



INSPECTOR GENERAL

U.S. Department of Defense

JANUARY 5, 2017



Requirements for the Air Force Civilian Pay Budget Still Need Improvement

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Results in Brief

Requirements for the Air Force Civilian Pay Budget Still Need Improvement

January 5, 2017

Objective

We determined whether the civilian full-time equivalent (FTE)¹ and pay requirements contained in the Air Force FY 2016 Budget Estimate Submission were adequately supported and justified. This audit is the first in a series addressing whether the Military Services have effective budget processes for civilian pay.

Finding

The Air Force did not adequately support and justify the civilian pay requirements in its FY 2016 Budget Estimate Submission to Congress. Specifically, Air Force budget officials did not follow Office of Management and Budget guidance when calculating the FTEs for the civilian work-year cost² calculations used to determine civilian pay requirements.

When calculating civilian work-year cost, Air Force budget officials did not use FTEs based on hours worked, as required by Office of Management and Budget Circular No. A-11. Officials incorrectly calculated FTEs based on a count of civilian positions filled (end-strength). These FTEs did not correspond to the civilian personnel compensation and benefit costs used in the civilian work-year cost calculation.

¹ A full-time equivalent is a unit of measure that quantifies the workload of an employee for a year.

² The civilian work-year cost is determined by dividing the obligations for total personnel compensation and benefits by civilian FTEs.

Finding (cont'd)

In addition, the Air Force did not follow Office of Management and Budget guidance when reporting the prior year FTEs in its FY 2016 Budget Estimate Submission. Air Force budget officials incorrectly used end-strength data to represent prior year FTEs instead of using actual hours worked.

During the budget process, Air Force officials did not document or support their rationale for deriving the FY 2016 civilian pay requirements. Air Force senior officials evaluated proposed program changes at the organizational unit level and established an overall funding level for the civilian pay program. Budget officials then proportionately adjusted the civilian pay requirements for the individual programs to meet the overall funding level. However, senior officials did not document the rationale for adjusting the overall civilian pay requirements.

These conditions occurred because the Air Force did not have written procedures that described the process and source data to use for developing its civilian pay requirements. Several Air Force Instructions provide guidance regarding the overall budget process and define budget responsibilities; however, the Instructions do not provide detailed procedures for developing the civilian pay budget. The Air Force is developing written operating procedures to standardize the civilian pay budget process, but the procedures do not outline the methodology or factors that budget officials should use to calculate FTEs and develop civilian pay requirements. Furthermore, the procedures do not require documenting key budget decisions to ensure that calculations and decisions are supported. A consistent and clear methodology and documented decisions would allow the Air Force to better support its budget requests.

As a result of inadequate procedures, the Budget Estimate Submission of \$7.7 billion for the FY 2016 Air Force civilian pay requirements in the Operations and Maintenance appropriation did not capture the funding needed to pay Air Force civilian personnel. The Air Force requested an additional \$212 million from Congress to correct its budget



Results in Brief

Requirements for the Air Force Civilian Pay Budget Still Need Improvement

Finding (cont'd)

shortfall. In addition, the information used for Air Force programming decisions was based on flawed civilian work-year cost data.

The Air Force is working to improve the civilian pay budget process; however, additional steps are needed. Without clear and definitive written procedures that explain the Air Force civilian pay budget process and require the use of appropriate data sources for FTE and work-year cost calculations, the Air Force will continue to develop and submit budget estimates that do not accurately reflect its civilian pay requirements.

Recommendations

We recommend that the Assistant Secretary of the Air Force (Financial Management and Comptroller) develop written procedures for the civilian pay budget process. The procedures should require Air Force budget officials to determine civilian FTEs in accordance with Office of Management and Budget guidance, use payroll data sources, and document all budget calculations and decisions.

Management Comments and Our Response

The Deputy for Budget, responding for the Assistant Secretary of the Air Force (Financial Management and Comptroller), agreed with the recommendations but did not identify a plan for updating applicable policy and procedures related to developing civilian pay requirements. We request that the Assistant Secretary of the Air Force (Financial Management and Comptroller) provide additional comments in response to this report. Please see the Recommendations Table on the next page.

Recommendations Table

Management	Recommendations Requiring Comment	No Additional Comments Required
Assistant Secretary of the Air Force (Financial Management and Comptroller)	1.a, 1.b, 1.c, 1.d, and 1.e	

Please provide Management Comments by February 6, 2017.





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

January 5, 2017

**MEMORANDUM FOR ASSISTANT SECRETARY OF THE AIR FORCE
(FINANCIAL MANAGEMENT AND COMPTROLLER)**


**SUBJECT: Requirements for the Air Force Civilian Pay Budget Still Need Improvement
(Report No. DODIG-2017-039)**

We are providing this report for review and comment. The Air Force FY 2016 civilian pay budget was not sufficient to cover the pay requirements of its Active Component civilian workforce. The Air Force needed \$212 million in additional funding to supplement the \$7.7 billion requested for its civilian pay budget. The Air Force is working to improve its civilian pay program, but additional improvements are needed. We conducted this audit in accordance with generally accepted government auditing standards.

We considered comments on a draft of this report. DoD Instruction 7650.03 requires that recommendations be resolved promptly. Comments from the Deputy for Budget, responding for the Assistant Secretary of the Air Force (Financial Management and Comptroller), did not address all specifics of the recommendations. Therefore, we request that the Air Force provide additional comments by February 6, 2017.

Please send a PDF file containing your comments to audasm@dodig.mil. Copies of your comments must have the actual signature of the authorizing official for your organization. We cannot accept the /Signed/ symbol in place of the actual signature. If you arrange to send classified comments electronically, you must send them over the SECRET Internet Protocol Router Network (SIPRNET).

We appreciate the courtesies extended to the staff. Please direct questions to Mr. Patrick Nix at (703) 604-9332 (DSN 664-9332).


Jacqueline L. Wicecarver
Assistant Inspector General
Acquisition and Sustainment Management

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Introduction

Objective

We determined whether the Air Force's civilian pay budget processes were effective. Specifically, we determined whether the civilian full-time equivalent³ (FTE) and pay requirements contained in the Air Force FY 2016 Budget Estimate Submission were adequately supported and justified. This audit is the first in a series in response to Public Law 114-113, "Consolidated Appropriations Act, 2016," December 18, 2015. The explanatory statement accompanying the law directs the Department of Defense Office of Inspector General to review the civilian pay and personnel programs of the Military Services. See the Appendix for scope, methodology, and prior audit coverage.

Background

FY 2016 Budget Data for Air Force Civilian Personnel

The Air Force Operations and Maintenance (O&M) appropriation⁴ for FY 2016 reported \$47.8 billion for total obligation authority, of which \$11.1 billion pertained to the civilian pay budget. The Air Force requested \$7.7 billion in funding for civilian compensation of its Active Component, one of the three Components of the Air Force.⁵ We focused our audit on the Active Component because it accounted for the majority of the Air Force civilian pay requirements in the O&M appropriation.

Guidance on Calculating Civilian Pay Requirements

The Office of Management and Budget (OMB) Circular No. A-11 provides guidance on preparing the budget and instructions on budget execution.⁶ The Circular provides guidance on estimating employment levels and calculating civilian pay requirements. OMB guidance requires that budget estimates relating to personnel requirements are determined in terms of FTE employment, which is calculated using the number of hours worked or to be worked. To determine current year and budget year FTE estimates, agencies should divide the total hours to be worked by the number of compensable hours applicable to the fiscal year. To compute prior year actual FTEs, agencies can obtain hours worked from their pay systems.

³ A full-time equivalent is a unit of measure that quantifies the workload of an employee for a year. FTEs are calculated as the total number of hours worked (or to be worked) divided by the number of compensable hours applicable to each fiscal year. Annual leave, sick leave, compensatory time off, and other approved leave categories are considered "hours worked" for purposes of defining FTE employment.

⁴ An appropriation is a provision of law conferring authority to incur obligations for a specified purpose.

⁵ The three Components of the Air Force are the Active Component, Air Force Reserve, and Air National Guard.

⁶ OMB Circular No. A-11, "Preparation, Submission, and Execution of the Budget," July 2014 (revised November 2014).

DoD policy⁷ requires the Air Force to submit budget exhibits⁸ OP-32, “Summary of Price and Program Changes,” and PB-31R, “Personnel Summary,” which report information related to civilian pay requirements. Specifically, the OP-32 shows the Air Force’s total civilian compensation⁹ for a 3-year period that covers the prior fiscal year, the current fiscal year, and the budget year. The OP-32 also shows the price and program changes in the Air Force’s civilian compensation since the last budget request. The PB-31R shows the manpower levels (end strength¹⁰ and FTEs) for civilian, military, and contractor personnel. The PB-31R also includes the Air Force’s average civilian salary.¹¹

As part of the budget process, Air Force budget officials calculated a civilian work-year cost, which they used to determine civilian pay requirements. Civilian work-year cost is similar to average civilian salary, and is calculated from pay data at the organizational unit¹² level. According to Air Force Instruction (AFI) 65-601,¹³ work-year cost is determined by dividing total personnel compensation and benefits by FTEs, as follows:

$$\text{Civilian Work-Year Cost} = \frac{\text{Civilian Personnel Compensation and Benefit Costs}}{\text{Number of FTEs}}$$

Budget officials used this formula to calculate the civilian work-year costs by organizational unit and program element¹⁴ for each employee type.¹⁵ Because the budget process began 2 years before the budget year, officials also adjusted the civilian work-year cost by an annual pay raise rate provided by the Office of the Under Secretary of Defense (Comptroller).

⁷ DoD 7000.14-R, “Financial Management Regulation,” volume 2A, chapter 3, “Operation and Maintenance Appropriations.”

⁸ Budget exhibits are documents prepared to justify budget requests to Congress.

⁹ Total civilian compensation includes regular salaries and wages; compensation above the basic rates; cash incentive awards; payments for benefits; recruitment and retention incentives; and retirement benefits.

¹⁰ End strength is the count of civilian positions the Air Force has funded to accomplish all approved missions.

¹¹ Average civilian salary is determined by dividing the total obligations for base pay of each type of employment by the applicable FTEs.

¹² Organizational unit refers to an operating command or agency to which funds are allocated.

¹³ AFI 65-601, volume 2, “Budget Management for Operations,” May 18, 2012.

¹⁴ Program element represents Air Force personnel, equipment, and other resources, which together constitute a specific identifiable capability to accomplish a mission.

¹⁵ The three civilian employee types are U.S. direct hires, foreign national direct hires, and foreign national indirect hires.

Assistant Secretary of the Air Force (Financial Management and Comptroller)

The Office of the Assistant Secretary of the Air Force (Financial Management and Comptroller) prepares the Air Force budget and manages Air Force financial resources. The Budget Operations and Personnel Directorate (SAF/FMBO) develops the budget for the Air Force O&M appropriation. Specifically, SAF/FMBO determines the funding needed to pay the civilian personnel.

SAF/FMBO also serves as an advisor to the Air Force Corporate Structure (AFCS), which is made up of representatives from the Air Staff and the Office of the Secretary of the Air Force. The AFCS provides a corporate review process for considering and deciding on resource allocations for Air Force programs, and it reviews and approves all program changes and end-strength levels. A committee within the AFCS oversees the civilian personnel appropriations budget. AFCS senior officials evaluate the total civilian pay requirements and determine the overall funding level for the civilian pay program budget.

Review of Internal Controls

DoD Instruction 5010.40 requires DoD organizations to implement a comprehensive system of internal controls that provides reasonable assurance that programs are operating as intended and to evaluate the effectiveness of the controls.¹⁶ We identified an internal control weakness in the Air Force budget process for determining civilian compensation requirements. Specifically, the Air Force did not have written procedures that described the process and source data to use for developing civilian pay requirements. We will provide a copy of the report to the senior official responsible for internal controls in the Department of the Air Force.

¹⁶ DoD Instruction 5010.40, "Managers' Internal Control Program Procedures," May 30, 2013.

Finding

Civilian Pay Budget Did Not Represent Air Force Funding Needs

The Air Force did not adequately support and justify the civilian pay requirements used to develop its FY 2016 Budget Estimate Submission. Specifically, Air Force officials:

- did not follow OMB Circular A-11 when calculating the FTEs for the civilian work-year cost calculations used to determine civilian pay requirements,
- incorrectly used end-strength data to represent prior year actual FTEs in the FY 2016 Budget Estimate Submission, and
- did not document the rationale for adjusting the overall civilian pay requirements.

This occurred because the Air Force did not have written procedures that described the process and source data to use for developing civilian pay requirements. As a result, the \$7.7 billion that the Air Force determined was needed to pay its Active Component civilian workforce in the FY 2016 O&M appropriation was insufficient, and the Air Force had to request an additional \$212 million from Congress to address the shortfall. In addition, the information provided to and used by the AFCS for programming decisions was based on flawed civilian work-year cost data.

FY 2016 Civilian Pay Budget Request Not Justified

The Air Force did not adequately support and justify the \$7.7 billion it requested in O&M appropriations for the Air Force Active Component civilian pay requirements in its FY 2016 budget. Air Force budget officials could not provide support or fully explain how the funding requirements for Air Force civilian personnel shown in the FY 2016 Budget Estimate Submission were developed. Specifically, Air Force budget officials did not follow OMB guidance when calculating civilian FTEs, which were used in the civilian work-year cost calculations and the presentation of prior year actual FTEs. In addition, officials did not document adjustments to overall civilian pay requirements.

FTEs Used for Calculating Civilian Work-Year Cost Did Not Comply With OMB Circular A-11

Air Force budget officials did not comply with OMB Circular A-11 when calculating the FTEs for the civilian work-year cost calculations used to determine FY 2016 civilian pay requirements. Air Force budget officials calculated work-year cost by dividing personnel compensation and benefit costs by FTEs, as outlined in AFI 65-601. However, the FTE data used in the work-year cost calculation were not based on hours worked and were not related to the civilian personnel compensation and benefit cost data, as required by OMB guidance.

Budget Officials Incorrectly Substituted End-Strength Data for FTEs

Air Force budget officials incorrectly substituted end-strength data for FTEs in the civilian work-year cost equation for the FY 2016 Budget Estimate Submission. Air Force budget officials did not use hours worked in their civilian FTE calculation, as required. OMB Circular A-11 states that an FTE is calculated by dividing the total number of regular hours worked¹⁷ by the number of work hours applicable in a given fiscal year.¹⁸ AFI 38-201¹⁹ defines the term FTE as a measure of workload and describes a similar calculation to determine FTEs.

SAF/FMBO officials used FTEs obtained from the Air Force Directorate of Manpower, Organization, and Resources (AF/A1M) to calculate the civilian work-year costs. However, AF/A1M manpower officials calculated the FTEs using adjusted end-strength data from FY 2013²⁰ instead of hours worked for FY 2013. Specifically, AF/A1M manpower officials calculated FTEs by counting the number of civilian positions filled (on-board) on the last day of each month. Civilian employees who worked 40 or more hours a week were counted as one FTE and employees who worked less than 40 hours a week were counted as a half FTE. The AF/A1M manpower officials then multiplied each monthly total of on-board civilians by a monthly factor²¹ to calculate the total FTEs for each month. The

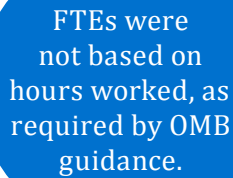
¹⁷ The number of regular hours worked does not include overtime or holiday hours.

¹⁸ The OMB provides the number of work hours applicable in a given fiscal year.

¹⁹ AFI 38-201, "Management of Manpower Requirements and Authorizations," January 30, 2014.

²⁰ At the time the FY 2016 budget was developed, the most current data available were for FY 2013.

²¹ AF/A1M defined the monthly factor as the percentage of the total days in a month a civilian employee worked, assuming that the civilian employee worked 8 hours a day. AF/A1M divided the number of monthly compensable days by the number of compensable days for the fiscal year to calculate the monthly factor.



FTEs were not based on hours worked, as required by OMB guidance.

AF/A1M manpower officials added the monthly total FTEs together to calculate the total FTEs for the fiscal year. SAF/FMBO budget officials used these data to calculate the civilian work-year costs, even though the FTEs were not based on hours worked, as required by OMB guidance. The Air Force should calculate its civilian FTEs using hours worked, in accordance with OMB Circular A-11.

FTEs Did Not Correspond to Civilian Personnel Compensation Data

The FTEs that budget officials used to calculate civilian work-year costs for the Air Force's FY 2016 budget submission, as previously described, did not correspond to the civilian personnel compensation and benefit costs, as required by OMB Circular A-11. The OMB guidance states that FTEs and funding for the FTEs must be reported consistently. Personnel compensation and benefit costs include regular salaries and wages, paid leave, life insurance, health insurance, and employee retirement, which are costs paid based on specific hours worked and not because of a count of funded civilian positions or an end-strength number. The end-strength FTEs that Air Force budget officials used in the civilian work-year cost calculations had no relationship to the civilian personnel compensation and benefit costs used in the formula.

Air Force budget officials did not know the specific data source of the civilian personnel compensation and benefit costs used to calculate civilian work-year costs for FY 2016. Budget officials stated that the staff who prepared the FY 2016 civilian pay budget submission no longer worked in the budget office and the office did not maintain supporting documentation that showed the data sources and methodology used for the FY 2016 civilian work-year cost calculations.

However, Air Force budget officials are working to improve the accuracy of the civilian personnel compensation and benefit cost data used in the civilian work-year cost calculations for the FY 2018 Budget Estimate Submission. Air Force budget officials stated that they considered three different sources of payroll data when determining the civilian personnel compensation and benefit costs to calculate the civilian work-year costs for FY 2018. The Air Force budget officials stated that these data sources provided a more complete view of the civilian personnel compensation and benefit costs. Air Force budget officials also stated that comparing additional data sources provided more accurate information about

the actual civilian hours worked and allowed the Air Force to relate the civilian hours worked to the civilian personnel compensation and benefit costs. Air Force budget officials should use the same set of payroll data to determine both civilian hours worked and civilian personnel compensation and benefit costs for calculating the civilian work-year costs and determining civilian pay requirements.

End-Strength Data Reported as Prior Year FTEs

The Air Force Budget Estimate Submission also included data on the most recently completed fiscal year to allow budget users to compare current year estimates to prior year actual data. However, the Air Force incorrectly used end-strength data to report FTEs in the prior year FTE column of the FY 2016 budget exhibit PB-31R instead of using hours worked as required by OMB guidance. Because Congress uses the information that the Services report in their budget exhibits to evaluate year-to-year changes in the budget and to make budget decisions, the Air Force should report actual FTEs for prior years. Air Force budget officials should obtain civilian hours worked from payroll data to determine actual FTEs and report this number in the prior year FTE column of budget exhibit PB-31R, "Personnel Summary."

Air Force Did Not Document Adjustment Decisions

Air Force officials did not document or support their rationale for deriving the FY 2016 civilian pay requirements. The organizational units proposed program changes based on mission requirements and Air Force budget officials calculated the civilian pay requirements for each Air Force program at the organizational unit level, using previously calculated work-year costs. AFCS members reviewed and approved the proposed program changes. AFCS senior officials then evaluated the total civilian pay requirements and established an overall funding level for the civilian pay program. Budget officials then proportionately adjusted civilian pay requirements for each individual program to the overall funding level established by the AFCS.

Although the AFCS senior officials held meetings to discuss the appropriate funding level for the civilian pay program, and the end result of the adjustment was recorded in the Air Force budget database,²² there was no documentation of the adjustment decision. Therefore, it was not possible to determine the factors that the AFCS considered when determining the total civilian pay requirements

²² Automated Budget Interactive Data Environment System is the classified database that supports the development of the Air Force budget.

shown in the Air Force's FY 2016 Budget Estimate Submission. Having an official record of key budget decisions would allow the Air Force to better support its budget requests. The Air Force should document its decisions when making adjustments to the civilian pay requirements throughout the AFCS budget review process.

Written Procedures Needed to Improve Consistency in Air Force Civilian Pay Budgeting

The Air Force did not have written procedures for developing its civilian pay requirements. Written procedures can ensure that Air Force budget officials use consistent methods and data across budget years. Air Force Instructions provide guidance regarding the overall budget process and define budget responsibilities within the Air Force's budget offices.²³ However, the Instructions do not provide detailed procedures for developing the civilian pay budget.

AFI 16-501 provides guidance on the programming process that supports budget development; AFI 38-204 provides guidance on programming Air Force manpower; and AFI 65-601, volume 2, provides guidance on the administration and execution of the Air Force budget. However, none of these Instructions provide sufficient guidance to ensure consistent methods and data are used to estimate civilian pay budget requirements. Furthermore, these Instructions do not require full documentation of budget calculations and decisions for civilian pay. For example, AFI 65-601, volume 2, references a cost model that projects civilian personnel cost requirements for budget reports; however, the Instruction does not provide any details about the model, such as the data sources or methodology used for the projections.

The SAF/FMBO Director of Budget Operations and Personnel acknowledged the lack of guidance and stated that SAF/FMBO lost some key staff during the development of the FY 2016 budget estimates. Budget officials stated that the lack of written procedures and staffing challenges led to estimating errors in the FY 2016 Budget Estimate Submission.

The SAF/FMBO office is developing written operating procedures to standardize the civilian pay budget process using the lessons learned from the FY 2017 and FY 2018 budget cycles. The SAF/FMBO Director stated that the office will use these written procedures as a resource for training new personnel, and the written procedures will provide continuity within the office and improve budget reporting. However, after reviewing a June 2016 version of these procedures, we concluded

²³ AFI 16-501, "Control and Documentation of Air Force Programs," August 15, 2006; AFI 38-204, "Programming USAF Manpower," April 21, 2015; and AFI 65-601, volume 2, "Budget Management for Operations," May 18, 2012.

that they provide only technical descriptions for how to use various data systems to accomplish budget tasks related to civilian pay. The procedures do not outline the methodology or factors that budget officials should use to calculate FTEs or work-year cost used to develop civilian pay requirements. Furthermore, the procedures do not require documentation of key budget decisions. Documenting the methodology and decisions and making the information available for outside review would provide transparency for Air Force budget requests. The Air Force should establish written procedures that require full documentation of the methodology used to develop the civilian FTEs and civilian pay funding requirements contained in the Air Force annual budget submissions.

FY 2016 Budget Requirements for Civilian Pay Were Insufficient

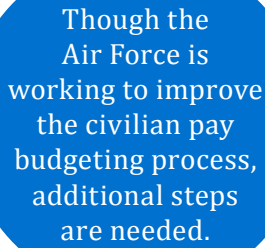
The Budget Estimate Submission of \$7.7 billion for the FY 2016 Air Force O&M civilian pay requirements did not fully fund payroll for Air Force civilian personnel. Air Force budget officials acknowledged errors in the civilian pay requirements for the FY 2016 President's Budget submission. Specifically, Air Force budget officials stated that the reported average civilian salary was incorrect. The Air Force

reported an average civilian salary of \$97,000, but budget officials later disclosed that \$104,000 was a more accurate estimate of average civilian salary for FY 2016 requirements. Due to this error, the FY 2016 Budget Estimate Submission underfunded the Air Force civilian pay program. Budget officials stated that they identified and reported the calculation error before Congress enacted the FY 2016 budget, and the Air Force reprogrammed funds and requested an additional \$212 million from Congress to correct the shortfall.

The FY 2016 Budget Estimate Submission underfunded the Air Force civilian pay program.

In addition, the civilian work-year costs at the unit level were incorrectly based on end-strength data, as previously discussed. The AFCS relied on this flawed civilian work-year cost data when it made programming decisions and evaluated the overall affordability of the Air Force civilian pay program. Having accurate information is critical so that decision makers, including Congress, can consider total program costs when setting budget priorities.

The Chief, Personnel and Training Division, SAF/FMBO, stated that as of July 2016, the Air Force has made several process improvements, including filling vacant positions in the SAF/FMBO Civilian Pay branch and training new staff on civilian pay execution and programming. The Chief stated that the Air Force is also developing tools to automate manual processes, reduce variance in estimates, and consolidate data from multiple sources to provide more reliable information.



Though the Air Force is working to improve the civilian pay budgeting process, additional steps are needed.

Though the Air Force is working to improve the civilian pay budgeting process, additional steps are needed. Without clear and definitive written procedures that explain the Air Force civilian pay budget process and require the use of appropriate data sources for FTE and work-year cost calculations, the Air Force will continue to develop and submit budget estimates that do not accurately reflect its civilian pay requirements.

Management Comments on the Finding and Our Response

Air Force Comments on the Adequacy of the FY 2016 Civilian Pay Funding Requirement and Air Force Process Improvements

The Deputy for Budget, responding for the Assistant Secretary of the Air Force (Financial Management and Comptroller), did not agree that the Air Force had not adequately supported and justified the civilian pay requirements used to develop its FY 2016 Budget Estimate Submission. The Deputy acknowledged that while the FY 2016 Budget Estimate Submission did not fully cover the Air Force's Active Component civilian pay requirement, it did represent 97 percent of the funding needed. The Deputy stated that the audit report measured problems of the past, without giving consideration to the current processes that correct issues related to the FY 2016 civilian pay budget. The Deputy stated that the Air Force fixed the average work-year cost disconnect that caused the shortfall in the FY 2016 Budget Estimate Submission. The Deputy also stated that the Air Force adjusted its processes and documentation and she detailed a number of other steps taken to produce more accurate civilian pay requirements for the FY 2017 President's Budget and FY 2018 Budget Estimate Submission.

Our Response

When we began the audit in October 2015, FY 2016 was the most recent year with full budget data available. We acknowledge that since then, Air Force budget officials have made improvements to civilian pay budget processes. Our report identified some of the improvements that the Deputy mentioned, such as filling vacant positions in the SAF/FMBO Civilian Pay branch, training new staff on civilian pay execution and programming, and developing tools to automate manual processes and improve data reliability. However, due to the timing of the congressional requirement, we did not validate the impact of those changes on the Air Force's FY 2017 and FY 2018 budget submissions during our audit.

Air Force Comments on Internal Controls

The Deputy for Budget, responding for the Assistant Secretary of the Air Force (Financial Management and Comptroller), did not agree that the Air Force had an internal control weakness in its budget process for determining civilian compensation requirements. Although the Deputy acknowledged that the Air Force lacked written procedures that described the process and source data to use for developing civilian pay requirements when the FY 2016 Budget Estimate Submission was developed, she stated that since then, SAF/FMBO has significantly improved the standard operating procedures and documented them in a comprehensive continuity book.

Our Response

We acknowledge that the Air Force revised the standard operating procedures used to develop its civilian pay requirements, and we reviewed the September 2016 version of the continuity book. However, similar to the June 2016 version we reviewed during the audit, the September 2016 version still provides mainly technical descriptions for how to use various data systems to accomplish budget tasks related to civilian pay. It does not outline the methodology or factors that budget officials should use to calculate FTEs or work-year cost used to develop civilian pay requirements, and it does not require documentation of key budget decisions. Written procedures are an important control to ensure that Air Force budget officials use consistent methods and data across budget years, and to provide transparency for budget decisions.

Recommendations, Management Comments, and Our Response

Recommendation 1

We recommend that the Assistant Secretary of the Air Force (Financial Management and Comptroller) develop written procedures for the civilian pay budget process. At a minimum, the procedures should require Air Force budget officials to:

- a. Calculate civilian full-time equivalents using hours worked, in accordance with Office of Management and Budget Circular No. A-11, "Preparation, Submission, and Execution of the Budget."**

Air Force Comments

The Deputy for Budget, responding for the Assistant Secretary of the Air Force (Financial Management and Comptroller), agreed that OMB Circular A-11 defines civilian FTEs based on hours worked, but stated that the Circular grants

flexibility in how to estimate FTE employment for future requirements. The Deputy also stated that the Air Force corrected the process for reporting U.S. direct hire employees' FTE execution based on compensable hours for the FY 2017 President's Budget and FY 2018 Budget Estimate Submission.

Our Response

Comments from the Deputy did not address the specifics of the recommendation. Although the Deputy agreed with the recommendation and stated that the Air Force corrected the process for calculating FTEs, the comments do not discuss whether this corrected process has been incorporated into written policy. We did not find any explanation for how to calculate FTEs used for the civilian work-year cost in either the June 2016 or September 2016 version of the continuity book. While OMB Circular A-11 provides flexibility in determining future FTE requirements, the FTEs used to calculate civilian work-year cost should be based on historical data. Air Force budget officials incorrectly substituted end-strength data for the FTEs in the civilian work-year cost equation for the FY 2016 Budget Estimate Submission instead of using hours worked as required by OMB Circular A-11. Therefore, we request that the Deputy provide additional comments on the final report identifying a plan for updating applicable policy or procedures regarding FTE and work-year cost calculations.

- b. Use the same set of payroll data to determine civilian hours worked and civilian personnel compensation and benefit costs for calculating the civilian work-year costs and determining civilian pay requirements.**

Air Force Comments

The Deputy for Budget, responding for the Assistant Secretary of the Air Force (Financial Management and Comptroller), agreed. The Deputy stated that the Air Force corrected the process to use a standard set of payroll data for reporting U.S. direct hire employees' compensable hours and benefit costs. The Deputy noted that there is no single DoD accounting system that provides comprehensive payroll data for foreign national employee types.

Our Response

Comments from the Deputy did not address the specifics of the recommendation. Although the Deputy agreed with the recommendation, the comments do not discuss whether this corrected process for using a standard set of payroll data for reporting compensable hours and benefit costs has been incorporated into a written policy. We did not find any description of the source of the payroll data or any explanation of how budget officials should use the data to calculate work-year

cost for direct hire or foreign national employee types in either the June 2016 or September 2016 version of the continuity book. Therefore, we request that the Deputy provide additional comments on the final report identifying a plan for updating applicable policy or procedures regarding the data used to determine civilian hours worked and civilian personnel compensation and benefit costs for calculating the civilian work-year costs.

- c. Obtain civilian hours worked from payroll data to determine actual full-time equivalents and report this number in the prior year full-time equivalent column of budget exhibit PB-31R, "Personnel Summary."**

Air Force Comments

The Deputy for Budget, responding for the Assistant Secretary of the Air Force (Financial Management and Comptroller), agreed. The Deputy stated that the Air Force uses compensable hours to report U.S. direct hire employees' prior-year FTEs in budget exhibit PB-31R. The Deputy explained that DoD accounting systems do not record hours worked for foreign national employee types.

Our Response

Comments from the Deputy did not address the specifics of the recommendation. The Deputy did not state for which year the Air Force used compensable hours to report prior-year FTEs. In addition, the Deputy did not discuss whether the Air Force has updated its written procedures to discuss the reporting of prior-year FTEs for both direct hire and foreign national employee types in budget exhibit PB-31R. Therefore, we request that the Deputy provide additional comments on the final report identifying a plan for updating applicable policy or procedures to discuss reporting prior-year FTEs in budget exhibit PB-31R.

- d. Document decisions when making adjustments to the civilian pay requirements throughout the Air Force Corporate Structure budget review process.**

Air Force Comments

The Deputy for Budget, responding for the Assistant Secretary of the Air Force (Financial Management and Comptroller), agreed. The Deputy stated that the Air Force already documents such decisions in Personnel Budget Resource Committee meeting minutes and Change Control Number inputs in the Automated Budget Interactive Data Environment System.

Our Response

Comments from the Deputy did not address the specifics of the recommendation. During the audit we reviewed minutes for committee meetings where the FY 2016 civilian pay budget was discussed and the minutes did not include a record of the overall adjustment decision or detail the rationale for how it was calculated. In addition, we acknowledged in the report that the end result of the adjustment was recorded in the Automated Budget Interactive Data Environment System; however, there was no documentation that explained the rationale for the adjustment decision. Air Force policy and procedures do not require documentation of adjustment decisions related to the civilian pay budget. Written procedures that require documentation of decisions when making adjustments to the civilian pay requirements would provide transparency for budget requests. We request that the Deputy provide additional comments on the final report identifying a plan for updating applicable policy or procedures to require documenting the basis for adjustments to the civilian pay requirements.

- e. Document the methodology used to develop the civilian full-time equivalents and civilian pay requirements contained in the Air Force annual Budget Estimate Submissions.**

Air Force Comments

The Deputy for Budget, responding for the Assistant Secretary of the Air Force (Financial Management and Comptroller), agreed. The Deputy stated that SAF/FMBO has updated its continuity books as of September 2016 and will continue to do so in the future, to provide more accurate estimates and streamline processes related to civilian pay requirements.

Our Response

Comments from the Deputy did not address the specifics of the recommendation. Although the Deputy agreed with the recommendation, the actions described do not fully meet the intent of the recommendation. We reviewed the September 2016 version of the SAF/FMBO continuity book and found that it still provides only technical descriptions for how to use various data systems to accomplish budget tasks related to civilian pay. It does not outline the methodology or factors that budget officials should use to calculate FTEs or work-year cost used to develop civilian pay requirements. Furthermore, it does not require that key budget decisions be documented for independent review. Therefore, the Air Force needs to develop additional written procedures that specifically describe the process and data sources to use for developing civilian pay budget requirements. We request that the Deputy provide additional comments on the final report identifying a plan for updating applicable policy and procedures related to developing civilian pay requirements for annual Budget Estimate Submissions.

Appendix

Scope and Methodology

We conducted this performance audit from October 2015 through October 2016 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We reviewed civilian pay information for the Air Force Active Component reported in the FY 2016 budget submission in the O&M appropriation. The Air Force FY 2016 budget request for the Active Component was \$7.7 billion for civilian pay compensation in the O&M appropriation. Specifically, we reviewed the following budget exhibits:

- PB-31R, “Personnel Summary”; and
- OP-32A, “Appropriation Summary of Price/Program Growth.”

We met with staff from the Senate Committee on Appropriations, Subcommittee on Defense and the House Committee on Appropriations, Subcommittee on Defense, to discuss concerns related to the civilian pay budget. To determine the process and data sources used to compute the Air Force FY 2016 civilian pay budget requirements, we interviewed officials from the following offices:

- SAF/FMBO,
- AF/A1M, and
- Office of the Under Secretary of Defense (Comptroller).²⁴

Specifically, we discussed how Air Force budget officials calculated the numbers reported for total civilian compensation, average civilian salary, and civilian FTEs in the FY 2016 Budget Estimate Submission. We also determined how officials developed the prior year’s FTEs and average civilian salary reported. We discussed how officials calculated average work-year costs used to develop civilian pay requirements. We also reviewed documents related to program changes that the AFCS officials used to develop the civilian pay budget for FYs 2016, 2017, and 2018.

²⁴ The Comptroller is the principal advisor to the Secretary of Defense for budgetary and fiscal matters and manages the development and execution of the Defense budget.

We reviewed Office of Management and Budget Circular No. A-11, "Preparation, Execution, and Submission of the Budget," July 2014 (revised November 2014), which provides guidance for preparing the FY 2016 budget. We also reviewed the following DoD and Air Force policies:

- DoD 7000.14-R, "Financial Management Regulation," volume 2A, chapter 1, "General Information," October 2008
- DoD 7000.14-R, "Financial Management Regulation," volume 2A, chapter 3, "Operation and Maintenance Appropriations," December 2010
- AFI 16-501, "Control and Documentation of Air Force Programs," August 15, 2006
- AFI 38-101, "Air Force Organization," March 16, 2011
- AFI 38-201, "Management of Manpower Requirements and Authorizations," January 30, 2014
- AFI 38-204, "Programming USAF [United States Air Force] Manpower," April 21, 2015
- AFI 65-601, volume 2, "Budget Management for Operations," May 18, 2012
- AFI 65-601, volume 3, "The Air Force Budget Corporate Process," August 8, 2011

We also reviewed draft versions of standard operating procedures provided by officials from SAF/FMBO in April 2016 and June 2016.

Use of Computer-Processed Data

We did not use computer-processed data to perform this audit.

Prior Coverage

During the last 5 years, the Government Accountability Office (GAO) issued one report discussing the budget process for civilian pay. Unrestricted GAO reports can be accessed at <http://www.gao.gov>.

GAO

Report No. GAO-15-10, "DoD Needs to Reassess Personnel Requirements for the Office of Secretary of Defense, Joint Staff, and Military Service Secretariats," January 21, 2015

GAO found that the DoD headquarters organizations it reviewed do not systematically determine or periodically reassess their personnel requirements. As a result, DoD will not be well positioned to proactively identify efficiencies and limit personnel growth within these organizations. Moreover, until DoD determines personnel requirements, Congress will not have critical information needed to reexamine statutory limits for personnel levels.

Management Comments

Air Force



DEPARTMENT OF THE AIR FORCE
WASHINGTON, DC

Office of the Assistant Secretary

MEMORANDUM FOR DEPARTMENT OF DEFENSE INSPECTOR GENERAL (DoDIG)

FROM: SAF/FMB
1130 Air Force Pentagon
Room 5D912
Washington D.C. 20330-1130

SUBJECT: Management Comments for DoDIG report "Requirements for the Air Force Civilian Pay Budget Still Need Improvement" (Project No. 02016-D000AG-0040.000)

1. The following comments are prepared in response to the DoDIG report "Requirements for the Air Force Civilian Pay Budget Still Need Improvement" IAW DoDI 7650.3. The House Committee for Appropriations required the DoDIG to audit all the services at the component level to achieve two objectives: first, to determine the effectiveness of the civilian pay budget processes in the military services; second, to evaluate the adequacy of the support and justification for the civilian full-time equivalent (FTE) and pay requirements in the Fiscal Year 2016 Budget Estimate.

Finding. Civilian Pay budget did not represent Air Force funding needs in its FY 2016 Budget Estimate Submission.

SAF/FMB Management Comments. SAF/FMB does not concur. While the FY 2016 Budget Estimate Submission did not fully cover the Air Force's active component Civilian Pay requirement, it did represent 97% of the funding needed. The Air Force has fixed the average workyear cost disconnect that caused the shortfall in the FY 2016 Budget Estimate Submission. In addition, we have adjusted our processes and documentation to produce more accurate Civilian Pay requirements for the FY 2017 President's Budget and FY 2018 Budget Estimate Submission.

Internal Control Weakness. The Air Force did not have written procedures that described the process and source data to use for developing civilian pay requirements.

SAF/FMB Management Comments. SAF/FMB does not concur. This may have been true when the FY 2016 Budget Estimate Submission was developed. However since that time, the Personnel and Training Division in the Directorate of Budget Operations and Personnel has significantly improved the existing standard operating procedures and documented them within a comprehensive continuity book. The continuity book has been updated and provided to the DoDIG audit team as of September 2016, and it will continue to be updated regularly in the future, to provide more accurate estimates and streamline processes to justify the Civilian Pay requirements.

Air Force (cont'd)

Recommendation 1. The report recommends that the Assistant Secretary of the Air Force (Financial Management and Comptroller) develop written procedures for the civilian pay budget process. At a minimum, the procedures should require Air Force budget officials to:

- a. calculate civilian full-time equivalents using hours worked, in accordance with Office of Management and Budget Circular No. A-11, "Preparation, Submission, and Execution of the Budget";
- b. use the same set of payroll data to determine civilian hours worked and civilian personnel compensation and benefit costs for calculating the civilian work-year costs and determining civilian pay requirements;
- c. obtain civilian hours worked from payroll data to determine actual full-time equivalents and report this number in the prior year full-time equivalent column of budget exhibit PB-31R, "Personnel Summary";
- d. document decisions when making adjustments to the civilian pay requirements throughout the Air Force Corporate Structure budget review process; and
- e. document the methodology used to develop the civilian full-time equivalents and civilian pay requirements contained in the Air Force annual Budget Estimate Submissions.

SAF/FMB Management Comments.

- **Recommendation 1a.** SAF/FMB concurs with comment. OMB Circular No. A-11 does define civilian full-time equivalents as calculated by using hours worked. However, the Circular also grants flexibility in how to estimate FTE employment for future requirements. The Air Force corrected the process for reporting US Direct Hire employees' FTE execution based on compensable hours for the FY 2017 President's Budget and FY 2018 Budget Estimate Submission. In the case of Foreign National Direct Hire and Indirect Hire employees, there is no comprehensive accounting system in the Department of Defense that records all of the hours worked. **Action Required: Completed February 2016.**
- **Recommendation 1b.** SAF/FMB concurs with comment. The Air Force corrected the process to use the standard set of payroll data for reporting US Direct Hire employees' compensable hours and benefits costs. The same set of payroll data cannot be used to determine all civilian hours worked and pay requirements. There is no single Department of Defense accounting system that is the source for comprehensive payroll data for Foreign National Employee Types. The regulation does not require a single source to justify requirements, nor is there a system to provide the necessary information. **Action Required: Completed November 2015.**
- **Recommendation 1c.** SAF/FMB concurs with comment. The Air Force utilizes the compensable hours for reporting US Direct Hire employees' prior year FTEs in the budget exhibit PB-31R Personnel Summary. There are employee types that do not record hours worked in the accounting systems. The exceptions are for Foreign National employees for which there is no accounting system in the Department of Defense that records all of the hours worked. **Action Required: Completed February 2016.**

Air Force (cont'd)

- **Recommendation 1d.** SAF/FMB concurs with comment. The Air Force already documents these decisions by recording them in Personnel Budget Resource Committee meeting minutes and Change Control Number inputs in the Automated Budget Interactive Data Environment System. **Action Required: Completed April 2016.**
- **Recommendation 1e.** SAF/FMB concurs with comment. The division continuity binders have been updated and provided to the DoDIG audit team as of September 2016, and will continue to be updated regularly in the future, to provide more accurate estimates and streamline processes to justify the Civilian Pay requirements. **Action Required: Completed September 2016.**

2. Throughout the course of the audit, my staff has dedicated a significant amount of time to educate the auditors on Air Force processes and update current documentation. I am disappointed that much of our feedback provided through multiple meetings and correspondence has not been incorporated into the draft report. The audit report measured problems of the past, without giving consideration to the current processes that correct those issues related to the FY 2016 Civilian Pay budget. In order to continue to improve our budget estimates, we have restored manning in the Civilian Pay branch, accelerated their training, standardized processes and initiated inter-service collaboration to improve budget formulation processes. In addition, the Civilian Pay branch is tracking execution to identify disconnects in programming earlier in the cycle, capturing lessons learned in continuity and revamping writing in the J-Books to clarify transfers and changes to the full-time equivalents and costs. The Civilian Pay Branch continues to create tools to automate manual processes, reduce variance in estimates, and consolidate information from a variety of sources in order to distribute reliable figures for stakeholders.

3. The Air Force will continue to provide information for your staff to meet the objectives within the scope of the audit for the House Committee for Appropriations. If there are any questions or issues regarding Civilian Pay that have not been addressed please contact SAF/FMBOP, [REDACTED]

[REDACTED]
GLEASON.CAROLYN [REDACTED]

Carolyn M. Gleason
Deputy for Budget

Glossary

Active Component. The Active Component is the only full-time Component of the Air Force. The Air Force Reserve Component and the Air National Guard Component can be called into a full-time active status to support operational requirements.

Appropriation. An appropriation is a provision of law conferring authority to incur obligations for a specified purpose.

Average Civilian Salary. The average civilian salary is determined by dividing the total obligations for base pay of each type of employment by the applicable FTEs.

Budget Exhibits. Budget exhibits are documents that the Services prepare to support requests for appropriations from Congress and help justify the budget.

Civilian Work-Year Cost. The civilian work-year cost is determined by dividing the obligations for total personnel compensation and benefits by civilian FTEs.

End Strength. End strength is defined as the count of funded Air Force military and civilian positions.

Full-Time Equivalent. A full-time equivalent is a measure of workload, calculated as the total number of hours worked (or to be worked) divided by the number of compensable hours applicable to each fiscal year.

Total Civilian Compensation. Total civilian compensation includes regular salaries and wages, including geographic differentials and paid leave; compensation above the basic rates; and cash incentive awards. It also includes payments for benefits such as life insurance, health insurance, and employee retirement, as well as recruitment and retention incentives. Finally, it includes retirement benefits paid to former civilian personnel or to their survivors and severance payments to former employees.

Acronyms and Abbreviations

AF/A1M	Air Force Directorate of Manpower, Organization, and Resources
AFCS	Air Force Corporate Structure
AFI	Air Force Instruction
FTE	Full-Time Equivalent
OMB	Office of Management and Budget
O&M	Operation and Maintenance
SAF/FMBO	Office of the Assistant Secretary of the Air Force (Financial Management and Comptroller), Budget Operations and Personnel Directorate



Whistleblower Protection

U.S. DEPARTMENT OF DEFENSE

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