

Inspector General

United States
Department of Defense



Independent Auditor's Report
on Management's Assertion of Audit Readiness
for Line 4., Nonexpenditure Transfers,
Reported in the Air Force General Fund
Combined Statement of Budgetary Resources

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INSPECTOR GENERAL
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July 28, 2008

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

SUBJECT: Report on Management's Assertion of Audit Readiness for Line 4.,
Nonexpenditure Transfers, Reported in the Air Force General Fund
Combined Statement of Budgetary Resources (Report No. D-2008-113)

We are providing this report for information and use. No written response to this report was 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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July 28, 2008

MEMORANDUM FOR ASSISTANT SECRETARY OF THE AIR FORCE
(FINANCIAL MANAGEMENT AND COMPTROLLER)

SUBJECT: Independent Accountant's Report on Management's Assertion of Audit Readiness for Nonexpenditure Transfers Reported in the Air Force General Fund Combined Statement of Budgetary Resources
(Report No. D-2008-113)

We have examined management's assertion of audit readiness, revised March 8, 2007, for Air Force General Fund Nonexpenditure Transfers, Net, Anticipated and Actual, reported on line 4 of its Combined Statement of Budgetary Resources (See Appendix). 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 Nonexpenditure Transfers 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 Nonexpenditure Transfers and implementation of compliance controls related thereto; providing auditors with sufficient appropriate audit 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." Those standards require examining, on a test basis, evidence supporting management's assertion of audit readiness for Nonexpenditure Transfers in the General Fund Combined Statement of Budgetary Resources and performing such other procedures as we considered necessary in the circumstances. Our objective was not to express an opinion on the balance of Nonexpenditure Transfers as of any specific point in time. We believe that our examination provides a reasonable basis for our opinion on management's assertion.

In our opinion, management's assertion of audit readiness for Nonexpenditure Transfers, Net, Anticipated and Actual, reported on line 4 of 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.

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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 Finance and Accounting Service management prepared a formal written assertion of audit readiness for Nonexpenditure Transfers, Net, Anticipated and Actual 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.

The Defense Finance and Accounting Service – Denver (DFAS) provides finance and accounting support to the Air Force. DFAS accumulates and processes Air Force General Fund Nonexpenditure Transfers for reporting in the Combined Statement of Budgetary Resources. During FY 2007, the Air Force had 165 Nonexpenditure Transfers. For the year ended September 30, 2007, the Air Force reported over \$861 million on line 4, Nonexpenditure Transfers, Net, Anticipated and Actual in the Combined Statement of Budgetary Resources for the Air Force General Fund. The DoD FMR, volume 6B, chapter 7 defines Line 4 of the Statement of Budgetary Resources as Nonexpenditure transfers, net, anticipated and actual. This line is the net amount of budget authority or unobligated balance of prior year budget authority transferred to or from an appropriation accounts. It includes a current estimate of any balances transferred to or from an appropriation account under existing legislation.

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 Nonexpenditure Transfers 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 Nonexpenditure Transfers, 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 Nonexpenditure Transfers. In addition, the planned financial statement presentation and footnotes for Nonexpenditure Transfers 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 Nonexpenditure Transfers, 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 Nonexpenditure Transfers.

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 Nonexpenditure Transfers 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 Nonexpenditure Transfers 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 Department of Defense 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

Nonexpenditure Transfers by interviews, examination of reports and other outputs for key controls, and by re-performance of selected transactions with Air Force and DFAS personnel. Reprogramming managers in the Office of the Assistant Secretary of the Air Force (Financial Management) initially record Nonexpenditure Transfers into the Air Force budget system. We examined a judgmental sample of Nonexpenditure Transfer transactions for agreement to appropriate supporting documentation. We also examined each of those transactions for proper authority and approval, completeness of documentation, and clerical accuracy among all documents.

The Air Force transmits its budget system amounts to DFAS Denver for entry into the General Accounting Finance System - Rehost (GAFS-R), which is the Air Force accounting system of record. From GAFS-R, we obtained a population of transactions for the United States Government Standard General Ledger accounts whose sum agreed with line 4 in the Air Force General Fund Combined Statement of Budgetary Resources, as of September 30, 2007. We tested the judgmental sample of transactions previously mentioned for agreement to the budget system data. 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 Nonexpenditure Transfers 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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