

SECTION 1
CHAPTER 5
DEVELOPING AND IMPLEMENTING CORRECTIVE ACTIONS

The fourth step of the Internal Control Process is correcting the weaknesses/deficiencies identified during the internal control assessments. The culmination of the internal control program is not the preparation of evaluation reports - it is the improvement of program and functional services through the timely correction of control weaknesses.

Definition

A nonmaterial weakness is a control problem which can be corrected at the bureau level without the approval or attention of the next higher level of management.

The overall FMFIA definition of material weaknesses are those control problems which are of significance to report outside of the bureau or agency. However, financial reporting material weaknesses/deficiencies are further defined as a reportable condition, or combination of reportable conditions, that results in more than a remote likelihood that a material misstatement of the financial statements, or other significant financial reports, will not be prevented or detected.

Correcting Material Weaknesses/Deficiencies

All weaknesses/deficiencies are to be corrected in a timely manner. An exception to this policy exists when a documented analysis demonstrates that the estimated costs of improved management control techniques exceed the potential benefits or when corrective actions are precluded by legislative actions. Responsible officials at all levels are expected to be actively involved in correcting material and nonmaterial weaknesses/deficiencies. The plans and schedules for correcting reported weaknesses/deficiencies include the following information:

1. **Summary Description of the Weakness/Deficiency**
2. **Year First Identified**
3. **Target Correction Date** – Unless adequately justified, all material weaknesses and noncompliance issues must be corrected within one year. To ensure that deficiencies are corrected prior to the beginning of the next year’s audit process, final correction of the deficiency should end June 30 to allow sufficient time for testing to ensure that the material weakness/noncompliance issue has been corrected. Extensions beyond the June 30 deadline may be granted by PFM, but IT security weaknesses must be corrected by June 30. Programmatic recommendations may require longer lead time (legislative or regulatory changes) but justification is needed when submitting CAP to PFM.
4. **Accountable Official** – Senior manager(s) in charge of the program where the weakness or noncompliance issue was identified (including field office and/or headquarters, if applicable).
5. **Funding** -- Must be set aside (through budget allocations/allotments), and must be sufficient to completely correct the weakness or noncompliance issue. For deficiencies

requiring multi-year corrective action plans, costs for each year must be identified in the plan and in the bureau/office budget request to the Department. Funding may not be moved to other priorities until the material weakness prior to funds expiration.

6. **Summary of Corrective Actions** – List the critical path activities/milestones, target completion dates, and total resources committed to each milestone.
7. **Quarterly Corrective Action Milestones** – A comprehensive listing of specified actions/milestones and targeted completion dates by fiscal quarter, and the total resources associated with and committed to each action/milestone. As each specific milestone is completed, list the correction date, and where appropriate, the location of the supporting documentation for review upon request by PFM, the OIG, or the independent auditors.
8. **Metrics** – Two types of metrics should be developed: (a) The quantifiable target or otherwise qualitative characteristic that reports how resolution activities are progressing, and (b) the indicators, statistics, or metrics used to gauge resolution progress (in advance of audit follow-up) to validate the resolution of the deficiency.

NOTE: Corrective Action Plans for IT security issues must agree with what is submitted for the POA&M (discussed in another chapter). The same actions, funding, dates, etc., must be evident in both the Corrective Action Plan and the POA&M!

Bureau/office management is responsible for reviewing plans to ensure that sufficient time is available not only to complete the remediation, but also to ensure that retesting can be completed prior to September 30.

Monitoring Corrective Actions

Management at all levels is responsible for monitoring their programs and operations to insure adequate internal controls and prompt correction of identified weaknesses/deficiencies. Each bureau should develop a tracking system and reporting process for weaknesses/deficiencies identified during the management control assessments. The system should provide a complete record of actions taken to correct the weakness. The reporting system developed should be responsive to the needs of the bureau head, the program assistant secretary, the Assistant Secretary-PMB, the Senior Management Council, and OMB. Bureau tracking systems should include all weaknesses/deficiencies, not just the weaknesses/deficiencies identified as material at the Secretarial level and reported in the Department's Annual Performance and Accountability Report.

Bureau progress in correcting existing material weaknesses/deficiencies will be reported to PFM regularly in accordance with annual guidance, and at the mid-year and year-end ICAF progress meetings. PFM will report progress to the Assistant Secretary-PMB and the Senior Management Council. Bureaus also are encouraged to utilize a matrix as a tool to measure the progress of the corrective actions and which will assist managers and OMB in understanding the progress that has been made.

The Department currently requires bureaus to report progress in correcting material weaknesses/deficiencies on a monthly basis. However, after continuous progress of completing

milestones without delays, consideration will be given to allowing quarterly reporting for a specified period. Due dates for the monthly and quarterly progress reports are provided by PFM in the annual internal control guidance.

Postponement in the remediation of a material weakness adversely impacts the achievement of the Department's GPRA goals. Delays in the resolution of any material weakness to a succeeding fiscal year must be approved by the responsible program assistant secretary and forwarded to PFM who will seek final approval from the Assistant Secretary-PMB.

NOTE: Per OMB Revised Circular A-123, if an agency cannot meet the deadlines outlined in the approved corrective action plan, OMB may, at its discretion, require the agency to obtain an independent audit opinion of their internal controls over financial reporting as part of their financial statement audit.

Completed Corrected Actions

Before reporting material weaknesses and financial non-conformance deficiencies as corrected, bureau ICCs need to verify that the corrective action was taken and that the weakness was corrected. Bureaus are required to document supporting verification that corrective actions have been implemented and that material weaknesses and non-conformances have been corrected as reported. Deficiencies will not be considered resolved and "closed" until resolution of a "deficiency" is reported to PFM and documentation is provided along with the bureau's request to close the recommendation. This process applies to OIG identified weaknesses/deficiencies, bureau identified weaknesses/deficiencies, GAO identified weaknesses/deficiencies, or weaknesses/deficiencies that may be identified by other sources.

Before removing reportable conditions and non-material weaknesses from the bureau internal Corrective Action Tracking System, the responsible program official must certify in writing that the planned corrective action was completed and that the action taken corrected the weakness. The certification should be written and incorporated into the bureau internal Corrective Action Tracking System.

For example, if the corrective action for a material weakness requires the issuance of policies and procedures, the ICC should verify that the policies and procedures were issued. If the corrective action requires the implementation of a system or process, the responsible program official needs to test the system or process and forward the test results to the ICC. After the ICC has verified that the corrective action was taken and reviewed the test results, bureaus may report a material weakness as corrected. Final approval of the completion of all required actions to correct a departmental material weakness is issued by PFM; financial statement material weakness correction is verified during the next fiscal year audit.

The responsible program officials(s) should conduct follow-up reviews to insure the weaknesses/deficiencies are resolved.

Linking the Correction of Weaknesses/Deficiencies to Budget Submission

Bureaus are encouraged to complete their scheduled internal control assessments to facilitate budget linkage of any newly identified material weaknesses/deficiencies. Once a weakness/deficiency is identified in a current evaluation, managers must initiate action to set aside the funding (through budget allocations/allotments) and staff resources needed to completely resolve the deficiency, even if it requires redirecting funds from previously planned activities. If redirection of funds is required, bureaus must follow bureau, departmental, and congressional reprogramming procedures. However, it is anticipated that most corrections of material weaknesses can be addressed without a formal congressional reprogramming request, given the broad purposes that funds are available. For weaknesses requiring multiple years to resolve, out-year funding requirements should be prioritized within base funding and included in the bureau and program assistant secretary budget submission(s) until the weakness is resolved. Except in extraordinary cases, funding needed to correct material weaknesses should be prioritized from available base resources, and not funded with new budgetary resources. These amounts must be identified and reported separately in bureau budget requests to the Department. The status of the request should be tracked throughout the budget review and appeals process, through budget enactment