



DEPARTMENT OF THE NAVY
OFFICE OF THE SECRETARY
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WASHINGTON DC 20350-1000

SECNAVINST 7510.7G
AUDGENAV
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SECNAV INSTRUCTION 7510.7G

From: Secretary of the Navy

Subj: DEPARTMENT OF THE NAVY INTERNAL AUDIT

Ref: See enclosure (1)

Encl: (1) References
(2) Background and Definitions
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1. Purpose. This instruction implements reference (a), by establishing Department of the Navy (DON) audit policies and procedures, per Department of Defense (DoD) guidance and Generally Accepted Government Auditing Standards (GAGAS), references (b) through (e).

2. Cancellation. SECNAVINST 7510.7F

3. Applicability. This instruction applies throughout DON to all audits by DON personnel or activities.

4. Policy. All audits by DON personnel or activities will comply with the policies, procedures, and responsibilities established within this instruction, as well as with DoD guidance and GAGAS, references (b) through (e). This instruction also establishes policy for DON audited activities. Enclosures (2) through (11) provide detail.

5. Responsibilities

a. Department of Defense Inspector General (DoDIG). The DoDIG establishes policy for auditing within DoD, including internal auditing, in compliance with GAGAS.

b. Under Secretary of the Navy. Within DON, the Under Secretary of the Navy oversees internal audits (through the Office of the Auditor General) and resolves disputed audit findings.

c. Auditor General of the Navy/Naval Audit Service

(1) The Auditor General of the Navy is the senior audit official in DON, the principal advisor to the Secretary of the Navy, the Under Secretary of the Navy, the Chief of Naval Operations, and the Commandant of the Marine Corps on all audit-related matters, per reference (a). The Auditor General establishes policies, programs, and procedures consistent with Government Accountability Office (GAO) (reference (c)) and DoD guidance (references (b), (d), and (e)) (see reference (a)). The Auditor General is responsible for internal auditing throughout DON, conducts audits within DON, and oversees all internal audits performed within DON, including those conducted by DON nonappropriated fund audit organizations (reference (d)), DON local audit functions, and non-Federal auditors (reference (b)) under DON contracts.

(2) The Auditor General coordinates audits and maintains dialogue about audit matters with GAO, DoDIG, the Army Audit Agency, and the Air Force Audit Agency.

(3) The Auditor General provides audit policy guidance for, and surveillance and review of, audits conducted by nonappropriated fund organization auditors and DON local audit organizations per references (b) and (d).

(4) The Auditor General has overall responsibility over the mission and functions of the Naval Audit Service. Such responsibilities include:

(a) Monitoring audit services provided under DON contracts to ensure contracted auditors comply with contract

requirements, GAGAS, and DoD audit guidance per reference (b) (see enclosure 10 for additional information on Contracting for Audit Services);

(b) Participating in the audit resolution process;

(c) Supporting the Naval Inspector General in executing the DON Audit Follow-up Program by keeping a database showing the current status of management's actions in response to the findings, recommendations, and estimates of monetary benefits in Naval Audit Service audit reports and verifying corrective actions when and if a later audit is done (reference (f));

(d) Serving as the focal point for internal audit policy for the DON;

(e) Participating in DoD joint audit planning groups;

(f) Developing an annual DON audit plan;

(g) Providing audit assistance to the Naval Criminal Investigative Service (NCIS), the Acquisition Integrity Office, and other DON organizations as appropriate; and

(h) Participating with DoD in providing peer reviews to other DoD internal audit organizations.

d. Secretariat and Command Support for Audit. The Secretariat and all DON echelons of command, including nonappropriated fund organizations and related activities, will provide, as required, suitable office space and all needed facilities in support of the audit function on a nonreimbursable basis.

e. Military Officers. Military officers may be assigned to the Naval Audit Service but may not supervise the conduct of audits. A military officer functioning as an auditor must be directly supervised by a qualified civilian auditor to ensure that recognized audit standards are followed. As with the civilian workforce, when a military officer's next assignment beyond the Naval Audit Service is known, he or she will not take part in an audit of that command or function.

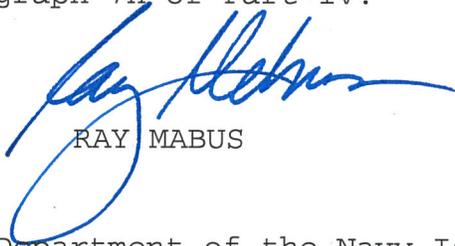
6. Administration and Maintenance. Recommendations for improvements and changes to this instruction, with justification, should be sent to the Auditor General of the Navy.

7. Records Management. Records created as a result of this instruction, regardless of media and format, shall be managed per reference (g).

8. Forms and Reports

a. OGE Form 278 (12/2011), Public Financial Disclosure Report and OGE Form 450 (12/2011), Executive Branch Confidential Disclosure Report can be found on the Office of Government Ethics website at: <https://www.oge.gov/web/oge.nsf/OGE+Forms>

b. The reporting requirement contained within paragraph 5c(4)(C) of this instruction and enclosure (4), paragraph 7 is assigned SECNAV Report Control Symbol 5430-1. The reporting requirements contained within enclosure (5), paragraph 7; enclosure (8), paragraphs 2c and 2d; and enclosure (9), paragraph 2 are exempt from information management control per SECNAV M-5214.1, paragraph 7n of Part IV.



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REFERENCES

- (a) SECNAVINST 5430.7Q
- (b) DoD Instruction 7600.02 of 16 October 2014
- (c) GAO-12-331G, Government Auditing Standards of December 2011
- (d) DoD Instruction 7600.06 of 5 November 2012
- (e) DoDM 7600.07, DoD Audit Manual of 3 August 2015
- (f) SECNAVINST 5200.34E
- (g) SECNAV M-5210.1, Department of the Navy Records Management Program - Records Management Manual
- (h) SECNAVINST 5200.35F
- (i) 5 U.S.C. § 552a
- (j) 28 CFR 16.4(d)
- (k) SECNAVINST 5740.25D
- (l) SECNAVINST 5211.5E
- (m) Inspector General Act of 1978, 5 U.S.C. App 3, as amended
- (n) National Defense Authorization Act of Fiscal Year 1996, Pub. L. No. 104-106, § 810, 110 Stat. 186 (10 February 1996)
- (o) DoD Instruction 7600.10 of 22 March 2016
- (p) SECNAVINST 5720.42F
- (q) CNO memo 5720 Ser N09B10/3U507352 of 8 January 2003 DON FOIA Program Update/Policy Change (NOTAL)
- (r) DoDM 5200.01 Volume 1, DoD Information Security Program: Overview, Classification, and Declassification of 24 February 2012
- (s) SECNAVINST 5430.92B
- (t) DFARS 237.270, Acquisition of Audit Services

BACKGROUND AND DEFINITIONS

1. Background

a. The requirement for a DoD internal audit function originated in the National Security Act Amendments of 1949 (enacting some of the Hoover Commission Report's recommendations). The requirement was expanded to other executive agencies in section 113 of the Budget and Accounting Procedures Act of 1950.

b. The Naval Audit Service, as DON's internal audit agency, helps DON assess risk and audits DON organizations, programs, activities, systems, functions, and funds. The Naval Audit Service has sole responsibility for auditing within the Office of the Secretary of the Navy, Chief of Naval Operations, and Headquarters Marine Corps. No other office or entity may be established or designated therein to perform this responsibility.

2. Definitions. This instruction provides the definition of DON internal audits, including those by Naval Audit Service, nonappropriated fund organizations, and DON local audit organizations.

a. Audit

(1) An audit is an impartial and objective appraisal or verification of the data, the procedures, or the performance of diverse operations, systems, activities, programs, functions, or funds, and of internal program and management controls. Audits are performed using professionally qualified auditors who meet and follow GAGAS. Such standards are issued by the Comptroller General of the United States and are to be followed by auditors and audit organizations. An internal audit is an audit performed by auditors employed by the audited organization. When audits are performed per GAGAS, they provide reports that enhance the credibility and reliability of the information that is reported by and obtained from the organization being audited. Audits are performed to determine whether: (1) Government resources are managed properly and used in compliance with laws and regulations, (2) Government programs are achieving their

objectives and desired outcomes, and (3) Government services are being provided efficiently, economically, and effectively.

Audits:

(a) Evaluate the integrity and reliability of financial and other management information used to make decisions;

(b) Determine whether laws, regulations, acceptable policies, and acceptable procedures are followed;

(c) Determine whether established standards and performance objectives are met;

(d) Determine whether resources are safeguarded and used efficiently and effectively;

(e) Determine whether the desired results of an organization or program are being achieved; and

(f) Help management identify risks and arrive at solutions to problems, devise better ways of doing business, and deter fraud, waste, and abuse.

(2) Audits exclude inspections or inquiries, which are distinct from auditing in the nature of work done. The Naval Audit Service does not perform inspections or inquiries. DON organizations are authorized to request assistance from the Naval Audit Service when the nature of the assistance requires the expertise of auditors. The Naval Audit Service will honor those requests it determines reasonable and necessary if resources are not being used on higher priority work.

b. Types of Audit. There are three basic types of audits: financial audits, attestation engagements, and performance audits. GAGAS, reference (c), provides detailed descriptions of these audits.

c. Staff Function. Internal audit is a staff function which, to be effective, must be independent of line operations. DON auditors do not exercise command authority over organizations they audit. Likewise, line organizations do not exercise command authority over the internal audit function. DON auditors impartially report the facts and, as appropriate,

make recommendations to the level of management responsible for taking corrective action on conditions and opportunities for improvement disclosed by an audit. To do so, auditors must be free of personal impairments to independence that could affect their impartiality or the appearance of impartiality (reference (c)).

d. Internal Control System. Internal audit is an integral part of the overall DON internal control and governance system designed to provide checks and balances to ensure managers carry out their missions effectively and efficiently, and meet established goals and objectives. Reference (h) establishes the DON Managers' Internal Control Program and requires commands to maintain effective systems of management control. Normally, internal auditors evaluate and report on management controls during every audit. Reference (h) requires that auditors evaluate and report on how well management has implemented the Managers' Internal Control Program.

e. Local Audit Function. A local audit function is an audit function established by a DON command or activity to give local commanders an internal audit capability that complements the audits of the Naval Audit Service. DON local audit functions will report to the Head or Deputy Head, and will be organizationally located outside the staff or program management function of the organization subject to audit. The local audit staff will not be used to perform operating tasks, but may be used for audit liaison and audit follow-up on internal audits conducted by others. Local audit staff may also be used to help commanders evaluate the adequacy of vulnerability assessments and perform or evaluate internal control reviews.

f. Regulation. Regulation is defined as a rule and administrative code that has the force of law, since it is adopted under authority granted by a Federal statute. As such, the term as used here excludes all other DON guidance (e.g., instructions, directives, manuals, pamphlets, etc.).

INDEPENDENCE AND IMPARTIALITY OF THE AUDIT FUNCTION

1. To ensure the independence and impartiality of the audit function, the Auditor General of the Navy reports directly to the Under Secretary of the Navy. Whenever the position of Under Secretary is vacant, the Auditor General of the Navy reports to the Secretary of the Navy or his/her designee. Within the DON, only the Secretary of the Navy and the Under Secretary of the Navy may provide direction to the Naval Audit Service.

2. Based primarily on a risk assessment led by the Naval Inspector General and developed in collaboration with DON senior leaders, the Auditor General will develop an annual plan of audits. Most audits in the annual plan will be developed using this collaborative risk-based process. However, the Auditor General also has the authority, in instances where he or she considers it appropriate, to independently decide the nature and scope of audits to be performed and the content of all audit reports.

3. To comply with mandatory GAGAS and ensure credibility of audit work, the Auditor General must ensure that:

a. In all matters relating to the audit work, the audit organization and the individual auditor are independent, both in mind and appearance;

b. Auditors use professional judgment in planning and performing audits and in reporting the results; and

c. The staff assigned to perform the audit must collectively possess adequate professional competence needed to address the audit objectives and perform the work.

RISK ASSESSMENT AND AUDIT PLANNING

1. The Naval Audit Service works in conjunction with the Naval Inspector General; the Inspector General of the Marine Corps; and the Director, NCIS to perform an annual DON-wide Risk and Opportunity Assessment.
2. The Risk and Opportunity Assessment is developed using input from Echelon I and II commands, and identifies high-level vulnerabilities that represent significant challenges to the Department that merit stronger oversight via audit or inspection.
3. The Naval Audit Service Annual Audit Plan is developed using many sources, including primarily the results of the DON-wide Risk and Opportunity Assessment; requests from DON Senior Leaders; issues identified in ongoing or recently completed audits; Auditor General identified issues; and auditors' independent research of DON programs and functions.
4. Planned audits are approved by the Auditor General and briefed to DON Senior Leaders. The audit plan is included in the annual DON Oversight Plan, which is approved by the DON Oversight Planning Board. The approved DON Oversight Plan is flexible and may be adjusted as necessary to address emergent requirements.
5. To avoid duplicative effort to the maximum extent possible, the Naval Audit Service will coordinate, as appropriate, with other applicable audit, inspection, and investigative organizations, including:
 - a. The Naval Inspector General;
 - b. The Inspector General, Marine Corps;
 - c. The Director, NCIS;
 - d. The DoDIG; and
 - e. The GAO.
6. The Naval Audit Service will also take part in the DoDIG functional Joint Audit Planning Groups.

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7. Local internal audit functions, local nonappropriated fund audit organizations, and military exchange audit organizations will provide their annual audit plans to the Naval Audit Service by 31 July.

ACCESS TO INFORMATION

1. Access to Information. Consistent with the auditors' security clearances, unless access is precluded or limited by law, regulation, or DoD policy, DON auditors must be granted full and unrestricted access to all personnel, facilities, records, reports, databases, documents, or other DON information or material requested, that the Auditor General deems necessary to accomplish an announced audit objective (reference (b)). Such access will be unrestricted and unfettered by burdensome administrative requirements or screening procedures beyond those required by security regulations. All DON personnel shall respond to any request or inquiry by the Auditor General of the Navy within the scope of the audit function, as if made by the Secretary of the Navy. Per reference (b), all access granted, or information or material provided to the audit organizations will be on a nonreimbursable basis. Within the DON, this includes property or services provided, automated data processing support, data retrieval, and programming, as needed, to perform the audit. The Naval Audit Service will retain possession and determine the disposition of all audit documentation.

a. Law Enforcement Records. Law Enforcement records are provided unique protections under references (i) and (j). A record created and maintained in a criminal law enforcement system of records and properly exempted under the general exemption of the Privacy Act, 5 U.S.C. § 552a(j)(2) of reference (i), may not retain that exemption when a copy of the record is permanently filed in a system of records maintained by a non-criminal-law-enforcement activity. While NCIS will make every effort to accommodate a request for information to support the Naval Audit Service, NCIS will retain control over the access, collection, storage, and use of Law Enforcement Sensitive records and information. NCIS is under an obligation to protect information related to open criminal investigations, sources and methods, victim information, and information that, if revealed, would interfere with potential criminal prosecutions, hinder future investigations or violate the privacy of victims.

b. Hotline Records. To protect the confidentiality of complainant identity, access to Naval Inspector General Hotline records shall be limited to relevant records that are directly

applicable to stated audit objectives, as determined by the Auditor General of the Navy after consultation with the Naval Inspector General. In cases of hotline complaints referred from the DoDIG, access to confidential personally identifiable information shall be granted only with DoDIG consent. The Naval Audit Service will retain hotline records approved for release only for such time as necessary to complete audit objectives and meet applicable retention standards.

2. Access to Ships, Squadrons, and Fleet Marine Force Units. Access to ships, squadrons, and fleet marine force units will follow the policy established in enclosure (1) of reference (k).

3. Access to Automated Data Processing Equipment. Access to automated data processing equipment (including microcomputers and on-line workstations), databases, and programming personnel must be readily made available to the Naval Audit Service auditors to allow auditing of automated information. Necessary access to, and related training on, existing data retrieval and report generating capabilities will also be provided to Naval Audit Service auditors.

4. Access to Privacy Act Data. Reference (1) implements provisions of the Privacy Act of 1974. Under the instruction, auditors have access to all records covered by the Act when discharging their official duties, e.g., when planning, researching, or auditing. Activities providing auditors such access are exempt from disclosure requirements.

5. Access to Office of Government Ethics (OGE) Forms 450 and 278. Naval Audit Service auditors will be given access to Executive Branch Confidential Financial Disclosure Reports (OGE Forms 450) and Public Financial Disclosure Reports (OGE Forms 278) if the auditors decide they are needed to perform audit functions, including audit planning, audit research, and audit execution.

6. Conditional Access - Source Selection Information. Before being given access to source selection information, auditors may be required to sign nondisclosure agreements if, and only if, program personnel are required to sign similar agreements at the time access is requested.

7. Access Denial. Only the Secretary of the Navy and the Under Secretary of the Navy may deny access to DON auditors. Such denials will only be for reasons necessary to preserve the national security interests of the United States, as provided in section 8 of the Inspector General Act of 1978, reference (m). When an auditor is denied full and unrestricted access, the situation shall be promptly reported through the auditor's chain of command to the Auditor General, and through command channels to the Secretary of the Navy within 15 workdays of the Auditor General determining that the issue cannot be resolved at a lower level. The Secretary will make a decision on the denial issue within 30 workdays of notification by the Auditor General of the denial. If the Secretary of the Navy considers it proper to deny access, the DoDIG must be told within 15 workdays of the denial decision (paragraph 6.2.1.3 of reference (b)).

8. Access to Other DoD Component Entities. The DoDIG will coordinate access for Naval Audit Service auditors to other DoD Component entities for any audit that requires access to records or other information from other Component entities (reference (b)).

AUDIT EXECUTION AND REPORTING

1. Notice

a. When possible, approximately 30 days before beginning a scheduled audit, the Naval Audit Service will send an announcement letter to the affected organizations and their superiors in the chain of command. The letter encourages recipients to suggest areas of particular concern for intensified audit coverage. Normal 30-day notification will not be given for:

(1) Audit research efforts;

(2) Unscheduled audit work where 30-day notification is impractical; and

(3) Unannounced audits, where the notice is hand-delivered by auditors to the commander or senior official on the first day of the audit.

b. The absence of 30-day notification will not be used to deny or delay access to information needed to perform the audit function.

c. Disclosure of a material or sensitive issue during audit research may result in immediate reporting and converting of the research effort into a formalized, limited-scope audit. The Naval Audit Service will inform audited commanders or senior officials of the circumstances requiring such a change. When such circumstances arise, commanders or senior officials should notify their immediate superior in the chain of command.

2. Audit Collaboration. The Naval Audit Service will work collaboratively with other applicable audit, inspection, and investigative organizations to detect, deter, and document the occurrence and extent of fraud, waste, and related improprieties.

3. Repeat Findings. At a minimum, when auditing, the Naval Audit Service will follow up on findings and recommendations from the most recent prior Naval Audit Service audit (and, when appropriate, from audits performed by the GAO, DoDIG, or other audit organizations) of the organization, activity, program, or

function under review. If a stated corrective action was not taken or was not effective in correcting the reported condition, a repeat finding will be included in the current audit report. Repeat findings are addressed to the immediate superior in the chain of command above the earlier action addressee.

4. Draft Findings. During the field work phase of an audit, findings are developed and discussed with cognizant operating personnel, division managers, and department heads. These discussions verify supporting facts and obtain preliminary feedback on conclusions reached. They also enhance management's ability to correct problems early.

5. Audit Utilization. The audit utilization process is the continuous communication between auditors and managers during an audit in an effort to inform management of audit findings and recommendations, ensure the accuracy of facts presented, and provide management the opportunity to put audit results to use as soon as they become known. To maximize the benefits of an audit, auditors and DON managers must gain a common understanding of problems disclosed by the audit, of potential solutions to correct those problems, and of the potential monetary benefits to be gained through improved management actions, if any. Audit utilization is the formal process that serves to achieve these ends. Auditors issue a draft report for comment to the action addressee (i.e., the lowest level manager at the audited program, function, or activity who can take the corrective action recommended in the audit report). Copies of the draft report are also sent to one level of management above the addressee and to the manager requesting the audit. The draft report is provided to ensure that audit results are accurately, fairly, and impartially presented and to reach agreement with management on specific and realistic audit recommendations, completion dates for implementing the recommendations, potential monetary benefits, and material internal control weaknesses. A review by the audited program's lawyers is encouraged to bring forth any questions about legal interpretation of applicable laws and regulations early in the process.

6. Monetary Benefits

a. Monetary benefits associated with audit findings arise from actions such as collecting money erroneously paid out,

identifying excess material, deobligating funds (current or expired), avoiding unnecessary expenditures, increasing productivity, and improving procedures to enable an organization to function more efficiently. Identification of potential monetary benefits can provide a perspective in judging the importance and materiality of the condition and the recommended corrective actions. Monetary benefits are classified as either funds potentially available for other use or questioned costs under reference (e). Amounts claimed are normally limited to a 6-year period covered by the Future Years Defense Plan or the Program Objectives Memorandum.

b. Potential monetary benefits will be discussed in audit reports but amounts will not be included in specific audit recommendations. This policy allows the auditor and the manager to concentrate on a remedy without unduly focusing on the potential effects of the efficiencies to be gained by applying the recommendations. Management's written position on an audit recommendation must include a separate comment on potential monetary benefits indicating concurrence or nonconcurrence with the specific amount of claimed benefits, or offering a recomputation of the probable benefit to help track such efficiencies in the DON formal follow-up system. A failure to address potential monetary benefits in the management response to an audit report results in those potential benefits, and associated recommendation(s), being reported as undecided and subject to the formal audit resolution process.

c. Potential monetary benefits may be authoritatively claimed based on statistical sampling.

7. Management Responses to Findings

a. Recommendation addressees are given a reasonable period of time to respond in writing to Naval Audit Service findings, generally 30 calendar days. Reasonable extensions may be granted, but extensions must be fully justified and are not granted routinely. Management responses not received in the allowed timeframe may result in the audit report being published without a management position. In such cases, recommendations will be considered undecided and subject to the audit resolution process, which is facilitated by the Naval Inspector General (reference (f)).

b. Responses should express explicit concurrence or nonconcurrence with all elements of a finding (on the facts, conclusions, recommendations, and if applicable, potential monetary benefits) in clear and simple language with emphasis on improvement. Management comments should address unusual circumstances that may have contributed to an operating deficiency and describe the corrective actions taken or planned. If management has a preferred alternative for correcting the problem, it should be clearly explained in the response statement. Concurrence with a finding and recommendation must be accompanied by completion dates for actions taken, the estimated potential benefits, and realistic and reasonable target dates for carrying out planned corrective actions. When corrective actions are to be taken over an extended period (in excess of 1 year), management must establish interim dates for completing major segments of the planned corrective actions. This policy follows reference (f).

c. The Naval Audit Service evaluates management responses to reports and may change or delete findings, recommendations, or potential monetary benefits based on such evaluations. Significant changes to findings are discussed with the proper addressee(s) before the final audit report is published. Management comments received before report publication will normally be included verbatim in the final audit report.

d. If the management position specifies concurrence with the facts and recommendations in a finding, but does not agree with the audit's suggested potential monetary benefits, the management position on the reported monetary benefits and the associated recommendations will be treated as an undecided issue. Also, if management does not state a specific position on the potential monetary benefits, the monetary benefits and the associated recommendation(s) will be treated as an undecided issue.

e. DON policy considers nonreceipt of a management response as nonconcurrence. The Auditor General of the Navy will promptly bring nonreceipt of a response to a recommendation or untimely response issues to a higher level of DON management for action. The Auditor General of the Navy will elevate a nonconcurrence to a finding, recommendation, or potential monetary benefit in a published report to a higher level of DON

management for a decision, including directly to the Under Secretary of the Navy when considered appropriate (reference (f)).

f. Undecided issues in an audit report will not prevent or unduly delay the report's publication. Final reports may be published with undecided recommendations.

g. By statute, reference (n), all undecided audit findings must be decided within 6 months of the date of the final audit report. The Under Secretary of the Navy is DON's final authority for adjudicating internal audit findings, recommendations, and potential monetary benefits when management and the auditors cannot reach agreement.

8. Distribution of Final Reports. Final written reports are to be sent to:

a. The commanding officer or program manager of the program, function, or activity audited;

b. Officials who requested the audit;

c. All officials responsible for corrective actions;

d. Key stakeholders;

e. Naval Inspector General for audit follow-up; and

f. All others who request, or the auditors identified as having an interest, and who are authorized to receive such reports.

9. Audit Funding. All audit assistance in DON for appropriated fund and related activities will be done on a nonreimbursable basis. Per reference (d), the Naval Audit Service may request reimbursement for auditing nonappropriated fund organizations and related activities from the audited organization. Audits of state government, local government, and nonprofit organizations will be funded per reference (o). Peer Reviews conducted by the Naval Audit Service will be performed at no cost to the reviewed activity.

RELEASE OF REPORTS

1. Releasability of Draft Findings and Draft Reports. Draft audit findings and reports are predecisional material internal to the DON and, as such, are not releasable outside DON and should not be posted on non-Naval Audit Service websites, or posted in Navy Taskers except by specific approval of the Auditor General of the Navy. When draft reports are sent to the action addressees, the addressees will be asked to identify, and give an explanation for, any parts of the draft report that they believe should not be released to the public under the Freedom of Information Act (FOIA) in the final audit report.

2. Releasability of Final Reports

a. Final reports are not considered predecisional and are subject to release under FOIA. Once released under FOIA, audit reports may be posted to the public Naval Audit Service Web site, <http://www.secnav.navy.mil/navaudsvc>, in their redacted form. Unless restricted by law or Office of Management and Budget, DoD, or DON guidance, copies of final reports should be made available for public inspection under FOIA procedures. Related audit working papers, documents, and files are not releasable under FOIA and will be kept for a minimum of 3 years after issuing the final audit report or 2 years after all recommendations are closed, whichever is longer. Upon request, final reports will be made available to the Office of the DoDIG.

b. The Auditor General may release to government officials published audit reports, outside FOIA and at no cost to the requestor, if the officials are requesting the reports in their official capacity on behalf of the Governmental body; examples of such requestors include:

(1) A GAO auditor;

(2) A member of Congress acting in their official capacity, a Committee or Subcommittee of Congress, or either House sitting as a whole; or

(3) A Federal court, whenever ordered by officers of the court as necessary for properly administering justice.

c. Even though authority may exist to show records to Government individuals in their official capacity, FOIA applies if the same individual seeks the records in a private or personal capacity. Thus, a request from a member of Congress made on behalf of his or her constituents must be processed under FOIA.

d. To adequately protect documents given to Government officials, the Auditor General will inform officials that the documents are, and will mark them as, "For Official Use Only" and "Contains information exempt from release under the Freedom of Information Act" and annotate any special handling instructions as required by reference (p) and (q). Classified information remains subject to Volume 1 of reference (r), and Privacy Act information remains subject to reference (l).

3. FOIA Requests

a. The Auditor General of the Navy is the initial release and denial authority for all Naval Audit Service audit reports (FOIA regulation, reference (p) and (q)). All requests for draft and final Naval Audit Service audit reports and other Naval Audit Service records should be promptly sent to the Naval Audit Service. FOIA, per reference (p) and (q), states that a DON activity receiving such a request will inform the requestor of the correct procedure.

b. The cognizant commanding officer for local audit and nonappropriated fund audit reports responds to such requests. The responsible official for responding to such requests for nonappropriated fund audit reports in the Marine Corps is the Headquarters, U.S. Marine Corps FOIA Manager.

c. Affected activities will be given an opportunity to comment on public disclosure of any undecided findings or recommendations. After considering such comments, the Auditor General will determine if any undecided findings or recommendations should be withheld until resolution or 6 months after the report is published, whichever occurs first. Arguments that the findings or recommendations should be withheld simply because management and the Naval Audit Service disagree, or because disclosure would embarrass DON, are not considered sufficient reasons to withhold an undecided finding or recommendation under FOIA. When a final report having

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undecided issues is disclosed under FOIA, the Auditor General will notify the FOIA requester that the final report has such undecided issues.

AUDIT RESOLUTION AND FOLLOW-UP

1. Audit Resolution. The Under Secretary of the Navy is the Resolution Authority for unresolved audit findings, recommendations, and monetary benefits. By statute, reference (n), all unresolved audit findings and recommendations must be resolved within 6 months of the date of the final audit report. DON policy, per reference (f), requires prompt, responsive, and constructive actions by commanding officers on audit recommendations.

2. Follow-up of DON Internal Audits

a. Definition. Audit follow-up is the collective effort to ensure that management takes prompt, effective, and coordinated corrective action to implement audit report recommendations and that controls are adequate to prevent the recurrence of identified weaknesses. It includes monitoring, reporting on, and validating management's actions in response to the recommendations of published audit reports. Audit follow-up is an integral part of good management and is a responsibility shared by the Naval Inspector General, DON managers, and auditors (reference (f)). In the DON audit follow-up process, the following definitions apply:

(1) *Open*. Action on a concurred-in or decided recommendation has or will be completed after the audit report is published; or when management agrees that a potential monetary benefit exists, but an agreed-upon amount requires more time to compute.

(2) *Closed*. Necessary management action on findings, recommendations, and claimed funds available for other use is decided or agreed upon, and corrective action has been completed and documented.

(3) *Decided*. An agreement has been reached between management and auditors on previously undecided findings, recommendations, questioned costs, and funds available for other use or a decision has been made by the Resolution Authority settling the disagreement. A recommendation decided in favor of the audit position may be open or closed depending on the status of corrective actions taken.

(4) *Undecided*. No agreement has been reached between management and auditors on a finding, recommendation, questioned cost, or potential funds available for other use.

b. Accountability. The Naval Inspector General is accountable to the Under Secretary of the Navy for the DON Audit Follow-up function per references (a) and (f). The Naval Inspector General has issued procedures for DON audit follow-up in reference (f).

c. Monitoring

(1) The Naval Audit Service will keep a database capable of tracking the status of all findings and recommendations, including associated potential monetary benefits (i.e., potential funds available for other use and questioned costs) for Naval Audit Service audit reports from the time audit reports are issued through implementation of corrective actions. Commanding officers of local audit functions will ensure the maintenance of similar databases capable of tracking the status of all findings and recommendations for their audit reports.

(2) Navy activities and the Commandant of the Marine Corps will provide the basic follow-up information for the Naval Audit Service database to the Naval Audit Service. This input should be provided within 30 days after either the final report publication date, or the actions or determinations described below, whichever is later. The required input data are:

(a) Estimated completion date of previously agreed-to, but not yet completed actions;

(b) Revised target date when the original target date given during the audit utilization process cannot be met;

(c) Changes to previously agreed-to actions with enough detail to enable the Auditor General of the Navy to decide if the finding can be closed;

(d) Reversal of earlier agreements to take recommended actions;

(e) Final determination of recommendations or associated potential monetary benefits, i.e., specific amounts

available for other use and questioned costs previously undetermined in the utilization process; and

(f) Resolution of previously undecided findings, recommendations, or associated potential monetary benefits, i.e., potential funds available for other use and questioned costs.

(3) The Naval Audit Service does selective follow-up audits and onsite verification reviews if it performs an audit in the same area. Such reviews may evaluate the follow-up process and the actions taken by management to correct significant deficiencies involving material management control weaknesses, repeat findings, or funds available for other use.

d. Reporting. The Naval Inspector General monitors and reports on audit follow-up per reference (f).

FRAUD, ABUSE, AND RELATED IMPROPRIETIES

1. General. Deterring and preventing fraud, abuse, and related improprieties are among the prime responsibilities of management. The principal mechanism for preventing and detecting fraud and illegal acts is an effective internal control system.

2. Internal Auditors

a. Internal auditors are instrumental in ensuring controls are in place to prevent fraud, abuse, and related improprieties. Audits may also detect vulnerabilities to fraud and abuse. GAGAS (reference (c)) require that, in planning the audit, auditors assess risks of fraud occurring that is significant within the context of the audit objectives.

b. GAGAS state that auditors should identify any provisions of laws, regulations, contracts or grant agreements that are significant within the context of the audit objectives and assess the risk that noncompliance with provisions of laws, regulations, contracts, or grant agreements could occur. Based on that risk assessment, the auditors should design and perform procedures to obtain reasonable assurance of detecting instances of noncompliance that are significant within the context of the audit objectives.

c. All DON auditors must ensure that copies of all procurement-related fraud reports are given to the Assistant General Counsel, Acquisition Integrity Office, who will coordinate appropriate remedial actions per reference (s). Also, all DON auditors must ensure that the NCIS is informed of actual or suspected criminal activities per reference (s).

3. Suspected Fraud Reports. When DON auditors suspect criminal activity, they will report the suspected fraud to NCIS and, if acquisition-related, NCIS will report it to the Acquisition Integrity Office. When criminal activity is suspected during the audit, any related audit findings will not refer to criminal statutes, to the possible occurrence of a crime, or to the existence of criminal intent. Related audit findings will only address non-criminal aspects of fraud or other criminal activities, such as mismanagement and improper practices. Any notification or dissemination of audit reports will be

coordinated with NCIS to prevent compromise of the investigation, or destruction or alteration of evidence.

4. Cooperation and Assistance with Criminal Investigations.

The Naval Audit Service coordinates and cooperates with NCIS to ensure effective oversight coverage of DON programs and operations. Auditors do not conduct criminal investigations. That is the responsibility of investigators or law enforcement authorities. However, auditors are responsible for notifying NCIS when they identify indicators of fraud. Also, the Naval Audit Service will provide audit support and assistance to NCIS to the extent possible within resources available, when requested by NCIS, and approved by the Auditor General.

CONTRACTING FOR AUDIT SERVICES

1. Pre-Contract Requirements. Before a DON command or activity contracts for audit services, the DON command or activity must inform, and obtain approval from, the Auditor General of the Navy (see reference (t) and paragraph 5 (Command Responsibilities) of this enclosure). No DON command or activity will contract for audit services unless the expertise required to do the audit is not available within DON or temporary audit help is needed to meet audit reporting requirements mandated by law or regulation. Also, no DON command or activity will contract for a quality assurance review of internal audit or local audit without going through the proper chain of command and obtaining the prior approval of the DoDIG per reference (b).

2. Contract Provisions. All contracts that include audit services involving non-Federal auditors, including contract renewals, must include specific provisions requiring the contractors to:

a. Allow Government technical representatives and DON auditors to review and make copies of work papers, including audit plans and programs, and draft reports prepared during contract performance;

b. Preserve the work papers, records, and other evidence of audit for at least 3 years following the report date. During this time, the non-Federal auditors will make the audit material available to the command, to the Naval Audit Service, and to DoDIG upon request;

c. Follow GAGAS (per DoD guidance and GAGAS, references (b), (c), and (e)) in auditing;

d. Give an opinion on the adequacy and effectiveness of the internal controls within the scope of their engagement. This opinion will be based on the results of the survey phase or the audit verification phase evaluation of management controls and on compliance with DON instructions in those areas covered by the contracted audit;

e. Rely on the work of Federal auditors, providing that such auditors and their work meet GAGAS (per DoD guidance and GAGAS, references (b), (c), and (e));

f. Explain to Government personnel their audit procedures, working papers, and findings related to the contract effort until all audit findings and disputes are decided;

g. Provide a written evaluation of the audit comments submitted by the audited activity in response to the audit report's findings, recommendations, and potential monetary benefits;

h. Refer instances of suspected fraud through the Naval Audit Service to the NCIS. Prior coordination with Naval Audit Service is necessary; and

i. Give a copy of all audit-related contract deliverables, including the final audit report, to the Auditor General of the Navy.

3. DoD Responsibilities

a. The DoD Office of the Assistant Inspector General for Audit Policy and Oversight (OAIG APO) will review all statements of work for procuring audit services from outside sources. This review must be performed before the release of solicitations to prospective bidders to ensure the appropriate use of non-Federal auditors and compliance with applicable standards. The only exceptions to this policy are audits of nonappropriated fund organizations and related activities as authorized by reference (d).

b. The OAIG APO may give authorization to contract for multiple, similar audits provided that the requesting agency provides sufficient justification.

4. Naval Audit Service Responsibilities. The Auditor General of the Navy will provide oversight to ensure that contracted audits meet audit objectives and GAGAS. The Naval Audit Service will:

a. Review proposed contract statements of work, special provisions, general provisions, and data requirements before

solicitation, and, as applicable, coordinate the review of the statement of work with DoD;

b. Periodically monitor the progress of the non-Federal auditors under contract to do audits;

c. Give, when requested, technical guidance to non-Federal auditors under the contract; and

d. Do pre-acceptance reviews of completed work under awarded contracts before final contract payment.

5. Command Responsibilities. DON commands and non-appropriated fund activities will ensure that:

a. Proposed contracts that include audit services within the statement of work are coordinated with and approved by the Auditor General of the Navy (and as applicable, DoD) before a solicitation package (or if no solicitation package, before a contract) is issued (reference (t)). The completed solicitation package (or proposed contract) including the statement of work, the general provisions, the contract data requirements, and any proposed special provisions, will be provided to the Auditor General for this approval process;

b. All audit proposals from non-Federal auditors include the dates and results of the latest peer review made of their firm, if any. Commands and activities should not contract for audit services with any firm that has not successfully passed a peer review within the preceding 3 years as required by GAGAS;

c. Proper security clearances are obtained for non-Federal auditors;

d. Copies of contracts awarded, including all modifications, that include audit services are sent to the Auditor General of the Navy upon execution;

e. Copies of audit reports and, if requested, working papers obtained under contracts are sent to the Auditor General of the Navy for review and comment before final contract payment; and

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f. Recommendations originating from audit work done under contract are decided at proper management levels and followed up on per reference (f).

QUALITY CONTROL AND ASSURANCE

1. Professional Qualifications and Training. All auditors responsible for planning, directing, conducting, or reporting on Government audits will complete, every 2 years, at least 80 hours of continuing education and training that contributes to the auditor's professional skill. At least 20 hours should be completed in any 1 year of the 2-year period. Individuals responsible for planning, directing, or conducting large parts of the field work or reporting on Government audits will complete at least 24 of the 80 hours of continuing education and training in subjects directly related to the Government environment and to Government auditing.

2. Internal Quality Assurance. Each DON audit organization/function will establish and maintain an appropriate internal quality control system. The system of quality control should encompass the organization's structure and the policies adopted and procedures established to provide the organization reasonable assurance of complying with GAGAS (enclosure 7 of reference (e)).

3. External Quality Assurance Reviews. Each DON audit organization/function conducting audits per GAGAS will undergo and be responsible for obtaining an external quality control review at least once every 3 years. External quality control reviews should be conducted according to GAGAS quality control and assurance guidelines and external quality control review requirements. The Naval Audit Service will also do external quality assurance reviews of DON local audit and nonappropriated fund audit organizations, as determined necessary. The external quality assurance review program will determine whether the audit organization's internal quality control system is adequate and quality control policies and procedures are being complied with (reference (c) and enclosure 7 of reference (e)).