

DEPARTMENTAL REGULATION		Number: 1720-001
SUBJECT: Audit Follow-up and Management Decision	DATE: April 22, 2002	
	OPI: Office of the Chief Financial Officer	

1 PURPOSE AND SCOPE

This regulation sets forth the policy, definitions, responsibilities, and procedures for audit follow-up in the U.S. Department of Agriculture (USDA). The regulation mainly concerns actions required once an Office of Inspector General (OIG) audit report is issued and management decision has been reached between OIG and USDA management on the corrective action(s) taken or to be taken to fulfill the intent of the audit's recommendation(s). The procedures to be performed within USDA to achieve management decision and final action are provided in Appendices A and B, respectively.

2 SPECIAL INSTRUCTIONS/CANCELLATION

Agency and staff office heads are responsible for informing their employees of the provisions of this regulation.

This regulation is effective immediately and cancels Departmental Regulation (DR) 1720-1, Audit Follow-up, Management Decisions, and Final Actions, dated March 8, 1990, and rescinds DR 2130-1, Requirements for the Establishment and Management of Accounts Receivables Arising from Audits dated June 16, 1983.

3 BACKGROUND/AUTHORITY

This regulation applies to audits conducted by, for, or under the direction of the OIG in accordance with the Inspector General Act Amendments of 1988 (Act), Pub. L. No. 100-504, as amended. This Act made significant changes to the audit follow-up and reporting process. New responsibilities were given to management for monitoring follow-up activities and for reporting the status of actions taken to correct audit findings. This Act also requires a report from management on final actions taken on audit recommendations, including the disposition of disallowed costs and future monetary savings associated with better utilization of resources.

4 OTHER RELATED STATUTES AND GUIDANCE

- a Pub. L. No. 97-255, Federal Managers' Financial Integrity Act of 1982.
- b Pub. L. No. 103-62, Government Performance and Results Act of 1993.
- c Pub. L. No. 101-576, as amended, Chief Financial Officers Act of 1990.
- d Pub. L. No. 104-134, Debt Collection Improvement Act of 1996.
- e Pub. L. No. 104-208, Federal Financial Management Improvement Act of 1996.
- f Office of Management and Budget Circular A-50 (revised), Audit Follow-up.

5 POLICY

In accordance with statutory requirements, agencies and staff offices will:

- a implement agreed-upon corrective actions that are associated with audit recommendations in a timely manner, and
- b provide an audit follow-up process that encourages timely completion and reporting on the status of corrective actions.

6 DEFINITIONS

- a Audit Finding. Statement of problem(s) identified by the OIG during an audit and having a condition, effect, and cause that meet the objectives of the audit.
- b Audit Follow-up. The process to ensure prompt and responsive action is taken once management decision has been reached on recommendations contained in final audit reports.
- c Audit Recommendation. A course of action recommended by the OIG to correct an audit finding or set of findings.
- d Change in Management Decision. An approved change in the originally agreed-upon corrective action(s) to be taken to implement an audit recommendation.

- e Unit. An agency, staff office, or other organizational component within the Department, e.g., the Farm Service Agency, Rural Development, etc.
- f Disallowed Cost. A questioned cost that management, in a management decision, has sustained or agreed should not be charged to the Government. A questioned cost is defined as:
- (1) A cost that is questioned by OIG because of an alleged violation of a provision of a law, regulation, contract, grant, cooperative agreement, or other agreement or document including loans governing the expenditure of funds;
 - (2) A finding that, at the time of the audit, such cost is not supported by adequate documentation; or
 - (3) A finding that the expenditure of funds for the intended purposes is unnecessary or unreasonable.
- g Final Action.
- (1) The completion of all actions that management has concluded, in its management decision, are necessary with respect to the findings and recommendations included in an audit report.
 - (2) In the event that management concludes no additional action is necessary, final action occurs when management decision is reached.
- h Funds Be Put to Better Use. A recommendation by OIG that funds could be used more efficiently if management took actions to implement and complete the audit recommendation, including:
- (1) Reductions in outlays;
 - (2) Deobligation of funds from programs or operations;
 - (3) Withdrawal of interest subsidy costs on loans or loan guarantees, insurance, or bonds;
 - (4) Costs not incurred by implementing recommended improvements related to the operations of the establishment, a contractor, or grantee;
 - (5) Avoidance of unnecessary expenditures noted in preaward reviews of contract or grant agreements; or
 - (6) Any other savings which are specifically identified.

- i Management Decision. An agreement between agency management and the OIG on the action(s) taken or to be taken to address a finding and recommendation cited in an audit report. The management decision must include the agreed upon dollar amount affecting the recommendation and an estimated completion date unless all corrective action is completed by the time agreement is reached.
- j Material Deficiency. Refers collectively to material weaknesses discussed in Section 2 of the Federal Managers' Financial Integrity Act of 1982 (FMFIA), Pub. L. No. 97-255, and financial management system nonconformances discussed in Section 4 of the FMFIA. For further explanation on FMFIA Section 2 material weaknesses and Section 4 system nonconformances, refer to DR 1110-2, Management Accountability and Control, dated February 23, 1999.
- k Resolved Audit. An audit report where management decision has been reached for all audit recommendations contained in the report, but final action has not been completed.

7 RESPONSIBILITIES

a **Under/Assistant Secretaries and Heads of Staff Offices will:**

- (1) Designate an agency audit liaison official for the unit to serve as a point of contact with OIG and the Office of the Chief Financial Officer (OCFO) or delegate this responsibility to the Agency Head, as appropriate.
- (2) Monitor responsible units completion of agreed upon corrective actions in longstanding resolved audits. In particular, those audits without final action one year or more after management decision date.

b **Agency Heads and Heads of Staff Offices will:**

- (1) Ensure that appropriate agency management is held accountable for audit follow-up responsibilities.
- (2) Ensure that agency strategic or annual performance plans address appropriate major management problems identified by OIG.
- (3) Ensure that internal control deficiencies cited in OIG audit reports are considered when evaluating the effectiveness of internal control systems and identifying material deficiencies as required by FMFIA.

c Agency Audit Liaison Officials will:

- (1) Ensure that audit findings and recommendations are promptly evaluated.
- (2) Ensure that appropriate systems are established to monitor and track audit recommendations.
- (3) Ensure that management decisions with the OIG are reached in a timely manner and include agreement on all monetary amounts and estimated completion dates.
- (4) Ensure that the agreed-upon management decision satisfies the intent of the audit recommendation, addresses the audit finding identified, is cost-effective, and is commensurate with results-oriented management.
- (5) Ensure that the corrective action associated with each management decision is completed, as scheduled.
- (6) Ensure that final action is achieved as agreed upon in the management decision unless a request for a change in management decision has been forwarded to OCFO and approved by OIG.
- (7) Ensure that appropriate documentation to fully support a request for final action is provided to OCFO in a timely manner.
- (8) Ensure that corrective actions on audits without final action one year after the management decision date are preceding as intended.
- (9) Retain audit follow-up files and supporting documentation for five years from the date of acceptance of final action on the audit, after which time, they may be destroyed.
- (10) For all disallowed costs, ensure the prompt recording and proper management of claims/accounts receivable, which must be established and managed in accordance with Departmental accounting standards and the Debt Collection Improvement Act of 1996.
- (11) Ensure that accurate information regarding the collection of disallowed costs, as well as any associated interest or penalty collected, is maintained and reported to OCFO.

- (12) Ensure that monetary savings associated with audit recommendations referencing funds to be put to better use are reported (implemented or not implemented) to OCFO as part of the final action process.
- (13) Ensure a prompt response to data and reporting calls issued in writing by OCFO.

d The Office of the Chief Financial Officer will:

- (1) Provide oversight to units to ensure that audit follow-up processes are established and maintained.
- (2) Establish and maintain systems for monitoring audit follow-up activities.
- (3) Retain audit follow-up files for five years from the date of acceptance of final action on the audit.
- (4) Issue policy guidance and provide technical support to units.
- (5) When a change in management decision is deemed appropriate, forward a request for such a change to OIG for approval, and notify the agency of the response from OIG.
- (6) Evaluate the documentation of corrective actions implemented to determine if the intent of the recommendation has been met and final action has occurred.
- (7) Prepare and distribute the statutory management reports to the President and Congress.
- (8) Keep the Secretary and Under/Assistant Secretaries abreast of the status of corrective actions for resolved audits without final action one year or more after the management decision date.
- (9) Issue reporting guidelines and data calls, as deemed necessary.
- (10) Prepare statutory reports, as required.

e The Office of the General Counsel will:

- (1) Provide legal advice and/or assistance promptly to requests for legislative or regulatory interpretations.
- (2) Issue formal legal opinions pertaining to issues concerning management decisions and claims collections, where necessary.
- (3) Advise and concur in all agency claim referrals or requests for assistance to the Comptroller General and/or the Department of Justice. This does not preclude OIG from submitting matters pertaining to OIG audits or investigations to the Comptroller General and/or the Department of Justice.

APPENDIX A
PROCESS FOR ACHIEVING MANAGEMENT
DECISION ON OIG AUDITS

1. OIG will issue the final audit report to the agency management official/contracting officer and simultaneously provide two copies to OCFO, one marked "OCFO/Planning and Accountability Division."
2. OIG will provide information to the agency or agencies involved, with a copy to OCFO, confirming recommendations for which management decisions have been reached. For recommendations that have not reached management decision, OIG will provide an explanation as to what is required to reach management decision.
3. Within 60 days of the audit release date, the agency must propose a preliminary management decision to OIG for each recommendation in the audit report for which there was no management decision made at the time of report issuance, as indicated in the report transmittal memorandum.
 - a. The preliminary management decision must include all of the following:
 - (1) A determination by the management official/contracting officer of the specific actions necessary to comply with each recommendation and the validity of any monetary amounts associated with each recommendation.
 - (2) A plan for those actions deemed necessary must include:
 - (a) The specific actions to be taken on each recommendation;
 - (b) The estimated completion dates for implementation;
 - (c) Agreement on any monetary amounts associated with each recommendation; and
 - (d) Documentation, including Letters of Determination, which inform the auditee of the audit findings (including amounts owed to the Government) and the need for and nature of corrective action.
 - (3) A copy of the bill for collection of amounts owed to the Government and support that the amounts have been entered as a receivable on the agency's accounting records.

(4) An explanation and justification regarding any recommendation and/or monetary amount not considered valid by the management official/contracting officer.

b If corrective action has already been taken, the preliminary management decision must describe the action taken and the total dollar amount of any disallowed costs as well as the amounts agreed to or funds to be put to better use through:

- (1) Reduction in outlays;
- (2) Deobligation of funds from programs or operations;
- (3) Withdrawal of interest subsidy costs on loans or loan guarantees, insurance, or bonds;
- (4) Costs not incurred by implementing recommended improvements related to the operations of the establishment, a contractor or grantee;
- (5) Avoidance of unnecessary expenditures noted in preaward reviews of contracts or grant agreements; or
- (6) Any other savings which are specifically identified.

OIG will determine whether such corrective actions are responsive to the audit recommendation.

4 The following two scenarios are possible on the preliminary management decision:

a OIG accepts the preliminary management decision:

- (1) The management decision becomes final and OIG provides written confirmation of its acceptance to the agency.
- (2) OIG provides a copy of the management decision to OCFO.

b OIG disagrees with the preliminary management decision:

- (1) OIG will provide a written explanation of the reasons for disagreement to the agency.
- (2) Discussions and meeting between OIG and agency officials to resolve differences will begin at the lowest appropriate level

and escalate to the highest levels until agreement is reached.

- (3) If an agreement with the preliminary management decision has not been reached within 90 days of the audit release date, both OIG and the agency will alert their respective senior officials of the differences and potential problems in reaching agreement.
 - (4) If agreement has not been reached within 120 days, OIG will prepare an Audit Decision Paper summarizing disagreement with the preliminary management decision, and will discuss the Audit Decision Paper with the management official/contracting officer and add the agency's comments before finalizing the Paper. The Audit Decision Paper will set forth both the OIG and the agency management positions, along with any additional documentation that may assist in resolving the disagreement. If necessary, OIG will use the Audit Decision Paper as a basis for discussion with the agency head on matters of disagreement.
 - (5) If agreement with the agency head has not been reached within 135 days, the Audit Decision Paper will be elevated by OIG to the applicable Under or Assistant Secretary.
 - (6) If, after 150 days, an agreement has not been reached, the Audit Decision Paper will be elevated by OIG to the Department's Audit Follow-up Official, the Deputy Secretary, who will render a management decision.
 - (7) The timetable and actions described above do not preclude elevation to the next level at any time.
 - (8) OIG will provide the agency and OCFO with a copy of the Department's Audit Follow-up Official's final decision.
- 5 Until a management decision has been made on each recommendation, OIG will work with the agency. As each management decision is made after report issuance, OIG will send a confirming memorandum to the agency or agencies, with a copy to OCFO.

APPENDIX B
PROCESS FOR DETERMINING
FINAL ACTION AND REPORTING REQUIREMENTS

- 1 OCFO will monitor follow-up and evaluate closure and final action requests, once management decision is reached on OIG audit recommendations.
- 2 OCFO will review OIG's recommendations and summary of management decision to determine whether final action on any of the audit recommendations was achieved at the time of management decision. If the agency has not requested final action, OCFO will contact the agency to submit the request. OCFO may also request agency supporting documentation submitted to OIG at the time of management decision, if deemed necessary.
- 3 Agencies must request changes in management decision through OCFO. OCFO will notify OIG of requests for change and forward the supporting documentation received from the agencies. Changes in a management decision include alternative corrective action and revised dollar amounts associated with audit recommendations.
- 4 OCFO will advise the agencies of its acceptance or nonacceptance of closure requests on audit recommendations. In addition, OCFO will provide the status of all open recommendations for agency action in the correspondence.
- 5 If final action is accepted on the audit, such notification in writing will constitute final disposition of the audit and no further reporting will be necessary. However, if final action is not accepted, OCFO will provide the reasons why and what is necessary to achieve final action.
- 6 Agency reports to OCFO on final action must include:
 - a For each recommendation, a description of the measures taken to comply/implement the specific actions of the management decision along with sufficient supporting documentation.
 - b For recommendations with monetary amounts, final action includes evidence that corrective actions have been taken and management's final disposition of the amount which includes:
 - (1) Total recovered disallowed costs broken down by:
 - (a) Accounts receivable

- (b) Cash collections
 - (c) Agency offsets
 - (d) Treasury offsets
 - (e) Property in lieu of cash
 - (f) Writeoffs
 - (g) Other
 - (2) Agreed-upon amount of funds to be put to better use must include:
 - (a) Total funds put to better use;
 - (b) Dollar value implemented; and/or
 - (c) Dollar value not implemented.
 - (3) The date the action was taken on monetary amounts.
- 7 OCFO reserves the right to perform follow-up reviews of actions taken to implement audit recommendations.
- 8 Agencies must report the following for each audit where final action has not been taken within one year from the date of the management decision:
- a The reason final action is not complete for the audit and a revised completion date, where applicable.
 - b Semi-annual time-phased implementation plans for each audit by recommendation. These plans should include, for each open recommendation, major corrective action milestone(s) and estimated completion date(s).
 - c Quarterly interim progress reports on the status of implementing corrective action milestones established in time-phased implementation plans, which include actual or revised completion dates and an explanation as to why corrective action was not achieved, where applicable.
- 9 OCFO will prepare statutory reports, as required. The reports will summarize OIG audit activity for the period.

- 10 OCFO will report on department-wide and unit performance in correcting audit deficiencies, as scheduled.

- 11 OCFO will provide an audit aging analysis to Under/Assistant Secretaries or Agency/Staff Office Heads.