



# Department of Defense

## INSTRUCTION

NUMBER 7600.02  
April 27, 2007

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IG DoD

SUBJECT: Audit Policies

- References:
- (a) DoD Directive 7600.2, "Audit Policies," March 20, 2004 (hereby canceled)
  - (b) Acting Deputy Secretary of Defense Memorandum, "DoD Directives Review - Phase II," July 13, 2005
  - (c) DoD Directive 5106.01, "Inspector General of the Department of Defense," April 13, 2006
  - (d) DoD 7600.7-M, "Internal Audit Manual," June 1990
  - (e) through (q), see Enclosure 1

### 1. REISSUANCE AND PURPOSE

This Instruction:

1.1. Reissues Reference (a) as a DoD Instruction in accordance with the guidance in Reference (b) and the authority in Reference (c).

1.2. Updates DoD audit policy and responsibilities, and continues to authorize the publication of Reference (d).

### 2. APPLICABILITY AND SCOPE

This Instruction applies to the Office of the Secretary of Defense, 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 (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 Instruction 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 internal control system. DoD Instruction 7600.6 (Reference (e)) provides additional guidance on audit coverage of nonappropriated fund instrumentalities.

4.2. Independent audits and attestation engagements of DoD organizations, programs, activities, and functions shall be conducted in accordance with Reference (d) and the Government Auditing Standards (Reference (f)) to determine whether:

- 4.2.1. Internal control systems are adequate.
- 4.2.2. Information is reliable and valid.
- 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.
- 4.2.6. Operations are effective and efficient.

### 5. RESPONSIBILITIES

5.1. The IG DoD shall:

5.1.1. Establish and monitor adherence to standards, policies, and procedures for the performance of DoD audits in accordance with Reference (c) and 5 United States Code (U.S.C.) Appendix 3 (Reference (g)).

5.1.2. Conduct reviews of DoD audit organizations to evaluate the efficiency and effectiveness of operations and to ensure compliance with applicable auditing standards, policies, and procedures.

5.1.3. Develop, publish, and maintain Reference (d) in accordance with DoD 5025.1-M (Reference (h)).

5.1.4. Establish guidelines for determining when non-Federal auditors may be used consistent with the requirements stated in paragraph 6.5.

5.1.5. Take appropriate steps to ensure that work performed by non-Federal auditors complies with Reference (f).

5.1.6. 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, the Defense Agencies, and the DoD Field Activities.

5.1.7. Perform audits of:

5.1.7.1. 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.

5.1.7.2. 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.

5.1.7.3. 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.

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

5.1.8. 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 Heads of the DoD Components shall maintain authority, direction, and control over their audit and internal review capabilities; ensure effective and efficient operations consistent with this Instruction; and shall in their relationships with DoD audit organizations:

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

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

5.2.3. 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.

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

5.2.5. 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 quantitative 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 (i) and (j)).

5.2.6. 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.

5.2.7. Ensure adherence to and recommend and coordinate changes to Reference (d) with the IG DoD, and coordinate on changes proposed by the Office of the Assistant Inspector General for Audit Policy and Oversight (OAIG APO), IG DoD.

5.2.8. Update regularly their DoD Component's distribution requirements.

5.3. The Director, Defense Contract Audit Agency (DCAA), under the Under Secretary of Defense (Comptroller) pursuant to DoD Directive 5118.3 (Reference (k)), shall provide contract audit functions for all DoD Components, as prescribed in DoD Directive 5105.36 (Reference (l)). 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 Instruction; and shall:

5.4.1. Except as provided in subparagraphs 5.1.7. through 5.1.8., exercise audit cognizance of the Military Department components 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.

## 6. PROCEDURES

6.1. The DoD audit organizations shall ensure that they meet requirements for:

6.1.1. Independence. In all matters related to audit work, DoD audit organizations and the individual auditor should be free both in fact and appearance from personal, external, and organizational impairments to independence as required by Reference (f).

6.1.2. Quality Control. The DoD audit organizations should have a review of its quality control system conducted in accordance with Reference (f) by reviewers independent of the organization being reviewed. The review should determine whether the organization's internal quality control system is in place and operating effectively.

### 6.2. Access to Information

6.2.1. The DoD audit organizations should have full and unrestricted access to all personnel, facilities, records, reports, databases, documents, or other information or material in accomplishing an announced audit objective when requested by an auditor with proper security clearances.

6.2.1.1. All access granted or information or material furnished to the audit organization by a DoD Component shall be on a nonreimbursable basis.

6.2.1.2. DoD Instruction 7050.3 (Reference (m)) provides guidance on access to records and information for IG DoD auditors.

6.2.1.3. For non-IG DoD auditors, 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 the auditor's chain of command 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.

6.2.1.4. DoD audit organizations performing audits that involve the Joint Staff, Combatant Commands, elements of the Military Services assigned to the Combatant Commands or engaged in joint planning, and all Defense agencies designated as Combat Support Agencies, or that require access to "joint information" as defined in Chairman of the Joint Chiefs of Staff Instruction 5714.01C (Reference (n)), shall secure the release of such required information consistent with Reference (n) and Joint Staff Instruction 5717.01B, Reference (o), as appropriate.

6.2.1.5. The IG DoD will 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.

6.2.1.6. 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.

6.2.1.6.1. If DCAA assistance is unavailable or untimely, DoD audit organizations shall make arrangements to perform the necessary audit work themselves. Whenever possible, the DCAA and DoD audit organizations should avoid duplicating audit work. The OAIG, APO, IG DoD, will provide assistance and facilitate discussions with the DCAA.

6.2.1.6.2. If a contractor denies access to its records, 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 under 10 U.S.C. 2313 (Reference (p)).

6.3. Indications of potential fraud or other criminal acts discovered during the audit or attestation engagement shall be referred to the appropriate investigative organization. DoD Instruction 5505.2 (Reference (q)) provides guidance on processing such referrals.

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

6.5. 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.

6.5.1. The OAIG APO, IG DoD, shall review all solicitations for procuring audit services from outside sources. The review should 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 (e).

6.5.2. The OAIG APO, IG DoD, may give a DoD Component audit organization authorization to contract for multiple, similar audits provided the requesting agency presents sufficient justification. Once authorization is given for contracting for similar audits and an initial solicitation is reviewed, the requesting agency does not have to submit individual solicitations for review. The requesting agency must report to the OAIG APO what audits were contracted for under the authorization.

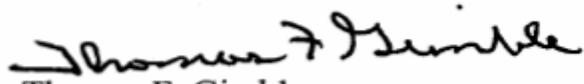
6.6. Management needs and high-risk areas shall be considered in the development of audit plans. When completed, the audit organizations shall review their audit plan with the Head or Deputy Head of the DoD Component, command, or activity that has operational control over the DoD audit organization.

6.7. Recommendations shall be made to the lowest level that has the capability to take corrective action.

6.8. Uniform standards, policies, and procedures shall be developed and implemented to improve the efficiency and effectiveness of the DoD audit activities. Reference (d) provides supplemental guidance on the audit policies consistent with References (c) and (g).

## 7. EFFECTIVE DATE

This Instruction is effective immediately.

  
Thomas F. Gimble  
Inspector General, Department of Defense  
(Acting)

Enclosures – 2

E1. References, continued

E2. Definitions

E1. ENCLOSURE 1

REFERENCES, continued

- (e) DoD Instruction 7600.6, "Audit of Nonappropriated Fund Instrumentalities and Related Activities," January 16, 2004
- (f) Comptroller General of the United States, "Government Auditing Standards (Yellow Book)," current edition<sup>1</sup>
- (g) Appendix 3 of title 5, United States Code, "Inspector General Act of 1978," as amended
- (h) DoD 5025.1-M, "DoD Directives System Procedures," March 5, 2003
- (i) DoD Directive 7650.3, "Follow-up on General Accounting Office (GAO), DoD Inspector General (DoD IG), and Internal Audit Reports," June 3, 2004
- (j) DoD Directive 7640.2, "Policy for Follow-up on Contract Audit Reports," February 12, 1988
- (k) DoD Directive 5118.3, "Under Secretary of Defense (Comptroller) (USD(C))/Chief Financial Officer (CFO), Department of Defense," January 6, 1997
- (l) DoD Directive 5105.36, "Defense Contract Audit Agency (DCAA)," February 28, 2002
- (m) DoD Instruction 7050.3, "Access to Records and Information by the Inspector General, Department of Defense," April 24, 2000
- (n) Chairman of the Joint Chiefs of Staff Instruction 5714.01C, "Policy for the Release of Joint Information," August 28, 2006<sup>2</sup>
- (o) Joint Staff Instruction 5717.01B, "Guidance for Support of the Government Accountability Office and DoD Inspector General Audit Activities," April 28, 2006
- (p) Section 2313 of title 10, United States Code
- (q) DoD Instruction 5505.2, "Criminal Investigations of Fraud Offenses," February 6, 2003

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<sup>1</sup> The Yellow Book can be viewed at [www.gao.gov](http://www.gao.gov) or copies can be purchased via the internet at: <http://bookstore.gpo.gov>

<sup>2</sup> The Chairman of the Joint Chiefs of Staff and Joint Staff Instructions are available at [http://www.dtic.mil/cjcs\\_directives/index.htm](http://www.dtic.mil/cjcs_directives/index.htm)

## E2. ENCLOSURE 2

### DEFINITIONS

#### E2.1. Contract and Other Acquisition Instrument Audits

E2.1.1. 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, internal controls, other systems, and other evidence to determine the acceptability of actual or proposed costs for Government contracts.

E2.1.2. 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.

E2.2. DoD Audit Organizations. This group includes 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.

E2.3. Internal Audit Function. The internal audit function assists DoD management in attaining its goals by furnishing information, analyses, assessments, and recommendations pertinent to DoD management duties and objectives. The internal audit function supports the Heads of the DoD Components. 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.

E2.4. Internal Review Function. Internal review supports subordinate commands or segments of the DoD Components. 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.