

# **SBA**

SOP 20 35

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# **Audit Followup System**

Office of the Chief Financial Officer

U.S. Small Business Administration



**SMALL BUSINESS ADMINISTRATION  
STANDARD OPERATING PROCEDURE**  
National

SUBJECT: Audit Followup System	S.O.P.		REV
	SECTION 20	NO. 35	

INTRODUCTION

1. Purpose. To establish audit followup policy and an audit followup system for implementation by management officials when considering final audit reports issued by the Office of the Inspector General.
2. Personnel Concerned. All agencywide supervisory personnel and staff of the Office of the Inspector General.
3. Directives Cancelled. SOP 90 15 1.
4. Originator. Office of the Chief Financial Officer.

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## Audit Followup System

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**1. What Is the Purpose of this Standard Operating Procedure (SOP)?**

This SOP establishes the audit followup policy and audit followup system used by the Small Business Administration (SBA). The audit followup system monitors the Agency's response to final audit reports issued by the Office of the Inspector General (OIG).

**2. What Is the Audit Followup System?**

The audit followup system uses specific forms and establishes specific levels of responsibility for review, resolution, and action on audit recommendations. All final audit reports issued by the OIG are monitored by this system. The objectives of this system are to provide:

- a. Management assurance that final actions are completed within 1 year;
- b. A complete automated record of actions taken on recommendations; and
- c. Accurate data to prepare the semiannual report on status of management actions.

**3. Why Does the SBA Use an Audit Followup System?**

The following regulations cover the resolution of audit findings and the use of an audit followup system.

- a. Public Law 96-304, Section 305, Supplemental Appropriations and Rescissions Act of 1980.
- b. Office of Management and Budget (OMB) Circular A-73, Audit of Federal Operations and Programs, dated June 20, 1982.
- c. OMB Circular A-50, Audit Followup, dated September 29, 1982.
- d. Inspector General Act of 1978 and amendments.

The Inspector General (IG) Act Amendments of 1988 require a specific semiannual report by the Administrator on final actions taken. In order to provide the information required by these regulations, the Agency must maintain an accurate record of actions on audit reports until all actions are completed.

**4. Who Is Responsible for Audit Followup?**

Audit followup is a responsibility of the OIG, headed by an SBA management official, the Inspector General. The audit followup system covered by this SOP ensures the timely management action on audit reports and provides a record of actions taken on both monetary and non-monetary recommendations. The responsibilities of all management officials are to:

- Receive and analyze audit reports; and
- Provide timely responses to the OIG, taking corrective action, when appropriate.

The performance appraisals of management officials will reflect consideration of their effectiveness in implementing audit followup procedures and in acting upon audit recommendations. Audit responsibilities of specific offices are included below.

- a. Office of the Inspector General's (OIG) responsibilities are to:
  - (1) Conduct independent audits of SBA programs, operations, activities, and functions;
  - (2) Oversee the work of non-Federal auditors performed in connection with SBA programs; and
  - (3) Review management responses to audit reports.
- b. Audit Followup Official (AFO) duties are assigned to the Deputy Administrator. The responsibilities of the Audit Followup Official are to ensure that:
  - (1) The audit followup system is documented and implemented;
  - (2) Timely response is made to every audit report;
  - (3) Disagreements between management officials and the OIG are resolved;
  - (4) Timely final corrective actions are taken; and
  - (5) Audit followup semiannual reports are provided to the Administrator on final actions.

- c. Audit Followup Support Office (AFSO) duties are handled by the Office of the Chief Financial Officer (OCFO). The OCFO's Financial Administration staff has the responsibility of providing support to the Audit Followup Official. The responsibilities for this office are to:

- (1) Maintain and manage the automated audit followup system;
- (2) Monitor the status of final actions on audit recommendations;
- (3) Organize an ad hoc committee of associate deputy administrators (ADA), the General Counsel, and others, when necessary, to resolve disagreements with the OIG;
- (4) Assist audit contact officials with preparation of their final action responses; and
- (5) Prepare the audit followup semiannual report.

The Administrator's audit followup semiannual report to the Congress provides statistical information and narrative comments on the status of final actions on audit reports.

- d. Audit Contact Officials are responsible for coordinating all activities involving audits of their organization. Each primary organization, including regional and district offices, designate an audit contact official and an alternate. The responsibilities of an audit contact official are to:

- (1) Coordinate the analysis of audit reports;
- (2) Prepare the management response to an audit recommendation; and
- (3) Coordinate with the OIG and the AFSO on all audit resolution and followup activity.

## **5. Why Use an Audit Followup System?**

The SBA audit followup system uses specific forms and establishes specific levels of responsibility for review, resolution, and action on audit recommendations. All final audit reports issued by the OIG are monitored by the audit followup system. The automated audit followup system satisfies the following objectives:

- a. Provides a complete, automated record of actions taken on both monetary and non-monetary audit recommendations; and
- b. Provides information to support the required semi-annual report on the status of management actions on audit recommendations.

## **6. What Information Is Provided With an Audit Report Issued By the OIG?**

Audit reports clearly identify each recommendation and describe specific corrective actions. Related questioned costs and/or funds to be put to better use are included in the recommendation action sheet. The OIG sends the audit report, recommendation action sheets, and other pertinent information to the action office. A copy of this information is also provided to the AFSSO to be recorded in the automated audit followup system.

**7. What Are the Different Types of Audit Recommendations?**

There are four types of audit recommendations:

- a. Recommendations to disallow costs that have been questioned because they are unallowable under the law, a regulation, grant, contract or agreement, or because they are unnecessary or unreasonable;
- b. Recommendations to disallow costs because they are not supported by adequate documentation;
- c. Recommendations that funds could be used more efficiently by improving the operations of the SBA, a contractor, or grantee; and
- d. Recommendations which have no monetary effect, but recommend actions to change policies, procedures, and/or practices. This type of recommendation improves compliance with legal requirements, improves the efficiency and effectiveness of systems, programs, and operations, or improves internal controls.

**8. What Are the Various Steps in the Followup Process?**

The OIG issues the audit report and the associated audit recommendations to the action office with a request for a management response. A management response is the written reply to each audit report recommendation and describes how the weakness will be resolved. Each management response is reviewed by the OIG to ensure that it will effectively implement the audit recommendation. When the OIG agrees with the management response, it becomes a management decision.

When the corrective action identified in the management decision by the action office has been accomplished, it becomes a final action. When the action office concludes that no action is necessary and the OIG agrees with this response, final action occurs when the management decision has been made.

**9. What Is a Recommendation Action Sheet?**

An SBA Form 1824, "Recommendation Action Sheet," accompanies each recommendation identified within an audit report. The SBA 1824 states the specific recommendation, any related monetary amounts requiring decision, and other related information.

The SBA 1824 is divided into three sections, which are completed in order.

- a. Recommendation portion is completed by the OIG.
- b. Management decision portion is completed by the action office.
- c. Final action portion is also completed by the action office.

**10. What Is a Management Response?**

The management response to an audit report are written comments clearly stating whether management agrees or does not agree with the reported findings and recommendations. When management agrees with the recommendation, the management response will include the specific corrective actions planned with target dates. If management plans an alternative action to the corrective action given by the OIG, the alternative action must be described. Disagreement with an audit finding will be fully explained, including legal references, when appropriate.

The management response must specifically address the audit recommendation to be approved by the OIG. The final action must address the audit recommendation by following the corrective actions given in the management decision. Inconsistencies must be resolved. The specific steps and time allowed for each step are detailed below in paragraph 12, “How Does a Management Response Become a Management Decision?”

**11. When Is a Management Response Due to the OIG?**

The action office must respond to the OIG with the management decision by the due date given in the audit report. Management responses to internal audit reports are due within 30 days of the issuance of the report. Management responses to external audit reports are due within 80 days of the issuance of the report.

**12. How Does a Management Response Become a Management Decision?**

A management decision is a management response that the OIG agrees will implement the audit recommendation. The OIG assesses the action office’s responsiveness to its audit recommendations. When the OIG receives an unresponsive management decision or cannot resolve a disagreement with the action office response, the issue is referred to the next higher management level for resolution. Significant disagreements between the OIG and other SBA management may be referred to successively higher levels of management until the issues are resolved.

Issues involving more than one program or operation are referred to the Associate Deputy Administrator for Management and Administration (ADA/M&A), who may convene an ad hoc committee of all ADA’s, the General Counsel, and others, to review the issue and advise the audit followup official. The OIG will notify both the action office and the AFSO of its referral of an unresolved management decision to the next management level.



The audit followup system provides specific time periods for resolution of disagreements between the OIG and other SBA management. The following table identifies the maximum number of days permitted by each level of management for review and resolution of audit disagreements. Both internal and external audit disagreements must be resolved within 180 days of the date that an audit report is issued.

<b>Activity</b>	<b>Internal Audit (Days)</b>	<b>External Audit (Days)</b>
Management Response Due	30	80
OIG Assessment (1 <sup>st</sup> level)	20	25
AA Decision	25	15
OIG Assessment (2 <sup>nd</sup> level)	15	15
ADA Decision	30	15
OIG Assessment (3 <sup>rd</sup> level)	15	15
AFO Decision	45	15

**13. When Is a New Audit Report Added to the Automated Audit Followup System?**

When the OIG completes an audit, a copy of each audit report and its related SBA 1824s are sent to the AFSSO. After the management responses are agreed upon by the OIG, the OIG also sends a copy of these responses to the AFSSO. The recommendations (i.e., SBA 1824) with management decisions are then recorded in the automated audit followup system.

**14. Will I Be Reminded of Any Unresolved Audit Recommendations?**

The AFSSO will monitor the status of all audit report recommendations and can provide assistance at anytime. In addition, periodic status reports will be issued to the action office, at least quarterly. This status report identifies all outstanding final actions and their due dates.

**15. What Is a Final Action?**

A final action is the completion of all of the actions given in the management decision. When the management decision determined that no action is necessary and the OIG agrees, that decision constitutes a final action.

**16. When Should an Action Office Submit a Final Action?**

It is the action office's responsibility to document the agreed upon actions listed in their management decision as promptly as possible.

The OIG must accept the proposed management decision before a final action can be completed. But, the IG Act Amendments of 1988 require that a final action be completed within 1 year after the management decision is made.

**17. How Do I Submit a Final Action?**

When action is completed, the action office will complete the final action portion of the SBA 1824 and submit it to the AFSSO for recording in the audit followup system.

The final action portion of the form requires the following information:

- a. Date Final Action Completed, enter the final action date;
- b. Non-Monetary Results;
- c. Disallowed Costs, Recoveries Code;
- d. Disallowed Costs, Write-Offs;
- e. Funds Put To Better Use, Implemented (see appendix 3); and
- f. Funds Put To Better Use, Not Implemented (see appendix 3).

**18. How Do I Handle a Final Action Requiring a Collection?**

When a final action involves the collection of funds, the action office will contact the OCFO to arrange for the collection the payment.

**19. How Is a Submitted Final Action Reviewed?**

The final action must correct the weakness identified in the audit recommendation. This is accomplished by satisfying the goals listed in the management decision.

Read the entire recommendation paragraph(s) in the audit report and verify that the final action addresses the identified weakness. The final action should clearly correct the stated weakness. Clarify any discrepancy in writing.

**20. When Do I Prepare the Semi-Annual Report?**

A semiannual report, "Management's Semiannual Report on Final Actions," is prepared by the AFSO, for the Administrator's signature, for distribution to the Congress and the Office of Management and Budget (OMB). This report is prepared for the period October 1<sup>st</sup> through March 31<sup>st</sup>, and April 1<sup>st</sup> through September 30<sup>th</sup>. Reports are due 60 days after the end of each reporting period.

**21. What Information Is Required in the Final Action Semi-Annual Report?**

Management's Semi-Annual Report on Final Actions has three tables that make up the bulk of the report. This report only documents monetary activity.

a. Table I - Final Action on Audit Recommendations With Disallowed Costs. This table summarizes management decisions with disallowed costs for the following categories.

(1) Final action not yet taken at the beginning of the period.

(2) Management decisions made during the period.

(3) Total pending final action during period.

(4) Final action taken during the period. This is further broken down into recoveries (collections and offsets, property or other) and write-offs.

(5) Needing final action at the end of the period.

- b. Table II - Final Action on Audit Recommendations With Funds Put to Better Use. This table summarizes management decisions with funds put to better use for the following categories.
- (1) Final action not yet taken at the beginning of the period.
  - (2) Management decisions made during the period.
  - (3) Total pending final action during period.
  - (4) Final action taken during the period. This is further broken down by whether recommendations were implemented or not.
  - (5) Needing final action at the end of the period.
- c. Table III - Final Actions on Audit Recommendations Not Completed Within 1 Year. This table will summarize the current status of each recommendation and include an explanation of the reason that final action has not been taken within 1 year.

In addition to these tables, a summarized overview of the audit finding and its resolution is required for each final monetary action. Final actions for disallowed costs are listed first, followed by final actions for funds put to better use.

**22. What Is the Distribution of the Completed Semi-Annual Report?**

Copies of the semi-annual report are sent to the following:

- a. The President of the Senate;
- b. The Speaker of the House;
- c. Each chairman and ranking minority member of the following Congressional committees:
  - (1) **Committee on Appropriations.**
  - (2) **Committee on Government Reform and Oversight.**
  - (3) **Committee on Governmental Affairs.**
  - (4) **Committee on Small Business.**
  - (5) **Subcommittee on Commerce, Justice, State, the Judiciary and Related Agencies, Committee on Appropriations.**
- d. The Director, Office of Management and Budget (OMB); and
- e. The Director, Housing and Community Development Issues, Economic Development Division, U.S. General Accounting Office.

Before each distribution, verify all congressional names and titles with the SBA's Office of Congressional and Legislative Affairs, because this information changes frequently.

Within 60 days after the transmission of the semiannual report to the Congress, the Administrator will make copies of the report available to the public upon request and at reasonable cost.

**Appendix 1**  
**Index to Forms and Reports**

<u>Forms</u>	<u>Paragraph</u>
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## **Appendix 2 Acronyms**

AA	Assistant Administrator or Associate Administrator
ADA	Associate Deputy Administrator
AFO	Audit Followup Official
AFSO	Audit Followup Support Office
AO	Action Office
BA	Funds To Be Put To Better Use Agreed To (SBA 1824 Recommendation Code)
C	Collection Effort (SBA 1824 Recovery Code)
CFO	Chief Financial Officer
GAO	General Accounting Office
IG	Inspector General
N	Non-Monetary (SBA 1824 Recommendation Code)
NA	No Action (SBA 1824 Recommendation Code)
OCFO	Office of the Chief Financial Officer
OIG	Office of the Inspector General
OMB	Office of Management and Budget
P	Property (SBA 1824 Recovery Code)
QD	Questioned Disallowed (SBA 1824 Recommendation Code)
RA	Regional Administrator
SOP	Standard Operating Procedure

### **Appendix 3 Definitions**

Action Office - The organization code (i.e., program office) to which a recommendation is directed.

Amount - This is the same as “questioned cost” on the SBA form 1824, “Recommendation Action Sheet.”

Audit Agency - The organization that performs an audit (e.g., the OIG).

Audit Followup Official - The Deputy Administrator.

Audit Report Number - The identifying number assigned by the OIG to each audit report.

Audit Report Title - The title assigned by the audit agency to each audit report.

Audit Type - Whether an internal audit or external audit.

Auditee - The organization being audited.

Date Issued - The date an audit report was issued by the OIG.

Disallowed Cost - A questioned cost that management, in a management decision, has agreed should not be charged to the Government.

Entrance Conference - The first meeting between an auditor and the auditee where the specifics of an impending audit are discussed.

Exit Conference - The final meeting between an auditor and the auditee where the outcome of the audit is discussed.

External Audit - An audit performed on an organization outside of SBA (i.e., grantee, contractor or licensee).

Final Action - The completion of all actions in the management decision. When the management decision concludes that no action is necessary and the OIG agrees, this constitutes final action.

Final Action Completed Date - The date the final action was actually completed. For monetary results, this is the date the amounts were actually recovered, written-off, or the date the actions were actually taken to implement better use of funds. For non-monetary results, this is the date the planned action was completed.

Final Action Summary - A concise statement describing how the action was completed. The summary will include an explanation for any amount written off and the reason whether funds put to better use was implemented or not.

Final Action Target Date - The date a final action is expected to be completed.



Funds To Be Put To Better Use - A recommendation by the auditor that funds could be used more efficiently if management had taken actions to implement and complete the recommendation, including:

- Reduction in outlays;
- Deobligation of funds from programs or operations;
- Withdrawal of interest subsidy costs on loans or loan guarantees, insurance or bonds;
- Costs not incurred by implementing recommended improvements related to the operations of the establishment, a contractor, or grantee;
- Avoidance of unnecessary expenditures noted in preaward reviews of contract or grant agreements; and
- Any other savings which are specifically identified.

Implemented - The amount of funds put to better use as the result of an audit action being completed.

Internal Audit - An audit performed on an SBA organization.

Management Decision - Agreement by the OIG and the action office that the management response will effectively implement the audit recommendation.

Management Response - The written response to an audit report recommendation.

Non-Monetary Results - An indication that no monetary results are associated with a completed action.

Program Code - The organization code to which a recommendation is applicable.

Questioned Cost - A cost questioned by the auditor because it appeared to be one or more of the following:

- An alleged violation of a provision of a law, regulation, contract, grant, cooperative agreement, or other agreement or document governing the expenditure of funds;
- A finding that, at the time of the audit, found that the cost is not supported by adequate documentation; and
- A finding that the expenditure of funds for the intended purpose is unnecessary or unreasonable.

This amount is identified on the SBA form 1824, "Recommendation Action Sheet." Any unsupported cost included in the total questioned cost is identified separately (see unsupported cost).

Recommendation - The suggested corrective action in response to an audit finding.

Recommendation Code - The type of recommendation from the following list:

- BA Funds To Be Put To Better Use Agreed To
- N Non-Monetary
- NA No Action
- QD Questioned Disallowed

Recommendation Number - An identification number assigned to each recommendation by OIG.

Recommendation Summary - A brief summary of an audit recommendation.

Recovery Code - The type of recovery from the following list:

- C Collection Effort
- P Property
- O Other

Resolution -

- Usually, audit resolution is when the audited organization and Agency management agree on what action to take to address the audit findings and recommendations. Or, in the event of disagreement, when the audit followup official determines that the matter is resolved. A report can be resolved despite the right of further negotiation, appeal, or litigation outside the Agency.
- For preaward contract audits, audit resolution is when agreement is reached, a contract price negotiated, or a proposed award is cancelled, whichever occurs first.

Unsupported Cost - A cost questioned by the auditor because it is not supported by adequate documentation. Unsupported cost is a category of questioned cost and is reported separately in the semiannual report to Congress.

Write-Offs - Amounts which SBA has determined are uncollectible after reasonable collection attempts.



**Appendix 4  
(paragraph 9)**

**Sample SBA Form 1824, Recommendation Action Sheet**

**RECOMMENDATION ACTION SHEET  
SBA AUDIT FOLLOWUP SYSTEM**

Page 1 of 1

**AUDITEE:**  
**AUDIT TITLE:**  
**GRANT/CONTRACT/LICENSEE #:**  
**QUESTIONED COST:**  
**UNSUPPORTED AMOUNT: (\$**  
**FUNDS FOR BETTER USE: \$**

**REPORT NUMBER:**  
**DATE ISSUED:**

**TYPE:** Internal  External

RECOMMENDATION (SBA Form 1779)	Action Office	Program Code	Mgt. Response Due Date	Final Decision Due Date	Amount	Code	
						1	2
RECOMMENDATION NO:		Amount unsupported in Q code:					
(Attach extra sheet if necessary.)							
MANAGEMENT DECISION (SBA Form 1781)	Management Concurrence (Yes/No)	Target Date for FA	OIG Assessment		Amount	Code	
			Agreed ?	Referred ?		1	2
Amount unsupported in QD code:							
(Attach extra sheet if necessary.)							
Originating Official Signature:						Date:	
Approving Official Signature:						Date:	
OIG Signature:						Date:	
FINAL ACTION (SBA Form 1780)	Date FA Completed	Non-Monetary Results ?	Shelved Costs		Funds Put to Better Use		
			Recoveries Code	Write-Offs	Implemented	Not Implemented	
(Attach extra sheet if necessary.)							
Originating Official Signature:						Date:	
Approving Official Signature:						Date:	