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AUDIT REPORTING PROCEDURES

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This instruction establishes procedures regarding the use of audits to improve programs; make financial reporting more accurate; and ensure public resources are used efficiently, effectively, economically, and legally throughout the Air Force. This instruction, which implements AFPD 65-3, *Internal Auditing*, DOD Instruction 7600.02, *Audit Policies*, and DOD Instruction 7600.6, *Audit of Nonappropriated Fund Instrumentalities and Related Activities*, gives procedures for audit report processing, information access, nonconcurrency resolution, potential monetary benefits, and nonappropriated fund audits. This instruction applies to all active duty Air Force, Air Force Reserve, and Air National Guard components. Refer recommended changes and questions about this publication to the Office of Primary Responsibility (OPR) using the Air Force Form (AF) 847, Recommendation for Change of Publication. Ensure that all records created as a result of processes prescribed in this publication are maintained in accordance with AFMAN 33-363, *Management of Records* and disposed of in accordance with the *Air Force Records Disposition Schedule (RDS)* located at <https://www.my.af.mil/gcss-af61a/afrims/afrims/>.

(AFSC) This supplement augments AFI 65-301 and provides Air Force Sustainment Center (AFSC) organizations with guidance on managing and tracking audits using the AFSC Enterprise

Information Management (EIM) audit database and audit focal point (AFP) responsibilities. Refer recommended changes and questions about this publication to the OPR using AF Form 847, *Recommendation for Change of Publication*; route AF Forms 847 from the field through appropriate functional chain of command. This publication may be supplemented at any level, but all supplements must be routed to OPR for coordination prior to certification and approval. Requests for waivers must be submitted through chain of command to the OPR listed above for consideration and approval. Ensure that all records created as a result of processes prescribed in this publication are maintained in accordance with AFMAN 33-363 and disposed of in accordance with Air Force Records Information Management System RDS located at <https://www.my.af.mil/afrins/afrims/afrims/rims/cfm>. See

SUMMARY OF CHANGES

This revision removes references to the commanders audit program and updates both the nonconcurrency procedures and implemented directives and references (Attachment 1).

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Chapter 1

AUDIT REPORTS

1.1. Overview. The Air Force Audit Agency (AFAA) is the sole provider of internal audit services to the Air Force, and a report is the usual product of an AFAA audit. This chapter provides information on processing AFAA audit reports and tracking the implementation of report recommendations. Attachment 3 identifies report processing responsibilities. In addition, public accountants audit nonappropriated fund (NAF) activities and issue reports following policy in AFPD 65-3. Chapter 5 contains information on public accountant audits and reports of NAF activities.

1.2. Audit Process. AFAA uses an audit process that attempts to make the most efficient and effective use of audit resources. Prior to announcing an audit, AFAA conducts substantial preliminary research to identify appropriate audit subjects that AFAA includes in a plan it provides to management annually. The process permits flexibility and timely adjustment of audit requirements due to changes in Air Force policy and emphasis.

1.2.1. Audit Phases. Each audit consists of three phases: research, application, and report processing. The research phase encompasses all actions needed to define audit objectives and thoroughly plan the audit. The research phase culminates with development of the audit program which provides the analytical methodology for a thorough examination designed to disclose deficiencies and their underlying causes and impact. During the application phase, auditors gather adequate evidence to support audit results and provide a basis for specific recommendations. At the conclusion of field work, the AFAA prepares a draft report that presents identified audit results and recommendations so management can take appropriate corrective actions without the need for further review or study. AFAA releases the draft report to management for formal comments. After receiving the management comments, AFAA adds them to the final report, along with an AFAA evaluation, and distributes the final report. Designated activities formally track the final report until management indicates it has implemented all the agreed-to actions. Follow-up audits determine whether actions taken by management corrected cited deficiencies.

1.2.2. Deconflicting Audits. Before starting each audit, AFAA first determines if conducting the audit would adversely affect the units involved. AFAA will defer the audit start or select other locations when the unit is experiencing significant operational demands (i.e., deployments, exercises, or inspections) and conducting the audit would conflict with the unusual workload demands. Deconflicting audits is accomplished through coordination between AFAA and the base, major command (MAJCOM), field operating agency (FOA), direct reporting unit (DRU), and Air National Guard (ANG) management. **NOTE:** Throughout the remainder of this instruction, MAJCOM is used as a collective term to denote "MAJCOM, FOA, DRU, and ANG."

1.2.3. 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. AFAA Air Force-level audit reports are the result of centrally managed, single or multi-site, audits that the AFAA addresses to the Secretariat, Air Staff, or MAJCOM. AFAA also provides these reports to the Assistant Secretary for Financial Management and Comptroller (SAF/FM) for tracking recommendations and to the Department of Defense Inspector General (DoDIG) for information. The AFAA issues two types of Air Force-level reports: standard and interim.

1.3.1.1. Standard Report. The standard report (also known as a “blue book”) represents the normal reporting vehicle for conveying the results of Air Force-wide audits.

1.3.1.2. Interim Report. AFAA issues interim reports (a) when audit results require prompt management attention and timeliness is critical (quick-reaction) or (b) to convey the audit status for a lengthy audit (preliminary). The interim report provides management an opportunity to initiate early corrective actions on identified findings and for AFAA to acknowledge those actions in the audit report.

1.3.2. Installation-Level Reports. AFAA installation-level audit reports usually result from single-site audits covering issues specific to an activity or installation. The AFAA issues three types of installation-level reports: regular and interim.

1.3.2.1. Regular Report. The regular report is the most commonly issued installation-level report. AFAA area audit offices use regular reports to convey the results of installation-level audits.

1.3.2.2. Interim Report. AFAA area audit offices issue interim reports for the reasons cited in paragraph 1.3.1.2.

1.4. Draft Report Processing. The AFAA sends draft reports to tenant, installation, MAJCOM, Air Staff, or Secretariat officials, as appropriate, for comments. Attachment 3 provides a list of responsibilities for processing draft Air Force-level reports.

1.4.1. Air Force-Level Reports. AFAA simultaneously distributes draft reports to the Secretariat, Air Staff, or MAJCOM office of primary responsibility (OPR) and applicable offices of collateral responsibility (OCRs).

1.4.2. Installation-Level Reports. The AFAA distributes each draft report to the designated unit audit focal point who forwards it to the functional OPR for comment. The audit focal point acts as a liaison officer between management and AFAA and monitors audit project and report processes, including follow-up tracking. AFAA addresses installation-level reports to the appropriate commander and to other units having oversight authority (e.g., MAJCOM).

1.5. Management Comments. Management will respond in writing to all draft audit reports containing recommendations or potential monetary benefits (PMB). Reference paragraph **1.5.3** for potential responses. AFAA includes management comments verbatim, along with an audit evaluation, in the final report. The management OPR and AFAA auditors will coordinate closely so the final report fully documents management’s position on issues in the report. *Note:* Management may verbally coordinate on reports that do not contain recommendations or PMB.

1.5.1. Comment Requirements. Management will write comments concisely and include:

1.5.1.1. A statement of concurrence or nonconcurrence on each finding, recommendation, and PMB.

1.5.1.2. Appropriate comments describing intended or completed corrective actions and an actual or estimated completion date for each corrective action. If corrective actions will take longer than a year, the management comments should contain interim milestones for completing major segments or action.

1.5.1.3. Rationale for any disagreements.

1.5.1.4. Comments on the reasonableness of all auditor-estimated PMB. See Chapter 4 for further information on PMB. *Note:* When management corrects deficiencies during the audit, the draft report normally presents the findings and recognizes management's actions in lieu of a recommendation. If the report contains PMB, management must still comment on the reasonableness of the PMB estimate.

1.5.2. Suspense Dates. For reports with recommendations or PMB, AFAA normally allows management 30 calendar days from the date of the draft report to provide written comments. For interim reports, AFAA normally allows management 15 calendar days. For reports with no recommendations or PMB, AFAA normally allows management 15 calendar days to provide a verbal or e-mail concurrence and 30 days to provide a written response.

1.5.2.1. The AFAA can grant extensions for management comments in unusual circumstances. If management cannot respond by the due date, the management OPR telephones or e-mails the AFAA and requests an extension. AFAA can grant extensions, usually in 15-day increments, not to exceed 30 days from the original suspense date.

1.5.2.2. For oral requests exceeding 15 days from the original suspense date, the management OPR will follow up with a written request that includes both the reasons for the delay and a firm date when AFAA can expect to get management comments.

1.5.3. Potential Responses. The following list provides potential responses to audit recommendations. See Attachment 2 for specific examples of management comments.

1.5.3.1. If management agrees with the findings, recommendations, and PMB, the management comments will describe corrective actions, both taken or planned, and give actual or planned completion dates. Planned completion dates should be at least 90 days from the date comments are provided. Reference paragraph A2.1.

1.5.3.2. If management agrees with the findings and agrees action is required but not the actions recommended in the report, management can concur with intent and propose other ways to correct the reported deficiencies. The response must explain what action management will take to correct the problem. AFAA evaluates the responses and does not consider such responses as nonresponsive if the alternative action would correct the problem. Reference paragraph A2.2.

1.5.3.3. If management agrees with the findings and recommendations but disagrees with the PMB amount, management must clearly state the reason for disagreement and give a revised PMB estimate. If management disagrees there will be any PMB, the AFAA will elevate the entire amount as a nonconcurrence for resolution in accordance with Chapter 3. If management agrees there will be a PMB, but specifies a lesser amount, the AFAA

will elevate only the difference between the management estimate and the AFAA estimate. Reference paragraph [A2.3](#)

1.5.3.4. If management nonconcur with any finding, management comments should specify the reason for the nonconcurrency. The AFAA may elevate the nonconcurrency for resolution in accordance with Chapter 3. Reference paragraph A2.4.

1.5.3.5. If management concurs with the finding but does not agree corrective actions are necessary, management should explicitly agree with the finding and explain the reason corrective actions are not appropriate. The AFAA audit team may elevate the nonconcurrency for resolution in accordance with Chapter 3. Reference paragraph A2.5.

1.5.4. Disagreements. Management will notify AFAA immediately if they disagree with any report finding, recommendation, or PMB. Management will meet with AFAA and explain their position on the points of disagreement or introduce new information. These discussions promote effective corrective action by clarifying audit findings, recommendations, and PMB. AFAA may revise the draft report after discussions with management.

1.6. Management Comments Evaluation. After the management OPR provides comments to AFAA, the AFAA audit team will evaluate the comments to determine if they meet the requirements of paragraph 1.5.1. and corrective actions, taken or proposed, are adequate and timely. When management comments are not responsive or when management does not provide comments within the required time, AFAA follows the procedures described in Chapter 3. When management comments are responsive, the AFAA audit team inserts the comments and an AFAA evaluation into the final report and distributes the report.

1.7. Revised Report Procedures. If, after issuing a draft report for comment, the audit management team revises the report (paragraph 1.5.4.), the audit team will reissue the report for comment. AFAA will allow management an appropriate amount of time to comment on the revised report, not to exceed 30 days.

1.7.1. Air Force-Level Reports. The Air Force Audit Agency, Pentagon Liaison Office (SAF/AGA) distributes copies of the revised draft Air Force-level report to the HQ USAF OPR and all other activities that received the initial draft report.

1.7.2. Installation-Level Reports. The AFAA team chief distributes the revised draft report to the unit audit focal point and other activities that received the initial draft report.

1.8. Final Report Distribution.

1.8.1. Air Force-Level Reports. AFAA distributes final reports to applicable HQ USAF offices, SAF/FM, the Assistant Vice Chief of Staff, applicable MAJCOMs, and the DoDIG. AFAA also prepares follow-up tracking sheets and forwards them to the Deputy Assistant Secretary for Financial Operations (SAF/FMP). SAF/FMP personnel monitor and report on the implementation of corrective actions agreed to in Air Force-level audit reports.

1.8.2. Installation-Level Reports. AFAA distributes final installation-level reports to responsible unit officials and to applicable MAJCOM audit focal points. Both the unit and MAJCOM audit focal points, in turn, track the recommendations and ensure management implements all agreed-to corrective actions.

1.9. 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 DoDIG, the Government Accountability Office, and the Congress have access to the report. AFAA releases final reports to the public, when requested, under the Freedom of Information Act.

1.10. (Added-AFSC) Tracking Audit Reports. The AFSC EIM audit database was created in order to effectively manage each phase in the audit process. The database contains tabbed sections that allow the AFPs to enter data associated with each phase of the audit. The binder contains every item of audit documentation as it happens during the audit, (i.e. announcement letter, request for management comments, draft report, final report, any and all updates). The AFP uses the AFSC EIM audit database to document “real time” status on AFSC enterprise audits from cradle to grave. The quality of the database hinges on the AFP’s willingness to effectively annotate each phase of the audit as it occurs. Accurate audit documentation in the database will allow the wing/complex/group AFPs to leverage the query function which is the strength of the database. The AFSC EIM binder and database can be accessed at: Binder hyperlink: https://cs4.eis.afmc.af.mil/sites/1489/FZP_Binder/Forms/AllItems.aspx. Database hyperlink

1.10.1. **(Added-AFSC)** All AFPs that fall under the AFSC enterprise are required to utilize the audit database. It is the responsibility of every AFP to ensure every audit issued from AFAA is properly documented in the audit database. Each tab in the AFSC EIM audit database represents a phase of the audit and contains information describing the status of the audit. The tabs are listed as:

1.10.1.1. **(Added-AFSC)** Item of Interest (IOI): Current status of audit. In this tab, the AFP will document current phase, month, and year of audit. Data for audit fact sheet is retrieved from IOI tab. (Reference IOI tab sample in [Attachment 4](#).)

1.10.1.2. **(Added-AFSC)** New Announcement: Announcement of a new audit from the AFAA. In this tab, the AFP will document the audit title, project number, organization associated with the audit, binder location for audit documentation, audit objectives, audit focal point, date announcement received, audit point of contact (POC), phase status, type of audit, date of scheduled inbrief, auditor(s), and inbrief attendees. (Reference New Announcement tab sample in [Attachment 5](#).)

1.10.1.3. **(Added-AFSC)** Planning and Research: Actions performed by the auditor to determine if an actual audit is warranted for the subject matter. In this tab, the AFP will document any collateral engagements that may be needed to complete planning and research phase, pre-audit collaboration, and limiting factors that could affect the execution or outcome of the audit. (Reference Planning and Research tab sample in [Attachment 6](#).)

1.10.1.4. **(Added-AFSC)** In-Progress: Once the planning and research phase begins, the AFP will use this tab to document the date inbrief conducted and date when audit field work occurred. The last day of audit field work is identified in the “Scope” paragraph of the draft report of audit (ROA). (Reference In Progress tab sample in [Attachment 7](#).)

1.10.1.5. **(Added-AFSC)** Draft: Once the draft ROA has been issued, the AFP will use this tab to document the Senior Officer Communication and Coordination Electronic

Response (SOCCER) number, draft report date, comments due date, extension date (if applicable), extension request comments (if applicable), organization POC for management comments, management comments estimated completion date (ECD), and open recommendations. The SOCCER number can be obtained prior to the draft ROA being issued for those units utilizing the SOCCER system. Management comments are due 30 days after the draft ROA is published. (Reference Draft tab sample in [Attachment 8](#).)

1.10.1.6. **(Added-AFSC) Final:** Once the final report is issued, the AFP will use this tab to document the final audit report number, date of final report, condition statement from the ROA, status of corrective actions (if applicable), ECD for management actions, management actions taken, final management comments, PMB identified in the report, actual PMB realized, date audit closed, date file should be moved to the Electronic Records Management System (ERMS), status of audit (Open/Closed), and local remarks. (Reference Final tab sample in [Attachment 9](#).)

1.10.1.7. **(Added-AFSC) Follow-Up:** A local follow-up on the audit will be conducted 120 days after the last recommendation has been closed. The follow-up is an internal action that allows the affected organization(s) to re-examine management actions taken to ensure their effectiveness. The audit POC identified in Tab 2, New Announcement, cannot be the POC for the follow-up. However, a fellow colleague, not involved with implementing the original audit recommendations, may conduct the follow-up. The follow-up report will be used by the AFP to report to leadership any completed management actions that did not mitigate the deficiency identified during the audit. The AFP will use this tab to document issues identified during the follow-up that warrant leadership attention, date the follow-up was conducted, POC responsible for reporting and implementing actions required to resolve deficiencies during the follow-up phase, date unresolved deficiencies completed, and date audit retired. (Reference Follow-Up tab sample in [Attachment 10](#).)

1.10.1.8. **(Added-AFSC) Binder:** All audit documentation is filed for complete audit records electronically. When the new announcement letter data is entered into the database, the AFP will be asked if they want to create a documentation folder. Click on the blue square (documentation folder) and answer okay. The documentation folder will automatically be made. If any problems exist, you may have entered too many dots/periods in the Project Number or Sequence Number field.

1.10.1.9. **(Added-AFSC) Training:** Training for the EIM site has been provided to all eight wings under AFSC. Upon notification of a new Wing AFP or alternate, training will be arranged. Please notify the AFSC AFP of any and all changes. EIM site training takes about one hour.

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.

2.2. Elevation of Disagreements.

2.2.1. If an installation refuses to allow access to needed information, the auditor sends written notice to the AFAA representative who attempts to resolve the issue with the MAJCOM OPR. If discussions with the MAJCOM OPR do not result in access to requested information within 5 work days of the disagreement, the AFAA representative forwards the request and the MAJCOM position to SAF/AGA, for immediate action.

2.2.2. If management denies access for an Air Force-level audit and the AFAA directorate does not resolve the issue, the applicable Assistant Auditor General forwards the request and the results of any discussions to SAF/AGA, for immediate action.

2.3. HQ USAF Discussions. SAF/AGA refers access disagreements to the HQ USAF 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 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 Instruction 7600.02, *Audit Policies*, SECAF advises the DoDIG when the SECAF denies access to AFAA auditors.

2.5. Access to Joint Staff Information. Requests for joint information should be coordinated through SAF/AGA (HQ AFAA/DOO) and DoDIG. Pursuant to the Inspector General Act of 1978, as amended, the Joint Staff must either provide access to the information or forward a recommendation for denial to the Secretary of Defense for a determination within 30 calendar days.

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 AFPD 65-4, *Followup on Internal Air Force Audit Reports and Liaison with External Audit Organizations*. 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.

3.2. Final Air Force-Level Reports with Disagreements. SAF/AGA (HQ AFAA/DOO) refers final reports to SAF/FMP for resolution whenever disagreements exist between the AFAA and management officials. SAF/FMP submits final reports with unresolved issues to the Under Secretary of the Air Force (SAF/US) for final resolution. See AFI 65-403, *Follow-up on Internal Air Force Audit Reports*, for additional information.

3.3. Nonconcurrences with Installation-Level Reports. If local auditors and management officials disagree on matters in a report and they cannot resolve the disagreement, the auditors will prepare and issue the final report containing management's non-responsive comments and an audit rebuttal. The auditors will send the report within 5 work days to the AFAA MAJCOM representative for resolution with the MAJCOM functional OPR.

3.3.1. The MAJCOM OPR will evaluate the audit and local management positions and provide written comments to the AFAA MAJCOM representative and installation officials within 60 calendar days explaining the MAJCOM position.

3.3.1.1. When MAJCOM supports the audit position, the OPR can, with AFAA representative concurrence, include proposed alternative actions to correct the problem.

3.3.1.2. When MAJCOM supports the management position, the AFAA representative will evaluate the MAJCOM position and either close out the disagreement or elevate it to SAF/AGA for resolution.

3.3.2. When elevating a disagreement for resolution, the AFAA MAJCOM representative will send SAF/AGA a copy of the report, applicable management comments, the MAJCOM written position, and other information derived from previous resolution efforts within 90 calendar days of the final report date. The AFAA MAJCOM representative will advise the MAJCOM OPR of this action.

3.3.3. Working with HQ USAF, SAF/AGA may take an additional 90 calendar days to resolve the nonconcurrency. The SAF/AGA representative will evaluate the HQ USAF OPR position and either close out the nonconcurrency or elevate through SAF/FMP for a final decision.

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

3.4. Late or Not Received Management Comments.

3.4.1. Air Force-Level Reports. If management does not provide comments for Air Force-level reports by the last revised due date (not to exceed 60 calendar days from the date of draft report issuance), the AFAA audit team, in coordination with SAF/AGA, will contact the Air Force action officer weekly to discuss (a) problems encountered, (b) the potential for resolution, and (c) the estimated date to receive signed comments. After 75 calendar days, the applicable Assistant Auditor General may get involved to resolve the problems delaying receipt of management comments. After 90 calendar days, the AFAA may issue the final report without management comments and submit the report to SAF/FMP for resolution in accordance with paragraph 3.3.

3.4.2. Installation-Level Reports. If management does not provide comments to the draft report within 30 calendar days, the AFAA audit team will meet with unit officials to determine the specific cause for the delay and, if appropriate, provide additional time for unit officials to prepare their response. If management comments are not received after 60 calendar days, the AFAA will issue the final report without management comments.

3.4.2.1. If it becomes necessary to issue a final report without management comments, the MAJCOM OPR must act immediately to ensure the subordinate unit commander responds to the audit report. If the unit commander provides comments within 30 calendar days after the final report date, AFAA will evaluate the comments. If the comments are responsive (either concurrences or nonconcurrences), AFAA will reissue the final report with the management comments and AFAA evaluation inserted. If the comments are not responsive, AFAA will send the comments to the AFAA MAJCOM Representative for resolution in accordance with paragraph 3.3. Concurrently, the unit audit focal point will provide the comments to the MAJCOM audit focal point to facilitate the resolution process.

3.4.2.2. If the AFAA receives no comments within 30 calendar days following the final report date, the AFAA will, within 5 work days, elevate the report to the AFAA MAJCOM Representative for resolution. If not done previously, the unit audit focal point will elevate the report to the MAJCOM audit focal point for resolution.

Chapter 4

POTENTIAL MONETARY BENEFITS

4.1. Definition. Potential monetary benefits:

4.1.1. Are an estimate the AFAA measures and expresses as a dollar value and expects the DOD or the Federal Government overall to save if management implements audit recommendations.

4.1.2. Represent the best estimate or an actual known amount at the time the auditor prepared the audit report.

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

4.2. Funds Put to Better Use. Most PMB resulting from internal audit are classified as “funds put to better use.” “Funds put to better use” means that if management implements the audit 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 requirement with an ongoing or planned procurement.

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. Monetary benefit computations include any appropriate offset costs. Offset costs include all direct or indirect costs incurred in implementing the action that will result in the monetary benefit.

4.5.2. PMB 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. AFAA personnel coordinate PMB amounts of \$50,000 or more with the audited organization during the normal draft report discussion period.

4.7. Summary of Audit Results (SAR) Statement. The AFAA attaches a SAR statement to each draft report given to management. The SAR statement explains PMB of \$50,000 or more. The report will normally explain PMB amounts of less than \$50,000, or management can ask for an explanation from the auditor. The amount included in the SAR statement will agree with the amount in the report.

4.8. Management Response.

4.8.1. Management can agree or disagree with the estimated PMB in reports of audit. However, management should not disagree with the audit 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 Potential Monetary Benefits. AFAA includes all PMB in the *Semi-Annual Report to the Congress* and the *Follow-up Status Report*.

Chapter 5

NONAPPROPRIATED FUND AUDITS

5.1. Nonappropriated Fund Audit Requirements.

5.1.1. HQ Air Force Services Agency (AFSVA) arranges for annual financial audits of central NAF instrumentalities and individual NAF activities with annual revenues or expenses exceeding \$7 million. Groups of activities, such as the installation Morale, Welfare, and Recreation (MWR) Fund, are not subject to this audit requirement even if revenues or expenses exceed \$7 million. However, individual entities in an MWR Fund (installation, MAJCOM, or Air Force) with annual revenues or expenses exceeding \$7 million must have annual financial audits. Exceptions to these audit requirements must be approved by the DoDIG.

5.1.2. Annual audits are also required for highly sensitive situations, such as potential fraud or large public exposure. Other audits, as deemed necessary by management and the Air Force Services Audit Committee (paragraph 5.2), are conducted based on assessed risk and resource availability.

5.1.3. 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.

5.2. Air Force Services Audit Committee. Air Force will establish and maintain an audit committee made up of senior officials independent of NAF management to oversee audits of NAF activities. The audit committee shall establish requirements for all NAF audits and base the requirements upon the application of risk assessments. The Auditor General of the Air Force will serve as an advisor to the audit committee, but shall not be part of the committee.

5.3. Audit Coverage of Nonappropriated Fund Activities.

5.3.1. Public Accountant Audits. Each year, NAFs are budgeted and approved for certified public accountant firms to audit Air Force NAF activities. The audit committee shall establish requirements and identify contract deliverables for the public accountant audits and assist in monitoring the conduct of financial statement audits. Certified public accountant audit responsibilities are listed in Attachment 3, Section A3B.

5.3.2. AFAA Audits. In addition to the public accountant audits, the AFAA performs audits of NAF activities. Much like the Air Force Inspector General and other appropriated fund organizations, AFAA is considered “oversight” and the use of AFAA is authorized to provide audit support to NAF activities. Moreover, audit is a necessary component of oversight to ensure Air Force resources are properly and efficiently used to support NAF activities. Accordingly, AFAA “oversight” audits will be performed without NAF reimbursement. The AFAA:

5.3.2.1. Does not have internally or externally established NAF limits of audit coverage. The AFAA schedules and performs NAF audits as deemed appropriate.

5.3.2.2. Includes Air Force-wide system and functional reviews of NAF activities in the AFAA annual audit plan when appropriate.

5.3.2.3. Includes installation-level audits of NAF activities in area audit office annual audit plans, based on audit priorities.

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

5.3.2.5. Provides copies of installation-level reports on NAF activities to the installation audit focal point, HQ AFSVA/SVFR, SAF/FMCEB, and the applicable MAJCOM audit focal point.

5.3.2.6. Should be used for audits of NAF activities involving suspected fraud and other serious improprieties rather than public accountants.

5.4. 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, spouses' 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 Air Force interest.

5.5. Processing Public Accountant Reports. The Public Accountant Contract Audit (PACA) program requires public accountants to issue a separate report for each audit.

5.5.1. Reporting Level. The PACA program requires public accountants to prepare and distribute NAF activity reports based on the terms of the contract.

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 HQ AFSVA which will work with the appropriate oversight board or committee to correct any deficiencies.

5.5.1.2. Public accountants should promptly report any findings that suggest irregular conduct or the possibility of fraud to the Air Force Services Agency, Contract Audit Management Office, 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 public accountant 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 contract quality assurance evaluator normally receives and 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. Manager of the activity audited.

5.5.4.4. Servicing AFAA area audit office and AFOSI detachment.

5.5.4.5. NAF Accounting Office.

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

5.5.5. Command Review. MAJCOM Services staffs review public accountant reports, advise activity commanders on preparing management comments, suggest or direct corrective actions where necessary, and monitor implementation of corrective actions. HQ AFSVA also periodically crossfeeds internal control weaknesses, findings, and recommendations that public accountants identify during audits to Services Commanders/Division Chiefs within the Air Force.

5.5.6. Resolution of Nonconcurrences. SAF/FM works with HQ AFSVA and the appropriate oversight board or committee to resolve disagreements with findings or recommendations in public accountant audit reports that cannot be resolved at MAJCOM level. If SAF/FM cannot resolve the disagreements, they follow policy in AFPD 65-4. The resolution period is 6 months from the date the public accountant issues the report.

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

THEODORE J. WILLIAMS

The Auditor General

(AFSC)

JOSE R. ARAGON/SES, AFSC/FM

Director, Financial Management

Attachment 1**GLOSSARY OF REFERENCES AND SUPPORTING INFORMATION*****References***

DODI 7600.02, *Audit Policies*, April 27, 2007

DODI 7600.6, *Audits of Nonappropriated Fund Instrumentalities and Related Activities*, January 16, 2004

DOD 7600.07-M, *Internal Audit Manual*, February 13, 2009

AFMAN 33-363, *Management of Records*, March 1, 2008

AFI 65-403, *Follow-Up on Internal Air Force Audit Reports*, June 2, 1994

AFPD 65-3, *Internal Auditing*, April 21, 2010

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

Abbreviations and Acronyms

AFAA—Air Force Audit Agency

AFAA/SPP—Manpower and Personnel Division

AFI—Air Force Instruction

AFOSI—Air Force Office of Special Investigations

AFPD—Air Force policy directive

AFSVA—Air Force Services Agency

ANG—Air National Guard

CSAF—Chief of Staff, United States Air Force

DOD—Department of Defense

DoDIG—Office of the Inspector General, Department of Defense

DRU—direct reporting unit

FOA—field operating agency

HQ AFSVA/SVLA—Air Force Services Agency, Contract Audit Management Office

HQ USAF—Headquarters, United States Air Force

MAJCOM—major command

MWR—Morale, Welfare, and Recreation

NAF—nonappropriated funds

OCR—office of collateral responsibility

OPR—office of primary responsibility

PACA—Public Accountant Contract Audit

PMB—potential monetary benefits

QAE—quality assurance evaluator

RCS—report control symbol

RDS—Records Disposition Schedule

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

SAF/FM—Assistant Secretary for Financial Management and Comptroller

SAF/FMCEB—Director, Economics and 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 1 (AFSC)**GLOSSARY OF REFERENCES AND SUPPORTING INFORMATION*****References***

AFMAN 33 -363, *Management of Records*, 1 March 2008, AFMAN 33-363_AFGM013-01, 29 August 2013

Prescribed Forms

AF Form 847, *Recommendation for Change of Publication*

Abbreviations and Acronyms

AFMAN—Air Force Manual

AFP—Audit Focal Point

AFSC—Air Force Sustainment Center

ECD—Estimated Completion Date

EIM—Enterprise Information Management

IOI—Item of Interest

POC—Point of Contact

ROA—Report of Audit

SOC CER—Senior Officer Communication and Coordination Electronic Response

Terms

Audit Focal Point (AFP)—Liaison between AFAA and the wing/complex/staff office.

Closed Recommendation—The status of a recommendation when cognizant managers give explicit written confirmation that management has completed all corrective actions or received on-site verification for completed actions. Follow-up files must contain all confirmation documents. Authorized officials may not close audit recommendations until management completes all corrective actions and documents realized monetary benefits, when applicable.

Follow-Up Program—A program ensuring that management implements agreed-on audit recommendations, corrects agreed-on deficiencies and, if applicable, documents realized monetary benefits. The follow-up program officially begins when the audit is published and

ends when management gives explicit written confirmation that the corrective action or on-site verification is complete.

Funds Put to Better Use—The financial impact of an audit recommendation. Funds that organizations could use more efficiently if management takes action to implement an audit recommendation. The vast majority of PMBs resulting from internal audits fall into this category. Examples are reducing outlays; deobligating funds from program or operations; withdrawing interest subsidy costs on loans or loan guarantees, insurance, or bonds; implementing recommended cost-saving improvements related to operations of the establishment, a contractor, or grantee; avoiding unnecessary expenditures noted in preaward reviews of contract or grant agreements; or gaining any other specifically identified savings. Calculate these savings on the basis of statistical projections, when appropriate.

Potential Monetary Benefits—Questioned costs or funds put to better use.

Realized Monetary Benefits—The measurable and documented amount of monetary benefits actually achieved after the cognizant manager has completed corrective actions. Documentation normally includes references to official budget and accounting data. If such documentation isn't feasible, managers may use an update estimate and its rationale as support for the realized amount. Management considers monetary benefits that are associated with specific recommendations as closed (actually realized) after the cognizant manager completes the related corrective actions and furnishes explicit written confirmation of the amount actually realized.

Attachment 2**EXAMPLES OF MANAGEMENT RESPONSES**

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. If corrective actions will take longer than a year, set up interim milestones for completing major segments or action. Completion dates should be at least 90 days from the date comments are provided.)

A2.2. (SAF/XX, AF/XX, or installation-level organization symbol) concurs with intent with the finding, recommendation, and potential monetary benefit and agrees that corrective action is needed. However, in lieu of the audit recommendation, we plan (or have taken) the following action _____. (Cite alternative action taken or planned along with actual or anticipated action dates. Any planned completion dates should be at least 90 calendar days from the date comments are provided.)

A2.3. (SAF/XX, AF/XX, or installation-level organization symbol) concurs with the finding and recommendation, but nonconcurs with the potential monetary 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.)

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 nonconcurrency and provides substantiating data as attachments, where proper or available.)

A2.5. (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. (Use this comment when the finding is not contested, but management does not believe the condition warrants corrective action.)

Attachment 3**RESPONSIBILITIES**

Note: Emailing responses and official correspondence is an acceptable method to support audit communications, unless otherwise stated.

Section A3A—Responsibilities for Air Force-Level Reports**A3.1. AFAA Audit Management Team.**

A3.1.1. Identifies the HQ USAF or MAJCOM report OPR and any OCRs who will provide input to the coordinated management response to the draft report.

A3.1.2. Discusses the draft report with the report OPR, any OCRs, and all other interested management personnel.

A3.1.3. Evaluates OPR requests to extend suspense dates for responding to the draft report, if any, and grants extensions when appropriate.

A3.1.4. Receives and evaluates management comments.

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

A3.2. SAF/AGA.

A3.2.1. Establishes a suspense date to receive coordinated management comments from the report OPR.

A3.2.2. Distributes the draft report to the report OPR and OCRs.

A3.2.3. Receives staffed and coordinated comments from the management OPR.

A3.2.4. Provides management comments to the AFAA audit team with a recommended evaluation.

A3.2.5. Provides the AFAA evaluation of management comments, when the comments contain disagreements or nonresponsive remarks, to the report OPR.

A3.3. Report OPR.

A3.3.1. Provides the AFAA audit management team, through SAF/AGA, with the names, office symbols, and telephone numbers of action officers and those designated to attend discussions of the draft audit report.

A3.3.2. Confirms that OCRs receive the draft report, and establishes a due date for OCR comments (normally 15 calendar days prior to the assigned suspense date).

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

A3.3.4. Requests extensions to the suspense date from the AFAA audit management team, when necessary.

A3.3.5. Receives responses from OCRs, prepares the management comments, and provides them to SAF/AGA by the suspense date.

A3.4. Report OCRs.

A3.4.1. Provide the OPR and AFAA audit management team, through SAF/AGA, with names of individuals designated to answer the report and attend draft report discussions.

A3.4.2. Coordinate with the OPR and assist in preparing the management comments.

A3.4.3. Advise the report OPR promptly of disagreements, nonconcurrences, or needed clarifications, if any, that surface during response preparation.

A3.4.4. Provide comments to the report OPR on or before the date established by the OPR.

A3.5. AFAA Operations Directorate.

A3.5.1. Distributes the final report to all recipients.

A3.5.2. Provides tracking sheets to SAF/FMP.

A3.6. SAF/FMP.

A3.6.1. Reviews the final report and initiates the resolution process when the report contains disagreements.

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

Section A3B—Responsibilities for Nonappropriated Fund Contracted Audits**A3.7. Air Force Services Audit Committee.**

A3.7.1. Recommends funding needed to audit NAF activities.

A3.7.2. Assists in developing the annual NAF audit plan by suggesting activities for audit coverage.

A3.8. HQ AFSVA. Manages the PACA program and will:

A3.8.1. Prepare an annual audit plan for Air Force NAF activities.

A3.8.2. Identify financial requirements and funding sources for PACA program audits.

A3.8.3. Develop statements of work for base-level audits based on the annual audit plan.

A3.8.4. Instruct all NAF activities to cooperate with public accountants and provide access to all the information and records the public accountants need to accomplish an audit.

A3.8.5. Instruct Services commanders or division chiefs to appoint contract quality assurance evaluators (QAEs) to make sure that the installation provides all required logistical and administrative support specified in the contract.

A3.8.6. Provide instructions to public accountants by contractually requiring the contractor to:

A3.8.6.1. 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.

A3.8.6.2. Retain working papers for 3 years following the audit report date.

A3.8.6.3. Retain audit reports for 5 fiscal years after the fiscal year issued.

A3.8.6.4. Discuss audit results with management, provide draft reports for comment, and include management comments, and an evaluation of them, in the final report.

A3.8.6.5. Provide electronic copies of the final report to the installation QAE for local distribution; SAF/FMCEB; HQ AFSVA/SVLA, which will ensure availability to the appropriate oversight board or committee; the audit focal point for the audited activity's MAJCOM, FOA, or DRU; and AFAA/SPP.

A3.8.6.6. Advise the servicing AFOSI detachment of suspected fraud instances.

A3.8.7. Analyze public accountant audit reports and prepare advisory or trend reports to assist NAFI managers in improving internal controls and operations.

A3.9. SAF/FM. SAF/FM will:

A3.9.1. Oversee all levels of the auditing process related to NAF audits.

A3.9.2. Establish and ensure effective operation of the Air Force Services Audit Committee (paragraph 5.2.).

A3.10. AFAA. The AFAA will:

A3.10.1. Serve as an advisor to the Air Force Services Audit Committee and provide technical guidance to HQ AFSVA when requested.

A3.10.2. Periodically review certified public accountant audits to make sure that they conform with Comptroller General of the United States standards and the policies and guidance in DOD Instructions 7600.02 and 7600.6, respectively.

A3.10.3. Not actively participate in public accountant audits; however, installation AFAA managers will attend entrance and exit briefings. Accordingly, HQ AFSVA will provide AFAA management the annual schedule of public accountant audits. This will ensure active participation by both professional audit organizations and allow managers to de-conflict any scheduled coverage by both organizations.

A3.10.4. Schedule follow-on work on public accountant audits, as appropriate, to determine whether significant problems detected in the public accountant reports were corrected.

**Attachment 3 (AFSC)
RESPONSIBILITIES**

Section A3C (Added) — Responsibilities of AFSC Wings/Complexes

A3.11. (Added) Wings/Complexes AFP(s).

A3.11.1. (AFSC) (ADDED) Ensures a copy of wings/complexes-approved appointment memoranda (reference Letter of Appointment for Wings/Complexes Audit Focal Points in [Attachment 11](#)) for wings/complexes AFP is submitted to AFSC AFP at AFSC/FZP:

Table A3.1. AFSC Wings (ADDED)

OC-ALC	OO-ALC	WR-ALC	72 ABW	75 ABW	78 ABW	448 SCMW	635 SCOW
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A3.11.1.1. (ADDED-AFSC) Group/staff office POCs may be assigned, if desired. If assigned, a copy of approved appointment memo will be provided to the wing/complex AFP.

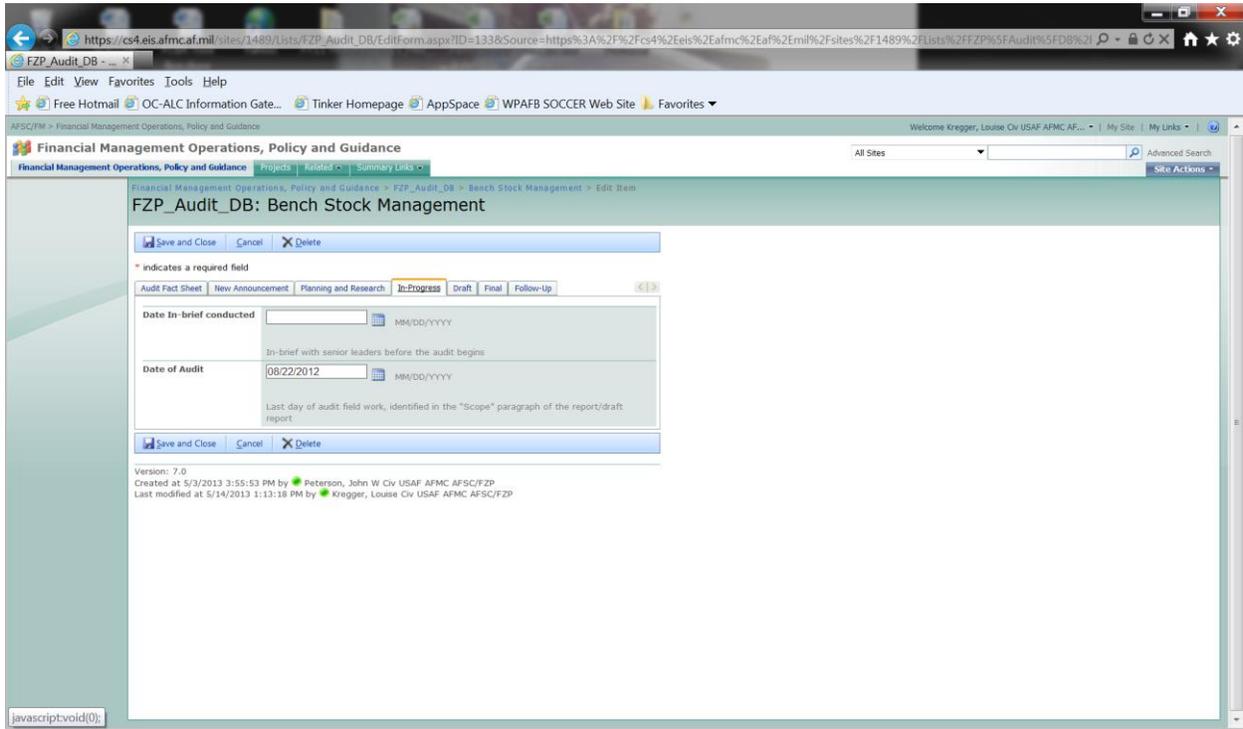
A3.11.2. (ADDED-AFSC) Manages audit related processes to include, but not limited to, scheduling briefings, as required; advising wings/complexes leadership of audit status, as needed; working closely with audit POCs and AFAA auditors to resolve any audit related issues as they occur; and processing all audit correspondence in a timely manner, while ensuring accuracy and completeness.

A3.11.2.1. (ADDED-AFSC) Ensures all pertinent audit related data is entered into the AFSC EIM audit database no later than 5 business days after receipt (reference paragraphs [1.10](#) thru [1.10.1.7](#)).

A3.11.3. (ADDED-AFSC) Presents status updates via wings/complexes audit fact sheet (reference Audit Fact Sheet sample in [Attachment 12](#)) to the wings/complexes commander (CC)/vice commander (CV)/ director (CL)/vice director(DV) by the 3rd week of each month, if content warrants CC/CV/CL/DV attention. Report should be coordinated if reviewed by CC/CV/CL/DV. If delinquencies are noted in the wings/complexes monthly audit fact sheet, provide wings/complexes CC/CV/CL/DV-approved monthly audit fact sheet to the AFSC AFP for AFSC/CC review by the end of the 4th week of each month.

Attachment 7 (Added-AFSC)

FIGURE A7.1 IN PROGRESS TAB SAMPLE



Attachment 11 (Added-AFSC)

LETTER OF APPOINTMENT FOR WINGS/COMPLEXES AUDIT FOCAL POINTS

Table A11.1. (Added) Letter Of Appointment for Wings/Complexes Audit Focal Points

(Use Appropriate Letterhead)		Date Signed
MEMORANDUM FOR AFSC/FZP		
FROM: <i>Wings/Complexes AFP Office</i>		
SUBJECT: Appointment of Wings/Complexes Audit Focal Point		
1. The following are appointed as the Wings/Complexes Audit Focal Point for <i>(Your Office Symbol)</i> per AFI 65-301:		
Name, Primary	Name, Alternate	
Office Symbol	Office Symbol	
Phone Number	Phone Number	
E-mail	E-mail	
2. This letter supersedes all previous letters, same subject. If you have questions, please contact <i>(Name of Primary)</i> .		
Signature Block		
cc: Primary		
Alternate		

Attachment 12 (Added-AFSC)
AUDIT FACT SHEET SAMPLE

Figure A12.1. (Added) Audit Fact Sheet Sample

