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SECRETARY OF THE AIR FORCE**

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Financial Management

AUDIT REPORTING PROCEDURES



COMPLIANCE WITH THIS PUBLICATION IS MANDATORY

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This instruction implements AFPD 65-3, *Internal Auditing*, and gives procedures for audit report processing, information access, nonconcurrency resolution, potential monetary benefits, and nonappropriated fund (NAF) audits. Attachment lists references, abbreviations, and acronyms.

(AFRC) The OPR for this supplement is HQ AFRC/FM (Mr. L. A. Collier). This supplement implements and extends the guidance of Air Force Instruction (AFI) 65-301, 1 February 2000. The AFI is printed word-for-word without editorial review. Air Force Reserve Command supplementary material is indicated by "(AFRC)" in boldface type. This supplement describes Air Force Reserve Command procedures to be used in conjunction with the basic instruction. Upon receipt of this integrated supplement discard the Air Force basic.

SUMMARY OF REVISIONS

This revision updates the report processing requirements (paragraphs **1.4.2.1**, **1.4.10.**, and **1.4.11.**); eliminates the procedure to obtain the appropriate Assistant Secretary or AF/CC signature when management comments are responsive to the report recommendations and establishes procedures that audit personnel will follow when comments contain disagreements or are considered nonresponsive (paragraph **1.6.1.**); establishes management procedures concerning disagreements with audit (paragraph **1.6.2.**); deletes Field Operating Agencies (FOAs) and Direct Reporting Units (DRUs) as Offices of Primary Responsibility (OPR) for Air Force-level draft reports (paragraphs **1.3.1.**, **1.5.**, **1.6.3.**, **1.7.1.**, **1.7.3.**, **a3.2.**, and **a3.3.**); and, establishes procedures to follow when management comments are not received for Air Force-level reports (paragraph **3.4.2.**), and for audit coverage of nonappropriated fund activities (paragraph **5.2.**). Changed or revised material from previous edition is indicated by a bar (|).

(AFRC) There are no changes to previous supplemental text.

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Chapter 1

AUDIT REPORTS

1.1. Overview of Audit Reporting. After the auditor completes all field work on an audit, the Air Force Audit Agency (AFAA) prepares a draft report that is released to management for formal comments. AFAA normally allows management up to 30 calendar days from the release date of the draft report to respond. After receiving the comments, AFAA adds them to the final report, along with an AFAA evaluation of management comments. AFAA then distributes the final report.

1.2. Audit Limitation. Internal audits do not criticize responsible management decisions. Most management decisions involve some degree of risk and uncertainty. Even when later events show the wrong decision was made, this, by itself, does not mandate an audit report. Unsuccessful decisions become subject to audit when they result in inefficient operations, inadequate procedures, or other deficiencies and when reporting them would lead to improving systems, procedures, or avoiding future errors.

1.3. Types of Reports:

1.3.1. Air Force-level reports of audit are the result of centrally managed, single or multi-site audits that the AFAA addresses to the Secretariat, Air Staff, or major command (MAJCOM). AFAA also gives these reports to the Assistant Secretary for Financial Management and Comptroller (SAF/FM) for tracking recommendations and to the Office of the Inspector General, Department of Defense (OIG, DoD), for information.

1.3.2. Installation-level reports of audit result from single-site audits covering issues specific to an activity or installation. AFAA addresses these reports to the appropriate commander and MAJCOM, FOA, or DRU.

1.3.2.1. Special reports convey highly sensitive audit findings to responsible managers with a need to know at the HQ USAF or MAJCOM, FOA, or DRU level. The findings in these reports usually involve issues such as unlawful activities or other conditions that could embarrass the Air Force.

1.3.2.2. Commanders Audit Program (CAP) reports convey results from a personalized audit tailored to specific issues in organizations under the jurisdiction of the requesting installation or tenant commander.

1.3.3. Before issuing a final report and while audits are in progress, AFAA can provide an interim notice of deficiencies to an office of primary responsibility (OPR). The interim notice has a two-fold purpose: (1) to provide management timely notification of findings that are urgent and (2) to keep management aware of conditions found in audits extending over a long period of time. The interim notice can be a report, memorandum, or briefing.

1.3.4. Air Force management can contract with public accountants to audit Air Force nonappropriated fund activities according to policy in AFD 65-3. Public accountants provide a report of audit to the audited activity based on the terms of the contract. See [chapter 5](#) for further information on public accountant audits and reports of NAF activities.

1.4. Processing Reports:

1.4.1. All Air Force managers designate an audit focal point at each command level to act as a liaison officer between management and audit and to monitor audit project and report processes.

1.4.1. (AFRC) HQ AFRC Focal Point. HQ AFRC Financial Management (HQ AFRC/FM) is the central focal point within AFRC for all matters relating to AFAA. The Chief, Comptroller Plans Division (HQ AFRC/FMX), acts for HQ AFRC/FM in this regard. The focal point of contact for each numbered air force (NAF) is FM. AFRC units establish a focal point in their financial management organization to monitor audit activities for their commanders. AFRC unit focal points keep NAF and wing commanders informed of audit activities.

1.4.2. Commanders of the organization under audit must respond to regular and special reports by documenting their intended or completed corrective actions.

1.4.2.1. Management need not respond to CAP reports and may verbally coordinate on reports that do not contain recommendations or potential monetary benefits (PMB). When management corrects deficiencies during the audit, the draft report normally presents the findings but recognizes management's actions in lieu of a recommendation. Management must, however, provide written comments on the reasonableness of all auditor-estimated PMB. See [chapter 4](#) for further information on PMBs.

1.4.2.2. For interim reports, management provides comments within 25 days of the date that AFAA issues the report. The auditor includes these comments, along with an audit evaluation, in the final report.

1.4.3. The AFAA sends the draft report to the responsible commander at the lowest management level (tenant, installation, DRU, FOA, MAJCOM, Air Staff, or Secretariat, as appropriate) for comments.

1.4.3. (AFRC) AFRC units provide applicable NAF/FM and HQ AFRC/FMXX a copy of the draft report and comments to the draft report. HQ AFRC/FMXX and NAF/FM will coordinate the comments and draft report through the applicable OPR. AFRC units cannot release the comments to the draft report to the Air Force Audit Agency (AFAA) until they receive coordination from HQ AFRC/FMXX and the applicable NAF/FM.

1.4.4. Management can arrange to meet the auditors to clarify parts of the report or to introduce new information. These discussions promote effective corrective action by clarifying audit findings, recommendations, and PMBs.

1.4.5. Management personnel notify the AFAA immediately if they disagree with a finding, recommendation, or PMB.

1.4.6. The AFAA OPR can grant an extension for management comments in unusual circumstances. If management cannot respond by the due date, the designated report OPR telephones the AFAA OPR and requests an extension. The AFAA OPR can grant extensions, usually in 15-day increments, not to exceed 60 days from the date of the draft report. Management follows up an oral request with a written request that includes both the reasons for the delay and a date when AFAA can expect to get management comments.

1.4.7. Management and audit officials coordinate closely so that the final report fully documents management's position on issues in the report.

1.4.8. Management provides appropriate comments for verbatim inclusion in the final report, as well as a statement of concurrence or nonconcurrence on each finding, recommendation, and PMB. Management writes comments concisely and includes a rationale for any disagreement. Management officials can propose other ways to correct reported deficiencies. Finally, management provides an actual or estimated completion date for corrective action.

1.4.9. The following list provides recommended responses to audit recommendations. See [attachment 2](#) for specific examples of management comments.

1.4.9.1. Management can explicitly agree with the finding, recommendation, and PMB. Management comments describe corrective actions, both taken or planned, and give actual or planned completion dates.

1.4.9.2. If management personnel do not agree with the recommendations but agree that action is required, their response must explain what action they will take to correct the problem. AFAA does not consider such responses as nonconcurrences if the alternative action would correct the problem.

1.4.9.3. If management agrees with the finding and recommendation but disagrees with the PMB that AFAA expects will accrue from implementing the recommendation, management clearly states the reason for disagreement and gives a revised PMB estimate.

1.4.9.4. If management expects corrective action to take longer than a year, they set up interim milestones for completing major segments or action.

1.4.9.5. If management nonconcur with any finding, recommendation, or PMB, management comments should specify the reason for the nonconcurrence.

1.4.10. AFAA can revise the draft report after discussions with management. For Air Force-level draft reports released to HQ USAF, the AFAA Pentagon Liaison Office (SAF/AGA) distributes copies of the revised report to the Secretariat or Air Staff OPR and all other activities that received the initial draft report. For Air Force-level draft reports released to MAJCOMs, the AFAA Representative distributes copies of the revised report to the MAJCOM OPR and all other activities that received the initial draft report. For installation-level draft reports, the AFAA Office Chief or Team Leader is responsible for distributing copies of the revised report to the installation OPR and all other activities that received the initial draft report.

1.4.11. For installation-level audits of Air National Guard activities, AFAA sends draft reports to the commander of the audited activity and requests the commander to provide management comments. The audited activity provides written management comments to AFAA when they concur with all audit results, recommendations, and PMBs. If management nonconcur, or if AFAA believes management comments are nonresponsive, the AFAA should attempt to resolve the differences with the unit. During the informal resolution process, AFAA provides a copy of the draft report and the issue in disagreement to ANG/FMF (ANG Audit Focal Point). If the issue cannot be resolved, AFAA issues the report with a nonconcurrence and forwards copies of the report to ANG/FMF and the AFAA MAJCOM Representative for resolution.

1.4.12. AFAA evaluates management comments to determine if corrective actions, taken or proposed, are adequate and timely. AFAA can obtain additional information or explanation to support the audit position in the report if either of the following conditions exist:

1.4.12.1. AFAA does not consider management's proposed actions adequate to correct the reported condition.

1.4.12.2. Management disagrees with a finding, recommendation, or PMB.

1.4.13. When management does not provide comments within the required time, AFAA may issue the final report without management comments. See [chapter 3](#) for further information on nonreceipt of management comments.

1.5. Air Force-Level Draft Report Distribution. AFAA simultaneously distributes draft reports to the Secretariat, Air Staff, or MAJCOM OPR, and, as applicable, to offices of collateral responsibility (OCR). [attachment 3](#) provides a list of responsibilities for processing draft Air Force-level reports..

1.6. Processing HQ USAF Comments for Air Force-Level Reports:

1.6.1. The management OPR provides comments to SAF/AGA for AFAA evaluation. If comments are responsive, SAF/AGA will consider coordination complete. The AFAA OPR will then insert the comments and the AFAA evaluation of management comments into the final report. If comments contain disagreements or are considered nonresponsive, the Auditor General of the Air Force (SAF/AG) will add the AFAA evaluation of management comments and forward the draft report package to the appropriate Assistant Secretary or AF/CC for action. At the same time, SAF/AGA will notify the Secretariat or Air Staff OPR that the package is being elevated and provide them a copy of the evaluation.

1.6.2. If the Assistant Secretary or AF/CC agrees with the management OPR, the Assistant Secretary or AF/CC will send a signed memorandum to SAF/AG approving management comments. SAF/AG will consider coordination complete and issue the final report elevating the disagreement to Under Secretary of the Air Force (SAF/US) for resolution. If the Assistant Secretary or AF/CC disagrees with the management OPR's position, the package will be returned to the appropriate Secretariat or Air Staff OPR for revised comments. The revision should not take more than 15 calendar days. The Assistant Secretary or Air Staff OPR will then process the revised comments using the procedures outlined above.

1.6.3. After AFAA receives the approved responses, AFAA completes the final report and sends to SAF/FM for follow-up tracking and to OIG, DoD for information. AFAA sends copies to the Secretariat, Air Staff or MAJCOM OPR, and the OCRs.

1.7. Processing MAJCOM Comments for Air Force-Level Reports:

1.7.1. The MAJCOM OPR provides management comments to the AFAA MAJCOM representative who, in turn, provides the comments to the AFAA OPR for evaluation.

1.7.2. The AFAA OPR evaluates the management comments and adds both the comments and the evaluation to the draft report.

1.7.3. The AFAA MAJCOM representative or the MAJCOM OPR includes the AFAA evaluation of management comments in a staff summary sheet package for command coordination and signature.

1.8. Air Force-Level Reports With No Recommendations. When AFAA provides management a draft audit report that contains no recommendations or PMB, management has 15 calendar days to inform AFAA of any exceptions to the report.

1.9. Air Force-Level Report Transmittal:

1.9.1. AFAA releases the final report to OIG, DoD within 10 calendar days after signing. The AFAA prepares a memorandum to transmit copies of the final report to OIG, DoD. The memorandum notifies OIG, DoD of any unresolved issues and states that AFAA will notify OIG, DoD of the resolution. AFAA prepares the follow-up tracking sheets and forwards them to SAF/FM to initiate the follow-up process.

1.9.2. For reports of special significance, AFAA releases the report as prescribed in paragraph 1.10.2., except that AFAA provides a copy of the report to SAF/US for transmittal to the Deputy Secretary of Defense.

1.10. Installation-Level Report Distribution. AFAA addresses and distributes regular and special reports to the responsible management officials at installation-level and the applicable MAJCOM, FOA, or DRU. If the audit addresses only internal operations of a MAJCOM, FOA, or DRU headquarters, AFAA can address and distribute a report to the responsible director (or equivalent) and to the commander.

1.10.1. MAJCOM, FOA, and DRU commanders inform the installation-level AFAA OPR concerning distribution to intermediate command levels.

1.10.2. AFAA sends special reports to the applicable Secretariat or Air Staff office, SAF/FM, and the Assistant Vice Chief of Staff. In some cases, AFAA provides copies of a special report to either, or both, the SAF/US and the OIG, DoD.

1.11. Report Availability. The draft report is an internal Air Force action document and is not widely distributed. However, the final audit report is a historical document, for use by internal and external organizations. Within the Air Force, management and auditors use the final report for reference. Outside the Air Force, government agencies such as the OIG, DoD; the General Accounting Office; and the Congress have access to the report. AFAA releases final reports to the public, when requested, under the Freedom of Information Act.

Chapter 2

ACCESS TO INFORMATION

2.1. Limitation. Air Force management grants AFAA auditors access to information according to AFPD 65-3. To gain access to either Joint Staff papers and information or joint papers and information, auditors follow procedures contained in Memorandum of Policy No. 60, *Release Procedures for Joint Staff and Joint Papers and Information*.

2.2. Elevation of Disagreements:

2.2.1. If an installation refuses to allow access to needed information, the auditor sends written notice to the AFAA MAJCOM, FOA, or DRU representative who attempts to resolve the issue with the MAJCOM, FOA, or DRU OPR. If discussions with the MAJCOM, FOA, or DRU do not result in access to requested information within 7 days of the disagreement, the AFAA MAJCOM, FOA, or DRU representative forwards the request and the MAJCOM, FOA, or DRU position to SAF/AGA.

2.2.2. If management denies access for an Air Force-level audit and the AFAA directorate does not resolve the issue, the assistant auditor general forwards the request and the results of any discussions to SAF/AGA.

2.3. HQ USAF Discussions. SAF/AGA refers access disagreements to the HQ USAF functional OPR for review and possible resolution. If these discussions do not resolve the problem within 15 calendar days of the disagreement, SAF/AGA refers the request, along with MAJCOM, FOA, or DRU and HQ USAF positions, to SAF/AG who submits the package to the Secretary of the Air Force (SECAF) for decision.

2.4. SECAF Decision. The SECAF makes a decision on the access denial within 30 calendar days of the disagreement and advises applicable Air Force activities of the decision. In accordance with provisions of DoD Directive 7600.2, *Audit Policies*, February 2, 1991, SAF/AG advises the OIG, DoD when the Secretary's decision denies access.

2.5. Denial of Access to Joint Staff Information:

2.5.1. If the involved parties cannot agree to an access request, or AFAA management personnel notifies the Joint Staff that they find the release conditions unacceptable, the AFAA requests the OIG, DoD to formally notify the Joint Staff of the disagreement and requests the Joint Staff to give the auditors the information they need.

2.5.2. Pursuant to the Inspector General Act of 1978, as amended, the Joint Staff must, within 30 calendar days, either provide the needed information or forward a recommendation for denial to the Secretary of Defense for a determination.

Chapter 3

NONCONCURRENCES (DISAGREEMENTS)

3.1. Required Resolution. Air Force management and audit officials must resolve all disagreements within 6 months of the final report date according to DoD Directive 7650.3, *Follow-up on General Accounting Office, DoD Inspector General, and Internal Audit Reports*, September 5, 1989, with Changes 1 through 3. Management and audit must try to resolve any disagreements at the lowest management level possible. If they cannot resolve the problem, AFAA must move the issues to the next higher level of authority, where they will discuss and resolve the disagreements.

3.1. (AFRC) If HQ AFRC and NAF functional OPRs disagree with a report or with actions indicated in management comments to the draft report, they coordinate with HQ AFRC/FMXX as soon as possible to arrange for discussions with the unit OPR and AFAA, if necessary.

3.2. Nonconcurrences With Air Force-Level Reports. SAF/AGA refers final reports to the Deputy Assistant Secretary (Financial Operations) (SAF/FMP) for resolution whenever disagreements exist between the AFAA and management officials. SAF/FMP submits all remaining unresolved issues to SAF/US for final resolution. See AFI 65-403, *Follow-up on Internal Air Force Audit Reports*, 2 June 1994, for additional information.

3.3. Nonconcurrences With Installation-Level Reports. Management and audit officials send unresolved disagreements to the next higher level of authority. Installation management forwards nonconcurrences to the applicable MAJCOM, DRU, or FOA audit focal point, who sends the nonconcurrency to the functional OPR for resolution. Installation audit officials forward nonconcurrences to the AFAA MAJCOM, DRU, or FOA representative.

3.3.1. Within 60 calendar days of the final report date, the OPR must provide formal, written comments to the AFAA representative.

3.3.1.1. If the OPR does not agree with the lower echelon nonconcurrency, the OPR sends a written notice to the AFAA representative within the 60-calendar day period and notifies the installation that the OPR overturned the nonconcurrency.

3.3.1.2. If management and the AFAA representative agree, the OPR can include proposed alternative actions to correct the problem.

3.3.1.3. If the OPR supports the nonconcurrency, the comments must include the results of discussions with the AFAA representative, reasons for the nonconcurrency, and signature of the MAJCOM, FOA, or DRU commander.

3.3.2. If the management OPR and the AFAA representative do not resolve the nonconcurrency within 90 days of the final report date, the AFAA representative sends a copy of the report, applicable management comments, and other information derived from previous resolution discussions to the SAF/AGA for resolution with the Secretariat or Air Staff.

3.3.3. Working with management, SAF/AGA can take an additional 90 days to resolve nonconcurrences.

3.3.4. SAF/US is the final resolution authority. While SAF/US has delegated authority to decide non-concurrences in installation-level issues to SAF/FMP, management or AFAA can appeal the SAF/FMP decision to the SAF/US.

3.4. When AFAA Does Not Receive Management Comments:

3.4.1. Installation Reports. If management does not provide comments within 30 calendar days after AFAA issues the final installation-level report, AFAA processes the report to the AFAA MAJCOM, FOA, or DRU representative for resolution action.

3.4.1.1. When AFAA processes the report without comments, the management OPR at the MAJCOM, FOA, or DRU must act immediately to ensure subordinate installations respond to the audit report.

3.4.1.2. If management provides comments after AFAA forwards the report to the AFAA representative, the AFAA sends the comments to the AFAA representative. The installation OPR sends the comments to the installation audit focal point and the MAJCOM, FOA, or DRU OPR.

3.4.1.3. If the AFAA receives no comments within 90 days following the report date, the report goes to SAF/AGA for resolution with the appropriate HQ USAF OPR.

3.4.2. Air Force-Level Reports. If management does not provide comments for Air Force-level reports by the last revised due date (not to exceed 30 calendar days after the original due date), the appropriate Assistant Auditor General (AAG) will prepare a staff summary sheet for SAF/AG within 5 workdays.

3.4.2.1. The staff summary sheet should describe audit staff interaction with the OPR, discuss unusual problems encountered in working with management to obtain the comments, assess why management has not responded, and recommend further actions.

3.4.2.2. Before sending the staff summary sheet to SAF/AG, the appropriate AAG should coordinate the staff summary sheet with HQ AFAA/DS and HQ AFAA/DO.

3.4.2.3. The staff summary sheet should include two tabs: (1) a proposed memorandum either granting an extension or informing management of the decision to publish the report without management comments, and (2) the draft report of audit. SAF/AG will then decide whether to grant further extensions or issue the report without management comments.

Chapter 4

POTENTIAL MONETARY BENEFITS

4.1. Definition:

4.1.1. Potential monetary benefits (PMBs) are estimates that the AFAA measures and expresses as dollar values and expects the DoD or the federal government overall to save if management implements audit recommendations.

4.1.1. (AFRC) Unit request assistance of HQ AFRC/FMA to ensure reasonableness of potential monetary benefits.

4.1.2. These benefits represent the best estimates or actual known amounts at the time the auditor prepared the audit report.

4.1.3. PMBs can be either "funds put to better use" or "questioned cost", but not both.

4.2. Funds Put to Better Use. Most PMBs that result from internal audit are classified as "funds put to better use." "Funds put to better use" means that if management implements the auditor's recommendations, funds could be used to meet other requirements. The following list shows examples of actions that result in "funds put to better use":

4.2.1. Reductions in outlays.

4.2.2. Allowing funds from programs or operations to be deobligated and used in programs or operations other than that for which they were originally budgeted.

4.2.3. Withdrawal of interest subsidy costs on loans or loan guarantees, insurance, or bonds.

4.2.4. Costs avoided by implementing recommended improvements for the operations of the establishment, a contractor, or a grantee.

4.2.5. Avoiding unnecessary spending noted in pre-award reviews of contract or grant agreements.

4.2.6. Reduction to any approved requirement, either funded or unfunded.

4.2.7. Any other specifically identified savings.

4.3. Questioned Cost. When an auditor questions an incurred cost because of one of the following factors, it is known as "questioned cost":

4.3.1. An alleged violation of a provision of a law, regulation, contract, grant, cooperative agreement, or other agreement or document that governs the expenditure of funds.

4.3.2. A cost that, at the time of the audit, is not supported by adequate documentation.

4.3.3. An expenditure of funds that is unnecessary or unreasonable for the intended purpose (applicable to incurred cost audits, such as those for defective pricing on defense contracts).

4.4. Disallowed Cost. When management, in a management decision, sustains or agrees a questioned cost should not be charged to the government, it is known as a "disallowed cost" (applicable to incurred cost audits, such as those for defective pricing on defense contracts).

4.5. Computation. Auditors compute estimated monetary benefits from the most reasonable data available. Actual monetary benefits are often impossible or impractical to determine. Therefore, auditors base estimates on generally accepted principles, models, or formulas. For example, AFAA auditors use the lower limit when expressing a single amount for a statistically projected range of values.

4.5.1. The AFAA expresses monetary benefits in terms of "current year" dollars:

4.5.1.1. Monetary benefit computations include any appropriate offset costs.

4.5.1.2. Offset costs include all direct or indirect costs incurred in implementing the action that will result in the monetary benefit.

4.5.2. PMBs can be one-time or annual. Annual benefits recur for an indefinite period of time, but AFAA limits computations to a 6-year period, that is, the current year plus five.

4.6. Coordination. Before issuing a draft report to an audited organization, AFAA personnel coordinate PMB amounts of \$50,000 or more with the organization responsible for the funds (for example, the appropriate item manager at an air logistics center) if the responsible organization differs from the audited organization. If the organization responsible for the funds is also the audited organization, AFAA coordinates the PMB with the audited organization during the normal draft report discussion period.

4.7. Explanation to Management. The AFAA attaches the summary of audit results (SAR) to the draft copy of all audit reports given to management. The SAR explains PMBs of \$50,000 or more. The report can explain PMB amounts of less than \$50,000, or management can ask for an explanation from the auditor. The amount included in the SAR will agree with the amount in the report.

4.8. Management Response:

4.8.1. Management can agree or disagree with the estimated PMBs in reports of audit. Management, however, should not disagree with the auditor's estimate solely to defer the decision until actual benefits materialize.

4.8.2. Management should comment on the reasonableness of the auditor's estimate and must justify disagreements with evidence that supports an alternate estimate.

4.9. Reporting PMBs. AFAA includes PMBs in Air Force-level reports of audit in the RCS: DD-IG(SA)1717, *Semi-annual Report to the Congress*, and all PMBs in the RCS: DD-IG(SA)1574, *Follow-up Status Report*.

Chapter 5

NONAPPROPRIATED FUND AUDITS

5.1. Annual Audit Requirements:

5.1.1. Management arranges for annual audits of NAF activities when annual revenues or expenses exceed \$7.5 million or for highly sensitive situations, such as potential fraud or large public exposure.

5.1.2. Groups of activities, such as the Installation Morale, Welfare, and Recreation (MWR) Fund, need not meet the \$7.5 million requirement, but individual entities in an MWR fund (installation, MAJCOM, or Air Force) whose funding exceeds the \$7.5 million threshold must have an annual audit.

5.1.3. The OIG, DoD approves, in writing, other exceptions to the dollar limitation.

5.2. Audit Coverage of Nonappropriated Fund Activities:

5.2.1. The Air Force Morale, Welfare, and Recreation Advisory Board (AFMWRAB) provides corporate oversight for all Air Force nonappropriated fund activities and the resources used to administer these activities. An integral component of this oversight is "Audit".

5.2.1.1. (Added-AFRC) HQ AFRC Financial Management (HQ AFRC/FM) is the central focal point within AFRC for all matters relating to nonappropriated fund audits contracted with certified public accountants, according to AFI 65-107, *Nonappropriated Funds Financial Management Oversight Responsibilities*. The Chief, Financial Services Division (HQ AFRC/FMF), acts for HQ AFRC/FM in this regard.

5.2.2. Each year, the Board approves an annual expenditure for public accountants to audit Air Force NAF activities. While the AFAA does not actively participate in each audit, installation AFAA management should attend entrance and exit briefings. Air Force Services Agency will provide AFAA management the annual public accountant NAF schedule of audit coverage. This will ensure active participation by both professional audit organizations and allow managers to deconflict any scheduled coverage by both organizations.

5.2.3. In addition to public accountant reviews, the AFAA performs NAF audits. Much like the Air Force Inspector General and other appropriated fund organizations, AFAA is considered "oversight", and accordingly, the use of AFAA is authorized to provide audit support to the NAF fund activities. Moreover, audit is a necessary component of oversight to ensure Air Force resources are properly and efficiently used to support NAF activities.

5.2.4. AFAA does not have internally or externally established NAF limits of audit coverage. Audits may be scheduled and performed whenever deemed appropriate. However, great care should be exercised to avoid duplicating public accountant coverage. Once the public accountant's report is issued, AFAA managers should schedule follow-on work as appropriate to determine whether significant problems detected in the public accountant report were corrected.

5.3. Audits of Private Organizations. The Air Force does not provide appropriated funds, NAFs, or personnel supported by these funds to audit private organizations such as museum foundations, thrift shops, Air Force Aid Societies, scouting groups, wives' clubs, and auxiliaries on Air Force installations,

unless authorized by the SECAF. When indications of fraud or other improprieties exist, regardless of the amount of revenues, the commander can request an AFAA audit to protect the Air Force's interest.

5.4. Audits of State Air National Guard (ANG) NAF Activities. ANG NAF activities that are properly approved, operated in accordance with ANG regulations, and receive no appropriated fund support need not undergo an audit by federal entities or audits contracted by those entities.

5.5. Processing Public Accountant Reports. The responsibilities for directing public accountant reports are listed in [attachment 3](#).

5.5.1. Reporting Level. The public accountant contract audit (PACA) program requires contractors to issue to each base commander a report on findings and recommendations for that particular base.

5.5.1.1. When findings and recommendations are system-wide or procedural, public accountants consolidate installation-level audit results and issue a report to the AFMWRAB or Army and Air Force Civilian Welfare Board.

5.5.1.2. Public accountants should promptly report any findings that suggest irregular conduct or the possibility of fraud to Air Force Services Agency, Directorate of Plans and Evaluations (HQ AFSVA/SVQ), and the installation's servicing Air Force Office of Special Investigations detachment.

5.5.2. Management Comments. Commanders of audited activities prepare management comments for each finding and recommendation in the audit report and give them to the audit firm within 35 calendar days (50 days for overseas) from the date they receive the draft audit report.

5.5.3. Evaluation of Management Comments. In the installation-level report, public accountants evaluate the responsiveness and adequacy of management comments for each finding and recommendation. They state whether the actions taken or planned respond to the recommendations and if any alternative management actions correct the reported deficiency. When public accountants evaluate management comments as nonresponsive, the accountant explains why management actions are inadequate. These evaluations follow each management response in the final report.

5.5.4. Report Distribution. The installation quality assurance evaluator distributes the public accountant report to the following:

5.5.4.1. Installation commander.

5.5.4.2. Local audit focal point.

5.5.4.3. Servicing AFAA area audit office.

5.5.4.4. Manager of the activity audited.

5.5.4.5. Servicing AFOSI detachment.

5.5.4.6. NAF Accounting Office.

5.5.4.7. Base liaison between FM and SV (usually the NAF Financial Analyst).

5.5.5. Command Review. MAJCOM, FOA, or DRU commanders review public accountant reports, advise base commanders on preparing management comments, and monitor implementation of corrective actions. MAJCOM, FOA, and DRU MWR staffs also periodically crossfeed internal control

weaknesses, findings, and recommendations that public accountants identify during audits to MWR chiefs within the command.

5.5.6. Resolution of Nonconcurrences. SAF/FM works with AFSVA or AFCWB to resolve any disagreements with audit findings or recommendations in public accountant audit reports that they cannot resolve at MAJCOM level. If SAF/FM cannot resolve the disagreements at this level, they follow policy guidance in AFPD 65-4, *Follow-up on Internal Air Force Audit Reports and Liaison With External Audit Organizations*, 7 September 1993. The resolution period is 6 months and begins when the public accountant issues the report.

5.6. Processing AFAA Audit Reports. AFAA addresses, processes, and distributes reports on NAF activities according to the requirements for AFAA installation-level reports detailed in **chapter 1** of this instruction. AFAA reports on NAF activities receive management follow-up attention as specified in AFPD 65-4.

JACKIE R. CRAWFORD
The Auditor General

Attachment 1

GLOSSARY OF REFERENCES AND SUPPORTING INFORMATION

References

DoD 7600.7-M, *Internal Audit Manual*, June 1990

AFI 65-403, *Follow-Up on Internal Air Force Audit Reports*, 1 June 1994

AFPD 65-3, *Internal Auditing*, 10 August 1993

AFPD 65-4, *Follow-up on Internal Air Force Audit Reports and Liaison with External Audit Organizations*, 7 September 1993

Abbreviations and Acronyms

AF/CC—Air Force Chief of Staff

AF/CVA—Assistant Vice Chief of Staff (Air Force)

AFAA—Air Force Audit Agency

AFAA/FSP—Air Force Audit Agency, Financial & Support Audits Directorate, Personnel, Services, and Health Care Division

AFCWB—Army and Air Force Civilian Welfare Board

AFI—Air Force Instruction

AFMWRAB—Air Force Morale, Welfare, and Recreation Advisory Board

AFOSI—Air Force Office of Special Investigations

AFPD—Air Force Policy Directive

AFSVA—Air Force Services Agency

ANG—Air National Guard

ANGRC—Air National Guard Readiness Center

APF—Appropriated Funds

CAP—Commanders Audit Program

DoD—Department of Defense

DRU—Direct Reporting Unit

FOA—Field Operating Agency

HQ AF/ILV—Director of Services, Deputy Chief of Staff, Installations and Logistics

HQ AFSVA/SVQ—Headquarters, Air Force Services Agency, Directorate of Plans and Evaluations

HQ USAF—Headquarters, United States Air Force

MAJCOM—Major Command

MWR—Morale, Welfare, and Recreation

NAF—Nonappropriated Funds

OCR—Office of Collateral Responsibility

OIG, DoD—Office of the Inspector General, Department of Defense

OPR—Office of Primary Responsibility

PACA—Public Accountant Contract Audit

PMB—Potential Monetary Benefit

QAE—Quality Assurance Evaluator

RCS—Report Control Symbol

SAF/AGA—Air Force Audit Agency, Pentagon Liaison Office

SAF/FM—Assistant Secretary for Financial Management and Comptroller

SAF/FMCEB—Director, Economics & Business Management Division

SAF/FMP—Deputy Assistant Secretary (Financial Operations)

SAF/US—Under Secretary of the Air Force

SAR—Summary of Audit Results

SECAF—Secretary of the Air Force

Attachment 2**EXAMPLES OF MANAGEMENT ACTION STATEMENTS**

A2.1. "(SAF/XX, AF/XX, or installation-level organization symbol) concurs with the finding, recommendation, and potential monetary benefit." (Cite action taken or planned, along with actual or anticipated action completion dates.)

A2.2. "(SAF/XX, AF/XX, or installation-level organization symbol) concurs with the finding, recommendation, and potential monetary benefit and agrees that corrective action is needed. However, in lieu of the auditor's recommendation, we plan (or have taken) the following action ____." (Cite alternative action taken or planned, along with actual or anticipated action dates.)

A2.3. "(SAF/XX, AF/XX, or installation-level organization symbol) concurs with the finding and potential monetary benefit, but does not concur with the need for corrective action." (Cite reasons briefly and comprehensively. Use this comment when the finding is not contested, but management does not believe the condition warrants corrective action.)

A2.4. "(SAF/XX, AF/XX, or installation-level organization symbol) nonconcurs with the finding and the need for corrective action cited in paragraphs...." (Cite reasons for nonconcurrence and provides substantiating data as attachments, where proper or available. Make comments brief but comprehensive.)

A2.5. "(SAF/XX, AF/XX, or installation-level organization symbol) concurs with the finding and recommendation, but nonconcurs with the benefits included in the finding." (Cite action taken or planned on finding and recommendations, along with actual or anticipated action completion dates. Cite reasons for the disagreement with the potential monetary benefit and provide revised calculations, if appropriate.)

Attachment 3**RESPONSIBILITIES*****Section A3A—Responsibilities for Air Force-Level Reports*****A3.1. AFAA Assistant Auditors General:**

A3.1.1. Identifies a Secretariat, Air Staff, or MAJCOM OPR to provide coordinated management responses on draft Air Force-level audit reports.

A3.1.2. Discusses draft reports with all interested management personnel.

A3.1.3. Considers OPR requests to extend suspense dates for responding to draft reports and grant extensions when appropriate.

A3.1.4. Evaluates management comments.

A3.1.5. Provides AFAA evaluations of management comments to SAF/AGA.

A3.2. SAF/AGA:

A3.2.1. Establishes a suspense date to receive coordinated comments from the Secretariat or Air Staff OPR.

A3.2.2. Distributes all draft reports within the Secretariat and Air Staff and to OCRs.

A3.2.3. Receives staffed and coordinated management comments from the Secretariat or Air Staff.

A3.2.4. Provides management comments to the AFAA OPR for evaluation.

A3.2.5. Provides AFAA evaluation of management comments when they contain disagreements or are nonresponsive to the applicable Assistant Secretary, AF/CC, or Secretariat or Air Staff OPR.

A3.3. Secretariat, Air Staff, or MAJCOM OPR:

A3.3.1. Provides the AFAA OPR with the names, office symbols, and telephone extensions of action officers and those designated to attend discussions of the draft report of audit.

A3.3.2. Contacts OCRs by telephone or message to confirm that OCRs review drafts and provide management comments by the established suspense date.

A3.3.3. Advises the AFAA OPR promptly of any disagreements, nonconcurrences, or needed clarifications that surface during response preparation.

A3.3.4. Requests extensions to the response suspense date from the AFAA OPR, when necessary.

A3.3.5. Receives coordinated responses from OCRs and consolidates and provides them to SAF/AGA or AFAA MAJCOM Representative by the suspense date.

A3.4. Each OCR:

A3.4.1. Assists in obtaining a response from respective action officers.

A3.4.2. Highlights problems and disagreements with the draft report and advises the OPR accordingly.

A3.4.3. Provides the AFAA OPR with names of individuals designated within the OCR's organization to attend draft report discussions.

A3.4.4. Advises the management OPR promptly of any disagreements, nonconcurrences, or needed clarifications that surface during response preparation.

A3.4.5. Provides comments from the action offices to the OPR 15 calendar days prior to the assigned suspense date.

A3.5. AFAA Operations Directorate. Distributes the final report to all recipients and the tracking sheets to SAF/FM.

A3.6. SAF/FMP:

A3.6.1. Reviews final reports and initiates the resolution process when reports contain disagreements.

A3.6.2. Tracks management's implementation of corrective action and advises AFAA of the progress and completion of those actions.

A3.7. AFAA Representative (MAJCOM):

A3.7.1. Establishes a suspense date to receive coordinated comments from the MAJCOM OPR.

A3.7.2. Distributes all draft reports to the MAJCOM and OCRs.

A3.7.3. Receives fully staffed and coordinated management comments from the MAJCOM OPR.

A3.7.4. Provides management comments to the AFAA OPR for evaluation.

Section A3B—Responsibilities for NAF Contracted Audits

A3.8. A3.7.AFMWRAB and AFC WB. Provides funds for auditing NAF activities, suggests activities for audit coverage, and directs actions based on the results of audits.

A3.9. HQ AFSVA. Manages the PACA program and

A3.9.1. Prepares an annual audit plan for the NAF portions of SV, the Civilian Welfare Fund, the Civilian Base Restaurant, and lodging operations.

A3.9.2. Identifies financial requirements and funding sources for PACA program audits, obtains NAF funding through the AFMWRAB and AFCWB, and request APF support for auditing groups of activities that have authorized APF support through the Air Force APF budget process.

A3.9.3. Develop statements of work for base restaurants and civilian welfare funds based on the annual audit plan and coordinate the statements of work with AFCWB.

A3.9.4. Instruct all NAF activities to cooperate with public accountants and provide access to all the information and record the public accountants need to accomplish an audit.

A3.9.5. Instruct SV commanders to appoint installation quality assurance evaluators (QAE) to make sure that the installation provides all required logistical and administrative support specified in the contract.

A3.9.6. Provide instructions to public accountants by contractually requiring the contractor to:

A3.9.6.1. Conduct the audits in accordance with generally accepted government auditing standards, as stated by the Comptroller General of the United States, and with the guidance stated in the contract.

A3.9.6.2. Retain working papers for 3 years following the audit report date.

A3.9.6.3. Retain audit reports for 5 fiscal years after the fiscal year issued.

A3.9.6.4. Discuss audit results with management, provide draft reports for comment, and include management comments, and an evaluation of them, in the final report.

A3.9.6.5. Provide copies of the final report to the installation QAE for local distribution; SAF/FMCEB; HQ AFSVA/SVQ; AFCWB, if applicable; the audit focal point at the MAJCOM, FOA, or DRU of the audited activity; and AFAA/FSP.

A3.9.6.6. Advise the servicing AFOSI detachment of suspected fraud instances.

A3.10. SAF/FM. Oversees all levels of the auditing process except as noted in A3.11.

A3.11. AFAA. Periodically evaluates the adequacy of NAF activity audit coverage and the quality of public accountant audits. The AFAA:

A3.11.1. Provides technical guidance to HQ AFSVA, when requested.

A3.11.2. Periodically reviews certified public accountant audits to make sure that they conform with Comptroller General of the United States standards and the policies in DoD Directive 7600.2 and DoD Instruction 7600.6, *Audit of Nonappropriated Fund Instrumentalities and Related Activities*, April 16, 1987.

A3.11.3. Includes system or functional reviews of NAF activities in the AFAA annual audit plan, as appropriate. AFAA area audit offices can schedule audits of categories "A", "B", and "C" (revenue-generating) activities in their annual audit plans, based on audit priorities.

A3.11.4. Provides copies of installation-level reports on NAF activities to the installation audit focal point, HQ AFSVA/SVQ or AFCWB, SAF/FMCEB, AFAA/FSP, and the applicable MAJCOM audit focal point.

A3.11.5. Notifies HQ AFSVA of planned audits on NAF activities to avoid duplicate audits.