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SECRETARY OF THE AIR FORCE**

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Financial Management

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 (DoDI) 7600.02, Audit Policies, and DoDI 7600.06, 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).

SUMMARY OF CHANGES

This revision updates management comment publication procedures, implemented directives, nonappropriated fund audit requirements and references (Attachment 1.)

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Chapter 1

RESPONSIBILITIES

1.1. Overall Audit Responsibility. 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.

1.2. Responsibilities for Air Force-Level reports.

1.2.1. AFAA Audit Management Team.

1.2.1.1. Identifies the HQ USAF or major command (MAJCOM) report OPR and any offices of collateral responsibility (OCRS) who will provide input to the coordinated management response to the draft report.

1.2.1.2. Discusses the draft report with the report OPR, any OCRS, and all other interested management personnel.

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

1.2.1.4. Receives and evaluates management comments.

1.2.1.5. Provides the AFAA evaluation of management comments to the Air Force Audit Agency, Pentagon Liaison Office (SAF/AGA).

1.2.2. SAF/AGA.

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

1.2.2.2. Distributes the draft report to the report OPR and OCRS.

1.2.2.3. Receives staffed and coordinated comments from the management OPR.

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

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

1.2.3. Report OPR.

1.2.3.1. 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.

1.2.3.2. 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).

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

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

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

1.2.4. Report OCRs.

1.2.4.1. 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.

1.2.4.2. Coordinate with the OPR and assist in preparing the management comments.

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

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

1.2.5. AFAA Operations Directorate.

1.2.5.1. Distributes the final report to all recipients.

1.2.5.2. Provides tracking sheets to the Deputy Assistant Secretary (Financial Operations) (SAF/FMP).

1.2.6. SAF/FMP.

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

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

1.3. Responsibilities for Nonappropriated Fund Contracted Audits.

1.3.1. Air Force Services Audit Committee.

1.3.1.1. Establishes audit frequency and scope requirements for nonappropriated fund instrumentalities (NAFIs).

1.3.1.2. Identifies audit contract deliverables.

1.3.1.3. Monitors performance of audit contractors and identifies sources to be solicited.

1.3.1.4. Monitors management actions taken in response to recommendations/findings and recommends additional corrective action to Air Force Manpower, Personnel, and Services (AF/A1).

1.3.1.5. Review trend reports and recommends improvements in internal controls and operations to AF/A1.

1.3.2. Air Force Personnel Center (AFPC). Manages the public accountant contract audit (PACA) program and will:

1.3.2.1. Prepare an annual audit plan for Air Force nonappropriated fund (NAF) activities.

1.3.2.2. Identify financial requirements and funding sources for PACA program audits.

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

1.3.2.4. 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.

1.3.2.5. Instruct Force Support Squadron (FSS) 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.

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

1.3.2.6.1. 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.

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

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

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

1.3.2.6.5. Provide electronic copies of the final report to the installation QAE for local distribution; Chief, Business Management Division (SAF/FMCEB); Air Force Personnel Center, Financial Management (AFPC/FM), which will ensure availability to the appropriate oversight board or committee; the audit focal point for the audited activity's MAJCOM, field operating agency (FOA), or direct reporting unit (DRU); and Personnel, Training and Healthcare Division (AFAA/OSP).

1.3.2.6.6. Advise the servicing Air Force Office of Special Investigation (AFOSI) detachment of suspected fraud instances.

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

1.3.3. Assistant Secretary for Financial Management and Comptroller (SAF/FM). SAF/FM will:

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

1.3.3.2. Establish and ensure effective operation of the Air Force Services Audit Committee (paragraph 6.2.).

1.3.4. AFAA. The AFAA will:

1.3.4.1. Serve as an advisor to the Air Force Services Audit Committee and provide technical guidance to AFPC when requested.

1.3.4.2. 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 DoDI 7600.02 and 7600.06, respectively.

1.3.4.3. Not actively participate in public accountant audits; however, installation AFAA managers will attend entrance and exit briefings. Accordingly, AFPC 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.

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

Chapter 2

AUDIT REPORTS

2.1. Overview. This chapter provides information on processing AFAA audit reports and tracking the implementation of report recommendations. Chapter 1 identifies report processing responsibilities. In addition, public accountants audit nonappropriated fund (NAF) activities and issue reports following policy in AFPD 65-3. Chapter 6 contains information on public accountant audits and reports of NAF activities.

2.2. 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.

2.2.1. 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 effect. 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.

2.2.2. 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 inflict unusual workload demands. Deconflicting audits is accomplished through coordination between AFAA and the base, MAJCOM, FOA, 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."

2.2.3. 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.

2.3. Types of Reports.

2.3.1. 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 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.

2.3.1.1. Standard Report. The standard report represents the normal reporting vehicle for conveying the results of Air Force-wide audits.

2.3.1.2. 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.

2.3.2. 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 two types of installation-level reports: regular standard and interim.

2.3.2.1. Standard Report. The standard report is the most commonly issued installation-level report. AFAA area audit offices use standard reports to convey the results of installation-level audits.

2.3.2.2. Interim Report. AFAA area audit offices issue interim reports for the reasons cited in paragraph 2.3.1.2.

2.4. Draft Report Processing. The AFAA sends draft reports to tenant, installation, DRU, FOA, MAJCOM, Air Staff, or Secretariat officials, as appropriate, for comments. Chapter 1 provides a list of responsibilities for processing draft Air Force-level reports.

2.4.1. Air Force-Level Reports. AFAA simultaneously distributes draft reports to the Secretariat, Air Staff, or MAJCOM OPR and applicable OCRs.

2.4.2. 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 provides installation-level reports to the appropriate commander and to other units having oversight authority (e.g., MAJCOM).

2.5. Management Comments. Management will respond in writing to all draft audit reports containing recommendations or potential monetary benefits (PMBs). Reference 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 including specific concurrence with the PMB amount when applicable. Note: Management may verbally coordinate on reports that do not contain recommendations or PMB.

2.5.1. Comment Requirements. Management comments are included verbatim in the final report. As a result, management comments could be released to the public as part of the final report in response to a Freedom of Information Act (FOIA) request. Management will write comments concisely and include:

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

2.5.1.2. 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 to complete, the management comments should contain interim milestones for completing major segments or action.

2.5.1.3. The management OPR's rationale for any disagreements.

2.5.1.4. Comments on the reasonableness of all auditor-estimated PMB amount. See Chapter 5 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. If PMB is to be determined, state the factors that will affect the PMB determination.

2.5.2. 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 response.

2.5.2.1. 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.

2.5.2.2. 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 date when AFAA can expect to get management comments.

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

2.5.3.1. If management agrees with the findings, recommendations, and PMB amount, 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 60 days from the date comments are provided. Reference paragraph A2.1.

2.5.3.2. 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.

2.5.3.3. 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.

2.5.3.4. 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 4. Reference paragraph A2.4.

2.5.3.5. 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 4. Reference paragraph A2.5.

2.5.4. 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.

2.6. Management Comments Evaluation. After management provides signed comments to AFAA, the AFAA audit team will evaluate the comments to determine if they meet the requirements of paragraph 2.5.1. 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 4. When management comments are responsive, the AFAA audit team inserts the comments and an AFAA evaluation into the final report and distributes the report.

2.7. Revised Report Procedures. If, after issuing a draft report for comment, the audit management team significantly revises the report (e.g. changes affect recommendation(s)), the audit team will reissue the draft report for comment. AFAA will allow the report OPR an appropriate amount of time to comment on the revised report, not to exceed 30 days.

2.7.1. Air Force-Level Reports. 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.

2.7.2. 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.

2.8. Final Report Distribution.

2.8.1. Air Force-Level Reports. AFAA distributes final reports to the report OPR. AFAA also prepares follow-up tracking sheets and forwards them to SAF/FMP. SAF/FMP personnel monitor and report on the implementation of corrective actions agreed to in Air Force-level audit reports.

2.8.2. 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.

2.9. 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 FOIA.

Chapter 3

ACCESS TO INFORMATION

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

3.2. Elevation of Disagreements.

3.2.1. If management denies access for an installation-level audit, the auditor will send written notice to the AFAA MAJCOM 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 10 work days of the disagreement, the AFAA representative forwards the request and the MAJCOM position to SAF/AGA, for immediate action.

3.2.2. 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.

3.3. 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 20 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.

3.4. 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 DoDI 7600.02, Audit Policies, SECAF advises the DoDIG when the SECAF denies access to AFAA auditors.

3.5. Access to Joint Staff Information. Requests for joint information should be coordinated through AFAA 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 4

NONCONCURRENCES (DISAGREEMENTS)

4.1. 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 staff 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.

4.2. Final Air Force-Level Reports with Disagreements. SAF/AGA 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, Followup on Internal Air Force Audit Reports, for additional information.

4.3. 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 7 work days to the AFAA MAJCOM representative for resolution with the MAJCOM functional OPR.

4.3.1. 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.

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

4.3.1.2. When the 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.

4.3.2. 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.

4.3.3. 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.

4.3.4. 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.

4.4. Late or Not Received Management Comments.

4.4.1. Air Force-Level Reports. If management does not provide comments for Air Force-level reports by the last revised due date, the AFAA audit team, in coordination with SAF/AGA and SAF/FMP, will contact the Air Force action officer 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 4.2.

4.4.2. 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 should issue the final report without management comments and include the following statement in the Management's Response section: "We advised management officials that if management comments are not received within 30 calendar days of the report date, we must elevate this audit report for resolution within the time periods prescribed in AFI 65-301."

4.4.2.1. 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 4.3. Concurrently, the unit audit focal point will provide the comments to the MAJCOM audit focal point to facilitate the resolution process.

4.4.2.2. 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 5

POTENTIAL MONETARY BENEFITS

5.1. Definition. Potential monetary benefits:

5.1.1. Are a reasonable estimate or an actual known benefit 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.

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

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

5.2. 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 more efficiently or effectively. The following list shows examples of actions that result in “funds put to better use”:

5.2.1. Reductions in outlays.

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

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

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

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

5.2.6. Reducing requirements with ongoing or planned procurement.

5.2.7. Specifically identifying any other savings or cost reductions.

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

5.3.1. 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.

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

5.3.3. 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).

5.4. 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).

5.5. Computation. Auditors compute potential monetary benefits from the most reasonable data available. Actual monetary benefits are often impossible or impractical to determine. Therefore, auditors base potential benefits 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.

5.5.1. 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.

5.5.2. 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.

5.6. Coordination. During the normal draft report discussion period, AFAA personnel coordinate PMB amounts of \$50,000 or more with the audited organization and the funds owner, if the PMB involves resources either owned by another organization or command, or funded and controlled at another installation.

5.7. 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. For PMB claims exceeding \$50,000, the amount included in the SAR statement will agree with the amount in the report.

5.8. Management Response.

5.8.1. 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.

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

5.9. Reporting Potential Monetary Benefits. AFAA includes all reported PMB exceeding \$50,000 in the Semi-Annual Report to the Congress and the Follow-up Status Report.

Chapter 6

NONAPPROPRIATED FUND AUDITS

6.1. Nonappropriated Fund Audit Requirements.

6.1.1. Air Force Personnel Center (AFPC) arranges for annual financial audits of Nonappropriated Fund Instrumentalities (NAFIs) with annual revenues or expenses exceeding \$10 million. Activities in Program Group VI – Special Purpose Central Funds, and NAFIs supporting highly sensitive operations are not subject to this audit requirement. Instead, in order to maintain integrity of financial records, annual financial audits shall be conducted, regardless of the dollar threshold of revenues and expenses, for Special Purpose Central Funds and those NAFIs with operations deemed to be highly sensitive. The DoDIG must approve exceptions to these audit requirements. In accordance with AFI 52-105, Volume 2, Chapel Tithes and Offering Fund (CTOF), the HQ AFPC does not provide oversight of the CTOF. Therefore, the CTOF does not fall under the purview of the instruction.

6.1.2. 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 6.2.), are conducted based on assessed risk and resource availability.

6.1.3. 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.

6.2. Air Force Services Audit Committee. The 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 or their representative will serve as an advisor to the audit committee, but shall not be part of the committee.

6.3. Audit Coverage of Nonappropriated Fund Activities.

6.3.1. 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 (Chapter 1, paragraph 1.3.).

6.3.2. 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:

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

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

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

6.3.2.4. Notifies AFPC of planned audits on NAF activities to avoid duplicate audits.

6.3.2.5. Provides copies of installation-level reports on NAF activities to the installation audit focal point, AFPC/FM; SAF/FMCEB; Air Force Personnel Center, Installation Support Division (AFPC/SVI); Air Force Personnel Center, Nonappropriated Fund Financial Management (AFPC/FMN); and the applicable MAJCOM audit focal point.

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

6.4. 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. Private Organizations registered through Air Force installations must maintain financial controls in accordance with AFI 34-223, Private Organization Program. 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.

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

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

6.5.1.1. When findings and recommendations are system-wide or procedural, public accountants consolidate installation-level audit results and issue a report to AFPC which will work with the appropriate oversight board or committee to correct any deficiencies.

6.5.1.2. Public accountants should promptly report any findings that suggest irregular conduct or the possibility of fraud to SAF/FMCEB, AFPC/FM, and the installation's servicing Air Force Office of Special Investigations (AFOSI) detachment.

6.5.2. 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.

6.5.3. 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.

6.5.4. Report Distribution. The contract quality assurance evaluator normally receives and distributes the public accountant report to the following:

6.5.4.1. Installation commander.

6.5.4.2. Local audit focal point.

6.5.4.3. Manager of the activity audited.

6.5.4.4. Servicing AFAA area audit office and AFOSI detachment.

6.5.4.5. NAF Accounting Office.

6.5.4.6. Base liaison between FM and FSS (Force Support Squadron).

6.5.5. Command Review. Air Force Personnel Center, Installation Support Division (AFPC/SVI) 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. AFPC also periodically crossfeeds internal control weaknesses, findings, and recommendations that public accountants identify during audits to FSS Commanders/Division Chiefs within the Air Force.

6.5.6. Resolution of Nonconcurrences. SAF/FM works with AFPC 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.

6.6. 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

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

DoDI 7600.02, Audit Policies, April 27, 2007

DoDI 7600.06, Audit of Nonappropriated Fund Instrumentalities and Related Activities, November 5, 2012

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

AFI 34-223, Private Organization Program, March 8, 2007

AFI 65-403, Followup on Internal Air Force Audit Reports, June 2, 1994

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

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

Adopted Forms

AF Form 847, Recommendation for Change of Publication

Abbreviations and Acronyms

AF/A1—Manpower, Personnel, and Services

AFAA—Air Force Audit Agency

AFAA/OSP—Personnel, Training and Healthcare Division

AFI—Air Force Instruction

AFOSI—Air Force Office of Special Investigations

AFPD—Air Force Policy Directive **AFPC**—Air Force Personnel Center

AFPC/FM—Air Force Personnel Center, Financial Management

AFPC/FMN—Air Force Personnel Center, Nonappropriated Fund Financial Management

AFPC/FSS—Air Force Personnel Center, Force Support Squadron

AFPC/SVI—Air Force Personnel Center, Installation Support Division

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 USAF—Headquarters, United States Air Force

MAJCOM—major command

MWR—Morale, Welfare, and Recreation

NAF—nonappropriated fund

OCR—office of collateral responsibility

OPR—office of primary responsibility

PACA—Public Accountant Contract Audit

PMB—potential monetary benefit

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—Chief, 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 RESPONSES

A2.1. SAF/XX, AF/XX, or installation-level organization symbol: specifically concurs with the finding, recommendation, and \$XX potential monetary benefit (*if applicable*). NOTE: Cite action taken or planned along with actual or anticipated action completion dates. Specifically state management's concurrence with a specific dollar amount of potential monetary benefits. If corrective actions will take longer than a year, provide interim milestones for completing major segments or action. Completion dates should be at least 60 days from the date comments are provided.

A2.22. SAF/XX, AF/XX, or installation-level organization symbol: concurs with intent with the finding, recommendation, and \$XX potential monetary benefit (if applicable) and agrees that corrective action is needed. However, in lieu of the audit recommendation, we plan (or have taken) the following action.

NOTE: Cite alternative action taken or planned along with actual or anticipated action completion dates. Any planned completion dates should be at least 60 calendar days from the date comments are provided. Specifically state management's concurrence with the specific dollar amount of potential monetary benefits or that benefits will accrue but are unable to determine the actual amount. If management agrees PMB exists, but not in the amount addressed by audit, specify the alternate amount and provide rationale supporting the alternate estimate.

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. NOTE: 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 paragraph(s)___. NOTE: Cite reasons for nonconcurrence 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 \$XX potential monetary benefit but does not concur with the need for corrective action. NOTE: Use this comment when the finding is not contested, but management does not believe the condition warrants corrective action. Specifically state management's concurrence with the dollar amount of the potential monetary benefits or that benefits will accrue but are unable to determine the actual amount. If management agrees PMB exists, but not in the amount addressed by audit, specify the alternate amount and provide rationale supporting the alternate estimate.

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: 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.)

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.)