

Inspector General

United States
Department of Defense



Independent Auditor's Report
on Management's Assertion of Audit Readiness
for Line 3.A., Appropriation,
Reported in the Air Force General Fund
Combined Statement of Budgetary Resources

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INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202-4704

July 28, 2008

MEMORANDUM FOR ASSISTANT SECRETARY OF THE AIR FORCE
(FINANCIAL MANAGEMENT AND COMPTROLLER)
DIRECTOR, DEFENSE FINANCIAL AND ACCOUNTING
SERVICE

SUBJECT: Independent Auditor's Report on Management's Assertion of Audit
Readiness for Line 3.A, Appropriation, Reported in the Air Force General
Fund Combined Statement of Budgetary Resources
(Report No. D-2008-112)

We are providing this report for information and use. No written response to this report is required. Therefore, we are publishing this report in final form.

We appreciate the courtesies extended to the staff. Please direct questions to Ms. Amy J. Frontz at (303) 676-7392 (DSN 926-7392) or Mr. M. James Herbic at (303) 676-3280 (DSN 926-3280). The team members are listed inside the back cover.

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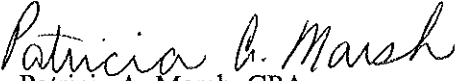
SUBJECT: Independent Auditor's Report on Management's Assertion of Audit
Readiness for Line 3.A, Appropriation, Reported in the General Fund
Statement of Budgetary Resources (Report No. D-2008-112)

We have examined management's assertion of audit readiness, revised March 8, 2007, for Air Force General Fund Appropriation, reported on line 3.A of its Combined Statement of Budgetary Resources. Air Force management is responsible for its assertion of audit readiness. The engagement memorandum executed December 8, 2007, between the Air Force and the Inspector General, Department of Defense, sets forth the following criteria for the assertion of audit readiness. Air Force is responsible for: the selection and application of appropriate generally accepted accounting principles to present line 3.A, Appropriation, fairly; the design and implementation of adequate internal controls over financial reporting, including the prevention and detection of fraud; the identification of applicable laws and regulations affecting appropriations and implementation of compliance controls related thereto; providing auditors with sufficient appropriate evidence on a timely basis to complete the examination; and demonstrating its ability to sustain audit readiness in future periods. Our responsibility is to express an opinion on management's assertion of audit readiness based on our examination.

We conducted our examination in accordance with attestation standards established by the American Institute of Certified Public Accountants and generally accepted government auditing standards as stated in the Government Accountability Office's "Government Accounting Standards." These standards require examining, on a test basis, evidence supporting management's assertion of audit readiness for line 3.A, Appropriation, in the General Fund Combined Statement of Budgetary Resources and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion on management's assertion. Our objective was not to express an opinion on the balance of line 3.A, Appropriation, as of any specific point in time.

In our opinion, management's assertion of audit readiness for line 3.A, Appropriation, reported in the Air Force General Fund Combined Statement of Budgetary Resources, is fairly stated in all material respects, based on management having met its assertion responsibilities stated above.

This report is intended solely for the information and use of the Assistant Secretary of the Air Force (Financial Management and Comptroller) and Director, Defense Finance and Accounting Service, and is not intended to be and should not be used by anyone other than the specified parties. However, this report is a matter of public record and its distribution is not limited.


Patricia A. Marsh, CPA
Assistant Inspector General
Defense Financial Auditing Service

Appendix. Supplementary Information

Management's Assertion of Audit Readiness

The Office of the Under Secretary of Defense (Comptroller) established certain business rules under its Financial Improvement and Audit Readiness plan in 2004. It revised these rules in 2007. Components of the Department of Defense measure progress under the plan by making improvements in business segments related to financial reporting and receiving validation that each improved business segment is ready for audit. The Components must sustain audit readiness for business segments validated. Air Force and Defense Financial and Accounting Service management prepared a formal written assertion of audit readiness for line 3.A, appropriation, as reported in the Air Force General Fund Combined Statement of Budgetary Resources. Management's assertion, as revised March 8, 2007, was the subject of our attestation examination.

Defense Finance and Accounting Service Denver (DFAS) provides finance and accounting support to the Air Force. DFAS accumulates and processes Air Force General Fund appropriations for reporting in the Statement of Budgetary Resources. During FY 2007, the Congress enacted 16 direct appropriations (\$144.1 billion) for Air Force activities, and Air Force received indirect appropriations for the Medicare Eligible Retiree Healthcare Fund (\$2.8 billion) and Environmental Restoration fund (\$.4 billion). In addition, Air Force received funds in one special fund, the Cadet Fund, and one trust fund, the Wildlife Conservation Fund. For the year ended September 30, 2007, the Air Force reported \$147.7 billion on line 3.A, Appropriation, in the Combined Statement of Budgetary Resources for the Air Force General Fund. DoD FMR, volume 6B, chapter 7 defines this line as the amount of appropriations specified in appropriation acts or substantive laws that become available for obligation on or after October 1 of the fiscal year.

Criteria to Evaluate Management's Assertion of Audit Readiness

The Air Force Deputy Assistant Secretary Financial Operations (Financial Management) and the Assistant Inspector General, Defense Financial Auditing Service, executed an engagement memorandum for the attestation of the Air Force line 3.A, Appropriation, (Statement of Budgetary Resources, section 3, Budget Authority, line 3.A. Appropriation) Audit Readiness Assertion. This memorandum set forth certain Air Force responsibilities, which are the criteria for our validation of its assertion.

a. Management is required to present fairly, in all material respects, the amount and any appropriate footnote disclosures for line 3.A, Appropriation, in conformity with generally accepted accounting principles. This requirement is an integral part of management's responsibility. Implicit in this responsibility is management's ability to select and apply appropriate generally accepted accounting responsibilities for appropriations. In addition, the planned financial statement presentation and footnotes for line 3.A, Appropriation, must be: (1) informative of matters that may affect their use, understanding, and interpretation by a user, (2) classified and summarized in a reasonable manner, and (3) a proper reflection of the underlying transactions and events that presents financial position, costs and changes in net position, and budgetary resources activity within limits that are reasonable and practicable for the financial statements.

b. Management is responsible for adopting sound accounting policies and for establishing and maintaining internal controls that will initiate, record, process, and report

transactions (as well as events and conditions) that are consistent with management's assertions of existence, completeness, valuation and allocation, rights and obligations, and presentation and disclosure embodied in the financial statements. Management must document its internal controls over financial reporting for line 3.A, Appropriation, review the design effectiveness, and test the operating effectiveness of such controls. There should not be any significant deficiencies or material weaknesses in internal controls over financial reporting for line 3.A, Appropriation.

c. In addition to reliability of financial reporting, effective internal controls are designed to provide reasonable assurance of compliance with applicable laws and regulations. Management must identify significant laws and regulations applicable to line 3.A, Appropriation, and the key controls in place that ensure compliance.

d. During an examination, management must provide sufficient and appropriate evidence and timely support for the auditor's inquiry, inspection, observation, re-performance, and confirmation audit procedures. This includes providing accounting records and original supporting documents, as well as appropriate subject matter experts on a timely basis. Because an auditor's knowledge of the accounting systems and processes, internal controls, and financial statement presentation for appropriation is limited to that acquired through the audit, management's complete and timely cooperation is integral to an efficient and effective audit.

e. Management is required to sustain audit readiness in future periods for any business segment validated in accordance with the previously mentioned business rules under the Financial Improvement and Audit Readiness Plan. Management must present a written plan for monitoring and sustaining the audit readiness of the validated business segment in future fiscal years.

Validation of Management's Assertion of Audit Readiness

We conducted this attestation engagement from November 2007 through April 2008 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the attestation to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions, based on our attestation objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions, based on our attestation objectives.

We performed this examination at the Office of the Assistant Secretary of the Air Force (Financial Management and Comptroller), Budget Management and Execution Directorate, and at Defense Finance and Accounting Service Denver. At these locations, we reviewed the design and operation of internal controls over financial reporting for line 3.A, Appropriation, by interviews, examination of reports and other outputs for key controls, and by re-performance of selected transactions with Air Force and DFAS personnel. We judgmentally selected the Operation and Maintenance, Military Personnel, and Research, Development, Testing, and Evaluation appropriations for examination. The appropriations control analyst in the Office of the Assistant Secretary of the Air Force (Financial Management) initially records appropriations in the Air Force budget system. We tested the recorded appropriation amounts by verifying them with the respective laws enacted by Congress. We also examined applicable U.S. Treasury warrants and internal funding documents originated by the Office of the Under Secretary of Defense (Comptroller) supporting these amounts.

The Air Force transmits its budget system amounts to DFAS Denver for entry into the General Accounting and Finance System - Rehost (GAFS-R), which is the Air Force accounting system of record. Upon initial request, DFAS Denver was not immediately

able to provide an appropriate level of detail for transactions comprising the reported balance of line 3.A, Appropriation, as of September 30, 2007. DFAS Denver required 38 days to provide the requested audit evidence in a final form whose sum agreed with line 3.A. This population consisted of thousands of entries, because DFAS Denver allocates the appropriation amounts to numerous activity groups and subactivity groups for fund control purposes (to comply with applicable laws and regulations) and records a substantial number of accounting entries that change allocations at those levels during the fiscal year. We did not test the propriety of the individual GAFS-R transactions, because their sum was equal to the total appropriation amount reported on line 3.A, which was adequate for our attestation purposes. Subsequently, without prior notice to DFAS, we requested a detailed report of transactions comprising the reported balance of line 3.A, Appropriation, as of March 31, 2008. DFAS provided this population within 2 working days. We also obtained written affirmation from management that the procedures for producing this information are standardized such that it can be readily produced on a timely basis in the future. Our testing and other procedures did not identify any significant deficiencies or material misstatements related to management's responsibilities with respect to its assertion of audit readiness for line 3.A, Appropriation, reported in the Air Force General Fund Combined Statement of Budgetary Resources.

Team Members

The Department of Defense Office of the Deputy Inspector General for Auditing, Defense Financial Auditing Service prepared this report. Personnel of the Department of Defense Office of Inspector General who contributed to the report are listed below.

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Inspector General Department of Defense

