



## **EVALUATION OF THE AUDIT RESOLUTION PROCESS**

**Report No. 2E-03-001-0001  
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## **ACRONYMS AND GLOSSARY**

### **ACRONYMS**

CFR	-	Code of Federal Regulations
DOL	-	U.S. Department of Labor
ETA	-	Employment and Training Administration
JTPA	-	Job Training Partnership Act
OA	-	Office of Audit
OIG	-	Office of Inspector General
SOL	-	Office of the Solicitor

### **GLOSSARY**

<u>DOL Agency Management</u>	DOL program officials who are responsible for receiving and analyzing audit reports, providing timely responses to the audit organization, and taking corrective action where appropriate.
<u>Questioned Cost</u>	A cost that is questioned by the auditors because: (a) of an alleged violation of a provision of a law, regulation, contract, grant, cooperative agreement or document governing the expenditures of funds; (b) such cost is not supported by adequate documentation; or (c) the expenditure of funds for the intended purpose is unnecessary or unreasonable.
<u>Allowable Cost</u>	A cost necessary and reasonable for the proper and efficient administration of the program.
<u>Disallowed Cost</u>	A cost questioned in an OIG audit that DOL agency management, in a management decision, has sustained or agreed should not be charged to the Government. Referred herein as “Management Concurrence”.
<u>Management Decision</u>	The evaluation by Federal awarding agency or pass-through entity of the audit findings and corrective action plan and the issuance of a written decision as to what corrective action is necessary.

## EXECUTIVE SUMMARY

We evaluated the efficiency and effectiveness of DOL's audit resolution process. DOL's audit resolution process is intended to produce effective, efficient action to correct problems uncovered by an audit. Audit resolution, closure, and follow-up are an integral part of good management.

Effective audit resolution, closure and follow-up are interactive processes with several key participants: the auditees, the responsible program agencies, the OIG, the Chief Financial Officer, and the Deputy Secretary who is designated as DOL's Audit Follow-up Official.

This evaluation focused primarily on the resolution, by DOL agency management, of costs questioned by OIG auditors during Fiscal Years (FY) 1995 through 2000. Data from the OIG's semiannual reports to Congress during this period shows that the vast majority of questioned costs were related to Employment and Training Administration (ETA) and Office of the Assistant Secretary for Administration and Management (OASAM) program activities and operations.

## RESULTS OF EVALUATION

We found that additional steps can be taken to improve the efficiency and effectiveness of the audit resolution process. Further, both OIG and DOL agency management need to comply with the statutory 180-day requirement for resolving audit recommendations.

### **FINDING A - Audit Findings and Recommendations Are Not Being Resolved Within the 180-day Regulatory Time Limit**

We found that audit findings and recommendations are not being resolved within the 180-day regulatory time limit. Our sample of 41 reports disclosed that DOL agency management and OIG met the 180-day regulatory time limit for only 14 (or 34%) of those reports. On average, it took approximately 240 days for DOL agency management and OIG to resolve audit findings and recommendations.

We believe that the major reason audit findings and recommendations are not resolved within the 180-day time limit is because both DOL agency management and OIG are not following established procedures. Additionally, DOL agency management told us that several factors contribute to not meeting the 180-day regulatory time limit: (1) DOL agency management is not enforcing the 180-day time limit, (2) auditees are not as responsive as they should be, (3) many times there are complex issues that require additional research, and (4) issues need to be coordinated within the respective agency and with outside agencies such as OIG and SOL.

## **FINDING B - Steps Can Be Taken to Improve the Audit Resolution Process**

We identified two factors that we believe will further reduce the disparity between the costs questioned by OIG auditors and the amounts subsequently disallowed by DOL agency management. These factors are: (1) Communication between OIG auditors and DOL agency management can be improved, and (2) OIG auditors should take extra steps to obtain documentation prior to questioning costs due to lack of documentation.

We found that there is very little early communication between OIG auditors and DOL agency management during the audit process. Based on our interviews with both OIG Audit Officials and DOL agency management, improved early communication during the audit process will provide both the auditors and DOL agency management with a better understanding of any issues identified. Furthermore, early communication allows for DOL agency management to provide insight and input for consideration as recommendations for corrective action are developed by the OIG.

We also found that DOL agency management allowed a significant amount of costs that had been questioned by OIG auditors due to unsupported costs/lack of documentation. These costs were allowed because the auditee subsequently provided support/documentation during the resolution process

### **RECOMMENDATIONS**

We believe that implementation of our recommendations will increase the effectiveness of the audit resolution process. We recommend that:

1. OIG provide audit staff with guidance and training on procedures for resolving audit findings.
2. DOL agency management provide guidance and training to staff on procedures for resolving audit findings.
3. OIG implement procedures requiring that, once an issue has been identified during the course of audit fieldwork, auditors should contact DOL agency management to get their insight and input for consideration as recommendations for corrective action are developed by the OIG.
4. DOL agency management develop procedures including steps for providing insight and input to auditors regarding issues that are identified during the audit process.

5. OIG implement procedures to provide auditees with incentives and opportunities throughout the audit process to locate and provide any requested documentation. For example, whenever documentation is not provided, the auditors should contact the Grant or Contract Officer to solicit assistance in obtaining the requested documentation.
6. DOL agency management implement procedures that allow for OIG auditors to review any documentation submitted by auditees during the course of resolution.
7. DOL agency management explore the benefits/ramifications of implementing punitive measures for grantees and contractors who do not provide documentation to auditors during the audit process.

## **AGENCIES RESPONSES AND OIG CONCLUSIONS**

DOL Agencies and the OIG, Office of Audit provided written responses to our draft report. In general, both the agencies and OIG agreed with our findings and recommendations. As a result of corrective actions planned, we consider recommendations 1, 2, 4, 5, 6, and 7 resolved and will be closed upon our receipt of a copy of revised policy and procedures and a timetable for proposed training. Recommendation 3 remains unresolved. Our recommendation relates to improved early communications during the audit process between the auditors and DOL agency management. We strongly believe this recommendation would require the Office of Audit to make a procedural change and should be part of the planned DLMS revision. A summary of the agencies responses, along with the OIG's comments are located on pages 7 and 11. Complete responses are located in the Appendix beginning on page 14.

## **BACKGROUND**

DOL's audit resolution process is designed to produce effective, efficient action to correct problems uncovered by an audit. Audit resolution, closure, and follow-up are an integral part of good departmental management and are a shared responsibility of program managers and auditors. Corrective action taken on OIG audit recommendations is essential to improving the effectiveness and efficiency of Government operations. Effective audit resolution, closure and follow-up make up an interactive process with five principal participants: the auditee, the responsible program agencies, the OIG, the Office of the Chief Financial Officer (CFO), and the Deputy Secretary who is the designated DOL Audit Follow-up Official.

### **Legal Authority**

The following laws and directives define authorities and responsibilities and establish time frames and other requirements for the resolution of audit recommendations and the collection of claims:

The Inspector General Act of 1978 authorizes the Office of Inspector General to conduct and supervise audits and investigations relating to the programs and operations of the establishments listed in section 11(2) of the Act.

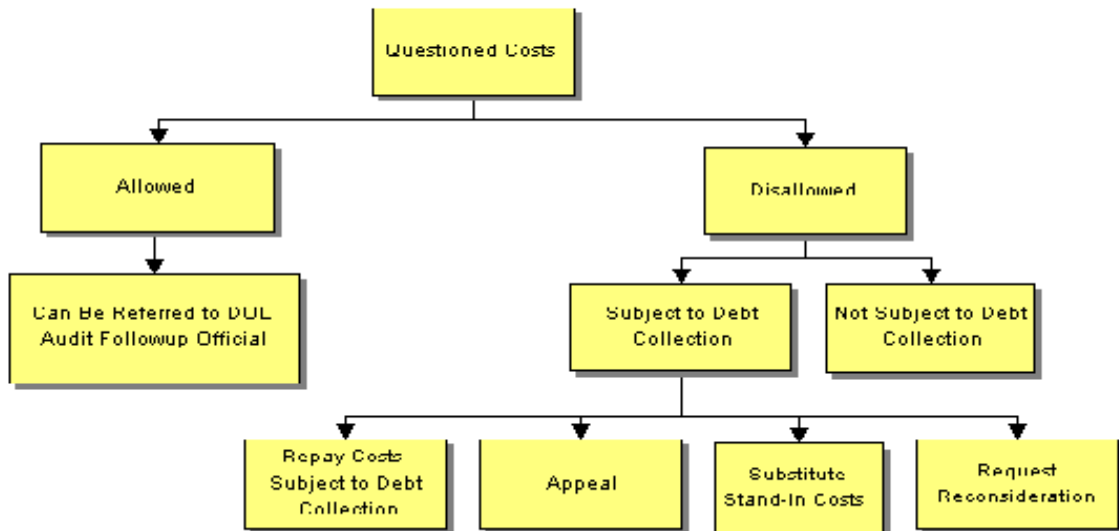
The Supplement Appropriate and Rescission Act of 1980 and the Office of Management and Budget (OMB) Circular A-50 (revised September 29, 1982), "Audit Follow-up," requires that Federal agencies establish systems to assure prompt resolution of audit recommendations within 180 calendar days with corrective action to proceed as rapidly as possible. The Circular also requires management to provide current information about audit reports on which decisions were made but final corrective actions were still incomplete after one year.

The Department of Labor Manual Series (DLMS) establishes policies and procedures to assure effective DOL action on audit recommendations. According to the DLMS, the OIG will provide a periodic assessment of the effectiveness of the Department's audit resolution and follow-up system to recommend improvements.

### **Resolution of Questioned Costs**

Our evaluation focused primarily on the resolution by DOL agency management of costs questioned by OIG auditors. The following chart depicts the process for resolving costs questioned by OIG, the issuance of the management decision by DOL agency management, and the options available to the auditee for those questioned costs subject to debt collection.

## Resolution Process for Questioned Costs



The above chart is a simplified version of the resolution process for questioned costs and is not intended to represent the complete detailed process. A detailed description of each of the steps of the audit resolution, closure and follow-up process is located at Appendix A.



## PURPOSE, SCOPE AND METHODOLOGY

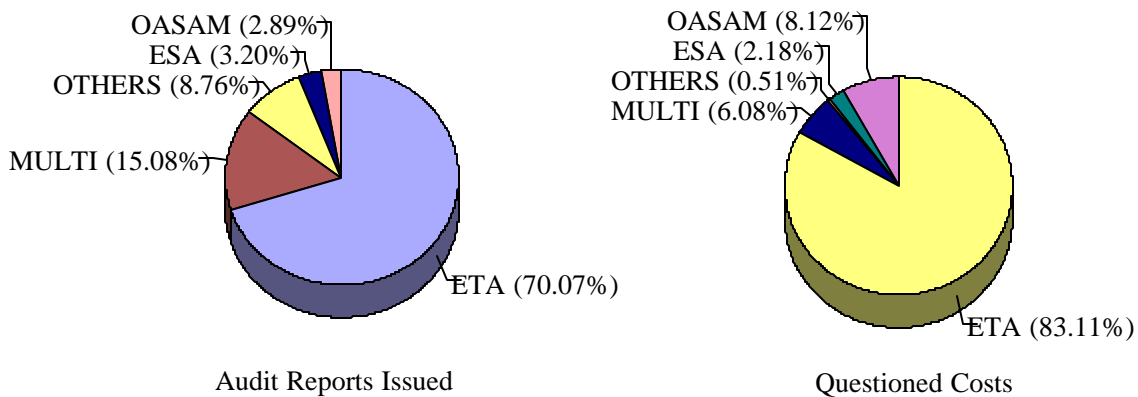
### PURPOSE

The purpose of this evaluation is to examine the efficiency and effectiveness of the Department of Labor's (DOL) Audit Resolution Process. This evaluation focused primarily on the resolution by DOL agency management of costs questioned by OIG auditors during the period Fiscal Years 1995 through 2000. Our specific evaluation objectives were to identify:

- (1) The extent to which costs questioned by OIG receive management concurrence.
- (2) Whether OIG audit recommendations are being resolved within the prescribed time frame of 180-days.

### SCOPE

This evaluation focused primarily on the resolution by DOL agency management of costs questioned by OIG auditors during the period Fiscal Years 1995 through 2000. The OIG issued 1,381 audit reports to DOL agencies with questioned costs of approximately \$137 million. As shown by the following charts, the vast majority (91%) of the costs questioned were related to ETA and OASAM program activities and operations. Accordingly, this evaluation focused primarily on the ETA and OASAM



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## METHODOLOGY

Our methodology included quantitative and qualitative methods, as well as document review.

### Quantitative Methods

We conducted statistical analyses of information from OIG's Semiannual Reports to Congress and ETA's Contract and Grant Management Office from Fiscal Years (FY) 1995 - 2000. Specific analysis included the length of time it took to resolve an audit report by reviewing when the OIG issued the final audit report and when ETA or OASAM made the final management decision on the findings and recommendations.

### Qualitative Methods

As part of our evaluation, we interviewed ETA staff and representatives of respective agencies (Deputy Secretary, OIG, SOL, and OASAM) who were involved in the audit resolution process. We also interviewed Regional Inspectors General for Audit.

### Document Review

In conjunction with agency interviews, we reviewed Federal and agency policies and procedures related to audit resolution. We randomly selected 38 grantee audit resolution files for review. We also made a judgmental sampling of an additional 10 files based on the age of the report and those reports more than \$1 million.

We held an entrance conference on October 24, 2000. Field work was conducted at the OIG, ETA and OASAM offices located in the Frances Perkins Building in Washington, D.C. An exit conference was held on December 19, 2001 to discuss the results of our review.

We conducted our review in accordance with the Quality Standards for Inspections published by the

President's Council on Integrity and Efficiency.

## FINDINGS AND RECOMMENDATIONS

### **FINDING A -Audit Findings and Recommendations Are Not Being Resolved Within the 180-day Regulatory Time Limit**

We found that audit findings and recommendations are not being resolved within the 180-day regulatory time limit. Our sample of 41 reports disclosed that DOL agency management and OIG met the 180-day regulatory time limit for only 14 (or 34%) of those reports. We found that, on average, it took approximately 240 days for DOL agency management and OIG to resolve audit findings and recommendations.

We believe that the major reason audit findings and recommendations are not resolved within the 180-day time limit is because both DOL agency management and OIG are not following established procedures. Additionally, DOL agency management told us that several factors contribute to not meeting the 180-day regulatory time limit; (1) DOL agency management is not enforcing the 180-day time limit, (2) auditees are not as responsive as they should be, (3) complex issues which require additional research, and (4) the need to coordinate the issues both within the respective agency and with outside agencies such as OIG and SOL.

The Supplemental Appropriations and Rescission Act of 1980 sets a time limit of 180 calendar days for resolving audits.

Further, OMB Circular A-50, Audit Follow-up, Section 8a (2), Follow-up Systems, requires that agencies shall assign a high priority to the resolution of audit recommendations and to corrective action. Systems for resolution and corrective action must meet the following standards:

*“Resolution shall be made within a maximum of 6 months after issuance of a final report or, in the case of audits performed by non Federal auditors, six months after receipt of the report by the Federal Government. Corrective action should proceed as rapidly as possible.”*

### **Established Procedures for Resolving Audit Findings and Recommendations Are Not Followed**

We found that both OIG and DOL agency management are not following established procedures for resolving audit findings and recommendations. Department of Labor Manual Series (DLMS) 8, Audits and Investigations, Chapter 500, Audit Resolution, Closure and Follow-up, defines authority and establishes policies and procedures and assigns responsibilities for assuring timely, effective DOL action on audit recommendations consistent with Federal laws, policies, and procedures. Specifically, DLMS 8 states:

Audits of DOL Grantees and Other Recipients. For audits of DOL grantees or other recipients, the agency is responsible for conducting a resolution process with the recipient that includes, at a minimum, an initial management decision, informal resolution of remaining issues with the recipient, and a final management decision. This process should be completed within 120 days of the date that the final report is issued by the OIG to the DOL official(s) responsible for audit resolution unless regulatory requirements provide otherwise. The final management decisions that disallow costs should include certification by the agency or a copy of the accounting document showing that a receivable will be established within 30 calendar days of the date of the management decision for the amount remaining to be recovered by DOL.

Time Frame for Management Decision. The final management decision developed by the DOL official(s) responsible for audit resolution should be provided to the OIG official signing the transmittal memorandum, within 120 calendar days, for a 20-calendar day comment period before issuance to the recipient. If the OIG has not responded within the 20 days, the management decision becomes final and any differences settled in accordance with paragraph 536 of this chapter. Where OIG has provided comments, a final management decision or response should be forwarded to the OIG by day 160.

Late Management Decision. The OIG will take the following actions to obtain overdue management decisions:

- (a) Management Decision Not Received Within 120 Calendar Days. The OIG notifies the agency and attempts to obtain management decision.
- (b) Final Management Decision Not Received Within 160 Calendar Days or OIG Disagrees With the Revised Management Decisions or Responses. The OIG notifies the DOL Audit Follow Official (the Deputy Secretary of Labor) that the management decision is overdue or does not satisfy OIG's comments and provides information on what actions have been taken to resolve the audit to that point. The DOL Audit Follow-up Official takes appropriate action to facilitate the meeting of the 180-day deadline.
- (c) Audit Reports Not Resolved Within 180 Calendar Days. The OIG reports to Congress semiannually that recommendations are unresolved over 180 days, whether they are unresolved because of management decisions not received within 180 days or disagreements between the OIG and the Agency regarding reported recommendations.

We found that both DOL agency management and the OIG are not following the above established procedures. Our sample of audit reports issued during the period FYs 1995 through 2000 disclosed that, in many instances, DOL agency management is not providing the final management decision to the OIG for comment within the 120-day time limit. Further, when this occurs, OIG is not notifying the agency and attempting to obtain the management decision. Additionally, OIG is not notifying the DOL

Audit Follow-up Official that the management decision is overdue or does not satisfy OIG's comments. We identified several instances where OIG strongly disagreed with the final management decision; however, since 1995 there have been no referrals to the DOL Audit Follow-up Official regarding questioned costs.

**Conclusion.** DOL agency management and OIG are not enforcing the regulatory time limit nor following established procedures. Statutory and OMB requirements, along with departmental regulations establish limits for the timely, efficient resolution of audit findings. We believe that DOL agency management and OIG need to adhere to the 180-day regulatory time limit for resolving audit findings and recommendations.

### **RECOMMENDATIONS**

- 1. We recommend that OIG provide audit staff guidance and training on procedures for resolving audit findings.**
- 2. We recommend that DOL Agency Management provide guidance and training to staff on procedures for resolving audit findings.**

### **OIG, Office of Audit's Response**

*OIG's Office of Audit is in the process of revising DLMS 8, Chapter 500, "Audit Resolution, Closure, and Followup." This revision will address concerns raised by OASAM and ETA at the exit conference regarding the need for exceptions to the 180-day time limit for certain types of audits. As part of this revision, the Office of Audit is developing a new audit resolution status report which will be transmitted monthly to all DOL agencies with unresolved audit recommendations. We believe that this status report, combined with more frequent followup by our audit offices, will assist DOL agency management in their efforts to issue management decisions in a more timely manner.*

*These revisions to the DLMS will be circulated for comment in March 2002 and finalized by May 2002. After the revisions have been made and approved, the Office of Audit will provide training to audit staff on the revised DLMS.*

### **ETA's and OASAM's Response**

*Although we agree with the finding and recommendation, ETA and OASAM believe that both the*

*OIG audit staff and ETA and OASAM staff would benefit from joint guidance and training. These joint sessions would allow discussion and exchange of ideas that would enable both the OIG staff and DOL agency staff to better understand and address each other's concerns. By working together in training and guidance, OIG and the agencies can ensure that issues are resolved timely.*

*As noted in the audit exit conference, the 180-day time limit is not workable for some audits, such as those that question both direct and indirect costs and State Employment Security Agencies (SESA) Real Property audits that require extensive research by the grantees to respond to our Initial Determinations. To address this issue in the future, OIG's Office of Audit, ETA's Office of Grants and Contract Management, and OASAM's Office of Cost Determination (OCD) will jointly revise the DLMS so that exceptions can be made to the 180-day time limit for non-routine audits. In addition, the revisions of the DLMS will include mechanisms that provide all parties with the resolution status of all unresolved audits. As discussed in the audit exit conference, the OIG will issue a monthly status report of outstanding audits in the form of an aging schedule. These updates to the DLMS will be circulated for comments by the first week in March and finalized by the first week in May 2002.*

### **OIG's Conclusion**

We concur with the agencies' proposed corrective actions and consider recommendations 1 and 2 resolved. In addition, we agree with ETA and OASAM that joint training with the Office of Audit would serve as an excellent forum for the agencies to exchange ideas and to express concerns. The OIG, Office of Audit should consider including staff training in their Continuing Professional Education course. The recommendations will be closed pending receipt of a copy of the jointly revised DLMS, Chapter 500 from the Office of Audit. Please provide the requested written documentation to this office by May 31, 2002.

## **FINDING B - Steps Can Be Taken to Improve the Audit Resolution Process**

We identified two factors which we believe will assist in improving the audit resolution process. These factors are: (a) Communication between OIG auditors and DOL agency management can be improved, and (b) OIG Auditors should take extra steps to obtain supporting documentation prior to questioning costs.

### **Communication Between OIG Auditors and DOL Agency Management Can Be Improved**

We found that there is very little early communication between OIG auditors and DOL agency management during the audit process. Based on our interviews with both OIG Audit Officials and DOL agency management, improved early communication during the audit process will provide both the auditors and DOL agency management with a better understanding of any issues identified. Furthermore, early communication allows for DOL agency management to provide insight and input for consideration as recommendations for corrective action are developed by the OIG.

We were also told by numerous audit officials that agency management did not consult with them during the course of audit resolution. These officials stated that, in many instances, they were never informed of the outcome of the resolution process.

We believe that improved **early** communication is needed during the audit process to assist both the auditors and DOL agency management in clarifying any misinterpretations and misunderstandings. Specifically, once an issue has been identified during the course of audit fieldwork, the auditors should contact DOL agency management to get their insight and input for consideration as recommendations for corrective action are developed by the OIG.

We recognize that the early communication creates an additional workload up front for both OIG auditors and DOL agency management. However, it is far more undesirable, not to mention inefficient and costly, to go through the audit process and the resolution process, and then have DOL agency management disagree with the audit finding. We believe the benefits derived from the additional up-front workload would increase efficiency and effectiveness.

### **Additional Steps Need to Be Taken Prior to Questioning Costs Due to Unsupported Costs/Lack of Documentation**

We found that DOL agency management allowed a significant amount of costs that had been questioned by OIG auditors due to unsupported costs/lack of documentation. These costs were allowed because the auditee subsequently provided support/documentation during the resolution process.



According to DOL agency management, in many instances, auditees do not take OIG requests for documentation seriously. Auditees will ignore OIG auditors' requests and wait until an initial determination has been issued by DOL agency management before providing the requested documentation to DOL agency management. In the view of DOL agency management, auditees believe they will receive a more favorable review of the documentation by DOL agency management.

In our opinion, the practice by auditees of providing documentation to DOL agency management instead of providing the documentation to the auditors during audit fieldwork is costly and inefficient. Further, it also usurps the purpose and rationale for allowing trained auditors to review and conclude on the allowability of costs. We believe that steps should be implemented throughout the audit process which provide the auditee with incentives and opportunities to locate and provide any requested documentation to the auditors. It is a much more efficient and effective practice for the auditors to take every possible step to obtain support and documentation during the audit process than to question costs and, ultimately have the costs allowed during the resolution process. Additionally, DOL agency management should explore the benefits and ramifications of implementing punitive measures for grantees and contractors who do not provide documentation to auditors during the audit process.

Furthermore, we were told by SOL that, in many cases during the appeals process, Administrative Law Judges will allow costs that were based on unsupported/lack of documentation if the auditees had performed the service according to the grant agreements. This makes it even more imperative to take every step possible to obtain documentation and avoid lengthy and costly litigation.

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## RECOMMENDATIONS

3. **OIG implement procedures requiring that, once an issue has been identified during the course of audit fieldwork, auditors should contact DOL agency management to get their insight and input for consideration as recommendations for corrective action are developed by the OIG.**
4. **DOL Agency Management should develop procedures including steps for providing insight and input to auditors regarding issues that are identified during the audit process.**
5. **OIG should implement procedures to provide auditees with incentives and opportunities throughout the audit process to locate and provide any requested documentation. For example, whenever documentation is not provided, auditors should contact the Grant or Contract Officer to solicit assistance in obtaining the requested documentation.**
6. **DOL Agency Management should implement procedures that allow for OIG auditors to review any documentation submitted by auditees during the course of resolution.**
7. **DOL Agency Management should explore the benefits/ramifications of implementing punitive measures for grantees and contractors who do not provide documentation to auditors during the audit process.**

### **OIG, Office of Audit's Response**

*All OIG audits are done in accordance with Government Auditing Standards, issued by the Comptroller General of the United States. Government Auditing Standards encourage discussion of findings, judgments, conclusions and recommendations with persons who have responsibilities involving the area being audited. Further, Office of Audit policy and procedures provide for the issuance of a Tentative Findings and Recommendations (TFARS) report as part of the audit process. The TFARS provides the opportunity to advise operating level program officials of reportable conditions before issuing the draft report to the highest level official.*

*The Office of Audit will issue a reminder to audit staff of the need for, and benefits of, early communication with agency management regarding issues identified during audit fieldwork.*

*Auditors frequently discuss problems that occur during an audit with the Grant or Contract Officer. We will look at the possibility of creating a more formal communication process as part*

*of the planned revisions to the DLMS.*

### **ETA's and OASAM's Response**

*The above-described policy revisions should improve the audit resolution process. In addition, OASAM makes the following observations:*

*In response to recommendations 4, the DLMS revisions will also address procedures for coordination between the OIG, other program offices and OASAM's Office of Cost Determination (OCD) during the audit fieldwork. Although the program offices and OCD have maintained an open door policy for the auditors, it now appears that a more formal process is required. Accordingly, the revised DLMS will contain steps required of the OIG, program offices and OCD, which will lead to better communication during the course of an audit.*

*In regard to recommendation 6, although the OIG presently has full access to any files at the DOL or the grantee/contractor, the DLMS revisions will specifically address procedures/process for OIG review of any documentation submitted by auditees during the course of resolution. This will include required notification by OASAM or the appropriate program office to the OIG of receipt of the documentation in question.*

*Although we agree in principle with Recommendation 7, this issue should be pursued with the advice of the Office of the Solicitor (SOL) to assure that any possible actions taken are legal. ETA will take the lead and request that SOL's Employment and Training Legal Services (ETLS) explore the benefits/ramifications of imposing punitive measures.*

### **OIG's Conclusion**

We concur with the proposed corrective actions and consider recommendations 4, 5, 6, and 7 resolved. Recommendations 4, 5, and 6 will be closed pending receipt of the policy revisions annotated in DLMS 8, Chapter 500 from the Office of Audit. Recommendation 7, will be closed when ETA provides the OIG with a copy of the SOL's opinion and/or a detailed action plan and timetable on how DOL agency management plans to implement punitive measures, if applicable. Please provide the requested written documentation to this office by May 31, 2002.

Recommendation 3 remains unresolved. Our recommendation relates to improved early communications during the audit process between the auditors and DOL agency management. We strongly believe this recommendation would require the Office of Audit to make a procedural change and should be a part of the planned DLMS revision. Therefore, we continue to recommend that OIG implement procedures requiring that once an issue has been identified during the course of audit fieldwork, auditors should contact DOL agency management to get their insight and input for consideration as recommendations for corrective action are developed by OIG.

## **10-STEP AUDIT RESOLUTION PROCESS**

## 530 AUDIT RESOLUTION, CLOSURE AND FOLLOW-UP PROCESS

531 The Audit Resolution, Closure and Follow-up Process. This process is designed to produce effective, efficient action to correct problems uncovered by an audit. Its success is dependent on continuous communication among all parties. Resolution, closure and follow-up are conducted, through a 10-step process, which includes:

Step 1: Report Issuance (paragraph 532),

Step 2: Management Decision (paragraph 533),

Step 3: OIG Review of Management Decision (paragraph 534),

Step 4: Resolution of Recommendations (paragraph 535),

Step 5: Settlement of Differences Between Agency and OIG (paragraph 536),

Step 6: Notification of Revised Management Decision Subsequent to Resolution (paragraph 537)

Step 7: Notification of Auditee Appeal of Management Decision (paragraph 538),

Step 8: Implementation of Corrective Actions (paragraph 539),

Step 9: Closure of Recommendations (paragraph 540), and

Step 10: Followup on Audit Recommendations (paragraph 541).

532 Report Issuance. Audit reports are issued primarily by the Office of Inspector General, the General Accounting Office and those DOL agencies which conduct regulatory or inspection -activities relating to financial matters.

- a. OIG Audit Reports. The OIG will send reports to the DOL agency head for response and corrective action. The letter from the OIG transmitting an OIG audit report will include instructions for response and the name of a person in the OIG to contact should any questions arise.
- b. GAO Audit Reports. The Deputy Secretary coordinates DOL responses. The Office of the Deputy Secretary will send reports to the DOL agency head for agency response. The letter transmitting the final GAO audit report will include instructions for response to the report, including the time frame for response.
- c. Regulatory Audits. Program agencies shall maintain audit resolution and follow-up systems for regulatory audits (see Appendix A-504 for definition). Systems must meet all requirements of GAO standards and OMB Circular A-SO and other applicable laws, regulations, standards, and directives.

533 Management Decision. The procedures for responding to an audit report will vary by the source of the report and the type of report. Days listed below except for the 180 days are target/tracking dates. The only absolute date is the 180-day requirement. The following describes the different requirements:

### a. OIG Audit Reports

(1) Audits of DOL Agencies or Components. For audits of DOL agencies or components performed by or for the OIG, the Agency's management decision should be forwarded to the OIG as soon as possible. In any event, the management decision may be forwarded to the OIG no later than 120 calendar days from

issuance of the final audit report, unless regulatory requirements provide otherwise. The management decision is addressed to the OIG official who signed the letter transmitting the audit report to the DOL agency.

The management decision should indicate agreement or disagreement on each reported recommendation. When the agency is in agreement with the OIG recommendations, the management decision should identify planned corrective actions and, where appropriate, dates for achieving actions. When an agency disagrees with the OIG recommendations, the management decision should fully explain the reason(s) for the disagreement. Where disagreement is based on interpretation of law, regulation, or the authority of officials to take or not take action, the management decision must include the legal basis.

The final management decisions requiring recovery of costs should include certification by the agency or a copy of the accounting document showing that a receivable will be established within 30 calendar days of the date of the management decision for the amount remaining to be recovered by DOL.

(2) Audits of DOL Grantees and Other Recipients. For audits of DOL grantees or other recipients, the agency is responsible for conducting a resolution process with the recipient that includes, at a minimum, an initial management decision, informal resolution of remaining issues with the recipient, and a final management decision. This process should be completed within 120 days of the date that the final report is issued by the OIG to the DOL official(s) responsible for audit resolution unless regulatory requirements provide otherwise. The final management decisions that disallow costs should include certification by the agency or a copy of the accounting document showing that a receivable will be established within 30 calendar days of the date of the management decision for the amount remaining to be recovered by DOL.

(3) Time Frame for Management Decision. The final management decision developed by the DOL official(s) responsible for audit resolution should be provided to the OIG official signing the transmittal memorandum, within 120 calendar days, for a 20-calendar day comment period before issuance to the recipient. If the OIG has not responded within 20 days, the management decision becomes final and any differences settled in accordance with paragraph 536 of this chapter. Where OIG has provided comments, a final management decision or response should be forwarded to OIG by day 160.

(4) Late Management Decisions. The OIG will take the following actions to obtain an overdue management decision:

(a) Management Decision Not Received Within 120 calendar Days. The OIG notifies the agency and attempts to obtain management decision.

(b) Final Management Decision Not Received Within 160 Calendar Days or OIG Disagrees With the Revised Management Decisions or Responses. The OIG notifies the DOL Audit Followup Official that the management decision is overdue or does not satisfy OIG's comments and provides information on what actions have been taken to resolve the audit to that point. The DOL Audit Followup Official takes appropriate action to facilitate the meeting of the 180-day deadline.

(c) Audit Reports Not Resolved Within 180 calendar. The OIG reports to congress semiannually that recommendations are unresolved over 180 days, whether they are unresolved because of management decisions not received within 180 days or disagreements between the OIG and the agency regarding reported recommendations.

b. GAO Audit Reports. As required in the Legislative Reorganization Act of 1970 and OMB circular A-50, the deadline for responding to final GAO reports is 60 calendar days after formal transmittal of a GAO report to the agency. Responses may be required to both Congress and OMB. (Comments to GAO are required within 30 days on draft reports.)

(1) Contents of Response. The agency prepares a response to the GAO recommendations which indicates whether the recommendation will be adapted, considered further, or are found unacceptable. If the recommendations are found to be unacceptable, the response should include the reasons for their unacceptability.

(2) Transmittal of Response. The DOL agency forwards the response to the Office of the Deputy Secretary. The Deputy Secretary coordinates the review and clearance of the DOL response by ensuring that appropriate DOL components have an opportunity for input. The departmental response is sent to the Senate Committee on Governmental Affairs and the House committee on Government Operations within 60 calendar days of the date the report was issued. Copies of the response are also provided to GAO and OMB.

c. Regulatory Audit Reports. These audit reports are not forwarded to the OIG or the DOL Audit Followup Official for approval. DOL agency systems for resolution and followup on such reports must meet all applicable statutes, regulations, standards and directives.

d. Preaward Audits. Price Proposal Audits and Audits of Indirect Cost Allocation Plans. These types of audits, which are generally resolved by negotiation of a contract, a contract price, or an indirect cost rate are not subject to the response deadlines on audit resolution.

534 OIG Review of Management Decision. The OIG shall promptly review management decisions based on the audit resolution criteria set forth in paragraph 535b. The OIG shall agree with the response or return it with comments to the agency. In either case, the OIG shall notify the agency of action taken within 20 calendar days of receipt of the response. Differences between the DOL agency and the OIG shall be resolved through the process described in paragraph 536.

#### 535 Resolution of Recommendations

a. Determining when an Audit Report is considered Resolved.

(1) OIG Audit Reports. An OIG audit report is considered resolved when the OIG agrees with management's decision for all recommendations or, in the case of disagreement, when the DOL Audit Followup Official determines the matter to be resolved.

(2) GAO Audit Reports. A GAO report is considered resolved when DOL responds to the Congress, as required by the Legislative Reorganization Act of 1970.

(3) Regulatory Audit Reports. Resolution will occur as defined in agency audit resolution and followup systems.

b. Criteria for Resolution of OIG Reports.

(1) Types of Audit Recommendations. There are three types of audit recommendations resulting from findings:

(a) Monetary Recommendations. Audit recommendations which advise the Government to seek recovery of funds from individuals, contractors, grantees, etc.

(b) Nonmonetary Recommendations. Audit recommendations which advise the auditee to take specific actions to remedy administrative deficiencies or problems described in an audit finding.

(c) Funds Put to Better Use Recommendations. Audit recommendations which advise management that funds could be used more efficiently if management took actions to implement and complete the recommendations, 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 agency, 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.

(2) General criteria. The following general criteria shall be considered in developing and reviewing management decisions on audit recommendations:

(a) All proposed corrective actions shall be in accordance with applicable laws, regulations and Administration policy

(b) Proposed corrective actions must constitute a reasonable proposal for remedying the problems or deficiencies described in an audit finding within the shortest possible time.

(c) The agency's response must accept and propose to implement the audit recommendation except where:

1 A legal or factual audit error is convincingly demonstrated by evidence presented in the agency's response.

2 Evidence was not available to or considered by the auditor before issuance of the audit report.

3 Circumstances have changed (e.g., the auditee no longer receives Federal funds, thus rendering a nonmonetary recommendation inappropriate).

4 The audit recommendation is demonstrated as having been implemented.

5 An alternative corrective action that resolves the audit finding is proposed by agency management.

(3) Requirements for Resolution of Monetary Recommendations. Management decisions on monetary recommendations must meet the following requirements:

(a) Costs must be disallowed where they violate applicable statutes or regulations.

(b) The legal and factual basis for a decision to allow costs which are unsupported or recommended for disallowance shall be clear and convincing and, where applicable, supported by legal opinion(s).

(c) The audit may not be considered resolved until all costs which are unsupported or recommended for disallowance are either allowed or disallowed with appropriate recovery action initiated.



(d) Where costs are allowed based on documentation submitted after issuance of the final audit report, the documentation shall be described and the reasons for allowing the costs explained.

(e) The agency must clearly show which disallowances are and which are not to be repaid. When costs are disallowed but repayment is not required, the agency's final response shall justify this decision.

(f) A final management decision shall include a certification or a copy of the accounting document showing that an account receivable will be entered in the agency's accounting system (see paragraph 533a(1) and (2)). An account receivable must be recorded even where the management decision is subject to formal administrative appeal.

(4) Requirements for Resolution of Nonmonetary Recommendations. Management decisions on nonmonetary recommendations shall meet the following requirements:

(a) The final management decision shall indicate whether the agency accepts the recommendation or proposes an acceptable alternative to an audit recommendation, except where the recommendation is rendered clearly inappropriate, as specified in paragraph 535b(2)(c).

(b) The final management decision shall contain a plan for implementing each audit recommendation or agency proposed corrective action.

(c) Implementation plans shall include:

1 A description and timetable of specific actions to be taken or milestones to implement the recommendation or agency proposed corrective action,

2 A completion date for implementing each recommendation or agency proposed corrective action,

3 A description of how the agency will show that the recommendation or agency proposed corrective action was implemented, and

4 A The name of the agency contact official.

(5) Requirements for Resolution of Funds Put to Better Use Recommendations. Management decisions on nonmonetary recommendations shall meet the following requirements:

(a) The final management decision shall indicate whether the agency accepts the recommendation, proposes an acceptable alternative to an audit recommendation or proposes legislative action, except where the recommendation is rendered clearly inappropriate, as specified in paragraph 535b(2) (C).

(b) The management decision shall contain a plan for implementing each audit recommendation.

(c) Implementation plans shall include:

1 A description and timetable of specific actions to be taken or milestones to implement the recommendation or agency proposed corrective action,

2 A completion date for implementing each recommendation or agency proposed corrective action,

3 A description of how the agency will show that the recommendation or agency proposed corrective action was implemented, and

4 A The name of the agency contact official able to describe the progress in implementing the recommendation or agency proposed corrective action.

c. Audit Workpapers. Workpapers maintained by the Inspector General shall not be provided to anyone outside the Office of Inspector General during the normal audit resolution process, unless the Assistant Inspector General for Audit determines, in writing, that, in his judgment, release of the workpapers to concerned parties will materially assist the resolution process. Auditees outside the Department must request access first through the appropriate DOL agency, which must concur with the request. In any case, the workpapers will be released only in the presence of an OIG representative.

Workpapers will be retained until the audit recommendations to which they relate are closed.

#### 536 Settlement of Differences Between Agency and OIG

a. If the agency's response does not resolve the auditor's recommendations, the OIG may refer the matter to the DOL Audit Followup Official. An agency may also refer major issues between the OIG and management to the DOL Audit Followup Official.

b. The DOL Audit Followup Official is responsible for ensuring that disagreements between the OIG and the DOL agency are resolved. The resolution shall not interfere with the existing independence and authority of contract/grant officers.

c. If the OIG disagrees with the DOL Audit Followup Official's response, the disagreement shall be reported to the Congress.

537 Notification of Revised Management Decision Subsequent to Resolution. If the DOL agency revises its management decision subsequent to resolution, notification and reasons for the revision must be sent to the OIG. The OIG is responsible for reporting significant revised management decisions in its semiannual report.

538 Notification of Auditee's Appeal of Management Decision. The auditee may disagree with the management decision rendered by the Contract/Grant Officer. The auditee may appeal the decision in one of three ways: administrative, judicial or legislative solution.

When a management decision is appealed, DOL agencies will notify the OIG. The agencies will submit documentation to the OIG showing the type of appeal, the docket number and the date the auditee appealed the decision.

When a decision is appealed, OIG will be provided the opportunity to present information supporting the Department's position and, as appropriate, participate in hearings and other resolution activities. When the OIG participates in hearings and other resolution activities, it should be clear that the DOL agency's Contract/Grant Officer and not the OIG is responsible for representing the Department.

When a decision has been rendered on the appeal, DOL agencies will notify the OIG of the decision and date the decision was rendered.

539 Implementation of Corrective Actions. Implementation of corrective actions should proceed as rapidly as possible to rectify the problems identified in the audit. The OIG will periodically monitor progress in implementing significant corrective actions. Section 5(b) of the Inspector General Act of 1978, as amended, requires the Secretary to report semiannually on the status of final actions on IG recommendations for which management decisions have been made. Management is to submit to Congress, along with the IG's report, statistical tables, which show actions taken based on management decisions on questioned costs (both unsupported and those recommended for disallowance) and recommendations that funds be put to

better use in IG audit reports. Management must include statements about audit reports on which management decisions were made but for which final actions still are incomplete one year after the management decision.

a. **Monetary Corrective Actions.** A monetary corrective action may result in the collection of a debt in accordance with the Federal Claims Collection Standards. A monetary corrective action is considered implemented when the debt is collected in cash, settled by authorized alternative repayment agreement or offset, or written off by compromise or termination of the claim. A monetary corrective action will not be closed for purposes of this section simply because the claim is sent forward for further action by GAO or the Department of Justice. No collection or write-off action will close a corrective action where the Federal Claims Collection Standards have not been met.

b. **Non-monetary Corrective Actions.** DOL agencies shall implement non-monetary corrective actions in accordance with implementation plans. A non-monetary corrective action is considered implemented when the action described in the recommendation or an alternative is complete and the DOL agency can document completion.

c. **Corrective Actions to Put Funds to Better Use.** Funds put to better use corrective action is considered implemented when the action described in the recommendation or an alternative is complete and the value of the recommendation implemented can be documented by the DOL agency.

d. **Documentation.** Documentation supporting the implementation of audit recommendations shall be maintained in a separate file accessible for OIG examination.

(1) For monetary corrective actions, documentation shall include demand letters, evidence of repayment (e.g., a copy of the check received), evidence that payments were successfully offset or funds withheld, documents showing transmittal to GAO or the Department of Justice for further action, documentation of actual termination or compromise of claims, etc.

(2) For non-monetary corrective actions, documentation shall be such as to adequately support implementation.

(3) Corrective actions on recommendations to put funds to better use shall demonstrate implementation and support the value of those recommendations.

**540 Closure of Recommendations.** An audit recommendation will be closed when the corrective action is implemented, documented (as required in paragraph 539) and reported (as required in paragraph 553) to the OIG.

The OIG or GAO may examine agency documentation prior to or after the recommendation is closed, within the limits of regulatory provisions for records retention. When a reported, completed, or proposed corrective action is found to be inaccurate or inadequately documented, the OIG shall:

a. Reopen or not close the related recommendation,

b. Examine similar or related transactions, reopening any closed recommendations found inaccurate or inadequately supported, and

c. Report to Congress that the recommendation has been reopened.

**541 Follow-up on Audit Recommendations.** Reported actions to implement audit recommendations shall be subject to assessment by the OIG or GAO to determine their accuracy and effectiveness. Recommendations

that have not been properly implemented shall not be closed or shall be reopened. The OMB and Congress will be notified of any recommendations that have been reopened.

The OIG shall schedule the audit work noted above as part of its audit planning cycle and include follow-up work in the Annual Audit Plan required by OMB Circular A-73. These assessments shall include:

- a. Reviews of the agency file documentation to support actions taken,
- b. Audits to determine if recommendations were implemented as reported,
- c. Audits to determine if actions taken eliminated the original problem or deficiency, and
- d. Reviews, as a regular part of cyclical audits, of the auditee's actions to address previous audit recommendations.

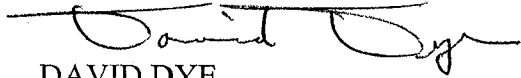
**AGENCIES RESPONSES**

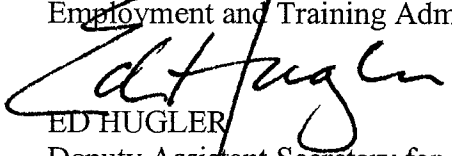


JAN 25 2002

MEMORANDUM FOR WILLIAM H. PICKLE  
Assistant Inspector General  
Office of Communications, Inspections and Evaluations

FROM:

  
DAVID DYE  
Deputy Assistant Secretary for  
Employment and Training Administration

  
ED HUGLER  
Deputy Assistant Secretary for  
Administration and Management

SUBJECT: Evaluation of the Audit Resolution Process  
Report No. 2E-03-001-0001

This is in response to your December 28, 2001 memorandum requesting our comments on the Evaluation of the Audit Resolution Process. We appreciate the balance evidenced in your review and, as outlined below, generally concur with the Report's findings.

**Finding A** – *Audit findings and recommendations are not being resolved within the 180-day regulatory time limit.*

**Recommendations** –

- *OIG recommends that DOL Agency Management provide guidance and training to staff on procedures for resolving audit findings.*

**Comments** – Although we agree with the finding and recommendation, ETA and OASAM believe that both the OIG audit staff and ETA and OASAM staff would benefit from joint guidance and training. These joint sessions would allow discussion and exchange of ideas that would enable both the OIG staff and DOL agency staff to better understand and address each other's concerns. By working together in training and guidance, OIG and the agencies can ensure that issues are resolved timely.

As noted in the audit exit conference, the 180-day time limit is not workable for some audits, such as those that question both direct and indirect costs and State Employment Security Agencies (SESA) Real Property audits that require extensive research by the grantees to respond to our Initial Determinations. To address this issue in the future, OIG's Office of Audit, ETA's

Office of Grants and Contract Management, and OASAM's Office of Cost Determination (OCD) will jointly revise the DLMS so that exceptions can be made to the 180-day time limit for non-routine audits. In addition, the revisions of the DLMS will include mechanisms that provide all parties with the resolution status of all unresolved audits. As discussed in the audit exit conference, the OIG will issue a monthly status report of outstanding audits in the form of an aging schedule. These updates to the DLMS will be circulated for comments by the first week in March and finalized by the first week in May 2002.

**Finding B** – *Steps can be taken to improve the audit resolution process.*

**Recommendations** –

- *DOL Agency Management should develop procedures including steps for providing insight and input to auditors regarding issues that are identified during the audit process. (Identified as Recommendation 4 in the OIG Report)*
- *DOL Agency Management should implement procedures that allow for OIG auditors to review any documentation submitted by auditees during the course of resolution. (Identified as Recommendation 6 in the OIG Report)*
- *DOL Agency Management should explore the benefits/ramifications of implementing punitive measures for grantees and contractors who do not provide documentation to auditors during the audit process. (Identified as Recommendation 7 in the OIG Report)*

**Comments** –

The above-described policy revisions should improve the audit resolution process. In addition, OASAM makes the following observations:

In response to recommendation 4, the DLMS revisions will also address procedures for coordination between the OIG, other program offices and OASAM's Office of Cost Determination (OCD) during the audit fieldwork. Although the program offices and OCD have maintained an open door policy for the auditors, it now appears that a more formal process is required. Accordingly, the revised DLMS will contain steps required of the OIG, program offices and OCD, which will lead to better communication during the course of an audit.

In regard to recommendation 6, although the OIG presently has full access to any of the files at DOL or the grantee/contractor, the DLMS revisions will specifically address procedures/process for OIG review of any documentation submitted by auditees during the course of resolution. This will include required notification by OASAM or the appropriate program office to the OIG of receipt of the documentation in question.

Although we agree in principle with Recommendation 7, this issue should be pursued with the advice of the Office of the Solicitor (SOL) to assure that any possible actions taken are legal.

ETA will take the lead and request that SOL's Employment and Training Legal Services (ETLS) explore the benefits/ramifications of imposing punitive measures.

If you need additional information please feel free to call Steve Garfinkel in the Office of Cost Determination (OASAM) or Jaime Salgado in the Office of Grants and Contract Management (ETA).

cc: Patrick Pizzella  
Emily Stover DeRocco



U.S. Department of Labor

Office of Inspector General  
Washington, D.C. 20210



FEB 13 2002

MEMORANDUM FOR: WILLIAM H. PICKLE  
Deputy Inspector General for Communications,  
Inspections and Evaluations

FROM:   
GORDON S. HEDDELL  
Inspector General

SUBJECT: Evaluation of the Audit Resolution Process  
Report No. 2E-03-001-0001

Evaluation Report No. 2E-03-001-0001, "Evaluation of the Audit Resolution Process," dated December 28, 2001, contains three recommendations addressed to the Office of the Inspector General. Attached are my responses to each of the three recommendations.

I would like to express my appreciation to you and your staff for the professional way the evaluation was conducted. Should you have any questions regarding the attached response, please contact Elliot Lewis, Acting Deputy Inspector General for Audit, at 202-693-5166.

Attachment

**Evaluation of the Audit Resolution Process**  
**Report No. 2E-03-001-0001**  
**OIG Comments**

**Recommendation:   OIG should provide audit staff with guidance and training on procedures for resolving audit findings.**

OIG's Office of Audit is in the process of revising DLMS 8, Chapter 500, "Audit Resolution, Closure, and Followup." This revision will address concerns raised by OASAM and ETA at the exit conference regarding the need for exceptions to the 180-day time limit for certain types of audits. As part of this revision, the Office of Audit is developing a new audit resolution status report which will be transmitted monthly to all DOL agencies with unresolved audit recommendations. We believe that this status report, combined with more frequent followup by our audit offices, will assist DOL agency management in their efforts to issue management decisions in a more timely manner.

These revisions to the DLMS will be circulated for comment in March 2002 and finalized by May 2002. After the revisions have been made and approved, the Office of Audit will provide training to audit staff on the revised DLMS.

**Recommendation:   OIG should implement procedures requiring that, once an issue has been identified during the course of audit fieldwork, auditors should contact DOL agency management to get their insight and input for consideration as recommendations for corrective action are developed by the OIG.**

All OIG audits are done in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. *Government Auditing Standards* encourage discussion of findings, judgments, conclusions and recommendations with persons who have responsibilities involving the area being audited. Further, Office of Audit policy and procedures provide for the issuance of a Tentative Findings and Recommendations (TFARS) report as part of the audit process. The TFARS provides the opportunity to advise operating level program officials of reportable conditions before issuing the draft audit report to the highest level official. The Office of Audit will issue a reminder to audit staff of the need for, and benefits of, early communication with agency management regarding issues identified during audit fieldwork.

**Evaluation of the Audit Resolution Process**

**Report No. 2E-03-001-0001**

**OIG Comments**

**Recommendation:   OIG should implement procedures to provide auditees with incentives and opportunities throughout the audit process to locate and provide any requested documentation. For example, whenever documentation is not provided, the auditors should contact the Grant or Contract Officer to solicit assistance in obtaining the requested documentation.**

Auditors frequently discuss problems that occur during an audit with the Grant or Contract Officer. We will look at the possibility of creating a more formal communication process as part of the planned revisions to the DLMS.