



# Department of Defense MANUAL

NUMBER 7600.07  
August 3, 2015

---

---

IG DoD

SUBJECT: DoD Audit Manual

References: See Enclosure 1

1. PURPOSE. This manual:

a. Reissues DoD 7600.07-M (Reference (a)) in accordance with the authority in DoD Directive (DoDD) 5106.01 and DoD Instruction (DoDI) 7600.02 (References (b) and (c)).

b. Implements policy, assigns responsibilities, and provides procedures for DoD audit organizations compliance with:

(1) The Government Auditing Standards, (also known and referred to in this instruction as the Generally Accepted Government Auditing Standards (GAGAS)) (Reference (d)).

(2) Title 2, Code of Federal Regulations, Part 200 – Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, Subpart F – Audit Requirements (Reference (e)).

(3) Council of the Inspectors General on Integrity and Efficiency (CIGIE) Standards (Reference (f)).

(4) DoD auditing guidance including Reference (c), DoDI 7600.10 (Reference (g)), and DoDI 7600.06 (Reference (h)).

c. Supplements References (d) through (h) and promotes the understanding and value of those standards and guidance in performing services for DoD management.

2. APPLICABILITY. This manual applies to OSD, the Military Departments, the Office of the Chairman of the Joint Chiefs of Staff and the Joint 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 manual as the “DoD Components”).

3. POLICY. It is DoD policy, in accordance with Reference (c), 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. Reference (h) 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 this manual and Reference (d).
4. RESPONSIBILITIES. See Enclosure 2.
5. PROCEDURES. See Enclosures 3 through 15.
6. INFORMATION COLLECTIONS. Reports of audit, referred to in this manual, do not require licensing with a report control symbol in accordance with paragraph 1.b.(7) of Volume 1 of DoD Manual 8910.01 (Reference (i)).
7. RELEASABILITY. **Cleared for public release**. This manual is available on the Internet from the DoD Issuances Website at <http://www.dtic.mil/whs/directives>.
8. EFFECTIVE DATE. This manual is effective August 3, 2015.



Jon T. Rymer  
Inspector General of  
the Department of Defense

Enclosures

1. References
2. Responsibilities
3. Guidance for Conducting Audits
4. Independence
5. Conducting Nonaudit Services
6. Competence
7. Quality Control and Assurance
8. Audit Documentation
9. Planning
10. Coordinating Audits
11. Performing Audits and Communicating With Management
12. Access to Records
13. Potential Benefits
14. Internal Controls and Detecting and Reporting Fraud and Noncompliance with Provisions of Laws, Regulations, Contracts, and Grant Agreements
15. Contracting for Audits

Glossary

TABLE OF CONTENTS

ENCLOSURE 1: REFERENCES.....8

ENCLOSURE 2: RESPONSIBILITIES.....10

    IG DoD.....10

    DoD COMPONENT HEADS.....10

    DEFENSE INTELLIGENCE COMPONENT IGs.....11

ENCLOSURE 3: GUIDANCE FOR CONDUCTING AUDITS .....12

    PURPOSE.....12

    AUDITING STANDARDS AND REQUIREMENTS .....12

        DoD Auditing Standards.....12

        Single Audit Standards and Requirements .....12

    DoD GUIDANCE.....13

    AUDIT ORGANIZATIONAL MANAGEMENT .....13

ENCLOSURE 4: INDEPENDENCE .....14

    PURPOSE.....14

    CONCEPTUAL FRAMEWORK APPROACH TO INDEPENDENCE.....14

    THREATS AND SAFEGUARDS TO INDEPENDENCE.....14

    DOCUMENTATION REQUIREMENTS.....14

    MANAGEMENT OF THE DoD AUDIT ORGANIZATION .....15

ENCLOSURE 5: CONDUCTING NONAUDIT SERVICES .....16

    PURPOSE.....16

    NONAUDIT SERVICES.....16

    CONDUCTING NONAUDIT SERVICES .....16

        Differences in GAGAS Compliance Between Audit and Nonaudit Services .....16

        Routine Activities .....16

        Nonaudit Services .....16

        Management Responsibilities .....16

    DoD AUDIT ORGANIZATIONS’ RESPONSIBILITIES .....17

    AUDITOR ASSESSMENT OF MANAGEMENT’S ABILITY TO PERFORM  
    OVERSIGHT .....18

    DOCUMENTATION OF AUDITOR RESPONSIBILITIES FOR NONAUDIT  
    SERVICES.....18

    PROCEDURES FOR DOCUMENTING NONAUDIT SERVICE PRODUCTS .....19

    NONAUDIT SERVICES’ POTENTIAL IMPACT ON FUTURE AUDIT WORK.....19

    INTERNAL CONTROL MONITORING AND SEPARATE EVALUATIONS.....19

ENCLOSURE 6: COMPETENCE .....20

    PURPOSE.....20

    COMPETENCE REQUIREMENTS .....20

    CPE REQUIREMENTS AND PROCEDURES.....20

    PROFESSIONAL DEVELOPMENT.....20

ENCLOSURE 7: QUALITY CONTROL AND ASSURANCE.....22

    PURPOSE.....22

    INTERNAL QUALITY CONTROL SYSTEM .....22

    DIFFERENCES OF OPINION ON AUDIT ISSUES .....23

    EXTERNAL QUALITY CONTROL REVIEWS .....23

        Review Team .....23

        Review Requirements .....23

        Review Report .....24

ENCLOSURE 8: AUDIT DOCUMENTATION .....25

    PURPOSE.....25

    AUDIT DOCUMENTATION REQUIREMENT .....25

    DATA INTEGRITY .....25

        Before Report Issuance .....25

        After Report Issuance .....28

    RETAINING AND SAFEGUARDING AUDIT DOCUMENTATION .....26

ENCLOSURE 9: PLANNING .....27

    PURPOSE.....27

    DEVELOPING A STRATEGIC PLAN.....27

    DEVELOPING A PLANNING PROCESS TO DEVELOP AND MAINTAIN AN AUDIT PLAN .....27

    DEVELOPING AN AUDIT PLAN.....28

ENCLOSURE 10: COORDINATING AUDITS.....30

    PURPOSE.....30

    COORDINATION REQUIREMENTS .....30

    COORDINATION OF AUDITS WITH CRIMINAL INVESTIGATORS .....30

    COORDINATION OF AUDITS WITH CONTRACTORS .....30

    COORDINATION OF AUDIT SERVICE INFORMATION WITH GAO .....30

    LIAISON WITH OTHER ORGANIZATIONS .....30

ENCLOSURE 11: PERFORMING AUDITS AND COMMUNICATING WITH MANAGEMENT.....31

PURPOSE.....31

BACKGROUND .....31

PERFORMING AUDITS .....31

    Planning .....31

    Fieldwork .....32

    Reporting.....32

COMMUNICATING WITH MANAGEMENT .....32

    Auditor Communication With Management .....32

    Notifying Management .....33

    Management Conferences.....33

    Exit Conferences.....33

    Termination of an Audit.....33

ENCLOSURE 12: ACCESS TO RECORDS .....34

    PURPOSE.....34

    REQUESTING ACCESS TO RECORDS.....34

        Procedures for Requesting Full and Unrestricted Access to Records or Other Information  
        From DoD Components .....34

        Procedures for Requesting Access by Non-DoD Auditors.....35

        Procedures for Requesting Access to Defense Contractor Data.....36

    CONDUCTING AUDITS OF, AND REPORTING FINDINGS AND  
    RECOMMENDATIONS ADDRESSED TO, OTHER DoD COMPONENTS.....36

        Conducting Audits of Other DoD Components.....36

        Reporting Audit Findings and Recommendations Addressed to Other  
        DoD Components.....37

ENCLOSURE 13: POTENTIAL BENEFITS .....38

    PURPOSE.....38

    BACKGROUND .....38

    TYPES OF BENEFITS.....38

        Potential Monetary Benefits .....38

        Nonmonetary Benefits .....38

    AREAS OF SPECIAL CONSIDERATION FOR BENEFITS .....39

        Personnel.....39

        Material Excesses.....39

        Supplies.....39

        Equipment.....40

        Military Construction Projects and Multi-Year Contracts.....41

        Benefits Identified to Nonappropriated Funds.....41

        Benefits Identified to Other Components .....41

        Projecting Monetary Benefits Using Statistical Sampling.....42

        Benefits Identified to Indefinite Recommendations .....42

        Benefits Identified to Deobligation of Funds.....42

        Benefits Identified Require Independent Audit Verification.....42

COMPUTATION OF MONETARY BENEFITS .....	42
REPORTING BENEFITS .....	43
Reporting Benefits in Audit Reports.....	43
Reporting Benefits Internal to the DoD .....	44
Reporting Benefits External to the DoD.....	44
Reporting Statistical Data on Benefits.....	44
ENCLOSURE 14: INTERNAL CONTROLS AND DETECTING AND REPORTING FRAUD AND NONCOMPLIANCE WITH PROVISIONS OF LAWS, REGULATIONS, CONTRACTS, AND GRANT AGREEMENTS .....	45
PURPOSE.....	45
INTERNAL CONTROL GUIDANCE.....	45
DETECTING AND REPORTING FRAUD AND NONCOMPLIANCE GUIDANCE .....	45
RELATIONSHIPS WITH DoD CRIMINAL INVESTIGATIVE ORGANIZATIONS.....	47
ENCLOSURE 15: CONTRACTING FOR AUDITS.....	48
PURPOSE.....	48
GUIDANCE.....	48
PLANNING FOR PROCUREMENT OF NON-FEDERAL AUDITS.....	48
REVIEWING SOLICITATIONS FOR NON-FEDERAL AUDITS .....	49
MONITORING PERFORMANCE .....	50
REFERRALS, DEBARMENTS, AND SUSPENSIONS.....	51
GLOSSARY .....	52
PART I: ABBREVIATIONS AND ACRONYMS .....	52
PART II: DEFINITIONS.....	52

ENCLOSURE 1

REFERENCES

- (a) DoD 7600.07-M, “DoD Audit Manual,” February 13, 2009 (hereby cancelled)
- (b) DoD Directive 5106.01, “Inspector General of the Department of Defense,” April 20, 2012, as amended
- (c) DoD Instruction 7600.02, “Audit Policies,” October 16, 2014
- (d) Comptroller General of the United States Standards, “Government Auditing Standards,” current edition<sup>1</sup>
- (e) Title 2, Code of Federal Regulations, Part 200 – Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, Subpart F – Audit Requirements
- (f) Council of the Inspectors General on Integrity and Efficiency, “Quality Standards for Federal Offices of Inspector General,” August 2012<sup>2</sup>
- (g) DoD Instruction 7600.10, “Audits of States, Local Governments, and Non-Profit Organizations,” January 3, 2014
- (h) DoD Instruction 7600.06, “Audit of Nonappropriated Fund Instrumentalities (NAFI) and Related Activities,” November 5, 2012
- (i) DoD Manual 8910.01, Volume 1, “DoD Information Collections Manual: Procedures for DoD Internal Information Collections,” June 30, 2014
- (j) Appendix to Title 5, United States Code
- (k) Comptroller General of the United States Guidance, “Government Auditing Standards: Guidance on GAGAS Requirements for Continuing Professional Education,” April 2005
- (l) Chapter 75, of Title 31, United States Code
- (m) American Institute of Certified Public Accountants Audit Guide, “Government Auditing Standards and Circular A-133 Audits,” February 1, 2015
- (n) Public Law 103-62, “Government Performance and Results Act of 1993,” August 3, 1993
- (o) Council of the Inspectors General on Integrity and Efficiency, “Guide for Conducting External Peer Reviews of the Audit Organizations of Federal Offices of Inspector General,” current edition
- (p) DoD Instruction 7650.02, “Government Accountability Office (GAO) Reviews and Reports,” November 20, 2006
- (q) DoD Instruction 7650.03, “Follow-up on General Accounting Office (GAO), Inspector General of the Department of Defense (IG DoD), and Internal Audit Reports,” December 18, 2014
- (r) DoD Instruction 7750.06, “Information Requirements for Semiannual Report to the Congress,” September 25, 2013
- (s) United States Government Accountability Office, “Standards for Internal Control in the Federal Government,” September 2014
- (t) United States General Accounting Office, “Internal Control Management and Evaluation Tool,” August 2001

---

<sup>1</sup> Copies may be obtained through the Internet at <http://www.gao.gov/yellowbook/overview>

<sup>2</sup> Copies may be obtained through the Internet at <https://www.ignet.gov/content/quality-standards>



- (u) Committee of Sponsoring Organizations of the Treadway Commission, “Internal Control - Integrated Framework,” May 2013<sup>3</sup>
- (v) Office of Management and Budget Circular No. A-123, “Management’s Responsibility for Internal Control,” December 21, 2004
- (w) DoD Instruction 5010.40, “Managers’ Internal Control Program Procedures,” May 30, 2013
- (x) DoD Instruction 5505.02, “Criminal Investigations of Fraud Offenses,” August 29, 2013
- (y) Defense Federal Acquisition Regulation Supplement, current edition
- (z) Federal Acquisition Regulation, current edition

---

<sup>3</sup> Copies may be obtained through the Internet at <http://www.coso.org/IC.htm>

ENCLOSURE 2

RESPONSIBILITIES

1. IG DoD. The IG DoD:

a. Provides policy and direction for and conducts, supervises, and coordinates audits within the DoD pursuant to GAGAS and the Inspector General Act of 1978, as amended, Title 5, United States Code (U.S.C.), Appendix (Reference (j)).

b. Gives particular regard to the activities of the internal audit, inspection, and investigative units of the DoD Components with a view toward avoiding duplication and ensuring effective coordination and cooperation.

2. DoD COMPONENT HEADS. The DoD Component heads will require that their audit organization directors:

a. Ensure that management of the audit organization is in accordance with the procedures in this manual.

b. Verify that the staff assigned to conduct an audit in accordance with GAGAS collectively possesses the technical knowledge, skills, and experience necessary to be competent for the type of work being performed before beginning the audit.

c. Confirm that management of the audit organization and their auditors meet the continuing professional education (CPE) requirements and maintain documentation of the CPE completed in accordance with Reference (d) and Comptroller General of the United States Guidance (Reference (k)).

(1) Monitor individual auditor progress in meeting the CPE requirements.

(2) Maintain evidence of auditor attendance at or completion of CPE programs for a minimum of the current and the prior 2-year training cycle.

d. Coordinate and cooperate within the DoD auditing community and with other audit, investigative, inspection, and management review groups to ensure effective use of audit resources; preclude unnecessary duplication or overlap of audit efforts; and permit efficient oversight of DoD programs and operations.

(1) Coordinate and cooperate with the Government Accountability Office (GAO) and other federal and non-federal audit organizations where there is a common interest in the programs subject to audit.

(2) Participate in joint audit planning groups (JAPGs) as established by the IG DoD. See paragraph 3.c. of Enclosure 9 of this manual for additional guidance on JAPGs.

(3) When an audit service includes access to contractor records, apprise the Defense Contract Audit Agency (DCAA) and the proper contract administration office of the effort.

e. Maintain sufficient knowledge of the characteristics and indicators of fraud, techniques used to commit fraud, and the types of fraud associated with the activities being audited in conjunction with the individual auditor.

(1) Plan audits (except for review and agreed upon procedures attestation engagements) to assess the risk of fraud in accordance with GAGAS requirements.

(2) Provide reasonable assurance to detect fraud (except for review and agreed upon procedures attestation engagements) in accordance with GAGAS requirements.

3. DEFENSE INTELLIGENCE COMPONENT IGs. Under the provisions of Reference (j), the Defense Intelligence Component IGs implement Reference (c) relevant to their respective agencies, which are the National Security Agency, National Reconnaissance Office, Defense Intelligence Agency, and the National Geospatial-Intelligence Agency.

ENCLOSURE 3

GUIDANCE FOR CONDUCTING AUDITS

1. PURPOSE

a. This enclosure provides guidance for conducting audits of DoD operations, systems, programs, and functions. It is designed to assist and supplement DoD and non-federal auditors in complying with the standards, policies, and procedures issued by Congress, the Comptroller General of the United States, Office of Management and Budget (OMB), CIGIE, and the DoD.

b. This enclosure identifies the standards and guidance organizations are to follow when conducting audits, as defined by GAGAS, for DoD management.

2. AUDITING STANDARDS AND REQUIREMENTS

a. DoD Auditing Standards. Reference (j) requires that all audits performed by DoD audit and internal audit organizations and non-federal auditors comply with GAGAS.

(1) For financial statement audits, GAGAS incorporates by reference the American Institute of Certified Public Accountants (AICPA) Statements on Auditing Standards (SAS). GAGAS contains additional requirements that auditors should follow when conducting financial statements audits in accordance with Reference (d).

(2) For attestation engagements, GAGAS incorporates by reference the AICPA's Statements on Standards for Attestation Engagements (SSAE). GAGAS contains additional requirements that auditors should follow when conducting attestation engagements in accordance with Reference (d).

(3) Auditors may use GAGAS in conjunction with other professional standards, such as AICPA standards, that apply to financial audits or attestation engagements for nonissuers or the International Standards for the Professional Practice of Internal Auditing. In these situations, auditors may cite both GAGAS and the other professional standards in their reports in accordance with Reference (d).

(4) While GAGAS primarily provides requirements for the performance of individual audit projects, the CIGIE Quality Standards found in Reference (f) provide requirements for the management of both the individual audit project and the audit organization. CIGIE standards may be applicable to DoD audits and used in conjunction with GAGAS.

b. Single Audit Standards and Requirements. Reference (e), issued in accordance with Chapter 75 of Title 31, U.S.C. (Reference (l)), commonly known as the "Single Audit Act Amendments of 1996," sets standards for obtaining consistency and uniformity among federal agencies for the audit of non-federal entities expending federal awards.

(1) Appendix XI-Compliance Supplement of Reference (e) provides information on federal program objectives, procedures, and compliance requirements relevant to the audit as well as audit objectives and suggested audit procedures for determining compliance with these requirements.

(2) The AICPA Guide (Reference (m)) is an interpretive publication and provides guidance on the auditor's responsibility when conducting an audit of financial statements in accordance with Reference (d) and a single audit or program-specific audit in accordance with References (e) and (l). The OMB, GAO, and AICPA issue applicable standards and requirements; users of the AICPA guide should refer to those organizations' original standards and requirements.

3. DoD GUIDANCE. Follow References (c), (g), and (h), as appropriate, when performing audits in the DoD. Each of these DoD issuances identifies requirements unique to the DoD. Auditors must be aware of these additional requirements when performing audits within the DoD.

4. AUDIT ORGANIZATIONAL MANAGEMENT. The audit organization will be independent, follow standards, and have a quality control program that complies with GAGAS. The audit organization should:

a. Establish plans to carry out its responsibilities. Plans will include strategic planning requirements put in place by its executive agency in compliance with Public Law 103-62 (Reference (n)). See Enclosure 9 for information on organizational level planning.

b. Provide written internal policies and procedures to guide the audit staff. The written guidance should include procedures for receiving, controlling, screening, and assuring appropriate disposition of allegations involving waste, mismanagement, fraud, and abuse.

c. Coordinate its activities with other government audit organizations (e.g., GAO) and with independent external auditors, as appropriate, to avoid duplication of effort. Each DoD audit organization should also coordinate with agency management as appropriate. See paragraph 2.d. of Enclosure 2 for responsibilities on coordination and Enclosure 10 for information on coordinating audits.

ENCLOSURE 4

INDEPENDENCE

1. PURPOSE. This enclosure provides information on GAGAS independence requirements for auditors performing financial and performance audits, and attestation engagements within the DoD. Throughout this enclosure, the term “audit” applies to these types of audits/attestation engagements performed in accordance with GAGAS. DoD audit management’s responsibilities to safeguard organizational independence are also discussed within this enclosure.

2. CONCEPTUAL FRAMEWORK APPROACH TO INDEPENDENCE. GAGAS establishes a conceptual framework that is used to identify, evaluate, and apply safeguards to address threats to independence for activities that are not specifically prohibited by GAGAS.

a. The conceptual framework is applied to evaluate independence at the audit organization, audit, and individual auditor levels.

b. The conceptual framework should also be applied before an auditor agrees to perform a nonaudit service on behalf of DoD management. See Enclosure 5 for further guidance on independence standards as they relate to nonaudit services.

c. DoD audit organizations should develop internal policies and procedures to ensure compliance with GAGAS independence standards.

3. THREATS AND SAFEGUARDS TO INDEPENDENCE. DoD auditors and audit organizations should understand the broad categories of threats to independence and the examples of safeguards established by GAGAS and apply this knowledge when using the conceptual framework.

a. The assessment of independence threats and safeguards should be completed at the beginning of an audit or nonaudit service, or at the time an auditor is assigned to the audit or nonaudit service

b. DoD auditors should remain alert to potential new threats that may occur when performing their work.

c. In situations where independence threats cannot be eliminated or reduced to an acceptable level, a DoD audit organization should develop internal policies and procedures to notify senior DoD audit management of its inability to perform the work, or terminate the in process audit.

4. DOCUMENTATION REQUIREMENTS. In situations where threats to independence are not at an acceptable level and require the application of safeguards, GAGAS requires that

auditors document the threats identified and the safeguards applied to eliminate or reduce the independence threat to an acceptable level.

a. DoD auditors' documentation of their analysis of independence threats and safeguards provides evidence of their knowledge and ability to apply the conceptual framework. Additionally, information about the methodology used to evaluate threats and apply safeguards provides evidence of their use of professional judgment in forming conclusions regarding compliance with independence requirements.

b. Insufficient or incomplete documentation of an auditor's evaluation and analysis of threats and safeguards does not result in independence impairment. However, appropriate documentation is expected under GAGAS and applicable DoD documentation and quality control and assurance requirements.

5. MANAGEMENT OF THE DoD AUDIT ORGANIZATION. The heads of DoD audit organizations should ensure that organizational independence is maintained.

a. When changes occur within a DoD audit organization's placement or reporting requirements, management should apply the conceptual framework to assess the impact on the organization's independence.

b. If an audit organization determines that the proposed changes will compromise independence, they should work with management of the DoD organization to resolve the conflict within a reasonable time period.

c. The Office of the Assistant Inspector General for Audit Policy and Oversight (OAIG APO) can provide advice when conflicts occur.

ENCLOSURE 5

CONDUCTING NONAUDIT SERVICES

1. PURPOSE. This enclosure provides guidance for conducting nonaudit services requested by DoD management.

2. NONAUDIT SERVICES. Nonaudit services are considered professional services other than audits or attestation engagements. DoD management may seek to use DoD audit organizations to accomplish or directly support their responsibilities by requesting nonaudit services. By clearly defining the roles and responsibilities that DoD auditors have in conducting audit and nonaudit services, DoD management should have a better understanding and expectation of the services DoD audit organizations can provide.

3. CONDUCTING NONAUDIT SERVICES. DoD auditors should be able to distinguish between routine activities directly related to an audit, nonaudit services, and management responsibilities.

a. Differences in GAGAS Compliance Between Audit and Nonaudit Services. All audits are required to comply with GAGAS. GAGAS does not cover nonaudit services, which are defined as professional services other than audits or attestation engagements. In accordance with GAGAS, DoD auditors should apply the conceptual framework for independence to determine whether conducting a nonaudit service could impair their independence with respect to GAGAS audits they perform pursuant to Reference (d). See Enclosure 4 for further guidance.

b. Routine Activities. Routine activities performed by DoD auditors that directly relate to the performance of an audit are not considered nonaudit services under GAGAS. Examples of common routine activities directly related to an audit are discussed in Reference (d).

c. Nonaudit Services. DoD auditors may perform tasks requested by management that directly support the entity's operations. They may also provide information or data to a requesting party without providing verification, analysis, or evaluation of the information or data. Providing such nonaudit services may create threats to an auditor's independence. Therefore, auditors should apply the conceptual framework to evaluate independence based on the facts and circumstances of the nonaudit service request.

d. Management Responsibilities. There are some nonaudit services that constitute management responsibilities for an audited entity. Generally, conducting these types of activities results in auditors performing management functions, which involve leading and directing an entity, including making decisions regarding the acquisition, deployment and control of human, financial, physical, and intangible resources.



(1) According to GAGAS, if an auditor were to assume management responsibilities, the management participation threats created would be so significant that no safeguards could reduce them to an acceptable level. In these situations, the DoD audit organization should decline to perform the work and notify management of the requesting organization of its decision.

(2) Reference (d) provides examples of activities that are considered management responsibilities. DoD audit organizations should recognize that the activities described in Reference (d) are not all inclusive. DoD auditors are required to apply the conceptual framework and evaluate the specific facts and circumstances when evaluating all nonaudit service requests.

(3) The following list provides examples of other nonaudit services that DoD audit organizations will not perform for an audited entity because they are considered management responsibilities:

(a) Serve as voting member of an organization's management committee, including the audit committee or the OMB A-123 Program Senior Management Council.

(b) Make policy decisions that affect the future direction and operations of a DoD program.

(c) Supervise another DoD organization's employees; authorize another DoD organization's transactions; or maintain custody of another DoD organization's assets such as inventories, equipment, or other assets owned, leased, or otherwise in the organization's possession.

(d) Design, develop, install, implement, or operate any management system to include accounting, internal control, performance measurement, or information technology systems.

4. DoD AUDIT ORGANIZATIONS' RESPONSIBILITIES. DoD audit organizations should develop internal policies and procedures for evaluating, accepting, performing, and declining to perform nonaudit services in accordance with the standards described in Reference (d). At a minimum, a DoD audit organization's policies and procedures should include guidance on the following topics:

a. Before an auditor agrees to provide a nonaudit service for an audited entity, the auditor should determine:

(1) Whether providing such a service would create a threat to their independence, either by itself or in aggregate with other nonaudit services provided, with respect to any GAGAS audit it performs.

(2) DoD auditors should consider whether the nonaudit service can be performed as an audit.

b. Before an auditor agrees to perform nonaudit services for an audited entity, they should obtain specific assurances from the organization's management. Management should agree to:

- (1) Assume all management responsibilities for the requested work.
- (2) Oversee the nonaudit service by designating an individual that is able to effectively oversee the performance of the nonaudit service.
- (3) Evaluate the adequacy and results of the work performed.
- (4) Accept responsibility for the results of the work performed.

5. AUDITOR ASSESSMENT OF MANAGEMENT'S ABILITY TO PERFORM OVERSIGHT. DoD auditors should evaluate the designated individual's ability to effectively oversee the requested nonaudit service. At the same time, DoD auditors should be mindful that the designee is not required to possess the expertise to perform or reperform the requested service. When evaluating the qualifications of the proposed designee, auditors should use their professional judgment and experience; refer to Reference (d) for additional guidance.

6. DOCUMENTATION OF AUDITOR RESPONSIBILITIES FOR NONAUDIT SERVICES. The audit organization and entity management should document their understanding of the nonaudit service to be performed. Auditor documentation should comply with GAGAS and DoD documentation and quality control and assurance requirements in accordance with Reference (d). Further guidance appears in Enclosures 7 and 8. It is recommended that a memorandum be used to outline the responsibilities of both parties.

- a. At a minimum, engagement documentation includes the following information:
  - (1) Objectives of the nonaudit service.
  - (2) Services to be performed.
  - (3) Management's acceptance of responsibility.
  - (4) Auditor responsibilities.
  - (5) Any limitations on the nonaudit service.
- b. Auditors are encouraged to obtain from management of the requesting organization the following additional information:
  - (1) A description of the desired nonaudit services to include specifics regarding the objectives, scope of work, and required product or deliverable.

(2) The requested due date for the required product or deliverable or milestones for various stages of the work.

(3) A point of contact (POC) to clarify the requestor's requirements and respond to the decision to perform or not perform the requested service.

(4) The name and title of the management official responsible for overseeing the nonaudit service.

(5) Any additional information that might be useful.

7. PROCEDURES FOR DOCUMENTING NONAUDIT SERVICE PRODUCTS. When DoD audit organizations provide written documentation, information, or data to the requestor, the DoD audit organization should include a special marking on the front page or in the transmittal memorandum. The special marking should explain that:

a. Written documentation is the product of a nonaudit service.

b. The nonaudit service is not performed in accordance with GAGAS auditing and attestation standards.

c. The written product should describe the objectives, scope of work, and specific procedures, if any, that the DoD audit organization performed.

8. NONAUDIT SERVICES' POTENTIAL IMPACT ON FUTURE AUDIT WORK. DoD auditors who previously provided nonaudit services for a prospective audit should evaluate the impact of their participation using the conceptual framework.

a. If the auditor concludes that participating in the audit would result in an independence impairment, they should notify DoD audit management and recuse themselves from the audit.

b. However, DoD auditors that provided the nonaudit services may convey the knowledge gained of the requesting organization and its operations to the audit assignment team.

c. In addition, the DoD audit organizations should not reduce the scope and extent of audit work related to the nonaudit service provided.

9. INTERNAL CONTROL MONITORING AND SEPARATE EVALUATIONS. GAGAS contains specific guidance on auditors' responsibilities regarding the conduct of internal control monitoring and separate evaluations. See Reference (d). DoD audit organizations performing these types of work should develop internal policies and procedures to ensure that independence is adequately safeguarded.

ENCLOSURE 6

COMPETENCE

1. PURPOSE. This enclosure provides requirements and procedures for DoD audit organizations and auditors to achieve and maintain professional competence in accordance with GAGAS.

2. COMPETENCE REQUIREMENTS

a. DoD auditors and non-federal auditors assigned to conduct an audit in accordance with GAGAS (including internal and external specialists) should collectively possess the technical knowledge, skills, and experience to be competent for the work being performed before beginning the audit. See paragraph 2.b. of Enclosure 2 regarding DoD audit organizations' responsibility for auditors' competence when auditors are assigned to conduct audits.

b. DoD audit organizations should establish and implement a process for recruitment, hiring, continuous development, and evaluation of staff to assist the organization in maintaining a competent workforce according to GAGAS. The nature, extent, and formality of the process should depend on various factors such as the size of the DoD audit organization, its work, and its structure.

c. DoD auditors and non-federal auditors performing audits in accordance with GAGAS should maintain their professional competence through CPE in accordance with GAGAS and Reference (k).

3. CPE REQUIREMENTS AND PROCEDURES. Reference (k) sets forth requirements and procedures for DoD auditors, non-federal auditors, and DoD audit organizations in exercising their professional judgment to comply with CPE requirements. See paragraph 2.c. of Enclosure 2 regarding DoD audit organizations' responsibility for the organization and their auditors to adhere to CPE requirements.

4. PROFESSIONAL DEVELOPMENT

a. DoD audit organizations and their auditors should formulate a training development plan that will enhance their technical knowledge and technical proficiency and monitor their continuous professional development in accordance with GAGAS.

b. DoD audit organizations should encourage their auditors to seek professional credentials such as certifications. Audit organizations should consider a performance measure related to enhancing the competence of its staff. Such measures might include increasing the number of staff with relevant professional certifications, advanced degrees, and developmental assignments.

c. Since fraud is a continuing concern to the DoD, DoD audit organizations should provide appropriate auditor training to develop skills and awareness in preventing fraud, identifying and assessing risks of fraud, designing procedures to provide reasonable assurance of detecting fraud, and using the appropriate procedures for reporting suspected fraud and noncompliance with provisions of laws, regulations, contracts, and grant agreements. See section 3 of Enclosure 14 for information on knowledge and skills concerning fraud.

d. DoD audit organizations should encourage their staff to belong to and actively participate in professional organizations that are relevant to the accomplishment of their mission and work.

ENCLOSURE 7

QUALITY CONTROL AND ASSURANCE

1. PURPOSE. This enclosure provides guidance on quality control and assurance for DoD audit organizations performing audits in accordance with GAGAS.

2. INTERNAL QUALITY CONTROL SYSTEM

a. The DoD audit organization's quality control system encompasses the organization's structure and policies adopted and procedures established to provide the organization with reasonable assurance of complying with GAGAS.

b. An internal quality control system includes the methods and measures designed and implemented to collectively provide reasonable assurance that the applicable auditing standards, policies, and procedures are met. The system includes policies and procedures that establish internal guidance and requirements, supervisory review processes, a quality control process for each audit (such as independent referencing), and a quality assurance program.

c. All documentation and reports related to compliance with the internal quality control system are retained in accordance with the retention requirements, as specified by the responsible audit organization, to allow those performing monitoring procedures and external quality control reviews to evaluate the extent of the DoD audit organization's compliance with their quality control policies and procedures.

3. DIFFERENCES OF OPINION ON AUDIT ISSUES. During the course of an audit, while exercising professional judgment, team members will sometimes disagree on audit issues. GAGAS recommends that a system of quality control contain procedures for resolving difficult or contentious issues or disagreements among team members, including specialists. Examples of differences of opinion on audit issues may include disagreements on the audit opinion, the sufficiency and appropriateness of audit evidence, or the nature and extent of audit procedures necessary to meet the audit objectives.

a. DoD audit organizations should document in their system of quality control how differences of opinions on audit issues should be handled within their respective audit organization, and who will be the final determining authority in resolving the difference of opinion.

b. The disagreement and the decisions made should be documented in the project file.

4. EXTERNAL QUALITY CONTROL REVIEWS. Audit organizations conducting audits in accordance with GAGAS should have an external peer review performed by reviewers independent of the audit organization at least once every 3 years.

a. Review Team. Members of the review team should collectively have sufficient knowledge of how to perform a peer review, an understanding of GAGAS, other applicable professional standards, and DoD audit policies.

(1) Prior experience with conducting peer reviews should also be considered when recruiting potential team members and assigning leadership responsibilities.

(2) Only a DoD audit organization that receives a pass from its most recent external peer review will be allowed to perform a peer review of another DoD audit organization.

b. Review Requirements. External quality control reviews should be conducted according to GAGAS quality control and assurance guidelines and the most recent version of the CIGIE Guide for Conducting External Peer Reviews of the Audit Organizations of Federal Offices of Inspector General (Reference (o)). The review team should exercise professional judgment in all matters relating to planning, performing, and reporting the results of the external peer review. The CIGIE guidance should not limit the flexibility of the review team's work.

(1) The objective of the external quality control review is to determine whether the DoD reviewed audit organization's:

(a) Internal quality control system is adequate.

(b) Quality control policies and procedures are followed.

(2) This review provides the reviewed audit organization with reasonable assurance that its audit work is complying with applicable professional standards, GAGAS, and DoD audit policies.

(3) The review team provides a written report on its opinion and determination of whether the reviewed audit organization met the objectives. See paragraph 3.c. of this enclosure for information on the peer review report.

(4) For external quality control reviews of DoD audit organizations, the OAIG APO, can provide technical advice and facilitate efforts to obtain an external quality control review. If disagreements cannot be resolved between the reviewing and reviewed organizations on the external quality control review results before the draft report, the reviewed audit organization should bring the matter to the attention of the OAIG APO which will facilitate discussion of the issues.

(5) If an audit organization receives notification at the draft report stage that it will receive a rating of less than pass based on external quality control review requirements, the reviewed organization should notify the OAIG APO.

(6) The IG DoD will include, as part of the semiannual reports to Congress, information concerning any DoD audit organization that has either failed an external quality control review or has not had an external quality control review conducted in the required period of time in accordance with Reference (j).

c. Review Report. The review team prepares a written report communicating the results of the external quality control review to the head of the audit organization and the head of the agency. The review team should strive to complete their review within 6 months. The OAIG APO receives periodic updates regarding the status of the review and is informed of any issues that could potentially affect the timeliness of the review.

(1) The reviewed organization provides the OAIG APO a copy of the report within 15 calendar days of its issuance as well as documentation that the agreed-upon corrective actions have been or will be taken. In situations where the reviewed organization does not agree with the proposed corrective actions, documentation of their response should be included in the final report.

(2) The reviewing organization retains the review documentation and reports of external quality control reviews until the reviewed organization's next peer review.



ENCLOSURE 8

AUDIT DOCUMENTATION

1. PURPOSE. This enclosure provides guidance for the preparation, review, retention, and safeguarding of audit documentation, including guidance on data integrity.
  
2. AUDIT DOCUMENTATION REQUIREMENT. Audit documentation is the connecting link between field work and the audit report. Audit documentation serves as the systematic record of work performed and should contain sufficient and appropriate evidence to support the auditor's findings, opinions, conclusions, judgments, and recommendations in the audit report, including evidence of supervisory review and documentation of any departures from GAGAS requirements and the impact on the audit and auditors' conclusions.
  
3. DATA INTEGRITY
  - a. Before Report Issuance. To ensure the integrity of audit data, the following processes and procedures must be completed by DoD audit organizations before issuing the audit report.
    - (1) Document evidence that supports the findings, conclusions, and recommendations.
    - (2) Conduct quality procedures to ensure report accuracy and correctness.
  
  - b. After Report Issuance. To ensure the integrity of audit data, DoD audit organizations should develop internal policies and procedures for handling changes to audit documentation after they issue the audit report. The policies and procedures include:
    - (1) Circumstances under which it is appropriate and acceptable to modify the audit documentation after an audit report is issued.
  
    - (2) Procedures for documenting changes made to the audit documentation including documenting when the changes were made, who made them, and the effects, if any, of the changes to the auditor's reported conclusions.
  
    - (3) The acceptable period of time for making changes to audit documentation after report issuance, after which deletions, additions, or changes to audit documentation should not be made.
  
    - (4) A statement emphasizing the imprudence of changing audit documentation that was specifically used to support significant facts and conclusions in the audit report.
  
    - (5) A statement emphasizing that under no circumstances should changes be made to audit documentation subsequent to notification of pending external or internal quality control review.

#### 4. RETAINING AND SAFEGUARDING AUDIT DOCUMENTATION

a. Each DoD audit organization should establish reasonable policies and procedures for the safe custody and retention of audit documentation for a time sufficient to satisfy legal, regulatory, and administrative requirements.

b. Audit documentation files should be adequately safeguarded and prescribed security procedures should be followed for classified and For Official Use Only material in accordance with each DoD audit organization's requirements.

(1) Access to audit documentation files should be restricted to authorized personnel.

(2) Special precautions should be taken with audit documentation including report drafts that may contain proprietary data, personal privacy data, plans for future agency operations, agency investigative and internal audit reports, congressional request material, and other classified or sensitive information.

(3) Sensitive working paper material should be safeguarded when not in use to prevent leaks and unauthorized disclosure.

c. Electronic audit documentation (e.g., working papers) should be retained for the same period of time required for manually-prepared audit documentation and safeguarded through sound computer security practices.

d. DoD audit organizations should establish clearly defined policy and criteria to respond to requests for audit documentation made by outside parties. Outside parties may attempt to obtain information indirectly through the auditor because they were unable to obtain directly from the audited entity. This could lead to premature and possibly unauthorized disclosure.

ENCLOSURE 9

PLANNING

1. PURPOSE. This enclosure covers the planning process and the audit plan at the organizational level. Enclosure 11 addresses planning individual audits. The size and complexity of the DoD makes cyclically-based universal audit coverage generally impractical. Accordingly, it is essential that the available audit resources be allocated to provide maximum benefit to DoD management and other stakeholders.

2. DEVELOPING A STRATEGIC PLAN. Reference (n) provides a methodology to improve the efficiency and effectiveness of all federal agencies by requiring strategic planning, which includes setting performance goals and measuring performance against those goals.

a. Each DoD audit organization develops a strategic plan that aligns its goals with those of its parent organization.

b. The audit organization has an audit plan that implements its strategic plan.

3. DEVELOPING A PLANNING PROCESS TO DEVELOP AND MAINTAIN AN AUDIT PLAN

a. DoD audit organizations should develop a planning process that establishes a planning cycle with dates specifying the stages for developing the plan. An audit planning cycle is generally conducted on an annual basis; however, another cycle may be used if best suited to the organization and its mission.

b. The audit organization should use risk-based factors and priorities through an understanding of its parent organization's business, goals, and risks. The planning process:

(1) Reflects the effective use of audit resources.

(2) Ensures that the issues most important to management are addressed.

(3) Helps the parent organization in effectively meeting its mission and strategic goals.

(4) Provides for communication with the parent organization in establishing audit needs and risks.

(5) Involves timely communication with audit organization's senior leaders, management, and, as appropriate, stakeholders.

(6) Recognizes the need for revisions as circumstances change; for example, semi-annual reviews of the annual plan.

(7) Includes coordination, as appropriate, with other audit organizations such as JAPGs to ensure sufficiency of audit coverage and avoid duplication.

c. DoD audit organizations should participate in JAPGs, as appropriate.

(1) During the audit planning process, audit organizations use information obtained from JAPGs to determine who and what areas others are covering.

(2) JAPGs assist in identifying potential audit areas, avoid repetitive requests for data from the management, and prevent duplicative projects.

(3) JAPG points of contact may be obtained upon request through [auditnet@dodig.mil](mailto:auditnet@dodig.mil).

d. When considering the development of an audit plan, the audit organization develops a plan that provides balance and adequate audit coverage of substantive operations, programs, and high-risk areas. The audit organization focuses on identifying audit areas that are:

(1) Required by statute or regulation.

(2) In accordance with the parent organization's strategic plan and that assist the organization in achieving its mission and performance goals.

(3) Based on an assessment of risk for the parent organization.

(4) Responsive to the concerns of the parent organization and Congress for oversight of key programs.

e. As determined appropriate, the audit organization informs the parent organization of audit scheduling changes directly affecting their organization in a timely manner.

#### 4. DEVELOPING AN AUDIT PLAN

a. Each DoD audit organization develops internal policies and procedures for preparing and executing an audit plan.

b. The audit plan reflects:

(1) Effective use of audit resources.

(2) Considerations of communications with the parent organization and audit organization stakeholders.

(3) Planned assistance to the parent organization to effectively meet its mission and strategic goals.

(4) Areas of audit coverage determined to be the most important based on the criteria in paragraph 3.d. of this enclosure.

c. The audit plan is used as a planning and scheduling tool and serves as a notice to management of the audits planned in their areas of responsibility. The plan is flexible and adjusted as necessary to keep it current.

ENCLOSURE 10

COORDINATING AUDITS

1. PURPOSE. This enclosure provides guidance for coordinating audits.
  
2. COORDINATION REQUIREMENTS
  - a. Coordination with any organization begins as early in the audit planning process as is practical.
  
  - b. Coordination requirements of the DoD audit organizations extend beyond merely exchanging audit schedules with other organizations and providing audit reports upon request. Coordination also involves sharing strategic plans and audit plans, and establishing good working relationships with other DoD internal audit organizations, external review organizations, and DoD managers.
  
3. COORDINATION OF AUDITS WITH CRIMINAL INVESTIGATORS. DoD audit organizations should establish procedures to coordinate audits with criminal investigative organizations for the dual purposes of providing information regarding planned audits and preventing conflicts with ongoing criminal investigations.
  
4. COORDINATION OF AUDITS WITH CONTRACTORS. Reference (c) provides the process that DoD audit organizations use to coordinate audits involving contractor records to avoid duplication of work.
  
5. COORDINATION OF AUDIT SERVICE INFORMATION WITH GAO. DoDI 7650.02 (Reference (p)) provides the process that DoD audit organizations use to coordinate GAO reviews and reports to reduce the potential for duplication of effort.
  
6. LIAISON WITH OTHER ORGANIZATIONS. DoD audit organizations should establish procedures for identifying efforts that are completed, in process, or planned by other audit, investigative, and inspection organizations and management review groups and consider those efforts in the planning process.

ENCLOSURE 11

PERFORMING AUDITS AND COMMUNICATING WITH MANAGEMENT

1. PURPOSE. This enclosure provides guidance and procedures on the various phases in performing an audit and procedures for communicating with management while conducting audits.

2. BACKGROUND. Audits are performed to assist management in arriving at solutions to problems, devising improvements to business operations, and accounting for DoD resources.

3. PERFORMING AUDITS

a. When performing audits, DoD auditors:

(1) Exercise their professional judgment and conduct audits with reasonable care and professional skepticism in accordance with GAGAS.

(2) Document key decisions to reflect the progression of the work performed.

(3) Obtain access to records expeditiously and without delay to accomplish announced audit objectives in accordance with Reference (c). Access to records is discussed in more detail in Enclosure 12.

b. Audits normally involve planning, fieldwork, and reporting. The amount of time spent on each stage will vary based on the size, complexity, and nature of the audit. However, formal decisions should be made as progress is made throughout the audit. DoD auditors should be knowledgeable of the specific requirements applicable to planning, fieldwork, and reporting in accordance with GAGAS.

(1) Planning. Auditors should plan an audit with emphasis on identifying the primary audit objective(s) and designing the audit approach.

(a) Auditors gather the needed information on the most significant and material areas for identifying risks and their significance to the audit objective(s).

(b) Auditors obtain an understanding of internal controls and assess fraud risks, as appropriate, that are likely to occur as they relate to the audit objective(s).

(c) During planning, auditors should obtain an understanding of internal controls and assess fraud risks, as appropriate, that are likely to occur as they relate to the audit objective(s) in order to effectively plan the audit and to determine the nature, timing, and extent of tests to be performed.

(2) Fieldwork. Auditors perform fieldwork to collect, analyze, interpret, and document the information necessary to accomplish the audit objectives, complete the audit plan, and support the audit results. Auditors should complete an assessment of the sufficiency and appropriateness of audit evidence in its entirety during fieldwork in accordance with GAGAS.

(a) Evidence gathered during the fieldwork phase should have a meaningful or reasonable basis for measuring what is being evaluated. Auditors should perform and document an overall assessment of the collective evidence used to support findings and conclusions, including the results of any specific assessments conducted to conclude on the validity and reliability of specific evidence.

(b) Auditors should identify findings and recommendations as early as possible in the audit and discuss them with officials in the organization being audited before formally presenting them in writing. Management should be given an opportunity to respond to conditions identified by auditors and credit should be given for actions taken that will significantly improve operations, including any alternative actions initiated independent of the audit recommendations.

(3) Reporting. Auditors should prepare an audit report for each audit in accordance with GAGAS. DoD audit organizations develop reporting procedures and internal policies covering the form, content, distribution, and timeliness of reports.

(a) A draft report is normally prepared and sent to management for every audit. Management should be asked to comment on the draft report's findings(s) and recommendations(s). Management should also be specifically asked to comment on any potential monetary benefits or other benefits shown in the report.

(b) Based on managements' comments, changes will be made to the report to reflect agreement on facts and clarify points that may be misinterpreted.

(c) Managements' views on the report's contents, including opposing views and the auditors' position on managements' views, should be incorporated into the final report in accordance with GAGAS.

#### 4. COMMUNICATING WITH MANAGEMENT

a. Auditor Communication With Management. DoD auditors should follow GAGAS requirements for communicating with management throughout an audit.

(1) Depending upon the audit, DoD auditors may have a dual responsibility to communicate with two entities, one being the requestor of the audit and the other being the entity to be audited. In those situations, auditors use their professional judgment in determining the information that is communicated to the requestor and the audited entity.



(2) When indications of noncompliance with laws, regulations, fraud, or abuse are identified, DoD auditors should consider the appropriateness of information that should be communicated to management. See Enclosure 14 for additional guidance.

b. Notifying Management. In general, DoD audit organizations should give management reasonable advance notice of an audit being conducted unless the work involves cash counts, floor checks, or other similar audits where surprise is essential to accomplishing the audit objective(s) and an exception is warranted. The advance notification, which may be in either electronic or written form, includes the purpose, scope, and objective(s) of the audit; the time period during which the audit is to be performed; and any other relevant information.

c. Management Conferences. The first meeting with management is usually the entrance conference before beginning the audit. Also, auditors should consider conducting periodic discussions with management to convey such things as progressing from one audit phase to another and curtailing or expanding work, or to inform management of significant events of the audit.

d. Exit Conferences. Auditors should hold an exit conference with management unless management declines. This is generally the last informal opportunity to ensure the accuracy of reported information and discuss any factual matters still in dispute before release of the draft report.

e. Termination of an Audit. If an audit is terminated before it is completed and an audit report is not issued, auditors should document the results of the work to the date of termination and why the audit was terminated. When an audit is terminated before it is completed, auditors use professional judgment for determining whether and how to communicate the reason for terminating the audit to management.

ENCLOSURE 12

ACCESS TO RECORDS

1. PURPOSE. This enclosure provides procedures for DoD and federal auditors, including contracted auditors, to obtain access to all DoD records or other information from DoD Components outside their own entity as well as from independent public accountants (IPAs). Records and other information include reports, audits, reviews, databases, documents, papers, recommendations, or material related to accomplishing an audit objective when requested by an auditor with proper security clearances.

2. REQUESTING ACCESS TO RECORDS. In accordance with Reference (c), the IG DoD, as warranted, coordinates access for DoD Component, non-DoD federal, and contracted auditors to other DoD Components for any audit that requires full and unrestricted access to records or other information in order to avoid duplication and ensure consistency. The Defense Intelligence Component IGs must obtain access to records in accordance with Reference (c), section 6(a)(4) of Reference (j), and Enclosure 12 of this manual. 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 they are no longer required for official use. The IG DoD provides oversight during the coordination process.

a. Procedures for Requesting Full and Unrestricted Access to Records or Other Information From DoD Components

(1) The requesting audit organization should contact the IG DoD at [auditnet@dodig.mil](mailto:auditnet@dodig.mil) to request access, and provide the following information in writing:

(a) Objective(s) of the audit.

(b) Explanation of how the information requested is necessary to assist in answering the audit objective(s).

(c) Description of the audit plan to include:

1. General description of information being sought.

2. Personnel to be interviewed.

3. Documents required for access.

(2) The information requested should be related to an audit of the requesting audit organization's operations; the objective(s) of the audit should not be to evaluate the other DoD Component's operations. It should not be the intent of the requesting audit organization to develop finding(s) and recommendations of the other DoD Component's operations; however, if

the requesting audit organization determines that findings and recommendations to the other DoD Component are necessary, the requesting audit organization should follow the procedures in paragraph 3.b. of this enclosure.

(3) The IG DoD coordinates access by deciding whether to obtain the information for the requesting audit organization or facilitate direct access to the other DoD Component. To make the determination, the IG DoD considers, among other factors:

(a) The schedule developed by the requesting audit organization for completing the audit and issuing the report.

(b) The complexity of the information involved.

(c) The significance of the work and its priority in relationship to the IG DoD workload.

(d) Ongoing or recently completed audits of the area being considered in the request and the extent, if any, that the audit conflicts with ongoing or recent work by other oversight organizations including the IG DoD, Lead or Special Inspectors General, GAO, or other DoD audit organizations.

(4) The requesting audit organization should consider the work previously performed by the other DoD Component's internal audit organization and other audit organizations in determining audit information to be collected.

(5) When the requesting audit organization has questions concerning the other DoD Component's internal audit organization, the requesting audit organization may contact the OAIG APO, at [auditnet@dodig.mil](mailto:auditnet@dodig.mil) for an OAIG APO POC.

(6) The requesting audit organization must ensure its auditors have the proper clearances and that the information is safeguarded. Information and documents obtained from DoD Components must not be provided to other DoD and federal organizations, State or local governments, or non-governmental organizations without the knowledge and consent of the DoD Component that provided it.

b. Procedures for Requesting Access by Non-DoD Auditors. The procedures in paragraph 2.a. of this enclosure also apply to contracted audits and to non-DoD federal auditors. Contracting officers should work with their internal audit organization to comply with these procedures.

(1) The contracting officer must ensure that contracted auditors have the necessary clearances to access the information and that contract terms are adequate to safeguard information provided to contracted auditors.

(2) When the DoD Component issuing the contract does not have an internal audit organization, the contracting officer should contact the IG DoD POC.

(3) The non-DoD federal auditor should contact the IG DoD to obtain access in accordance with this enclosure.

c. Procedures for Requesting Access to Defense Contractor Data. Section 4(a)(4) of Reference (j) encourages Inspectors General and other oversight organizations to avoid duplication of work and coordinate all services.

(1) Reference (c) includes services that involve review of contractor records with DCAA and with the appropriate contract administration office.

(2) Whenever data must be obtained directly from contractors, in accordance with Reference (c) the DoD organizations should request assistance from the contract administration or procurement organizations and coordinate with DCAA.

(3) The OAIG APO can provide assistance and facilitate discussions with DCAA and the contract administration and procurement organizations as necessary.

### 3. CONDUCTING AUDITS OF, AND REPORTING FINDINGS AND RECOMMENDATIONS ADDRESSED TO, OTHER DoD COMPONENTS

a. Conducting Audits of Other DoD Components. A DoD Component is considered “other” when an organization outside of a DoD Component seeks to initiate an audit of a particular DoD Components’ operations, functions, or programs. The reviewing organization is usually another DoD Component, federal agency, State or local government agency, or nongovernmental entity.

(1) The reviewing organization should immediately contact the IG DoD at [auditnet@dodig.mil](mailto:auditnet@dodig.mil) for the IG DoD POC under either of the following circumstances.

(a) When the reviewing organization needs to conduct an audit of the other DoD Component’s work.

(b) When the reviewing organization, through gathering audit information and analyzing the information, realizes that the evaluation of the other DoD Component’s operations, functions, or programs will be required.

(2) The IG DoD determines whether the reviewing organization’s work is duplicative of other ongoing or planned audit work by the IG DoD, GAO, or other DoD internal audit organizations. In making this determination, the IG DoD uses the same criteria as stated in subparagraph 2.a. (3)(d) of this enclosure.

(a) The IG DoD should consult with the reviewing organization to determine whether the work is duplicative.

(b) If the work is not considered to be duplicative, the IG DoD may facilitate the reviewing organization’s effort to perform the audit service.

(c) In all cases, the reviewing organization should inform the IG DoD in advance of and, when the IG DoD considers appropriate, arrange its participation in entrance conferences for audits of DoD Component programs and operations when the audit is to be conducted by other federal agencies, State and local governmental agencies, non- governmental entities, or other DoD audit organizations.

b. Reporting Audit Findings and Recommendations Addressed to Other DoD Components

(1) In accordance with References (b) and (j), DoD Components should cooperate fully with other DoD Components, federal agencies, State and local government agencies, and nongovernmental agencies and respond constructively to and take appropriate actions on the basis of audit reports from other DoD Components and non-DoD organizations.

(a) In accordance with the responsibilities and authorities established in References (b) and (j), the IG DoD will serve as the DoD central liaison with other DoD Components and non-DoD organizations on all matters concerning the reviewing organization's audits, reports, and activities.

(b) This includes tasking, monitoring, and facilitating ongoing audits with the DoD and preparing responses to reports and requests from reviewing organizations.

(2) When a reviewing organization proposes to issue a report with recommendations to a DoD Component outside of their own organization, the reviewing organization should contact the appropriate IG DoD POC previously obtained from [auditnet@dodig.mil](mailto:auditnet@dodig.mil). The IG DoD POC should coordinate the report with the DoD Component outside of their organization in a timely manner.

## ENCLOSURE 13

### POTENTIAL BENEFITS

1. PURPOSE. This enclosure provides guidance for identifying, classifying, and reporting potential benefits identified in audits.

#### 2. BACKGROUND

a. Information on potential benefits, both monetary and non-monetary, are critical to the audit organization, the audited organizations, and interested third parties.

(1) Estimates of potential benefits give the reader of the audit report a perspective in judging the importance of the conditions found and the recommended corrective action.

(2) Information on potential benefits provides management with a way to assess the priority in implementing recommendations based on each recommendation's cost and corresponding benefits.

b. The IG DoD is required to report information on potential monetary benefits identified by the by the DoD Military Department audit organizations and DCAA in its semiannual reports to the Congress. The IG DoD is also required to report to the Congress the potential monetary benefits that management agreed to, management disagreed with, and actual amounts realized through management's action.

#### 3. TYPES OF BENEFITS

a. Potential Monetary Benefits. Many of the benefits arising from audits can be expressed in monetary terms. For Congressional semiannual reporting purposes, potential monetary benefits are classified as "Questioned Cost" or "Funds Put to Better Use" and are defined in the Glossary of this manual and section 5(f) of Reference (j).

b. Nonmonetary Benefits. Many audits result in valuable benefits to the DoD Component, to the DoD, or to the government but cannot be expressed readily in monetary terms.

(1) Such benefits may stem from recommendations relating to matters such as operational readiness, personnel safety, data accuracy, internal controls, compliance with laws and regulations, or streamlining of organizations or processes.

(2) These benefits should be expressed using the most appropriate quantitative measurement.

(3) Higher operational readiness could be expressed by increased numbers of units meeting readiness standards, while improvements in equal employment opportunity could be expressed in terms of increases in the numbers or percentages of minorities or women employed.

(4) Non-monetary benefits are as important as monetary benefits.

4. AREAS OF SPECIAL CONSIDERATION FOR BENEFITS. The following areas present unique problems on identifying and classifying benefits.

a. Personnel. Recommendations regarding military and civilian personnel authorizations and assignments usually do not affect end strength.

(1) Those types of recommendations generally are designed to remedy overstaffing at a particular location.

(2) Generally, the spaces related to overstaffing are transferred to other activities or organizations that were understaffed because of personnel or funding limitations.

(3) Although those actions should not result in reduction of overall personnel strength for the DoD organization, the benefits still should be reported as funds are put to better use.

b. Material Excesses. Reports often contain recommendations to redistribute excess material to satisfy operating requirements or to fill inventory shortages. The determination of benefits will depend on what effect the redistribution action would have on current and future acquisition and holding costs. When a recommendation is made to defer the procurement of supplies or an item of equipment, the deferment should be for at least 2 years to take credit for a monetary benefit.

(1) Supplies. Audits of supply support activities often identify stocks that are in excess of prescribed retention limits. Redistribution of supplies to activities having a current need can result in monetary benefits through canceling requisitions or planned procurements. Distribution avoids variable holding costs including storage and obsolescence.

(a) It is not necessary to identify and cancel outstanding requisitions to report potential benefits, but the supplies must be demand- supported, have a high turnover rate, and be reordered periodically. DoD auditors should include information in their audit documentation that specifically shows how the amount of potential monetary benefit was determined.

(b) When the excess stocks are not authorized or qualified for stockage and the holding activity has no foreseeable future need for the items, monetary benefits would generally equate to the value of stock redistribution and the amount of inventory holding costs avoided by removing the items from storage and placing them into use.

(c) In the case of authorized stockage items, the determination of monetary benefits should weigh the potential reductions in holding and current acquisition costs against the cost to the holding activity of replacing these stocks in the future.

1. Stocks that exceed computed economic retention limits are not considered economical to retain.

2. When on-hand stocks exceed computed economic retention levels and are not being held for any other purpose, redistributing the stocks to satisfy current requirements would generally result in monetary benefits equal to the value of the stocks redistributed.

3. Although the holding activity may have to replace these items in a future year, the replacement costs would be offset by reductions in holding costs.

(d) When an activity continues to order stocks and to maintain an excess inventory, a recommendation to reduce ordering would result in funds put to better use when it can be assumed that the activity would have continued to order and maintain an excess position.

(2) Equipment. Most major equipment items in the DoD are centrally funded, procured, and managed at the DoD Component level. Procurement decisions are made at the Military Department level based on the worldwide asset position. Those equipment items are accounted for on the property books at the user's level and area as part of the centrally managed worldwide asset position.

(a) When procurement is based on the total DoD Component asset position, a redistribution of local excess may not affect the net requirements or procurement decisions. Such distributions may improve productivity or readiness through improved use of available assets but do not result in a potential monetary benefit.

(b) When the excess items were also unrecorded assets (not on an accountable record), the recording of the asset could result in funds being put to better use if it would increase the total recorded asset position and thus affect procurement decisions.

(c) Unlike excess stocks of material, however, it is not enough just to demonstrate that equipment excesses are demand-supported.

1. An assumption cannot be made that equipment items are high-turnover items that are likely to be procured frequently, i.e., during the current year and the next 5 years from the date of the audit.

2. It would be necessary for the audit to demonstrate the effect excess equipment will have on ongoing or planned procurement to claim the potential benefit, e.g., corresponding budget information might be included in the process.



c. Military Construction Projects and Multi-year Contracts. Funds for military construction projects and multi-year contracts may require special consideration when auditors determine that such projects or contracts should be canceled or reduced in scope.

(1) When recommendations are made to reduce in scope or cancel an approved, funded military construction project, a benefit in the category of funds put to better use may be claimed.

(2) A benefit in excess of the amount currently funded may be identified in the audit report when auditors can show that it was likely that funding would have been approved had the auditors not identified the reduction in scope or cancellation.

(3) Benefits resulting from recommendations for the cancellation of unfunded construction projects would also be reported as funds put to better use so long as it can be assumed that the projects otherwise would have been funded.

(a) The amount claimed for the unfunded construction project should adhere as closely as possible to computation procedures discussed in paragraph 5.b. of this enclosure, that is, not to exceed a 6-year period.

(b) This exception applies only to construction projects.

(c) For other types of projects, there must be evidence of planned procurement and planned funding.

d. Benefits Identified to Nonappropriated Funds. Benefits identified to nonappropriated funds, including the military exchange organizations, are reported following the same criteria as for appropriated funds. Care must be exercised to ensure that those benefits are properly described in audit reports so as not to imply that the benefits involve appropriated funds when that is not the case.

e. Benefits Identified to Other Components. Audit work at one DoD Component may result in benefits at another DoD Component. These types of benefits may be reported as part of the audit that produced them using the criteria presented in this enclosure.

(1) The facts concerning such situations should be clearly described in the audit report.

(2) Reportable benefits must result in a net benefit to the DoD or to the Federal Government overall.

(a) For example, a reportable benefit would result when a recommendation to a DoD Component results in a refund to the U.S. Treasury.

(b) Collections or reimbursements from other federal organizations to a DoD Component are reportable when they result in a net benefit from a DoD perspective.

(3) Intra-defense collections or reimbursements within the DoD that cancel each other out are not reportable.

(4) DoD Components should not report potential benefits from audits of non-DoD agencies, programs, activities, or funds, in the IG DoD Semiannual Report to Congress.

f. Projecting Monetary Benefits Using Statistical Sampling. The use of statistical sampling to project potential monetary benefits is encouraged.

(1) Projections of monetary benefits reported will be limited to the sampled universe.

(2) Auditors should take care to ensure that statistical sampling or other quantitative methods used to estimate potential benefits are technically defensible, used accurately, and presented appropriately. Auditors are required to be knowledgeable in the technical aspect of the projected monetary benefits when using specialists/statisticians in designing, evaluating, and projecting potential monetary benefits.

g. Benefits Identified to Indefinite Recommendations. Recommendations to consider, re-evaluate, or make a study are weak recommendations and, except in unusual circumstances, should not be made. However, if such recommendations are made, any related monetary benefits would normally be too unpredictable to be estimated and claimed.

h. Benefits Identified to Deobligation of Funds. Auditors may identify unliquidated obligations that may be deobligated. As long as funds are not cancelled, they can be reported and are considered “funds put to better use.” Deobligation of cancelled funds cannot be reported as potential monetary benefits.

i. Benefits Identified Require Independent Audit Verification. Auditors will not accept an estimated amount provided by management without an independent validation as part of the audit process. When auditors obtain an estimated amount by the auditee, management, or a third party, they must verify the accuracy of the support for that estimate before accepting it or reporting it. Auditors must independently verify the potential monetary benefits before the benefits can formally be attributed to the audit.

## 5. COMPUTATION OF MONETARY BENEFITS

a. Benefits from audits are computed whenever the benefits are due directly to the audit recommendations; that is, when the benefits reported can be expected to result upon management’s completion of the recommended actions. Benefits are computed in a reasonable manner and should consider all offset costs.

(1) Offset costs include all direct or indirect costs that would be incurred in implementing the action that would result in the monetary benefit.

(2) Audit organizations should not report duplicate potential benefits, even when they result from separate audits or reviews conducted within a 5-year time period. The audit organization that first identifies the potential benefits should report them.

b. Amounts reported for both one-time and annual benefits may be based on budget projections. For both types of benefits, the amounts that may be reported are limited to a 6-year period covered by the most current Program Objective Memorandum, DoD Program Decision Memorandum, or Approved Future Years Defense Program.

(1) One time benefits may result from recommendations such as a reduction in requisitioning objectives, improper payments, or reduction of material requirements.

(2) Annual benefits affecting several identifiable fiscal years may result from a one time management action such as canceling plans to acquire major items of equipment over a number of years or leasing rather than purchasing computer equipment.

(3) Some recommendations, such as reductions in payrolls and other operating expenses may result in recurring annual benefits that continue for an indefinite period of time.

## 6. REPORTING BENEFITS

a. Reporting Benefits in Audit Reports. Audit reports should indicate the amount of monetary or non-monetary benefits that will accrue when the recommendations are implemented. The report should contain a complete description of each potential monetary or non-monetary benefit, either in the findings or as an attachment, to ensure that the reader understands the nature of the benefit and the basis upon which it was determined.

(1) When the auditor used a non-statistical (judgment) sample, the report should contain details about the universe, the sample unit and sample selection method.

(a) Non-statistical sample results are self-representing and cannot be projected or extrapolated to a population and results cannot be presented as percentages.

(b) When a statistical sample is used, the report should contain details about the universe, the sample unit, sample selection method, confidence level and projections with confidence intervals.

(c) The report should state the projected results. When the results are not projected, explain why the results could not be projected.

(2) The description of each monetary or non-monetary benefit could also be a separate document as long as it is available to management or other interested third party users and is referred to in the report. The appropriation account and year of funds affected should be determined whenever possible and included in the monetary benefits description to aid management or other interested third party users in taking corrective measures.

(3) During the audit and before the audit report is issued, discussions with management may bring about improved operations that result in potential monetary or non-monetary benefits. When this occurs, a written record of the discussions should be placed in the audit documentation when DoD auditors plan to report that monetary benefits were realized because of their audit work. A record of the discussions that resulted in the potential benefits should also be included in the audit report to show that management took corrective action as a result of the audit.

(4) Before the final audit report is issued, each potential monetary benefit should be reviewed by an independent party within the audit organization who was not directly responsible for the audit. The purpose of this review is to ensure consistency of treatment in accumulating, categorizing, and reporting monetary benefits.

b. Reporting Benefits Internal to the DoD. DoD auditors should reach agreement with management on the reasonableness of potential benefits cited in the report and document the agreement in writing.

(1) Management is required by Reference (c) to comment on the reasonableness of potential auditor-estimated benefits as part of its review of draft reports.

(2) When DoD management does not comment in response to the draft report, management must again be asked to comment on the potential benefits in a response to the final report and before the report is sent to the audit follow-up activity in accordance with DoDI 7650.03 (Reference (q)).

(3) When management non-concurs with the auditors' estimate of the potential benefits, the amount may still be reported when, in the auditors' judgment, the estimate is valid and management's comments have been carefully considered.

c. Reporting Benefits External to the DoD. When DoD auditors perform reviews of third-party entities that receive DoD funds, they should attempt to obtain the concurrence of the audited entity's management with the potential benefits cited in the report. Such concurrence is not a requirement; however, if entity management does not concur, auditors should document in writing the reason for the nonconcurrence and their rebuttal of it.

d. Reporting Statistical Data on Benefits. Data collection instructions issued by the IG DoD include guidance for reporting statistical data on potential monetary or non-monetary benefits for the Semiannual Report to the Congress. The guidance is contained in DoDI 7750.06 (Reference (r)).

ENCLOSURE 14

INTERNAL CONTROLS AND DETECTING AND REPORTING FRAUD AND  
NONCOMPLIANCE WITH PROVISIONS OF LAWS, REGULATIONS, CONTRACTS, AND  
GRANT AGREEMENTS

1. PURPOSE. This enclosure provides guidance on internal controls and detecting and reporting potential fraud and noncompliance with provisions of laws, regulations contracts and grant agreements, and abuse applicable to audits in accordance with GAGAS. It also provides guidance on alerting investigators when potential illegal acts or fraud may have occurred.

2. INTERNAL CONTROL GUIDANCE. DoD audit organizations performing audits should evaluate internal controls applicable to the audit objective(s) and meet specific requirements related to internal controls in GAGAS. Additional guidelines that DoD audit organizations should use to achieve compliance with GAGAS include:

a. GAO-issued guidance (Reference (s)) that provides a framework for understanding internal controls in the Federal Government. The related tool, “Internal Control Management and Evaluation Tool” (Reference (t)), provides a structured approach for assessing the internal control structure. The GAO guidance incorporates definitions and fundamental concepts related to internal control published by the Committee of Sponsoring Organizations of the Treadway Commission (Reference (u)).

b. OMB Circular A-123 (Reference (v)), which defines management’s responsibility for internal control in federal agencies and implements section 3512 of Chapter 35 of Reference (l), commonly known as the “Federal Managers’ Financial Integrity Act (FMFIA) of 1982.”

(1) Reference (v) places particular emphasis on strengthening the requirements for conducting management’s assessment of internal controls over financial reporting but is applicable to other internal control-related activities of government operations.

(2) References (v) and (l) are at the center of the existing federal requirements for improving internal controls.

c. DoDI 5010.40 (Reference (w)), which requires that the DoD Components establish a manager’s internal control program to review, assess, and report on the effectiveness of internal DoD controls, including identifying and promptly correcting ineffective internal controls. Reference (w) further requires that DoD Components establish internal controls as part of the overall FMFIA process and the FMFIA process over financial reporting.

3. DETECTING AND REPORTING FRAUD AND NONCOMPLIANCE GUIDANCE. In the detection of potential fraud and illegal acts, DoD auditors:

a. Maintain sufficient knowledge of the characteristics and indicators of fraud, techniques used to commit fraud, and the types of fraud associated with the activities being audited.

(1) Such knowledge is necessary for the auditor to be reasonably effective in determining the adequacy of controls to deter opportunities to commit fraud or illegal acts, and in evaluating evidence that these acts might have been committed.

(2) The DoD audit organizations should work closely with investigative organizations to develop additional information on the characteristics or indicators of fraud and share it with other DoD audit organizations.

(3) Information on fraud indicators and related fraud resources are located on the IG DoD Fraud Investigation Resources webpage; <http://www.dodig.mil/Resources/Fraud/index.html>.

b. Plan audits (except for review and agreed upon procedures attestations) to obtain reasonable assurance of detecting fraud in accordance with GAGAS.

(1) Fraud risks should be assessed and taken into consideration throughout the audit, including during audit planning and evidence evaluation.

(2) Reference (d) contains guidance on auditor responsibilities for communicating and reporting indicators of fraud that are not significant to an audit's objectives.

c. Consult with investigative organizations when auditors identify fraud risk or when indications of fraud come to the auditor's attention.

(1) Auditors should document the situation and promptly notify the appropriate DoD investigative organization in accordance with DoDI 5505.02 (Reference (x)).

(2) Following notification of investigators, the auditors should notify the top official of the entity under audit of the situation unless advised otherwise by investigators or it is obviously inappropriate (e.g., the top official is involved).

d. Recognize fraud indicators and refer and consult as early as possible with investigators to determine the approach and additional audit work needed if fraud or illegal acts have occurred or are likely to have occurred.

(1) When consultation with the investigative organization determines that additional procedures are needed, auditors should design procedures to provide reasonable assurance of detecting such fraud.

(2) When necessary, and in consultation with the investigative organization, auditors should perform additional audit work to determine whether fraud likely occurred and the effect on the audit findings.

e. Obtain reasonable assurance to detect fraud (except for review and agreed-upon-procedures-attestations) in accordance with GAGAS. Auditors are not expected to provide absolute assurance of detecting fraud, illegal acts, or abuse. Absolute assurance is not attainable and thus even a properly planned and performed audit may not detect a material misstatement resulting from fraud.

f. Determine the best way to report the results. The method of reporting the audit results will vary depending upon individual circumstances.

(1) Audit matters dealing with fraud or noncompliance should be covered in a separate written audit report if this would facilitate the timely issuance of an overall report on other aspects of the audit.

(2) The opinion of legal counsel should be obtained on the reporting method chosen.

(3) Auditors should limit their public reporting to matters that would not compromise investigative or legal proceedings.

#### 4. RELATIONSHIPS WITH DoD CRIMINAL INVESTIGATIVE ORGANIZATIONS

a. Auditors should be careful when determining whether to make a referral to an investigative organization that they are not attempting to determine criminal intent. Auditors are not responsible for proving fraud.

(1) The determination of fraud is made through the judicial or other adjudicative system and is beyond auditors' professional responsibility; the investigator and prosecutor are responsible for determining whether fraud actually occurred.

(2) When indications of fraud are identified, the auditor should formally refer the matter to the appropriate investigative organization.

(3) When investigations or legal proceedings are initiated or in process, auditors should, in coordination with the involved criminal investigative organization, evaluate the impact on the current audit in accordance with GAGAS. In some cases, it may be appropriate for the auditors to withdraw from or defer further work on the audit engagement or a portion of the engagement to avoid interfering with an investigation or legal proceeding.

b. DoD audit organizations should respond in a timely manner when investigative organizations request audit assistance in performing formal investigations. Audit organizations are urged to participate with investigative organizations in joint reviews of programs and operations highly susceptible to fraudulent activities.

c. DoD audit organizations are encouraged to assist criminal investigative organizations by providing information they may come across during their audits (commonly known as information referrals) that could alert investigators to weaknesses in internal controls and to procedures that could create conditions conducive to fraud, even though no fraud may actually be suspected.

d. DoD audit organizations should develop guidelines for audit support of fraud investigations and coordination on fraud referrals as appropriate.

ENCLOSURE 15

CONTRACTING FOR AUDITS

1. PURPOSE. This enclosure provides guidance and procedures for contracting with and oversight of non-federal auditors when they perform audits for the DoD.

2. GUIDANCE

a. Pursuant to Reference (c), the DoD Components will contract for audits 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.

b. The OAIG APO will review all statements of work for procuring audits from outside sources before release to prospective bidders to ensure the appropriate use of non-federal auditors and compliance with applicable auditing standards, with the exception that audits of non-appropriated funds and related activities are governed by Reference (h).

c. When DoD Components need to acquire audit services from non-federal auditors, they will follow requirements described in subpart 237.2 of the Defense Federal Acquisition Regulation Supplement (Reference (y)). Subpart 237.2 delineates general policies for the acquisition of audit services, and requires inclusion of solicitation provisions and contract clauses requiring contractor compliance with GAGAS.

d. Non-federal auditors who work with the DoD Components are subject to GAGAS and must be licensed or work for a firm that is licensed in the State or other jurisdiction where they operate their professional practices.

3. PLANNING FOR PROCUREMENT OF NON-FEDERAL AUDITS. Proper planning is vital when contracting for non-federal audits.

a. Any planning errors, once built into the contract, could be costly to correct.

b. Planning identifies what audits are needed, when and how they should be provided, and what provisions should be in the audit contract.

c. Planning also helps ensure proper information is collected to effectively structure a solicitation package.



#### 4. REVIEWING SOLICITATIONS FOR NON-FEDERAL AUDITS

a. The DoD Component or cognizant DoD audit organization will provide the statement of work to the OAIG APO for review before its release to prospective bidders. The solicitation package normally includes:

- (1) Administrative information.
- (2) Work and reporting requirements.
- (3) Time requirements.
- (4) Proposal information.
- (5) Contractual information.

b. The OAIG APO will review the proposed statement of work to ensure that it contains provisions requiring the contractor to:

- (1) Comply with GAGAS.
- (2) Provide the latest copy of the firm's peer review report and associated documentation, if applicable.
- (3) Provide a statement before award of the contract that the firm is not currently doing work for the DoD Component that would impair its independence.
- (4) Refer instances of suspected fraud to appropriate officials within DoD investigative organizations in accordance with paragraph 4.a. of Enclosure 14.
- (5) Address the final audit report to the head of the DoD Component being audited, and provide a copy to the Audit Committee, if one exists within the DoD Component.
- (6) Preserve audit documentation (working papers) for at least 3 years following the audit report date and make them available upon request to DoD procurement officials, the DoD Component, the DoD audit organization, the IG DoD, and GAO.
  - (a) The IG DoD and GAO will have unrestricted access to the contractor and the audit documentation during and after the audit.
  - (b) If they want to perform a post audit review, all audit documentation will be made available in either hard copy or electronic form at no cost to the government.
  - (c) If necessary, training on the software package used by the firm will be provided at no cost to the government.

c. In the absence of any of the above provisions in the contract or in response to any recommendations provided by the OAIG APO to the statement of work, the DoD Component responsible for the solicitation package must notify the OAIG APO and report what recommendations were not followed, and why. It should also be brought to the attention of the contracting officer before a solicitation action.

## 5. MONITORING PERFORMANCE

a. The DoD Component should develop appropriate guidelines to monitor contract performance and provide input to the contracting officer for contractor interim and final performance reporting, deliverables, and payment. Monitoring has been identified as the most effective way to ensure that a DoD Component receives both the type and quality of audits specified in the written agreement prior to payment for services.

b. Contract performance should be monitored as needed and as requested by the contracting officer. There are several key aspects to consider when monitoring contracts which are described in paragraphs 5.b.(1) through 5.b.(9) of this enclosure. Not all may be applicable in all situations, and other practices may accomplish the same level of monitoring. In addition, the key aspects should be considered within the context of the organization's needs.

(1) Assigning personnel with the skills, knowledge, and training to monitor the contracts. It is preferable that a GS-0511 auditor be assigned as the Contracting Officers' Representative (COR), if possible.

(2) Preparing a quality control review guide.

(3) Attending an opening conference with the contractor and other agency officials to start performance of the contract or task order.

(4) Attending key meetings with contractor and agency officials.

(5) Monitoring and evaluating contractor progress and work, including audit plans, audit documentation (e.g., development, safeguarding and preservation), and final reports.

(6) Reviewing and approving contractor progress billings for payments.

(7) Resolving problems that may result in reduced audit quality, missed deadlines, or additional costs.

(8) Attending an exit conference with the contractor and agency officials.

(9) Evaluating the contractor after completion of the contract against a set of pre-established criteria and retaining the evaluation for future use.

c. Any adverse conditions found during contract performance should be reported to the contracting officer and the users of the services. In addition, the COR should perform an acceptance review of completed audit work before final contract payment is made.

(1) This review, at a minimum, should consist of a review of the audit report or other final written product required by the contract.

(2) The review should determine whether the contractor performing the audit complied with the reporting requirements of GAGAS and the statement of work.

(3) When the tests of performance indicate that the contractor is not in compliance, the COR should inform the contractor's management official(s), the contracting officer, and the requesters of the audit.

## 6. REFERRALS, DEBARMENTS, AND SUSPENSIONS

a. Complaints of substandard work or professional misconduct by a non-federal auditor may warrant referral for review by the appropriate State licensing authorities and the AICPA. A referral would be appropriate when work has significant inadequacies that make the audit so pervasively deficient that users cannot rely on it.

b. The OAIG APO is the only DoD official authorized to make referrals of non-federal auditors for review by appropriate licensing authorities and the AICPA. The DoD Component, or COR overseeing the contract, should work to resolve disagreements on work or product adequacy with the non-federal auditor before proposing a referral. If the circumstances justify a referral, the DoD Component should forward the appropriate documentation and a memorandum with the reason for the proposed referral action to the OAIG APO.

c. Policies and procedures governing the debarment and suspension of contractors are outlined in subpart 9.4 of Federal Acquisition Regulation (Reference (z)) and in subpart 209.4 of Reference (y).

GLOSSARY

PART I. ABBREVIATIONS AND ACRONYMS

AICPA	American Institute of Certified Public Accountants
CIGIE	Council of the Inspectors General on Integrity and Efficiency
CPE	continuing professional education
COR	contracting officers' technical representative
DCAA	Defense Contract Audit Agency
DoDD	DoD Directive
DoDI	DoD Instruction
FMFIA	Federal Managers' Financial Integrity Act of 1982
GAGAS	generally accepted government auditing standards
GAO	Government Accountability Office
IG DoD	Inspector General of the Department of Defense
IPA	independent public accountant
JAPG	Joint Audit Planning Group
OAIG APO	Office of the Assistant Inspector General for Audit Policy and Oversight
OMB	Office of Management and Budget
POC	point of contact
SAS	Statements on Auditing Standards
SSAE	Statements on Standards for Attestation Engagements
U.S.C.	United States Code

PART II. DEFINITIONS

Unless otherwise noted, these terms and their definitions are for the purpose of this manual.

audit. Financial audits, attestation engagements, and performance audits conducted in accordance with Reference (d).

audit documentation. Defined in Reference (d).

DoD auditors. DoD auditors are employed by DoD audit agencies to conduct and oversee financial audits, performance audits, attestation engagements and nonaudit services.

Defense Intelligence Component IGs. Group of audit organizations from the intelligence community that consists of the National Security Agency, National Reconnaissance Office, Defense Intelligence Agency, and the National Geospatial-Intelligence Agency.

deobligate. Act of releasing previously appropriated funds.

funds put to better use. Funds could be used more efficiently when management takes action to implement and complete the recommendation made by the audit organization, e.g.:

Reductions in outlays;

Deobligation of funds from programs or operations;

Withdrawal of interest subsidy costs on loans or loan guarantees, insurance, or bonds;

Costs not incurred by implementing recommended improvements related to the operations of the establishment, a contractor or grantee;

Avoidance of unnecessary expenditures noted in pre-award reviews of contract or grant agreements; and

Any other savings that are specifically identified.

fraud. Defined in Reference (d).

internal control. Defined in Reference (d).

issuers. Defined in Reference (d).

management. The requestor of audits, management of the audited entity, or the parent organization (DoD Component) of the audit organization.

nonaudit services. Professional services other than audits or attestation engagements performed by auditors.

nonissuers. Defined in Reference (d).

quality assurance program. Defined in Reference (d).

questioned costs. A cost questioned by DoD auditors because of:

Alleged violation of a provision of a law, regulation, contract, grant, cooperative agreement, or other agreement or document governing the expenditure of funds or reimbursement of costs;

Finding that, at the time of the audit, such cost is not supported by adequate documentation (“unsupported cost”); or

Finding that the expenditure of funds or reimbursement of costs for the intended purpose is unnecessary or unreasonable.