SUBJECT: Audit Policies

References: (a) DoD Directive 7600.2, subject as above, January 26, 1990
(c) DoD Directive 7600.9, "Contracting for Audit Services," May 8, 1985 (hereby canceled)
(e) through (dd), see enclosure 1

A. REISSUANCE AND PURPOSE

This Directive:

1. Reissues reference (a) to update DoD policy, responsibilities, and procedures.
2. Supersedes references (b) and (c).
3. Implements reference (d); Comptroller General (CG) of the United States Pamphlet (reference (e)); and DoD Directive 5106.1 (reference (f)).
4. Continues the authorization to publish DoD 7600.7-M (reference (g)), consistent with DoD 5025.1-M (reference (h)).

B. APPLICABILITY

This Directive applies to the Office of the Secretary of Defense (OSD); the Military Departments; the Chairman of the Joint Chiefs of Staff and the Joint Staff; the Unified and Specified Commands; the Inspector General of the Department of Defense (IG, DoD); the Defense Agencies; and DoD Field Activities (hereafter referred to collectively as "DoD Components"). The term "Military Services," as used herein, refers to the Army, the Navy, the Air Force, and the Marine Corps.

C. DEFINITION

DoD Audit Organizations. The Office of the IG, DoD (OIG, DoD); the Defense Contract Audit Agency (DCAA); the elements of the U.S. Army Corps of Engineers (USACE) that perform contract audits; the internal audit and internal review organizations of the DoD Components; and the military exchange and nonappropriated fund audit organizations.

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D. POLICY

It is DoD policy:

1. To provide adequate audit coverage of all DoD organizations, programs, activities, and functions as an integral part of the DoD management system.

2. To conduct independent evaluations of DoD programs and operations and to determine whether:
   a. Internal control systems are adequate.
   b. Information is reliable.
   c. Applicable laws, regulations, and policies are followed.
   d. Resources are safeguarded and managed economically and efficiently.
   e. Desired program results are achieved.

3. To improve the efficiency and effectiveness of the DoD internal audit activities through the development and implementation of uniform standards, policies, and procedures. This Directive continues to authorize the publication of DoD 7600.7-M (reference (g)), which provides guidance on the basic audit policies consistent with DoD Directive 5106.1 and Pub. L. 95-452 (references (f) and (i)).

E. RESPONSIBILITIES

1. The Inspector General of the Department of Defense shall:
   a. Establish and monitor adherence to standards, policies, and procedures for the performance of audits in the Department of Defense under references (f) and (i), and shall monitor whether DoD audit organizations are provided adequate resources to accomplish assigned functions.
   b. Provide audit policy guidance for all DoD audit organizations for improving the efficiency, effectiveness, and quality of DoD audit operations.
   c. Conduct reviews of DoD audit organizations to evaluate the efficiency and effectiveness of operations and to ensure compliance with DoD auditing standards, policies, and procedures. The reviews may be conducted with OIG resources or by peer review teams composed of representatives from the various DoD audit organizations.
   d. Ensure that audit responsibilities are assigned for all DoD programs and operations, particularly those programs that have inter-Service implications; e.g., executive agent and single manager arrangements.
   e. Develop, publish, and maintain reference (g).
f. Establish guidelines for determining when non-Federal auditors should be used.

g. Take appropriate steps to ensure that work performed by non-Federal auditors complies with auditing standards established by the CG of the United States.

h. Perform internal audits of and provide internal audit services to the OSD; the Chairman of the Joint Chiefs of Staff (CJCS); the Unified Commands and their military assistance advisory groups and missions; and the Defense Agencies.

i. Perform audits of selected aspects of operations involving two or more DoD Components (inter-Service audits) within the DoD Components.

j. Perform audits of the entire procurement process, including those that evaluate the performance of contractors and DoD procurement and contract administration officials.

k. Perform audits of activities, programs, or functions solely within one of the Military Services if the cognizant Military Department audit activity is unable to provide the audit coverage needed.

l. Conduct other audits as the IG, DoD, considers appropriate.

2. The Comptroller of the Department of Defense shall, in accordance with DoD Directive 5118.3 (reference (j)), exercise authority, direction, and operational control over the DCAA, including responsibility for the effectiveness and scope of the Agency's activities.

3. The Director of the Defense Contract Audit Agency shall provide contract audit functions worldwide for all DoD Components, as prescribed in DoD Directive 5105.36 (reference (k)).

4. The Secretaries of the Military Departments shall maintain authority, direction, and operational control over their internal audit and internal review organizations; shall ensure their effective and efficient operation consistent with this Directive; and shall:

a. Except as provided in paragraphs E.1.h. through E.1.i., above, exercise internal audit cognizance of the Specified Commands and of Military Department components of the Unified and subordinate Unified Commands.

b. Ensure that all internal audit responsibilities within a military exchange system are implemented by a single exchange audit organization to avoid duplication.

c. Ensure internal audit responsibilities within each Military Department are implemented by a single audit organization headed by a civilian Auditor General.
5. The Heads of DoD Components, in their relationships with DoD audit organizations, shall:

a. Recognize and support the audit function as an important element of the managerial control system, and fully use audit services and results.

b. Assist the auditor in determining what security clearances shall be needed and, when appropriate, brief the auditor for access to special access programs.

c. Assist the auditor in obtaining full and timely access to such contractor personnel, facilities, and records, as provided for under applicable laws, regulations, and contract provisions.

d. Provide suitable office space and facilities or render appropriate assistance to the audit organizations in obtaining an acceptable work site.

e. Provide prompt, responsive, and constructive management consideration and comments to the draft findings and recommendations developed during the course of an audit, to the draft audit reports, and to the auditor's estimates of the related monetary benefits, including those developed through the use of statistical sampling methods. Policies and procedures on the followup of findings and recommendations in final audit reports are in DoD Directives 7650.3 and 7640.2 (references (l) and (m)).

f. Provide their audit organizations with resources (personnel and funds) necessary for the effective and efficient accomplishment of assigned audit functions.

g. For DoD 7600.7-M (reference (g)), ensure adherence; recommend changes to the IG, DoD; coordinate on changes proposed by the Office of the Assistant Inspector General for Audit Policy and Oversight, OIG, DoD (OAIG (APO), OIG, DoD); and update regularly their DoD Component's distribution requirements.

F. PROCEDURES

1. Internal Audit. The overall objective of internal audit is to assist DoD management in attaining its goals by furnishing information, analyses, appraisals, and recommendations pertinent to DoD management duties and objectives. Auditors shall independently and objectively analyze, review, and evaluate existing procedures, controls, and performance relating to organizations, activities, programs, and functions; and constructively shall present conditions, conclusions, and recommendations so as to stimulate or encourage corrective action.

2. Internal Review. The DoD Components may establish internal review organizations to provide local commanders with an internal audit capability to resolve known or suspected problem areas and operational deficiencies and to supplement the audit services provided by the cognizant internal audit organization. Their overall function is to furnish the commander with an independent and objective evaluation of operations and related internal controls. The internal review staff shall not be used to perform operating tasks.
Internal review organizations may be used to perform audit liaison and audit followup on internal audits by others and to assist commanders in evaluating the adequacy of vulnerability assessments and internal control reviews. The cognizant internal audit organization shall provide audit policy and technical and training assistance, and shall conduct periodic evaluations of the effectiveness of internal review organizations.

3. **Contract Audit**

   a. Contract auditors review contractor records to provide independent audit services to DoD procurement and contract administration officials for use in the negotiation, administration, and settlement of contracts and subcontracts. That involves the audit, examination, and review of contractors' and subcontractors' accounts, records, documents, systems, and other evidence to determine the acceptability of actual or proposed costs for Government contracts or subcontracts.

   b. The DoD internal audit organizations are responsible for auditing the performance of DoD procurement and contract administration officials.

4. **Audit Standards.** In the performance of audits of DoD programs and operations, DoD audit organizations shall comply with those standards and policies issued under OMB Circular No. A-73 and the CG of the United States Pamphlet (references (d) and (e)); the President's Council on Integrity and Efficiency; and the IG, DoD. Standards, policies, and procedures to be followed by internal audit organizations are discussed in DoD 7600.7-M (reference (g)). Policies and procedures dealing with audits of nonappropriated fund instrumentalities and with audits of State and local governments are in DoD Instruction 7600.6 and DoD Directive 7600.10 (references (n) and (o)), respectively. The DoD contract audit standards are discussed in DoD Instruction 7640.4 (reference (p)).

5. **Independence.** To obtain the greatest benefit from audits, DoD audit organizations and individual auditors shall be free from personal and external impairments to independence and shall be independent organizationally. Except for the DCAA and internal review, each DoD audit organization shall report to the Head of the DoD Component. The DCAA shall report to the C, DoD (DoD Directive 5118.3, reference (j)). Internal review organizations shall report to the Head or Deputy Head of a command or activity and shall be located outside the staff or program management functions of organizations subject to audit. The Head of the DoD audit organization shall be permitted to make an independent determination as to the nature and scope of audits to be performed and the content of all audit reports. Determinations on appointments, assignments, merit pay, performance awards, or promotions for individual audit personnel may not be controlled by officials from a staff or program management element subject to audit by, or who manage the funds subject to audit by, the audit organization.

6. **Audit Plans.** Each audit organization shall maintain an inventory of all areas subject to audit and prepare an annual audit plan, in accordance with OMB Circular No. A-73 (reference (d)) and applicable DoD policies and procedures. Management needs shall
be considered in the development of internal audit plans. When completed, the annual audit plan for internal audit organizations shall be reviewed with the Head or Deputy Head of the DoD Component, command, or activity that has operational control over the DoD audit organization, in accordance with reference (d). The DCAA contract audit plans shall be coordinated with procurement and contract administration organizations.

7. **Coordination**

   a. The DoD audit organizations shall coordinate and cooperate with each other and with the General Accounting Office (GAO) in developing and carrying out approved audit plans. The DoD audit organizations also shall coordinate and cooperate with other DoD investigation, inspection, management, and oversight groups to avoid duplication and to ensure effective oversight coverage of DoD programs and operations and effective audit followup. The DoD audit organizations shall provide appropriate audit support when such support is required by DoD investigative Agencies. Audit techniques, training courses, guides, technical experts, and plans should be shared by DoD audit organizations. Defense-wide audit projects may be undertaken by the IG, DoD, as he or she determines appropriate. All audit assistance given within the DoD Components for appropriated fund activities shall be performed on a nonreimbursable basis.

   b. Normally, DoD internal audit and internal review organizations shall obtain information relative to contractor records from the DCAA. When the DCAA is unable to render requested assistance within the specified timeframes mutually acceptable to both organizations, the DoD audit organizations shall make arrangements to perform the necessary audit work themselves. The IG, DoD, has the authority to review contractor records without requesting DCAA audit assistance. The DoD internal audit organizations, which include the Office of the Assistant Inspector General for Auditing, OIG, DoD (OAIG (AUD), OIG, DoD), shall coordinate all reviews involving contractor records with the DCAA and the appropriate contract administration office to avoid duplication of work.

8. **Prevention Activities.** While DoD auditors shall be concerned with both the prevention and detection of fraud, waste, and abuse, the primary emphasis of DoD audit activities shall be in the area of prevention. The greatest benefit provided by DoD audit activities is the identification of opportunities to reduce the cost of DoD programs and operations and to prevent the unnecessary or uneconomical expenditure of DoD funds. Effective internal control systems are critical to ensuring that DoD program objectives are achieved and to lessening the opportunity for fraud, waste, and abuse in DoD programs and operations. Except in unusual circumstances, internal auditors shall evaluate and report on internal controls during every audit. Additionally, the auditors shall evaluate and report on how well management has implemented an internal control program. Audit guidance for those evaluations is in DoD 7600.7-M (reference (g)).
9. **Fraud and Improper Conduct**

   a. An assessment shall be made of compliance with applicable requirements of laws and regulations, when necessary, to satisfy the audit objectives. Auditors shall design the audit to provide reasonable assurance of detecting errors, abuse, or illegal acts that could significantly affect the financial statements or audit objectives. Auditors shall be alert to situations or transactions that could be indicative of abuse or illegal acts. When auditors become aware that fraud or illegal acts may exist, such matters shall be referred promptly to the appropriate DoD investigative agency in accordance with DoD Instruction 5505.2 (reference (q)). If an auditor becomes aware of acts by DoD or contractor employees that involve significant noncompliance with DoD regulations or other improper conduct, those matters shall be reported immediately to appropriate senior DoD officials.

   b. Employees of DoD audit organizations shall comply fully with the standards of conduct provisions of DoD Directive 5500.7 (reference (r)) and their DoD Components' implementing regulations.

   c. Pub. L. 100-690 (reference (s)) added Section 1516 to 18 U.S.C. (reference (t)), making it a felony for anyone, with intent to deceive or defraud the United States, to endeavor to influence, obstruct, or impede a Federal auditor in the performance of official duties relating to a person receiving in excess of $100,000 directly or indirectly from the United States in any 1-year period under a contract or subcontract. The term "Federal auditor" means any person employed on a full- or part-time or contractual basis to perform an audit or a quality assurance inspection for or on behalf of the United States.

10. **Qualifications and Training.** The DoD audit organizations shall be organized and staffed so that professional audit services can be rendered to all levels of management. The DoD audit organizations shall possess or obtain the skills and knowledge to perform their audit functions effectively. Adequate training shall be provided to maintain and enhance the professional capabilities of the audit staff. All auditors responsible for planning, directing, conducting, or reporting on Government audits shall complete every 2 years at least 80 hours of continuing education and training that contribute to the auditor's professional proficiency. At least 20 hours should be completed in any 1 year of the 2-year period. Individuals responsible for planning, directing, conducting substantial portions of the field work, or reporting on the Government audit shall complete at least 24 of the 80 hours of continuing education and training in subjects directly related to the Government environment and to Government auditing. The Head of each DoD central internal audit organization shall be a highly qualified professional manager with at least 5 years of professional experience in either accounting or auditing. When selecting individuals to fill those positions, audit experience shall be given primary consideration because of the duties entailed in managing a large DoD audit organization. Additionally, all audit personnel assigned to an audit organization in an audit supervisory or audit managerial capacity shall have a strong knowledge and in-depth experience in auditing standards and practices.
11. Audit Reports

a. Audit results shall be reported promptly to be of maximum use. Interim reporting shall be used, if needed, to bring urgent matters to the attention of appropriate officials during the course of the audit.

b. Recommendations shall be made to the lowest level that has the capability to take corrective action. Except for preaward audits of proposed contract costs, or audits performed in support of a criminal investigation, the audited activity normally should be provided with a draft audit report and given an opportunity to present its views on the audit findings, recommendations, and potential monetary benefits. The views of the audited activity shall be made in writing. The final audit report shall present the audited activity's position fairly, together with the audit organization's position on any nonconcurrences or nonresponsive comments. If the audited activity's position is not received on a timely basis, the report shall be issued without management's views.

c. Copies of internal audit reports and the summaries prepared by the internal audit organizations and issued to DoD Component Headquarters and major and intermediate commands shall be distributed to the OIG, DoD. Copies of audit reports issued by the internal audit organizations to lower levels shall be furnished to the OIG, DoD, in accordance with procedures prescribed by that office. Related audit working papers, documents, and files shall be retained for a minimum of 2 years after issuance of the final audit report and shall be made available to the OIG, DoD, on request for review by representatives of that office. All such material shall be controlled and safeguarded in accordance with applicable security policies, practices, and procedures.

d. Draft audit reports and other working papers normally shall not be released to persons or organizations outside the Department of Defense. On request, final audit reports shall be provided by DoD audit organizations to DoD Components, other Federal Agencies, the GAO, and the Congress, when required for the performance of Government functions.

e. The public release of final audit reports shall be handled in accordance with DoD Directive 5400.7, DoD 5400.7-R, DoD Directive 5200.1, DoD 5200.1-R, and Pub. L. 86-36 (references (u) through (y)).

12. Audits for Other Federal Agencies and Governments.
Contract and internal audits may be performed for other Federal Agencies or foreign governments in accordance with existing agreements. Those audits may not interfere unduly with performance of the required DoD audit responsibilities. Audit service for other Federal Agencies and foreign governments shall be reimbursable at cost, except that the services may be provided for other Federal Agencies without charge if the work required is not extensive and can be performed within the existing capability of the DoD Component without additional costs. Audits also may be performed for foreign governments on a nonreimbursable basis if a prior agreement exists waiving the costs for such services.
13. **Issuance of IG, DoD, Subpoenas.** The IG, DoD, has the statutory authority to issue subpoenas to any person, corporation, or entity except a Federal Department or Agency for the production of all information, documents, reports, answers, records, accounts, papers, and other data and documentary evidence necessary for the performance of the functions assigned by Pub. L. 95-452 (reference (i)). An IG, DoD, subpoena may be requested by the Head of a DoD audit organization to obtain materials necessary in furtherance of the OIG, DoD, functions. If the IG, DoD, determines the audit to be in furtherance of an OIG, DoD, function and is otherwise appropriate, the IG, DoD, may issue a subpoena and, thereby, designate the matter in which the subpoena is issued as an "Inspector General Assigned Audit." Regular status reports to the IG, DoD, shall be required in addition to a report on the materials obtained in compliance with the subpoena.

14. **Contracting for Audit Services**

   a. The DoD Components shall not contract for audit services, as defined in OMB Circular No. A-73, Chapter 2 (reference (d)), unless expertise required to perform the audit is not available within the DoD audit organization or temporary audit assistance is required to meet audit reporting requirements mandated by law or DoD Regulation. The exception to that policy is audit of nonappropriated funds and related activities authorized by DoD Instruction 7600.6 (reference (n)). No DoD Component shall contract for quality assurance reviews of internal audit, internal review, or contract audit organizations without the prior approval of the OIG, DoD. Foreign military sales trust funds are not considered nonappropriated funds under this Directive.

   b. Policy and guidance for the DoD audit organizations relative to the monitoring of audit services provided by non-Federal auditors is in DoD 7600.7-M, Chapter 20 (reference (g)). Contracts for audit services shall be awarded and administered in accordance with the FAR and the DFARS (references (z) and (aa)).

15. **Access to Information**

   a. **DoD Records and Facilities**

      (1) Auditors shall be granted full and unrestricted access to all personnel, facilities, records, reports, data bases, documents, or other DoD information or material that a properly cleared auditor requests as being necessary to accomplish an announced audit objective. All access granted or information or material furnished to the audit organizations shall be on a non-reimbursable basis.

      (2) Only the Head of a DoD Component may deny records access to auditors under his or her authority. Such denials must be only for the reasons under which the Secretary of Defense could deny access to the IG, DoD (see reference (i)). When an auditor other than an OIG, DoD, auditor is denied full and unrestricted access, the situation shall be reported through audit channels to the Head of the DoD audit organization and through command channels to the Head of the DoD Component within 15 workdays. The Head of the DoD Component shall make a decision on the denial issue within
30 workdays from the time the auditor requested access. If the Head of the DoD Component deems it appropriate to deny access, the Head of the DoD Component shall so advise the IG, DoD, within 15 workdays of the final denial decision.

(3) Besides paragraph F.15.a., above, guidance on access to records and information by OIG, DoD, auditors is provided by DoD Instruction 7050.3 (reference (bb)).

(4) Access to records of the CJCS by the DoD audit organizations shall be governed by the MOU between the CJCS and the IG, DoD (reference (cc)).

(5) To satisfy approved audit objectives, a Military Service audit organization may need access to records under the jurisdiction of a DoD Component other than its own. Such requests for information shall be honored by the DoD Component to which directed, if the requestor has the necessary security clearances. The audit organization making the request should coordinate all actions with the audit organization that normally has audit cognizance of the DoD Component to which the request is directed. If a denial occurs, the audit organization that normally has audit cognizance of the DoD Component involved shall be responsible for processing the denial actions.

b. Contractor Records and Facilities

(1) Auditors shall review all contractor records, facilities, and internal controls necessary to render an independent opinion on the acceptability of actual or proposed costs charged to Government contracts and subcontracts.

(2) Auditors shall request assistance from the contract administration and procurement organizations, when they are denied access to contractor records. If those organizations are unable to obtain access, the auditor shall request the Head of the audit organization to issue, or to request issuance of, a subpoena for those records. If the audit organization does not have subpoena authority, the Head of the audit organization may request the IG, DoD, to issue a subpoena in accordance with subsection F.13., above.

16. Quality Control. Each DoD audit organization shall establish and maintain an appropriate internal quality control system in place and shall participate in an external quality control review at least once every 3 years. The internal quality control system established by the audit organization shall provide reasonable assurance that the audit organization has implemented and fully complied with applicable auditing standards, policies, and procedures. The external quality control reviews of the OAIG (AUD), OIG, DoD; the DCAA; the contract audit element of the USACE; and the Military Department audit organizations shall be performed by the OAIG (APO), OIG, DoD. The OAIG (AUD), OIG, DoD, and the Military Department audit organizations shall perform the external quality control reviews of the internal review and the military exchange audit organizations for which they have audit cognizance. The external quality control review program shall determine whether the audit organization's internal quality control system is in
place and operating effectively and whether established policies and procedures and applicable audit standards are being followed in its audit work.

G. INFORMATION REQUIREMENTS

The audit reports discussed in this Directive are exempt from licensing in accordance with DoD 7750.5-M, paragraph E.4.g. (reference (dd)).

H. EFFECTIVE DATE AND IMPLEMENTATION

This Directive is effective immediately. Forward one copy of implementing documents to the Inspector General of the Department of Defense within 120 days.

Donald J. Atwood
Deputy Secretary of Defense

Enclosure
References
REFERENCES, continued


(g) DoD 7600.7-M, "Internal Audit Manual," June 1990, authorized by this Directive


(n) DoD Instruction 7600.6, "Audit of Nonappropriated Fund Instrumentalities and Related Activities," April 16, 1987


(t) Title 18, United States Code, Section 1516, "Obstruction of Federal Audit"


(z) Federal Acquisition Regulation, current edition

(aa) Defense FAR Supplement (DFARS), current edition


(cc) Memorandum of Understanding Between the Organization of the Joint Chiefs of Staff and the Inspector General of the Department of Defense, "To Establish Procedures for Processing Requests for JCS Papers/Planning Information," March 10, 1986