



## All Things Financial Management

### Episode 8: Financial Management Functions of the Air Force and Space Force with Stephen Herrera

- TOM:** Good morning, Mr. Herrera, thanks for being with us this morning, appreciate your time.
- STEPHEN HERRERA:** Good morning, Tom, thanks for having me.
- TOM:** Mr. Herrera, you've been acting as the Air Force SAF/FM and you're currently the Principal Deputy. Can you share with us your journey and tell us about what led you to your current role?
- STEVE:** It's interesting, I've been at this for almost 34 years. I'm a 34-year career civilian Air Force employee. Now I say Department of the Air Force employee. Coming out of college in 1987, I was in Texas, graduated from UT in San Antonio and needed a job and both my parents were career civil servants, both retired from the Army and I thought okay that's a neat place to start working as a professional.
- And came in as an intern. The Air Force had an outstanding scholar program called PALACE Acquire Intern Program, and I came in as an intern and was sent to Hurlburt Field in northwest Florida, on the Florida Panhandle. Which was a surprise to me because at the time, there were numerous Air Force bases in San Antonio and I thought for sure I would work in San Antonio. 34 years later, I have yet to work in San Antonio.
- It's been a wonderful journey and I modeled my career a little bit like a military member in terms of having moved around a few times. I PCSed, Permanent Change of Station, to Scott Air Force Base and then went back to Hurlburt after Air Force Special Operations Command stood up and got to be a part of that, a brand-new major command with an organization that had a really neat mission supporting our special operators who were at the tip of the spear for largely the last, 20 to 30 years fighting the war on terror and just being really involved globally in a lot of our defense operations.
- And then spent eight years as a member of Air Force Materiel Command working at a product center at the Air Armament Center when that center still existed and was the Deputy Comptroller or Deputy FM there and was a large test evaluation center as well as an acquisition center for developing munitions. Think JDAMs and AMRAAMs and JASSMs those really high-end munitions that we need for current and future fights. So, that was a very rewarding opportunity.



And Marilyn Thomas and Pat Zarodkiewicz both legends in the Air Force FM career field, continued to recruit me to come up to the Pentagon and in 2012 I did. I came up and worked in the engine room and worked in budget for about a year and three months and had a really neat experience and from that position launched into the SES ranks, became a Senior Executive Service member.

So, did that for three years and was able to get back to AFSOC, Air Force Special Operations Command, as the Executive Director there. So, I was the senior civilian if you will, almost the Deputy Commander from a civilian capacity supporting at the time, General Heithold then General Webb as the commanders at AFSOC.

Really enjoyed that stage, certainly got to see and focus on the operational side of things as well as supporting a lot of their resiliency initiatives that they had going on. And then came back to the air staff and was the Deputy Director of staff at Headquarters Air Force, working for General Van Ovost and from there, didn't even spend a year there, and I came back to FM and was in FMB, our budget shop, for a year and a half or so. And then I've been the Deputy Comptroller since this past December. So, it's been almost a year that I've been the PDAS and in January became the Acting FM.

Really remarkable, 34 years flew by and initially I didn't necessarily have the intention of making a long career with the Air Force but, I wasn't against the idea, I just wasn't sure at 23 years of age what I wanted to be when I grow up. But I just have nice alignment with the Air Force. Really enjoyed the work, really enjoyed the people, had tremendous support for myself from day one. Lots of mentors, lots of leaders who took an interest in me who saw potential in me and pushed me to realize that potential. So, I've tried to pay it back with a lot of the young people that I work with, both military and civilian. And it's been a rewarding career and I felt like I was able to make difference and make a contribution as well as very much enjoy the work and the mission we were supporting.

**TOM:**

Mr. Herrera, what a neat story I think for some of our listeners who are new careerists to see that you started your career as an intern at the Air Force. And were able to go varied and challenging experiences which probably helped keep you at the Air Force, along with the mentoring. And to see now that you're the Acting SAF/FM, I think it's a really neat example of how exciting a career can be, and it can start as an intern and just blossom from there.

So, thank you for sharing that.



**STEVE:** Thank you.

**TOM:** Mr. Herrera, the new US Space Force is the first new branch of the Armed Services in 73 years. And it's going to leverage the Department of the Air Force for about 75% of its enabling functions. How has the Space Force affected your organization?

**STEVE:** I would say from the SAF/FM level the Space Force has kept us incredibly busy. Step back and think, Secretary of the Air Force, financial management and Comptroller, we are the FM, we are the Comptroller for both the Air Force and the Space Force. We didn't get a big bump up of personnel with the stand-up of the Space Force. Initially we didn't get any bump up and, some might say, "Well, you know, you had Air Force Space Command already, so it couldn't have been that much more of a workload."

But it has been substantial from an appropriation liaison standpoint can you imagine the interest from the Hill and the amount of office visits and congressional inquiries and questions and support that we have to provide, to make sure they understand what this new Force or Service was made up of. And lots of interest in the structure and the funding and the programs that we were supporting.

Additionally, this is a new service, new appropriations. New military personnel appropriation will start in '23. We wanted to wait until all the transfers of personnel from the other services as well as from the Air Force to the Space Force leveled off. Additionally, we're going to have a new personnel pay entitlement system called AFFIPS, and we wanted to start the Space Force in that new system versus trying to force our very old pay system to work for that new Space Force MILPERS appropriation.

But, we got a new operations and maintenance appropriation, new procurement, new RDT&E tremendous amount of workload that went from standing up all of those new appropriations, building separate J-Books, justification books, for the budget. I've mentioned the appropriation liaison work that we had to do. Space Force is looking at a potential for a new working capital fund, so our working capital fund shop, it's pretty small, has been working very closely with them on what it will take and we're working with OSD comptroller on what the requirements would be to charter a new working capital fund for the Space Force.

Effectively to sum it up in terms of work, most of the transfers were of appropriated funding and personnel. We're '21 and '22 transfers so, clearly for



FY22, I need an appropriation and an authorization bill to finish the work we need to do in '22. And there will be some more transfers probably in '23 and beyond. But the majority or the bulk of it we'll have accomplished in '21 and '22.

Knock on wood we'll have an appropriation in '22.

**TOM:** Thank you, Mr. Herrera. Mr. Herrera, could you expand a little bit on the appropriation liaison increased workload? Is that part of the reason that you restructured and created a higher-level liaison organization within the Air Force?

**STEVE:** We've had a demand signal from the appropriators on the House and Senate side for a little more attention, elevated support in that area for a long time. And when I say we, the Department of Defense has always had that. The authorizers have a two-star authorization in each of the services that works the liaison for the authorization bill.

We certainly know that we have a lot of initiatives in the Department of the Air Force that we want accomplished. And certainly, the FMB team that was supporting the appropriation liaison office, it was FMBL at the time, was doing a tremendous amount of work and doing it well. But certainly, elevating it to a three letter and inserting a SES member to lead that organization is helping us get there faster and basically demonstrating to the appropriators that we take this very seriously and we want to have a very open communication with the appropriators and address concerns or issues that they have at the appropriate level.

And I will tell you I believe so far, it's been a success. I think having the right person there has been incredibly helpful and largely the team that was already there has stayed intact. So, they were able to help onboard the SES member and just take off. So tremendous success by the entire team.

**TOM:** Mr. Herrera, you mentioned the additional workload, new systems, appropriations liaisons. How is the '23 PBR going?

**STEVE:** It's sporting. This is a tough year. We're still trying to determine what our final top line will be but based on our fiscal guidance we received, we have a number that we're working with.

I think if any of you have listened to our Service Secretary, Mr. Kendall, he has something that keeps him up at night. It is that high end fight, that China threat, that Russia threat. And he wants to make sure that, we are positioning



ourselves to be able to be ready for that engagement. And so the PBR is requiring some really tough choices and is requiring a lot of hard work by our team to figure out how we can sort of take care of the Force, and the personnel, and all the other initiatives that the administration might have while at the same time making sure we're doing right by the American taxpayer and posturing, properly for that high end fight, that 2030 fight, if you will.

We're not there yet. We're probably a few weeks away from endgame but probably a lot of work to be finalized and in the end we're going to have a PBR position that is going to result in that top line number that will enable us to build a President's Budget and we'll take that to the Hill. And that PB will require the whole of the DOD to go to the Hill and explain to them why we made the decisions we made, why we made the recommendations that we made, and what were the priorities we were trying to address.

**TOM:**

Very good, Mr. Herrera. It looks like the Space Force is preparing for a financial statement audit in fiscal year 23, obviously the Air Force has been under audit for several years now. And it sounds like you've had a very successful fiscal year '21 audit with downgrading two materiel weaknesses and eliminating another one a year early. In your perspective, how would you say that the Air Force's financial statement audit is going this year?

**STEVE:**

So, for '21 we were pleased with the success that we had. First off, I would take my hat off to OSD Comptroller for driving us toward developing these audit roadmaps that we're all following. We have one for our general fund and one for our working capital fund. It enables us to focus on, "What are we trying to accomplish and how are we getting there?"

So, '26 is our goal for the general fund, '28 for our working capital fund to getting an opinion. By reducing three materiel weaknesses, one was a working capital fund materiel weakness, two were general fund. Materiel weaknesses are basically helping us get after systemic issues that are cross-cutting and if we can make a dent on a large number of those materiel weaknesses, then we're showing progress towards achieving those audit goals in that timeline that was established that we committed to. We were tickled that we were able to meet our commitment for '21. For '22 we're getting after two really large asset classes, one is military equipment, think all of the aircraft, the satellites, all those things that we have to account for. I think we've demonstrated that we have positive control of that inventory, we know where they all are and can point to you floor to book, book to floor. But in terms of the valuation of that work that military equipment, we're getting close to being able to demonstrate that work has been accomplished and is supportable.



The other material weakness we're trying to get after in '22 will be our funds balance for Treasury. Basically funds balance with Treasury is our cash that we hold with Treasury. If we're able to accomplish both of those material weakness downgrades in '22, we've knocked out a very large percentage of the assets side of our balance sheet.

So we're not backing off and I think we're in a good position for '22 to knock out those two material weaknesses; I would say we had a very strong year. And I've learned this since the couple times that I worked on the audit side. I try not to let any success cause me to celebrate too much as well not let any setback or failure depress me too much because it's a marathon that we're on to get to clean opinions.

We're certainly on the right path. We did well in terms of NFR closures. This year our, closure rate for our FI '20 NFRs is going to be 32%, which is an increase of our '19 closure rate which was 25%. Of the 107 IT correction action plans or CAPS that we submitted to the auditor for validation. That was 40% of the total IT NFR population.

We made a pretty big dent in terms of getting after a good percentage of the IT NFRs that needed to be addressed via a corrective action plan. So, tons of work that was accomplished. We are very much on the right path. But as I mentioned there's a lot of work to go, certainly there are some difficult areas that we're going to have to tackle, bringing a little more order to our legacy IT environment and making sure we're putting all the right controls and corrective actions in that area that need to be accomplished would be a heavy lift. We're not backing off of that and that's the direction we're going.

**TOM:** Well, thank you for your service in leading out that effort. With the progress that you're making, are there any particular enhancements that you've implemented in your auditor approach that are helping to drive this accelerated progress?

**STEVE:** Couple things. Probably the main thing was getting all of our functionals to buy in to a integrated master schedule approach for getting after our reducing material weaknesses, our major initiatives whether it's real property or OM&S, spares in the possession of the contractor possessed spares.

We've developed even for our funds balance for Treasury, an integrated master schedule that enables us to keep track and assess the progress. And FM has to do the same for the corrective actions that we're (in assessable areas) that



we're responsible for. And then we have governance and meaningful governance behind that.

I partner with my good friend Mr. Rich Lombardi who's effectively the Deputy Chief Management Officer, he's the SAF/MG for the Air Force, who's a program manager by trade, so he can spot a IMS and know what makes sense and what doesn't make sense and ask some really penetrating questions. Questions that are very helpful for us making sure that if we need to make an adjustment or if we have some critical path issues, we can get after those and realign resources as necessary.

That's probably the biggest change we've made but then on top of that, sticking with the plan that OSD set in place, that audit roadmap that we committed to. And not backing off of those material weaknesses that we want to get downgraded or eliminated. A123 internal controls and the contingent legal liabilities took a lot of partnership, effort across the entire Department of the Air Force to get those two downgrades.

The working capital fund team worked incredibly hard to get that general property plant and equipment downgrade that they were able to accomplish. I think those two the IMSes and certainly sticking to that audit roadmap and not doing a major hard left or hard right shift to our approach, are probably the two things that are putting us on the right path, keeping us on the right momentum.

TOM: Thank you, Mr. Herrera. And now that you're acting in the staff FM role, what are some of the initiatives that you're taking on as part of that role?

STEVE: I would say what I'm trying to do is keep the seat warm for the incoming SAF/FM whoever who that person should be. I don't want to take any decision space away from whoever that is.

But certainly I need to keep the train going. One of the first things I did when I came into this position is I realized, "Okay, we had a Strategic Action Plan, our SAP that we published in 2018, and we had accomplished a ton of work. We had made more advancements on our fire compliance, we developed a human capital strategy to that Strategic Action Plan, we worked the transition of our military pay that accomplished out in the comptrollers quadrants in the field, to that workload transitioning to AFFIPS, our integrated personnel and pay system, and, our A1 personnel working those entitlements, stood up for resource training center. I'm going on about the many accomplishments of the previous staff but the point I'm trying to make is the administration changed, the leadership changed, we have a new Secretary, we have a new President, we



have a Chief Staff of the Air Force who says accelerate, change or lose. I mention that because all the Comptrollers who work in the Air Force are Air Force members, even if they're supporting a Space Force field command or Space Force activity.

They remain Air Force comptrollers working in support of the Space Force. Anyway, recognizing that strategic shift that had occurred, I felt like we needed to make some adjustments to our strategic action plan or our SAP. So we have a draft SAP that is probably the 93% solution and hopefully sometime in the next three months I'll have a Comptroller that I can hand that to and allow them to make whatever edits and adjustments that they feel we need to make.

But the shift I'm wanting to go through is implementing a data strategy, implementing a IT strategy for the FM systems that is going to help us focus on rationalizing the number systems we have. Eliminating what we can as quickly as we can. Making sure we're leveraging that ERP that we've been focused on for so long.

And then doing some work like diversity, equity and inclusion. Looking at our FM statistics across the Department of the Air Force, there's thirteen thousand comptroller members, over thirteen thousand financial managers in the Air Force. We need to make sure that we're not creating any barriers or there aren't any issues that we need to address and so we are looking at our demographics and, in some cases if we see trends or issues that it gives a chance to act upon those and not be reactive but more proactive. So our costers are trying to rejuvenate a BCA or a business case analysis capability here at the field level and we're really needing to expand on our data analytics and I need to catch up on, some of the work that some of my service counterparts have been doing with the Advana tool that OSD is using. If OSD is going to grade me on what my data is in Advana, I think it's in my best interest to take advantage of that system and to leverage it and use it. I'm going to make sure all that data is correct and accurate because I certainly want OSD making well-informed decisions about me, then I need to probably take advantage of that workload.

Those are some of the things that I'm wanting to get after from a strategic action plan standpoint. From an audit standpoint I want to continue to partner with our CIO and with our MG, Mr. Lombardi and Ms. Knausenberger and our Cybersecurity Lead Ms. Jones-Heath

Effectively those are some of the big rocks we're going to have to get after in this audit. It's not just the FM systems but our functional systems as well. Making sure that we're rationalizing as much as we can, eliminating as many





systems as we can, leveraging the ERPs that we have as much as possible. But then recognizing we've committed to some other systems that aren't in the ERP and we need to make sure those system that we'll continue to keep around are structured to have the right cyber securities in place as well as having the right accounting conformance capabilities in place.

So, there's a ton of work there and by partnering across the Department, and across the staff, and leveraging our audit experts to help us do this prioritization, we can make some correct resourcing decisions. Rather than trying to get after every problem at the same time and giving every problem equal weighting we probably should do a little better prioritizing of those problems so that we're getting as much bang for our buck, if you will.

Those are some of the examples of the initiatives I'm doing and on a lot of these I'm really just bringing them to the 95% solution and, that's the direction we're going and hopefully the incoming SAF/FM will be able to slap the table and say, 'Yep, I like the direction you're going there, and we can move forward from that point.'

TOM:

I really like the spirit of collaboration and the teamwork that it sounds like you're building and driving. Which I think is probably a key indicator on the success that you've had and a key metric in terms of the acceleration and the progress that Air Force has had. So, I really like that whole concept that you shared about collaboration and teamwork.

I wonder what keeps Mr. Herrera awake at night.

STEVE:

I would say the things that I talked about in terms of competing and winning at great power competition. That really is keeping me up at night. And it's only because, with this '23 PB and it's not just this upcoming President's Budget, which we don't even have our final number yet. We have to get and finalize our PBR position with OSD CAPE and comptroller.

Even in the previous few PBs we in the Air Force, know that there are things we need to address to get after that high-end great power competition and that makes for having to make some really difficult choices. We're working with our programming partners and we're trying to help identify where there's opportunity.

But we're also going to have to make some tough choices and we'll have to present that budget, ultimately whatever it ends up being. There's going to be decisions that will need to be presented to the Hill and we're going to have to



get their buy-in to some of the priorities and the choices that we made, and help them understand the rationale for why we made those choices and gain their support.

Effectively I mentioned over thirteen thousand Financial Managers, I need all of them marching in that direction. I need all of them making sure that we're supporting getting after our resources and being as effective and efficient with the resources that we're entrusted with so that we can continue to make the proper investments.

So, making sure we're all marching to that drumbeat, and supporting those priorities is something that I take very seriously, and I want to make sure our personnel are ready to meet that resourcing challenge.

**TOM:** Thank you for sharing that, Mr. Herrera. And for our last question this morning, knowing what you know now, what advice would you give a new careerist who's just starting out in the DOD FM space?

**STEVE:** Mr. Rhoads, thanks for that question. I try to be as consistent as I can because I've been asked this a few times. So, there's a few things there's not one bit of advice, but two or three bits of advice.

One is play well with others, that old adage of what you learn in kindergarten is an important valuable lesson. I need people who can collaborate. I can't work these budgets and cost estimating and audit issues on my own. We have to collaborate with a lot of other people, and we have to build trust, and make sure that we're viewed as advisors and strategic partners, and trusted advisors and strategic partners.

So playing well with others is important.

Work hard. Have an incredibly strong work ethic and reputation for follow-through. And not just work hard but work smart. And be willing to push yourself and as well, look at improving ways of doing business, don't just accept status quo. But probably one of the things that served me well is a lot of my leaders knew that if they handed me a project, if they handed me a task, they didn't lose a lot of sleep over whether or not I was going to finish it and deliver it for them.

So, I really encourage young people and new careerists to have a reputation of follow-through and have a strong work ethic. I certainly would encourage them all to continue to develop themselves professionally. Being a member and



participating in professional organizations like American Society of Military Comptrollers is a fantastic way of building a network, of being able to figure out how to benchmark off of other people's skills, certainly is a great way for people to recognize one's potential. An example of that is me leaving Air Force Special Operations Command to go work at the Air Armament Center. I was largely an O&M background, I'd done some investment work but just by having a reputation with people I'd worked with at the center at Eglin, I think I was viewed as a commodity and someone worth investing in.

So, I think participating in professional societies like ASMC helps you achieve that. But those are probably three nuggets I would say are important. Professional development, Bachelor's, Master's, pursuing certifications. And you're not just filling squares, you're doing things that are making you better at your job.

And every time I took a master's course or worked on a certification I did it from that standpoint. How is this going to make me better at what I do as a Department of the Air Force Financial Manager?

TOM:

Well, this is great advice, Mr. Herrera and it's even probably more than just advice as you started out as an Air Force intern and have progressed your career to the current role that you have. Our new careerists who are listening could take this to heart and have a career that blossoms the same way. So, thank you for sharing that with our listeners. Appreciate it.

Thank you for being with us today. I know you're very busy and just wanted to say thank you on behalf of ASMC for your time and for sharing these words of wisdom with us.

Thank you so much, Mr. Herrera.

STEVE:

Thank you, Mr. Rhoads.

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