



# Department of Defense DIRECTIVE

NUMBER 7600.10

March 17, 2004

---

---

IG DoD

SUBJECT: Audits of States, Local Governments, and Non-Profit Organizations

- References:
- (a) DoD Directive 7600.10, "Audits of State and Local Governments, Institutions of Higher Education, and Other Nonprofit Institutions," May 20, 1991 (hereby canceled)
  - (b) Office of Management and Budget Circular No. A-133, "Audits of States, Local Governments, and Non-Profit Organizations," June 24, 1997<sup>1</sup>
  - (c) Chapter 75 of title 31, United States Code, "Requirements for Single Audits"<sup>2</sup>
  - (d) DoD 3210.6-R, "DoD Grant and Agreement Regulations," April 13, 1998
  - (e) through (i), see enclosure 1

## 1. REISSUANCE AND PURPOSE

This Directive:

1.1. Reissues reference (a), updates policy, assigns responsibilities, and defines terminology in the implementation of the single audit requirements of reference (b), which was issued pursuant to reference (c). Additionally, this Directive updates policy and assigns responsibilities of the single audit requirements under references (d), the FAR and DFARS (references (e) and (f)).

---

<sup>1</sup> Copies may be obtained via the Internet at <http://www.whitehouse.gov/omb/circulars/a133/a133.html>

<sup>2</sup> Copies may be obtained via the Internet at <http://www.4.law.cornell.edu.uscode/31/stVch75.html>

1.2. Assigns responsibilities within the Department of Defense (DoD) for monitoring compliance with the single audit requirements of references (b), (d), (e), and (f).

## 2. APPLICABILITY

This Directive applies to the Office of the Secretary of Defense, the Military Departments, the Chairman of the Joint Chiefs of Staff, the Combatant Commands, 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") that provide Federal awards to States, local governments, and non-profit organizations.

## 3. DEFINITIONS

Terms used in this Directive are defined in reference (b).

## 4. POLICY

It is DoD policy that:

4.1. The DoD Components shall rely on and use financial audits performed by independent auditors in accordance with the requirements of reference (b) in the oversight of Federal awards provided to States, local governments, and non-profit organizations. The DoD Components, however, may request additional audits of such Federal awards when required by regulation or as needed to ensure effective use of such Federal awards. Any additional audit effort shall be planned and carried out in such a way as to avoid duplication and shall be separately funded.

4.2. Unless prohibited by law or the limitations of §\_\_\_\_.230(b) of reference (b), the cost of single audits made in accordance with the provisions of reference (b) are allowable charges to Federal awards. The charges may be considered a direct cost or an allocated indirect cost, as determined in accordance with the applicable Office of Management and Budget (OMB) cost principles circulars, (references (g), (h), and (i)); parts 30 and 31 of reference (e); and parts 230 and 231 of reference (f). Generally, the percentage of costs charged to Federal awards for an audit shall not exceed the percentage of Federal award funds expended to the total funds expended by the recipient during the fiscal year.

## 5. RESPONSIBILITIES

### 5.1. The Inspector General of the Department of Defense shall:

5.1.1. Serve as the DoD senior official for policy guidance, direction, and coordination with the DoD Components and other Federal Agencies on single audit matters related to States, local governments, and non-profit organizations.

5.1.2. Perform the following for States, local governments, and non-profit organizations for which the Department of Defense has audit cognizance as determined under reference (b):

5.1.2.1. Provide technical audit advice and liaison to States, local governments, non-profit organizations, and audit organizations.

5.1.2.2. Ensure that audits are made and the Federal Audit Clearinghouse receives reports in a timely manner and in accordance with the requirements of reference (b).

5.1.2.3. Consider recipient requests for extensions of report submission due dates. Extensions may be granted for good cause.

5.1.2.4. Conduct quality control reviews of selected audits made by audit organizations and provide the results, when appropriate, to other interested organizations.

5.1.2.5. Promptly inform other affected Federal Agencies and appropriate law enforcement officials of any reported illegal acts or irregularities in accordance with requirements of reference (b).

5.1.2.6. Advise the auditor and, where appropriate, the recipient of any deficiencies found in the audits when they require corrective action by the auditor. In such instances, the recipient shall work with the auditor to take corrective action. If corrective action is not taken, the cognizant agency shall notify the auditor, the recipient, and Federal awarding agencies and pass-through entities of the facts and make recommendations for follow-up action. Major inadequacies or repetitive sub-standard performance of independent auditors shall be referred to appropriate State licensing agencies and professional bodies for appropriate action.

5.1.2.7. Coordinate, to the extent practicable, audits or reviews made by or for Federal Agencies, in addition to those required by reference (b), so that the additional audits or reviews build upon audits performed in accordance with reference (b).

5.1.2.8. Advise the DoD Components with resolution responsibility of audit findings and recommendations that affect DoD programs. Coordinate a management decision for those findings affecting programs of more than one Federal Agency.

5.1.2.9. Provide assistance, as needed, to ensure coordinated audit work and reporting responsibilities among independent public accountants, State auditors, and Federal auditors to achieve the most cost-effective audit.

5.1.2.10. For biennial audits permitted under reference (b), consider recipient requests to qualify as a low risk auditee under §\_\_\_\_.530(a) of reference (b).

5.1.3. Perform the following for States, local governments, and non-profit organizations for which the Department of Defense has assumed oversight responsibility as determined under reference (b):

5.1.3.1. Provide technical audit advice to recipients and audit organizations when requested.

5.1.3.2. Assume all or some of the cognizant agency responsibilities (see subparagraph 5.1.2., above), as deemed necessary.

5.1.3.3. Advise the DoD Components with resolution responsibility of audit findings and recommendations that affect DoD programs.

5.2. The Heads of the DoD Components shall:

5.2.1. Designate an official to coordinate with the IG DoD on matters dealing with audits of Federal awards provided by the DoD Component to States, local governments, and non-profit organizations.

5.2.2. Ensure input of accurate award data for Federal awards to the appropriate DoD management information system.

5.2.3. Inform recipients of DoD awards of the Catalog of Federal Domestic Assistance title and number, award name and number, award year, and if the award is for

Research and Development. When some of this information is not available, provide information necessary to clearly describe the award.

5.2.4. Advise award recipients of requirements imposed on them by Federal laws, regulations, and the provisions of contracts or grant agreements.

5.2.5. For award recipients that the Department of Defense has provided direct funding, ensure that audits are completed and reports are received in a timely manner and in accordance with the requirements of reference (b).

5.2.6. Provide technical program and other advice and counsel to auditees and auditors, as requested.

5.2.7. Issue a management decision on audit findings within 6 months after notification of the audit finding by IG DoD and ensure that the recipient takes appropriate and timely corrective action.

5.2.8. Assign a person responsible for providing annual updates of the compliance supplement to the OMB.

5.2.9. Coordinate with the IG DoD on requests from other Federal Agencies for audits of States, local governments, and non-profit organizations in addition to the single audit required by reference (b) for States, local governments, and non-profit organizations that the Department of Defense has audit cognizance under reference (b).

6. EFFECTIVE DATE

This Directive is effective immediately.



Paul Wolfowitz  
Deputy Secretary of Defense

Enclosures - 1

E1. References, continued

E1. ENCLOSURE 1

REFERENCES, continued

- (e) Federal Acquisition Regulation, Parts 1 through 53, current edition
- (f) Defense Federal Acquisition Regulation Supplement, Parts 201 through 253, current edition
- (g) Office of Management and Budget Circular No. A-21, "Cost Principles for Educational Institutions," August 8, 2000<sup>3</sup>
- (h) Office of Management and Budget Circular No. A-87, "Cost Principles for States, Local and Indian Tribal Governments," May 4, 1995, as amended, August 29, 1997<sup>4</sup>
- (i) Office of Management and Budget Circular No. A-122, "Cost Principles for Non-profit Organizations," June 1, 1998<sup>5</sup>

---

<sup>3</sup> Copies may be obtained via the Internet at <http://www.whitehouse.gov/omb/circulars/a021/a021.html>

<sup>4</sup> Copies may be obtained via the Internet at <http://www.whitehouse.gov/omb/circulars/a087/a087.html>

<sup>5</sup> Copies may be obtained via the Internet at <http://www.whitehouse.gov/omb/circulars/a122/a122.html>