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AUDIT REPORTING PROCEDURES

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This instruction implements AFD 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.

(AMC) AFI 65-301, 19 December 2002 is supplemented as follows: (This supplement does not apply to Air National Guard and United States Air Force Reserve units and members.)

SUMMARY OF REVISIONS

This revision incorporates Interim Change IC 2002-1. This interim change (IC) 2002-1 to AFI 65-301 adds the requirement for management to respond to Commanders Audit Program (CAP) reports (paragraph 1.4.2.), reduces the time allowed to respond to interim reports from 25 days to 15 days (paragraph 1.4.2.2.), reduces the NAF revenue and expense thresholds for annual audits from \$7.5 million to \$7.0 million (paragraph 5.1.1.), adds a new chapter (**Chapter 6**) describing the Management Advisory Service Program, and makes a number of minor administrative changes. A bar (|) indicates revision from the previous edition.

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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 the unit's MAJCOM, field operating agency (FOA), or direct reporting unit (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 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 AFPD 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. (AMC) Within AMC, AMC/FMPF serves as the command audit focal point for managing and coordinating AFAA matters. For AFAA visits to AMC headquarters only, specific duties and responsibilities for AMC/FMPF and AMC headquarters OPRs and OCRs are in AMC HOI 170-1. Moreover, the designated AMC staff OPR is responsible for providing adequate working space for AFAA auditors during the visit. For AMC activities, the comptroller function serves as the installation audit focal point. For AMC organizations where a comptroller function does not exist, the unit or organization commander will designate a focal point. Notify AMC/FMPF of the name, FAX, e-mail address and telephone number of the designated audit focal point, and update as necessary. The installation audit focal point is responsible for monitoring and coordinating all facets of AFAA visits to their installation.

1.4.2. Commanders of the audited organization must respond to regular and special reports, including CAP reports, by documenting their intended or completed corrective actions.

1.4.2. (AMC) On receipt of a special report of audit, the installation audit focal point will immediately notify AMC/FMPF by e-mail, telephone, or message. Process a special report of audit in the same manner as a regular report of audit. Within AMC Headquarters, AMC/FMPF will notify the command section through AMC/FMP and appropriate AMC offices of primary responsibility (OPR) and collateral responsibility (OCR) of receipt and contents of a special report of audit. In reference to the commander's audit program (CAP): Commanders may request an audit under the provision of the CAP or under regular audit coverage. You must contact the servicing AFAA area audit office for further information on requesting a CAP audit. Commanders, managers, and supervisors should place continued emphasis on developing and recommending procedures to prevent future deficiencies.

1.4.2.1. Management 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 PMB.

1.4.2.2. For interim reports, management provides comments within 15 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. (AMC) On receipt of an AFAA draft audit report for comment, the installation audit focal point will perform the following: Send the draft report to appropriate functional offices to prepare management comments, coordinate on all responses to draft reports to ensure management has addressed each finding, recommendation, and potential monetary benefit, and ensure management comments are provided to AFAA by the suspense date.

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.

1.4.6. (AMC) Management will coordinate all requests for extensions through the installation audit focal point. Within AMC headquarters, the OPR will coordinate requests through AMC/FMPF.

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.

1.4.8. (AMC) The installation audit focal point will ensure management comments are clear, concise, and complete. Comments must address each finding, recommendation, and potential monetary benefit. Management is not required to provide additional comments for findings with which they concur, but they are required to provide management comments for each recommendation. Management should include the name, functional address symbol (FAS), and telephone number of a point of contact in their comments. (See **Attachment 5 (Added)** for sample format; use it only as a guide since it is not all inclusive.) Do not provide AMC/FMPF a copy of management comments to draft installation level AFAA and PACA reports. On issuance of the final report, the AFAA area audit office will forward the report to AMCFSS/FMPF with an information copy to the numbered Air Force (NAF).

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 nonconcurrency.

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 nonconcurrency 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 Distribution. AFAA releases final reports to applicable Secretariat or Air Staff offices, SAF/FM, the Assistant Vice Chief of Staff, applicable MAJCOMs, and the OIG, DoD. AFAA also prepares follow-up tracking sheets and forwards them to SAF/FM to initiate the follow-up process.

1.9.1. DELETED.

1.9.2. DELETED.

1.10. Installation-Level Report Distribution. AFAA addresses and distributes installation-level reports to responsible unit officials and the applicable MAJCOM, FOA, or DRU. AFAA sends special installation-level reports to the applicable Secretariat or Air Staff office, SAF/FM, and the Assistant Vice Chief of Staff.

1.10.1. DELETED.

1.10.2. DELETED.

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. Overview. Air Force management grants AFAA auditors access to information according to AFPD 65-3. This chapter provides guidance for resolving access-related disagreements.

2.1. (AMC) AMC personnel will permit properly cleared AFAA personnel prompt access to Air Force-controlled information needed for the auditor's evaluation. It is Air Force policy to cooperate with the auditors in executing their official duties. However, access to operation plans (OPLAN) and any supporting documentation is extremely sensitive and requires special treatment. Release of information should be on a need-to-know basis and should be carefully limited to those documents or portions of documents directly related to the audit. JCS Memorandum of Policy (MOP) 60 provides specific guidance concerning the types of OPLAN data that can be released by the holders without JCS approval. If questions arise concerning the access to or the releasability of an OPLAN or any other information, contact the local audit focal point or AMC/FMPF audit focal point, who will assist in following the guidance in [Chapter 2](#) of the basic instruction.

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. (AMC) Any reviewing level between the audited activity and AMC may initiate a nonconcurrency with an audit report. If a reviewing official disagrees with any portion of the report, the official should document nonconcurrency and send to HQ AMC/FMPF Audit Focal Point within 30 days from the date of the audit report. Management will coordinate all nonconcurrences with the installation audit focal point.

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. (AMC) Installation audit focal point and management officials should work closely with auditors during the development of management comments. Management should make every effort to resolve disagreements with audit findings, recommendations, and potential monetary benefits during these discussions. If a nonconcurrency cannot be resolved during the discussion period, management must provide (in management's comments) a position that is concise, fully justified and supported, and contains references to proper regulations or directives. If monetary benefit is being disputed, management must provide an alternate estimate with rationale to fully support the amount. (See **Attachment 6 (Added)** for sample format with a nonconcurrency; use it only as a guide since it is not all-inclusive). The installation audit focal point should ensure the AFAA and the AMC audit focal point receives management comments within the established time frame. Audit reports containing nonconcurrency items are considered open until all nonconcurrences have been resolved.

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. (AMC) When a nonconcurrency is resolved by a higher level of management, the responsible headquarters staff agency must send the results to the audited activity. Within AMC headquarters, AMC HOI 170-1 contains specific instructions for processing nonconcurrences at MAJCOM level.

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 nonconcurrencyes.

3.3.4. SAF/US is the final resolution authority. While SAF/US has delegated authority to decide nonconcurrencyes 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.

4.1.2. 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. (AMC) If validation finds "potential monetary benefit (PMB)" inaccurate, the HQ AMC/FMP (Programs and Integration Division) should initiate a nonconcurrency with the PMB. (See paragraph 1.5.9.)

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.

4.3.2. (AMC) Coordinate the results of the validation with the functional OPR and the financial analysis office. (HQ AMC/FMP is responsible for verifying the appropriations data in part II of the PMB statement.)

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.

4.6. (AMC) The installation audit focal point will send all audit reports containing a PMB over \$50,000 to the installation level FMA for validation of the PMB. This office will provide the coordinated results to the installation audit focal point. The command audit focal point will report all PMBs to the Air Staff in the semiannual installation report.

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 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 million requirement, but individual entities in an MWR fund (installation, MAJ-COM, or Air Force) whose funding exceeds the \$7.0 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".

5.2.2. 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. (AMC) For processing purposes, the installation audit focal point will forward all copies of public accountant audit (PACA) reports to the wing Nonappropriated Fund Analyst (AFAA). The installation audit focal point will send one copy of the date-stamped report to AMC/FMPF and one copy to the AMC/NAFFA. The base-level NAFFA will ensure management comments are received, tracked, and followed up until completion. It is still the responsibility of the base level NAFFA to maintain records is responsible for administering the audit.

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 Air Force Civilian Welfare Fund Board (AFCWFB).

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 Clubs and Issues (HQ AFSVA/SVI), and the installation's servicing Air Force Office of Special Investigations (AFOSI) 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 AFCWFB 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*. 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.

Chapter 6

MANAGEMENT ADVISORY SERVICE PROGRAM

6.1. Overview. The AFAA performs consulting services other than audits that are grouped under the overall heading management advisory services (MAS). These consulting services are designed to provide quick responses (normally within 45 days) to management's needs. This chapter provides overall guidance for the MAS program.

6.2. Definition . A MAS is appropriate for answering specific management questions, evaluating management alternatives, fact finding, scoping known problems, or documenting a program's control structure.

6.2.1. A MAS is not an audit and will not result in an audit report (unless improper conduct, fraud, or illegal acts are disclosed).

6.2.2. MAS results are usually provided to support future management decisions and related policy or program implementation.

6.2.3. MAS assignments are not normally accomplished to assess compliance with established criteria – such assignments must be accomplished as audits in accordance with government auditing standards.

6.3. Types of Management Advisory Services. The MAS program includes consultation services, transaction services, and product services.

6.3.1. Consultation Services. These consist of activities to identify problems and suggest steps and actions for client consideration and decision making. In addition, activities related to future implementation are consulting. Examples include reviewing and commenting on client-prepared strategic plans; participating in client working groups, integrated process teams, and system redesign efforts; and suggesting computer software for further client investigation.

6.3.2. Transaction Services. These are services related to a specific client transaction, generally with a third party. Examples include valuation services (e.g., work with a Cost Analysis Improvement Group), litigation support, and lease or contract analysis. In these instances, management must provide the primary support for the balances recorded and take sole responsibility for all significant assumptions and data.

6.3.3. Product Services. AFAA may provide the client with a product and associated professional services in support of the installation, use, or maintenance of the product. Examples of product services are delivery of packaged training programs and implementation of audit-developed computer software.

6.4. Management Advisory Service Program Procedures.

6.4.1. Requests. Requests for Air Force-wide MAS projects originate from senior Secretariat, Air Staff, MAJCOM, and FOA officials. Requests for installation-level MAS projects originate from the wing and group commanders and other senior installation officials. Requests must meet the MAS definition (paragraph 6.2.).

6.4.2. Approval and Agreement. AFAA personnel will analyze each request to determine if it meets the criteria stated in paragraph 6.2. and will not impair the Agency's ability to perform future audits (in accordance with Generally Accepted Government Auditing Standards). AFAA personnel will meet to discuss the type service that will best meet client needs. Discussions between AFAA personnel and the client will serve to clarify expectations of both parties and help formulate the engagement agreement.

6.4.3. Engagement Memorandum. The engagement memorandum facilitates client satisfaction and results in a more effective evaluation. The engagement memorandum identifies the objectives, scope, estimated start and completion dates, limitations imposed by the requestor (if any), responsibilities of both parties, and proposed methodology for accomplishing the engagement. A management official must co-sign the engagement memorandum signifying agreement with the objectives, scope of work, and product or deliverable of the MAS. The engagement memorandum will also include the following:

6.4.3.1. The name of the management-level individual responsible and accountable for overseeing the non-audit service.

6.4.3.2. A statement that management will monitor the performance of the non-audit service to ensure it meets their objectives.

6.4.3.3. A statement that management will make all decisions that involve management functions related to the non-audit service and accept full responsibility for such decisions.

6.4.3.4. An agreement that management will evaluate the adequacy of the services performed and any findings that result.

6.4.3.5. A qualifying statement similar to the following: "Auditors must convert the MAS engagement to an audit or refer the case to an appropriate investigative authority if indications of fraud, waste or abuse are found."

6.4.4. Closeout. The AFAA attempts to complete most MAS requests within 45 days. The requestor determines how the information will be provided. Normally, AFAA presents MAS results in a briefing or memorandum. AFAA does not release any MAS product to a party other than the client.

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—**DELETED**

AFAA/SPH—Air Force Audit Agency, Support and Personnel Audits Directorate, Healthcare and Services Division

AFCWB—**DELETED**

AFCWFB—Air Force Civilian Welfare Fund 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—**DELETED**

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

AFSVA/SVI—Headquarters, Air Force Services Agency, Directorate of Clubs and Issues

AFSVA/SVQ—**DELETED**

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) nonconcur with the finding and the need for corrective action cited in paragraphs...." (Cite reasons for nonconcurrency 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 nonconcur 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. Identify a Secretariat, Air Staff, or MAJCOM OPR to provide coordinated management responses on draft Air Force-level audit reports.

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

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

A3.1.4. Evaluate management comments.

A3.1.5. Provide 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 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 management 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 management 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. Provides electronic copies of draft reports to AF and MAJCOM focal points when providing the draft reports to the audited activity for management comments.

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. AFMWRAB and AFCWB. 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 Services and the Civilian Welfare Fund.

A3.9.2. Identifies financial requirements and funding sources for PACA program audits, and obtains NAF funding through the AFMWRAB and AFCWFB.

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

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 Services commanders or division chiefs 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 electronic copies of the final report to the installation QAE for local distribution; SAF/FMCEB; AFSVA/SVI; AFCWFB, if applicable; the audit focal point for the audited activity's MAJCOM, FOA, or DRU; and AFAA/SPH.

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 **A3.10**.

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/SVFR or AFCWFB, SAF/FMCEB, AFAA/SPH, and the applicable MAJCOM audit focal point.

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

Attachment 4**IC 2002-1 TO AFI 65-301, AUDIT REPORTING PROCEDURES****19 DECEMBER 2002****SUMMARY OF REVISIONS**

This revision incorporates Interim Change IC 2002-1. This interim change (IC) 2002-1 to AFI 65-301 adds the requirement for management to respond to Commanders Audit Program (CAP) reports (paragraph 1.4.2.), reduces the time allowed to respond to interim reports from 25 days to 15 days (paragraph 1.4.2.2.), reduces the NAF revenue and expense thresholds for annual audits from \$7.5 million to \$7.0 million (paragraph 5.1.1.), adds a new chapter (**Chapter 6**) describing the Management Advisory Service Program, and makes a number of minor administrative changes. A bar (|) indicates revision from the previous edition.

OPR: HQ AFAA/DOV (George D. Falk) Certified by: HQ AFAA/DO (Kenneth E. Gregory)

Attachment 1—REFERENCES, ABBREVIATIONS, AND ACRONYMS

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 the unit's MAJCOM, field operating agency (FOA), or direct reporting unit (DRU).

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 commander.

1.4.2. Commanders of the audited organization must respond to regular and special reports, including CAP reports, by documenting their intended or completed corrective actions.

1.4.2.1. Management 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 PMB.

1.4.2.2. For interim reports, management provides comments within 15 days of the date that AFAA issues the report. The auditor includes these comments, along with an audit evaluation, in the final report.

1.9. Air Force-Level Report Distribution. AFAA releases final reports to applicable Secretariat or Air Staff offices, SAF/FM, the Assistant Vice Chief of Staff, applicable MAJCOMs, and the OIG, DoD. AFAA also prepares follow-up tracking sheets and forwards them to SAF/FM to initiate the follow-up process.

1.9.1. DELETED.

1.9.2. DELETED.

1.10. Installation-Level Report Distribution. AFAA addresses and distributes installation-level reports to responsible unit officials and the applicable MAJCOM, FOA, or DRU. AFAA sends special installation-level reports to the applicable Secretariat or Air Staff office, SAF/FM, and the Assistant Vice Chief of Staff.

1.10.1. DELETED.

1.10.2. DELETED.

2.1. Overview. Air Force management grants AFAA auditors access to information according to AFPD 65-3. This chapter provides guidance for resolving access-related disagreements.

5.1.1. Management arranges for annual audits of NAF activities when annual revenues or expenses exceed \$7 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 million requirement, but individual entities in an MWR fund (installation, MAJCOM, or Air Force) whose funding exceeds the \$7.0 million threshold must have an annual audit.

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 Air Force Civilian Welfare Fund Board (AFCWFB).

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 Clubs and Issues (HQ AFSVA/SVI), and the installation's servicing Air Force Office of Special Investigations (AFOSI) detachment.

5.5.6. Resolution of Nonconcurrences. SAF/FM works with AFSVA or AFCWFB 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*. The resolution period is 6 months and begins when the public accountant issues the report.

Chapter 6

MANAGEMENT ADVISORY SERVICE PROGRAM

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in client working groups, integrated process teams, and system redesign efforts; and suggesting computer software for further client investigation.

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6.4.2. Approval and Agreement. AFAA personnel will analyze each request to determine if it meets the criteria stated in paragraph 6.2. and will not impair the Agency's ability to perform future audits (in accordance with Generally Accepted Government Auditing Standards). AFAA personnel will meet to discuss the type service that will best meet client needs. Discussions between AFAA personnel and the client will serve to clarify expectations of both parties and help formulate the engagement agreement.

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6.4.3.3. A statement that management will make all decisions that involve management functions related to the non-audit service and accept full responsibility for such decisions.

6.4.3.4. An agreement that management will evaluate the adequacy of the services performed and any findings that result.

6.4.3.5. A qualifying statement similar to the following: "Auditors must convert the MAS engagement to an audit or refer the case to an appropriate investigative authority if indications of fraud, waste or abuse are found."

6.4.4. Closeout. The AFAA attempts to complete most MAS requests within 45 days. The requestor determines how the information will be provided. Normally, AFAA presents MAS results in a briefing or memorandum. AFAA does not release any MAS product to a party other than the client.

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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

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

AFAA—Air Force Audit Agency

AFAA/FSP—**DELETED**

AFAA/SPH—Air Force Audit Agency, Support and Personnel Audits Directorate, Healthcare and Services Division

AFCWB—**DELETED**

AFCWFB—Air Force Civilian Welfare Fund 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—**DELETED**

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

AFSVA/SVI—Headquarters, Air Force Services Agency, Directorate of Clubs and Issues

AFSVA/SVQ—~~DELETED~~

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

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

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

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

A3.1.4. Evaluate management comments.

A3.1.5. Provide 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 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 management 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 management 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. Provides electronic copies of draft reports to AF and MAJCOM focal points when providing the draft reports to the audited activity for management comments.

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. AFMWRAB and AFCWB. 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 Services and the Civilian Welfare Fund.

A3.9.2. Identifies financial requirements and funding sources for PACA program audits, and obtains NAF funding through the AFMWRAB and AFCWFB.

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

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 Services commanders or division chiefs 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 electronic copies of the final report to the installation QAE for local distribution; SAF/FMCEB; AFSVA/SVI; AFCWFB, if applicable; the audit focal point for the audited activity's MAJCOM, FOA, or DRU; and AFAA/SPH.

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 **A3.10**.

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/SVFR or AFCWFB, SAF/FMCEB, AFAA/SPH, and the applicable MAJCOM audit focal point.

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

Attachment 5 (Added-AMC)**RESPONSE TO DRAFT REPORT OF AUDIT
(SAMPLE LETTER FORMAT)**

MEMORANDUM FOR AFAA Area Audit Office

FROM: Wing/CC

SUBJECT: Draft Report of Audit F2003-EA0000-0350-xxx, F2003-0024-EA0000, Vehicle Valuation and Acquisition Costs, 375 AW, Scott AFB, 1 January 2003

1. We concur with all findings and recommendations.
2. Reference Recommendation 1. Concur. Procedural clarification has been requested from the Standard Systems Center to determine if program GV930/MO6 should be changed to provide all pricing data. Estimated completion date is 10 July 2003.
3. Reference Recommendation 2. Concur. The Equipment Management System (EMS) Branch, Base Supply, will provide the Vehicle Interactive Management System monitor a monthly retrieval containing the following information:
 - a. Interchangeable and substitute stock number
 - b. Standard price
 - c. Vehicle type and registration number

This item is considered (CLOSED).

4. Reference Recommendation 3. Concur. The data provided by the EMS Branch will be used to update the standard prices during the monthly Registered Equipment System and On-Line Vehicle Interactive Management System reconciliation. Once the data is input into the system, it will be used in establishing one-time repair limits for vehicles. This procedure has been coordinated with HQ AMC/LETV. (CLOSED).
5. Project officer for this draft audit report is Mr Smith, 375 AW/LGT, 256-2222.

NAME, Rank, USAF

Commander

NOTE: *This input can also be submitted e-mail with //SIGNED// at the signature block. Ensure you maintain the original signed copy in your files.*

Attachment 6 (Added-AMC)**RESPONSE TO DRAFT REPORT OF AUDIT WITH NONCONCURRENCES
(SAMPLE LETTER FORMAT)**

MEMORANDUM FOR AFAA Area Audit Office

FROM: CC

SUBJECT: Draft Report of Audit F2002-EO0000-175.xxx, F2003-0175-EA0000, Management
Maintenance--Due-In from Maintenance (DIFM), 375 AW, Scott AFB, 1 January 2003

1. We concur with all findings and potential monetary benefit.
2. Reference Recommendation 1. Concur. The DIFM monitor is now coding the DIFM listing daily and returning the listing to base supply with the complete status of each item. Any discrepancies found on the listing are coded correctly and brought to the attention of base supply personnel when the listing is delivered to them. (CLOSED).
3. Reference Recommendation 2. Concur. The 33 aircrew ovens had no DIFM detail and were returned to base supply as "found on base" items. All personnel have been instructed to return all DIFM items to base supply when they are not required for immediate use. Monetary benefit achieved by this corrective action is \$123,000. (CLOSED).
4. Reference Recommendation 3. Concur. Annotations are now being entered on the back of copy 4 of DD Form 1348-1 as to the time and date the reparable asset can be received. DIFM notices are then filed in date sequence in the pending pickup file for further action to recover the DIFM item. (CLOSED).
5. Reference Recommendation 4. Nonconcur. The requirement for maintenance shop chiefs to keep job control updated on specialist availability changes as they occur is already included in AFR 22-2, paragraph 2-2.
6. Project officer for this draft report is Mr Smith, 375 AW/LGP, 256-2222.

NAME, Rank,
Commander