



Department of Defense MANUAL

NUMBER 7600.07-M
February 13, 2009

IG DoD

SUBJECT: DoD Audit Manual

References: See Enclosure 1

1. PURPOSE. This Manual:

a. Reissues DoD 7600.7-M (Reference (a)) in accordance with the authority in DoD Directive 5106.01 and DoD Instruction 7600.02 (References (b) and (c)).

b. Assists DoD audit organizations in complying with the auditing standards in Comptroller General of the United States Standards (Reference (d) which is commonly known as, and hereafter referred to as, the “generally accepted government audit standards (GAGAS)”; Office of Management and Budget (OMB) Circular A-133 (Reference (e)); President’s Council on Integrity and Efficiency and Executive Council on Integrity and Efficiency (PCIE and ECIE) Standards (Reference (f)); and DoD auditing guidance including Reference (c), DoD Directive 7600.10 (Reference (g)), and DoD Instruction 7600.6 (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 (hereafter referred to collectively as the “DoD Components”).

3. DEFINITIONS. See Glossary.

4. POLICY. It is DoD policy according to References (b) and (c) that:

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

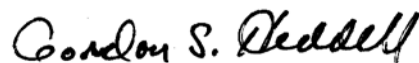
b. Independent audits and attestation engagements of DoD organizations, programs, activities, and functions shall be conducted in accordance with this Manual and Reference (d).

5. RESPONSIBILITIES. See Enclosure 2.

6. PROCEDURES. Enclosure 3 provides guidance for auditing in the Department of Defense. Enclosure 4 provides guidance for auditors and audit organizations to achieve and maintain professional competence. Enclosure 5 provides guidance for audit planning and the planning process at the audit organization. Enclosure 6 provides guidance for coordinating audit service activities. Enclosure 7 provides guidance on the various phases in performing an audit service and communicating and establishing relationships with DoD management while conducting audit services. Enclosure 8 provides guidance to obtain access to records. Enclosure 9 provides guidance on conducting nonaudit services. Enclosure 10 provides guidance for identifying, classifying, and reporting potential benefits. Enclosure 11 provides guidance on quality control and assurance for DoD audit organizations. Enclosure 12 provides guidance on internal controls and detecting and reporting potential fraud and illegal acts. Enclosure 13 provides guidance on audit documentation and data integrity. Enclosure 14 provides guidance for the engagement and oversight of non-Federal auditors when performing audit services for the Department of Defense.

7. RELEASABILITY. UNLIMITED. This Manual is approved for public release and is available on the Internet from the DoD Issuances Web Site at <http://www.dtic.mil/whs/directives>.

8. EFFECTIVE DATE. This Manual is effective immediately.



Gordon S. Heddell
Acting Inspector General

Enclosures

1. References
2. Responsibilities
3. Guidance for Conducting Audit Services
4. Professional Competence
5. Planning
6. Coordinating Audit Activities
7. Performing Audit Services and Communicating with Management
8. Access to Records
9. Conducting Nonaudit Services
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Glossary

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ENCLOSURE 1

REFERENCES

- (a) DoD 7600.7-M, "Internal Audit Manual," June 1, 1990 (hereby canceled)
- (b) DoD Directive 5106.01, "Inspector General of the Department of Defense," April 13, 2006
- (c) DoD Instruction 7600.02, "Audit Policies," April 27, 2007
- (d) Comptroller General of the United States Standards, "Government Auditing Standards," current edition¹
- (e) Office of Management and Budget Circular No. A-133, "Audits of States, Local Governments, and Non-Profit Organizations," June 27, 2003
- (f) President's Council on Integrity and Efficiency and Executive Council on Integrity and Efficiency Standards, "Quality Standards for Federal Offices of Inspector General," January 2008²
- (g) DoD Directive 7600.10, "Audits of States, Local Governments, and Non-Profit Organizations," March 17, 2004
- (h) DoD Instruction 7600.6, "Audit of Nonappropriated Fund Instrumentalities and Related Activities," January 16, 2004
- (i) Appendix 3 of title 5, United States Code
- (j) Comptroller General of the United States Guidance, "Government Auditing Standard Guidance on GAGAS Requirements for Continuing Professional Education," April 2005
- (k) Chapter 75 and Section 3512 of Chapter 35 of title 31, United States Code
- (l) The American Institute of Certified Public Accountants, "Government Auditing Standards and Circular A - 133 Audits - AICPA Audit & Accounting Guide"³
- (m) Public Law 103-62, "Government Performance and Results Act of 1993," August 3, 1993
- (n) DoD Instruction 7650.02, "Government Accountability Office (GAO) Reviews and Reports," November 20, 2006
- (o) DoD Directive 7650.3, "Follow-up on General Accounting Office (GAO), DoD Inspector General (DoD IG), and Internal Audit Reports," June 3, 2004
- (p) DoD Instruction 7750.6, "Information Requirements for Semiannual Report to the Congress," April 27, 1990
- (q) United States General Accounting Office, "Standards for Internal Control in the Federal Government," November 1999
- (r) United States General Accounting Office, "Internal Control Management and Evaluation Tool," August 2001
- (s) Committee of Sponsoring Organizations of the Treadway Commission, "Internal Control Integrated Framework," May 1994⁴
- (t) Office of Management and Budget Circular No. A-123, "Management's Responsibility for Internal Control," December 21, 2004

¹ Copies may be obtained through the Internet at <http://www.gao.gov/govaud/ybk01.htm>

² Copies may be obtained through the Internet at <http://www.ignet.gov/pande/standards/invprg0108.doc>. Note that in October 2008, via the Inspector General Reform Act of 2008 (P.L. 110-409), the PCIE and ECIE were combined and are now called "The Council of the Inspectors General on Integrity and Efficiency."

³ Copies may be purchased through the Internet at <https://www.cpa2biz.com/CS2000/Products/CPA2BIZ/Publications/>

⁴ Copies may be obtained through the Internet at <http://www.coso.org/IC-IntegratedFramework-summary.htm>

- (u) DoD Instruction 5010.40, "Managers' Internal Control (MIC) Program Procedures," January 4, 2006
- (v) DoD Instruction 5505.2, "Criminal Investigations of Fraud Offenses," February 6, 2003
- (w) Parts 209.4 and 237.2 of the Defense Federal Acquisition Regulation Supplement, current edition
- (x) President's Council on Integrity and Efficiency Standards Subcommittee Statement, "Position Statement No. 4," December 5, 1988⁵
- (y) Federal Acquisition Regulation, Part 9.4, current edition

⁵ Copies may be obtained through the Internet at <http://www.ignet.gov/pande/audit/single/pciepos4.txt>

ENCLOSURE 2

RESPONSIBILITIES

1. IG DoD. The IG DoD shall:

a. Ensure DoD audit services comply with GAGAS as required by the Inspector General Act of 1978 (Appendix 3 of title 5, United States Code (U.S.C.) (Reference (i))).

b. Give 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. HEADS OF THE DoD COMPONENT AUDIT ORGANIZATIONS. The Heads of the DoD Component Audit Organizations shall:

a. Ensure that management of the audit organization is consistent with the procedures set forth in this Manual in accordance with Reference (c).

b. Ensure that their staff assigned to conduct an audit service collectively possess the knowledge, skills, and experience necessary before beginning work on the audit service assignment.

c. Ensure 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 (j)).

(1) In conjunction with the individual auditor, monitor his or her progress toward meeting the CPE requirements.

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

d. Coordinate and cooperate with each other 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 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 Enclosure 5, section 3.c. for additional guidance on JAPGs.

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

e. In conjunction with the individual auditor, 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) Plan audits (except for review-level and agreed upon procedures-level attestations) to assess the risk of fraud in accordance with GAGAS requirements.

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

ENCLOSURE 3

GUIDANCE FOR CONDUCTING AUDIT SERVICES

1. PURPOSE

a. This enclosure provides guidance for conducting audit services 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, OMB, PCIE and ECIE, and the Department of Defense.

b. This enclosure identifies the standards and guidance organizations are to follow when conducting audit services for DoD management.

2. AUDITING STANDARDS AND REQUIREMENTS

a. DoD Auditing Standards. Reference (i) requires:

(1) All audit services performed by DoD audit and internal review organizations and non-federal auditors comply with GAGAS.

(2) The IG DoD to ensure that DoD audit services comply with GAGAS.

(a) GAGAS incorporates the American Institute of Certified Public Accountants (AICPA) fieldwork and reporting standards for financial auditing and attestation engagements and the general standard on criteria for attestation engagements, unless specifically excluded by a formal announcement from the GAO.

(b) GAGAS is compatible and may be used in conjunction with other professional auditing standards issued by other authoritative bodies. However, if the other professional auditing standards are in conflict with GAGAS requirements, GAGAS shall be the prevailing source. PCIE and ECIE Standards (Reference (f)) may be applicable to DoD audit services and used in conjunction with GAGAS. While GAGAS primarily provides requirements for the performance of individual audit projects, the PCIE and ECIE standards provide requirements for the management of both the individual audit project and the audit organization.

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

(1) Appendix B-Compliance Supplement of Reference (e) provides information on the Federal program’s 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) AICPA Guide (Reference (l)) 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 (k). The OMB, GAO, and AICPA promulgate applicable standards and requirements; users of this guide should refer to those organizations' original standards and requirements.

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

4. MANAGEMENT OF THE DoD AUDIT ORGANIZATION. The heads of the DoD audit organizations should develop and strive to maintain the following elements within their respective organizations.

a. Tone at the Top. The head of the audit organization must understand and set a tone that supports the value and accountability the audit function brings to the DoD Component.

b. Organizational Independence. Organizational independence relates to the audit organization's placement within the organizational structure and its ability to report results objectively.

(1) Independence Impairment Based on Placement. The ability of an audit organization to perform work and report the results objectively can be affected by placement within the organization. An audit organization should not report to a functional area within an organization that the audit organization could potentially audit.

(2) Independence Impairment Based on Reporting. When the head of a functional area is able to rate, assess, or evaluate the audit organization's leadership then an organizational independence impairment has been created. This situation limits the audit organization's ability to report objectively because of the potential for undue influence.

c. Organizational Management. The audit organization must be independent, follow standards, and have a quality control program that complies with GAGAS. The audit organization should:

(1) Establish plans to carry out its responsibilities. Plans should include strategic planning requirements established by its executive agency in compliance with Public Law 103-62 (Reference (m), commonly known as the "Government Performance and Results Act of 1993"). See Enclosure 5 for information on organizational level planning.

(2) 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.

(3) Coordinate its activities with other Government audit organizations (for example, 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 Enclosure 2 paragraph 2.d. for responsibilities on coordination and Enclosure 6 for information on coordinating audit activities.

ENCLOSURE 4

PROFESSIONAL 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 perform an audit service (including internal and external specialists) should collectively possess adequate professional competence for the tasks required. (See Enclosure 2, paragraph 2.b. regarding DoD audit organizations' responsibility for auditors' competence when auditors are assigned to conduct audit services.)

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 will 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 audit services in accordance with GAGAS should maintain their professional competence through CPE according to GAGAS and Reference (j).

3. CPE REQUIREMENTS AND PROCEDURES. Reference (j) 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 Enclosure 2, paragraph 2.c. 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 according to 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/or developmental assignments.

c. Since fraud is a continuing concern to the Department of Defense, the 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 fraud and illegal acts. (See Enclosure 12, paragraph 3 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 5

PLANNING

1. PURPOSE. This enclosure covers the planning process and the audit plan at the organizational level. Enclosure 7 addresses planning the individual audit service. The size and complexity of the Department of Defense makes universal audit coverage on a cyclical basis 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 (m) provides a tool to improve the efficiency and effectiveness of all Federal agencies by developing a strategic plan, setting performance goals, and measuring their performance against those goals.

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

b. The audit organization should have 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 should generally be 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 should:

(1) Reflect the effective use of audit resources.

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

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

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

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

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

(7) Include 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. During the audit planning process, audit organizations should use information obtained from JAPGs to determine who and what areas others are covering. Also, they assist in identifying potential audit areas, avoid repetitive requests for data from the management, and prevent duplicative projects. JAPG points of contact may be obtained upon request through auditnet@dodig.mil.

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

(1) Required by statute or regulation.

(2) Consistent 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 should timely apprise the parent organization of audit scheduling changes directly affecting their organization.

4. DEVELOPING AN AUDIT PLAN

a. Each DoD audit organization should establish policies and procedures for preparing and executing an audit plan.

b. The audit plan should reflect:

(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 should be used as a planning and scheduling tool and should serve as a notice to management of the audits planned in their areas of responsibility. The plan should be flexible and adjusted as necessary to keep it current.

ENCLOSURE 6

COORDINATING AUDIT ACTIVITIES

1. PURPOSE. This enclosure provides guidance for coordinating audit services activities.

2. COORDINATION REQUIREMENTS

a. Coordination with any organization should begin 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 should also involve sharing strategic and audit plans, and establishing close liaison and good working relationships with other DoD internal audit and review organizations, external review organizations, and DoD managers.

3. COORDINATION OF AUDIT SERVICES WITH CONTRACTORS. Reference (c) provides the process that DoD audit organizations should use to coordinate audit services involving contractor records to avoid duplication of work.

4. COORDINATION OF AUDIT SERVICE INFORMATION WITH GAO. DoD Instruction 7650.02 (Reference (n)) provides the process that DoD audit organizations should use to coordinate GAO reviews and reports to reduce the potential for duplication of effort.

5. 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 7

PERFORMING AUDIT SERVICES AND COMMUNICATING WITH MANAGEMENT

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

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

3. PERFORMING AUDIT SERVICES
 - a. In performing audit services, DoD auditors should:
 - (1) Exercise their professional judgment and conduct audit services 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 8.

 - b. Usually, audit services 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. During the planning stage, auditors gather the needed information on the most significant and material areas for identifying risks and their significance to the audit objective(s). Enclosure 12 paragraph 3.b. contains additional information on identifying risks. The emphasis should be on identifying the primary audit objective(s) and designing the audit approach and plan. During planning, auditors should obtain an understanding of internal controls and risks of fraud, 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 according to GAGAS.

(a) Auditors should identify findings and recommendations as early as possible in the audit and discuss them with officials in the organization being audited before being presented formally 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.

(b) 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 resolve any factual matters still in dispute prior to release of the draft report.

(3) Reporting

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

(b) A draft report should normally be prepared and staffed with management for every audit. Management should be asked to comment specifically on any potential monetary benefits or other benefits shown in the draft report.

(c) Based on management comments, changes should be made to the report to reflect agreement on facts and clarify points that may be misinterpreted.

(d) Management views on the report contents including opposing views and the auditors' position on management views should be incorporated into the final report in accordance with GAGAS.

4. COMMUNICATING WITH MANAGEMENT

a. Communicating With Management. DoD auditors should follow GAGAS requirements for communicating with management during planning.

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

(2) When indications of illegal acts, fraud, or abuse are identified, DoD auditors should consider the appropriateness of information that should be communicated to management. See Enclosure 12 for additional guidance.

b. Notifying Management. In general, DoD audit organizations should give management reasonable advance notice of an audit service being conducted unless the work involves cash

counts, floor checks, or other similar audit services 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, should include the purpose, scope, and objective(s) of the audit service; the time period during which the audit service is to be performed; and any other relevant information.

c. Management Conferences. The first meeting with management is usually the entrance conference prior to beginning the audit service. 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. Auditors should hold an exit conference with management as well, unless they decline.

ENCLOSURE 8

ACCESS TO RECORDS

1. PURPOSE. This enclosure provides procedures for DoD and Federal auditors and inspection entities, including contracted auditors, to obtain access to DoD records or other information from DoD Components outside their own entity.

2. REQUESTING ACCESS TO RECORDS. According to Reference (c), the IG DoD shall coordinate access for DoD Component, non-DoD Federal, and contracted auditors to other DoD Components for any audit service that requires access to records or other information in order to avoid duplication and ensure consistency.

a. Procedures for Requesting Access To Records or Other Information From DoD Components

(1) The requesting organization should contact the IG DoD at auditnet@dodig.mil to obtain an IG DoD point of contact (POC), and should provide to the POC the following information in writing; electronic mail is acceptable:

(a) Objective(s) of the audit service.

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

(c) Description of the engagement 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 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 organization to develop finding(s) and recommendations of the other DoD Component's operations; however, if the requesting organization determines that findings and recommendations to the other DoD Component are necessary, the requesting organization should follow the procedures in paragraph 3.b. of this enclosure.

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

(a) The schedule developed by the requesting organization for completing the audit service 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 work conflicts with ongoing or recent work by other oversight organizations including the IG DoD, Special Inspectors General, GAO, or other DoD audit or inspections organizations.

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

(5) When the requesting organization has questions concerning the other DoD Component's internal audit organization, the requesting organization may contact the Office of the Assistant Inspector General for Audit Policy and Oversight (OAIG APO), IG DoD, at 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 should 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 audit services and to non-DoD Federal auditors. Contracting officers should work with their internal audit organization to comply with this policy.

(1) The contracting officer must ensure that contracted auditors have the necessary clearances to access the information.

(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 POC to obtain access in accordance with this enclosure.

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

review of contractor records with DCAA and with the appropriate contract administration office. In addition, 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. 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 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 should determine whether the reviewing organization's work is duplicative of other ongoing or planned oversight organization work by the IG DoD, GAO, Special Inspectors General, or other DoD internal audit organizations. In making this determination, the IG DoD should use the same criteria as stated in subparagraph 2.a.(3) 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 IG DoD should be informed of and, when appropriate, participate in entrance conferences for audit services 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 (i), 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. Consistent with the responsibilities and authorities established in References (b) and (i), the IG DoD shall serve as the DoD central liaison with other DoD Components and non-DoD organizations on all matters concerning the reviewing organization’s audit services, reports, and activities. This includes tasking, monitoring, and facilitating ongoing audit services with the Department of Defense 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. The IG DoD POC will coordinate the report with the DoD Component outside of their own organization in a timely manner.

4. FOLLOWING-UP AND MEDIATING AUDIT REPORTS WITH RECOMMENDATIONS TO “OTHER” DOD COMPONENTS.

Consistent with DoD Directive 7650.3 (Reference (o)), follow-up on agreed-upon audit recommendations to “other” DoD Components is the responsibility of the reviewing organization officials that are responsible for follow-up activity. The results of such activity on the “other” DoD Component’s findings and recommendations should be included in the reviewing organization’s semiannual follow-up status reports provided to the IG DoD in accordance with DoD Instruction 7750.6 (Reference (p)).

a. When a reviewing organization needs to pursue a finding or recommendation that is disputed by the “other” DoD Component, the reviewing organization should refer the matter to the Report Follow-Up and GAO Liaison Directorate (RF/GL), IG DoD. The referral package should include all relevant background information needed to mediate the issues including an explicit rationale for why the reviewing organization believes the management position is not addressing the recommendation.

b. The IG DoD will review the referral request, advising RF/GL on whether the IG DoD will support the reviewing organization’s position and participate actively in support of their position during further attempts to resolve the matter.

(1) When the IG DoD chooses to participate actively in the mediation process, the RF/GL and the reviewing organization officials responsible for mediating the disputed audit service report will jointly lead mediation efforts.

(2) In those cases where the IG DoD does not support the reviewing organization’s position, the rationale for this decision will be provided to the head of the reviewing organization. The head of the reviewing organization may then request its DoD Component

Head to pursue the reviewing organization's position as a DoD Component position in accordance with Reference (o).

(a) When the Head of a DoD Component decides to elevate its position, the Head of the DoD Component will ensure that the views of the IG DoD are included in the decision package before transmittal to their mediating official.

(b) When the head of the reviewing organization or the Head of the DoD Component of the reviewing organization does not wish to pursue the issue, it will be considered decided and reported as such for audit follow-up purposes.

ENCLOSURE 9

CONDUCTING NONAUDIT SERVICES

1. PURPOSE. This enclosure provides guidance on conducting nonaudit services requested by the management of the audited entity. Nonaudit services can be divided into the following categories: Routine; Other Than Routine; and Nonaudit Services That DoD Audit Organizations Should Not Provide. Routine nonaudit services are discussed in detail in subparagraph 3.b.(1) of this enclosure; Other Than Routine nonaudit services are discussed in subparagraph 3.b.(2) of this enclosure; and Nonaudit Services That DoD Audit Organizations Should Not Provide are discussed in paragraph 3.b.(3) of this enclosure.

2. BACKGROUND

a. DoD management may use DoD audit organizations to accomplish their responsibilities by requesting nonaudit services. Section 3 of this enclosure provides guidance on the relationship between DoD auditors and DoD management when DoD management requests nonaudit services.

b. 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. DoD audit organizations have assisted DoD management and Congress by providing various nonaudit services such as being advisors on working groups, task forces, and integrated product teams. All audit services are required to comply with GAGAS. Nonaudit services are required to comply with the independence standard in GAGAS.

3. CONDUCTING NONAUDIT SERVICES. DoD audit organizations have the capability to perform a variety of services for DoD management. However, in certain circumstances, it is not appropriate for the DoD audit organization to perform both audit services and certain nonaudit services for DoD management. In these circumstances, the DoD audit organizations should determine whether the nonaudit service can be performed as an audit service. When it is not possible to perform the nonaudit service as an audit service, auditors and/or DoD management will have to make a choice and carefully consider which of these services the audit organization will provide.

a. Differences Between Nonaudit and Audit Services. Nonaudit services differ from audit services in two ways. In conducting nonaudit services, 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. Usually, the work does not provide a basis for conclusions, recommendations, or opinions on the information or data.

b. DoD Audit Organization Guidance and Procedures. This paragraph provides procedures that the DoD audit organizations shall follow in conducting nonaudit services, and that they shall include in internal policies and procedures for accepting nonaudit services. These procedures supplement GAGAS minimum requirements for ensuring that nonaudit services adhere to the GAGAS independence standard. See the Glossary for definitions of the three categories of nonaudit services. The DoD audit organization should make available for external peer review the policies and procedures and the work performed for nonaudit services.

(1) Routine Nonaudit Services. Routine nonaudit services are synonymous with the category identified as “nonaudit services that do not impair auditor independence” in GAGAS.

(a) Procedures for Handling Requests to Perform Routine Nonaudit Services. DoD audit organizations may generally accept verbal requests for routine nonaudit services because those types of nonaudit services are considered to be part of the normal interaction between auditor and requestor.

1. However, DoD audit organizations should require a written request when:

a. The estimated amount of resources needed to provide the nonaudit service exceeds 80 hours;

b. A formal, written response or documentation is requested; or

c. The request is for the participation of a member of the DoD audit organization’s staff on a task force, working group, management committee, or similar entity.

2. All requests should include information describing the nonaudit service needed and a date when the service is required.

(b) Procedures for Accepting Requests to Perform Routine Nonaudit Services. Once a request is received, the DoD audit organization should determine whether it can perform the routine nonaudit service by the requested due date. If it cannot, the DoD audit organization should contact the requestor and discuss potential alternatives. When necessary, DoD auditors should meet with the requestor to ensure that the nonaudit service being requested will meet the requestor’s needs. Any significant issues or problems should be discussed with the requestor.

1. When the request concerns participation on a task force, working group, management committee, or similar entity in an advisory capacity; a designated senior official within the DoD audit organization should acknowledge receipt of the request by preparing and issuing a memorandum. The memorandum for participating in an advisory capacity should provide:

a. Name(s) of the assigned audit organization participant(s).

b. Explanation of the auditor’s role(s) for participating in an advisory capacity.

c. Length of time the auditor will participate in the requested nonaudit service.

2. Even though a nonaudit service is considered routine under the GAGAS independence standard, the DoD audit organization should ensure that the nonaudit service requested complies with the overarching principles of GAGAS.

3. When a DoD audit organization determines that a nonaudit service is or will be significant or material to the subject matter of an audit service, the DoD audit organization should decline and follow the procedures in subparagraph 3.b.(4) of this enclosure.

(c) Procedures for Documenting Nonaudit Service Products. When the DoD audit organization provides 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:

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

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

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

4. The DoD audit organization determined that its independence would not be impaired by performing ongoing or future audit services of the subject. If the DoD audit organization, because the nonaudit service is legislatively required or for other reasons, is unable to decline to perform the nonaudit service, the audit organization must disclose the impairment in accordance with GAGAS.

(2) Other Than Routine Nonaudit Services. Other Than Routine nonaudit services are synonymous with the category identified as “Nonaudit Services That Would Not Impair Independence If Supplemental Safeguards Are Implemented” in GAGAS.

(a) Procedures for Documenting Initial Requests for Other Than Routine Nonaudit Services. Other Than Routine nonaudit services are not considered to be part of the normal interaction between auditor and requestor; therefore, the DoD audit organization should normally require a written request. The written request should include:

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 POC to clarify the requestor's requirements and/or to 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.

(b) Procedures for Handling Initial Requests and Adhering to Safeguards for Other Than Routine Nonaudit Services. The senior management official of the requesting organization must agree to accept certain responsibilities and perform certain functions because the DoD audit organization must maintain its organizational independence while performing the requested nonaudit services. The senior management official of the requesting organization must acknowledge that the requesting organization is responsible for the substantive outcomes of the nonaudit service work and must be in a position in fact and appearance to make an informed judgment on the results of the nonaudit service provided. Therefore, before the DoD audit organization can perform the requested Other Than Routine nonaudit service, the senior management official of the requesting organization must agree to:

1. Designate a qualified management-level individual to be responsible and accountable for overseeing the nonaudit service.

2. Establish and monitor the performance of the nonaudit service to ensure it meets management's objectives.

3. Make any decisions that involve management functions related to the nonaudit service and accept full responsibility for such decisions.

4. Evaluate the adequacy of the nonaudit service performed and any findings.

5. Work with the DoD audit organization to ensure that management's performance of the above requirements are properly documented. This includes providing evidence that the management-level individual responsible for overseeing the nonaudit service is qualified to conduct the required oversight.

a. Management's acceptance of the responsibilities should be documented by a signed memorandum that contains the required information.

b. The designated management official is encouraged to provide ongoing feedback to help ensure that the nonaudit work meets the objectives previously agreed upon.

(c) Procedures for Assessing Initial Requests for Other Than Routine Nonaudit Services. Once a request is received, the DoD audit organization will review the request and assess whether the requested Other Than Routine nonaudit service can be performed without impairing its independence.

1. Before the DoD audit organization agrees to provide Other Than Routine nonaudit services, a designated senior official within the DoD audit organization should make an assessment. The senior official should assess whether the staff can avoid situations that could lead reasonable third parties with knowledge of the relevant facts and circumstances to conclude that the DoD audit organization's independence was impaired when conducting the audit and/or nonaudit services. When making the assessment, the DoD audit organization should consider the overarching principles specified in the independence standard in GAGAS.

2. Once the DoD audit organization initially determines that the requested nonaudit service can be performed, the DoD audit organization should contact the requestor to thoroughly discuss the request and obtain any additional information necessary to assist in determining whether the requested nonaudit service can be performed. DoD audit organizations and contractors working for DoD have broad audit responsibilities within the Department of Defense; therefore, DoD audit organizations and contractors working for DoD need to carefully determine when to provide Other than Routine nonaudit services to the Department of Defense so that its independence is not impaired.

(d) Procedures for Accepting Initial Requests for Other Than Routine Nonaudit Services. The DoD audit organization should make a determination that providing the requested nonaudit service will not violate the overarching principles in GAGAS. After that determination is made, the designated senior official within the DoD audit organization may agree to provide the requested nonaudit service depending on the availability of staff and other required resources. The DoD audit organization should issue a memorandum acknowledging and confirming its acceptance of the assignment.

1. The memorandum acknowledging acceptance of the assignment should confirm the DoD audit organization's understanding of the objectives, scope of work, required products or deliverables, and agreed-upon due dates or milestones based on the request and on any subsequent discussions with the requestor.

2. The designated senior management official must sign the memorandum acknowledging management's acceptance of the required responsibilities and return it to the DoD audit organization before the DoD audit organization can start the nonaudit service work.

3. Management's refusal to acknowledge acceptance of the required responsibilities and taskings will result in the DoD audit organization declining to perform the requested nonaudit service. See subparagraph 3.b.(4)(a) of this enclosure for procedures regarding declining a requested nonaudit service when the DoD audit organization initially agreed to perform the nonaudit service. Without this documented acceptance, any nonaudit work performed would be considered an impairment to the organizational independence of the DoD audit organization.

(e) Procedures for Providing Documentation for Other Than Routine Nonaudit Services. Once the DoD audit organization decides to perform the requested nonaudit service using procedures agreed to with the requestor, any product that results from performance of the

nonaudit service should adhere to the procedures in subparagraph 3.b.(1)(c) of this enclosure, in addition to the following documentation requirements.

1. Documentation of Management's Compliance with Requirements. The DoD audit organization is required to document the requesting management's compliance with the requirements specified in subparagraph 3.b.(2)(b) of this enclosure and the independence standard in accordance with GAGAS. This includes obtaining evidence of the qualifications of the designated management-level official responsible for overseeing the nonaudit service (for example, resume, biography, etc.). In addition, the DoD audit organization must document that the tasks required of management were performed.

2. Documentation on the Effects on Future Audit Work. The DoD auditors who provided the Other than Routine nonaudit service should not participate in planning, conducting, or reviewing audit work related to the nonaudit service under the overarching principle that auditors cannot audit their own work. DoD auditors that provided the nonaudit service may convey the knowledge gained of the requesting organization and its operations to the audit assignment team. In addition, the DoD audit organization should not reduce the scope and extent of audit work related to the nonaudit service provided.

(3) Nonaudit Services That DoD Audit Organizations Should Not Provide. This category is synonymous with the category "Nonaudit Services That Impair Independence" according to GAGAS.

(a) Certain nonaudit services, by their very nature, impair the DoD audit organization's ability to comply with the overarching principles in GAGAS. Performing these services would impair the organizational independence of the DoD audit organization, which would negatively affect its ability to perform its basic functions. In those cases, the DoD audit organization should inform management of the requesting organization that the DoD audit organization will be unable to provide the nonaudit services by issuing a memorandum declining to perform the nonaudit service. See subparagraph 3.b.(4)(b) of this enclosure for procedures when the DoD audit organization needs to rescind or decline a requested nonaudit service.

(b) For example, the DoD audit organization should not provide the following nonaudit services.

1. Staff should not serve as voting members of an organization's management committee including the audit committee or the OMB A-123 Program Senior Management Council.

2. Staff should not make policy decisions that affect the future direction and operations of a DoD program.

3. Staff should not 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.

4. Staff should not design, develop, install, implement, or operate any management system to include accounting, internal control, performance measurement, or information technology systems.

(4) Procedures for Declining Requested Nonaudit Services

(a) As discussed previously for Other Than Routine nonaudit services, in situations where the DoD audit organization initially agreed to perform a requested nonaudit service and management refuses to acknowledge acceptance of the required responsibilities and taskings, the DoD audit organization will rescind its acceptance and decline to perform the requested nonaudit service. In addition, if the manager fails to perform the required taskings, DoD auditors will cease performing the nonaudit service.

(b) In situations where the DoD audit organization needs to rescind or decline a requested nonaudit service, the DoD audit organization should send a memorandum to the requestor. The memorandum should:

1. Explain why the DoD audit organization determined that the requested nonaudit service could not be provided.
2. Provide a POC in case the requestor wishes to further discuss the decision.

ENCLOSURE 10

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. Estimates of potential benefits may give the reader of the audit report a perspective in judging the importance of the conditions found and the recommended corrective action. Management should consider information on potential benefits to assess the priority in implementing recommendations based on each recommendation's cost and corresponding benefits.

b. The IG DoD includes information on potential monetary benefits identified by the DoD Military Department audit organizations and DCAA in 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 (i).

b. Nonmonetary Benefits. Many audits result in valuable benefits to the DoD Component, to the Department of Defense, or to the Government but cannot be expressed readily in monetary terms. 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. These benefits should be expressed using the most appropriate quantitative measurement. For example, 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. Non-monetary benefits are as important as monetary benefits.

4. AREAS OF SPECIAL CONSIDERATION FOR BENEFITS. The following areas present unique problems on appropriateness and classification of benefits.

a. Personnel. Recommendations regarding military and civilian personnel authorizations and assignments usually do not affect end strength. Those types of recommendations generally are designed to remedy overstaffing at a particular location. Generally, the spaces related to overstaffing are transferred to other activities or organizations that were understaffed because of personnel or funding limitations. Although those actions will not result in reduction of overall personnel strength for the DoD organization, the benefits still should be reported as funds 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. 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.

(a) 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.

(b) 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. Stocks that exceed computed economic retention limits are not considered economical to retain. 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. 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.

(c) 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 Department of Defense 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. 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. 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. For example, 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. 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. In either case, 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. 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. 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. This exception applies only to construction projects. 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, should be 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 Activities. Audit work at one DoD Component may result in benefits at another DoD Component. Those types of benefits must result in a net benefit to the Department of Defense and may be reported as part of the audit that produced them using the criteria presented in this enclosure. The facts concerning such situations should be clearly described in the audit report. Reportable benefits must result in a net benefit to the Department

of Defense or to the Federal Government overall. For example, a reportable benefit would result when a recommendation to a DoD Component results in a refund to the U.S. Treasury. Collections or reimbursements from other Federal organizations to a DoD Component are reportable when they result in a net benefit from a DoD perspective. Intra-defense collections or reimbursements within the Department of Defense that cancel each other out are not reportable. DoD Components should not report potential benefits from audits of non-Defense agencies, programs, activities, funds, etc. in the IG DoD Semiannual Report to Congress.

f. Benefits Identified with Statistical Sampling. The use of statistical sampling to project potential monetary benefits is encouraged. Projections of monetary benefits reported shall be limited to the sampled universe. 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.

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 canceled, they can be reported and are considered “funds put to better use.” Deobligation of canceled funds cannot be reported as potential monetary benefits.

i. Benefits Identified Require Independent Audit Verification. Auditors shall 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 prior to 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 should be 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 should be computed in a reasonable manner and should consider all offset costs. Offset costs include all direct or indirect costs that would be incurred in implementing the action that would result in the monetary benefit. 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. Examples of one-time and annual benefits are listed in subparagraphs 5.b.(1) through 5.b.(3) of this enclosure.

(1) Many recommendations produce only a one-time benefit. Examples would be a reduction in requisitioning objectives, return of funds erroneously paid out, or reductions of materiel requirements.

(2) There are instances when a one-time management action would result in benefits affecting several identifiable fiscal years, such as canceling plans to acquire major items of equipment over a number of years or leasing rather than purchasing computer equipment.

(3) Certain recommendations result in recurring annual benefits that continue for an indefinite period of time. Examples would be reductions in payrolls and other operating expenses.

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 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 either a judgmental or statistical sample, the report should contain details about the sample including the universe, the sample unit, sample method, confidence or interval level, and error rate. When the sample is statistical, the report should state whether the results were projections and, when the results are not projections, why the results could not be projected. Non-statistical or judgmental sample results are self-representing and cannot be projected or extrapolated to a population.

(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 shall 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 Department of Defense. DoD auditors should reach agreement with management on the reasonableness of potential benefits cited in the report and document the agreement in writing. Management is required by Reference (c) to comment on the reasonableness of auditor-estimated benefits as part of its review of draft reports. 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 Reference (o). 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. The matter should be resolved through the procedures specified in Reference (o).

c. Reporting Benefits External to the Department of Defense. 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 Reference (p).

ENCLOSURE 11

QUALITY CONTROL AND ASSURANCE

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

2. INTERNAL QUALITY CONTROL SYSTEM

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

b. The nature and extent of a DoD audit organization's internal quality control system varies depending on factors such as the organization's size, the nature of work, the organizational structure, and cost-benefit considerations. Therefore, the system established by individual DoD audit organizations will vary as will the need for and the extent of their documentation of the system.

c. Each DoD internal audit organization should prepare appropriate documentation for its system of quality control to demonstrate compliance with its policies and procedures. The form and content of the documentation is a matter of judgment and depends upon the factors in paragraph 2.b. of this enclosure.

d. All documentation and reports related to compliance with the internal quality control system should be retained according to 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.

(1) 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 should generally include 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.

(2) A quality assurance program is an internal evaluation program that is designed to assess whether the audit organization performs work in accordance with established policies and procedures; GAGAS, OMB, and GAO guidance; and statutory provisions applicable to the audit organization.

3. EXTERNAL QUALITY CONTROL REVIEWS. Within the Department of Defense, audit organizations conducting audit services in accordance with GAGAS should undergo and be

responsible for obtaining an external quality control review. 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.

a. Review Requirements. External quality control reviews should be conducted according to GAGAS quality control and assurance guidelines and external quality control review requirements.

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

(a) Internal quality control system is adequate.

(b) Quality control policies and procedures are being complied with.

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

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

(4) If disagreements cannot be resolved between the reviewing and reviewed organizations on the external quality control review results prior to the draft report, the reviewed organization will bring the matter to the attention of the OAIG APO which shall facilitate discussion of the issues.

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

b. Review Report. The review team should prepare 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.

(1) The reviewed organization will provide 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.

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

ENCLOSURE 12

INTERNAL CONTROLS AND DETECTING AND REPORTING
FRAUD AND ILLEGAL ACTS

1. PURPOSE. This enclosure provides guidance on internal controls and detecting and reporting potential illegal acts, fraud, and abuse applicable to audit services 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 audit services should evaluate internal controls applicable to the audit service 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 (q)) that provides a framework for understanding internal controls in the Federal government. The related tool, “Internal Control Management and Evaluation Tool,” (Reference (r)) 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 (COSO) (Reference (s)).

b. OMB Circular A-123 (Reference (t)) defines management’s responsibility for internal control in Federal agencies and implements section 3512 of chapter 35 of title 31, U.S.C. (Reference (k), commonly known as the “Federal Managers’ Financial Integrity Act (FMFIA) of 1982”). Reference (t) 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. References (t) and (k) are at the center of the existing Federal requirements for improving internal controls.

c. DoD Instruction 5010.40 (Reference (u)) 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 (u) 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 ILLEGAL ACTS GUIDANCE. In the detection of potential fraud and illegal acts, DoD auditors should:

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. 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. 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.

b. Plan audits (except for review-level and agreed upon procedures-level attestations) to provide reasonable assurance of detecting fraud in accordance with GAGAS. Fraud risks should be taken into consideration throughout the audit, including during audit planning and evidence evaluation.

c. Consult with investigative organizations when auditors identify fraud risk or when indications of fraud come to the auditor's attention. Auditors should document the situation and promptly notify the appropriate DoD investigative organization according to DoD Instruction 5505.2 (Reference (v)). 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. When consultation with the investigative organization determines that additional procedures are needed, auditors should design procedures to provide reasonable assurance of detecting such fraud. 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. Provide reasonable assurance to detect fraud (except for review-level and agreed-upon-procedures-level 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. Audit matters dealing with fraud or illegal acts shall 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. The opinion of legal counsel should be obtained on the reporting method chosen. 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 must 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. 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. When indications of fraud are identified, the auditor should formally refer the matter to the appropriate investigative

organization. Auditors should obtain periodic status reports on referrals made to DoD criminal investigative organizations.

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 13

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.

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) Documented evidence that supports the findings, conclusions, and recommendations.
- (2) Conducted quality procedures to ensure report accuracy and correctness.

b. After Report Issuance. To ensure integrity of audit data, DoD audit organizations should develop policies and procedures for handling changes to audit documentation after they issue the audit report. The policies and procedures should 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 and 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 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. Access to audit documentation files should be restricted to authorized personnel. 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. Sensitive working paper material should be safeguarded when not in use to prevent leaks and unauthorized disclosure.

c. Electronic audit documentation (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 indirectly through the auditor information that they were unable to obtain directly from the audited entity. This could lead to premature and possibly unauthorized disclosure.

ENCLOSURE 14

CONTRACTING FOR AUDIT SERVICES

1. PURPOSE. This enclosure provides guidance and delineates procedures for the engagement and oversight of non-Federal auditors when they perform audit services for the Department of Defense.

2. GUIDANCE

a. Pursuant to Reference (c), the DoD Components shall be permitted to contract for audit services when applicable expertise is unavailable within the DoD audit organization; augmentation of the DoD audit organization's audit staff is necessary to execute the annual audit plan; or temporary audit assistance is required to meet audit reporting requirements mandated by law or DoD regulation. The OAIG APO shall review all solicitations for procuring audit services from outside sources prior to release to prospective bidders to ensure the appropriate use of non-Federal auditors and compliance with applicable auditing standards, with the exception that audits of nonappropriated funds and related activities are governed by Reference (h).

b. When DoD Components need to acquire audit services from non-Federal auditors, they should follow requirements described in subpart 237.2 of the DoD Supplement to the Federal Acquisition Regulation (FAR) (Reference (w)). Reference (w) delineates general policies and requesting activity responsibilities and requires inclusion of the contract clause requiring contractor compliance with GAGAS.

c. Non-Federal auditors who perform work for 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 AUDIT SERVICES. Proper planning is vital when contracting for non-Federal audit services. Any planning errors, once built into the contract, could be costly to correct. Planning identifies what audit services are needed, when and how they should be provided, and what provisions should be in the audit services contract. Planning also helps ensure proper information is collected to effectively structure a solicitation package.

4. COMMUNICATING AUDIT REQUIREMENTS. Full and open competition is basic to government procurement. Encouraging as many qualified audit firms or independent public accounting firms as possible to submit their proposals for audit services increases the likelihood of receiving a quality audit at a fair price. The solicitation package should be clearly written and set forth all terms, conditions, and evaluation criteria as well as the scope of the work required.

The solicitation package should also be well-distributed and -publicized to ensure full and open competition.

5. REVIEWING SOLICITATIONS FOR NON-FEDERAL AUDIT SERVICES

a. The DoD Component or cognizant DoD audit organization will provide the solicitation package to the OAIG APO for review prior to its release to prospective bidders. The solicitation package normally includes the following elements:

- (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 contract to ensure that it contains provisions requiring the contractor to do the following:

- (1) Comply with GAGAS.
- (2) Provide the latest copy of the firm's peer review report and associated letter of comments.
- (3) Provide a statement prior to award of the contract that the firm is not currently doing work for the DoD Component that would impair its independence.
- (4) Unless the OAIG APO has agreed to an alternative procedure, allow the DoD audit organization or the IG DoD to control the contracting and administration process, determine whether deliverables are sufficient, and review and make copies of working papers, including draft reports, during and after contract performance.
- (5) Explain audit procedures, audit documentation (working papers), and findings until all findings or disputes are resolved.
- (6) Refer instances of suspected fraud to appropriate officials within DoD investigative organizations. (See paragraph 4.a. of Enclosure 12.)
- (7) Unless the OAIG APO has agreed to an alternative procedure, provide the final audit report to the head of the DoD audit organization, not directly to a management component.

(8) 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 audit organization, and the IG DoD.

c. In the absence of any of the above provisions in the contract, the DoD Component responsible for the solicitation package should bring it to the attention of the contracting officer prior to a solicitation action.

6. SELECTING A CONTRACTOR AND TECHNICAL EVALUATION. Although technical evaluation methods may vary, the evaluation process should ensure contractor proposals are responsive to the agency's needs, consistently and objectively evaluated, and that contracts are awarded fairly. Competent and experienced personnel should be assigned to the technical evaluation panel. When evaluating a solicitation, items to consider include the soundness of the technical approach of the contractor's proposal, the qualifications of the organization performing the audit service, the qualifications of the team proposed to perform the audit service, the quality control process of the organization performing the audit service, and references provided by the organization performing the audit service.

7. PROVIDING TECHNICAL ASSISTANCE. The cognizant DoD audit organization should furnish technical advice to the contractor as requested. The DoD audit organization should ensure that the contract requirements to provide technical assistance to the non-Federal auditor do not constitute management of the work. The DoD audit organization must maintain its independence when providing technical assistance because it is also responsible for monitoring and reviewing the work for acceptability.

8. MONITORING PERFORMANCE

a. The cognizant DoD audit organization should develop appropriate guidelines for their staff 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 an audit organization receives both the type and quality of audit services specified in the written agreement prior to payment for services. 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 8.a.(1) through 8.a.(9). 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.
- (2) Preparing a quality control review guide.

(3) Attending an opening conference with the contractor and other agency officials to start 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, 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.

b. Any adverse conditions found during contract performance should be reported to the contracting officer and the users of the services. In addition, the cognizant DoD audit organization should perform an acceptance review of completed audit work before final contract payment is made. This review, at a minimum, should consist of a review of the audit report or other final written product required by the contract. The review should determine whether the contractor performing the audit services complied with the reporting requirements of GAGAS and the statement of work. When the tests of performance indicate that the contractor is not in compliance, the DoD audit organization should inform the contractor's management official(s), the contracting officer, and the requesters of the audit services.

9. DEBARMENTS, SUSPENSIONS, AND REFERRALS

a. Substandard work by a non-Federal auditor may warrant referral for sanctions by the appropriate State licensing authorities or suspension and debarment by the contracting authority. A referral would be appropriate when work has significant inadequacies that make the audit so pervasively deficient that users cannot rely on it. Criteria on what constitutes a referral condition to state licensing authorities and the procedures to be followed in making a referral are set forth in PCIE Statement No. 4 (Reference (x)). Procedures to be followed by DoD officials for debarment or suspension are outlined in subpart 9.4. of the FAR (Reference (y)) and in subpart 209.4 of Reference (w). The FAR provides guidance on cause for debarments or suspension, procedures to be followed in investigation and referral for debarment and suspension actions, the period of debarment and suspension, reporting requirements relative to debarment and suspension, and identification of debarment and suspending officials.

b. The Assistant Inspector General for Audit Policy and Oversight is the only official authorized to make referrals for sanctions by appropriate licensing authorities. The DoD audit organizations should take the steps described in Reference (x) to resolve disagreements on work

or product adequacy with the non-Federal auditor prior to proposing a referral. If the circumstances justify a referral, the audit organization shall forward the appropriate documentation and a memorandum with the reason for the proposed referral action to the AIG APO.

GLOSSARY

PART I. ABBREVIATIONS AND ACRONYMS

AICPA	American Institute of Certified Public Accountants
CPE	continuing professional education
DCAA	Defense Contract Audit Agency
ECIE	Executive Council on Integrity and Efficiency
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
JAPG	Joint Audit Planning Group
OAIG APO	Office of the Assistant Inspector General for Audit Policy and Oversight, IG DoD
OMB	Office of Management and Budget
PCIE	President's Council on Integrity and Efficiency
POC	point of contact
RF/GL	Report Follow-Up and GAO Liaison Directorate, IG DoD

PART II. DEFINITIONS

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

audit or audit service. Service that applies to financial and performance audits and attestation engagements conducted in accordance with GAGAS (Reference (d)).

audit documentation. Defined in GAGAS (Reference (d)).

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

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; or

Any other savings that are specifically identified.

fraud. Defined in GAGAS (Reference (d)).

illegal act. Defined in GAGAS (Reference (d)).

internal control. Defined in GAGAS (Reference (d)).

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

other than routine nonaudit service. Defined in GAGAS (Reference (d)).

quality assurance program. Defined in GAGAS (Reference (d)).

questioned costs. Means 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.

Disallowed cost is a questioned cost that management, officials of the audited entity, or the cognizant auditor decided to sustain or agree should not be charged to the Government.

routine nonaudit service. Defined in GAGAS (Reference (d)).