DIRECTIVE

NUMBER 7600.2
March 20, 2004

IG, DoD

SUBJECT: Audit Policies

(b) DoD 7600.7-M, "Internal Audit Manual," June 1990
(c) DoD 5025.1-M, "DoD Directives System Procedures," March 5, 2003
(d) DoD Instruction 7600.6, "Audit of Nonappropriated Fund Instrumentalities and Related Activities," January 16, 2004
(e) through (p), see enclosure 1

1. REISSUANCE AND PURPOSE

This Directive:

1.1. Reissues reference (a) to update DoD policy and responsibilities.

1.2. Continues to authorize the publication of reference (b) consistent with reference (c).

2. APPLICABILITY AND SCOPE

This Directive applies to the Office of the Secretary of Defense; the Military Departments; the Chairman of the Joint Chiefs of Staff, the Combatant Commands; 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 hereafter referred to collectively as "the DoD Components"). The term "Military Services," as used herein, refers to the Army, the Navy, the Air Force, and the Marine Corps.
3. **DEFINITIONS**

Terms used in this Directive are defined in enclosure 2.

4. **POLICY**

It is DoD policy that:

4.1. Adequate audit coverage of all DoD organizations, programs, activities, and functions shall be provided as an integral part of the DoD management system. DoD Instruction 7600.6 (reference (d)) provides additional guidance on audit coverage of nonappropriated fund instrumentalities.

4.2. Independent evaluations of DoD programs and operations shall be conducted in accordance with reference (b) and the Government Auditing Standards (reference (e)) to determine whether:

   4.2.1. Management/Internal control systems are adequate.
   4.2.2. Information is reliable.
   4.2.3. Applicable laws, regulations, and policies are followed.
   4.2.4. Resources are safeguarded and managed economically and efficiently.
   4.2.5. Desired program results are achieved.

4.3. Audit organizations shall ensure that they meet requirements for:

   4.3.1. **Independence.** Audit organizations should ensure that they are free from personal and external impairments to independence and organizationally independent in all matters relating to audit work. Both the DoD audit organizations and the individual auditor should be free both in fact and appearance from personal, external, and organizational impairments to independence.

   4.3.2. **Quality Control.** Audit organizations should have a peer review conducted in accordance with reference (e) by reviewers independent of the organization being reviewed. The peer review should determine whether the organization's internal quality control system is in place and operating effectively.
4.3.3. **Access to Information.** Audit organizations should have full and unrestricted access to all personnel, facilities, records, reports, databases, documents, or other DoD information or material in accomplishing an announced audit objective when requested by an auditor with proper security clearances. DoD Instruction 7050.3 (reference (f)) provides guidance on access to records and information for IG DoD auditors.

4.3.3.1. Access to records of a DoD Component may be denied to an audit organization only by the Head of that Component, and then only for cause that would justify denial of access to the IG DoD by the Secretary of Defense (see Inspector General Act of 1978, as amended (reference (g))). When an auditor other than an IG 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 IG DoD within 15 workdays of the final denial decision.

4.3.3.2. Access to records of the Chairman of the Joint Chiefs of Staff by the DoD audit organizations shall be governed by the Memorandum of Understanding between the Chairman of the Joint Chiefs of Staff and the IG DoD (reference (h)).

4.3.3.3. A DoD Component audit organization may need access to records from a DoD Component other than its own. Such requests shall be honored if the requester has the necessary security clearances. The requesting audit organization should coordinate requests through the audit organization that normally has audit cognizance of the DoD Component. 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.
4.3.3.4. When auditors need access to contractor records, they should request assistance from the contract administration and procurement organizations and coordinate the request with the DCAA. If assistance is unavailable or untimely, the DoD audit organizations shall make arrangements to perform the necessary audit work themselves. Whenever possible, the DCAA and the DoD audit organizations should avoid duplicating audit work. If access is denied, the auditors may request the issuance of a subpoena from the IG DoD through their respective audit organization. The DCAA has independent authority to subpoena records that the Secretary of Defense is authorized to examine or audit (Section 2313 of title 10 United States Code) (reference (i)).

4.4. Indications of fraud or other criminal acts discovered during review or extended audit steps shall be referred to the appropriate investigative organization. DoD Instruction 5505.2 (reference (j)) provides guidance on processing referrals.

4.5. Audit support of criminal investigations shall be provided to the extent possible within legal limitations and resource availability.

4.6. The DoD Components shall be permitted to 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 DoD Regulation. The Office of the Assistant Inspector General for Audit Policy and Oversight, IG DoD, shall review all solicitations for procuring audit services from outside sources prior to release to prospective bidders to ensure the appropriate use of non-Federal auditors and compliance with applicable auditing standards. The Office of the Assistant Inspector General for Audit Policy and Oversight, IG DoD, shall give a DoD Component authorization to contract for categories of audits without prior review of individual solicitations provided the requesting agency presents sufficient justification and reports to the Office of the Assistant Inspector General for Audit Policy and Oversight what audits were contracted.

4.7. Management needs shall be considered in the development of audit plans. When completed, the audit organizations shall review their audit plan with the Head or Deputy Head of the DoD Component, command, or activity that has operational control over the DoD audit organization.

4.8. Recommendations shall be made to the lowest level that has the capability to take corrective action.
4.9. Uniform standards, policies, and procedures shall be developed and implemented to improve the efficiency and effectiveness of the DoD internal audit activities. Reference (b) provides guidance on the basic audit policies consistent with reference (g) and DoD Directive 5106.1 (reference (k)), as amended by reference (l).

5. RESPONSIBILITIES

5.1. The Inspector General of the Department of Defense (IG, DoD) shall:

5.1.1. Establish and monitor adherence to standards, policies, and procedures for the performance of audits in the Department of Defense under references (g) and (k).

5.1.2. 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.

5.1.3. 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. (Inter-Service refers to those operations involving two or more DoD Components.)

5.1.4. Develop, publish, and maintain reference (b).

5.1.5. Establish guidelines for determining when non-Federal auditors may be used consistent with the requirements stated in paragraph 4.6., above.

5.1.6. Take appropriate steps to ensure that work performed by non-Federal auditors complies with reference (e).

5.1.7. Perform audits of and provide internal audit services for the Office of the Secretary of Defense, the Chairman of the Joint Chiefs of Staff, the Combatant Commands, the Military Assistance Advisory Groups and Missions, and the Defense Agencies.

5.1.8. Perform audits of:

5.1.8.1. Selected aspects of operations involving two or more DoD Components (inter-Service audits). Coordination with the cognizant DoD audit organization should be done to prevent duplication of effort.
5.1.8.2. 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.

5.1.8.3. Activities, programs, or functions solely within one of the Military Services if the cognizant Military Department audit organization is unable to provide the audit coverage needed.

5.1.8.4. Other areas as the IG DoD considers appropriate that are within its statutorily authorized responsibilities.

5.1.9. Issue subpoenas as the need arises, 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 reference (g).

5.2. The Under Secretary of Defense (Comptroller) (USD(C)) shall, in accordance with DoD Directive 5118.3 (reference (m)) exercise authority, direction, and operational control over the DCAA.

5.3. The Director of the Defense Contract Audit Agency, under the USD(C), shall provide contract audit functions for all DoD Components, as prescribed in DoD Directive 5105.36 (reference (n)). Such audit functions include audits of contract and other acquisition instruments. Other acquisition instruments include, but are not limited to, grants, cooperative agreements, and other transactions.

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

5.4.1. Except as provided in subparagraphs 5.1.8. through 5.1.9., above, exercise audit cognizance of the Military Department components of the Commanders of the Combatant Commands.

5.4.2. Ensure that audit responsibilities within each Military Department are implemented by a single audit organization headed by a civilian Auditor General.

5.4.3. Ensure that all audit responsibilities within a military exchange system are implemented by a single exchange audit organization.
5.5. The Heads of the DoD Components shall, in their relationships with DoD audit organizations, maintain authority, direction, and control over audit and internal review capabilities; ensure effective and efficient operations consistent with this Directive; and shall:

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

5.5.2. Assist the auditor in determining what security clearances shall be needed and, when appropriate, assist the auditor in gaining access to special access programs.

5.5.3. Assist the auditor in obtaining 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.

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

5.5.5. 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 follow-up of findings and recommendations in final audit reports are in DoD Directives 7650.3 and 7640.2 (references (o) and (p)).

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

5.5.7. Ensure adherence to and recommend and coordinate changes of reference (b) to the IG DoD, coordinate on changes proposed by the Office of the Assistant Inspector General for Audit Policy and Oversight, and update regularly their DoD Component's distribution requirements.
6. EFFECTIVE DATE

This Directive is effective immediately.

Enclosures - 2
   E1. References, continued
   E2. Definitions

Paul Wolfowitz
Deputy Secretary of Defense
E1. ENCLOSURE 1

REFERENCES, continued

(e) Comptroller General of the United States, "Government Auditing Standards (Yellow Book)," current edition


(g) Appendix 3 of title 5, United States Code, "Inspector General Act of 1978," as amended

(h) 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

(i) Section 2313 of title 10, United States Code


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1 The Yellow Book can be viewed at www.gao.gov or copies can be purchased via the internet at: http://bookstore.gpo.gov
E2. ENCLOSURE 2

DEFINITIONS

E2.1.1. Contract and Other Acquisition Instrument Audits

E2.1.1.1. Contract audits are conducted to review 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, systems, and other evidence to determine the acceptability of actual or proposed costs for Government contracts.

E2.1.1.2. 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.

E2.1.2. DoD Audit Organizations. The IG DoD; the DCAA; the internal audit and internal review organizations of the DoD Components; and the military exchange and nonappropriated fund audit organizations.

E2.1.3. Internal Audit Function. The internal audit function assists DoD management in attaining its goals by furnishing information, analyses, appraisals, and recommendations pertinent to DoD management duties and objectives. Auditors independently and objectively analyze, review, and evaluate existing procedures, controls, and performance relating to activities, programs, systems and functions; and constructively present conditions, conclusions, and recommendations so as to stimulate or encourage corrective action.

E2.1.4. Internal Review. Internal review is concerned primarily with the segments of the organization to which they are assigned. Internal review provides commanders and managers with the capability to resolve known or suspected problem areas and operational deficiencies. Internal review supplements internal audit services provided by the cognizant internal audit organization, and together they provide Commanders and managers with an immediate, independent, and professional capability to monitor risks and evaluate real time operations and controls.