



United States Department of the Interior

OFFICE OF THE SECRETARY

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FINANCIAL MANAGEMENT MEMORANDUM 2014-008 (Vol. VIII.A)

To: Assistant Secretaries
Bureau and Office Directors
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 2014 Audit Follow-up Program and Departmental Performance Goals for Implementation of OIG and GAO Audit Recommendations

This memorandum transmits the U.S. Department of the Interior's (Department) guidance for the Fiscal Year (FY) 2014 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 the Office of Inspector General (OIG) and Government Accountability Office (GAO) audit recommendations and the reduction of repeat audit recommendations.

During FY 2014, the Audit Follow-up Program will again focus 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 2014.

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 (CAPs) with aggressive and achievable target dates of implementation;
- Submit CAPs and revisions, if applicable, to the Office of Financial Management (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 Followup Handbook*, which details the structure and oversight, the requirements in terms of submitting CAPs, the closure of recommendations, and the status reporting format. The Handbook can be found on PFM's SharePoint site at the following link:

<https://portal.doi.net/OS/PMB/PFM/Travel%20Newsletters/Forms/AllItems.aspx>.

We look forward to your cooperation and assistance as we fulfill the Department's Audit Follow-up Program responsibilities during FY 2014. If you have questions or would like to discuss the requirements set forth in this memorandum, please contact Teresa Taber, Deputy 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

Department of the Interior
Audit Follow-Up Program
Fiscal Year 2014 Annual Guidance

Rating by Materiality/Priority

The PFM continues the practice of weighting audit recommendations to enhance management of resources that perform corrective actions and enable better assessment of audit follow-up performance. In FY 2014, 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 part, on level of qualification as identified by the independent auditors. Generally, recommendations caused by a finding elevated to a material weakness will be assigned a *high* rating and significant deficiencies a *medium* rating. Most minor recommendations will be ranked as low.

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. Management should document its rating determinations.

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 (ALOs) 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

The PFM again plans to host 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 management and/or ALOs from particular bureaus or offices.

The mandatory mid-year meetings of bureau/office management and ALOs with Policy, Management and Budget (PMB); Budget, Finance, Performance and Acquisition; PFM; and OIG

staff will be scheduled in May 2014. 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.

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 that the remaining milestones will be met as planned.

The year-end issue resolution meetings with PFM and OIG staff will be held in October 2014. The meetings are held 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 2014 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, 2014. By default, if the OIG referral for the financial statement audit recommendations is received by PFM after March 31, 2014, it must be implemented and completed by December 31, 2014, and therefore will not be part of the 2014 goal base unless corrective actions are completed before fiscal year end.

Managers should regularly emphasize the **timely** closure of audit recommendations and ensure appropriate CAPs 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, 2014; 60 percent closed by June 30, 2014; and 75 percent closed by August 31, 2014. Regular and structured monitoring helps to ensure that 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 bureau's/office's as well as the Department's annual performance goal. Throughout the year rather than at just year-end, PFM has to be kept abreast of any priority changes or extraordinary events that may be detrimental to the bureau and or the Department making the goal.

Attachment 2 is the goal base spreadsheet that lists the opening balance for FY 2014 by bureau. The goal base includes unimplemented audit recommendations issued in or prior to FY 2013. For all recommendations currently showing "TBD" as a target date, management **must** establish, by January 31, 2014, 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 2014 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 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 both aggressive and achievable. The 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 2013 financial statement audit reports are not included in **Attachment 3**. The 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, 2014, will be excluded from the FY 2014 goal base unless a bureau/office indicates to PFM that the recommendations are expected to be implemented prior to the end of the current fiscal year.

The PFM will count towards the audit follow-up performance goal any referred recommendations from OIG or GAO audit reports issued **during** FY 2014 that bureaus and offices implement and close before the end of the fiscal year regardless of their original target date. Open audit recommendations that were not scheduled to be implemented within the fiscal year will only become part of the goal base for the fiscal year if they get implemented by September 30, 2014.

To determine audit follow-up performance in FY 2014, PFM will again assign 'high-rated' audit recommendations a weight of 1.5, 'medium-rated' ones 1.0, and 'low-rated' ones 0.5. The PFM will calculate periodically the weighted implementation percentage for each bureau/office, with the FY-end goal of 85 percent.

Reduction in Repeat Findings

Another Departmental goal is to minimize repeat 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 CAP, 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.

When the OIG issues the referral for the FY 2013 financial audit recommendations to PFM, recommendations that are repeated from 2012 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.

The 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:

The CAPs for financial statement audit-identified material weaknesses and noncompliance issues or self-identified deficiencies 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, 2014, CAPs with monthly milestones and implementation target dates no later than June 30, 2014, 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, 2014, and June 30, 2014, must be implemented / closed no later than December 31, 2014.

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 tracks only 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 that 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 change in the report.

Program Audit and Evaluation Findings and Recommendations:

The 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 Corrective Action Plan template (**Attachment 4**) must be used to develop CAPs for monthly and quarterly reporting purposes. If target completion dates extend beyond FY 2015, the bureau/office is required to provide special justification to PFM.

The PFM will continue to require bureaus and offices to submit to PFM, for a limited, non-substantive review, responses to the reports issued by the OIG. This was first directed by the 2012 memo issued by PFM titled *Mandatory Submission for Review of Draft Responses to Audit Reports*. The PFM's limited review will help ensure that responses are timely and that the key elements such as concurrence/non-concurrence to the recommendation(s) and a CAP that identifies the target date for implementation and responsible official are part of the draft response.

Closing Corrective Actions and Recommendations

The 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.

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. In general, 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 is not satisfied that the supporting documentation warrants closure of a recommendation, the closure request will be denied and the bureau may be asked to provide additional information to support the closure request. Closure requests should be submitted as appropriate corrective actions are completed and must not be delayed until the end of the quarter.

The OIG issues a referral memo to PFM for resolution of a recommendation when the relevant bureau/office disagrees with the OIG's finding. In such instances, any additional information or justification beyond or in support of their original response to the OIG must be submitted to PFM. This may include alternative suggested actions that will help 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. In rare cases, the Department's Audit Follow-up Official will need to be called upon to determine a final resolution.

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. The GAO typically allows up to four years to get a recommendation implemented, and therefore corrective actions toward implementing any GAO recommendation must be planned carefully 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 2015. 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 that progress towards implementing the planned actions regarding the implementation of the recommendation is monitored. When a bureau/office asserts that it has implemented a GAO recommendation, PFM reviews its rationale and support and makes the closure determination for the Department. Subsequently (including at the end of the four-year window), GAO may make its own determination as to whether they think that 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

The 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. The 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. The PFM monitors whether management decisions are submitted within the required timeframe.

Status Reporting

Monthly Status Reports

On the last working day of each month, bureaus/offices must submit to the Director, PFM, via e-mail or facsimile, 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 CAPs, 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. (See Internal Control Program Guidance)

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), and financial statement recommendations. 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, 2013**. (**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;
- The GAO audit recommendations; and
- A-123, Appendix A Issue Log or assessment summary. (See Internal Control Guidance).