

Department of the Interior

Departmental Manual

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Series: Audit

Part 361: Audit Follow-up

Chapter 1: General Audit Follow-up Responsibilities

Originating Office: Office of Financial Management

361 DM 1

1.1 **Purpose.** The purpose of this chapter is to provide policies and procedures for use by Departmental and bureau management when responding to and implementing recommendations in audit reports issued by the Office of Inspector General (OIG) and the General Accounting Office (GAO). Reference the Management Control and Audit Follow-up Handbook for procedures at http://www.doi.gov/pfm/mac/2003/mgmt_control_handbook.pdf. The audit follow-up program is an integral part of sound program management. Timely responses and implementation of corrective action in response to audit recommendations are essential to improving the effectiveness and efficiency of Departmental operations. This chapter identifies and implements pertinent statutes, regulations, and directives that apply to audit follow-up to OIG and GAO-issued reports and defines terms normally used in the audit follow-up process.

1.2 **Policy.** It is the policy of the Department that timely action is taken in response to audit findings and recommendations included in audit reports issued by the OIG and the GAO, or other outside parties conducting audits authorized by Federal government regulations.

1.3 Definitions.

A. Audit Follow-up Official means the Assistant Secretary - Policy, Management and Budget (A/S-PMB).

B. Audit Initiation Memorandum means the OIG's or GAO's official notification of the initiation of an audit. The memorandum specifies the audit subject, scope, objective, and when the audit will start.

C. Audit Liaison Officer (ALO) means the person designated by management as the point of contact for all activities pertaining to the conduct of audits and audit follow-up in their organization.

D. Cognizant Agency means the Federal awarding agency that provides a predominant amount of direct funding to a recipient unless OMB determines a specific cognizant agency for audit assignment.

E. Corrective Action Plan means management's plan for addressing and implementing recommendations contained in audit reports and will include actions necessary to implement the recommendation, target completion dates, and officials responsible for completing required actions.

F. Disallowed Cost means a questioned cost that management, in a management decision, has sustained or agreed should not be charged to the Government.

G. External Audit means a grant audit, a preaward audit of contractor's proposed future costs, a concessions audit, a lease audit, or a contractor claim audit, or other federal awards administered by contractors, nonprofit entities, and other nongovernmental activities.

H. Financial Statement Audit means an audit conducted by the OIG or an independent public accounting firm in accordance with the Chief Financial Officers Act (CFO) of 1990, the purpose of which is to obtain reasonable assurance that the financial statements of a bureau and office are free of material misstatement. A financial statement audit also means an Indian Trust Funds audit that is required by the CFO Act and that is contracted to an independent public accounting firm.

(1) A financial statement audit report consists of: a) an opinion as to whether the financial statements are fairly presented, in all material respects, in conformity with generally accepted accounting principles; b) a report on internal controls; and c) a report on compliance with laws and regulations. In addition to an audit report, a management letter may be issued. A management letter is a letter prepared by the auditor that discusses findings and recommendations for improvements in internal control, which were identified during the audit and were not required to be included in the auditor's report on internal control, and other management issues.

(2) An entity shall be determined to be in compliance with Federal accounting standards as required by FFMIA, section 803, requirements if they have implemented and maintain financial management systems that comply substantially with: a) Federal financial management requirements, b) applicable Federal accounting standards, and c) the United States Government Standard General Ledger at the transactional level. Refer to the Federal Financial Management Improvement Act of 1996 - OMB Implementation Guidance issued January 4, 2001. For additional guidance refer to the following OMB website: http://www.whitehouse.gov/omb/financial/ffmia_implementation_guidance.pdf. Indicators that entities have achieved substantial compliance in meeting these standards include:

(a) An unqualified opinion on the bureau, office and agency's financial statements. For a qualified opinion, a review of the underlying reasons for the qualified opinion is needed to determine whether or not the entity is in substantial compliance with this requirement. In limited circumstances, a qualified opinion on the agency's financial statements may indicate substantial compliance with this requirement when it is solely due to reasons other than the agency's ability to prepare auditable financial statements. Further, a disclaimer of

opinion may not indicate substantial noncompliance with this requirement when it results from a material uncertainty, such as resolution of litigation.

(b) No material weaknesses in internal controls that affect the entity's ability to prepare auditable financial statements and related disclosures.

(c) Compliance with laws or regulations, which have a direct and material effect on the financial statements being audited.

(d) In situations where an entity receives an unqualified opinion but material weaknesses and/or noncompliance with laws and regulations are reported, the nature and extent of the material weaknesses and/or noncompliance should be considered in determining whether the agency is in substantial compliance with the Federal Managers Financial Integrity Act (FMFIA), as outlined in the charts found under the Factors to Consider in Determining Compliance section of the Federal Financial Management Improvement Act of 1996 - OMB Implementation Guidance issued January 4, 2001.

I. Final Action means the completion of all actions regarding a specific audit recommendation(s) that management, in a management decision, has concluded are necessary with respect to the findings and recommendations contained in an audit report.

J. Follow-up is the process of ensuring that audit recommendations are implemented and that disagreements between management and the OIG regarding corrective action are resolved.

K. GAO Audit means an audit or review conducted by the GAO at the request of Congress or for other purposes determined by GAO to be in the best interest of the Federal government.

L. Internal Audit is an audit that adds credibility to reports produced and used within an organization; internal auditors examine record-keeping processes, assess whether managers are following established operating procedures, and evaluate the efficiency of operating procedures.

M. Management means the agency official to whom an audit report, or the OIG memorandum which transmits an audit report, is addressed. For internal audits, the agency official is usually the cognizant program Assistant Secretary. For external audits, the agency official is usually the contracting officer or grants awarding official within whose purview the subject matter of the audit falls.

N. Management Decision (Internal Audits) means the determination by management, with OIG concurrence, of action(s) required to implement audit recommendation.

O. Management Decision for single and external audits is management's assessment of the adequacy of the audited entity's response to each audit recommendation and/or questioned costs included in a single or external audit report.

P. Offset means the collection of audit-related debt from other monies due from the United States government.

Q. Performance Audit means an audit of an organization, program, activity, or function of the Department or an insular area government. Performance audits include economy and efficiency audits and program audits that evaluate the achievement of desired results, effectiveness, and compliance with laws and regulations.

R. Potential Additional, Lost or Underpaid Revenues represent monetary amounts from revenue generating functions such as rent, leases, mineral royalties, or fees that were underpaid or not realized because policies, procedures, agreements, or requirements were lacking or were not followed. For example, this category may be used in audit reports involving concessions, grants, royalties, reimbursable services and fees.

S. Questioned Cost means a cost that is questioned by the OIG or another audit entity, because of an alleged violation of a provision of a law, regulation, contract, grant, cooperative agreement, or other agreement or document governing the expenditure of funds; a finding that, at the time of the audit, the cost was not supported by adequate documentation; or a finding that the expenditure of funds for the intended purpose was unnecessary or unreasonable.

T. Reinstated Cost means a cost questioned by auditors that management, in a management decision, has agreed should be charged to the Government and is, therefore, not owed by the audited entity.

U. Recommendations that Funds Be Put to Better Use (FBU) means a recommendation by the OIG that quantifies a specific dollar value of funds that would be generated if management took actions to implement and complete the audit recommendations, including reductions in outlays, deobligation of funds from programs or operations; withdrawal of interest subsidy costs on loans or loan guarantees, insurance or bonds; costs not incurred by implementing recommended improvements related to the operations of the establishment, a contractor or grantee; avoidance of unnecessary expenditures noted in preaward reviews of contract or grant agreements; or any other savings which are specifically identified, i.e., the opportunity cost associated with an audit finding

V. Resolution means the process of reaching a management decision or, in the case of external audits, resolution means responding to audit recommendations within established time frames.

W. Single Audit means an audit completed by an independent audit organization in accordance with OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations," specifically, an audit which includes both the audited entity's financial statements and Federal awards.

X. Time-barred means, the provision of the 1988 Amendments to the Indian Self-Determination and Education Assistance Act which precludes the government from recovering

disallowed/sustained costs if notice of disallowance has not been given to the contractor/grantee within 365 days of the issuance of a single audit report.

Y. Sustained Cost means the same as Disallowed Cost (see paragraph 1.3F).

Z. Unsupported Cost means a cost that is questioned by the auditor because, at the time of the audit, such cost was not supported by adequate documentation.

AA. Written Off means a decision by management that collection action is not in the best interest of the Federal government

1.4 **Roles and Responsibilities.**

A. Assistant Secretary - Policy, Management and Budget (A/S-PMB). The A/S-PMB is designated as audit follow-up official for the Department of the Interior. The designation is recorded in 109 DM 4. The A/S-PMB:

(1) Ensures that systems and procedures for audit follow-up are in place and properly documented and maintained.

(2) Makes the final determination regarding audit recommendations that have been referred to the audit follow-up official for resolution.

(3) Ensures that the Office of Financial Management carries out its delegated responsibilities regarding audit follow-up activities.

B. Office of Financial Management (PFM).

(1) Carries out audit follow-up responsibilities that were delegated by the Departmental audit follow-up official.

(2) Maintains the Departmental tracking system for audits referred to the A/S-PMB for tracking or resolution, and monitors implementation progress on a monthly or quarterly basis as necessary.

C. Audit Liaison Officers (ALO)

(1) Each program Assistant Secretary, and heads of bureaus and offices will appoint an ALO who serves as the point of contact for all Departmental audit activities.

(2) The employee designated as ALO should be a senior level staff member who has sufficient access to management so that the ALO may keep senior management apprised of and involved with audit activities affecting the audited entity. The ALO may designate an audit liaison coordinator to assist in day-to-day activities.

(3) Assistant Secretary level ALOs should monitor audit activity within bureaus reporting to the Assistant Secretary.

(4) Bureau level ALOs should keep the Assistant Secretary ALO apprised of significant audit issues/activities affecting the bureau.

(5) ALOs will ensure full cooperation with the OIG and GAO in the conduct of audits and with the audit follow-up official and PFM in all audit follow-up activities.

(6) ALOs will provide timely responses to auditors.

1.5 **Time Frames for Response.** As a convenience to readers, the appropriate response times for OIG and GAO audits are summarized below.

Time Frames for Comment

<u>Organization</u>	<u>Draft Reports</u>	<u>Final Reports</u>
GAO Reports	15-30 days (as directed)	60 days
OIG Reports:	45 days	30 days
Performance Audits	45 days	30 days
Financial Statement Audits		Refer to the DOI Guidance on Preparing Financial Statements at http://www.doi.gov/pfm/finstate.html
External Audits	n/a	90 days

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