



## DCMA Instruction 935

# Inspector General: Internal Audits

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<b>Office of Primary Responsibility</b>	<b>Office of Internal Audit and Inspector General</b>
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<b>Internal Control:</b>	Process flow and key controls are located on the Resource Page
<b>Labor Codes:</b>	Located on the Resource Page
<b>Resource Page Link:</b>	<a href="https://360.dcma.mil/sites/policy/DM/SitePages/935r.aspx">https://360.dcma.mil/sites/policy/DM/SitePages/935r.aspx</a>
<b>Approved by:</b>	David H. Lewis, VADM, USN, Director

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**Purpose:** This issuance, in accordance with the authority in DoD Directive (DoDD) 5105.64, establishes policy, assigns responsibilities, and provides instructions for DCMA Internal Audit and Inspector General (OIA-IG) Internal Audit Process, which ensures internal audits are properly approved, coordinated, and documented in accordance with DoD Manual 7600.07-M, "DoD Audit Manual."

## **SUMMARY OF CHANGES**

This Instruction was rewritten. DCMA (Agency) users and stakeholders should read this Instruction in its entirety. The following identifies the most notable changes:

- Incorporate new name change from the Office of Independent Assessment to the Office of Internal Audit and Inspector General (OIA-IG)
- Renames DCMA-INST 935, “Internal Audit Process” to “Inspector General: Internal Audit”

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## SECTION 1: GENERAL ISSUANCE INFORMATION

**1.1. APPLICABILITY.** This issuance applies to the Internal Audit Team (IAT) assigned to the DCMA Office of Internal Audit and Inspector General (OIA-IG) and all DCMA employees involved in audits conducted by the IAT.

**1.2. POLICY.** It is DCMA policy that:

- a. All DCMA personnel will have access to a fair and impartial Inspector General (IG) and execute this instruction in a safe, efficient, effective, and ethical manner.
- b. A selected, qualified, and appointed Assistant IG for Auditing is essential to the effective and efficient management and operation of DCMA internal audit functions.
- c. The Assistant IG for Auditing will report directly to the DCMA IG. This may not be further delegated.
- d. In all matters related to audit work, the OIA-IG and the individual auditors must be independent of mind and in appearance, as required by the Generally Accepted Government Auditing Standards (GAGAS).
- e. The DCMA audit organization must have a review of its quality control system conducted in accordance with GAGAS by reviewers independent of the organization being reviewed. The review should occur at least once every 3 years and determine whether the organization's internal quality control system is in place and operating effectively.
- f. The OIA-IG, IAT will conduct independent audits and reviews of DCMA programs, systems, processes, and operations. In addition, the IAT will perform follow-up on audit findings and recommendations contained in prior audit reports to determine whether management implemented the recommended actions or satisfactory alternatives; and whether the actions taken by management were effective in eliminating the deficiencies.
- g. OIA-IG will consult and coordinate their activities with the DoD IG to enhance effectiveness, increase efficiency, and minimize conflict and redundancy.
- h. The IAT may be tasked to perform reviews, analysis, and other nonaudit services in addition to traditional audits and reviews. These services can be in the form of DoD/DCMA hotline complaints, congressional inquiries, consulting projects with managers, and other special studies.
- i. DoD audit organizations must have full and unrestricted access, unless access is precluded or limited by law, regulation, or DoD policy, to all DCMA personnel, facilities, records, reports, audits, reviews, hotline records, databases, documents, papers, recommendations, or and other information or material related to accomplishing an announced audit objective when requested by an auditor with proper security clearances. Full and unrestricted access includes the authority to make and retain copies of all records, reports, audits, databases, documents, papers,

recommendations, or other information or material until no longer required for official use. DoD audit organizations must ensure all personally identifiable information is collected, maintained, disseminated, and used in accordance with DoD Directive 5400.11, "DoD Privacy Program," DoD 5400.11-R, "Department of Defense Privacy Program," and DoD Instruction 5015.02, "DoD Records Management Program."

## **SECTION 2: RESPONSIBILITIES**

### **2.1. DIRECTOR, DCMA.** The DCMA Director will:

- a. Ensure the Agency is in compliance with DoDD 5105.64.
- b. Ensure adequate audit coverage over DCMA programs, activities, and functions is provided as an integral part of the internal control system in accordance with Department of Defense Instruction (DoDI) 7600.02, "Audit Policies."
- c. Ensure the OIA-IG, IAT complies with Department of Defense Manual (DoDM) 7600.07, "DoD Audit Manual."
- d. Recognize and support the audit function as an important element of the managerial control system and fully use audit services and results.
- e. Dictate that security clearances are needed and, when appropriate, gain access to special access programs.
- f. Provide the OIA-IG with resources (personnel and funds) necessary for the effective and efficient accomplishment of assigned audit functions.
- g. Reviews and approves the annual audit plan.
- h. Hold Component Heads accountable for implementing agreed upon recommendations identified in Final Audit Reports.

### **2.2. EXECUTIVE DIRECTOR/INSPECTOR GENERAL, OFFICE OF INTERNAL AUDIT AND INSPECTOR GENERAL (OIA-IG).** The Executive Director/Inspector General, OIA-IG will:

- a. Adhere to IG quality standards of integrity, objectivity, independence, professional judgement, and confidentiality.
- b. Ensure that the assigned duties of the Assistant IG for Auditing and auditors do not impede with their abilities to be independent, or create a conflict of interest.
- c. Verify that the staff assigned to conduct an audit in accordance with GAGAS collectively possess the technical knowledge, skills, and experience necessary to be competent for the type of work being performed before beginning the audit.
- d. Review and approve audit topics for annual audit plan.
- e. Coordinate planned audits and address issues with the DoD IG.
- f. Provide oversight of audits.

- g. Approve Draft/Final Reports.
- h. Brief Director on audit results.
- i. Maintain all audit records in accordance with record retention policies.
- j. Provide assistance, including subject matter experts as necessary, to assist staff in performance of their duties, in accordance with applicable laws, policies, and regulations.

**2.3. ASSISTANT IG FOR AUDITING.** The Assistant IG for Auditing will:

- a. Initiate, conduct, supervise, and coordinate audits within DCMA.
- b. Plan and approve audit objective, scope, and methodology.
- c. Assign audit team.
- d. Monitor audit work.
- e. Review work papers, entrance/exit conference presentations, Draft/Final Reports, and follow up documentation.
- f. Review and approve audit findings and recommendations.
- g. Confirm that auditors meet the continuing professional education (CPE) requirements and maintain documentation of the CPE completed.
- h. Coordinate and cooperate within the DoD auditing community and with other audit, investigative, inspection, and management review groups to ensure effective use of audit resources; preclude unnecessary duplication of audit efforts; and permit efficient oversight of DoD programs and operations.

**2.4. AUDITORS, OIA-IG.** The Auditors, OIA-IG will:

- a. Possess professional proficiency for the tasks required in accordance to the Government Auditing Standards for Auditing.
- b. In all matters relating to audit work, be free, both in fact and appearance, from impairments to independence; must be organizationally independent; and must maintain an independent attitude.
- c. Ensure professional judgment is used in conducting audit work.
- d. Create the audit guide to answer the audit objective.

- e. Coordinate with the Component Head with the most cognizance over the audit to obtain the DCMA point of contact (POC) information.
- f. Conduct audit work in accordance with GAGAS, DCMA Audit Standard Operating Procedures, and DoD Manual 7600.07.
- g. Provide periodic updates on status of audit to cognizant POC/Component Head.
- h. Track the status of all findings/recommendations and conduct trend analysis related to those findings to provide regular status reports/briefings to the DCMA Director as required.

**2.5. COMMANDERS/DIRECTORS/EXECUTIVE DIRECTORS, INTERNATIONAL AND SPECIAL PROGRAMS DIRECTORATES; ORGANIZATIONAL COMPONENTS.** The Commanders/Directors/Executive Directors will:

- a. Designate a POC within 2 business days of request and serve as the primary focal point and coordinator for all audits under their purview.
- b. Provide unrestricted access to personnel or information required to answer the audit objectives.
- c. Review Draft/Final Report findings and recommendations to provide prompt, responsive, and constructive management consideration and comments on findings and recommendations developed during the course of an audit.

**2.6. POINT OF CONTACT (POC).** The POC will:

- a. Coordinate with the auditors which includes providing access, workspace, data, and personnel for answering questions during the audit.
- b. Assist with coordinating the date, time, and location of entrance/exit conferences.
- c. Keep the Component Head/Supervisor abreast of audit status.
- d. Coordinate management comments to Draft/Final Report findings and recommendations through the applicable Component Head and Capability Manager for the specified audit.
- e. Provide the status of corrective action taken to address all agreed-upon audit findings and recommendations within 180 days of Final Report.



## SECTION 3: PROCEDURES

**3.1. AUDIT ANNOUNCEMENT.** Component Heads will be notified of all audits in advance. The announcement letters will include, at a minimum, a statement of the internal audit objective and scope, POC, and anticipated commencement date.

**3.2. ENTRANCE CONFERENCE.** Entrance conferences will be held for all announced audits. The conference attendees should include appropriate functional representatives. The conferences, facilitated by IAT, will identify the purpose, scope, objectives, proposed methodology, and estimated duration of the work. Points of contact will be established and feedback will be solicited from the participating organizations concerning additional objectives and a more efficient methodology.

### **3.3. AUDIT FIELD WORK.**

a. Performance. The IAT auditor will conduct the audit in accordance with the Government Accountability Office (GAO) Auditing Standards, GAO-12-331G; and DoD Manual 7600.07-M.

b. Use of Subject Matter Experts. Subject matter experts may be consulted during all phases of the audit process.

c. Interim Communications. To the maximum extent feasible, auditors should communicate audit progress and results to auditees during the course of the audit.

d. Access to Information. IAT auditors must be granted full and unrestricted access to all personnel, facilities, records, reports, databases, documents, or other information necessary to accomplish the objectives in the announced audit. When the IAT is denied access to information that falls within the scope and objective of an announced audit, the situation will be reported through the IAT to the DCMA Director and the DCMA General Counsel. The DCMA Director will make a decision and advise the IAT on the denial issue within 30 calendar days of referral.

**3.4. EXIT CONFERENCE.** Exit conferences will be held with responsible Component Heads and Capability Managers in conjunction with the release of draft or final reports, unless management declines.

### **3.5. AUDIT REPORTS.**

a. Form of Reports. Audit reports are generally in the form of a formal, written document. Auditors can use other forms that are appropriate and in writing. The length and depth of an audit report will depend on the complexity of the audit and the materiality of the findings. For audits of narrow scope with minor deficiencies, a memorandum report may suffice. Where there are more in-depth reviews with multiple findings, a more detailed, formal audit report may be used as required. Other forms of audit reports include briefing slides or other presentational materials. Briefing slides may be used in place of written reports as long as they meet the requirements of this paragraph and include an executive summary. In either case, audit reports must be signed by the appropriate managing audit official. Audit reports will be classified and

marked according to the information contained within the report in accordance with applicable classification decisions and/or guides.

b. Contents of Audit Reports. Reports should present facts in a thorough and concise manner. The standard format for internal audit report is:

- (1) Executive Summary and Background.
- (2) Internal Controls.
- (3) Objectives, scope, methodology.
- (4) Audit Results including findings, conclusions, and recommendations, as appropriate.
- (5) If applicable, the nature of any confidential or sensitive information that is purposefully omitted.

c. Draft Reports. Draft Reports will be provided to the auditee and responsible managers. Managers responsible for the audited process or function should provide comments on the findings and recommendations presented in the draft report. Manager's should indicate their concurrence with the findings and recommendations contained within the report and include the specified information below based on their position:

- (1) Concur. State the actions being taken or plan to be taken toward implementing the recommendation and include the estimated completion date.
- (2) Non-concur. Provide the reason for the non-concurrence.
- (3) Partial Concurrence. Clearly differentiate between the portions of the recommendations for which they concur and non-concur. For the portion being concurred, they should state the actions being taken or plan to be taken toward implementation of the recommendation and include the estimated completion date. For the portion they non-concur, state the reason for the non-concurrence.

d. Final Reports. Final audit reports will be provided to the auditee, responsible managers and Capability Manager as appropriate. Managers responsible for the audited process or function may be requested to provide additional comments to the final report if applicable. The final report must be signed by the OIA-IG Executive Director/IG or designee.

**3.6. AUDIT REPORT TRANSMISSION.** Draft and final audit reports will be provided to the auditee. Final audit reports will be provided to the Director, DCMA.

a. Requests for Audit Reports. Internal and external requests for final audit reports will be sent to OIA-IG Executive Director/IG. The release of reports will be made if it is in compliance with the policy of the DCMA Public Affairs Office and the DCMA Security Office

b. Reports with Sensitive Information. If for any reason (e.g., security) a specific report is not to be published or released, or if it is necessary that the report be retained or stored in a location or office other than the IAT, a brief memorandum for the record must be prepared (omitting sensitive information) and retained in the IAT file.

**3.7. AUDIT FOLLOW-UP.** All agreed upon corrective action should be completed within 180 days of Final Report. After 180 days from the date of the final audit report and upon request by the IAT, managing officials must provide the status of corrective action taken to address all agreed-upon audit findings and recommendations. This will include a completion date and description of each action taken.

## GLOSSARY

### G.1. DEFINITIONS.

**Competent.** Competence is derived from a blending of education and experience. Competencies are not necessarily measured by years of auditing experience because such a quantitative measurement may not accurately reflect the kinds of experiences gained by an auditor in any given time period. Maintaining competence through a commitment to learning and development throughout an auditor's professional life is an important element for auditors. Competence enables an auditor to make sound professional judgments.

**Internal Audit.** A function that helps DoD management attain its goals by providing information, analyses, assessments, and recommendations pertinent to DoD management duties and objectives. The internal audit function supports the DoD Component heads. Auditors independently and objectively analyze, review, and evaluate existing procedures, controls, and performance relating to activities, programs, systems, and functions; auditors constructively present conditions, conclusions, and recommendations so as to stimulate or encourage corrective action.

**Policy.** Rules and requirements approved by the Director used throughout the Agency to efficiently and effectively comply with higher authority policy and mission objectives. Policy must provide clear and concise direction to policy users and policy users must adhere to policy when performing their duties.

**Qualified.** Trained to a satisfactory level of knowledge, skills, abilities, and overall understanding to sufficiently assess the risks that the subject matter of the audit may contain a significant inaccuracy or could be misinterpreted.

## GLOSSARY

### G.2. ACRONYMS.

CPE	Continuing Professional Education
DCMA-INST	DCMA Instruction
DoDD	DoD Directive
DoDM	DoD Manual
DoDI	DoD Instruction
GAGAS	Generally Accepted Government Auditing Standards
GAO	Government Accountability Office
IAT	Internal Audit Team
IG	Inspector General
OIA-IG	Office of Internal Audit and Inspector General
POC	Point of Contact

## REFERENCES

DCMA-INST 710, “Managers’ Internal Control Program,” April 21, 2014  
DoD 5400.11-R, “Department of Defense Privacy Program,” May 14, 2007  
DoD Directive 5105.64, “Defense Contract Management Agency (DCMA),” August 17, 2017  
DoD Directive 5106.01, “Inspector General of the Department of Defense,” August 19, 2014  
DoD Directive 5400.11, “DoD Privacy Program,” October 29, 2014  
DoD Instruction 5015.02, “DoD Records Management Program,” February 24, 2015  
DoD Instruction 7600.02, “Audit Policies,” March 15, 2016  
DoD Instruction 7650.01, “Government Accountability Office (GAO) and Comptroller General Requests for Access to Records,” August 24, 2011  
DoD Instruction 7650.02, “General Accountability Office (GAO) Reviews and Reports,” January 6, 2017  
DoD Instruction 7650.03, “Follow-up on General Accountability Office (GAO), DoD Inspector General (DoD IG), and Internal Audit Reports,” December 18, 2014  
DoD Manual 7600.07, “DoD Audit Manual,” August 3, 2015  
GAO Government Auditing Standards, GAO-12-331G, current version  
Inspector General Act of 1978, as amended  
Office of Management and Budget Circular A-11, Preparation, Submission, and Execution of the Budget, as amended  
Public Law 95-452, “Inspector General Act of 1978,” as amended  
United States Code, Title 5, Section 552a, “Privacy Act of 1974”