



Department of Defense **INSTRUCTION**

NUMBER 7600.02

October 16, 2014

Incorporating Change 1, Effective March 15, 2016

IG DoD

SUBJECT: Audit Policies

References: See Enclosure 1

1. **PURPOSE.** In accordance with the authority in DoD Directive (DoDD) 5106.01 (Reference (a)), this instruction reissues DoD Instruction (DoDI) 7600.02 (Reference (b)) to establish policy, assign responsibilities, and prescribe procedures for DoD audits.

2. **APPLICABILITY.** This instruction applies to OSD, the Military Departments, the Chairman of the Joint Chiefs of Staff, the Combatant Commands, the Office of the Inspector General of the Department of Defense (IG DoD), the Defense Agencies, the DoD Field Activities, and all other organizational entities in the Department of Defense (referred to collectively in this instruction as the “DoD Components”).

3. **POLICY.** It is DoD policy that:

a. Adequate audit coverage of all DoD organizations, programs, activities, and functions will be provided as an integral part of the DoD internal control system. DoDI 7600.06 (Reference (c)) provides additional guidance on audit coverage of nonappropriated fund instrumentalities.

b. Independent audits and attestation engagements of DoD organizations, programs, activities, and functions will be conducted in accordance with DoD Manual 7600.07 (Reference (d)) and the Government Auditing Standards, also known and referred to in this instruction as the “generally accepted government auditing standards (GAGAS)” (Reference (e)), to determine whether:

(1) Internal control systems are properly designed, sufficient, and effective.

(2) Information is reliable and relevant.

(3) Applicable laws, regulations, and policies are followed.

- (4) Assets and resources are safeguarded.
- (5) Desired program results are achieved.
- (6) Operations are effective and efficient.

4. RESPONSIBILITIES. See Enclosure 2.

5. PROCEDURES. See Enclosure 3.

6. RELEASABILITY. **Cleared for public release.** This instruction is available on the Internet from the DoD Issuances Website at <http://www.esd.whs.mil/DD/>.

7. SUMMARY OF CHANGE 1. The changes to this issuance amend procedures to no longer permit DoD auditors unrestricted access to hotline records. Allowing access to hotline records presented a conflict in IG DoD policy.

8. EFFECTIVE DATE. This instruction is effective October 16, 2014.



Jon T. Rymer
Inspector General of the
Department of Defense

Enclosures

- 1. References
- 2. Responsibilities
- 3. Procedures

Glossary

ENCLOSURE 1

REFERENCES

- (a) DoD Directive 5106.01, "Inspector General of the Department of Defense (IG DoD)," April 20, 2012, as amended
- (b) DoD Instruction 7600.02, "Audit Policies," April 27, 2007 (hereby cancelled)
- (c) DoD Instruction 7600.06, "Audit of Nonappropriated Fund Instrumentalities (NAFI) and Related Activities," November 5, 2012
- (d) DoD Manual 7600.07, "DoD Audit Manual," August 3, 2015
- (e) Comptroller General of the United States, "Government Auditing Standards," current edition (also known as the "Generally Accepted Government Auditing Standards (GAGAS)")
- (f) Inspector General Act of 1978, as amended, Title 5, United States Code, Appendix
- (g) DoD Directive 5205.07, "Special Access Program (SAP) Policy," July 1, 2010
- (h) DoD Directive 5118.03, "Under Secretary of Defense (Comptroller)/Chief Financial Officer, Department of Defense (USD(C)/CFO)," April 20, 2012
- (i) DoD Directive 5105.36, "Defense Contract Audit Agency (DCAA)," January 4, 2010
- (j) DoD Instruction 7650.03, "Follow-up on Government Accountability Office (GAO), Inspector General of the Department of Defense (IG DoD), and Internal Audit Reports," December 18, 2014
- (k) DoD Instruction 7640.02, "Policy for Follow-up on Contract Audit Reports,"
- (l) DoD Directive 5400.11, "DoD Privacy Program," October 29, 2014
- (m) DoD 5400.11-R, "Department of Defense Privacy Program," May 14, 2007
- (n) DoD Instruction 5015.02, "DoD Records Management Program," February 24, 2015
- (o) DoD Instruction 7050.03, "Office of the Inspector General of the Department of Defense Access to Records and Information," March 22, 2013
- (p) Chairman of the Joint Chiefs of Staff Instruction 5714.01D, "Policy for the Release of Joint Information," April 18, 2012
- (q) Section 2313 of Title 10, United States Code
- (r) DoD Instruction 5505.02, "Criminal Investigations of Fraud Offenses," August 29, 2013
- (s) Section 237.270 of the Defense Federal Acquisition Regulation Supplement, current edition

ENCLOSURE 2

RESPONSIBILITIES

1. IG DoD. In accordance with the duties and responsibilities assigned to the IG DoD in Reference (a) and the Inspector General Act of 1978, as amended, Title 5, United States Code (U.S.C.), Appendix (Reference (f)), the IG DoD:
 - a. Provides policy direction for audits within the DoD, including the Military Departments, as the IG DoD considers appropriate.
 - b. Monitors and evaluates the adherence of DoD auditors to GAGAS, internal audit and contract audit principles, policies, and procedures, including the requirements of this instruction.
 - c. Initiates, conducts, supervises, and coordinates such audits within the DoD, including the Military Departments, as the IG DoD considers appropriate.
 - d. Maintains a sufficient dedicated cadre of DoD Special Access Program (SAP)-trained personnel to perform audit functions for DoD SAPs and SAP-related activities in accordance with DoDD 5205.07 (Reference (g)).
 - e. Develops and maintains Reference (d).
 - f. Establishes guidelines for determining when non-federal auditors may be used to ensure the appropriate use of non-federal auditors and takes the appropriate steps to ensure that work performed by non-federal auditors complies with GAGAS.
 - g. Monitors and gives particular regard to the activities of the internal audit and inspector general (IG) units of DoD Components to avoid duplication and ensure effective coverage.
 - h. Performs audits of the Office of the Secretary of Defense, the Chairman of the Joint Chiefs of Staff, the Combatant Commands, the Military Assistance Advisory Group and Missions, the Defense Agencies, and the DoD Field Activities.
 - i. Performs audits of selected aspects of operations involving two or more DoD Components (inter-Service audits). Coordinates with the responsible DoD audit organization to prevent duplication of effort.
 - j. Performs audits of the entire procurement and acquisition process, including audits that evaluate the performance of contractors and contract administration officials and audits of contracts and other acquisition instruments.
 - k. Performs or oversees audits of activities, programs, or functions solely within one of the Military Services if the responsible Military Department audit organization is unable to provide or oversee the audit coverage needed.

l. Performs audits of other areas, as the IG DoD considers appropriate, that are within his or her statutorily authorized responsibilities.

m. Conducts external peer reviews or approves arrangements for the conduct of external peer reviews by other Component entities.

n. Considers requests from DoD Components for the issuance of *subpoenas duces tecum* seeking information from sources outside the Federal Government and *subpoenas ad testificandum* seeking attendance and testimony from individuals not currently employed by the Federal Government or on active military duty, as the IG DoD determines necessary in the performance of the functions assigned by Reference (f).

o. Issues such subpoenas as the IG DoD determines to be necessary in the performance of functions assigned by Reference (f).

2. DIRECTOR, DEFENSE CONTRACT AUDIT AGENCY (DCAA). Under the authority, direction, and control of the Under Secretary of Defense (Comptroller)/Chief Financial Officer, Department of Defense and pursuant to DoDD 5118.03 (Reference (h)), the Director, DCAA provides contract audit functions for all DoD Components, as prescribed in DoDD 5105.36 (Reference (i)).

3. DoD COMPONENT HEADS. The DoD Component heads maintain authority, direction, and control over their audit capabilities; ensure effective and efficient operations consistent with this instruction; and in their relationships with DoD audit organizations:

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

b. Help the auditor determine what security clearances are needed and, when appropriate, gain access to SAPs.

c. Help the auditor obtain full and timely access to such contractor personnel, facilities, and records, as provided for under applicable laws, regulations, and contracts and other acquisition instruments. Other acquisition instruments include, but are not limited to, grants, cooperative agreements, and other transactions.

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 on 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 quantitative methods. Policies and procedures for following up on

findings and recommendations in final audit reports are in DoDI 7650.03 and DoDI 7640.02 (References (j) and (k)), respectively.

f. Provide their audit organizations established within the DoD Component with the resources (personnel and funds) and organizational position necessary for the effective and efficient accomplishment of assigned audit functions.

g. Provide funding for audit services (e.g., financial statement audits or attestation engagements) performed by contractors (e.g., independent public accounting firms).

h. Ensure adherence to, and recommend and coordinate changes to this instruction, Reference (b), and Reference (d) with the IG DoD.

i. Update regularly their respective DoD Component's audit report distribution requirements.

4. SECRETARIES OF THE MILITARY DEPARTMENTS. In addition to the responsibilities in section 3 of this enclosure, the Secretaries of the Military Departments:

a. Maintain authority, direction, and operational control over their audit and local audit organizations and ensure their effective and efficient operation consistent with this instruction.

b. Except as provided in paragraphs 1i through 1o of this enclosure, exercise audit responsibility of the Military Department components of the Combatant Commands.

c. Ensure that audit responsibilities within each Military Department are implemented by a single audit organization led by a civilian auditor general.

d. Ensure that all audit responsibilities within a military exchange system are implemented by a single exchange audit organization.

5. DEFENSE INTELLIGENCE COMPONENT IGs (DEFENSE IC-IGs)

a. Pursuant to section 8G of Reference (f), the Defense IC-IGs consist of the IGs of the:

(1) National Security Agency.

(2) National Reconnaissance Office.

(3) Defense Intelligence Agency.

(4) National Geospatial-Intelligence Agency.

b. The Defense IC-IGs:

(1) Are responsible for implementing DoD audit policy relevant to their respective DoD Components.

(2) Provide the IG DoD support or information necessary for the IG DoD to satisfy his or her duties and responsibilities assigned in this instruction.

(3) Coordinate with the IG DoD on matters of common interest to avoid potential conflicts arising from overlapping statutory responsibilities.

ENCLOSURE 3

PROCEDURES

1. REQUIREMENTS FOR DOD AUDIT ORGANIZATIONS. The DoD audit organizations must ensure that they meet requirements for:

a. Independence. In all matters related to audit work, DoD audit organizations and the individual auditor must be independent of mind and in appearance, as required by GAGAS.

b. Quality Control. The DoD audit organizations must have a review of its quality control system conducted in accordance with GAGAS by reviewers independent of the organization being reviewed. The review should occur at least once every 3 years and determine whether the organization's internal quality control system is in place and operating effectively.

(1) Each audit organization is responsible for ensuring external quality control reviews are performed in a timely manner and in accordance with GAGAS.

(2) The IG DoD will include, as part of the semiannual reports to Congress, information concerning any DoD audit organization that, during the reporting period, has either received a failed opinion from an external peer review or is overdue for an external peer review required to be conducted in accordance with Reference (f).

2. ACCESS TO INFORMATION. DoD audit organizations must have full and unrestricted access, unless access is precluded or limited by law, regulation, or DoD policy, to all personnel, facilities, records, reports, audits, reviews, databases, documents, papers, recommendations, and other information or material related to accomplishing an announced audit objective when requested by an auditor with proper security clearances. Full and unrestricted access includes the authority to make and retain copies of all records, reports, audits, databases, documents, papers, recommendations, or other information or material until no longer required for official use. DoD audit organizations must ensure all personally identifiable information is collected, maintained, disseminated, and used in accordance with DoDD 5400.11 DoD 5400.11-R, and DoDI 5015.02 (References (l), (m), and (n)), respectively.

a. All access granted or information or material provided to the audit organization by a DoD Component will be on a nonreimbursable basis.

b. DoDI 7050.03 (Reference (o)) provides guidance on access to records and information for IG DoD auditors.

c. Reference (f) provides the Defense IC-IGs independent authority to obtain access to records and information available to their Components that relate to programs and operations with respect to which each Defense IC-IG has responsibilities under Reference (f). The Defense IC-IGs may issue guidance on access to records and information for their auditors, consistent

with Reference (f) and their responsibilities for implementing DoD audit policy relevant to their respective DoD Components.

d. For non-IG DoD and non-Defense IC-IG auditors, access to records of a DoD Component may be denied to an audit organization only by that Component head, and then only for cause that would justify denial of access to the IG DoD by the Secretary of Defense (see Reference (f)) for the statutory provisions that allow the Secretary of Defense to prohibit the IG DoD access to records in order to preserve the national security interests of the United States). When an auditor other than an IG DoD or IC-IG auditor is denied full and unrestricted access:

(1) The situation must be reported through the auditor's chain of command to the DoD audit organization head and through command channels to the DoD Component head within 15 workdays.

(2) The DoD Component head will make a decision on the denial issue within 30 workdays from the time the auditor requested access. If the DoD Component head deems it appropriate to deny access, the DoD Component head will advise the IG DoD within 15 workdays of the final denial decision.

e. DoD audit organizations must secure the release of required information in accordance with Chairman of the Joint Chiefs of Staff Instruction 5714.01D (Reference (p)) if they perform audits that involve:

(1) The Joint Staff.

(2) Combatant Commands.

(3) Elements of the Military Services assigned to the Combatant Commands or engaged in joint planning.

(4) All Defense agencies designated as combat support agencies, or that require access to "joint information," as defined in Reference (p).

f. The IG DoD will, as warranted, coordinate access for DoD Component auditors, non-DoD federal auditors, and contracted auditors to other Component entities for any audit that requires access to records or other information from other Component entities. DoD Components will not, without specific approval from the IG DoD, initiate or complete any audits to evaluate other Component operations.

g. When auditors need access to contractor records or other information, they should request assistance from the contract administration and procurement organizations and coordinate the request with the DCAA.

(1) If DCAA assistance is unavailable or untimely, DoD audit organizations will make arrangements to perform the necessary audit work themselves. Whenever possible, DCAA and DoD audit organizations will avoid duplicating audit work. The Office of the Assistant Inspector

General for Audit Policy and Oversight (OAIG APO) will provide assistance and facilitate discussions with the DCAA.

(2) If a contractor denies access to its records or other information, as described in section 2 of this enclosure, including the authority to make and retain copies, auditors may request the issuance of a subpoena from the IG DoD through their respective audit organization. DCAA has independent authority to subpoena records that the Secretary of Defense is authorized to examine or audit pursuant to section 2313 of Title 10, U.S.C. (Reference (q)).

h. The Defense IC-IGs have independent authority to subpoena records pursuant to section 6(a)(4) of Reference (f).

3. POTENTIAL FRAUD OR OTHER CRIMINAL ACTS. Indications of potential fraud or other criminal acts discovered during an audit or attestation engagement must be referred to the appropriate investigative organization. DoDI 5505.02 (Reference (r)) provides guidance on processing such referrals.

4. CRIMINAL INVESTIGATIONS. Audit support of criminal investigations will be provided by the DoD audit organizations to the extent possible within legal limitations and resource availability.

5. CONTRACTING FOR AUDIT SERVICES

a. The DoD Components will contract for audit services when applicable expertise is unavailable within the DoD audit organization, augmentation of the DoD audit organization's audit staff is necessary to execute the annual audit plan, or temporary audit assistance is required to meet audit reporting requirements mandated by law or a DoD issuance. Such contracts must comply with section 237.270 of the Defense Federal Acquisition Regulation Supplement (Reference (s)).

(1) The OAIG APO will review all statements of work for procuring audit services from outside sources. The review must be performed before the release of solicitations to prospective bidders to ensure the appropriate use of non-federal auditors and compliance with applicable auditing standards. The exception to that policy is audit of nonappropriated funds and related activities authorized by Reference (c). The statements of work should be sent to APO-InternalAudit@dodig.mil.

(2) The OAIG APO may provide recommendations after reviewing the statements of work. If a DoD Component decides not to follow the recommendations provided, the Component must notify the OAIG APO and report what recommendations were not followed.

(3) The OAIG APO may give a DoD Component audit organization authorization to contract for multiple, similar audits, provided that the requesting agency presents sufficient

justification. Once authorization is given for contracting for similar audits and the initial statement of work is reviewed, the requesting agency does not have to submit individual statements of work for review unless changes have been made to the statement of work. The requesting agency must report to the OAIG APO what audits were contracted for under the authorization.

b. Reference (d) delineates the guidance and policies when DoD Components need to acquire audit services from non-federal auditors. Non-federal auditors who perform work for the DoD Components are subject to GAGAS. Substandard work by a non-federal auditor may warrant referral for sanctions by the American Institute of Certified Public Accountants or appropriate State licensing authorities, or suspension and debarment by the contracting authority.

6. HIGH-RISK AREAS. Management needs and high-risk areas will be considered by the DoD audit organizations in the development of audit plans. When completed, the audit organizations will review their audit plan with the DoD Component head or deputy, command, or activity that has operational control over the DoD audit organization.

7. RECOMMENDATIONS. Recommendations will be made by the DoD audit organizations to the lowest level that has the capability and authority to take corrective action.

8. UNIFORM STANDARDS AND POLICIES. Uniform standards, policies, and procedures will be developed by the IG DoD and implemented by the DoD audit organizations to improve the efficiency and effectiveness of the DoD audit activities. Reference (d) provides supplemental guidance on the audit policies that are consistent with Reference (a) and Reference (f).

GLOSSARY

PART I. ABBREVIATIONS AND ACRONYMS

DCAA	Defense Contract Audit Agency
Defense IC-IG	Defense Intelligence Component Inspector General
DoDD	DoD Directive
DoDI	DoD Instruction
GAGAS	generally accepted government auditing standards
IG	inspector general
IG DoD	Inspector General of the Department of Defense
OAIG APO	Office of the Assistant Inspector General for Audit Policy and Oversight
SAP	special access program
U.S.C.	United States Code

PART II. DEFINITIONS

These terms and their definitions are for the purpose of this instruction.

audits. Financial audits, attestation engagements, and performance audits conducted in accordance with GAGAS.

contract and other acquisition instrument audits. Reviews of contractor and appropriate government records to provide independent audit services and analyses to DoD procurement and contract administration officials for use in negotiation, administration, and settlement of contracts and subcontracts. Such audits involve the audit, examination, and review of contractors' and subcontractors' accounts, records, documents, internal controls, other systems, and other evidence to determine the acceptability of actual or proposed costs for government contracts. Contract audits include audits of all contracts and other acquisition instruments for which DoD funds are provided to a non-federal entity in exchange for research, services, or products. Other acquisition instruments include, but are not limited to, grants, cooperative agreements, and other transactions.

DoD audit organizations. Includes the IG DoD, DCAA, the internal audit organizations of the DoD Components, and the military exchange and nonappropriated fund audit organizations.

internal audit. A function that helps DoD management attain its goals by providing information, analyses, assessments, and recommendations pertinent to DoD management duties and objectives. The internal audit function supports the DoD Component heads. Auditors

independently and objectively analyze, review, and evaluate existing procedures, controls, and performance relating to activities, programs, systems, and functions; auditors constructively present conditions, conclusions, and recommendations so as to stimulate or encourage corrective action.

peer review. An evaluation conducted by a team of reviewers independent of the audit organization being reviewed to provide a reasonable basis for determining whether, for the period under review, the reviewed audit organization's system of quality control was suitably designed and whether the audit organization is complying with its quality control system. Peer reviews provide the reviewing audit organization with reasonable assurance that the organization under review conforms to applicable professional standards.

subpoena duces tecum. A compulsory administrative request issued under the authority of Reference (f) for the production of information, documents, reports, answers, records, accounts, papers, and other data in any medium (including electronically stored information, as well as any tangible thing) and documentary evidence.

subpoena ad testificandum. A compulsory administrative request issued under the authority of Reference (f) to appear and give oral testimony.