



# United States Department of the Interior

OFFICE OF THE SECRETARY

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FINANCIAL MANAGEMENT MEMORANDUM 2013-002 (AF VIII A)

To: Assistant Secretaries  
Heads of Bureaus and Offices  
Bureau Assistant Directors for Administration  
Bureau Chief Financial Officers  
Audit Liaison Officers

From: Pamela Haze *Pamela Haze*  
Deputy Assistant Secretary - Budget, Finance, Performance and Acquisition

Subject: Guidance for FY 2013 Audit Follow-Up Program and Departmental Performance Goals for Implementation of Office of Inspector General and Government Accountability Office Audit Recommendations

This memorandum transmits the U.S. Department of the Interior's guidance for the Fiscal Year (FY) 2013 Audit Follow-Up Program, including the activities and timeframes necessary to comply with the Office of Management and Budget (OMB) Circular A-50, Audit Follow-up, and the departmental performance goals for the timely implementation of Office of Inspector General (OIG) and Government Accountability Office (GAO) audit recommendations and the reduction of repeat audit recommendations.

During FY 2013, the Audit Follow-Up Program will focus again on closing all open audit recommendations scheduled to be completed during the fiscal year (or that should have been but were not closed in prior fiscal years) and on minimizing the number of repeat audit recommendations. The instructions in Attachment 1 address the audit follow-up process, discuss reducing the number of repeat recommendations, and summarize the performance goals for FY 2013.

Key activities in the Audit Follow-Up Program include:

- Prepare and submit timely responses to the OIG and GAO stating concurrence or non-concurrence to the recommendation(s);
- Prepare appropriate Corrective Action Plans with target dates of implementation;
- Submit Corrective Action Plans and revisions, if applicable, to PFM;
- Implement and close the recommendations timely with adequate supporting documentation;
- Review the Audit Follow-up Performance (Goal Base) Report quarterly for accuracy;
- Issue timely management decisions on grant-related audit findings in single audit reports; and
- Submit monthly and quarterly status reports to PFM.

Please refer to Section 4 of the Internal Control and Audit Follow-Up Handbook, which details

the structure and oversight, the requirements in terms of submitting corrective action plans, the closure of recommendations, and the status reporting format.

We look forward to your cooperation and assistance as we fulfill the Department's Audit Follow-up Program responsibilities during FY 2013. If you have questions or would like to discuss the requirements set forth in this memorandum, please contact Douglas A. Glenn, Deputy Chief Financial Officer and Director, Office of Financial Management, at (202) 208-4701 or Eric Eisenstein, Chief, Internal Control and Audit Follow-Up Division, at (202) 208-3417.

#### Attachments

cc: Finance Officers Partnership  
Assistant Inspector General for Audits  
Audit Liaison Officers

Department of the Interior  
Audit Follow-Up Program  
Fiscal Year 2013 Annual Guidance

***Rating by Materiality/Priority***

During FY 2012, PFM continued the procedure of rating audit recommendations to enhance visibility of open audit recommendations. In FY 2013, all OIG-issued audit recommendations again will be rated high, medium, or low based on their quantitative or qualitative materiality.

Bureau/office management and PFM representatives will jointly assign each financial statement audit recommendation a quantitative rating based, in general, on level of qualification as identified by the independent auditors. Accordingly, recommendations caused by a finding elevated to a material weakness will be assigned a high rating and significant deficiencies a medium rating. Management Letter recommendations may be assigned by PFM to the bureaus for corrective action. These may be ranked as medium or low depending on PFM's evaluation of the finding.

Similarly, all program related audit recommendations will be rated high, medium (the default rating), or low based on their qualitative materiality as determined by management's judgment.

All GAO audit recommendations will be assigned a medium rating that may be subject to an upgrade or downgrade based on circumstances (e.g., deficiencies identified on GAO's 2011 High-Risk Series will be rated high).

Special emphasis will be placed on corrective actions for implementing all recommendations rated high. Higher-rated recommendations will be more heavily weighted in the evaluation of how well the bureaus and offices are implementing audit recommendations.

***Quarterly Audit Follow-Up Performance (Goal Base) Review***

The bureau and office audit liaison officers must review the Audit Follow-Up Performance (Goal Base) Report to ensure its accuracy within five workdays after the end of every quarter. It is critical that all bureaus and offices achieve the 85 percent weighted completion goal set for implementation of audit recommendations by fiscal year-end. As discussed on Page 3, closing a high-rated recommendation counts 50 percent more than a medium-rated one, while closing a low-rated recommendation counts half as much as a medium-rated one, for calculating progress toward the 85 percent target.

***Mid-year Progress and Year-end Issue Resolution Meetings***

PFM hosts mid-year and year-end Internal Control and Audit Follow-Up meetings with bureau management. The meetings include discussion of progress in implementing audit recommendations. As necessary, PFM will host additional audit follow-up performance status meetings with bureau management and/or Audit Liaison Officers.

Bureaus and offices are required to participate in the mid-year meetings with Policy, Management and Budget (PMB), Budget, Finance, Performance and Acquisition, PFM, and OIG

staff in May 2013. The purpose of the meetings is to review program performance and discuss/resolve material weaknesses, non-compliances, internal and external audit corrective action issues, and other matters. PFM may schedule additional progress-review meetings, as necessary.

It is important that the bureaus and offices with open recommendations especially targeted for implementation in the current fiscal year seriously consider the milestone progress that has already been made and ensure the remaining milestones will be met as planned.

In addition, bureaus and offices are required to participate in year-end issue resolution meetings with PFM and OIG staff in October 2013. The meetings are held, among other purposes, to review the final status of bureau and office audit follow-up performance and to discuss/resolve any pending issues.

### **Audit Follow-Up Performance (Goal Base)**

#### ***OIG and GAO Open Recommendations***

The Department's FY 2013 performance goal for timely implementation of audit recommendations requires bureaus and offices to implement and close 85 percent of weighted OIG and GAO audit recommendations targeted for implementation during the fiscal year. The recommendations that remain open from prior years are included in the 85 percent weighted implementation goal base. The 85 percent implementation goal base includes the financial statement audit recommendations referred to PFM for tracking and/or resolution prior to March 31, 2013. By default, if the OIG referral for the financial statement audit recommendations is received by PFM after March 31, 2013, they must be implemented and completed by December 31, 2013, and therefore will not be part of the 2013 goal base.

Managers should regularly emphasize the timely closure of audit recommendations and ensure that appropriate corrective action plans are established and implemented. Recommended intermediate goals to facilitate meeting the weighted annual closure goal are: 25 percent closed by December 31, 2013; 40 percent closed by March 31, 2013; 60 percent closed by June 30, 2013; and 75 percent closed by August 31, 2013. Regular and structured monitoring helps to ensure the Department meets the performance goal for the Audit Follow-Up Program and other OMB requirements.

Regular review of the feasibility of meeting the planned milestones is critical. Any potential risk of not meeting the planned milestones and target dates affects the bureaus' as well as the Department's annual performance goal. During the year, PFM has to be kept abreast of any priority changes or unprecedented events that may be detrimental to the bureau and or the Department making the goal rather than waiting until the end of the fiscal year.

**Attachment 2** is the goal base spreadsheet that lists the opening balance for FY 2013 by bureau. The goal base includes audit recommendations issued in FY 2012 and recommendations issued prior to FY 2012 that have not been implemented. For all recommendations currently showing "TBD" as a target date, management must establish, by **January 31, 2013**, a specific, reasonable target date. If the proposed completion dates exceed the one year target, the bureau Chief Financial Officer (CFO) or office Director must provide a full justification to PFM.

**Attachment 3** is the detailed listing from the Department's audit follow-up tracking system. In the listing, the recommendations included in the FY 2013 goal base are noted. The targeted implementation dates are generally based on initial bureau/office concurrences and milestones. Requests for extending the original target date must be submitted by the bureau CFO to PFM in writing with appropriate justification. The deadline to request for extension is before the end of the third quarter. Requests submitted after August 31st will not be considered.

The Department's objective is to complete implementation of all OIG audit recommendations no later than the next fiscal year after the referral to PFM for resolution and closure. There are certain instances in which management cannot complete implementation of an audit recommendation within this timeframe, and special justification is required in these cases. It is, however, management's duty to establish realistic completion dates that are achievable. PFM tracks recommendations based on the target dates proposed by the responsible bureau/office and forms the basis of its inclusion in the current year goal base.

Recommendations from the final FY 2012 financial statement audit reports and management letter are not included in Attachment 3. PFM will enter them into the tracking system and goal base when the OIG refers them to PFM for resolution and/or implementation. Referrals of financial statement audit recommendations that are received after March 31, 2013, will be excluded from the FY 2013 goal base unless a bureau/office indicates to PFM that the recommendation is expected to be implemented prior to the end of the current fiscal year.

PFM will count towards the audit follow-up performance goal any referred recommendations from OIG or GAO audit reports issued **during** FY 2013 that bureaus and offices implement and close before the end of the FY regardless of their original target date. Open audit recommendations that were not scheduled to be implemented within the FY will only become part of the goal base for the FY if and when they get implemented.

To determine audit follow-up performance in FY 2013, PFM will again assign 'high-rated' audit recommendations a weight of 1.5, 'medium-rated' ones 1.0, and 'low-rated' ones 0.5. PFM will calculate periodically the weighted implementation percentage for each bureau/office, with the FY-end goal of 85 percent.

### ***Reduction in Repeat Findings***

PFM will notify the bureaus/offices when new OIG audit reports are referred to PFM for tracking and when PFM submits the statement of actions in response to new GAO audit recommendations.

Another Departmental goal is to minimize repeat financial audit findings. Repeat audit findings generally occur when corrective actions either were not effectively implemented or failed to address the root cause of the problem. We must ensure that corrective actions taken to close audit recommendations directly address the root cause of the finding cited. When bureaus/offices submit documentation to close audit recommendations, they must evaluate whether the actions taken will result in a "no finding" next fiscal year. If the actions taken are not likely to accomplish this, the bureau/office should identify additional actions necessary to

implement the recommendation, include the additional actions in their corrective action plan, and establish realistic timeframes to accomplish the actions. Open audit recommendations will not be closed until all actions that are likely to result in a “no finding” are complete.

As the OIG refers the FY 2012 financial audit recommendations to PFM, recommendations that are repeated from 2011 will be identified in the audit follow-up tracking system. Progress on closing these recommendations will be discussed as a special interest item at meetings.

PFM will monitor bureau and office performance in meeting the 85 percent weighted closure goal with minimal repeat audit finding and may report the results in a scorecard format to the Assistant Secretary – PMB, appropriate Assistant Secretaries, and Bureau Directors.

### **Corrective Action Plans**

#### ***Financial Statement Findings and Recommendations:***

Corrective Action Plans (CAPs) for financial statement audit-identified material weaknesses and noncompliance issues as well as bureau/office-identified financial material weaknesses and noncompliance issues are due to PFM within 30 calendar days after issuance of the final report. For all financial statement audit-identified items referred to PFM before March 31, 2013, CAPs with monthly milestones and implementation target dates no later than June 30, 2013, must be provided to PFM within the prescribed 30-day period unless a written extension request is approved by PFM. By default, financial statement audit-identified deficiencies referred to PFM by the OIG between March 31, 2013, and June 30, 2013, must be implemented or closed no later than December 31, 2013.

It should be noted that a Notice of Finding and Recommendation (NFR) issued by the independent auditors to a bureau or office during the financial statement audit may not necessarily result in the same finding and recommendation being issued in the financial statement audit report or management letter report. Although it is important that the bureau or office associated with the finding take corrective actions towards addressing the concurred-to recommendation in the NFR, PFM only tracks audit recommendations that are issued in the report and that are later referred by the OIG through a referral memo. Therefore it is important that bureaus or offices review the actual recommendations issued in the report and ensure these relate to the corrective actions concurred to during the NFR phase. It is also important to note that based on the response to the NFR, the wording of the recommendation may or may not be different in the report.

#### ***Program Audit and Evaluation Findings and Recommendations:***

CAPs for OIG program audit recommendations must be submitted with the response to the OIG within 30 days, and CAPs for GAO audit recommendations must be submitted within 60 calendar days after the final report is issued.

The CAP template (**Attachment 4**) must be used to develop corrective action plans for monthly and quarterly reporting purposes. If target completion dates extend beyond FY 2014, the bureau/office is required to provide special justification to PFM.

Last year, PFM issued a memo titled *Mandatory Submission for Review of Draft Responses to*

*Audit Reports.* The memorandum directs bureaus and offices to submit to PFM, for a limited review, responses to the reports issued by the OIG. PFM's limited review will help ensure that responses are timely and the key elements such as concurrence/non-concurrence to the recommendation(s) and a corrective action plan identifies the target date for implementation and responsible official are part of the draft response. PFM will not participate in developing or endorse these responses and corrective action plans. Rather, PFM will remain impartial so that it can later objectively issue resolution and closure determinations, as necessary.

### **Closing Corrective Actions and Recommendations**

Bureaus and offices are to submit OIG audit recommendation closure requests with appropriate supporting documentation (in electronic format, if possible) to PFM. PFM will review each request, make a determination regarding closure, and issue a closure memorandum to the OIG, if deemed appropriate. Bureaus are not to communicate directly with the OIG or GAO regarding closure of open audit recommendations. The corrective action completion request must identify the report finding, the audit report recommendation number, actions taken, and rationale for closure. If PFM believes the supporting documentation is not sufficient to close a recommendation, PFM will deny the closure request and may ask the bureau to provide additional information to support the closure request. Closure requests should be submitted as corrective actions are completed and not delayed until the end of the quarter.

Bureaus or offices that nonconcur with audit recommendations must provide to PFM for resolution any justification beyond or in support of their response to the OIG. Nonconcurrency requests can include alternative suggested actions. If the OIG refers the recommendation to PFM for resolution, additional information from the nonconcurring offices must be provided to enable PFM to arrive at a resolution. If PFM determines the nonconcurrency to be justified, PFM will issue a resolution memorandum to the OIG explaining that it is closed based on the justification. If PFM determines that the nonconcurrency by the bureau/office is not justified, PFM will issue a resolution memorandum to the bureau/office in question enforcing the implementation of the OIG's recommendation. If necessary, PFM will hold a meeting with representatives from the bureau/office and the OIG to discuss the matter and reach consensus.

When a GAO report is issued with recommendations for executive action, the affected bureau will respond to the Congressional requestor(s) with a plan of action, responsible official, and a target date of implementation. GAO typically allows up to four years to implement a recommendation, and therefore corrective actions toward implementing any GAO recommendation must be planned to be accomplished within the four-year period after issuance of the report. But as with CAPs for OIG recommendations, PFM requires special justification for milestone dates beyond FY 2014. GAO regularly contacts PFM for status updates of recommendations regardless of the established target dates especially to prepare for Congressional testimony. Therefore it is critical the planned steps are being taken towards addressing the recommendation. When a bureau/office asserts that it has implemented a GAO recommendation, PFM reviews its rationale and support and makes the Department's closure determination. Subsequently (including at the end of the four-year window), GAO may make its own determination as to whether they think all the corrective actions taken have addressed their recommendation. Based on their determination, GAO records the recommendation as 'Closed – not implemented', 'Closed – implemented', or 'in progress'.

### **Grant Monitoring and Timely Management Decisions on Audit Findings**

OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, requires grantees who expend over \$500,000 in Federal Funds to have single audits conducted. PFM notifies bureaus (except for Indian Affairs, which has its own process in place) via memorandum whenever a single audit report identifies the bureau with a finding/recommendation that requires resolution. A reply to PFM will be required by a specified date, usually 90 days from the date of the transmittal memorandum. A management decision states whether the audit finding is sustained, the reasons for the decision, and the expected auditee action (e.g., repay disallowed costs). Timely management decisions are critical to recovering valid questioned costs, avoiding future occurrences of an identified deficiency, and complying with OMB Circular A-133 requirements.

### **Status Reporting**

#### ***Monthly Status Reports***

Beginning in **December 2012**, on the last working day of each month, bureaus/offices must submit to the Director, PFM, via e-mail at Douglas\_Glenn@ios.doi.gov or facsimile at (202) 208-6940, a status report of their CAP on **identified material weakness or non-compliance items**, indicating which monthly milestones are completed. If milestones are missed, bureaus/offices must provide to PFM, a concise, written statement with the reasons for missing the milestone and the actions that are planned to actually complete the milestone during the subsequent month.

Monthly status reports, to include status against corrective action plans, will be required only for:

- Auditor-identified material weaknesses;
- Auditor-identified noncompliance issues; and
- Bureau/office-identified material weaknesses or noncompliance issues, including Appendix A financial reporting weaknesses.

#### ***Quarterly Status Reports***

Bureaus and offices must provide to PFM, within 15 days after the end of each quarter (except for the fourth quarter, which must be submitted by September 30), a status report on all OIG and GAO audit recommendations, external audits (single audits and grants), financial statement recommendations, and internal control issues reported on the issue log. The quarterly report must summarize all findings, target completion dates, responsible official, status of implementation, and progress (i.e., percent completed) in remediating the finding. The first report is due for the quarter ending **December 31, 2012**. (**Attachment 5** contains template for reporting the status of all external audit recommendations.)

Quarterly status reports must include all monthly reporting items plus:

- All other OIG recommendations from financial statement audits (including significant deficiencies), program audits, and evaluations;
- GAO audit recommendations; and
- A-123, Appendix A Issue Log or assessment summary.