our Report of Independent Auditors on Internal Control over Financial Reporting.



## FMFIA

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

The DAF GF has not fully implemented a framework to evidence that they are in compliance with certain aspects of OMB Circular A-123, which implemented FMFIA. The DAF GF provided the FY 2023 Statement of Assurance and as reported in the Report of Independent Auditors on Internal Control over Financial Reporting certain aspects related to entity level controls have not been fully identified, implemented, or operating effectively. Based on the evidence received, EY assessed that the DAF GF has implemented an OMB Circular A-123 testing framework and strategy; however, the DAF GF has not fully evaluated and supported the extent of testing and review performed to meet the reliability of financial reporting requirements of FMFIA.

### ***DAF GF's Response to Findings***

*Government Auditing Standards* requires the auditor to perform limited procedures on the DAF GF's response to the findings identified in our engagement and described in the accompanying letter (Management Response Letter as listed in Table of Contents) dated November 8, 2023. The DAF GF's response was not subjected to the other auditing procedures applied in the engagement to audit the financial statements and, accordingly, we express no opinion on the response.

### ***Purpose of this Report***

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



### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 8, 2023 on our consideration of the DAF GF's internal control over financial reporting. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and the results of that testing, and not to provide an opinion on the effectiveness of the DAF GF's internal control over financial reporting. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the DAF GF's internal control over financial reporting.

*Ernst + Young LLP*

November 8, 2023



**DEPARTMENT OF THE AIR FORCE**  
**WASHINGTON DC**

**OFFICE OF THE ASSISTANT SECRETARY**

SAF/FM  
1130 Air Force Pentagon  
Washington, DC 20330-1130

8 November 2023

Mr. Timothy Winder  
Partner, Ernst & Young LLP  
1775 Tysons Blvd  
Tysons, VA 22102

Dear Mr. Winder:

The Department of the Air Force reviewed the Independent Auditor Report prepared for the Fiscal Year 2023 General Fund financial statements and acknowledges and concurs with your issuance of a disclaimer of opinion. We appreciate your insights and constructive feedback regarding the audit findings, which are included in your reports of *Internal Control Over Financial Reporting and Compliance and Other Matters*. We remain committed to improving our financial practices and business systems and will leverage both your recommendations and our lessons learned to continue refining our remediation strategy and enhancing our internal control environment.

The Department of the Air Force has completed six full financial statement audit cycles and continues to make significant progress in remediating internally and externally identified deficiencies. In response to your findings, our teams developed corrective action plans and management leveraged Integrated Master Schedules to monitor remediation progress to quickly identify and elevate risks to leaderships' attention, helping the Department achieve our Fiscal Year 2023 audit remediation objectives. These efforts coupled with prioritizing downgrading multiple material weaknesses, positions the Department of the Air Force to remain among the top Military Services in the annual Department of Defense Congressional Audit Rankings Report.

For Fiscal Year 2023, the Department of the Air Force continued to align our efforts with the Secretary of Defense's audit priorities. We positioned our Fund Balance with Treasury material weakness for a successful downgrade. Reconciling our checkbook with the Department of Treasury is key in boosting the auditability of our balance sheet. It will improve transparency with the American taxpayers and provide visibility into the funds available to support the warfighter. The Department of the Air Force is also continuing efforts to establish user access controls by onboarding prioritized systems to an Identity, Credential, and Access Management solution and working to close high priority access-related Notices of Findings and Recommendations.





The complexity of our Information Technology environment continues to pose significant cybersecurity, data quality, and interactivity challenges. However, the Department of the Air Force is tackling these challenges head on by pushing forward with our Interface and Interoperability initiatives, which are aimed at identifying integration gaps and developing short term process improvements and long-term strategies that will not only help modernize our systems but help accelerate auditability.

The United States Space Force is leveraging much of the United States Air Force's infrastructure and therefore is inheriting many of its challenges. Additionally, the transfer of the Space Development Agency to the United States Space Force in Fiscal Year 2023 presents new accounting and internal control challenges due to its unique business model and acquisition strategies. With space capabilities being a vital piece to an integrated deterrence strategy, the Department of the Air Force will continue to collaborate with the United States Air and Space Forces to sufficiently address these challenges as the United States Space Force continues to grow and evolve.

The annual financial statement audit remains a vital enabler of the Department's financial transformation, which will preserve military advantage, support our warfighters, and increase accountability to Congress and the public. We remain confident that current and future audit remediation efforts will translate into operational efficiencies, enhanced data integrity, and added transparency. We look forward to continued collaboration on our audit journey.

Sincerely,

Carlos Rodgers  
Principal Deputy Assistant Secretary  
(Financial Management and Comptroller)

# DEPARTMENT OF THE AIR FORCE WORKING CAPITAL FUND

## (UNAUDITED)

The DAF WCF principal statements and related notes summarize financial information for the DAF WCF for the FY ended September 30, 2023 and are presented on a comparative basis with information previously reported for the FY ended September 30, 2022. 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, 2023 and 2022, 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, 2023 and 2022. 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, 2023 and 2022.

### COMBINED STATEMENTS OF BUDGETARY RESOURCES

The Combined Statements of Budgetary Resources present the budgetary resources available to the DAF WCF during FYs 2023 and 2022, the status of these resources as of September 30, 2023 and 2022, and the net outlays of budgetary resources for the FYs ended September 30, 2023 and 2022.



USAF Staff Sgt. Andrew Flint and Airman 1st Class Andrea Medranda, 37th Airlift Squadron loadmasters, sit on a C-130J Super Hercules ramp during a simulated cargo drop during a Hispanic heritage flight over Germany. In celebration of National Hispanic Heritage Month, an all-Hispanic crew including the loadmasters, pilots, maintainers and medical personnel participated in an aeromedical flight training sortie, providing real-world aeromedical evacuation practice.  
—Photo: USAF Senior Airman Edgar Grimaldo

# DEPARTMENT OF THE AIR FORCE WORKING CAPITAL FUND

## CONSOLIDATED BALANCE SHEETS

AS OF SEPTEMBER 30 (AMOUNTS IN THOUSANDS)	2023 CONSOLIDATED (UNAUDITED)	2022 CONSOLIDATED (UNAUDITED)
<b>ASSETS</b>		
<b>Intragovernmental</b>		
Fund Balance with Treasury (Note 3)	\$ 1,088,630	\$ 1,332,050
Accounts Receivable, Net (Note 4)	835,659	743,212
<b>Total Intragovernmental</b>	<b>\$ 1,924,289</b>	<b>\$ 2,075,262</b>
<b>Other than Intragovernmental</b>		
Accounts Receivable, Net (Note 4)	\$ 2,989	\$ 2,749
Inventory and Related Property, Net (Note 5)	28,869,557	27,915,231
General Property, Plant, and Equipment, Net (Note 6)	1,006,669	957,973
Advances and Prepayments (Note 7)	428,837	328,839
Other Assets (Note 7)	188	188
<b>Total Other than Intragovernmental</b>	<b>\$ 30,308,240</b>	<b>\$ 29,204,980</b>
<b>Total Assets</b>	<b>\$ 32,232,529</b>	<b>\$ 31,280,242</b>
<b>LIABILITIES</b>		
<b>Intragovernmental</b>		
Accounts Payable	\$ 265,287	\$ 166,036
Other Liabilities (Note 10)	47,977	63,329
<b>Total Intragovernmental</b>	<b>\$ 313,264</b>	<b>\$ 229,365</b>
<b>Other than Intragovernmental</b>		
Accounts Payable	\$ 481,028	\$ 613,111
Federal Employee and Veteran Benefits Payable (Note 9)	183,575	180,301
Advances from Others and Deferred Revenue (Note 10)	224,727	171,842
Other Liabilities (Note 10)	289,608	290,786
<b>Total Other than Intragovernmental</b>	<b>\$ 1,178,938</b>	<b>\$ 1,256,040</b>
<b>Total Liabilities</b>	<b>\$ 1,492,202</b>	<b>\$ 1,485,405</b>

# DEPARTMENT OF THE AIR FORCE WORKING CAPITAL FUND

## CONSOLIDATED BALANCE SHEETS CONTINUED

AS OF SEPTEMBER 30 (AMOUNTS IN THOUSANDS)	2023 CONSOLIDATED (UNAUDITED)	2022 CONSOLIDATED (UNAUDITED)
<b>NET POSITION</b>		
Unexpended Appropriations - Funds Other than Dedicated Collections	\$ 31,759	\$ 42,694
<b>Total Unexpended Appropriations (Consolidated)</b>	<b>\$ 31,759</b>	<b>\$ 42,694</b>
Cumulative Results of Operations - Funds Other than Dedicated Collections	\$ 30,708,568	\$ 29,752,143
<b>Total Cumulative Results of Operations (Consolidated)</b>	<b>\$ 30,708,568</b>	<b>\$ 29,752,143</b>
<b>Total Net Position</b>	<b>\$ 30,740,327</b>	<b>\$ 29,794,837</b>
<b>Total Liabilities and Net Position</b>	<b>\$ 32,232,529</b>	<b>\$ 31,280,242</b>

The accompanying notes are an integral part of these statements.

# DEPARTMENT OF THE AIR FORCE WORKING CAPITAL FUND

## CONSOLIDATED STATEMENTS OF NET COST

AS OF SEPTEMBER 30 (AMOUNTS IN THOUSANDS)	2023 CONSOLIDATED (UNAUDITED)	2022 CONSOLIDATED (UNAUDITED)
<b>PROGRAM COSTS</b>		
Operations, Readiness, & Support	\$ 13,985,329	\$ 12,805,033
<b>Gross Costs</b>	<b>\$ 13,985,329</b>	<b>\$ 12,805,033</b>
(Less: Earned Revenue)	(14,554,574)	(13,497,526)
<b>Net Cost of Operations</b>	<b>\$ (569,245)</b>	<b>\$ (692,493)</b>

The accompanying notes are an integral part of these statements.

# DEPARTMENT OF THE AIR FORCE WORKING CAPITAL FUND

## CONSOLIDATED STATEMENTS OF CHANGES IN NET POSITION

FOR THE FISCAL YEAR ENDED SEPTEMBER 30 (AMOUNTS IN THOUSANDS)	2023 CONSOLIDATED (UNAUDITED)	2022 CONSOLIDATED (UNAUDITED)
<b>UNEXPENDED APPROPRIATIONS</b>		
Beginning Balances	\$ 42,694	\$ 42,105
<b>Beginning Balances, as Adjusted</b>	42,694	42,105
Appropriations Transferred In/Out	80,448	77,453
Appropriations Used	(91,383)	(76,864)
<b>Net Change in Unexpended Appropriations</b>	\$ (10,935)	\$ 589
<b>Total Unexpended Appropriations, Ending Balance</b>	\$ 31,759	\$ 42,694
<b>CUMULATIVE RESULTS OF OPERATIONS</b>		
Beginning Balances	\$ 29,752,143	\$ 28,650,772
<b>Beginning Balances, as Adjusted</b>	\$ 29,752,143	\$ 28,650,772
Budgetary Financing Sources:		
Appropriations Used	91,383	76,864
Non-Exchange Revenue	43	24
Transfers In/Out without Reimbursement	2,302	116,452
Imputed Financing	293,484	215,563
Other	(32)	(25)
<b>Total Budgetary Financing Sources</b>	\$ 387,180	\$ 408,878
Net Cost of Operations	(569,245)	(692,493)
<b>Net Change in Cumulative Results of Operations</b>	\$ 956,425	\$ 1,101,371
<b>Cumulative Results of Operations, Ending</b>	\$ 30,708,568	\$ 29,752,143
<b>Net Position</b>	\$ 30,740,327	\$ 29,794,837

The accompanying notes are an integral part of these statements.

# DEPARTMENT OF THE AIR FORCE WORKING CAPITAL FUND

## CONSOLIDATED STATEMENTS OF BUDGETARY RESOURCES

FOR THE FISCAL YEAR ENDED SEPTEMBER 30 (AMOUNTS IN THOUSANDS)	2023 CONSOLIDATED (UNAUDITED)	2022 CONSOLIDATED (UNAUDITED)
<b>BUDGETARY RESOURCES</b>		
Unobligated Balance from Prior Year Budget Authority, Net (Discretionary and Mandatory) ( <a href="#">Note 14</a> )	\$ 893,514	\$ 1,223,752
Appropriations (Discretionary and Mandatory)	80,448	77,453
Contract Authority (Discretionary and Mandatory)	10,878,263	10,393,137
Spending Authority from Offsetting Collections (Discretionary and Mandatory)	7,993,438	7,373,230
<b>Total Budgetary Resources</b>	<b>\$ 19,845,663</b>	<b>\$ 19,067,572</b>
<b>STATUS OF BUDGETARY RESOURCES</b>		
New Obligations and Upward Adjustments (Total)	\$ 18,755,909	\$ 18,174,058
Unobligated Balance, End of Year:		
Apportioned, Unexpired Accounts	1,089,754	893,514
<b>Unexpired Unobligated Balance, End of Year</b>	<b>1,089,754</b>	<b>893,514</b>
<b>Unobligated Balance, End of Year (Total)</b>	<b>1,089,754</b>	<b>893,514</b>
<b>Total Budgetary Resources</b>	<b>\$ 19,845,663</b>	<b>\$ 19,067,572</b>
<b>OUTLAYS, NET</b>		
Outlays, Net (Total) (Discretionary and Mandatory)	\$ 324,701	\$ 149,127
<b>Agency Outlays, Net (Discretionary and Mandatory)</b>	<b>\$ 324,701</b>	<b>\$ 149,127</b>

The accompanying notes are an integral part of these statements.

# NOTES TO THE PRINCIPAL STATEMENTS

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

Click Each Note for Quick Access (Online Version Only)

<p><b>NOTE 1</b></p> <p><i>Summary of Significant Accounting Policies</i></p>	<p><b>NOTE 2</b></p> <p><i>Non-Entity Assets</i></p>	<p><b>NOTE 3</b></p> <p><i>Fund Balance With Treasury</i></p>	<p><b>NOTE 4</b></p> <p><i>Accounts Receivable, Net</i></p>
<p><b>NOTE 5</b></p> <p><i>Inventory and Related Property, Net</i></p>	<p><b>NOTE 6</b></p> <p><i>General Property, Plant, and Equipment, Net</i></p>	<p><b>NOTE 7</b></p> <p><i>Other Assets</i></p>	<p><b>NOTE 8</b></p> <p><i>Liabilities Not Covered by Budgetary Resources</i></p>
<p><b>NOTE 9</b></p> <p><i>Federal Employee and Veteran Benefits Payable</i></p>	<p><b>NOTE 10</b></p> <p><i>Other Liabilities</i></p>	<p><b>NOTE 11</b></p> <p><i>Commitments and Contingencies</i></p>	<p><b>NOTE 12</b></p> <p><i>Disclosures Related to the Statement of Net Cost</i></p>
<p><b>NOTE 13</b></p> <p><i>Disclosures Related to the Statement Changes In Net Position</i></p>	<p><b>NOTE 14</b></p> <p><i>Disclosures Related to the Statement of Budgetary Resources</i></p>	<p><b>NOTE 15</b></p> <p><i>Disclosures Related to Incidental Custodial Collections</i></p>	<p><b>NOTE 16</b></p> <p><i>Reconciliation of Net Cost to Net Budgetary Outlays</i></p>
<p><b>NOTE 17</b></p> <p><i>Public-Private Partnerships</i></p>	<p><b>NOTE 18</b></p> <p><i>Disclosure Entities and Related Parties</i></p>	<p><b>NOTE 19</b></p> <p><i>Subsequent Events</i></p>	



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## NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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### A. REPORTING ENTITY

The DAF encompasses the DAF Headquarters and USAF Field Organizations. The Secretary of the Air Force has overall responsibility for the USAF under the guidance and direction of the Secretary of Defense. The USAF is led by the Chief of Staff of the Air Force who is responsible for the efficiency of the USAF and the preparation of its forces for military operations. The USAF 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 USAF.

For financial reporting purposes, the DAF is organized into two reporting entities: the DAF GF and the DAF WCF. Each reporting entity has a separate set of financial statements and related disclosures. This section of the report specifically applies to the DAF WCF. As a result, it does not disclose information related to the DAF GF.

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

### B. MISSION OF THE REPORTING ENTITY

The DAF was created on September 18, 1947 by the *National Security Act of 1947* and operates under the direction, authority, and control of the Secretary of the Air Force. The DAF's mission is comprised of the USAF mission: *To fly, fight, win...airpower anytime, anywhere.*

The stock and industrial revolving fund accounts were created by the *National Security Act of 1947*, as amended in 1949 and codified in 10 U.S. Code (U.S.C.) § 2208. The revolving funds were established to more effectively control the cost of work performed by the DoD. The DoD began operating under the revolving fund concept on July 1, 1951.

The DAF WCF operations consist of two major activity groups: Consolidated Sustainment Activity Group (CSAG) and the Supply Management Activity Group - Retail (SMAG-R). All the DAF WCF CSAG and SMAG-R activities establish rates based on full cost recovery. If an operating loss or gain is incurred, the activity will make the appropriate adjustment in following years' prices to recoup the loss or return the gain to their customers.

The mission of CSAG is supply management of reparable and consumable items, and maintenance activities. Supply Division activities of CSAG are authorized to procure and manage reparable and consumable items for which the DAF WCF is the Inventory Control Point. The Supply Division manages items that are generally related to weapon systems and ground support and include both depot level and non-depot level reparables.

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.

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## NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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The Medical-Dental Division procures and manages medical supply items and equipment necessary to maintain an effective USAF health care system for the active military, retirees, and their dependents. The Air Force Academy Division procures and manages a retail inventory of uniforms, academic supplies, and other recurring issue requirements for the Cadet Wing of the United States Air Force Academy. Inventory procurement is only for mandatory items as determined by the Cadet Uniform Board.

### C. BASIS OF PRESENTATION

These comparative financial statements have been prepared to report the consolidated financial position, net cost of operations, changes in net position, and combined budgetary resources of the DAF WCF operations, as required by the *Chief Financial Officers Act of 1990*, as amended and expanded by the *Government Management Reform Act of 1994*, and other applicable legislation. The accompanying financial statements account for all resources for which the DAF WCF is responsible, unless otherwise noted. Accounting standards allow certain presentations and disclosures to be modified, if needed, to prevent the disclosure of classified information. To the extent possible, the financial statements have been prepared from the accounting records of the DAF WCF in accordance with the requirements and formats prescribed by Office of Management and Budget (OMB) Circular A-136, *Financial Reporting Requirements*, the DoD Financial Management Regulation (FMR), and in accordance with Federal Generally Accepted Accounting Principles (GAAP) for federal entities as prescribed by the Federal Accounting Standards Advisory Board (FASAB).

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

### D. BASIS OF ACCOUNTING

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

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

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## NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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of the proprietary accruals and in compliance with legal requirements and controls over the use of federal funds.

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

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

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

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

The DAF WCF plans to utilize deemed cost to value beginning balances for Inventory and Related Property (I&RP), as permitted by SFFAS 48. However, systems required to account for historical cost for I&RP in accordance with SFFAS 3, *Accounting for Inventory and Related Property*, are not yet fully in place. Therefore, the DAF WCF is not making an unreserved assertion with respect to the I&RP line item.

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

The DAF WCF has begun to evaluate arrangements and transactions for Public-Private Partnerships criteria to determine the complete population of arrangements and transactions requiring disclosure under SFFAS 49 but has not completed a full analysis of all arrangements as of September 30, 2023.

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

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

5. SFFAS 55, *Amending Inter-entity Cost Provisions*. Issued on May 31, 2018. Effective Date: Reporting periods beginning after September 30, 2018.

Pursuant to SFFAS 55, DoD FMR, Volume 4, Chapter 24, *Inter-Entity Costs*, directs all DoD components not to recognize imputed costs and corresponding imputed financing from non-business type activities other than inter-entity costs for personnel benefits and the 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.

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## NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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6. Technical Bulletin 2017-1, *Intragovernmental Exchange Transactions*. Issued on November 1, 2017. Effective date: Upon issuance.
7. Technical Bulletin 2017-2, *Assigning Assets to Component Reporting Entities*. Issued on November 1, 2017. Effective date: Upon issuance.
8. Technical Release 17, *Conforming Amendments to Technical Releases for SFFAS 50, Establishing Opening Balances for General Property, Plant, and Equipment*. Issued on April 10, 2017. Effective Date: Upon issuance.  
As this Technical Release serves as implementation guidance for SFFAS 50, the DAF WCF is in the process of adopting this Technical Release as of September 30, 2023.
9. Technical Release 18, *Implementation Guidance for Establishing Opening Balances*. Issued on October 2, 2017. Effective Date: Upon issuance.  
As this Technical Release serves as implementation guidance for SFFAS 48 and SFFAS 50, the DAF WCF is in process of adopting this Technical Release as of September 30, 2023.
10. Technical Release 21, *Omnibus Technical Release Amendments 2022: Conforming Amendments*. Issued on September 6, 2022. Effective Date: Upon issuance.
11. Staff Implementation Guidance 6.1, *Clarification of Paragraphs 40-41 of SFFAS 6, Accounting for Property, Plant, and Equipment, as amended*. Issued on July 17, 2018. Effective Date: Upon issuance.  
This Staff Implementation Guidance clarifies specific guidance provided in SFFAS 6. The DAF WCF is in the process of adopting this Staff Implementation Guidance as of September 30, 2023.
12. Interpretation 9, *Cleanup Cost Liabilities Involving Multiple Component Reporting Entities: An Interpretation of SFFAS 5 & SFFAS 6*. Issued on August 16, 2019. Effective Date: Reporting periods beginning after September 30, 2019.

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

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## NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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report, reconcile, and eliminate intragovernmental balances. G-Invoicing will directly impact amounts reported on the DAF WCF's Balance Sheet and Statement of Net Cost, including Accounts Payable, Accounts Receivable, Earned Revenue, and Gross Costs.

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

For additional information, refer to [Note 12, Disclosures Related to the Statement of Net Cost](#) and [Note 13, Disclosures Related to the Statement of Changes in Net Position](#).

### F. NON-ENTITY ASSETS

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

For additional information, refer to [Note 2, Non-Entity Assets](#).

### G. FUND BALANCE WITH TREASURY

The Fund Balance with Treasury (FBwT) represents the aggregate amount of the DAF WCF available budget spending authority available to pay current liabilities and finance future authorized purchases.

The DAF WCF's monetary resources of collections and disbursements are maintained in Treasury accounts. The disbursing offices of the Defense Finance and Accounting Service, the Military Departments, the U.S. Army Corps of Engineers, and the Department of State's financial service centers currently process most of the DAF WCF's cash collections, disbursements, and adjustments worldwide. Monthly, each disbursing station reports to the Treasury on checks issued, electronic fund transfers, interagency transfers, and deposits. The model of using the DAF WCF's disbursing systems instead of the Treasury's system is recognized by the Treasury as Non-Treasury Disbursing Office (NTDO). The DAF WCF is actively migrating NTDO transactions to the Treasury Disbursing Office (TDO) under the TDO Enterprise Strategy effort. TDO is the DAF WCF's target end state of executing payments and collections directly between the DAF WCF and the Treasury using the Treasury's systems and the Treasury as the Service Provider. This posture will allow the DAF WCF to achieve FBwT accountability and traceability through daily reconciliation and reporting directly with the Treasury.

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

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

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## NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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In addition, the DAF WCF reports to the 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 records an allowance for Intragovernmental Receivables, in addition to recording an allowance for Other than Intragovernmental Receivables. Allowances for federal and non-federal doubtful accounts (estimated uncollectible amounts) are based upon factors such as aging of accounts receivable, debtor's ability to pay, and payment history. Although the DAF WCF records an allowance for Intragovernmental Receivables, claims for accounts receivable from other federal agencies are still resolved between the agencies in accordance with the business rules published in Appendix 5 of the TFM Volume 1, Part 2, Chapter 4700.

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

For additional information, refer to [Note 4, Accounts Receivable, Net](#).

### I. INVENTORIES AND RELATED PROPERTY

The DAF WCF manages only military or government-specific materiel under normal conditions. Materiel is a unique term that relates to military force management, and includes items such as aircraft, missiles, engines, accessories, components, medical, dental, and support equipment. Items commonly used in, and available from, the commercial sector are not managed in the DAF WCF's materiel management activities. Operational cycles are irregular, and the military risks associated with stock-out positions have no commercial parallel. The DAF WCF holds materiel based on military need and support for contingencies.

Inventory Held for Sale includes consumable spares and repair parts, as well as reparable items owned and managed by the DAF WCF. This inventory is retained to support military or national contingencies. The DAF WCF values its resale inventory using the Moving Average Cost (MAC) flow assumption.

Inventory Held for Repair is damaged inventory that requires repair to make it suitable for sale. Often, it is more economical to repair these items rather than to procure them. As the DAF WCF often relies on weapon systems and machinery no longer in production, the DAF WCF supports a process that encourages the repair and rebuilding of certain items. This repair cycle is essential to maintaining readiness to defend the nation. The DAF WCF values Inventory Held for Repair using the allowance method. Inventory Work-In-Process balances include:

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## NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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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.

Operating Materials and Supplies (OM&S) includes consumable parts and supplies used to remanufacture spare parts and repair weapons systems. OM&S Held for Use is valued using MAC. The DAF WCF uses the consumption method of accounting for OM&S.

The DAF WCF recognizes Excess, Obsolete, and Unserviceable Inventory and OM&S at a net realizable value of zero.

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

For additional information, refer to [Note 5, Inventory and Related Property, Net](#).

### J. GENERAL PROPERTY, PLANT, AND EQUIPMENT

The DAF WCF capitalizes all General PP&E used in the performance of its mission with a useful life of two or more years and with an acquisition cost that equals or exceeds capitalization thresholds. When applicable, the DAF WCF will continue to use alternative methods in establishing opening balances for General PP&E in accordance with SFFAS 50.

The DAF WCF's capitalization threshold for General PP&E is \$250.0 thousand. This capitalization threshold applies to asset acquisitions and modifications/improvements placed into service after September 30, 2013. General PP&E assets acquired prior to October 1, 2013 were capitalized at prior threshold levels (\$100.0 thousand for General PP&E). The DAF WCF depreciates all General PP&E, on a straight-line basis.

For additional information, refer to [Note 6, General Property, Plant, and Equipment, Net](#).

### K. OTHER ASSETS

The DAF WCF conducts business with commercial contractors under two primary types of contracts: fixed price and cost reimbursement. The DAF WCF may provide financing payments to contractors to alleviate the potential financial burden from long-term contracts. Contract financing payments are defined in the *Federal Acquisition Regulations, Part 32*, as authorized disbursements to a contractor prior to acceptance of supplies or services by the Government.

Contract financing payment clauses are incorporated in the contract terms and conditions and may include advance payments, performance-based payments, commercial advances and interim payments, progress payments based on cost, and interim payments under certain cost-reimbursement contracts.

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

For additional information, refer to [Note 7, Other Assets](#).

### L. ACCOUNTS PAYABLE

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

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## NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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### M. LIABILITIES

Liabilities represent the probable future outflow or other sacrifice of resources as a result of past transactions or events; however, no liability can be paid by the DAF WCF without proper budget authority. Liabilities Covered by Budgetary Resources are liabilities for which funding will otherwise be available to pay amounts when due. Budgetary resources include new budget authority, unobligated balances of budgetary resources at the beginning of the year or net transfers of prior year balances during the year, spending authority from offsetting collections, and recoveries of unexpired budget authority through downward adjustments of prior year obligations. Liabilities are classified as not covered by budgetary resources when congressional action is needed before they can be paid.

For additional information, refer to [Note 8, Liabilities Not Covered by Budgetary Resources](#).

### N. OTHER LIABILITIES

Other liabilities may be Intragovernmental or Other than Intragovernmental. Such liabilities include FECA Reimbursement to the Department of Labor, Custodial Liabilities, Employer Contribution and Payroll Taxes Payable, Accrued Funded Payroll and Benefits, Advances from Others, Accrued Unfunded Annual Leave, Contract Holdbacks, and Other Liabilities with Related Budgetary Obligations.

For additional information, refer to [Note 10, Other Liabilities](#).

### O. COMMITMENTS AND CONTINGENCIES

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

For additional information, refer to [Note 11, Commitments and Contingencies](#).

### P. FEDERAL EMPLOYEE AND VETERAN BENEFITS

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

For additional information, refer to [Note 9, Federal Employee and Veteran Benefits Payable](#).

### Q. REVENUES AND OTHER FINANCING SOURCES

The DAF WCF's budgetary resources reflect past congressional action and enable the entity to incur budgetary obligations, but they are not assets to the Government as a whole. Budgetary obligations are legal obligations for goods, services, or amounts to be paid based on statutory provisions. After budgetary obligations are incurred, the Treasury will make disbursements to liquidate the budgetary obligations and finance those disbursements in the same way it finances all disbursements, using some combination of receipts, other inflows, and borrowing from the public (if there is a budget deficit).



## NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The DAF WCF conducts business-like activities and receives funding to establish an initial corpus through an appropriation or a transfer of resources from existing appropriations or funds. This corpus finances operations and transactions that flow through the fund. Each WCF obtains the goods and services sold to customers on a reimbursable basis and maintains the corpus. Reimbursable receipts fund future operations and generally are available in their entirety for use without further congressional action. At various times, Congress provides additional appropriations to execute its missions or to supplement the WCF as an infusion of cash when revenues are inadequate to cover costs within the corpus.

The primary sources of revenue recorded within the DAF WCF result from the following activities: 1) the sale of repair services such as (a) the repair of aircraft, missiles, engines, accessories, components, and equipment, and (b) the remanufacture of parts and assemblies required to support the foregoing; and 2) Inventory issued to the Flying Hour Program. Instead of recognizing revenue based on the sale price of a spare part, revenue is recognized on a rate charged for a flying hour; and 3) The sale of reparable (including both depot level and non-depot level reparables) and consumable items that are generally related to medical supplies, medical equipment, weapon systems, and ground support.

The CSAG Maintenance Division recognizes revenue according to the percentage of completion method. The CSAG Supply and SMAG-R Divisions recognize revenue based on flying hours executed and the sale of inventory items. Full-cost pricing is the DAF WCF's standard policy for services provided as required by OMB Circular A-25, *User Charges*.

In accordance with SFFAS 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*, the DAF WCF recognizes non-exchange revenue when there is a specifically identifiable, legally enforceable claim to the cash or other assets of another party that will not directly receive value in return.

The DAF WCF does not include non-monetary support provided by U.S. allies for common defense and mutual security in amounts reported in the Statement of Net Cost and in [Note 16, Reconciliation of Net Cost to Net Budgetary Outlays](#). The U.S. has cost sharing agreements with countries having a mutual or reciprocal defense agreement, where U.S. troops are stationed, or where the U.S. Fleet is in a port.

### R. RECOGNITION OF EXPENSES

The DAF WCF's policy requires the recognition of operating expenses in the period incurred. Estimates are made for major items such as payroll expenses, Accounts Payable and unbilled revenue. Some accounts such as civilian pay and Accounts Payable are presented on the accrual basis of accounting on the financial statements.

The DoD has issued guidance under which DoD Components may expense OM&S using the purchase method of accounting rather than the consumption method. The DAF WCF uses the consumption method to recognize expense for OM&S. OM&S are expensed when consumed.

### S. BUDGETARY RESOURCES

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

- » An appropriation is a provision of law (not necessarily in an appropriations act) authorizing the expenditure of funds for a given purpose. Usually, but not always, an appropriation provides budget authority.

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## NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

### T. USE OF ESTIMATES

The DAF WCF's management makes assumptions and reasonable estimates in the preparation of financial statements based on current conditions, which may affect the reported amounts.

Actual results could differ materially from the estimated amounts. Significant estimates include such items as percentage of completion revenue recognition for maintenance services, and actuarial liabilities related to workers' compensation. CSAG Maintenance recognizes revenue using the percentage of completion method. Estimated total costs are not evaluated and/or changed during the life of the project. The End Item Sales Price (EISP) is used as the total amount of cost that can be used in the revenue calculation. If actual total costs of the project ever reach the EISP, revenue stops being recorded; however, costs will continue to be recorded until the project is financially closed. Management monitors open projects where total incurred costs exceeded the total amount of recognized revenue.

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## **NOTE 1** SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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### **U. TRANSACTIONS WITH FOREIGN GOVERNMENTS AND INTERNATIONAL ORGANIZATIONS**

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

### **V. TAX EXEMPT STATUS**

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

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

The format of the Balance Sheet has changed to reflect more detail for certain line items, as required for all significant reporting entities by OMB Circular A-136. This change does not affect totals for assets, liabilities, or net position and is intended to allow readers of this report to see how the amounts shown on the DAF WCF Balance Sheet are reflected on the DoD-wide Balance Sheet, thereby supporting the preparation and audit of the Financial Report of the U.S. Government. The mapping of United States Standard General Ledger (USSGL) accounts, in combination with their attributes, to particular Balance Sheet lines and footnotes is directed by the guidance published periodically under TFM, USSGL Bulletins, Section V. The footnotes affected by the modified presentation are [Note 4, Accounts Receivable, Net](#); [Note 7, Other Assets](#); [Note 10, Other Liabilities](#); and [Note 16, Reconciliation of Net Cost to Budgetary Net Outlays](#).

## NOTE 2 NON-ENTITY ASSETS

AS OF SEPTEMBER 30 (AMOUNTS IN THOUSANDS)	2023 (UNAUDITED)	2022 (UNAUDITED)
<b>Other than Intragovernmental</b>		
Accounts Receivable	\$ 58	\$ 26
<b>Total Other than Intragovernmental</b>	<b>\$ 58</b>	<b>\$ 26</b>
<b>Total Non-Entity Assets</b>	<b>\$ 58</b>	<b>\$ 26</b>
<b>Total Entity Assets</b>	<b>\$ 32,232,471</b>	<b>\$ 31,280,216</b>
<b>Total Assets</b>	<b>\$ 32,232,529</b>	<b>\$ 31,280,242</b>

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

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

## NOTE 3 FUND BALANCE WITH TREASURY

AS OF SEPTEMBER 30 (AMOUNTS IN THOUSANDS)	2023 (UNAUDITED)	2022 (UNAUDITED)
<b>STATUS OF FUND BALANCE WITH TREASURY</b>		
<b>Unobligated Balance</b>		
Available	\$ 1,089,754	\$ 893,514
<b>Total Unobligated Balance</b>	<b>\$ 1,089,754</b>	<b>\$ 893,514</b>
<b>Obligated Balance Not Yet Disbursed</b>	<b>\$ 11,219,173</b>	<b>\$ 11,223,376</b>
<b>Non-Fund Balance with Treasury Budgetary Accounts</b>		
Unfilled Customer Orders without Advance	\$ (5,640,663)	\$ (5,318,232)
Contract Authority	(4,612,902)	(4,149,756)
Receivables and Other	(966,732)	(1,316,852)
<b>Total Non-Fund Balance with Treasury Budgetary Accounts</b>	<b>\$ (11,220,297)</b>	<b>\$ (10,784,840)</b>
<b>Total Fund Balance with Treasury</b>	<b>\$ 1,088,630</b>	<b>\$ 1,332,050</b>

The Treasury records cash receipts and disbursements on the DAF WCF's behalf; funds are available only for the purposes for which the funds were appropriated. The DAF WCF's Fund Balance with Treasury (FBwT) consists of appropriation accounts and revolving funds.

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

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

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

Non-FBwT Budgetary Accounts include Unfilled Customer Orders without Advance, Contract Authority, and Receivables and Other. Non-FBwT Budgetary Accounts create budgetary authority and unobligated balances, but do not record to FBwT as there has been no receipt of cash or direct budget authority, such as appropriations. FBwT increases only after the customer payments for services or goods rendered have been collected.

The FBwT reported in the financial statements was adjusted to reflect the DAF WCF's balance as reported by the Treasury. The difference between FBwT in the DAF WCF's general ledger and FBwT reflected in the Treasury accounts is attributed to transactions that were not posted to the individual detailed accounts in the DAF WCF's general ledger as a result of timing differences or the inability to obtain valid accounting information, prior to the issuance of the financial statements. The following adjustments were necessary for the DAF WCF to reconcile their general ledger to the Treasury: \$23.6 million in disbursements, and \$446.8 thousand in collections; however, the total activity to support the adjustments cannot be supported. When research is completed, these transactions will be recorded in the appropriate individual detailed accounts in the DAF WCF's general ledger.

## NOTE 4 ACCOUNTS RECEIVABLE, NET

AS OF SEPTEMBER 30 (AMOUNTS IN THOUSANDS)	2023 (UNAUDITED)		
	GROSS AMOUNT DUE	ALLOWANCE FOR ESTIMATED UNCOLLECTIBLES	ACCOUNTS RECEIVABLE, NET
Intragovernmental Receivables	\$ 844,698	\$ (9,039)	\$ 835,659
Other than Intragovernmental Receivables (From the Public)	3,202	(213)	2,989
<b>Total Accounts Receivable</b>	<b>\$ 847,900</b>	<b>\$ (9,252)</b>	<b>\$ 838,648</b>

AS OF SEPTEMBER 30 (AMOUNTS IN THOUSANDS)	2022 (UNAUDITED)		
	GROSS AMOUNT DUE	ALLOWANCE FOR ESTIMATED UNCOLLECTIBLES	ACCOUNTS RECEIVABLE, NET
Intragovernmental Receivables	\$ 751,800	\$ (8,588)	\$ 743,212
Other than Intragovernmental Receivables (From the Public)	3,179	(430)	2,749
<b>Total Accounts Receivable</b>	<b>\$ 754,979</b>	<b>\$ (9,018)</b>	<b>\$ 745,961</b>

Accounts Receivable represents the DAF WCF's claim for payment from federal and non-federal entities.

An allowance recorded to recognize an intragovernmental receivable at net realizable value on the financial statements does not alter the underlying statutory authority to collect the receivable or the legal obligation of the other intragovernmental entity to pay.

For additional information regarding the method utilized to estimate the allowance for uncollectible amounts, refer to [Note 1.H., Summary of Significant Accounting Policies – Accounts Receivable](#).

## NOTE 5 INVENTORY AND RELATED PROPERTY, NET

AS OF SEPTEMBER 30 (AMOUNTS IN THOUSANDS)	2023 (UNAUDITED)	2022 (UNAUDITED)
Inventory, Net	\$ 28,739,644	\$ 27,796,535
Operating Materials and Supplies, Net	129,913	118,696
<b>Total Inventory and Related Property, Net</b>	<b>\$ 28,869,557</b>	<b>\$ 27,915,231</b>

### Inventory, Net

AS OF SEPTEMBER 30 (AMOUNTS IN THOUSANDS)	2023 (UNAUDITED)			
	INVENTORY, GROSS	REVALUATION ALLOWANCE	INVENTORY, NET	VALUATION METHOD
Held for Sale	\$ 15,696,909	\$ 0	\$ 15,696,909	MAC
Held for Repair	20,416,866	(7,384,506)	13,032,360	MAC, LRC
Work-In-Process	10,375	0	10,375	MAC
Excess, Obsolete, and Unserviceable	170,136	(170,136)	0	NRV
<b>Total</b>	<b>\$ 36,294,286</b>	<b>\$ (7,554,642)</b>	<b>\$ 28,739,644</b>	

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

### AS OF SEPTEMBER 30

LRC = Latest Repair Cost MAC = Moving Average Cost NRV = Net Realizable Value

### GENERAL COMPOSITION OF INVENTORY

Inventory includes weapon system consumable and repairable parts, base supply items, and medical-dental supplies. Inventory is tangible personal property that is held for sale or held for repair for eventual sale, in the process of production for sale, to be consumed in the production of goods for sale, or in the provision of services for a fee.

### RESTRICTIONS ON THE USE, SALE OR DISPOSITION OF INVENTORY

There are no restrictions on the use, sale, or disposition of inventory except for War Reserve Materiel (WRM).

WRM is mission essential secondary items, principal end items, and munitions sufficient to attain and sustain operational objectives in scenarios authorized in the Secretary of Defense guidance and Joint Staff scenarios for committed forces.

## NOTE 5 INVENTORY AND RELATED PROPERTY, NET

The WRM is only to be available for transfer without reimbursement when its issuance has been approved to satisfy requirements of a mobilization of U.S. Armed Forces. However, if authorized, WRM may be sold.

### DECISION CRITERIA FOR IDENTIFYING THE CATEGORY TO WHICH INVENTORY IS ASSIGNED

The DAF WCF assigns inventory items to a category based on asset type and condition.

Held for Sale includes all materiel available for issuance.

Held for Repair represents unserviceable (but repairable) items that are more economical to repair than to procure. Held for Repair items are recorded at Moving Average Cost (MAC), as it relates to gross costs. Inventory, Net is calculated as MAC less the repair allowance for the asset. The repair allowance is determined utilizing the allowance method.

Work-in-Process is the term used to describe products that are being repaired, but are not yet complete, and consists of the costs of direct materials, direct labor, and applied indirect costs pertaining to the item.

Excess, Obsolete, and Unserviceable includes inventory that is no longer required due to changes in technology, laws, customs, or operations, and damaged inventory that is more economical to dispose of than to repair.

### Operating Materials and Supplies, Net

AS OF SEPTEMBER 30 (AMOUNTS IN THOUSANDS)	2023 (UNAUDITED)			
	OPERATING MATERIALS AND SUPPLIES, GROSS VALUE	REVALUATION ALLOWANCE	OPERATING MATERIALS AND SUPPLIES, NET	VALUATION METHOD
Held for Use	\$ 129,913	\$ 0	\$ 129,913	MAC
<b>Total</b>	<b>\$ 129,913</b>	<b>\$ 0</b>	<b>\$ 129,913</b>	

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

### LEGEND FOR VALUATION METHODS:

MAC = Moving Average Cost

### GENERAL COMPOSITION OF OPERATING MATERIALS & SUPPLIES

The DAF WCF assigns all Operating Materials and Supplies (OM&S) to the Held for Use category and includes consumable parts and supplies used to remanufacture spare parts and repair weapons systems.

### RESTRICTIONS ON THE USE, SALE, OR DISPOSITION OF OM&S

There are no restrictions on the use, sale, or disposition of OM&S.



## NOTE 6 GENERAL PROPERTY, PLANT, AND EQUIPMENT, NET

AS OF SEPTEMBER 30 (AMOUNTS IN THOUSANDS)	2023 (UNAUDITED)				
	DEPRECIATION/ AMORTIZATION METHOD	SERVICE LIFE	ACQUISITION VALUE	(ACCUMULATED DEPRECIATION/ AMORTIZATION)	NET BOOK VALUE
<b>MAJOR ASSET CLASS</b>					
Software	S/L	2-5, or 10	\$ 1,000,689	\$ (986,400)	\$ 14,289
Software in Development	N/A	N/A	37,485	N/A	37,485
General Equipment	S/L	10	3,191,584	(2,541,566)	650,018
Construction-in-Progress	N/A	N/A	304,877	N/A	304,877
<b>Total General Property, Plant, and Equipment, Net</b>			\$ 4,534,635	\$ (3,527,966)	\$ 1,006,669

AS OF SEPTEMBER 30 (AMOUNTS IN THOUSANDS)	2022 (UNAUDITED)				
	DEPRECIATION/ AMORTIZATION METHOD	SERVICE LIFE	ACQUISITION VALUE	(ACCUMULATED DEPRECIATION/ AMORTIZATION)	NET BOOK VALUE
<b>MAJOR ASSET CLASS</b>					
Software	S/L	2-5, or 10	\$ 1,157,544	\$ (1,134,767)	\$ 22,777
Software in Development	N/A	N/A	15,769	N/A	15,769
General Equipment	S/L	10	3,333,689	(2,650,316)	683,373
Construction-in-Progress	N/A	N/A	236,054	N/A	236,054
<b>Total General Property, Plant, and Equipment, Net</b>			\$ 4,743,056	\$ (3,785,083)	\$ 957,973

### LEGEND FOR VALUATION METHODS:

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

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

AS OF SEPTEMBER 30 (AMOUNTS IN THOUSANDS)	2023 (UNAUDITED)	2022 (UNAUDITED)
General Property, Plant, and Equipment, Net Beginning of Year	\$ 957,973	\$ 958,806
Capitalized Acquisitions	191,251	163,355
Dispositions	59	(14,485)
Transfers In/(Out) without Reimbursement	0	(2,000)
Depreciation Expense	(142,614)	(147,703)
<b>General Property, Plant, and Equipment, Net End of Year</b>	\$ 1,006,669	\$ 957,973

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## **NOTE 6** GENERAL PROPERTY, PLANT, AND EQUIPMENT, NET

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The DAF WCF does not have any restrictions on the use or convertibility of General Property, Plant, and Equipment (PP&E), nor does the DAF WCF have a material impairment that requires a disclosure in accordance with Statement of Federal Financial Accounting Standards 44, *Accounting for Impairment of General Property, Plant, and Equipment Remaining in Use*. Refer to [Note 1.J., Summary of Significant Accounting Policies - General Property, Plant, and Equipment](#), for the capitalization threshold.

**NOTE 7 OTHER ASSETS**

<b>AS OF SEPTEMBER 30</b> <i>(AMOUNTS IN THOUSANDS)</i>	<b>2023</b> <i>(UNAUDITED)</i>	<b>2022</b> <i>(UNAUDITED)</i>
<b>Other Than Intragovernmental Other Assets</b>		
Outstanding Contract Financing Payments	\$ 428,576	\$ 328,564
Advances and Prepayments	261	275
Other Assets	188	188
<b>Subtotal</b>	<b>\$ 429,025</b>	<b>\$ 329,027</b>
Less: "Outstanding Contract Financing Payments" and "Advances and Prepayments" totaled and presented on the Balance Sheet as "Advances and Prepayments"	(428,837)	(328,839)
<b>Total Other Assets</b>	<b>\$ 188</b>	<b>\$ 188</b>

Outstanding Contract Financing Payments (OCFP), a separate classification of Advances and Prepayments, are DAF WCF cash disbursements to a contractor under the contract prior to the DAF WCF acceptance of goods and services. Advances and Prepayments are made in contemplation of the future performance of services, receipt of goods, incurrence of expenditures, or receipt of other assets, excluding those made as OCFP.

Other Assets is primarily comprised of the Consolidated Sustainment Activity Group's labor costs that have been recorded in the Time and Attendance logistical system, but have not yet updated the appropriate labor account in the accounting system.

**NOTE 8 LIABILITIES NOT COVERED BY BUDGETARY RESOURCES**

AS OF SEPTEMBER 30 (AMOUNTS IN THOUSANDS)	2023 (UNAUDITED)	2022 (UNAUDITED)
<b>Intragovernmental Liabilities</b>		
Federal Employees' Compensation Act	\$ 34,688	\$ 32,947
<b>Total Intragovernmental Liabilities</b>	<b>\$ 34,688</b>	<b>\$ 32,947</b>
<b>Other than Intragovernmental Liabilities</b>		
Federal Employee and Veteran Benefits Payable	\$ 183,575	\$ 180,301
<b>Total Other than Intragovernmental Liabilities</b>	<b>\$ 183,575</b>	<b>\$ 180,301</b>
<b>Total Liabilities Not Covered by Budgetary Resources</b>	<b>\$ 218,263</b>	<b>\$ 213,248</b>
<b>Total Liabilities Covered by Budgetary Resources</b>	<b>\$ 1,273,939</b>	<b>\$ 1,272,157</b>
<b>Total Liabilities</b>	<b>\$ 1,492,202</b>	<b>\$ 1,485,405</b>

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

The \$34.7 million in Intragovernmental Liabilities is comprised of the portion of the total DAF *Federal Employees' Compensation Act* (FECA) liability allocated to the DAF WCF for known claims.

Federal Employee and Veteran Benefits Payable consists of various employee actuarial liabilities not due and payable during the current FY. These liabilities primarily consist of the amount recorded by employer agencies for the actuarial present value of future FECA benefits provided to federal employees or their beneficiaries as a result of work related deaths, disability, or occupational disease. For additional information and disclosures, refer to [Note 9, Federal Employee and Veteran Benefits Payable](#).

## NOTE 9 FEDERAL EMPLOYEE AND VETERAN BENEFITS PAYABLE

AS OF SEPTEMBER 30 (AMOUNTS IN THOUSANDS)	2023 (UNAUDITED)		
	LIABILITIES	(ASSETS AVAILABLE TO PAY BENEFITS)	UNFUNDED LIABILITIES
<b>Other Benefits</b>			
Federal Employees' Compensation Act	\$ 183,575	\$ 0	\$ 183,575
<b>Total Other Benefits</b>	\$ 183,575	\$ 0	\$ 183,575
<b>Federal Employee and Veteran Benefits Payable (presented separately on the Balance Sheet)</b>	\$ 183,575	\$ 0	\$ 183,575
Other Benefit-Related Payables Included in Intragovernmental Other Liabilities on the Balance Sheet	47,919	(13,231)	34,688
<b>Total Federal Employee and Veteran Benefits Payable</b>	\$ 231,494	\$ (13,231)	\$ 218,263

AS OF SEPTEMBER 30 (AMOUNTS IN THOUSANDS)	2022 (UNAUDITED)		
	LIABILITIES	(ASSETS AVAILABLE TO PAY BENEFITS)	UNFUNDED LIABILITIES
<b>Other Benefits</b>			
Federal Employees' Compensation Act	\$ 180,301	\$ 0	\$ 180,301
<b>Total Other Benefits</b>	\$ 180,301	\$ 0	\$ 180,301
<b>Federal Employee and Veteran Benefits Payable (presented separately on the Balance Sheet)</b>	\$ 180,301	\$ 0	\$ 180,301
Other Benefit-Related Payables Included in Intragovernmental Other Liabilities on the Balance Sheet	45,233	(12,286)	32,947
<b>Total Federal Employee and Veteran Benefits Payable</b>	\$ 225,534	\$ (12,286)	\$ 213,248

### FEDERAL EMPLOYEES' COMPENSATION ACT

The DAF WCF reports an actuarial liability for the *Federal Employees' Compensation Act* (FECA). The FECA provides federal employees injured in the performance of duty with workers' compensation benefits, which include wage-loss benefits for a total or partial disability, monetary benefits for permanent loss of use of a schedule member, medical benefits, and vocational rehabilitation. The FECA also provides survivor benefits to eligible dependents if the injury causes the employee's death.

For a description of Other Benefit-Related Payables Included in Intragovernmental Other Liabilities on the Balance Sheet, refer to [Note 10, Other Liabilities](#).

## NOTE 9 FEDERAL EMPLOYEE AND VETERAN BENEFITS PAYABLE

### ACTUARIAL COST METHODS 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) 2023 were also used to adjust the methodology’s historical payments to current-year constant dollars.

Consistent with past practice, these projected annual benefit payments have been discounted to present value based on interest rate assumptions on the Treasury’s Yield Curve for the 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 2023. Interest rate assumptions utilized for discounting were as follows:

DISCOUNT RATES	
For Wage Benefits:	2.3% in Year 1 and Years thereafter
For Medical Benefits:	2.1% in Year 1 and Years thereafter

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

CBY	COLA	CPI-M
2023	N/A	N/A
2024	4.0%	3.3%
2025	4.3%	3.2%
2026	4.4%	3.5%
2027	4.1%	3.9%
2028 and thereafter	3.1%	4.0%

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 2023 to the average pattern observed during the most current three CBYs; and 4) a comparison of the estimated liability per case in FY 2024 projection to the average pattern for the projections of the most recent three years.

Other benefit-related payables included in Intragovernmental Other Liabilities on the Balance Sheet, include FECA Reimbursement to the DOL and Intragovernmental Employer Contribution and Payroll Taxes Payable.

## NOTE 10 OTHER LIABILITIES

AS OF SEPTEMBER 30 (AMOUNTS IN THOUSANDS)	2023 (UNAUDITED)		
	CURRENT LIABILITIES	NON-CURRENT LIABILITIES	TOTAL
<b>Intragovernmental Other Liabilities</b>			
Liabilities for Non-Entity Assets	\$ 0	\$ 58	\$ 58
Other Liabilities	0	0	0
<b>Subtotal</b>	\$ 0	\$ 58	\$ 58
Other Liabilities Reported on <a href="#">Note 9, Federal Employee and Veteran Benefits Payable</a>	27,895	20,024	47,919
<b>Total Intragovernmental Other Liabilities</b>	\$ 27,895	\$ 20,082	\$ 47,977
<b>Other than Intragovernmental Other Liabilities</b>			
Accrued Funded Payroll and Leave	\$ 245,695	\$ 0	\$ 245,695
Contract Holdbacks	0	0	0
Other Liabilities with Related Budgetary Obligations	43,913	0	43,913
<b>Total Other than Intragovernmental Other Liabilities</b>	\$ 289,608	\$ 0	\$ 289,608
<b>Total Other Liabilities</b>	\$ 317,503	\$ 20,082	\$ 337,585

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

## NOTE 10 OTHER LIABILITIES

### INTRAGOVERNMENTAL OTHER LIABILITIES

Intragovernmental Liabilities for Non-Entity Assets represent offsetting liabilities for non-entity assets where the DAF WCF is acting on behalf of another federal entity. For example, non-entity receivables that, upon collection, will be remitted to Treasury.

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

Other Liabilities reported on [Note 9, Federal Employee and Veteran Benefits Payable](#), include *Federal Employees' Compensation Act (FECA) Reimbursement to the Department of Labor (DOL)* and *Intragovernmental Employer Contribution and Payroll Taxes Payable*.

FECA Reimbursement to the DOL represents liabilities for billed amounts payable in FY 2022 and FY 2023 unbilled amounts, including both incurred and an estimated accrual.

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

### OTHER THAN INTRAGOVERNMENTAL OTHER LIABILITIES

Accrued Funded Payroll and Leave include life and other insurance programs and accrued annual leave. The DAF WCF's life and other insurance programs covering civilian employees are provided through the Office of Personnel Management (OPM). The DAF WCF does not negotiate the insurance contracts and incurs no liabilities directly to the insurance companies. Employee payroll withholdings related to the insurance and employer contributions are submitted to OPM. OPM administers insurance benefit programs available for coverage to the DAF WCF's eligible civilian employees. These programs include life and health insurance, and employee participation is voluntary.

The portion of the total DAF civilian accrued leave liability allocated to the DAF WCF includes amounts for accrued annual leave, restored annual leave, credit hours, compensatory hours, and frozen annual leave.

Other Liabilities with Related Budgetary Obligations, primarily consist of accrued liabilities established in the Consolidated Sustainment Activity Group Supply, which offset inventory owned and managed on behalf of foreign governments under a Cooperative Logistics Supply Support Agreement.

### Advances from Others and Deferred Revenue

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

AS OF SEPTEMBER 30 (AMOUNTS IN THOUSANDS)	2023 (UNAUDITED)	2022 (UNAUDITED)
Intragovernmental	\$ 0	\$ 0
Other than Intragovernmental	\$ 224,727	\$ 171,842



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## **NOTE 11** COMMITMENTS AND CONTINGENCIES

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### **LEGAL CONTINGENCIES**

The DAF WCF is a party in various administrative proceedings and legal actions related to claims for equal employment opportunity matters, and contractual bid protests. In accordance with Statement of Federal Financial Accounting Standards (SFFAS) 5, *Accounting for Liabilities of the Federal Government*, as amended by SFFAS 12, *Recognition of Contingent Liabilities Arising from Litigation: An Amendment of SFFAS 5, Accounting for Liabilities of the Federal Government*, an assessment should be made as to whether the likelihood of an unfavorable outcome is considered probable, reasonably possible, or remote. The DAF WCF's Office of the General Counsel considers the possibility of the DAF WCF sustaining any losses on these legal actions to be remote.

### **OTHER CONTINGENCIES**

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

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

**NOTE 12** DISCLOSURES RELATED TO THE STATEMENT OF NET COST

FOR THE FISCAL YEAR ENDED SEPTEMBER 30 (AMOUNTS IN THOUSANDS)	2023 (UNAUDITED)	2022 (UNAUDITED)
<b>Operations, Readiness, &amp; Support</b>		
Gross Cost	\$ 13,985,329	\$ 12,805,033
Less: Earned Revenue	(14,554,574)	(13,497,526)
<b>Total Net Cost</b>	<b>\$ (569,245)</b>	<b>\$ (692,493)</b>

The three primary sources of revenue for the DAF WCF are from the sale of repair services, revenue from the Flying Hour Program, and the sale of reparable and consumable items. For the period ending September 30, 2023, consolidated revenue for each revenue stream is \$5.4 billion, \$4.8 billion, and \$2.0 billion, respectively. The remaining \$2.3 billion is associated to gains.

For additional information refer to [Note 1.Q., Summary of Significant Accounting Policies - Revenue and Other Financing Sources](#).

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

Intragovernmental costs and revenue relate to transactions made between two reporting entities within the Federal Government.

Public costs and revenues are exchange transactions made between the reporting entity and a non-federal entity.

Many of the DAF WCF's systems do not track intragovernmental transactions by customer at the transaction level. Expenses were adjusted by reclassifying amounts between federal and non-federal expenses.

The DAF WCF records transactions on an accrual basis. The DAF WCF may not have all the actual costs and revenues input into the system in time for reporting. Accrual estimates based upon budget information and historical data are made as required by Federal Generally Accepted Accounting Principles. These estimates reverse as actual costs or revenues are recorded.

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## **NOTE 13** DISCLOSURES RELATED TO THE STATEMENT IN NET POSITION

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Pursuant to Statement of Federal Financial Accounting Standards (SFFAS) 55, *Amending Inter-entity Cost Provisions*, DoD Financial Management Regulation, Volume 4, Chapter 24, *Inter-Entity Costs*, directs all DoD components not to recognize imputed costs and corresponding imputed financing from non-business type activities other than inter-entity costs for personnel benefits and the Treasury Judgment Fund settlements. This election is permitted under SFFAS 55; however, as a business-type activity, the DAF WCF is also required to recognize imputed costs and imputed financing for goods and services received from other federal entities at no cost or at a cost less than the full cost. The DAF WCF is in the process of adopting this SFFAS.

There are no Appropriations Received recorded on the Statement of Changes in Net Position (SCNP). The \$80.4 million in appropriations recorded in the DAF WCF were transferred from the Defense WCF, and are included in the Appropriation line item on the Statement of Budgetary Resources; however, they are reported as Appropriations Transferred In/Out, and not as Appropriations Received on the SCNP.

Other on the SCNP is the contra-revenue offset associated with interest, fines, and penalties recorded as non-exchange revenue.

## NOTE 14 DISCLOSURES RELATED TO THE STATEMENT OF BUDGETARY RESOURCES

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

### NET ADJUSTMENTS TO UNOBLIGATED BALANCE, BROUGHT FORWARD, OCTOBER 1

There were no material adjustments as of September 30, 2023 to the budgetary resources available at the beginning of the year, and there are no legal arrangements affecting the use of unobligated balances.

### AVAILABLE BORROWING/CONTRACT AUTHORITY, END OF PERIOD

There was no available contract authority remaining for the FY ended September 30, 2023.

### UNDELIVERED ORDERS AT THE END OF THE PERIOD

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

FOR THE FISCAL YEAR ENDED SEPTEMBER 30 (AMOUNTS IN THOUSANDS)	2023 (UNAUDITED)	2022 (UNAUDITED)
<b>Intragovernmental</b>		
Unpaid	\$ 3,552,110	\$ 2,061,104
<b>Total Intragovernmental</b>	<b>\$ 3,552,110</b>	<b>\$ 2,061,104</b>
<b>Other than Intragovernmental</b>		
Unpaid	\$ 6,440,837	\$ 7,362,119
Prepaid/Advanced	428,837	328,839
<b>Total Other than Intragovernmental</b>	<b>\$ 6,869,674</b>	<b>\$ 7,690,958</b>
<b>Total Budgetary Resources Obligated for Undelivered Orders at the End of the Period</b>	<b>\$ 10,421,784</b>	<b>\$ 9,752,062</b>

## NOTE 14 DISCLOSURES RELATED TO THE STATEMENT OF BUDGETARY RESOURCES

### EXPLANATION OF DIFFERENCES BETWEEN THE SBR AND THE BUDGET OF THE U.S. GOVERNMENT

The table below presents a reconciliation between the Budgetary Resources, New Obligations and Upward Adjustments, Distributed Offsetting Receipts, and Net Outlays from the FY 2022 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 2024 President’s Budget. The Budget with the actual amounts of the current year (FY 2023) will be available at a later date at [The President’s Budget | The White House](#).

EXPLANATION OF DIFFERENCES BETWEEN THE STATEMENT OF BUDGETARY RESOURCES AND THE BUDGET OF THE U.S. GOVERNMENT				
AS OF SEPTEMBER 30 (AMOUNTS IN BILLIONS)	2022 (UNAUDITED)			
	BUDGETARY RESOURCES	NEW OBLIGATIONS AND UPWARD ADJUSTMENTS (Total)	DISTRIBUTED OFFSETTING RECEIPTS	AGENCY OUTLAYS, NET
Combined Statement of Budgetary Resources	\$ 19.1	\$ 18.2	\$0.0	\$ 0.1
Adjustments				
U.S. Transportation Command Statement of Budgetary Resources*	\$9.0	\$ 9.2	\$ 0.0	\$ 0.6
Combined DAF WCF and U.S. Transportation Command	\$ 28.1	\$ 27.4	\$ 0.0	\$ 0.7
Budget of the U.S. Government	\$ 28.1	\$ 27.4	\$ 0.0	\$ 0.7

\* United States Transportation Command’s (USTRANSCOM) financial results are not consolidated within the DAF WCF’s financial results; however, the DAF WCF is required to report USTRANSCOM in the DAF WCF’s Budget of the U.S. Government.

### CONTRIBUTED CAPITAL

There was no infusion of capital received for the period ended September 30, 2023.

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**NOTE 15** *DISCLOSURES RELATED TO INCIDENTAL CUSTODIAL COLLECTIONS*

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The DAF WCF collected \$8.2 thousand of incidental custodial revenues during the FY ended September 30, 2023, which were generated primarily from non-entity interest, penalties, and administrative fees collected for out-of-service debts. These funds are not available for use by the DAF WCF. At the end of each FY, the accounts are closed and the balances rendered to the Treasury.

## NOTE 16 RECONCILIATION OF NET COST TO NET BUDGETARY OUTLAYS

AS OF SEPTEMBER 30 (AMOUNTS IN THOUSANDS)	2023 (UNAUDITED)		
	INTRAGOVERNMENTAL	OTHER THAN INTRAGOVERNMENTAL	TOTAL
<b>Net Cost of Operations</b>	\$ (9,924,432)	\$ 9,355,187	\$ (569,245)
<b>COMPONENTS OF NET COST NOT PART OF NET BUDGETARY OUTLAYS</b>			
Change in General Property, Plant, and Equipment, Net	\$ 0	\$ 48,697	\$ 48,697
Change in Inventory and Related Property, Net	0	954,326	954,326
Increase/(Decrease) in Assets:			
Accounts Receivable, Net	(430,348)	240	(430,108)
Other Assets	0	99,999	99,999
(Increase)/Decrease in Liabilities:			
Accounts Payable	448,705	132,083	580,788
Federal Employee and Veteran Benefits Payable	0	(3,275)	(3,275)
Other Liabilities	(9,810)	(51,707)	(61,517)
Financing Sources:			
Imputed Cost	(293,484)	0	(293,484)
<b>Total Components of Net Cost Not Part of Net Budgetary Outlays</b>	\$ (284,937)	\$ 1,180,363	\$ 895,426
<b>COMPONENTS OF NET BUDGETARY OUTLAYS NOT PART OF NET COST</b>			
Other	\$ 0	\$ 0	\$ 0
<b>Total Components of Net Budgetary Outlays Not Part of Net Cost</b>	\$ 0	\$ 0	\$ 0
<b>MISCELLANEOUS RECONCILING ITEMS</b>			
Transfers (In)/Out Without Reimbursements	\$ (2,302)	\$ 0	\$ (2,302)
<b>Total Other Reconciling Items</b>	\$ (2,302)	\$ 0	\$ (2,302)
<b>Net Outlays</b>	\$ (10,211,671)	\$ 10,535,550	\$ 323,879
<b>Budgetary Agency Outlays, Net (Statements of Budgetary Resources)</b>			\$ 324,701
<b>Unreconciled Difference</b>			\$ (822)

## NOTE 16 RECONCILIATION OF NET COST TO NET BUDGETARY OUTLAYS

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



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**NOTE 16 RECONCILIATION OF NET COST TO NET BUDGETARY OUTLAYS**

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

The table above illustrates the reconciliation of key differences between Net Cost and Net Outlays. The unreconciled difference of \$822.4 thousand as of September 30, 2023, can be attributed to an \$832.8 thousand prior year collection transferred to the DAF WCF from the Defense Logistics Agency, offset by the \$10.4 thousand decrease in the allowance for doubtful accounts associated with the non-entity receivables.

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## **NOTE 17** PUBLIC-PRIVATE PARTNERSHIPS

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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, 2023.

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## **NOTE 18** DISCLOSURE ENTITIES AND RELATED PARTIES

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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.

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## **NOTE 19** *SUBSEQUENT EVENTS*

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Subsequent events were evaluated from the Balance Sheet date through November 8, 2023, which is the date the financial statements were available to be issued. The DAF WCF concluded that no events or transactions occurred or are pending that would have a material effect on the financial statements.

## DISAGGREGATED STATEMENT OF BUDGETARY RESOURCES

FOR THE FISCAL YEARS ENDED 2023 AND 2022 (AMOUNTS IN THOUSANDS)	OPERATIONS, READINESS & SUPPORT	2023 COMBINED	2022 COMBINED
<b>BUDGETARY RESOURCES</b>			
Unobligated Balance from Prior Year Budget Authority, Net (Discretionary and Mandatory) <i>(Note 14)</i>	\$ 893,514	\$ 893,514	\$ 1,223,752
Appropriations (Discretionary and Mandatory)	80,448	80,448	77,453
Contract Authority (Discretionary and Mandatory)	10,878,263	10,878,263	10,393,137
Spending Authority from Offsetting Collections (Discretionary and Mandatory)	7,993,438	7,993,438	7,373,230
<b>Total Budgetary Resources</b>	<b>\$ 19,845,663</b>	<b>\$ 19,845,663</b>	<b>\$ 19,067,572</b>
<b>STATUS OF BUDGETARY RESOURCES</b>			
New Obligations and Upward Adjustments (Total)	\$ 18,755,909	\$ 18,755,909	\$ 18,174,058
Unobligated Balance, End of Year:			
Apportioned, Unexpired Accounts	1,089,754	1,089,754	893,514
<b>Unexpired Unobligated Balance, End of Year</b>	<b>1,089,754</b>	<b>1,089,754</b>	<b>893,514</b>
<b>Unobligated Balance, End of Year (Total)</b>	<b>1,089,754</b>	<b>1,089,754</b>	<b>893,514</b>
<b>Total Budgetary Resources</b>	<b>\$ 19,845,663</b>	<b>\$ 19,845,663</b>	<b>\$ 19,067,572</b>
<b>OUTLAYS, NET</b>			
Outlays, Net (Total) (Discretionary and Mandatory)	\$ 324,701	\$ 324,701	\$ 149,127
<b>Agency Outlays, Net (Discretionary and Mandatory)</b>	<b>\$ 324,701</b>	<b>\$ 324,701</b>	<b>\$ 149,127</b>



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

November 8, 2023

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 2023 and FY 2022  
(Project No. D2023-D000FT-0059.000, Report No. DODIG-2024-015)

We contracted with the independent public accounting firm of Ernst & Young, LLP (EY) to audit the Department of the Air Force (DAF) Working Capital Fund Financial Statements and related notes as of and for the fiscal years ended September 30, 2023, and 2022. The contract required EY to provide a report on internal control over financial reporting and compliance with provisions of applicable laws and regulations, contracts, and grant agreements, and to report on whether the DAF's financial management systems substantially complied with the requirements of the Federal Financial Management Improvement Act of 1996. The contract required EY to conduct the audit in accordance with generally accepted government auditing standards (GAGAS); Office of Management and Budget audit guidance; and the Government Accountability Office/Council of the Inspectors General on Integrity and Efficiency, "Financial Audit Manual," Volume 1, May 2023, Volume 2, May 2023, and Volume 3, June 2023. EY's Independent Auditor's Reports are attached.

EY's audit resulted in a disclaimer of opinion. EY could not obtain sufficient, appropriate audit evidence to support the reported amounts within the DAF Working Capital Fund Financial Statements. As a result, EY could not conclude whether the financial statements and related notes were presented fairly and in accordance with Generally Accepted Accounting Principles. Accordingly, EY did not express an opinion on the DAF Working Capital Fund FY 2023 and FY 2022 Financial Statements and related notes.

EY's separate report, "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*,” discusses eight material weaknesses related to the DAF Working Capital Fund’s internal controls over financial reporting.\* Specifically, EY’s report stated that the DAF did not:

- establish entity-level controls that provided a basis for effective financial reporting;
- integrate and reconcile feeder systems to the general ledger to ensure that it accurately recorded the entire population of financial transactions on its financial statements in a timely manner;
- ensure the effective design and operation of financial reporting information systems;
- document inventory policies and procedures or fully implement internal controls to identify, track, and value inventory held by the DAF Working Capital Fund;
- oversee inventory managed and held by contractors and other defense organizations;
- develop adequate accounting policies, procedures, or internal controls over Accounts Payable, gross costs, and contract financing payment balances;
- correctly apply its revenue recognition and support its accounts receivable; or
- develop sufficient policies, procedures, and internal controls to fully reconcile Fund Balance with Treasury.

EY’s additional report, “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*,” discusses two instances of noncompliance with provisions of applicable laws and regulations, contracts, and grant agreements. Specifically, EY’s report describes instances in which the DAF’s financial management systems did not comply with the Federal Financial Management Improvement Act of 1996 and the Federal Managers’ Financial Integrity Act of 1982.

In connection with the contract, we reviewed EY’s reports and related documentation and discussed them with EY’s representatives. Our review, as differentiated from an

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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.

audit of the financial statements and related notes in accordance with GAGAS, was not intended to enable us to express, and we do not express, an opinion on the DAF Working Capital Fund FY 2023 and FY 2022 Financial Statements and related notes. Furthermore, we do not express conclusions on the effectiveness of internal controls over financial reporting, on whether the DAF's financial systems substantially complied with Federal Financial Management Improvement Act of 1996 requirements, or on compliance with provisions of applicable laws and regulations, contracts, and grant agreements. Our review disclosed no instances where EY did not comply, in all material respects, with GAGAS. EY is responsible for the attached November 8, 2023 reports and the conclusions expressed within the reports.

We appreciate the cooperation and assistance received during the audit. If you have any questions, please contact me.

FOR THE INSPECTOR GENERAL:



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

Attachments:

As stated





Ernst & Young LLP  
1775 Tysons Boulevard  
Tysons, VA 22102

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

## Report of Independent Auditors

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

### Report on the Audit of the Financial Statements

#### *Disclaimer of Opinion*

We were engaged to audit the financial statements of the Department of the Air Force Working Capital Fund (DAF WCF), which comprise the consolidated balance sheets as of September 30, 2023 and 2022, and the related consolidated statements of net cost and changes in net position and combined statements of budgetary resources for the years then ended, and the related notes (collectively referred to as the “financial statements”).

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

#### *Basis for Disclaimer of Opinion*

The DAF WCF continues to have unresolved accounting issues and material weaknesses in internal controls that cause the DAF WCF to be unable to provide sufficient evidential support for complete and accurate financial statements on a timely basis. As a result of these matters, we were unable to determine whether any adjustments might have been found necessary in respect of recorded or unrecorded balances and the elements making up the DAF WCF’s financial statements as of and for the years ended September 30, 2023 and 2022.

#### *Departures from U.S. Generally Accepted Accounting Principles*

As described in Note 1 the DAF WCF has not implemented certain accounting standards for the Department of Defense and the federal government. The effect of these matters on the DAF WCF’s financial statements as of and for the years ended September 30, 2023 and 2022 is not currently determinable by the DAF WCF and could be material.



### ***Responsibilities of Management for the Financial Statements***

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free of material misstatement, whether due to fraud or error.

### ***Auditor's Responsibilities for the Audit of the Financial Statements***

Our responsibility is to conduct an audit of the DAF WCF's financial statements in accordance with auditing standards generally accepted in the United States of America, in accordance with the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*), and in accordance with the provisions of Office of Management and Budget Bulletin No. 24-01, *Audit Requirements for Federal Financial Statements*, and to issue an auditor's report. However, because of the matters described in the Basis for Disclaimer of Opinion section of the report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

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

### ***Required Supplementary Information***

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

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we also have issued our reports dated November 8, 2023, 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



and grant agreements, and other matters. The purpose of those reports is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the DAF WCF's internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the DAF WCF's internal control over financial reporting and compliance.

*Ernst + Young LLP*

November 8, 2023



Ernst & Young LLP  
1775 Tysons Boulevard  
Tysons, VA 22102

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

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

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

We were engaged to audit, in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*) and the provisions of Office of Management and Budget (OMB) Bulletin No. 24-01, *Audit Requirements for Federal Financial Statements*, the financial statements of the Department of the Air Force Working Capital Fund (the DAF WCF), which comprise the consolidated balance sheet as of September 30, 2023, and the related consolidated statements of net cost and changes in net position and combined statement of budgetary resources for the year then ended, and the related notes (collectively referred to as the “financial statements”) and have issued our report thereon dated November 8, 2023. Our report disclaims an opinion on the financial statements because the DAF WCF continues to have unresolved accounting issues and material weaknesses in internal controls that cause the DAF WCF to be unable to provide sufficient evidential support for complete and accurate financial statements on a timely basis.

### **Report on Internal Control Over Financial Reporting**

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

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



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

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

### Material Weaknesses

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

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

- Enhanced integration and oversight of risks by enterprise leadership is needed
- Additional emphasis needed to meet external financial reporting objectives

- II. Integration and Reconciliation of Financial Systems - To ensure that the entire population of financial transactions has been recorded in the financial statements, it is necessary to reconcile feeder systems to the general ledger. The DAF WCF has a complex systems environment consisting of many non-integrated systems that use non-standard data and requires numerous manual workarounds. The lack of an integrated system prevents management from obtaining timely, accurate and reliable information to make effective business decisions. The DAF WCF continues to rely on both manual re-entry of data into multiple systems and complex system interfaces that are not fully reconciled. The lack of integration prevents information/data from processing without significant manual intervention.



We identified the following:

- Inability to validate the completeness of transactions underlying the financial statements
- Lack of monitoring over posting logic compliance with the United States Standard General Ledger (USSGL)
- Inability to maintain and/or provide supporting documentation in a timely manner
- Enterprise IT strategy has not been formalized and fully implemented

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

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

IT General Controls

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

Application Controls

- Interface controls

IV. Inventory Held by the DAF WCF – Inventory is a component of Inventory and Related Property, Net within the consolidated balance sheet. The balance includes supplies and spare parts at bases and maintenance depots, as well as parts awaiting or undergoing repair for reuse. The value of individual pieces is determined using different methods depending on their nature. Acquired supplies and parts are valued based upon acquisition cost while repairable and repaired parts are required to be valued based upon the internal and external costs incurred to repair.

We identified the following:

- Lack of sufficient inventory count procedures and controls
- Lack of sufficient policies, procedures and controls over inventory valuation
- Lack of sufficient policies, procedures and controls over inventory movement transactions
- Inability to identify and value in-transit inventory

V. Inventory Held by Others – The DAF WCF has shared service arrangements with other defense organizations and commercial contractors to hold or repair inventory and equipment to avoid duplication of efforts. We found that in many of these instances the DAF WCF is heavily reliant upon the other party to report activity and balances related to those materials and to maintain effective internal controls over quantities.



We identified the following:

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

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

We identified the following:

- Lack of sufficient documentation of accounting policies, procedures and controls
- Inadequate controls over accounts payable, contract financing payments, gross costs, cash disbursement and obligation processes

- VII. Earned Revenue and Accounts Receivable – The DAF WCF recognizes revenue and related accounts receivable balances for large scale long-term maintenance projects using a percentage of completion calculation. The DAF WCF recognizes “Flying Hours” revenue based upon the flying hours executed. The DAF WCF recognizes supply revenue for inventory sold based on the delivery of the inventory items.

We identified the following:

- Incorrect application of the percentage of completion revenue recognition method for maintenance revenue
- Lack of adequate policies, procedures and internal controls for “Flying Hours” revenue
- Lack of adequate policies, procedures, internal controls, and supporting documentation for supply revenue
- Inability to support invoice level accounts receivable subledgers

- VIII. Fund Balance with Treasury (FBwT) – FBwT represents the aggregate amount of funds in the DAF WCF’s accounts with the U.S. Treasury. EY identified that although key review controls are performed to reconcile differences between the DAF WCF and Treasury balances and recorded the necessary adjustments to FBwT at a summary level, those controls are not designed effectively to mitigate the associated risks of material misstatements.



We identified the following:

- Lack of sufficient documentation and execution of accounting policies, procedures and controls
- Lack of appropriate evaluation and reliance on controls included in service organization controls (SOC) reports impacting the FBwT process

#### Significant Deficiencies

- IX. General Property, Plant and Equipment (GPP&E) –The DAF WCF does not have adequate policies, procedures, internal controls, and supporting documentation in place to appropriately record GPP&E activity in the financial statements.

#### ***DAF WCF's Response to Findings***

*Government Auditing Standards* requires the auditor to perform limited procedures on the DAF WCF's response to the findings identified in our engagement and described in the accompanying letter (Management's Response Letter as listed in the Table of Contents) dated November 8, 2023. The DAF WCF's response was not subjected to the other auditing procedures applied in the engagement to audit the financial statements and, accordingly, we express no opinion on the response.





### ***Purpose of this Report***

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

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 8, 2023 on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of compliance and the results of that testing, and not to provide an opinion on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the DAF WCF's compliance.

*Ernst + Young LLP*

November 8, 2023



## Appendix A – Material Weaknesses

### I. ENTITY LEVEL CONTROLS

Entity management has a fundamental responsibility to develop and maintain effective internal control, which provides assurance that significant weaknesses in the design or operation of internal control, that could adversely affect the entity's ability to meet its objectives, would be prevented or detected in a timely manner. Establishing Entity Level Controls (ELCs) is a primary step in developing and operating an effective system of internal control. ELCs are internal controls that have a pervasive effect on an organization, generally operate at a high level and establish a basis for the effective operation of controls addressing specific accounts and assertions. ELCs begin at the top of an organization with enterprise-wide leadership involvement. The DAF WCF has maintained governance activities to fulfill the responsibilities of the Risk Management Council (RMC), the Senior Management Council (SMC), and the Executive Steering Committee (ESC) (functioning as its Senior Assessment Team) as described in OMB Circular A-123.

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

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

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

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

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



financial management capabilities, whether by redesigned business processes, modernized IT systems, or other efforts, facilitate better decision making and oversight of DAF priorities by enterprise-wide leadership.

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

- **Corrective action plans do not always reflect the entity-wide impact of an identified deficiency**—The DAF WCF continues to enhance its governance activities as part of its OMB Circular A-123 and Enterprise Risk Management programs. However, it is not entirely apparent, or fully documented, how DAF WCF’s enterprise-wide leadership is fully integrated in the evaluation of risks and in determining the best course of action for the entity as a whole. Furthermore, DAF WCF’s Corrective Action Plan (CAP) development, timelines and/or remediation efforts does not always include how expected changes to IT systems or business processes effect the entity-wide risks to internal control over financial reporting.

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

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

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

As the DAF WCF works through its existing material weaknesses, performing a timely and complete analysis of relevant accounting guidance is a critical step in the development of appropriate corrective actions responsive to risks of material misstatement to the financial statements. The DAF WCF has not fully established a process to effectively assess, monitor and implement accounting guidance issued by the Federal Accounting Standards Advisory Board (FASAB). The effect on the financial statement amounts involved is not currently determinable by the DAF WCF and could be material.

*Enhanced financial statement review procedures are needed*

The DAF WCF needs to continue to enhance its process for the preparation and review of its Agency Financial Report (AFR). Specifically, we identified instances of the following:

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



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

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

**Recommendations:**

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

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

- Enhance the existing risk assessment of the DAF WCF Internal Control Program and verify that all risks are identified, assessed and concluded upon annually.
- Enhance ongoing reviews of areas AU level testing to ensure disclosures are complete, accurate and compliant with OMB Circular A-123 and Government Accountability Office (GAO) Green Book guidance.
- Enhance the CAP guidance and process to ensure that FM and the functional communities have an integrated action plan that not only identifies the requirements for FM and the risk of material misstatements but is also clear as to assessing and coordinating those steps provided and executed by the other communities.
- Continue to execute and refine, as necessary, the maturity model related to the detailed framework for risk identification and communication from all levels within the organization with a focus on all critical aspects of internal control over financial reporting (e.g., business processes, ELCs, critical IT systems, impacts of resource constraints, etc.).
- Continue to develop mechanisms, including the Integrated Master Schedule and the DAF's new FY23 Interface and Interoperability process, to enforce accountability and collaboration across the entity (e.g., SAF/FMF, functional communities, IT organization) to understand and address the accounting and internal control implications and challenges.
- Enhance formal lines of communication about ongoing operational activities that prioritize the objectives of developing an internal control environment and business processes with the financial community for assessment beyond audit response and CAP efforts.



*Related to additional emphasis needed to meet external financial reporting objectives*

- Dedicate resources to track and coordinate the assessment of the impact and implementation of accounting guidance and technical updates.
- Continue to review OMB Circular A-136 requirements to ensure updated guidance is evaluated and incorporated in a timely manner.
- Continue to develop reviews by business process areas to ensure disclosures are complete, accurate and compliant with financial reporting guidance.
- Design and implement control activities which identify accounting estimates and monitor the appropriateness of the method, model, and assumptions utilized to determine the estimates.
- Design and implement control activities to perform and monitor balance sheet account reconciliations
- Enhance internal control procedures related to financial statement analytical reviews
- Enhance procedures related to Journal Voucher oversight

## **II. INTEGRATION AND RECONCILIATION OF FINANCIAL SYSTEMS**

A modernized IT system environment is critical to an entity's ability to fulfill its established missions. Well-designed information systems promote stronger financial management, enhance control over the entity's resources and provides timely access to better data for decision-making purposes.

As the DAF WCF continues to transition to modern systems, it is critical that the organization does not just replicate its existing environment and internal control processes just with newer, yet still non-integrated, systems. Instead, the entity needs to continue to define its requirements (mission-based, IT and financial management) and redesign processes as appropriate to take advantage of the benefits of system integration. Otherwise, the DAF WCF will continue to experience many of the similar challenges discussed within this report and further inhibit the entity's ability to produce timely and auditable financial statements.

The following deficiencies aggregated into this material weakness:

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

The DAF WCF currently does not have a complete understanding of its universe of transactions. This assessment is critical for management to understand and document the mapping of the internal processes, flow of data and controls performed to ensure output data is complete and accurate. Additionally, many of the DAF WCF's corrective actions to date have resulted in workarounds (e.g., additional reconciliations, journal vouchers) to address identified weaknesses given current system or resource limitations. The next significant step in the evolution of the DAF WCF's financial control environment needs to be the inclusion of a multi-layer analysis, review, repair



and remediation cycle. The DAF WCF will need to implement and operate a sustainable and auditable business environment through enhanced integration and innovation capabilities deployed in a targeted and coordinated manner. During our procedures, we identified the following:

- Accountable Property System of Record (APSR) reconciliations are reconciliations that occur in order to assert that feeder files reconcile completely and accurately to the corporate general ledger (General Accounting and Finance System – Re-engineered (GAFS-R)). There are eighteen APSR reconciliations completed through the Statement of Budgetary Resources Automated Reconciliation Tool (SBR-ART). The APSR reconciliations include, but are not limited to, reconciling the Integrated Logistics Systems-Supply (ILS-S), Defense Medical Logistics Standard Support (DMLSS), and Financial Inventory Accounting and Billing System (FIABS) to Standard Material Accounting System (SMAS), along with reconciling SMAS and the Defense Industrial Financial Management System (DIFMS), to GAFS-R. While progress has been made, the DAF WCF lacks certain aspects of an effective control environment related to the Statement of Budgetary Resources Automated Reconciliation Tool (SBR-ART), including control activities to identify, investigate and remediate variances timely identified by the reconciliations.
- The Unadjusted Trial Balance to Adjusted Trial Balance (UTB to ATB) reconciliation is designed to reconcile the feeder systems to the financial statements and provide reasonable assurance that these trial balances are complete and accurate. The DAF WCF currently performs a UTB to ATB reconciliation at the summary trial balance level and identifies journal vouchers (JV's) which explain the variance. The DAF WCF was unable to provide a sufficient UTB to ATB reconciliation as it was unable to identify JV's which impacted the reconciliation within the Defense Departmental Reporting System – Budgetary (DDRS-B). Further, the DAF WCF was unable to identify prior year adjustments within GASF-R beginning balances which impacted the reconciliation. As a result, it is unable to accurately reconcile all balances.
- The Financial Statement Reconciliation process is a summary reconciliation that extracts raw data from the DAF WCF systems and separates the financial statement line-item data by Assessable Unit in order to reconcile the DAF WCF universe of transaction to the financial statements. The DAF WCF currently has not identified key controls over the Financial Statement Reconciliation process it is performing, including control activities to identify, investigate and remediate variances identified in the reconciliation.
- A reconciliation was performed by the DAF WCF between the data from the various inventory feeder systems and the data which ultimately flows to FIABS. As a result of this reconciliation, the DAF WCF identified that there are quantity differences between FIABS and the identified feeder systems. While some progress has been made, the DAF WCF has not fully determined the underlying cause of the differences nor how to resolve them. Further, the DAF WCF has not applied dollar values to all of the quantity differences to fully assess their financial statement impact.
- The DAF WCF was unable to identify the root cause and composition of an adjustment driving a variance between inventory subledgers (FIABS, ILS-S and DMLSS) and SMAS.



Additionally, Intragovernmental transactions result from business activities conducted between two federal government entities, called trading partners. Accounting differences occur in government-wide financial reporting when trading partners record differing amounts for transactions that should eliminate or net to zero. Trading partners must reconcile and resolve these differences on a routine basis. Through September 30, 2023, the Department of Defense (DoD) reporting entity making sales or providing services (“seller-side”) was the basis for reporting most of the DAF WCF’s intra-DoD balances. There was no reconciliation at the agreement or document level to the trading partner adjustments made. Trading partner adjustments are recorded in Defense Departmental Reporting System – Audited Financial Statements (DDRS-AFS) as top-side adjustments and are identified as unsupported by DFAS.

The above examples demonstrate the complexity of the system environment and the need for a robust understanding of the flow of data to the financial statements. As a result, the DAF WCF was unable to support whether the transactions recorded in the financial statements were complete or accurate.

**(b) Lack of monitoring over posting logic compliance with the USSGL**

The DAF WCF and its service provider, DFAS, do not currently have a review process in place to ensure that the mappings applied are compliant with the Treasury Financial Manual (TFM). Throughout the course of the year, transactions from supply base level systems (FIABS, ILS-S and DMLSS) flow from the subledgers to the general ledger (SMAS) and then to the corporate general ledger (GAFS-R). On the maintenance side, transactions flow from the general ledger (DIFMS) to the corporate general ledger (GAFS-R). Posting logic applications take transactions at the subledger level and properly classify them into general ledger accounts (i.e., USSGL). FIABS, SMAS and DIFMS all apply posting logic. This mapping allows transactions to properly post and ultimately impact the intended financial statement line item.

**(c) Inability to maintain and/or provide supporting documentation in a timely manner**

Further progress is needed by the DAF WCF and its external parties to provide complete documentation, in a timely manner, to support an audit.

During our current year testing, we identified the following:

- Improper management and retention of supporting documentation. (e.g., support agreement, customer order/acceptance, customer voucher, shipping documentation, vendor invoice, evidence of review control execution).
- Lack of consistent implementation of documentation standards for maintaining complete records.
- Inability to provide supporting documentation to auditors in a consistent and timely manner.



- Inability to provide transactional data that reconciles to the summarized trial balance amounts that comprise the beginning budgetary and proprietary financial statement balances. Currently, there are no policies or procedures to mitigate this system weakness. Further, no documentation is maintained from prior periods to support beginning balances.

The DAF WCF's inability to provide adequate support for accounting transactions and control execution, increases the risk of a misstatement that could impact the financial statements. Furthermore, without such supporting documentation and proper audit trail, there is an increased risk of deficiencies in internal control over financial reporting and noncompliance with applicable laws and regulations.

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

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

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

- The DAF WCF is currently in the process of modernizing its system environment by replacing legacy systems with a centralized enterprise business suite. The modernization of the DAF WCF's system architecture will require a complex series of transitional interfaces and synchronization of legacy system interactions. In executing the process of modernizing its system environment, the DAF WCF lacks a comprehensive strategic vision for the implementation of new financial management systems and the subsumption or sunset of existing systems. For example, the current financial management system modernization plan does not consider all legacy systems, and some identified systems do not have a target subsumption or sunset date.
- There is inconsistent integration and collaboration between functional organizations throughout the system consolidation lifecycle leading to a lack of a holistic understanding of risks and mitigations across the enterprise. Cross-functional requirements and IT controls are not fully integrated during new application implementation and/or legacy application modernization. For example, enhanced project accounting could occur through the use of integrated modules incorporating processes such as procurement, accounts payable and GPP&E/inventory.
- There is insufficient integration of system oversight between financial management and functional organizations. Although the financial management portfolio board, which includes representation from SAF AQ, DFAS, SAF/MG among others, as well as the A4 portfolio board, meet on a monthly basis to discuss the current status of application





consolidation/modernization, status of Corrective Action Plans (CAPs) and related matters, its oversight is limited to systems in the Financial Management and Comptroller functional organization. Additional functional organizations (e.g., A1, A4, AQ) in the Department of the Air Force (DAF) exercise oversight of financially relevant systems within their portfolio; however, these efforts are not sufficiently integrated.

- There is a lack of a formalized and fully implemented IT governance strategy for financial and financially relevant systems. A comprehensive Enterprise IT strategy for governance over IT strategic direction, financial and financial feeder system portfolio modernization, knowledge management, data analytics, workforce skillsets and training/education, and enterprise-wide monitoring program for all application consolidations and data migration efforts has not been formalized and fully implemented.

### **Recommendations:**

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

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

- Develop/enhance the process to perform a quarterly detail level UTB to ATB reconciliation using the full detail data sets, including appropriate identification of JV's, to ensure the completeness and accuracy of the data as it flows from the general ledger to the financial statements.
- Design effective SBR-ART control activities which prevent or detect the identified risks of material misstatement
- Design effective Financial Statement Reconciliation control activities which prevent or detect the identified risks of material misstatement
- Investigate and determine the cause of the inventory quantity variances within FIABS resulting from the lack of identified feeder system quantities. In addition, the DAF WCF should implement effective feeder system data reconciliation procedures and controls to support the beginning balance of inventory within FIABS and ensure all balances in FIABS are reconciled to an identified feeder system on an ongoing basis.
- Implement document level reconciliations with the DAF WCF trading partners and develop a process for resolving differences at the document level.
- Pertaining to process and internal controls within the financial statement close and reporting (FSCR) class of transactions executed by DFAS and FMRA:
  - Perform a risk assessment of the FSCR class of transaction and identify all risks of material misstatement
  - Design effective control activities which prevent or detect the identified risks of material misstatement



- Execute the designed control activities
- Maintain sufficient evidence of the design and execution of the identified control activities
- Design and implement a periodic review control over inventory adjustments and the associated JVs to ensure that the adjustment is complete and accurate.

*Related to lack of monitoring over posting logic compliance with the USSGL*

- Ensure mapping of SMAS, FIABS and DIFMS posting logic rules to TFM entries.
- For any new SMAS, FIABS or DIFMS posting logic rules, develop policies and procedures to review new posting logic rules for TFM compliance prior to implementation.

*Related to inability to maintain and/or provide supporting documentation in a timely manner*

- Address the DAF WCF/DFAS ability to access and provide supporting documentation for significant transactions.
- Update the DAF WCF policies and procedures to ensure its internal controls provide adequate support for material amounts on the consolidated financial statements pertaining to beginning budgetary and proprietary financial statement balances.

*Related to enterprise IT strategy has not been formalized and fully implemented*

- Develop a comprehensive integrated financial management system modernization plan that considers long-term requirements for resources and funding, necessary changes to interfaces and business process controls throughout each phase of the plan, and development of effective IT general controls. Consider the following points when developing the system modernization plan:
  - Plan to continually retire/decommission legacy applications and reduce the number of duplicated system functions
  - Develop and consistently implement an enterprise-wide, comprehensive plan to improve financial and financial feeder system data analytics
  - Formalize processes that allow for consistent integration and collaboration between functional organizations throughout the system consolidation lifecycle and provide a holistic understanding of risks across the enterprise. Elements that should be included in the Enterprise IT strategy and governance include:
    - Implementation of planning, programming, budgeting and execution of resources in alignment with strategies and priorities.
    - Incorporation of compliance requirements with applicable laws, regulations and policies into system life-cycle management.
    - Focused financial system modernization on mission effectiveness, cybersecurity, cost efficiency and system interoperability, and enterprise shared services.



- Prioritize cross-functional requirements into the design and system modernization implementation efforts as well as interoperability and interfaces between financially relevant systems.
- The DAF WCF should continue to prioritize remediation of IT findings based on severity of the finding and the impact on priority financial business processes while continuing to integrate DAF's IT modernization plan and timelines as part of this prioritization effort.
- Implement automated control processes to assist in sustaining effective controls over the long-term (i.e. Identity, Credential, and Access Management, Security Information and Event Management and Vulnerability Management). There should be a holistic strategy to implementing these solutions rather than operating/implementing them in silos.
- Best practices learned from successful remediation of CAPs should be shared and implemented for relevant CAPs for other applications especially during system modernization efforts. This will prevent repetition of similar findings across the enterprise.

### III. FINANCIAL INFORMATION SYSTEMS

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

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

IT general controls support the continued functioning of application controls, the automated aspects of IT-dependent manual controls and the production of complete and accurate information produced by the entity. Weaknesses in such controls can compromise the integrity of data and increase the risk that such data may be inappropriately used and disclosed in the DAF WCF's financial statements, IT environment, and financial applications.



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

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

For FY23, a majority of the DAF WCF's in-scope financial applications had ineffective IT general controls. Further, the majority of audit findings identified in the current year across all applications are related to access controls/segregation of duties, change management and interfaces/business processes deficiencies.

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

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

- Additional edit checks and/or controls embedded within an application to prevent processing errors rather than relying primarily on manual detective and workaround controls.
- Existing logging capabilities (or leverage commonly used logging technology consistent with a given environment; e.g., cloud environment audit trail tools) to produce and retain



complete and accurate audit trails of changes to production code, application configurations, data directly modified by database accounts and key reports.

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

#### **(a) Access Controls**

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

The following access control weaknesses in aggregate, represent a significant risk to the DAF 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 terminated users, access provisioning, or access re-certifications.
- Procedures for monitoring and auditing 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.
- Auditing and monitoring of system activities was not established.
- Passwords were not being changed in accordance with defined frequencies.
- Shared passwords for group accounts are not adequately protected.
- Inactive or unauthorized users are not disabled or removed timely and in accordance with organization defined policies.
- The completeness and accuracy of system- and manually generated reports are not being verified by management responsible for reviewing these reports.
- Password complexity and password lockout requirements were not being enforced.



### **(b) Configuration Management/Change Controls**

Configuration management involves the identification and management of security features for all hardware and software components of an information system at a given point, and systematically controls changes to that configuration during the system's life cycle. By implementing configuration management controls, the DAF WCF can verify that only authorized applications 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 application business process (BP) controls and sensitive data; these deficiencies also increase the risk that such data may be inappropriately used and disclosed.

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

- Adequate policies and procedures defining configuration management review requirements have not been developed.
- Developers were granted inappropriate access to make modifications directly to the production environment.
- Changes are not properly reviewed, approved, tested, and documented.
- 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 are able to be made unmonitored and without any required documentation, testing (if applicable), or approval.
- The completeness and accuracy of system and manually generated reports are not being verified by management responsible for reviewing these reports.
- Access to application source code is not appropriately restricted and monitored.

### **(c) Segregation of Duties (SoD)**

SoD controls provide policies, procedures, and an organizational structure to prevent one or more individuals from controlling key aspects of computer-related operations without detection, and thereby conducting unauthorized actions or gaining unauthorized access to assets or records. Proper implementation of these controls separates duties in both procedure and practice, preventing a single user from having access or responsibility for tasks that should be completed by separate personnel for a strong control environment. Weaknesses in such controls can compromise the review processes and detective control procedures in applications, increasing the risk that user activities, especially for sensitive transactions, are not appropriately monitored and assessed.



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

- Access rights and responsibilities were not appropriately restricted to independent users and assigned in accordance with SoD policies
- 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
- 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) Security Management**

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

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

- Security controls were not regularly assessed for appropriateness, monitored, or tested 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 that have IT processes, such as infrastructure hosting, managed by a service organization (e.g. DISA), SOC reports are not being properly reviewed for impacts of SOC findings as well as applicability of CUECs.
- There is an inconsistent integration and collaboration between functional organizations throughout the system consolidation lifecycle leading to a lack of a holistic understanding of risks and mitigations across the enterprise.



### (e) Interface Controls

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

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

- System program management teams have not implemented an effective interface strategy and design
- Program management teams have not implemented effective interface processing procedures, which would include the assurance that:
  - Interfaces are processed completely, accurately, and only once in the proper period
  - Interface errors are rejected, isolated and corrected in a timely manner
  - Access to interface data and processes are properly restricted

### Recommendations:

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

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

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

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

- Access controls / user access / segregation of duties:
  - Implement monitoring and review controls for users with elevated access privileges
  - Implement procedures to document (1) requests of access specific to system roles and permissions, (2) authorized justifications for access, and (3) appropriate approvals for said access.
  - Document and follow procedures related to user account management and segregation of duties, including the entire life cycle from access provisioning to recertification, inactivity restrictions, and termination procedures





- Segregate roles and where conflicting roles are required or unavoidable, document business rationale and monitor activities of users
- Restrict user access to a single account and eliminate shared accounts
- Review access logs and perform follow-up investigation of potential security violations
- Implement strong password management policies
- Implement controls verifying the completeness and accuracy of management reports
- Configuration management / change controls:
  - Develop appropriate configuration management policies and procedures.
  - Segregate developer access between development and production environments.
  - Document and retain adequate evidence of change requests, testing, and approvals.
  - Monitor the application, database(s), and operating system(s) for potentially unauthorized changes.
  - Implement controls verifying the completeness and accuracy of management reports.
  - Restrict access to application source code to only authorized users.
  - Implement or leverage existing logging capabilities to produce and retain complete and accurate audit trails of changes to production code, application configurations, data directly modified by database accounts and key reports.
- Security Management:
  - Finalize the DAF WCF Enterprise IT strategic plan to consistently implement overarching IT governance over IT strategic direction, financial and financial feeder system modernization, and enterprise-wide monitoring program for all application consolidations and data migration efforts.
  - Define and implement consistent procedures related to periodic security controls assessments and testing.
  - Prioritize and monitor POA&M progress, and test and monitor corrective actions.
  - Review applicable SOC reports and associated CUEC implementation. For those service organizations where a SOC report is not performed, implement and conduct appropriate oversight and monitoring over the execution of inherited controls.
- Interface controls:
  - Implement stronger systemic checks for completeness and accuracy of interface file processing, to include tracking and logging procedures and protection from unauthorized access.
  - Maintain and periodically review appropriate and comprehensive documentation covering all interfaces.
  - Document and follow procedures for performing interface error handling and correction.



#### IV. INVENTORY HELD BY THE DAF WCF

The following deficiencies aggregate into this material weakness:

##### (a) Lack of sufficient inventory count procedures and controls

Inventory held by the DAF WCF is categorized as Depot inventory, Base Possessed inventory, and Medical Dental Division (MDD) inventory. Complete and accurate information on inventory values and quantities are critical to the reliability of the financial statements.

- The DAF WCF has implemented a formal policy and SOP for cycle count procedures for organic maintenance inventory. The procedures and controls performed to execute the oversight and monitoring functions for cycle counts are not sufficiently designed to prevent and or detect and correct a material misstatement in the financial statements resulting from counts.
- The DAF WCF has implemented a formal policy and SOP for cycle count procedures for base possessed inventory. The procedures and controls performed to execute the oversight and monitoring functions for cycle counts are not sufficiently designed to prevent and or detect and correct a material misstatement in the financial statements resulting from counts.
- The DAF WCF has implemented a formal policy and SOP for cycle count procedures for MDD inventory. The procedures and controls performed to execute the oversight and monitoring functions for cycle counts are not sufficiently designed to prevent and or detect and correct a material misstatement in the financial statements resulting from counts.

##### (b) Lack of sufficient policies, procedures and controls over inventory valuation

In general, inventory is valued at either an assigned value based on moving average cost (MAC) or at MAC net of an accumulation of internal and external costs incurred to restore a part to usable condition, or Latest Repair Cost (LRC). Findings exist for both types of valuation and are summarized between those related to the application of MAC and LRC:

###### *MAC calculation process*

The DAF WCF uses the MAC process to value the majority of its inventory. MAC is an approved historical cost valuation methodology for inventory in accordance with SFFAS 3 *Accounting for Inventory and Related Property* (SFFAS 3). The MAC calculates historical cost based upon an average of the on-hand quantity of an item's historical procurement prices. MAC values inventory on a perpetual basis; as a receipt of property is inducted, ILS-S or FIABS automatically computes MAC. The calculation of MAC is a heavily automated process that requires interactions amongst groups of systems and interfaces within the DAF WCF system environment. The DAF WCF does not have the appropriate controls or procedures in place for reviewing changes or transactions



related to the MAC calculation process, leading to an increased risk of inaccurate valuation of inventory.

During our procedures, we had the following observations related to the MAC calculation process:

- The DAF WCF does not have insight into which contracting systems fail to appropriately interface with the instance of FIABS performing the daily MAC calculation updates. Currently, there are not standard policies and procedures for the DAF WCF to identify and resolve instances where a procurement occurred from a contract outside of the primary contracting database that should be used as an input into the daily MAC calculation within FIABS.
- The MAC calculation includes new procurements only and excludes repairable inventory items that have been repaired by maintenance and restocked. The items repaired by maintenance and restocked should trigger a new MAC recalculation in accordance with the DoD Financial Management Regulation (FMR), but no recalculation is occurring.
- Currently there is a lack of periodic reviews of data inputs for local purchases in ILS-S and FIABS, as well as local purchases by DLA. The data entry is completed manually and no secondary review of these transactions or sample audit of these transactions occurs.
- There is no reconciliation process in place to ensure that the contract values interfacing to FIABS for purposes of calculating MAC updates are complete and accurate.

#### *Accumulation of Cost for Held for Repair Inventory*

When a repairable 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 repairable National Stock Numbers (NSN's) are necessary. Several errors existed in the application of this process resulting from the lack of controls in place to ensure LRC adjustments are appropriately valued or that the accumulated balance of the allowance reflects the allowance required for the parts in process of repair:

- When the asset is repaired and released into a held for sale inventory status, the reserve is then decreased in the amount of the asset's LRC on the day the asset repair is completed. The intent is that the newly repaired part is now valued at MAC. The LRC values are updated via the annual budget process. While the asset remains under repair, the allowance is not updated to reflect changes in the LRC. However, the entry to record the relief of the allowance is recorded at the current LRC. As such, the allowance is understated for those items under repair that were inducted in prior budget years. The accumulation of this error over time results in the consolidated inventory balance being misstated.
- During the annual budget process, LRC for the current fiscal year is developed based off of data from the two preceding fiscal years. In some instances, inventory items have an LRC that is greater than the MAC value of that item, resulting in a recorded negative net inventory value for the carcass. An LRC greater than the MAC value can occur when manufacturers no longer



supply the part, or manufacturers have not produced the parts in many years, therefore replacing the part may require custom manufacturing. The negative net inventory occurs due to the fact that the DAF WCF is not considering Latest Acquisition Cost (LAC) in calculating the repair allowance by asset. The DAF WCF recorded a material adjustment to partially address this condition and increase the value of inventory and related property, net.

- The credit given to customers for delivering carcasses is not equal to the net value assigned to the carcass in inventory (i.e. MAC less LRC) creating an unintended gain or loss.

**(c) Lack of sufficient policies, procedures and controls over inventory movement transactions**

The DAF WCF did not consistently execute internal controls to ensure inventory movements (inductions, issuances, or disposals) were completely and accurately reflected within the supply systems. Additionally, the complete end-to-end processes, procedures and key controls for portions of the inventory movement processes are not accurately and/or fully documented.

- Both the DAF WCF and DLA manage the movement of depot inventory. The DAF WCF manages the induction of base possessed inventory in ILS-S. During induction, the asset and associated data are received, inspected, and entered into the appropriate systems. Verification of the accuracy of the induction information is not appropriately segregated amongst multiple personnel or performed through other controls.
- The DAF WCF personnel utilize degraded operations procedures to record inventory movements when ILS-S is not online. Degraded operations transactions are manually recorded within a log and then manually transferred into ILS-S once it is back online. Sufficient review procedures currently are not in place to verify the completeness and accuracy of degraded operations activity entered into ILS-S.
- The DAF WCF did not sufficiently record inventory movement associated with unserviceable inventory awaiting inspection, disposition, or shipment for repair.
- The DAF WCF currently does not have detailed accounting policy interpretations and definitions for the Excess and Obsolete categorizations of inventory as identified in Statement of Federal Financial Accounting Standards (SFFAS) 3.

**(d) Inability to identify and value in-transit inventory**

As inventory is moved between the DAF WCF locations, those in-transit items are removed from the supply systems until they reach their destination and then are re-recorded in the supply systems. While progress has been made, the DAF WCF remains unable to appropriately identify a complete and accurate population of, including the valuation of, in-transit inventory at the item and transaction level. The balance of in-transit inventory recorded in the financial statements was primarily determined by an aging-based estimation methodology which lacks appropriate precision. This likely causes misstatements in inventory balances. During our procedures, we had the following observations related to inventory-in transit:



- The DAF WCF has developed in-transit listings for SCS and ILS-S to provide visibility over the number and value of open in-transit transactions at a given period end, which represents transactions that have been shipped from one location, but not yet received at the receiving location and recorded within the system. However, the results of our testing resulted in inaccurate inclusion of transactions within the in-transit listings.
- The DAF WCF has not designed, implemented, or documented within an existing process cycle memorandum (PCM) appropriate oversight and monitoring controls over in-transit inventory.
- The DAF WCF identified various data paths through which in-transit inventory transactions are created and subsequently cleared. However, the DAF WCF has not currently identified the automated controls by which in-transit records are created and subsequently cleared from the in-transit listings in a PCM. Additionally, the DAF has not identified in a PCM or implemented a review control that ensures data paths that lack an interface and the transactions within that data path are manually reviewed in order to overcome the lack of an existing interface.
- When MDD inventory is shipped from one location of the DAF WCF to another, the inventory is removed from the shipping base's subledger upon shipment. The DAF WCF is unable to identify MDD inventory in-transit at the asset level, as the receiving base does not recognize the inventory until inducted.

### **Recommendations:**

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

#### *Related to inventory count procedures and controls*

- Design effective control activities which prevent or detect the identified risks of material misstatement for organic maintenance cycle counts.
- Design and implement control(s) to ensure periodic review of consolidated cycle count accuracy, both consolidated and at the location level, against pre-established quantitative thresholds deemed by management to be "highly accurate"
- Management should evaluate and define within their inventory count policy a quantitative accuracy threshold for consolidated count results to be evaluated and determine corrective action process should count results fall below this threshold
- Design and implement control(s) to ensure 100% of assets have been or will be counted by the end of the fiscal year in accordance with the established count plan



*Related to inventory valuation – MAC*

- Implement additional interface controls to ensure contracts housed in databases outside of the primary contract database are appropriately incorporated into the computation of MAC. Further, implement reconciliation processes to ensure that contract values interfacing as part of the MAC computation process are complete and accurate.
- Update FIABS and ILS-S system logic to ensure that items turned in for repair that are subsequently restocked once a repair is complete trigger an updated MAC calculation.
- Implement periodic reviews or sample audits for data inputs for local purchases in ILS-S and FIABS.

*Related to inventory valuation – Accumulation of Cost*

- Establish policies, procedures, and controls so that the repair allowance is calculated consistently with SFFAS 3 and the DoD FMR. This should include updating the LRC for the results of the annual budget process and reflecting the updates in the repair allowance account.

*Related to inventory movement*

- Design control activities which prevent or detect the identified risks of material misstatement such as incomplete or inaccurate system information used in the performance of a control and inappropriate segregation of duties.
- Maintain appropriate evidence of the design and execution of control activities.
- Review and update existing policies and procedures related to the accounting for inventory movement for unserviceable inventory awaiting inspection, disposition, or shipment for repair.
- Establish a policy in writing that interprets the SFFAS 3 definition of Excess and Obsolete inventory as it relates to the accounting for inventory transactions under the DAF WCF's operational procedures.
- Design effective control activities which prevent or detect the identified risks of inaccurately valuing Excess and Obsolete inventory.

*Related to in-transit inventory*

- Design, identify and execute periodic oversight and monitoring controls over in-transit inventory for SCS and ILS-S
- Identify and implement key application and interface controls within either a new or existing PCM for each data path in which an interface does exist.
- Identify and implement manual review controls within a PCM for each data path in which an interface does not exist.



- Create a sub-account for MDD WRM in-transit materials in order to maintain appropriate records in DMLSS at the asset level.

## V. INVENTORY HELD BY OTHERS

A significant portion of the DAF WCF inventory balances are held by others, including DLA, outside contractors, and other defense organizations.

The following deficiencies aggregate into this material weakness:

### (a) Insufficient oversight of inventory managed by DLA

We identified that the DAF WCF does not have sufficient controls in place to ensure balances being recorded through the DLA DSS system are complete and accurate. DLA DSS is a feeder system which flows into the DAF WCF inventory subledger. The DAF relies on DLA to report inventory quantities on hand at period end through DLA DSS. The DAF WCF's current policy is to adjust the inventory records to the quantities reported by DLA. This policy can result in discrepancies in inventory quantities when compared to the DAF WCF records of DLA managed inventory items. The DAF WCF is currently not performing an analysis to determine the appropriateness of changes recorded as a result of DLA's balances compared to the DAF WCF records.

DLA is a material service provider to the DAF WCF. The DAF WCF has not assessed all DLA functions to determine which risks of material misstatement and internal controls are material to DAF WCF's internal control over financial reporting. Further, the DAF WCF has not implemented controls specific to its review of the DLA Service Owned Inventory in DLA Custody (SOIDC) SOC report. Specifically, the DAF WCF has not evaluated the complementary user entity controls (CUECs) identified in the current DLA SOIDC SOC report and mapped relevant CUECs to DAF WCF internal controls. The DAF WCF also has not considered the impact of deficiencies identified in the DLA SOIDC SOC report on its internal control over financial reporting.

### (b) Insufficient oversight of inventory managed by contractors and other defense organizations

Complete and accurate information on inventory values and quantities are critical to the reliability of the financial statements. The DAF WCF utilizes multiple third parties to hold and repair inventory in order to avoid duplication of efforts. In reporting inventory balances held at third party locations, the DAF WCF is responsible to ensure the completeness and accuracy of the information being reported on its financial statement and related footnotes. EY identified multiple conditions precluding the DAF WCF from effectively executing oversight of assets held by contractors and other defense organizations on behalf of the DAF WCF.



A reconciliation was performed by the DAF WCF between the quantity data from various inventory feeder systems impacting contractor and other defense organization inventory and the data which ultimately flows to the FIABS inventory subledger. As a result of this reconciliation, the DAF WCF identified that there are quantity differences and potential duplicate records between the inventory subledger and the identified feeder systems. We identified the following conditions regarding the reconciliation:

- While progress has been made in determining and resolving the underlying causes of the quantity differences within the reconciliation, all material differences have not been resolved.
- Material interfaces between the feeder systems and the inventory subledger have not been identified and validated for completeness and accuracy.
- Dollar values have not been applied to all quantity differences to assess their complete financial statement impact.
- Controls to assess the completeness and accuracy of the various data sources which are used in the reconciliation have not been established.
- A standard operating procedure and ongoing internal controls pertaining to the reconciliation have not been developed.

During the performance of inventory observation procedures, we identified multiple instances where location data within the DAF WCF's inventory subledger did not match the asset's physical location. Additionally, as a result of these observations, inventory quantity differences were identified between the DAF WCF inventory feeder system and contractor systems, as well as differences between contractor systems and on-hand quantities. Furthermore, we identified an instance of assets being sent to a contractor and inducted under a different stock number representative of an upgraded version of the asset prior to upgrade work being performed. The DAF WCF has not yet determined the pervasiveness of their asset upgrade projects to determine the risk of misstatement. Without accurate tracking of the inventory held by third parties on the DAF WCF's behalf, management is unable to assess the completeness, existence, and accuracy of inventory balances in other organizations' custody.

Additionally, we identified certain assets that were recorded within the inventory subledger as on-hand with contractors that had already been physically shipped back to the DAF WCF, causing the assets to be double counted. The DAF WCF identified the population of assets within this scenario and worked to correct the transactions prior to year-end, however, no effective internal controls currently exist to address this circumstance. The DAF WCF determined that there is not one, single root cause creating the hanging shipments, and further evaluation must be performed to help pinpoint the underlying driver for the transactions not being processed correctly.

We additionally determined that the DAF WCF has not fully identified the material aspects of the process, risks of material misstatement, DAF WCF controls, and contractor or other defense organization controls within its process narratives pertaining to inventory managed by contractors or other defense organizations.





## Recommendations:

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

### *Related to the insufficient oversight of inventory managed by DLA*

- Evaluate the most effective approach to ensure the controls being performed by the DAF WCF and the DLA impacting the DLA managed inventory process are designed and operated effectively to prevent and/or detect material misstatements:
  - Evaluate the existing DLA SOIDC SOC-1 report to ensure the report is scoped for the specific risks associated to the functions the DLA performs on behalf of the DAF WCF.
  - Evaluate the CUECs identified within the current DLA SOIDC SOC report to determine whether all CUECs are relevant to the DAF WCF's processes and use of the DLA.
  - Evaluate which process narratives are required to be updated for the identified CUECs from the DLA SOIDC SOC-1 report based on the underlying nature of the identified CUEC.
  - Map the CUECs, as identified within the DLA SOIDC SOC-1 report, to the DAF WCF process narratives to ensure the DAF WCF control environment is responsive to the risks related to the use of the DLA.
  - Design, implement, and maintain evidence for internal control activities performed by the DAF WCF related to the DLA managed inventory process which prevent or detect misstatements.

### *Related to the insufficient oversight of inventory managed by contractors and other defense organizations*

- Pertaining to the reconciliation of various inventory feeder systems impacting contractor and other defense organization inventory and the data which ultimately flows to the inventory subledger:
  - Establish controls and procedures to document the underlying drivers of identified variances, the process by which those variances were investigated, and the eventual resolution of identified variances including appropriate retention of supporting evidence.
  - Identify and validate the completeness and accuracy of interfaces between the feeder systems and the inventory subledger.
  - Apply dollar values to all identified quantity differences in the reconciliation in order to assess their materiality.
  - Establish controls to assess the completeness and accuracy of the various data sources which are used in the reconciliation.



- Effectively design and operate controls related to the contractor managed and other defense organization managed inventory processes in order to prevent or detect material misstatements. In determining the extent of control procedures required, the assessment should continuously consider the materiality of the balance of inventory and transaction volume pertaining to each contractor or other defense organization.
- Implement periodic review controls over contractor managed inventory to include locational data completeness and accuracy.
- Perform inventory existence and completeness count procedures over contractor and other defense organization managed inventory balances.
- Perform periodic reconciliation of inventories reported by contractors and other defense organizations to the DAF WCF inventory subledger. Investigate and resolve reconciling items in a timely manner.
- Evaluate whether a journal voucher should be recorded at period end to reduce the value of assets inducted for upgrade under the upgraded versions NSN to the value of the non-upgraded version.
- Identify and implement a review control over the “Received, Not Shipped” report, including timely follow up and resolution procedures.

## **VI. ACCOUNTS PAYABLE, GROSS COSTS AND ACCOUNTING FOR CONTRACT FINANCING PAYMENTS**

The following deficiencies aggregated into this material weakness:

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

The DAF WCF has not fully demonstrated its integration and consideration of financial reporting risks that extend across multiple business processes, and its development and retention of adequate documentation of its acquisition, logistics, and accounting processes, and the completeness and accuracy of data from asset procurement through receipt, invoicing and payment. For example, this includes areas such as accounts payable (AP), contract financing payments (CFP), gross costs, disbursements, obligations, contracting and key subprocesses from the procure to pay (P2P) and plan to stock business processes, including, but not limited to Vendor Pay, Mechanization of Contract Administration Services (MOCAS), and Military Standard Requisitioning & Issue Procedures (MILSTRIP).

As a result, the complete end-to-end process flows, procedures and key controls are not accurately and/or sufficiently assessed and documented. The DAF WCF’s process cycle memorandums (PCMs) lack policies and procedures to sufficiently identify the financial reporting risks and corresponding controls. This includes, but is not limited to, an insufficient assessment of relevant IT applications and tools (including interface and application controls), insufficient oversight and monitoring of service providers, timely recording of transactions as well as the lack of sufficiently



designed and executed controls over the completeness and accuracy of data used in the execution of key controls. The PCMs also do not reference or incorporate cross-cutting controls and processes that are significant, but documented as part of other processes (e.g., FBwT, financial reporting).

**(b) Inadequate controls over AP, CFP, gross costs, cash disbursement and obligation processes**

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

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

The lack of or inadequate controls over AP, CFP, gross costs, cash disbursement and obligations processes have had a downstream impact on other processes, leading to significant efforts to design mitigating controls in those areas that would not otherwise have been necessary. Controls designed in other areas have identified certain root causes that also indicate the need for enhanced preventative controls at the installation level or other system changes that may be necessary to better support budget execution and monitoring.

**Recommendations:**

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

- Identify the risks that are posed to the financial statement line items, relevant assertions, general ledger accounts for these cycles. Based on the risks, DAF WCF should perform the following:



- Document the process flow of transactions, including the IT systems and applications, that generate those risks and the process owners (including within DAF WCF and third-parties) responsible for assessing the risks.
- Identify and document the corresponding key controls (both prevent and detect and correct controls) that address those risks to adequately account for and report in the appropriate financial statement line item. For those areas primarily handled by third parties, develop appropriate DAF WCF monitoring controls over the procedures and controls performed by the third-party service organizations.
- Evaluate systemic capability and integration necessary across acquisition, logistics, and financial systems to better support achievement of operational and financial objectives.
- Understand the set of data elements and business rules utilized to produce a universe of transactions for each P2P transaction-type and assess whether feeder systems (funding, contract writing, entitlement, and disbursements) have sufficient data traceability for all procurement actions. This includes tracking of the committed funds, obligation funding and execution, such as receipt/ acceptance and disbursement data.
- Develop, document and implement reconciliations, rollforward procedures or other analyses supporting significant general ledger accounts such as: accounts payable, advances and prepayments/outstanding contract financing payments).
- Develop, design, and implement review controls for each AU sub-process (e.g., MOCAS, MILSTRIP, Vendor Pay Contracts) at an appropriately disaggregated level to identify individual root causes of unmatched disbursements, aged transactions, and abnormal balances relevant to financial reporting and fiscal compliance objectives. This analysis should include the defining of appropriate thresholds, adequate evidence retained to support the review performed, and notations or explanations from the reviewer to support any judgment applied.
- Develop policies and define control owners and responsibilities by organization, to include Base and MAJCOM/FIELDCOM levels, Air Force Accounting and Finance Office (AFAFO), Accounting Operations Center (AOC) and any other relevant organizations, including those responsible for research, correction and root cause analysis.
- Develop, document, and implement the methodologies, assumptions, policies, and procedures to identify and record period end accruals, including retrospective reviews and analysis as appropriate.

## VII. EARNED REVENUE AND ACCOUNTS RECEIVABLE

The following deficiencies aggregate into this material weakness:

**(a) Incorrect application of the percentage of completion revenue recognition method for maintenance revenue**

The DAF WCF recognizes revenue for large scale long-term maintenance projects using a percentage of completion calculation. The DAF WCF is incorrectly applying the percentage of completion calculation per SFFAS 7, *Accounting for Revenue and Other Financing*



*Sources.* Currently, the DAF WCF does not have a system in place to routinely monitor and update total estimated costs of a project, and therefore, is recognizing revenue as a percentage of the initial estimated costs of the project rather than actual costs. By not identifying and monitoring projects where the total cost incurred will exceed (or not meet) the amount of costs initially estimated, the DAF WCF is incorrectly matching revenues to expenses in the reporting period.

**(b) Lack of adequate policies, procedures and internal controls for “Flying Hours” revenue**

The DAF WCF recognizes “Flying Hours” revenue for the Consolidated Sustainment Activity Group (CSAG) Supply Division and Supply Management Activity Group – Retail (SMAG-R) based upon the flying hours executed. “Flying Hours” billings are computed monthly on a one-month lag. The year-end “Flying Hours” accrual is computed based upon a three-month average of actual billings. We identified that the review performed of the year-end “Flying Hours” revenue accrual was not sufficiently documented or of sufficient rigor. Furthermore, management does not sufficiently review prior year accrual to actuals to determine if the estimate should be refined in future periods. In addition, the DAF WCF determines the amount of “Flying Hours” billings based upon the preliminary quantity of flying hours executed by each Major Command. The final amount of executed flying hours are determined and provided to the DAF WCF subsequent to monthly billings occurring. The DAF WCF did not reconcile the preliminary quantity of flying hours executed to the final quantity of flying hours executed and make any corresponding adjustments to “Flying Hours” revenue recorded.

**(c) Lack of adequate policies, procedures, internal controls, and supporting documentation for supply revenue**

The DAF WCF recognizes supply and MDD revenue upon the sale of an inventory item. Prices are entered into various pricing systems managed by either the DAF or third parties and interface to the ILS-S, FIABS or DMLSS systems to measure revenue. We identified that the controls in place are not designed effectively to ensure accurate approved prices are used to measure ILS-S and FIABS revenue. In addition, insufficient controls were in place over the customer acceptance and maintenance process.

**(d) Inability to support invoice level accounts receivable subledgers**

We identified that the DAF WCF is unable to provide an accounts receivable subsidiary ledger at the invoice level which reconciles to the general ledger.

**Recommendations:**

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



- Develop policies and procedures to properly apply the percent of completion guidance as outlined in SFFAS 7.
- Implement a process to continually estimate and document the total cost of the maintenance project throughout the life of the maintenance project.
- Update the maintenance revenue recognition calculation to include a calculation for a proportionate amount of estimated losses each period.
- Design control activities which prevent or detect the identified risks of material misstatement such as incomplete or inaccurate system information used in the performance of a control and inappropriate segregation of duties.
- Maintain appropriate evidence of the design and execution of control activities.
- Update policies and procedures so that appropriate documentation can be provided in a timely manner to support transactions/balances recorded in the financial statements.
- Develop sufficient controls to reconcile and monitor the accounts receivable subsidiary ledger at the invoice level to the general ledger.

## VIII. FUND BALANCE WITH TREASURY

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

The following deficiencies aggregate into this material weakness:

**(a) Lack of sufficient documentation and execution 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. We identified that specific review controls over the Cash Worksheet, the Undistributed JV process, Advana Reconciliation, and Oversight and Monitoring were not effectively designed because they did not have sufficient review objectives, including evidence of review, and appropriate reliance on source data for the majority of the year.

**(b) Lack of appropriate evaluation and reliance on controls included in service organization controls (SOC) reports impacting the FBwT process**

The DAF WCF relies on service providers for their role in the FBwT process (such as Advana). The DAF WCF has not assessed all service provider functions to determine which risks of material misstatement and internal controls are material to DAF WCF's internal control over financial



reporting. Further, the DAF WCF has not implemented controls specific to its review of the service provider's SOC report(s). Specifically, the DAF WCF has not evaluated the complementary user entity controls (CUECs) identified in the SOC report(s) and mapped relevant CUECs to DAF WCF internal controls. The DAF WCF also has not considered the impact of deficiencies identified in the SOC report(s) on its internal control over financial reporting.

## Recommendations

*Related to lack of sufficient documentation and execution of accounting policies, procedures and controls*

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

- Develop control objectives to resolve variances between the general ledger and the U.S. Treasury in a supportable manner each period. The control objectives should include sufficient root cause analysis of the identified exceptions causing the undistributed and unmatched variances.
- Design and implement an effective process to support the monthly reconciliation controls between the DAF WCF general ledgers and the U.S. Treasury. Retain adequate documentation to support the execution of the controls including sufficient evidence of the underlying review over source files input into the reconciliation, the business logic used for the reconciliation tool's processing of the files, and the final outputs intended to support the undistributed JV.
- Evaluate the existing FBwT reconciliation control environment to identify the need for additional monitoring and review controls throughout the entire FBwT reconciliation process.
- Implement ongoing review procedures over the documentation on changes made to the FBwT reconciliation script to allow the DAF WCF oversight over changes in the business logic and evidence the review procedures in written documentation.
- Complete the review of the FBwT reconciliation timely to detect and correct errors prior to the reporting of financial statements.
- Develop and improve existing communication protocols between the DAF WCF and service providers on the FBwT reconciliation to support the effectiveness of key controls.

*Related to lack of appropriate evaluation and reliance on controls included in service organization controls (SOC) reports impacting the FBwT process*

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

- Evaluate any relevant SOC-1 report(s) to ensure the report is scoped for the specific risks associated to the functions the service provider performs on behalf of the DAF WCF.



- Evaluate the CUECs identified within the SOC report(s) to determine whether all CUECs are relevant to the DAF WCF's processes and use of the service provider.
- Map the CUECs, as identified within the service provider's SOC-1 report, to the DAF WCF FBwT process narrative to ensure the DAF WCF control environment is responsive to the risks related to the use of the service provider.

### **Significant Deficiency**

#### **IX. General Property, Plant and Equipment (GPP&E)**

The complete end-to-end processes, procedures and internal controls for portions of the GPP&E processes are not accurately and/or fully documented. The DAF WCF did not consistently execute internal controls to ensure GPP&E balances (additions, disposals or impairments) were completely and accurately reflected within the financial statements. Certain detect controls within the GPP&E process were effectively designed and operating during the year; however, other controls within the GPP&E process were not effectively designed and evidence of their performance was not appropriately maintained. In addition, the fact that DAF WCF has not completed the process of evaluating the effects that will result from adopting SFFAS 50 to the beginning balance of GPP&E is not considered in this significant deficiency. Rather, it is considered separately within the Entity Level Controls material weakness.

#### **Recommendations:**

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

- Design control activities which prevent the identified risks of material misstatement such as incomplete or inaccurate system information used in the performance of a control and inappropriate segregation of duties.
- Maintain appropriate evidence of the design and execution of control activities.





Ernst & Young LLP  
1775 Tysons Boulevard  
Tysons, VA 22102

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

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

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

We were engaged to audit, in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*) and the provisions of Office of Management and Budget (OMB) Bulletin No. 24-01, *Audit Requirements for Federal Financial Statements*, the financial statements of the Department of the Air Force Working Capital Fund (DAF WCF), which comprise the consolidated balance sheet as of September 30, 2023, and the related consolidated statements of net cost and changes in net position and combined statement of budgetary resources for the year then ended, and the related notes (collectively referred to as the “financial statements”) and have issued our report thereon dated November 8, 2023. Our report disclaims an opinion on the financial statements because the DAF WCF continues to have unresolved accounting issues and material weaknesses in internal controls that cause the DAF WCF to be unable to provide sufficient evidential support for complete and accurate financial statements on a timely basis.

### **Report on Compliance and Other Matters**

In connection with our engagement to audit the financial statements, we performed tests of the DAF WCF’s compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statements as well as the requirements referred to in the Federal Financial Management Improvement Act of 1996 (FFMIA). However, providing an opinion on compliance with those provisions was not an objective of our engagement, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and the provisions of OMB Bulletin No. 24-01, as described below. Additionally, if the scope of our work had been sufficient to enable us to express an opinion on the financial statements, other instances of noncompliance or other matters may have been identified and reported herein.

Our Report of Independent Auditors on Internal Control over Financial Reporting dated November 8, 2023, 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.



## FFMIA

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

### (a) Noncompliance with federal financial management system requirements

As referenced in the Fiscal Year (FY) 2023 DAF WCF Statement of Assurance, the DAF WCF identified that financial systems and financial portions of mixed systems do not substantially meet the requirements of FFMIA or OMB Circular A-123, *Management of Financial Management Systems – Risk and Compliance* (Circular A-123) Appendix D.

EY also identified this material weakness as part of the Financial Information Systems material weakness, contained in the Report of Independent Auditors on Internal Control over Financial Reporting, where we identified noncompliance with federal financial management system requirements for multiple systems. Deficiencies identified include those associated with security management, access controls/user access, configuration management/change controls, segregation of duties 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 2023 DAF WCF Statement of Assurance and Note 1 to the financial statements, the DAF WCF identified that the financial systems and financial portions of mixed systems do not allow the DAF WCF to comply with applicable federal accounting standards, including not being able to collect and record financial information on an accrual accounting basis. EY also identified noncompliance with federal accounting standards during our testing, which was included in our Report of Independent Auditors on Internal Control over Financial Reporting.

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

As referenced in the FY 2023 DAF WCF Statement of Assurance, the DAF WCF identified that the design of financial systems and financial portions of mixed systems do not allow the DAF WCF to comply with the USSGL at the transaction level. EY also identified noncompliance with



the USSGL posting logic during our testing, which was included in our Report of Independent Auditors on Internal Control over Financial Reporting.

### FMFIA

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

The DAF WCF has not fully implemented a framework to evidence that they are in compliance with certain aspects of OMB Circular A-123, which implemented FMFIA. The DAF WCF provided the FY 2023 Statement of Assurance; however, there was not sufficient appropriate audit evidence that certain aspects related to entity level controls have been identified and implemented by the DAF WCF. Based on the evidence received, EY assessed that the DAF WCF has implemented an OMB Circular A-123 testing framework and strategy; however, the DAF WCF has not sufficiently evaluated and supported the extent of testing and review performed to meet the reliability of financial reporting requirements of FMFIA.

### ***DAF WCF's Response to Findings***

*Government Auditing Standards* requires the auditor to perform limited procedures on the DAF WCF's response to the findings identified in our engagement and described in the accompanying letter (Management's Response Letter as listed in the Table of Contents) dated November 8, 2023. The DAF WCF's response was not subjected to the other auditing procedures applied in the engagement to audit the financial statements and, accordingly, we express no opinion on the response.

### ***Purpose of this Report***

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

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 8, 2023, on our consideration of the DAF WCF's internal control over financial reporting. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and the results of that testing, and not to provide an opinion on the effectiveness of the DAF WCF's internal control over financial reporting. That report is an integral



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

*Ernst + Young LLP*

November 8, 2023



**DEPARTMENT OF THE AIR FORCE**  
WASHINGTON DC

**OFFICE OF THE ASSISTANT SECRETARY**

SAF/FM  
1130 Air Force Pentagon  
Washington, DC 20330-1130

8 November 2023

Mr. Timothy Winder  
Partner, Ernst & Young LLP  
1775 Tysons Blvd  
Tysons, VA 22102

Dear Mr. Winder:

The Department of the Air Force reviewed the Independent Auditor Report prepared for the Fiscal Year 2023 Working Capital Fund financial statements and acknowledges and concurs with your issuance of a disclaimer of opinion. We appreciate your insights and constructive feedback regarding the audit findings, which are included in your reports of *Internal Control Over Financial Reporting and Compliance and Other Matters*. We remain committed to improving our financial practices and business systems and will continue leveraging both your recommendations and our lessons learned from past audit cycles to continue refining our remediation strategy and enhancing our internal control environment.

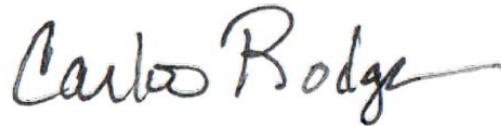
The Department of the Air Force has completed six full financial statement audit cycles and remains a leader among the Military Services in remediating internally and externally identified deficiencies. The Department crossed a major milestone in enhancing enterprise accountability as the Working Capital Fund completed the development of Integrated Master Schedules for its business process remediation areas. We firmly believe that our teams' hard work and dedication to "fixing the findings" and developing master schedules have positioned the Department of the Air Force to remain among the top Services in the annual Department of Defense Congressional Audit Rankings Report.

In Fiscal Year 2023, the Department of the Air Force continued to align remediation activities to the Secretary of Defense's audit priorities. Our team worked diligently and deliberately to make progress on our Fund Balance with Treasury material weakness, which will remain a major focus area in Fiscal Year 2024. Securing a downgrade of this material weakness in the future, will increase the auditability of the Working Capital Fund financial statements. The Department of the Air Force is also making progress in establishing user access controls by onboarding prioritized systems to the Identity, Credential, and Access Management solution, which will significantly strengthen our cybersecurity posture and ability to safeguard data via access management capabilities designed to prevent unauthorized access.

Our reliance on interactions with Department of Defense Fourth Estate and the complexity of our Information Technology environment continues to pose significant cybersecurity, data quality, and interactivity challenges. However, the Department of the Air Force is tackling these challenges head on by interacting directly with our Department of Defense partners and pushing forward with internal Interface and Interoperability initiatives, which are aimed at identifying integration gaps and developing short term process improvements and long-term strategies that will not only help modernize our systems but help accelerate auditability.

The annual financial statement audit remains a vital enabler of the Department's financial transformation, which will preserve military advantage, support our warfighters, and increase accountability to Congress and the public. We remain confident that current and future audit remediation efforts will translate into improved operational efficiencies, enhanced data integrity, and added transparency. We look forward to continued collaboration on our audit journey.

Sincerely,



Carlos Rodgers  
Principal Deputy Assistant Secretary  
*(Financial Management and Comptroller)*



# OTHER INFORMATION

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An F-15C Eagle assigned to the 194<sup>th</sup> Fighter Squadron, Fresno Air National Guard Base, CA, flies over Tyndall Air Force Base (AFB), FL, during Checkered Flag 23-2 at Tyndall AFB, FL.  
—Photo: USAF photo by Senior Airman Tiffany Del Oso



## 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 17 material weaknesses identified by the Independent Public Accountant (IPA) during the DAF's financial statement audit.

**TABLE 1: Fiscal Year 2023 Summary of Financial Statement Audit**

AUDIT OPINION: DISCLAIMER OF OPINION							
RESTATEMENT: YES (GF), NO (WCF)							
MATERIAL WEAKNESS	BEGINNING BALANCE	NEW	RESOLVED	CONSOLIDATED	ENDING BALANCE	DAF GF	DAF WCF
Accounts Payable, Expenses/ Gross Costs and Accounting for Contract Financing Payments	2				2	1	1
Earned Revenue and Accounts Receivable	1				1		1
Entity Level Controls	2				2	1	1
Financial Information Systems	2				2	1	1
Fund Balance with Treasury	2		(1)*		1		1
Integration and Reconciliation of Financial Systems	2				2	1	1
Inventory Held by DAF WCF	1				1		1
Inventory Held by Others	1				1		1
Military Equipment	1				1	1	
Operating Materials and Supplies	1				1	1	
Other General Equipment	1				1	1	
Property and Materials Held by Others	1				1	1	
Real Property	1				1	1	
<b>Total Material Weaknesses</b>	<b>18</b>	<b>0</b>	<b>(1)</b>	<b>0</b>	<b>17</b>	<b>9</b>	<b>8</b>

\* Resolved in this instance represents material weaknesses that have been closed in the current year.





## SUMMARY OF FINANCIAL STATEMENT AUDIT AND MANAGEMENT ASSURANCES

As required, the DAF Managers establish and assess internal control over financial reporting, operations, and financial management systems. Management-identified weaknesses are determined by assessing internal controls, as required by the *Federal Managers' Financial Integrity Act of 1982 (FMFIA)*, the *Federal Financial Management Improvement Act of 1996 (FFMIA)*, and Office of Management and Budget Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*. Assessments of internal controls fall into one of the following categories:

- » FMFIA Section 2, *Effectiveness of Internal Control over Financial Reporting*,
- » FMFIA Section 2, *Effectiveness of Internal Control over Operations*, or
- » FMFIA Section 4, *Compliance with Federal Financial Management Systems Requirements*.

Table 2 provides those areas where material weaknesses were identified by the DAF in the above categories and where remediation work continues. In addition, it includes the status of compliance with Section 803(A) of the FFMIA. The DAF Management believes that the listing of the DAF-identified material weaknesses encompasses all material weaknesses also identified by the IPA for internal control over reporting and internal control over financial systems. Note that differences may exist between the material weaknesses identified by the IPA and those identified by DAF management; these differences are a function of timing between the issuance of the Statement of Assurance and the date of the Auditor's Report. These timing differences do not change the conclusions reached by both the DAF and the IPA.

**TABLE 2: Fiscal Year 2023 Summary of Management Assurances**

EFFECTIVENESS OF INTERNAL CONTROL OVER FINANCIAL REPORTING (FMFIA Section 2)						
STATEMENT OF ASSURANCE: MODIFIED ASSURANCE						
MATERIAL WEAKNESS	BEGINNING BALANCE	NEW	RESOLVED	CONSOLIDATED	REASSESSED	ENDING BALANCE
Accounts Payable, Expenses, and Accounting for Contract Financing Payments (DAF GF)	1					1
Entity Level Controls (DAF GF)	1					1
Fund Balance with Treasury (DAF GF)	1					1
Integration and Reconciliation of Financial Systems (DAF GF)	1					1
Military Equipment (DAF GF)	1					1
Operating Materials and Supplies (DAF GF)	1					1
Other General Equipment (DAF GF)	1					1
Property and Materials Held by Others (DAF GF)	1					1
Real Property (DAF GF)	1					1
Accounts Payable, Gross Costs and Contract Financing Payments (DAF WCF)	1					1



## SUMMARY OF FINANCIAL STATEMENT AUDIT AND MANAGEMENT ASSURANCES

EFFECTIVENESS OF INTERNAL CONTROL OVER FINANCIAL REPORTING (FMFIA Section 2)						
STATEMENT OF ASSURANCE: MODIFIED ASSURANCE						
MATERIAL WEAKNESS	BEGINNING BALANCE	NEW	RESOLVED	CONSOLIDATED	REASSESSED	ENDING BALANCE
Earned Revenue and Accounts Receivable (DAF WCF)	1					1
Entity Level Controls (formerly 'Accumulating and Preparing Financial Statements') (DAF WCF)	1					1
Fund Balance with Treasury (DAF WCF)	1					1
Integration and Reconciliation of Financial Systems (DAF WCF)	1					1
Inventory Held by the Department of the Air Force Working Capital Fund (DAF WCF)	1					1
Inventory Held by Others (DAF WCF)	1					1
Oversight and Monitoring of Internal Controls (DAF WCF)	1		(1)			0
<b>Total Material Weaknesses</b>	<b>17</b>	<b>0</b>	<b>(1)</b>	<b>0</b>	<b>0</b>	<b>16</b>

\* Resolved in this instance represents material weaknesses that have been downgraded to a significant deficiency in the current year.



## SUMMARY OF FINANCIAL STATEMENT AUDIT AND MANAGEMENT ASSURANCES

EFFECTIVENESS OF INTERNAL CONTROL OVER FINANCIAL REPORTING (FMFIA Section 2)						
STATEMENT OF ASSURANCE: MODIFIED ASSURANCE						
MATERIAL WEAKNESS	BEGINNING BALANCE	NEW	RESOLVED	CONSOLIDATED	REASSESSED	ENDING BALANCE
Civil Engineer Control Systems Cyber Hygiene		1				1
Consumable Parts Disposal	1					1
Contracting Officer Representatives	1					1
Criminal History Data Reporting Requirements (formerly 'Criminal Data Reporting Requirements')	1					1
Cybersecurity of Automatic Test Systems and Equipment (formerly 'Cyber Security Control of Assessment Systems')	1					1
Cybersecurity of Network Component Purchases	1					1
Foreign Government Employment	1					1
Installation Chemical, Biological, Radiological, and Nuclear Defense Readiness	1					1
Integrated Base Defense Security System Risk Management Framework	1		(1)			0
Marketing and Recruiting Programs	1					1
Networked Data Protection	1			(1)		0
Protection of Sensitive Information on the Network		1*				1
Protection of Technical and Proprietary Data	1			(1)		0
Secure Internet Protocol Router Network Access Controls	1					1
Segregation of Duties in Defense Travel System Controls	1		(1)			0
Software Use	1		(1)**			0
Weapon System Cyber Hygiene		1				1
<b>Total Material Weaknesses</b>	<b>14</b>	<b>3</b>	<b>(3)</b>	<b>(2)</b>	<b>0</b>	<b>12</b>

\* Protection of Sensitive Information on the Network is a consolidation of Networked Data Protection and Protection of Technical and Proprietary Data.

\*\* Resolved in this instance represents material weaknesses that were downgraded to a significant deficiency in the current year.

## SUMMARY OF FINANCIAL STATEMENT AUDIT AND MANAGEMENT ASSURANCES

CONFORMANCE WITH FEDERAL FINANCIAL MANAGEMENT SYSTEMS REQUIREMENTS (FMFIA Section 4)						
STATEMENT OF ASSURANCE: FEDERAL SYSTEMS DO NOT CONFORM TO FINANCIAL MANAGEMENT SYSTEM REQUIREMENTS						
NON-CONFORMANCES	BEGINNING BALANCE	NEW	RESOLVED	CONSOLIDATED	REASSESSED	ENDING BALANCE
Financial Information Systems (DAF GF)	1					1
Financial Information Systems (DAF WCF)	1					1
<b>Total Non-Conformances</b>	<b>2</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>2</b>

COMPLIANCE WITH SECTION 803(A) OF THE FEDERAL FINANCIAL MANAGEMENT IMPROVEMENT ACT		
	AGENCY	AUDITOR
Federal Financial Management System Requirements	Lack of substantial compliance noted	Lack of substantial compliance noted
Applicable Federal Accounting Standards	Lack of substantial compliance noted	Lack of substantial compliance noted
United States Standard General Ledger at Transaction Level	Lack of substantial compliance noted	Lack of substantial compliance noted



Special operations Airmen land at Hurlburt Field, FL, during an exhibition for the Joint Civilian Orientation Conference (JCOC). The JCOC is the Defense Department's oldest and most prestigious public outreach program, inviting select groups of civilians to the Pentagon and military bases to engage with troops and leaders from each of the armed services and observe their work on land, at sea, and in the air at various locations throughout the United States.

—Photo: Photo by EJ Hersom



USAF Master Sgt. Dustin Flaspohler, 138<sup>th</sup> Fighter Wing aircraft armament systems specialist, performs weapons checks on an F-16 Fighting Falcon assigned to the 125<sup>th</sup> Expeditionary Fighter Squadron, after hot pit refueling at Prince Sultan Air Base, Saudi Arabia. Hot pit refueling occurs after an aircraft has landed and is still running its engine allowing for refueling in austere locations. —Photo: USAF photo by Tech. Sgt. Alexander Frank

## BIENNIAL REVIEW OF USER FEES

The *Chief Financial Officers Act of 1990* and the Office of Management and Budget Circular A-25, *User Charges*, requires biennial reviews of agency fees and other charges imposed by the agency for services or special benefits derived from federal activities beyond those received by the general public. The objective of these reviews is to identify such activities, charge fees as permitted by law, and periodically adjust these fees to reflect current costs or market value. The DAF performed a review of user fees in FY 2022 and identified immaterial adjustments to account for changes in market conditions. The DAF will conduct the next review in FY 2024.



USAF Capt. Aimee Fiedler high-fives a child during F-AIR Colombia, an international aeronautics and space fair in Rionegro, Colombia. The air show highlighted military-to-military relationships with Colombian hosts and regional partners to a crowd of more than 50,000.  
—Photo: USAF photo by Staff Sgt. Madeline Herzog



## CLIMATE-RELATED FINANCIAL RISK

Environmental stresses, such as changing climate, weather patterns, and extreme weather events are increasing in frequency and strength and can adversely impact the DAF's operational plans, military infrastructure, and personnel readiness. Natural disasters can jeopardize military installations due to increased temperatures, recurrent flooding, drought, land degradation, desertification, and wildfires, thereby limiting the DAF's ability to utilize bases for training and testing exercises. In response to this dynamic threat, the DAF published the [DAF's Climate Action Plan](#) in October 2022. This plan outlines actionable priorities, objectives, and milestones that the DAF will undertake to combat the effects of climate change, thereby enhancing the DAF's ability to field a combat-credible force that can train, fight, and win in an increasingly complex strategic environment. For additional information on the DAF's Climate Action Plan, refer to the [Forward Looking Information](#) Section.

Additionally, as required by Executive Order 14057, principal agencies must develop and implement an annual Sustainability Plan. The DAF provides inputs and data to support the [OSD Sustainability Plan](#). This plan summarizes actions implemented to meet sustainability goals, progress, results, cost savings, and the agency's strategies for continued progress and performance improvements.



The USAF Demonstration Squadron "Thunderbirds" fly over Mount Rainier, WA. The Thunderbirds performed the flyover during their return to Nellis Air Force Base, NV, from the Joint Base Lewis-McChord (JBLM) Air Show and Warrior Expo at JBLM, WA.

—Photo: USAF photo by Staff Sgt. Dakota Carter



# GLOSSARY OF ACRONYMS

<b>ABMS</b>	Advanced Battle Management System
<b>ACC</b>	Air Combat Command
<b>ADA</b>	Anti-Deficiency Act
<b>AETC</b>	Air Education and Training Command
<b>AFB</b>	Air Force Base
<b>AFCEC</b>	Air Force Civil Engineer Center
<b>AFCEC/CZTQ</b>	Air Force Civil Engineer Center/Environmental Quality Technical Support Branch
<b>AFDW</b>	Air Force District of Washington
<b>AFFF</b>	Aqueous Film Forming Foam
<b>AFGSC</b>	Air Force Global Strike Command
<b>AFI</b>	Air Force Instruction
<b>AFMC</b>	Air Force Materiel Command
<b>AFOTEC</b>	Air Force Operational Test and Evaluation Center
<b>AFR</b>	Agency Financial Report
<b>AFRC</b>	Air Force Reserve Command
<b>AFSOC</b>	Air Force Special Operations Command
<b>AMC</b>	Air Mobility Command
<b>ANG</b>	Air National Guard
<b>AOR</b>	Area of Responsibility
<b>APSR</b>	Accountable Property System of Record
<b>AS</b>	Airlift Squadron
<b>BAH</b>	Basic Allowance for Housing





# GLOSSARY OF ACRONYMS

<b>BD/DR</b>	Building Demolition and Debris Removal
<b>BRAC</b>	Base Realignment and Closure
<b>BS</b>	Balance Sheet
<b>C3</b>	Command, Control, and Communications
<b>C3BM</b>	Command, Control, Communications, and Battle Management
<b>CA</b>	Contract Authority
<b>CAP</b>	Corrective Action Plan
<b>CBC2</b>	Cloud-Based Command and Control
<b>CBY</b>	Charge-Back Year
<b>CERCLA</b>	Comprehensive Environmental Response, Compensation, and Liability Act
<b>CFP</b>	Contract Financing Payment
<b>C-ICP</b>	Contractor-Inventory Control Point
<b>CIP</b>	Construction-in-Progress
<b>CLL</b>	Contingent Legal Liabilities
<b>CMSSF</b>	Chief Master Sergeant of the Space Force
<b>COLA</b>	Cost of Living Adjustment
<b>CPI</b>	Consumer Price Index
<b>CPI-M</b>	Consumer Price Index - Medical
<b>CSAF</b>	Chief of Staff of the Air Force
<b>CSAG</b>	Consolidated Sustainment Activity Group
<b>CSO</b>	Chief of Space Operations
<b>CTC</b>	Cost-to-Complete



# GLOSSARY OF ACRONYMS

<b>DAF</b>	Department of the Air Force
<b>DAF GF</b>	Department of the Air Force General Fund
<b>DAF WCF</b>	Department of the Air Force Working Capital Fund
<b>DAFI</b>	Department of the Air Force Instruction
<b>DERP</b>	Defense Environmental Restoration Program
<b>DFAS</b>	Defense Finance and Accounting Service
<b>DM&amp;R</b>	Deferred Maintenance and Repair
<b>DoD</b>	Department of Defense
<b>DOL</b>	Department of Labor
<b>DPAS</b>	Defense Property Accountability System
<b>DRU</b>	Direct Reporting Unit
<b>E&amp;DL</b>	Environmental & Disposal Liabilities
<b>ECA</b>	Environmental Corrective Action
<b>ECR</b>	Environmental Closure Requirements
<b>EFS</b>	Expeditionary Fighter Squadron
<b>eGRC</b>	Enterprise Governance, Risk, and Compliance
<b>EI&amp;E</b>	Energy, Installations, and Environment
<b>EISP</b>	End Item Sales Price
<b>EO</b>	Executive Order
<b>EOP</b>	Executive Office of the President
<b>EOU</b>	Excess, Obsolete, and Unserviceable
<b>EROR</b>	Environmental Response at Operational Ranges



# GLOSSARY OF ACRONYMS

<b>ESC</b>	Executive Steering Committee
<b>FAR</b>	Federal Acquisition Regulation
<b>FASAB</b>	Federal Accounting Standards Advisory Board
<b>FBwT</b>	Fund Balance with Treasury
<b>FECA</b>	Federal Employee's Compensation Act
<b>FFMIA</b>	Federal Financial Management Improvement Act of 1996
<b>FHIF</b>	Family Housing Improvement Fund
<b>FIAR</b>	Financial Improvement and Audit Remediation
<b>FISCAM</b>	Federal Information Systems Control Audit Manual
<b>FLDCOM</b>	Field Command
<b>FMFIA</b>	Federal Managers' Financial Integrity Act of 1982
<b>FMR</b>	Financial Management Regulation
<b>FOA</b>	Field Operating Agency
<b>FTS</b>	Fighter Training Squadron
<b>FY</b>	Fiscal Year
<b>FYE</b>	Fiscal Year End
<b>GAAP</b>	Generally Accepted Accounting Principles
<b>GAO</b>	Government Accountability Office
<b>GDL</b>	Government Direct Loan
<b>GFE</b>	Government Furnished Equipment
<b>G-Invoicing</b>	Government Invoicing
<b>GPS</b>	Global Positioning System



# GLOSSARY OF ACRONYMS

<b>GSD</b>	General Support Division
<b>HCOS</b>	Health Care Operations Squadron
<b>HVAC</b>	Heating, Ventilation, and Air Conditioning
<b>I&amp;RP</b>	Inventory and Related Property
<b>IAC</b>	Internal Administrative Claims
<b>ICAM</b>	Identity, Credential, and Access Management
<b>ICBM</b>	Intercontinental Ballistic Missile
<b>ICOR</b>	Internal Controls over Reporting
<b>IPA</b>	Independent Public Accountant
<b>IRP</b>	Installation Restoration Program
<b>ISR</b>	Intelligence, Surveillance, and Reconnaissance
<b>ISRS</b>	Intelligence, Surveillance, and Reconnaissance Squadron
<b>IT</b>	Information Technology
<b>IUS</b>	Internal Use Software
<b>JADC2</b>	Joint All-Domain Command & Control
<b>JAWE</b>	Joint Base Lewis-McChord Airshow and Warrior Expo
<b>JBLM</b>	Joint Base Lewis-McChord
<b>JCOC</b>	Joint Civilian Orientation Conference
<b>JCS</b>	Joint Chiefs of Staff
<b>JSF</b>	Joint Strike Fighter
<b>JTF</b>	Joint Task Force
<b>JV</b>	Journal Voucher



# GLOSSARY OF ACRONYMS

<b>LLC</b>	Limited Liability Company
<b>LOE</b>	Line of Effort
<b>LOP</b>	Lease of Property
<b>LP</b>	Limited Partnership
<b>MAC</b>	Moving Average Cost
<b>MAJCOM</b>	Major Command
<b>MC</b>	Munitions Constituent
<b>MDMA</b>	Master Development and Management Agreement
<b>MEWP</b>	Military Equipment/ Weapons Programs
<b>MHPI</b>	Military Housing Privatization Initiative
<b>MILCON</b>	Military Construction
<b>MILPERS</b>	Military Personnel
<b>MMRP</b>	Military Munitions Response Program
<b>MOCAS</b>	Mechanization of Contract Administration Services
<b>MRAP</b>	Mine-Resistant Ambush Protected
<b>MWD</b>	Military Working Dog
<b>NCR</b>	National Capital Region
<b>NDAA</b>	National Defense Authorization Act
<b>NexGen IT</b>	Next Generation Information Technology
<b>NFR</b>	Notices of Findings and Recommendations
<b>NHPA</b>	National Historic Preservation Act
<b>NMUSAF</b>	National Museum of the U.S. Air Force



# GLOSSARY OF ACRONYMS

<b>No.</b>	Number
<b>NPRM</b>	Notice of Proposed Rulemaking
<b>NRHP</b>	National Register of Historic Places
<b>NRV</b>	Net Realizable Value
<b>NTDO</b>	Non-Treasury Disbursing Office
<b>NTS-3</b>	Navigation Technology Satellite-3
<b>OASD</b>	Office of the Assistant Secretary of Defense
<b>OCFP</b>	Outstanding Contract Financing Payments
<b>OEL</b>	Other Environmental Liabilities
<b>OET</b>	Other Eligible Tenant
<b>OM&amp;S</b>	Operating Materials and Supplies
<b>OMB</b>	Office of Management and Budget
<b>OPM</b>	Office of Personnel Management
<b>OSD</b>	Office of the Secretary of Defense
<b>OTS</b>	Officer Training School
<b>OWS</b>	Oil Water Separator
<b>P3</b>	Public-Private Partnerships
<b>PACAF</b>	Pacific Air Forces
<b>PFAS</b>	Per- and Polyfluoroalkyl Substances
<b>PIF</b>	Performance Incentive Fee
<b>PIP</b>	Performance Incentive Plan
<b>POM</b>	Program Objective Memorandum



# GLOSSARY OF ACRONYMS

<b>PP&amp;E</b>	Property, Plant, and Equipment
<b>PPV</b>	Public-Private Venture
<b>PRV</b>	Plant Replacement Vehicle
<b>PUC</b>	PRV Unit Cost
<b>RACER</b>	Remedial Action Cost Engineering and Requirements
<b>RCRA</b>	Resource Conservation and Recovery Act
<b>RDT&amp;E</b>	Research, Development, Test, and Evaluation
<b>RI/FS</b>	Remedial Investigation/Feasibility Study
<b>RMC</b>	Risk Management Council
<b>RPA</b>	Robotic Process Automation
<b>RPUID</b>	Real Property Unique Identifier
<b>RQS</b>	Rescue Squadron
<b>RSI</b>	Required Supplementary Information
<b>SAA</b>	Security Assistance Accounts
<b>SAOC</b>	Spending Authority from Offsetting Collections
<b>SAS</b>	Space Aggressor Squadron
<b>SAT</b>	Senior Assessment Team
<b>SBR</b>	Statement of Budgetary Resources
<b>SCNP</b>	Statement of Changes in Net Position
<b>SDA</b>	Space Development Agency
<b>SDP</b>	Savings Deposit Program
<b>SecAF</b>	Secretary of the Air Force



# GLOSSARY OF ACRONYMS

<b>SFCCCF</b>	Space Force Child Care Community Forum
<b>SFFAS</b>	Statement of Federal Financial Accounting Standard
<b>SIEM</b>	Security Information and Event Monitoring
<b>SMAG-R</b>	Supply Management Activity Group - Retail
<b>SMC</b>	Senior Management Council
<b>SME</b>	Subject Matter Expert
<b>SMS</b>	Sustainment Management Systems
<b>SNC</b>	Statement of Net Cost
<b>SOA</b>	Statement of Assurance
<b>SOF</b>	Special Operations Forces
<b>Space RCO</b>	Space Rapid Capabilities Office
<b>SpOC</b>	Space Operations Command
<b>SPSS</b>	Space Surveillance Squadron
<b>SSC</b>	Space Systems Command
<b>STARCOM</b>	Space Training and Readiness Command
<b>TDO</b>	Treasury Disbursing Officer
<b>TFM</b>	Treasury Financial Manual
<b>TNC</b>	Treasury Nominal Coupon
<b>U.S.</b>	United States
<b>UDC</b>	User Defined Cost
<b>UFC</b>	Unified Facilities Criteria
<b>USACE</b>	U.S. Army Corps of Engineers



# GLOSSARY OF ACRONYMS

<b>USAF</b>	United States Air Force
<b>USFA</b>	United States Air Force Academy
<b>USAFE-AFACRICA</b>	United States Air Forces in Europe – Air Forces Africa
<b>USAFRICOM</b>	United States Africa Command
<b>USC</b>	U.S. Code
<b>USEUCOM</b>	United States European Command
<b>USSF</b>	United States Space Force
<b>USSGL</b>	United States Standard General Ledger
<b>USTRANSCOM</b>	United States Transportation Command
<b>WPS</b>	Women, Peace, and Security
<b>WRM</b>	War Reserve Materiel
<b>WSS</b>	Weapon System Sustainment



Staff Sgt. Austin Klein, 180<sup>th</sup> Fighter Wing crew chief, services a liquid oxygen bottle for an F-16 Fighting Falcon during exercise Northern Lightning at Volk Field in Camp Douglas, WI. Northern Lightning is a joint training exercise emphasizing user-defined objectives resulting in tailored, scenario-based, full spectrum training.  
 –Photo: U.S. Air National Guard photo by Airman 1<sup>st</sup> Class Sarah Stalder Lundgren



# COVER CREDITS



Aircrew assigned to 22<sup>nd</sup> Airlift Squadron perform pre-flight inspections on C-5M Super Galaxies at Travis Air Force Base, CA. The C-5 is the largest aircraft in the Air Force inventory and has a wingspan of 222 feet and nine inches.  
—Photo: USAF photo by Chustine Minoda

## FRONT COVER

Top left to right:

Maj. Richard Margerison, left, 21<sup>st</sup> Airlift Squadron (AS) C-17 Globemaster III pilot, fist bumps Capt. Hunter Gillon, 21st AS C-17 pilot, during exercise Steel Knight at Camp Pendleton, CA. The 21st AS transported 15 Marines and approximately 68,000 pounds of equipment during their annual exercise, which included live-fire training in controlled environments.  
—Photo: USAF photo by Senior Karla Parra

A Falcon 9 rocket carrying Starlink 4-37 payload launches from Space Launch Complex 39A at Kennedy Space Center, FL. Starlink is the name of a satellite network developed by the private spaceflight company SpaceX to provide low-cost internet to remote locations.  
—Photo: USSF photo by Joshua Conti

A USAF F-15E Strike Eagle assigned to the 389<sup>th</sup> Expeditionary Fighter Squadron (EFS) flies within the U.S. Central Command area of responsibility. The 389<sup>th</sup> EFS's mission is to deliver dominant combat airpower and fortify the U.S. commitment to deterrence and regional stability.  
—Photo: USAF photo by Tech. Sgt. Daniel Asselta

USAF pararescuemen assigned to the 57<sup>th</sup> Rescue Squadron (RSQ) jump out of a C-130 Hercules during their High-Altitude Low Opening jump training at Aviano Air Base, Italy. The 57<sup>th</sup> RSQ provides personnel recovery, combat search and rescue, civil search and rescue and casualty evacuation to fulfill U.S. European Command, U.S. Africa Command and North Atlantic Treaty Organization security cooperation requirements.  
—Photo: USAF photo by Senior Airman Noah Sudolcan

A team of USAF Global Strike Command Airmen launched an unarmed Minuteman III intercontinental ballistic missile equipped with a test reentry vehicle from Vandenberg Space Force Base, CA. This test launch is part of routine and periodic activities intended to demonstrate that the U.S. nuclear deterrent is safe, secure, reliable and effective to deter twenty-first century threats and reassure allies.  
—Photo: USSF Photo by Airman 1st Class Landon Gunsauls

The USAF Academy Class of 2023 graduates toss their hats into the sky as the USSF Demonstration Squadron "the Thunderbirds" roar overhead at the Academy's Falcon Stadium in Colorado Springs, CO. Nine-hundred twenty-one cadets crossed the stage to become the Air Force and Space Force's newest second lieutenants.  
—Photo: USAF photo by Trevor Cokley

USAF military working dog (MWD) "Polo," assigned to the 332<sup>nd</sup> Expeditionary Security Forces Squadron, sits on the flightline in front of a HH-60 Pave Hawk, assigned to the 46<sup>th</sup> Expeditionary Rescue Squadron, before completing helicopter acclimation training at an undisclosed location within the U.S. Central Command area of responsibility. Helicopter acclimation training ensures the MWD and their handler are comfortable operating in and around helicopters while in a controlled environment.  
—Photo: USAF photo by Staff Sgt. Gerald R. Willis

## BACK COVER

Left to right:

A USAF F-16 Fighting Falcon pilot flies within the U.S. Central Command area of responsibility (AOR). The F-16's mission is to deliver airpower, fortify U.S. commitment to partner nations, and provide regional stability within the AOR.  
—Photo: USAF photo by Staff Sgt. Kirby Turbak

USSF Guardians graduating from Basic Military Training (BMT) march in formation during a graduation ceremony at Joint Base San Antonio–Lackland, TX. Specialist 3 Dakota Desrosiers, all-source intelligence analyst, right, is the first USSF-trained Guardian to receive both the USSF Top Performer Award and Top BMT Graduate award.  
—Photo: USSF photo by Daniel Cruz

Chief Master Sgt. of the Space Force Roger A. Towberman makes remarks at the Air and Space Forces Association's Air, Space & Cyber Conference in National Harbor, MD.  
—Photo: USAF photo by Staff Sgt. Stuart Bright



**FOR MORE INFORMATION OR TO CONTACT US:**  
Assistant Secretary of the Air Force for Financial Management and Comptroller  
SAF/FMFA (Financial Reporting)

1500 West Perimeter Road, Suite 3100  
Joint Base Andrews, Maryland 20762  
[www.saffm.hq.af.mil](http://www.saffm.hq.af.mil)