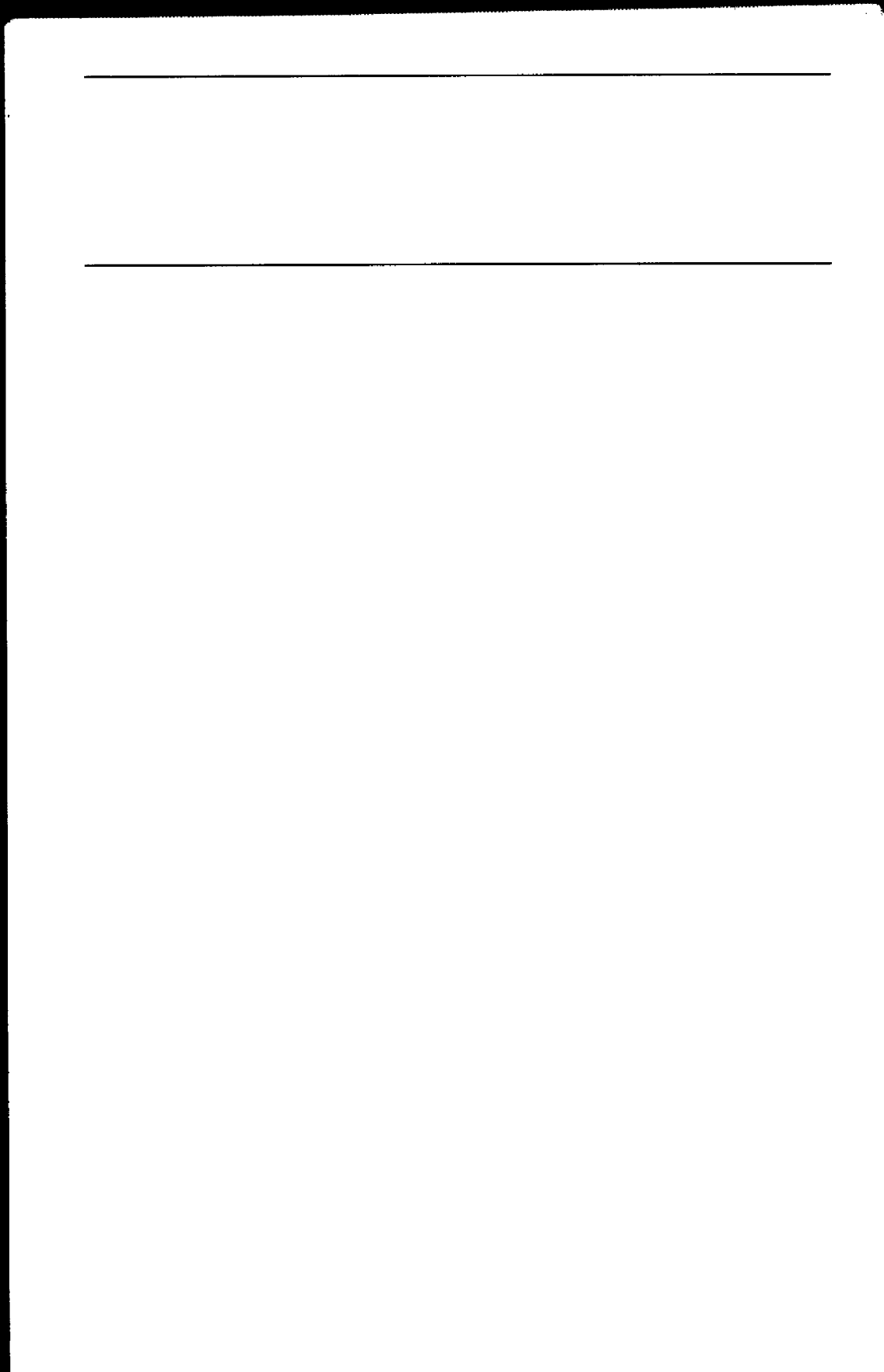


GAO

July 1991

How to Get Action on Audit Recommendations



Preface

Through their recommendations, government audit organizations regularly disclose a wide variety of ways to improve government programs and operations. For example, audit recommendations may show the cognizant agency how government services can be more responsive to citizen needs—at less cost to taxpayers.

The benefit from audit work is not in the recommendations made, but in their effective implementation. Important measures of an audit organization's effectiveness are the type of issues it tackles and the changes/improvements it is able to effect. In addition, one of an auditor's basic objectives is to have his or her work make a difference.

When a recommendation is made to an agency, its management is basically responsible for implementing it. But auditors can do a great deal to improve the likelihood that a recommendation will be appropriately implemented. The purpose of this guide is to help auditors get more action and better results from their audit work through the following means:

- Quality recommendations: Whether audit results are achieved depends on the quality of the recommendation. A recommendation that is not convincing won't be implemented. A recommendation that does not correct the basic cause of a deficiency may not achieve the intended result.
- Commitment: When the auditor is committed to the need for action on a recommendation, he/she will do what needs to be done to get it implemented. Without that commitment, a recommendation may not achieve the desired action.
- Aggressive monitoring and followup: Acceptance of a recommendation does not ensure results; effective implementation does. Continued attention is required until results are achieved.
- Special attention to key recommendations: While all recommendations require followup, some deal with

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particularly serious or flagrant matters. They should receive special attention.

For further assistance, please call (202) 275-6172.

A handwritten signature in black ink, appearing to read 'Werner Grosshans', with a large, stylized flourish at the end.

Werner Grosshans
Assistant Comptroller General
for Policy

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Abbreviations

CFTC	Commodity Futures Trading Commission
GAO	General Accounting Office
HUD	Department of Housing and Urban Development
OMB	Office of Management and Budget
RTC	Resolution Trust Corporation
SEC	Securities and Exchange Commission

Overview of Requirements for Getting the Benefits of Audit Work

The Objective: Beneficial Results

Reducing cost and improving the effectiveness of government are major goals of each audit organization. To achieve those goals, audit organizations must make high-quality recommendations and must work with those who will implement them to realize intended benefits.

Agency managers are responsible for resolving and implementing recommendations promptly and effectively. At the same time, auditors are responsible for following up to see that action is taken and that intended results are realized.

The purpose of this booklet is to provide the necessary guidance to evaluators and auditors¹ to help them meet the auditing standards and expectations in audit resolution and followup on recommendations.

Professional and Legal Requirements

GAO's Government Auditing Standards (commonly referred to as the Yellow Book) include standards to guide auditors so that others can rely on their work as fair, objective, reliable, and useful assessments of government performance. The Yellow Book establishes followup as an integral part of due professional care, as follows:

"Management of the audited entity is primarily responsible for directing action and followup on recommendations

"Government auditors should have a process that enables them to track the status of management's actions on significant or material findings and recommendations from their prior audits

"Due professional care also includes follow-up on known findings and recommendations from previous audits that

¹The term "auditor" is used generically throughout this guide.

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could have an effect on the current audit objectives to determine whether prompt and appropriate corrective actions have been taken."²

Agency management responsibility³ for resolving and implementing audit recommendations stems from the Accounting and Auditing Act of 1950, which set requirements for effective internal control systems. Renewed focus on the need to strengthen internal controls was provided by the Federal Managers' Financial Integrity Act of 1982. Standards for prompt resolution of audit recommendations were included in GAO's Standards for Internal Controls in the Federal Government. Additional requirements are included in "Office of Management and Budget (OMB) Circular A-50, Audit Followup;" the Inspector General Act of 1978, as amended in 1988; and 31 U.S.C. § 720.

Aggressive
Followup Needed

Saving tax dollars, improving programs and operations, and providing better service to the public are bottom lines of audit work. Recommendations are the vehicles by which these objectives are sought.

But it is action on recommendations—not the recommendations themselves—that helps the government work better at less cost. Effective followup is essential to get the full benefits of audit work. In large measure, the benefits achieved from recommendations determine audit effectiveness.

²Audit planning should also consider the status of recommendations made by another audit organization to the extent that they are available and affect current audit objectives. For example, a state audit group should not ignore relevant and material findings and recommendations of a federal audit organization.

³The primary responsibility for improving operations, where the need to do so was demonstrated by audit work, rests with agency management. The auditor has key responsibilities to make constructive recommendations and to followup on such recommendations to assess whether the intended results were achieved.

Getting action on audit recommendations has been a persistent problem—one that, over the years, has limited the effectiveness of audit organizations. GAO audit reports continue to highlight significant audit followup problems. They establish the need for better audit oversight of agency followup systems and for auditors to give increased attention to recommendation implementation.

Recent management problems in government, such as the Department of Housing and Urban Development (HUD) scandal and the savings and loan crisis, demonstrate anew the need for timely and effective communication of relevant, significant, and useful recommendations to those in a position to act on them. It is equally important to ensure that recommendations are appropriately considered, effectively implemented, and yield intended results.

Basic Principles to Ensure the Benefits of Audit Work

Ensuring the benefits of audit work requires

- action-oriented, effective recommendations;
- commitment to achieving intended results;
- careful application of sound monitoring and followup systems; and
- special attention to key recommendations.

Each of these is highlighted below.

- Quality recommendations: Basic to effective audit work are recommendations that, when adequately implemented, accomplish a defined and worthwhile result. They must state a clear, convincing, and workable basis for implementation. Their utility and continued relevance should be reevaluated as followup actions progress. (For more information, see ch. 2.)
- Commitment: Auditors and audit organizations must be committed to identifying and bringing about needed change. The auditor's commitment should be personal and professional. The audit organization should be supportive and reinforce the

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commitment to its staff. (For more information, see ch. 3.)

- Monitoring and followup system: The audit organization should have a system that provides the structure and discipline needed to promote action on audit recommendations. It should ensure that recommendations are aggressively pursued until they have been resolved and successfully implemented. Also, auditors should assess whether the agencies they audit have a followup system that adequately meets their basic responsibility for resolving and implementing audit recommendations. (For more information, see ch. 4.)
- Special attention to key recommendations: Auditors should ensure that key recommendations are fairly considered when effective use of the first three principles has not done so. They should reassess strategies to get positive action on those recommendations. Outside intervention should be considered when it would help to get necessary action on key recommendations of great significance. (For more information, see ch. 5.)

Action-Oriented, Effective Recommendations

Quality Recommendations: Key to Action

Recommendations state what an audit organization believes should be done to accomplish beneficial results. They do not direct what must be done but seek to convince others of what needs to be done.

Recommendations should be action-oriented, convincing, well-supported, and effective. When appropriately implemented, they should get the desired beneficial results.

Action-Oriented Recommendations

To achieve the desired action, recommendations must have the following characteristics:

- **Properly directed:** Recommendations should be directed to those who have responsibility and authority to act on them. They must be clear about who the action person is. For example, "We recommend that the Director, Defense Logistics Agency, . . ."

At times, recommendations are directed to people who have a number of roles. The recommendation should state the role that applies, e.g., "The Secretary of Commerce, as head of the lead agency guiding and coordinating the federal metric transition, should . . ."

- **Hard-hitting:** There should be no doubt that a recommendation has been made. Recommendations should be clearly labeled as such, not hidden, or obscured by text. They should be readily identifiable and stand out in the report.

Vague language should be avoided. For example, "The federal government should have an interest in the quality of food in general" does little more than imply the possibility that a recommendation has been made.

Soft language, such as "consideration should be given to," does not suggest significance or conviction that action is required.

- **Specific:** Recommendations should state as specifically as possible just what action should be taken. This is a matter of degree. Audit recommendations do not tell how to develop a system, but they should be specific about the system that needs improvement and the objectives that should be achieved by the change. For example, "We recommend that the Commissioner of Internal Revenue begin collecting the kinds of management information needed to assess the effectiveness of its alien compliance efforts. That information should include"

Recommendations for additional studies should be made only in rare cases and for very good reasons. When such a recommendation is made, it should be worded in a way that demonstrates the need for additional work without calling into question the value of the audit work being reported.

- **Convincing:** Recommendations should be well-supported by facts and should flow logically from these facts. This connection can be made by placing the recommendation close to the finding or by inserting language in the recommendation, such as "To help reduce the number of costly and lengthy automatic data processing acquisition programs, the Secretary of the Air Force should"

In addition, recognizing actions that have been completed or are underway to correct an identified problem adds balance to a report and makes it more convincing.

- **Significant:** A decision on a recommendation is influenced by the significance of the deficiency that it would correct. The finding and the recommendation must clearly demonstrate that acting on the recommendation will improve operations, safeguard assets, or bring the situation in compliance with laws and regulations.

- Positive in tone and content: Positive, constructive statements are more likely to get action than negative ones.

**Effective
Recommendations**

To be effective, recommendations must identify a course of action that will correct an identified problem or cause significant improvements. The attributes of effective recommendations are discussed below.

**Deal With
Underlying Causes**

Recommendations should recognize and counter systemic problems. For example, audit work may disclose that an agency's policy is being circumvented with demonstrated adverse effects. But if the policy includes requirements that cannot be reasonably met, a recommendation to comply with it will not be effective. A better recommendation would be to simplify the policy so that its requirements would be less cumbersome and costly to administer while still accomplishing its objectives.

Be Feasible

Recommendations must take into account legal and practical constraints that would make their implementation impossible or unlikely. For example, if contract overpricing is found, a recommendation asserting a legal basis for recovering the overpayment can be made only after it has been determined that there is a contractual or other legal basis for recovery. Legal counsel may be required for that determination.

Or if significant error or fraud in an expenditure program is established, a recommendation to use computer-matching approaches, information from protected sources, or the like must fully consider privacy rights and requirements of legislation, such as the Computer Matching and Privacy Protection Act of 1988.

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Recommendations must also consider the realistic limitations that agencies face, such as financial constraints. In addition, auditees may be constrained by a range of other factors, including managerial time, attention, and talent. An effective recommendation must recognize and deal with all such constraints to acting on a recommendation.

Be Cost-Effective

Recommendations should be made only after the costs of acting on them have been considered. Offsetting costs should be considered. Favorable consideration of a recommendation is more likely if the report makes it apparent that the recommendation was made with knowledge of offsetting costs.

Recommendations to comply with laws and regulations should seek the least costly basis for effective compliance. However, recommendations dealing with compliance with laws and regulations should be made even though their implementation may cost more.

Consider Alternatives

At times, more than one course of action would correct an identified deficiency. When one is clearly better than the others, it should be recommended. When there is no clear basis for selecting one course of action over the others, all should be included along with the pros and cons of each. This approach may be particularly appropriate to work involving policy analysis.

Recommendations that would require an increase in a program's funding should be made only after considering other alternatives and determining that such a recommendation is clearly appropriate and feasible. (Under the Budget Enforcement Act, discretionary resources can be increased for one program only by reducing those of another.)

**Matters for
Consideration by
Legislative Bodies**

At times, a significant program improvement may require action by the cognizant legislative bodies. The likelihood of action by the Congress or by state or local legislative bodies is greatest when reports are submitted directly to them and to their committees in time to meet their timetable. Recommendations for a specific course of action and information analyzing various options are most useful when they are available for appropriation, authorization, oversight, and other legislative deliberations.

Commitment to Results

Commitment— Making Improvements Happen

A commitment to results is perhaps the most important, but least tangible, requirement for ensuring that the benefits of audit work are realized. Getting action on recommendations depends, to a great extent, on such commitment; that is, on the individual and organizational mind set, emphasis, and priority given to recommendation followup.

Individual auditors should realize that their personal commitment gets action on audit recommendations. Audit organizations need to reinforce the importance of such commitment and reward accordingly.

Policy statements, supervisory communications, staff conversations, and day-to-day behavior should emphasize the benefits from audit work. For both individual auditors and audit organizations, accomplishments should be a significant objective. The key questions should be were improvements made, and did they achieve desired results?

Staff Commitment

Commitment to results means that audit staff consider action on recommendations as the fundamental objective of their work. Characteristics of commitment are discussed below.

- Believing in their recommendations: Auditors must be convinced that their recommendations are of the highest quality and, if acted on, will bring about the desired improvements. Without this conviction, audit staff are unlikely to devote the extra effort sometimes needed to get recommendations implemented.
- Promoting action: This includes selecting the communication product that is most likely to be effective, determining how findings and recommendations can best be presented to promote acceptance, and considering briefings or other face-to-face approaches where they would be helpful. More fundamentally, it involves willingness to use imagination and initiative to get beneficial results

during work on all assignment phases. Getting results should be the central focus of an audit job. It should be considered in assignment design, data collection/analysis, and product preparation, as well as in recommendation followup.

- Understanding the agency (or congressional committee) environment: Preconceptions and constraints that would inhibit acceptance of a recommendation should be recognized. When such difficulties are understood, getting around them may be possible without sacrificing the goals being sought.
- Cooperating and helping: Recommendations are more likely to be accepted when agency managers (or committee members and staff, where applicable) believe that auditors are constructively looking for improvements and have demonstrated a willingness to cooperate in making them. When a recommendation as originally made is not accepted, rapport and mutual respect may make it possible to find acceptable alternative solutions.
- Believing in the need for change: Implementing recommendations can take considerable time, as long as 3 years for some key recommendations. During that time, other work occupies "center stage" for audit staff. Determination is needed to keep track of implementation status, reassert the need for action, and reevaluate ways to get recommendations implemented.

**Organizational
Commitment**

Audit organizations should provide an environment that fosters and reinforces staff commitment to results. This can be done through systems and behavior.

**Job Management
Systems**

Job management systems should emphasize factors that are likely to produce good recommendations and should promote action to get recommendations accepted and implemented.

For example, the systems should require reasonable assurance, before an audit assignment is authorized, that it will have a significant beneficial impact. In rare cases, an audit organization may be required to do work from which only a minimal contribution is likely. Even then, the available contribution should be aggressively pursued, but with an application of staff resources commensurate with the potential benefits.

In addition, job management systems should

- ensure continued management attention as the audit progresses to determine whether planned results are being achieved;
- encourage prompt modification or termination of assignments, possibly through go/no-go decisions at significant milestones, and when fulfillment of planned objectives is not reasonably attainable; and
- ensure that planning for results and how they will be attained is a part of the job from beginning to end and that such planning includes approaches to promote acceptance and implementation of recommendations.

**Management
Systems**

Management systems should track accomplishments and should relate them to specific recommendations. Doing so helps audit staff identify with results achieved. Highlighting tangible benefits—dollar savings and management improvements—throughout the organization helps focus attention on results rather than on reports. Relating awards and bonuses to individual and team efforts that produced significant benefits can help demonstrate what the organization values most.

**Resource Allocation
and Staffing
Decisions**

Resource allocation and staffing decisions should recognize and provide the time required for recommendation followup. Generally, followup should be a continuing responsibility of the staff that did the

audit work. In some cases, a followup staff may be designated.

Regardless of how followup is done, it should be clear that audit followup is a significant and valued responsibility. Staff should not be made to believe that followup time must be borrowed from other responsibilities considered more significant.

Training Programs

Training programs should have a strong results orientation. Training should stress the professional proficiency required for solid and significant recommendations. It should also include motivational and other factors that encourage staff to plan recommendations and actions needed to get them accepted.

**Performance
Reward Systems**

Performance reward systems should specifically recognize and reward individual contributions that help make the results of audit work effective. Personnel appraisals, for example, should highlight proactive, innovative, and creative approaches used to get action on recommendations.

Appraisal systems and the way they operate in practice should cause staff to believe that their contributions to getting action on the results of audit work are a significant factor in appraisals, awards, promotions, and other salary decisions.

Monitoring and Followup Systems

Ensuring Improvements: Aggressive Monitoring and Followup

An important objective of audit work is the action that results from it. To determine if that objective was achieved, audit staff need to answer two questions:

- What improvements were made as a result of audit work?
- Did those improvements achieve the desired result?

An effective recommendation monitoring and followup system should make it possible to get those answers. Appendix I is a checklist of questions to be considered in recommendation monitoring and followup. Appendixes II through IV include case studies of monitoring and followup systems being applied in audit organizations at the federal and state levels.

Basic Elements of Monitoring and Followup Systems

Monitoring and followup systems can be sophisticated or rather simple. Which should be used depends on a number of factors, including the size and complexity of the audit organization. Regardless of the type chosen, each system should include the following basic elements:

- A firm basis for monitoring and followup actions.
- Active status monitoring.
- A determination of the results of actions taken on recommendations.

These elements are discussed in the following sections.

Firm Basis for Monitoring and Followup Actions

To provide a basis for staff to monitor and followup on actions taken on audit recommendations, the followup system should be properly designed, as outlined below.

- It should be firmly rooted in policy. The audit organization's commitment to getting action on recommendations should be clear. Characteristics of

organizational and staff commitment are discussed in chapter 3.

- It should define individual responsibilities. Generally, staff responsible for the audit work are responsible for followup. While individual staff members go on to other assignments, there should be no doubt about who has continuing followup responsibility and what that responsibility is.
- It should include basic ground rules for followup, leaving plenty of room for staff initiative. The system should describe minimum required actions, documentation requirements, and the like. But it should recognize that effective followup needs to be tailored to particular recommendations and the results they seek. This tailoring can be promoted by a system that requires development of a followup plan for each assignment.
- It should ensure that all recommendations are followed up. For example, cognizant agencies performing audits under the Single Audit Act of 1984 are responsible for following up on recommendations that affect more than one federal agency (i.e., cross-cutting issues) as well as those that involve their own agency programs.
- It should identify what each recommendation is expected to accomplish, including an estimate of potential monetary benefits. This information helps judge the adequacy of implementation actions.

Active Status Monitoring

Before recommendations are made, discussions with agency managers—particularly during the exit conference—should establish that corrective action is needed. Also, the audit report should document a strong case for the recommended course of action. Yet, even when these guidelines are followed, implementation may drag for a variety of reasons. Therefore, the status of recommendation implementation must be actively monitored.

Status monitoring and followup involves (1) determining progress being made to implement recommendations and (2) taking actions that help to get

effective implementation when progress is not adequate.

**Determining
Progress**

To determine progress, the followup system should monitor the status of action on all recommendations until they have been implemented.

The Inspector General Act of 1978, as amended; 31 U.S.C. § 720; and "OMB Circular A-50" include specific requirements for agency heads to report to designated congressional committees and to OMB on action taken or planned for certain audit recommendations. (See app. V for a description of reporting requirements.) Those reports and agency followup systems can give useful status information.

The progress that can be expected depends on the type of recommendation. Some recommendations for congressional action and those that seek to solve complex problems can take years to implement. GAO's experience is that action on recommendations usually occurs in the first 3 years after the recommendation is made.

Recommendation monitoring is an ongoing responsibility and the status of all open recommendations should be determined on a regularly scheduled basis. For example, GAO determines and documents the status of all open recommendations twice each year. This helps to ensure that no recommendation will be permitted to remain dormant.

**Take Additional
Steps to Get
Recommendations
Implemented**

Another important part of followup is assessing options and strategies that can help to get effective implementation when progress is determined to be inadequate.

When status monitoring identifies dormant recommendations, followup should determine why action is not being taken. It may then be possible to take

additional steps to counter objections or implementation difficulties. It may also be possible to develop agreeable alternatives that will meet the objectives to which the recommendation was directed. Alternatively, it may become apparent that the environment has changed such that the problem no longer exists or the recommendation is no longer relevant or feasible.

Determining the Adequacy of Actions Taken on Recommendations

Were the actions that were agreed to actually taken? Did the actions that were taken have the intended results? Answering those questions could include a variety of approaches. Few auditors would accept, without verification, a statement by the auditee that certain actions would be taken and that those actions would correct the problems to which the recommendation was directed.

But how far should audit staff go in verifying that action was taken and in determining whether it achieved desired results? How long should recommendations be held open pending those determinations? The answer depends on such factors as the significance of the recommendation and the time required for its implementation.

As a minimum, implementation plans and time frames should be reviewed for consistency with recommended actions. Documentation to carry out planned actions should be examined. Auditee estimates of dollar savings or other benefits should be reviewed, and the reasons for significant differences from audit estimates should be explored.

For more significant recommendations, implementation actions should be tested. For key or critical recommendations that have not been implemented within a reasonable time, another audit or strategy may be warranted. If a followon audit is planned, it should use additional strategies to maximize the likelihood of achieving intended results.

Closing
Recommendations

The followup system should give guidance on when recommendations should be closed.⁴ Successful implementation should be the primary reason. When testing satisfies the auditor that objectives are being achieved, the recommendation should be promptly closed. As discussed above, some recommendations are so significant that a followon effort may be necessary to give the required degree of assurance that intended objectives are being achieved. If action is satisfactory, the recommendation should be closed.

But successful implementation is not the only reason for closing recommendations. At times, recommendation monitoring discloses that circumstances have changed and the recommendation is no longer valid. Recommendations should be closed when they are no longer valid, when additional information becomes available that establishes that the recommendation should not be pursued, or when it is decided that further action does not have a reasonable likelihood of success. When nothing more can reasonably be done to get implementation, including actions discussed in chapter 5 for key recommendations, leaving recommendations on the books does not help.

Accomplishment
Reporting

Accomplishment reporting is an important part of an effective followup system. It makes visible and brings together the results of audit work as established by recommendation monitoring and followup. Accomplishment reporting promotes staff commitment to results by associating accomplishments with the work of individuals. It also provides a useful way to gauge the audit organization's success.

⁴In some agencies, under federal inspector general legislation, inspectors general are responsible for monitoring the followup system. In others, it is the responsibility of agency management. Inspectors general have a specific responsibility to inform the Congress through the semiannual report of any significant management decision with which they disagree.

The criteria for determining accomplishments should require that

- the recommended action or an acceptable alternative was actually taken and
- the recommendation's implementation caused or significantly influenced the benefits achieved.

Accomplishments that should be reported include quantifiable benefits, such as those for which agency reporting is required under the Inspector General Act of 1978, as amended. (See app. V for more information.)

But not all benefits are quantifiable. The accomplishment reporting system should also highlight financial benefits that cannot be determined or reliably estimated and other actions that improve government operations but yield no quantifiable benefit. Nonquantifiable benefits can be extremely significant—including those that improve the quality of life as well as those that preserve life itself.

Perhaps the most important aspect of accomplishment reporting is that it be credible. Care should be taken to ensure the system's integrity.

Recognizing the Basic Responsibility of Auditees

The basic responsibility for taking action on audit recommendations rests with the agency to which the recommendations were made.

Auditors should assure themselves that the agency has an effective system in place for resolving, following up, and implementing audit recommendations. Determining how effective agency systems are and recommending improvements where necessary can go a long way to ensuring that individual audit recommendations accomplish their objectives.

Special Attention to Key Recommendations

Giving Maximum Attention to Key Recommendations

While all audit recommendations should be aggressively pursued, some recommendations are so significant that added steps are needed to get them implemented.

For example, what should be done when, despite aggressive followup, a key recommendation has been rejected or ignored, and there is no reason to believe that the passage of time will improve prospects of getting beneficial action? And what course should be followed if the recommendation may eventually be implemented, but the matter is too significant to let current conditions continue? This chapter suggests additional approaches that should be considered in such cases. (Also, see apps. II-IV for ways in which special attention is given to key recommendations at the federal and state levels.)

Identifying Key Recommendations

The significance of a recommendation depends on the subject matter and the specific situation.

Frequently, significance can be assessed in terms of dollars. For example, assume that implementation of an audit recommendation would correct inadequate internal controls in an area where very significant amounts of money are subject to theft or manipulation. The inadequate controls are readily recognizable as a significant deficiency. A recommendation to strengthen the internal controls in an area of such significance and susceptibility would be key and worthy of special emphasis.

However, dollars are only one measure of significance, not necessarily the most important one. For example, the need to ensure implementation of recommendations to provide safe operation of a nuclear plant can hardly be overemphasized. Implementing such a recommendation could prevent the loss of life, substantial bodily injury, or environmental contamination.

There is a vast difference between recommendations dealing with conditions that are imminently life threatening and those that are just significant enough to be reportable. Likewise, a wide range of actions can be taken to get recommendations implemented. But, for those relatively few, critical recommendations, a maximum effort should be applied.

Early and Continuing Emphasis

The significance of a finding and a recommendation should be known to the auditor and communicated to the auditee early during an assignment. The fact that a recommendation is considered to be a key one should not come as a surprise to the agency being audited. It should have been made apparent during early discussions with agency officials and certainly at the exit conference.

Emphasis on key recommendations should be continued as the findings and recommendations are reported. Key recommendations should be identified and highlighted in reports in a context that makes their significance apparent. Executive summaries and transmittal memorandums can be used to further establish and emphasize the significance of key recommendations.

If monitoring and followup disclose that action on a key recommendation is not progressing, additional steps should be promptly considered. Followup should be elevated to progressively higher levels of agency management. Department or agency management at the highest levels should be made aware of the significance of the recommendation and the need for prompt action.

When the head of the audit agency gives personal attention to getting action on a recommendation, a high level of significance is clearly demonstrated. When the top person invests time, effort, and personal commitment, the subject matter is established as special. It will be accepted as such, and the

chance of favorable action on the recommendation will be greatly increased. But that level of attention can be given to only the most significant matters.

Examples of Ways to Highlight Key Recommendations

Examples of legal and regulatory steps that the General Accounting Office, the inspectors general, and the state audit agencies can take to get action on key recommendations are presented below.

The General Accounting Office

Congressional interest in making sure that GAO's recommendations are carefully considered by executive agencies is emphasized by 31 U.S.C. § 720. That law requires that an agency head to whom GAO makes a recommendation submit a statement to designated congressional committees describing actions taken on the recommendation.

GAO's location in the legislative branch of government gives it access to congressional decisionmakers. That access provides an additional measure of influence that GAO can use to get the necessary focus on significant matters. Some examples follow:

- When GAO reports to the Congress or to congressional committees having jurisdiction over a subject matter, it helps focus congressional attention on matters that GAO believes to be significant.
- By invitation of congressional committees, GAO officials frequently have the opportunity to testify on matters currently before the Congress. In their testimony, the Comptroller General and other top GAO managers highlight key findings and recommendations at a time when congressional action or the use of its influence is most feasible.
- GAO fosters acceptance of key recommendations by providing material to oversight committees and to appropriations and authorization committees as decisions are made on agency programs.

For example, many of GAO's recommendations involve significant financial savings. When GAO provides appropriations committees with information on recommendations that have significant budgetary impact, the benefits of the recommendations can be realized through the budget process. Implementation of other GAO recommendations would correct problems that are significantly impeding the success of programs. Providing authorization and oversight committees with timely information on those recommendations can help to reinforce the need for corrective action.

- Each year, GAO provides a report to the House and Senate Appropriations Committees, and to other interested committees, on the status of all open GAO recommendations. The report includes summaries identifying key open recommendations that, in GAO's judgment, need priority attention.

Inspectors General

The Inspector General Act of 1978, as amended, requires inspectors general to highlight significant findings and recommendations to the Congress. That act includes the following reporting requirements:

- Inspectors general are required to submit semiannual reports to heads of agencies, who transmit the reports to the Congress. In those reports, the inspectors general are to include problems, abuses, and deficiencies that they believe are significant. The reports should also include recommendations for corrective action and significant recommendations included in prior reports for which action has not been completed.
- Inspectors general are required to immediately report particularly serious or flagrant problems, abuses, or deficiencies to the head of the agency involved. The agency head is then required to send the report, together with statistical tables showing

actions taken on the inspector general's recommendations, to the appropriate committees or subcommittees of the Congress within 7 calendar days. Any additional comments the agency head considers appropriate may be included.

The 7-day report can focus congressional attention on key matters for which action is considered essential. This reporting device should be used judiciously to ensure that matters reported will continue to receive extraordinary attention.

**State Audit
Organizations**

Audit organizations at the state level have a range of approaches for ensuring action on recommendations.

For example, the Nevada legislature oversees action taken on recommendations made by the Legislative Auditor. The Nevada Revised Statutes include specific requirements for state agencies to plan action on audit recommendations and to report the status of implementation. In extreme cases, the statutes provide that money may be withheld from an agency to enforce compliance with implementation planning requirements.

When the Legislative Auditor is concerned about the status of action on recommendations, he/she informs the Legislative Commission of the state legislature. Agency officials are questioned about those concerns at the next commission meeting.

When the legislature is in session, the Legislative Auditor's concerns about the implementation of critical recommendations are brought to the attention of the Assembly Ways and Means and Senate Finance Committees. State agencies often must explain to those committees why the recommendations have not been implemented.

**Chapter 5
Special Attention to
Key Recommendations**

These statutory requirements provide the Nevada Legislative Auditor with a ready means to highlight recommendations for legislative action.

A Checklist for Recommendation Monitoring and Followup

This appendix includes some questions that auditors should consider as they monitor and followup audit recommendations. The questions are grouped into the following stages:

- When monitoring and followup actions are being planned.
- As the auditee is considering the recommendations and planning and implementing those it accepts.
- When recommendations are rejected, inadequately implemented, or inordinately deferred.

Planning for Followup

The first step is planning how best to get the recommendation accepted and implemented in a way that accomplishes its objectives. The following questions can help guide development of a monitoring and followup plan:

- Has what you expect to happen in implementing the recommendation been spelled out? Do you have a firm basis for judging the adequacy of the agency's implementation plan?
- Have you identified and evaluated alternatives? Is there a viable and effective fallback position?
- Do you know the benefits that can be expected from implementation? Have you identified and considered offsetting costs?
- Have you identified expected benefits by the categories included in the Inspector General Act of 1978, as amended? If that legislation does not apply, are there similar legal or regulatory requirements that should be considered?
- When can you expect a substantive decision on the recommendation?
- When can implementation reasonably be expected to begin?
- When can completion of implementation be expected? Are there implementation milestones that should be completed in a particular time frame?
- Is there a time-critical point by which the recommendation should be fully implemented?
- When can you expect benefits to be realized?

**Appendix I
A Checklist for
Recommendation Monitoring
and Followup**

- What must happen before you can cease followup action because a recommendation has been effectively implemented?
- Have agency reactions during work on the assignment, at the exit conference, or on the draft report suggested objections or roadblocks to implementation? Have such objections been effectively countered in the report? Are there actions that can be taken during followup or monitoring to counter the obstacles?
- What will you do to test implementation? When will you do the testing?
- What will you do to monitor action on the recommendation? When and how frequently will particular monitoring actions be performed?
- Have you developed a followup plan that includes matters such as the above and that defines followup responsibilities?

Applying the Plan

The following questions should be considered during monitoring and followup:

- Have you reviewed agency reports required by law or regulation, such as "OMB Circular A-50?"
- Is the recommendation being aggressively followed up by the agency through its followup system?
- Do you know the current status of acceptance and/or implementation of the recommendation? Is it adequate?
- Have you reviewed the agency's written implementation plan? (A written implementation plan is required by "OMB Circular A-50.") Is the plan adequate? How will you resolve any inadequacy?
- Do you and the agency agree on the benefits of implementing the recommendation? If not, have you agreed to a basis for resolving the difference?
- If the agency has closed the recommendation in its followup system, do you agree that doing so was appropriate?
- Have you complied with all the followup documentation and status reporting requirements in your organization's monitoring and followup system?

**Appendix I
A Checklist for
Recommendation Monitoring
and Followup**

- Have you taken all the monitoring and followup actions established by your followup plan?

**Taking Additional
Steps When
Necessary**

Answers to the following questions should be considered when a recommendation is rejected, inadequately implemented, or inordinately deferred:

- In your opinion, is the recommendation still valid? If it is, are agency reasons for not implementing the recommendation reasonable?
- Were the recommendation's objectives substantially met by an alternative approach?
- Is there anything more you should do to get the recommendation implemented? What?
- Should you close the present recommendation and consider scheduling additional audit work at a later date when you can better demonstrate adverse effects or when timing will make its acceptance more likely?
- Is the recommendation a key one? Is it significant enough to refer to a higher authority for action, e.g., inclusion in a 7-day letter (federal inspectors general), to solicit outside intervention, or to get the involvement of the audit organization's top management? What additional actions do you believe are appropriate?
- Was there anything about the recommendation that could have made it difficult to accept and implement? Is there anything that can be learned to make future recommendations more readily acceptable?

Case Study: GAO's Monitoring and Followup System

-
- System Highlights**
- Monitoring and followup are done by staff members responsible for, and knowledgeable about, the recommendation. Under the direction of an Assistant Comptroller General, staff members oversee the effectiveness of the followup system. (See p. 36.)
 - Each recommendation is followed up on an ongoing basis—with at least semiannual updates. An individual recommendation followup plan is developed for each assignment. (See p. 36.)
 - Results intended by each recommendation and the benefits expected from its implementation are defined as a basis for determining the adequacy of implementation. (See p. 36.)
 - GAO staff monitor action on recommendations using agency reports to the Congress and information from the GAO followup system. GAO staff do work on their own to ensure that action was, in fact, taken. The extent of the verification depends on the recommendation's significance. (See p. 37.)
 - Recommendations are closed only for specifically defined reasons. Implementation satisfactory to GAO is the predominant reason. (See p. 38.)
 - Accomplishments from recommendations are tracked and identified by assignment and by individual staff members. (See p. 39.)
 - GAO's ready access to the Congress and its committees is used to achieve an additional measure of influence when implementation of significant recommendations is inadequate or inordinately delayed. (See p. 27.)
 - GAO Form 66, which documents followup actions, is included beginning on page 41 and illustrative material from the Comptroller General's report to the Congress on the status of open recommendations is included beginning on page 45.

Overview

GAO is a nonpartisan legislative branch agency which assists the Congress, its committees, and Members in their legislative and oversight work. GAO makes audits and evaluations of federal agencies, contractors, and grantees at the request of committees and Members. It also carries out

auditing activities assigned by the Congress under various statutes. Through this work, GAO makes recommendations for more efficient and effective government operations.

GAO recommendations deal with complex problems, and legislation is frequently required to implement them. At any one time, GAO monitors and follows up actions to implement over 2,000 recommendations.

Responsibilities

Recommendation followup is an ongoing systematic process. GAO staff actively (1) monitor recommendations to ensure that they are promptly implemented and (2) assess the effectiveness of the corrective actions taken by the Congress or agencies in response to GAO recommendations.

Monitoring and followup are done by staff members responsible for the audit work. Each recommendation must be followed up at least semiannually. More frequent actions may be taken depending on such factors as the recommendation's significance and the apparent reluctance to accept and implement it. Additional actions to foster implementation of a recommendation are documented in a recommendation followup plan. This plan is strongly recommended for all GAO assignments.

GAO's Office of Policy is responsible for monitoring the process, providing overall guidance and direction, and preparing related management and status reports.

Implementation Monitoring

Although recommendation followup is an ongoing responsibility, all open recommendations are reviewed and information concerning them is updated semiannually. This update is based on an information/update report (GAO Form 66) prepared by a centralized computer facility. Information on all GAO communication products and

recommendations is entered in the computerized data base as they are issued. An illustrative GAO Form 66 is included on page 41.

In the spring and fall of each year, a GAO Form 66 for each product having open recommendations is prepared from the computerized data base and is provided to the staff member responsible for following it up. That form includes pertinent data about the product and about each recommendation, as follows:

- What the recommendation says.
- To whom it was directed.
- The results intended by the recommendation.
- The expected benefits of implementation.
- The most recent status of acceptance and implementation.

Status information includes:

- The reasons for inaction if action has not been initiated.
- What is being done and estimated completion dates if action is in process.
- The action taken and the results achieved, compared with those that were intended, if action is completed.
- A description of the shortfall and future action planned if an alternative action was taken but was not fully responsive.
- The reasons why the recommendation is no longer valid if that is the case.

Sources of Update Information

Monitoring and followup information may come from a variety of sources. 31 U.S.C. § 720 and "OMB Circular A-50" require agencies to report to certain congressional committees and to OMB the actions taken or planned on GAO recommendations. (App. V describes those reporting requirements.) Each agency has its own followup system. Many agency systems are centralized and automated.

In updating the Form 66, GAO staff use information available from agency reports to the Congress and OMB and from agency followup systems. But before information from any of these sources is accepted, GAO staff do some work of their own. They need to ensure that action was, in fact, taken and that implementation produced the desired result. The extent of work that GAO staff must do depends on the recommendation's significance. At a minimum, staff discuss the status of the recommendation with agency program officials and/or obtain copies of documents to show the actions taken and the results achieved. For the most significant recommendations, staff determine additional strategies to promote effective implementation.

Closing Recommendations

Trend analysis indicates that action on GAO's recommendations usually occurs in the first 3 years. After that time, few recommendations are implemented. If a recommendation remains open after 3 years, a special analysis is conducted to determine whether implementation can be expected. The analysis includes alternative strategies to get action on the recommendation, including working with congressional committees. The use of GAO-provided questions and summary data at key oversight, authorization, and appropriations hearings frequently motivates agency action on recommendations that were previously considered unacceptable.

GAO recommendations are closed only for one of the following reasons:

- The recommendation was effectively implemented.
- An alternative action was taken that achieved the intended results.
- Circumstances have so changed that the recommendation is no longer valid.
- The recommendation was not implemented despite the use of all feasible strategies. When a recommendation is closed for this reason, a judgment is made

on whether the objectives are significant enough to be pursued at a later date in another assignment.

Reporting

Accomplishment Reporting

When a recommendation achieves its intended results, an accomplishment report is generally prepared. That report provides an opportunity for GAO and for responsible staff members to be recognized for their part in an action and the benefits resulting from it. The accomplishment report documents both quantifiable and nonquantifiable benefits that result from or were significantly influenced by a GAO recommendation.

Report to the Congress on Open GAO Recommendations

Each year, GAO provides a report to the House and Senate Appropriations Committees on the status of open recommendations. The report is intended for use by congressional oversight and authorization committees, as well as the Appropriations Committees, in preparing for hearings and budget deliberations. The report

- includes background and findings information on each GAO product;
- describes the most recent actions on open recommendations, including congressional actions; and
- identifies the impact of GAO's work in an area and key open recommendations that, based on GAO's work and judgment, need priority attention from congressional Members and staff as well as agency officials.⁵

The preface to GAO's January 1991 report on the Status of Open Recommendations is included on

⁵This information is sent separately to other interested congressional committees.

**Appendix II
Case Study: GAO's
Monitoring and
Followup System**

4. Agency actions/comments (limit to 200 words or less):

5. Congressional actions/comments (limit to 200 words or less):

6. Congressional committee(s):

A. Authorizing/oversight committee(s) or subcommittee(s):

B. Appropriation subcommittee(s):

C. Other interested committee(s):

7. Name and telephone number of agency contact for followup information.

Agency: _____

Name: _____ Phone: _____

8. Agency case number.

Agency: _____

Case Number: _____

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Case Study: GAO's
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Illustrative GAO Form 66: Followup on GAO Report Recommendations

Date of Form 66: _____ Last Form 66 Update: _____
 Title of Report: _____
 Report Number: _____ Date of Report: _____
 Accession Number: _____ B-Number: _____
 Job Code: _____
 This is data collection cycle number _____

=====

DIVISIONS MUST MAINTAIN SUPPORTING DOCUMENTATION
FOR DATA ENTERED ON THE FORM 66

=====

PART I - DATA CONCERNING ENTIRE REPORT

1. Division Responsible for Followup: _____
 Associate Director: _____
 Telephone Number: _____
 Associate Director's Signature/Date: _____

2. Has the agency responded to the requirements of 31 U.S.C. § 720? If yes, indicate the date of the agency's response to the committee.

<u>Agency</u>	<u>Yes</u>	<u>No</u>	<u>Not Applicable</u>	<u>(mm/dd/yy)</u>
_____	—	—	—	_/_/___
_____	—	—	—	_/_/___

3. Has the agency prepared a written corrective action plan as required by OMB Circular A-50? If yes, indicate the date of the agency's plan.

<u>Agency</u>	<u>Yes</u>	<u>No</u>	<u>Not Applicable</u>	<u>(mm/dd/yy)</u>
_____	—	—	—	_/_/___
_____	—	—	—	_/_/___

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Case Study: GAO's
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pages 45 and 46. Also, the report's key recommendations concerning financial institutions and markets are included on pages 47 to 50.

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=====
PART II - DATA CONCERNING STATUS OF ACTION TAKEN ON RECOMMENDATIONS
=====

RECOMMENDATION:

ADDRESSEE:

INTENT:

SIGNIFICANCE: Estimate potential monetary benefits Yes ___ No ___
If "yes," check one of the following:
Over \$100 million _____ Under \$50 million _____
\$50 to \$100 million _____ Not determinable _____

Status Category Subcategory Data

- _____
1. Action not yet initiated.
A. Agency/Congress intent not known..... _____
B. Agency/Congress intends to act but has not
started..... _____
Explain in Section 7 the reasons for this status,
including any dates for initiating action.
- _____
2. Action in process. Date the Agency/Congress expects
action to be completed (if known)..... ____/____ (mm/yy)
Indicate in Section 7 what action is in process.
- _____
3. Action completed.
A. Was action completed due to alternative
action?..... Yes ___ No ___
B. Have/will financial savings or
nonfinancial benefits been/be achieved? Yes ___ No ___
C. Has/will an accomplishment report
been/be prepared?..... Yes ___ No ___
D. Accomplishment report number..... _____
Indicate in Section 7 what action was taken.
- _____
4. Recommendation no longer applicable.
Indicate in Section 7 reasons for dropping
recommendation.

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_____ 5. Action taken not fully responsive.
Should this recommendation remain open?.....Yes ___ No ___
Explain in Section 7 why the action was not responsive.

_____ 6. Recommendation valid/no action intended.
Should this recommendation remain open?.....Yes ___ No ___
Explain in Section 7 why no action is intended.

_____ 7. Comments or reasons:

Status last changed on: _____

**Preface to GAO's
January 1991
Report to the
Chairs, House and
Senate
Committees on
Appropriations,
on the Status of
Open
Recommendations**

This report provides information on the status of GAO recommendations which have not been fully implemented. The report is intended to help congressional and agency leaders determine the actions necessary to implement the open recommendations so that desired improvements to government operations can be achieved.

This year, significant changes have been made to improve the report's usefulness. The more important changes include the following.

- The report is being issued earlier than in past years so that sufficient time will be available for congressional leaders to use the report in preparing for upcoming appropriations and oversight activities.
- In the report, GAO products with open recommendations are arranged by issue area within budget function category, as indicated in the table of contents. The addition of issue areas to this year's report is intended to make it easier for oversight committees, federal departments and agencies, and other interested parties to locate summary information and key open recommendation highlights within their areas of jurisdiction. For example, to obtain information on defense issues, users of the report would locate pertinent information by finding the budget category entitled "National Defense." Within that category, seven relevant GAO issue areas would be included that would highlight summary information and report descriptions for various defense matters.
- The report contains two indexes. The "Committees of Jurisdiction" index can be used to identify GAO findings and recommendations made to agencies for which committees have appropriation and oversight responsibility. The "Recommendation Addressee" index can be used to identify the same information by agencies to whom recommendations are addressed.
- Each GAO product also includes the name and telephone number of a GAO manager who can be contacted for further information or assistance.

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- The back cover of the report includes a "thumb index" that identifies page numbers where budget function categories and the two indexes are located so that users of the report can easily find needed information.

We believe the changes to this year's report will enhance its usefulness as a reference document. Any information or questions not specifically related to a prior product or recommendation should be referred to GAO's Office of Congressional Relations, (202) 275-5739. Comments, questions, or suggestions for improving the report can be directed to Anne Hilleary, Office of Policy, (202) 275-1970.



Charles A. Bowsher
Comptroller General
of the United States

**Illustrative Key
Recommendations
in GAO's January
1991 Report on
the Status of Open
Recommendations**

Issue Area
Summary: Financial
Institutions and
Markets

Impact of GAO's Work

Through our financial institutions and markets work, we identify defects in laws, regulations, and practices of banks, thrifts, securities firms, insurance companies, and other financial market participants. Such defects, when left uncorrected, could lead to disruptions in the nation's financial services or loss of confidence by users. Our work to identify and correct such defects has included work to report on the financial condition of various segments of the industry, such as banks, thrifts, insurance companies, credit unions, and government-sponsored enterprises; examine vulnerabilities of the financial services systems, such as risks involved in automated systems; report on the effectiveness of regulatory programs; analyze the implications of federal policies that prescribe the legal authorities for various segments of the financial services industry; and understand the implications of the increasing internationalization of the industry.

Some of our recommendations are being implemented to resolve the thrift crisis. In particular, a

new regulatory structure has been established, regulators' authorities have been strengthened, and the capital and accounting rules have been toughened. In the area of securities and futures markets, regulators are implementing our recommendations to promote market competition and to ensure smooth processing of trading in times of high volume.

Our work on consumer protection has resulted in actions being taken by regulators to improve detection of trade practice abuses of the type found in Chicago futures exchanges.

We also identified difficulties certain recipients had in cashing government checks and recommended alternative delivery systems, such as plastic cards and electronic funds transfer. More and more programs are experimenting with delivering their benefits using such technology.

In our work on modernizing the financial services industry, we have reported on issues relating to safety and consumer protection and on reform for the nation's deposit insurance system.

The financial markets continue to increase their dependence on automation. Our work and recommendations on automation have resulted in (1) actions taken by the Securities and Exchange Commission (SEC) and the Commodity Futures Trading Commission (CFTC) to increase their technical capabilities to oversee exchanges' systems; (2) improvements in major stock market systems; (3) decisions by futures exchanges to use automated systems to better detect trade practice abuses; and (4) commitments by operators of major electronic funds transfer systems to reduce their systems' security and capacity weaknesses.

Key Open
Recommendations

Among the most important recommendations that have not been implemented are those explained in the following paragraphs.

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In one of our reports concerning the repeal of the Glass-Steagall Act, we recommended that the Congress gradually allow some transactions between affiliated banking and securities firms as long as they were conducted on an arms-length basis. We also recommended that the Congress increase the regulatory oversight of companies engaged in both banking and securities activities because, when these activities are combined in a single firm, issues of safety, soundness, and consumer protection arise—issues that do not arise in single-function firms. These recommendations have not been acted on by the Congress. (GAO/GGD-88-37, see p. 235.)

In another report on securities trading, we recommended that SEC reconsider the current restriction on after-hours trading. While SEC has agreed that after-hours trading rules may need modification, it disagreed that other restrictions need review. We remain concerned that anticompetitive results may develop when trading practices become outdated and continue to believe that SEC should periodically review the appropriateness of such restrictions. (GAO/GGD-90-52, see p. 244.)

Our report on oversight of investment advisers showed the Congress that regulation of investment advisers was very weak. We recommended that the Congress clarify its regulatory intent for the investment advisers program by either strengthening the program to meet some minimal standard or repealing requirements for federal regulation of investment advisers. No action has yet been taken. (GAO/GGD-90-83, see p. 248.)

Our report on oversight of futures markets trading practices recommended that CFTC direct the exchanges to independently, precisely, and completely time each trade. Improved trade timing requirements are written into the CFTC reauthorization bill pending before the Congress. (GAO/GGD-89-120, see p. 241.)

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In our report on transaction information and investor protection needs regarding U.S. government securities, we recommended that the Congress (1) extend the Department of the Treasury's rulemaking authority over the government securities market, subject to a sunset provision; (2) authorize Treasury to adopt rules as needed over the sales practices of government securities brokers and dealers; and (3) require all government securities screen brokers to make transaction information available to market participants on a real-time basis. We also recommended that the Congress extend Securities Investor Protection Corporation insurance coverage to customer accounts in specialized government securities dealers. (GAO/ GGD-90-114, see p. 251.)

Our report on computer security for financial markets recommended that the Chair of SEC obtain the technical expertise needed to adequately oversee exchanges' systems. (GAO/IMTEC-90-15, see p. 243.) We made a similar recommendation to the Chair of CFTC in our report that discussed how the automation of futures markets could enhance detection of trade abuses, but also highlighted how new risks associated with automation need to be considered. (GAO/IMTEC-89-68, see p. 240.) Both commissions have committed to implement our recommendations, but have not yet done so.

One of our reports dealt with the need for stronger information technology leadership in the Resolution Trust Corporation (RTC). This report recommended that RTC's Oversight Board oversee RTC's plans to strengthen its information management leadership, develop an information resources management plan, and develop a systems architecture defining the appropriate information technology to meet RTC's information needs. RTC has begun to implement our recommendations. (GAO/IMTEC-90-76, see p. 250.)

Case Study: The HUD Inspector General Monitoring and Followup System

System Highlights

- Recommendations are tracked by an automated system monitored by the Office of the Inspector General. The system accumulates information on the status of recommendations from the time they are made until they are closed. (See p. 54.)
- Management decisions on recommendations are required within 6 months from report issuance. Status reports are made at intervals to ensure that this requirement is met. (See p. 54.)
- The Office of the Inspector General reviews the basis for management decisions on recommendations and evaluates corrective action plans. (See p. 54.)
- The Office of the Inspector General reviews the support for actions taken on recommendations. When the adequacy of corrective action on significant recommendations cannot be established by reviewing the documentation, a site review is performed. (See p. 55.)
- When the Inspector General disagrees with action on a recommendation, he/she attempts to resolve the matter with top-level headquarters officials. If the matter is not satisfactorily resolved, the Inspector General submits the disagreement to the Deputy Secretary. (See p. 57.)
- The Inspector General submits semiannual reports to the HUD Secretary, who describes the status of action on recommendations and transmits the reports to the Congress. Semiannual reports include information on any significant management decision with which the Inspector General disagrees. (See p. 57.)

Overview

The Department of Housing and Urban Development (HUD) is the principal federal agency responsible for programs concerned with the nation's housing needs, fair housing opportunities, and improvement and development of the nation's communities.

In early 1989, reports of mismanagement, fraud, and influence peddling at HUD were daily media

**Appendix III
Case Study: The HUD
Inspector General Monitoring
and Followup System**

disclosures. For a number of years, the HUD Inspector General had made recommendations to correct internal control weaknesses in the programs wracked by scandal. But little or no corrective action had been taken.

In June 1989, the newly appointed Deputy Secretary expressed concern about the lack of followup on audit recommendations. He stated that the failure to address audit recommendations led to the kinds of scandal that HUD had recently witnessed.

Under the leadership of the Secretary, top HUD management then took several steps to promote effective action on audit recommendations. This case study outlines the current monitoring and followup procedures described by HUD officials.

**HUD's Office of
Inspector General**

HUD's Inspector General conducts independent audits and investigations of departmental activities. The Inspector General, appointed by the President, reports to the Congress and to the Secretary of HUD in accordance with the Inspector General Act, as amended. That act also specifies the Secretary's responsibilities for reporting to the Congress on actions taken on Inspector General recommendations.

**Key Reporting
Responsibility**

The Inspector General is responsible for keeping the Secretary and the Congress fully and currently informed about problems and deficiencies relating to HUD's programs and operations and the necessity for and progress of corrective action.

Semiannual Reports

In April and October, the Inspector General summarizes the activities of his/her Office to the Secretary of HUD. The Secretary transmits to the Congress the Inspector General's report, along with the status of action on recommendations. These reports keep

**Appendix III
Case Study: The HUD
Inspector General Monitoring
and Followup System**

the Congress informed of significant Inspector General recommendations, actions taken on them, and any significant actions or decisions with which the Inspector General disagrees. Information included in these reports is described in appendix V.

**Immediate Reporting
of Serious or
Flagrant Matters**

The Inspector General reports to the HUD Secretary immediately when he/she becomes aware of particularly serious or flagrant problems, abuses, or deficiencies. Within 7 days, the HUD Secretary transmits to the appropriate congressional committees and subcommittees the Inspector General's report, along with his/her response.

**Key Monitoring
and Followup
Responsibilities**

The Deputy Secretary has principal responsibility for timely decisions and actions on audit recommendations. The Deputy Secretary makes the final decisions on disagreements between HUD management officials and the Inspector General.

Action officials are responsible for decisions and substantive action on recommendations in their program areas.

Audit liaison officers (ALO) at field, regional, and headquarters offices ensure that their offices' actions meet required time frames. A departmental ALO, in the Office of the Chief Financial Officer, promotes departmentwide compliance with the monitoring system.

The Inspector General monitors the recommendation monitoring process, evaluates the reasonableness of decisions on recommendations and the adequacy of corrective actions, refers disagreements to the Deputy Secretary, and complies with reporting requirements of the Inspector General Act of 1978, as amended.

**Recommendation
Tracking**

The Audits Management System is HUD's overall system for monitoring action on audit recommendations.

An Automated Audits Management System (AAMS) accumulates information on the status of recommendations from the time they are made until they are closed. HUD management officials and the Office of the Inspector General have defined responsibilities for entering recommendation status data in AAMS. These data are then used in the Inspector General's semiannual reports to the Congress and in the Secretary's related management reports.

The major recommendation tracking milestones are (1) the management decision and (2) the completion of final action.

**Management
Decision**

A management decision is the point at which management determines what, if any, action to take on a recommendation. Consistent with the Inspector General Act, as amended, a management decision is required on all audit recommendations within 6 months after the report is issued. To ensure that this deadline is met, management reports the status of decisions on recommendations at the 60- and 110-day points. The Office of the Inspector General monitors this reporting requirement.

Management decisions are made by the action official in writing and are supported by documentation. A decision disagreeing with a recommendation includes the reasons for the disagreement. A decision accepting a recommendation includes a written, time-phased corrective action plan.

Management decisions are discussed with and given to the Office of the Inspector General. That Office reviews the support for the decision, evaluates the corrective action plan for accepted recommendations, and notifies the action official in writing of

concurrence or nonconcurrence. The basis for non-concurrence is described.

A management decision is made only after the Office of the Inspector General has concurred in it or the Deputy Secretary has made a decision on disagreements between the Office of the Inspector General and the action official.

**Completion of Final
Action**

When management decides to accept a recommendation, the action official monitors the steps to implement it. When the official determines that the implementing actions were satisfactory and were documented in accordance with the corrective action plan, the Office of the Inspector General is notified.

The Office of the Inspector General then reviews the documentation and, if it agrees with what has been done, closes the recommendation. But if the Office of the Inspector General disagrees with the adequacy of implementing actions, the action official is notified and required to take additional actions. If the action official disagrees, the matter may be referred to the Deputy Secretary. When a desk review cannot readily determine whether a significant recommendation was implemented, a site review (corrective action verification) is made.

**Corrective Action
Verification**

The Office of the Inspector General makes a corrective action verification (CAV) of the more significant recommendations for which documentary evidence of implementation is not available for a desk review. For example, a desk review can establish that disallowed costs have been collected. But a site review, using the CAV process, would likely be required for a recommendation that called for developing and implementing new procedures.

In selecting recommendations for a CAV, the Inspector General uses several criteria. For

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Case Study: The HUD
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example, a CAV would be warranted if not implementing the recommended actions causes the continuation of any of the following conditions:

- Large dollar losses to the program and/or the government.
- Nonrealization of potential substantial income.
- Widespread prevalence of unsatisfactory conditions at HUD or the auditee that could adversely affect the accomplishment of program objectives.
- Health or safety violations that endanger the occupants of structures subsidized by or financed through a HUD program.
- Problems that could become the subject of adverse national or statewide press attention.
- Internal control problems that could permit fraud, theft, or embezzlement to remain undetected.

In addition, a CAV could be warranted by:

- Previous White House, congressional, or secretarial interest in the matter, which initiated the audit.
- Recommendations to correct program violations, legal violations, etc., that were reported to the Congress.
- Conditions and related finding(s)/recommendation(s) that were included in the Office of the Inspector General's semiannual report to the Congress.
- Special cases as determined by the Inspector General, the Assistant Inspector General for Audits, or the Regional Inspector General for Audits.

A recommendation may be reopened, following completion of the CAV process, if the Office of the Inspector General determines that actions taken were inadequate. The matter may be referred to the Deputy Secretary for decision if there is disagreement with the action official.

Referral of Disagreements to the Deputy Secretary

If the Office of the Inspector General disagrees with an action official's decision to reject a recommendation or with the adequacy of corrective action taken on accepted recommendations, it may refer the matter to the Deputy Secretary. As soon as the Office decides to refer the disagreement, it sends an alert memorandum to the responsible assistant secretary. The Office of the Inspector General then works with headquarters staff to settle the matter without referral. If agreement cannot be reached in 30 days, a referral package is sent to the Deputy Secretary. The referral package includes a summary of the disagreement and supporting documents.

The Deputy Secretary reviews the positions of the Inspector General and of the action official. The Deputy Secretary's decision is final.

Disagreements Reported to the Congress

The Inspector General is required by the Inspector General Act, as amended, to include in the semiannual reports to the Congress information on any significant management decision with which he/she disagrees.

The 7-day report, in which the Inspector General may report serious or flagrant matters through the Secretary to the Congress, provides a basis for escalating disagreements on matters of grave significance.

These reports can provide an extra measure of influence in those cases where the Inspector General believes that key recommendations have not been appropriately carried out.

Continuing Management Responsibility

The CAV process does not replace management's responsibility to ensure that final management action is completed.

After final action has been completed on a recommendation and it has been closed, management

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reviews the adequacy of actions taken. These reviews document the scope, material reviewed, and conclusions reached. If a review indicates that actions were not adequate, management notifies the Office of the Inspector General. The recommendation is then reopened, and additional corrective actions are tracked in the AAMS.

Case Study: The Legislative Auditor, State of Nevada, Monitoring and Followup System

System Highlights

- Recommendations are specific and action-oriented, and each recommendation's implementation status is stated in the audit report (see p. 64) and is updated in the next audit report on the agency.
- Compliance with the requirement to submit a corrective action plan for each recommendation within 60 days is enforced. Legislation even permits withholding money if such a plan is not provided or addressed. (See p. 60.)
- An executive branch agency, other than the auditee, oversees and reports on the status of recommendation implementation. (See p. 61.)
- A legislative committee reviews actions taken on recommendations, with input from the Legislative Auditor as well as the auditee. (See p. 62.)
- The Legislative Auditor has ready access to the legislature's money committees to bring to their attention significant recommendations that may not be fully implemented. (See p. 62.)

Overview

The Nevada Legislative Auditor is a part of the legislative branch of the state government. He/she is head of the Audit Division and reports to the Legislative Commission through the Audit Subcommittee.

The Legislative Commission consists of six senators and six assembly members designated by resolution at each regular session of the legislature. Membership in the Audit Subcommittee is appointed by the Chair of the Legislative Commission.

The Legislative Auditor is responsible for

- making postaudits of state agencies to furnish the legislature with information necessary to the discharge of its constitutional duties and
- recommending to the legislature the enactment or amendment of statutes based on the results of postaudit.

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Postaudits are required by legislation to be in accordance with generally accepted standards for governmental and other audits.

**Reporting the
Results of Audit
Work**

When audit work is completed, the Legislative Auditor's draft report is sent to the head of the auditee agency and an exit conference is scheduled. If that conference establishes, by persuasive evidence, that changes should be made to the draft report, the changes are provided to the agency as they will be included in the final report.

The agency then has 10 days to respond to the audit report in writing. In its response, the agency also indicates the status of its decision on each recommendation. The agency's response is included in the Legislative Auditor's final report. (An example of recommendation status is included on p. 64.)

If the agency response disagrees with any of the report's findings or recommendations, the Legislative Auditor's comments on the agency reply are also included in the final report. (See p. 66.)

When the audit report is completed, it is submitted to the Legislative Commission through its Audit Subcommittee. The subcommittee

- reviews the report,
- may conduct hearings to examine any justification for failing to carry out the Legislative Auditor's recommendations, and
- reports its findings to the Legislative Commission.

**Implementing
Audit
Recommendations**

When the Legislative Commission has accepted the report, the Chair notifies the auditee agency of its reporting responsibilities under the Nevada Revised Statutes. Those responsibilities include submitting, within 60 days, a corrective action plan. The plan is submitted to the Director of the Department of

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Administration⁶, with a copy to the Legislative Auditor.

If the agency fails to submit a corrective action plan within the 60-day time limit, the Legislative Auditor notifies the Legislative Commission. In addition, the Director of the Department of Administration may order the withholding of money appropriated to the agency for the failure to submit a corrective action plan or to carry out such a plan. (Such withholding of money has not yet been necessary.)

The agency's corrective action plan outlines specific steps that have been or will be taken to implement the audit recommendations. (An illustrative plan is included on p. 68.)

The Legislative Auditor analyzes the plan to determine if its implementation will meet the intent of the recommendations. If not, the Legislative Auditor works with the agency to develop a course of action that will achieve desired results.

**Reviewing
Implementing
Actions**

The Nevada Revised Statutes require the Director of the Department of Administration to submit a report to the Legislative Auditor that specifies the extent to which recommendations have been carried out and the reasons for any failure to do so. The report is due within 6 months after submission of the 60-day corrective action plan. (See p. 70.)

Several months after the agency submits its corrective action plan, the Department of Administration determines the status of implementation. The determination is based on inquiries, examination of written procedures, and other means.

The Legislative Auditor then reviews the report and prepares a summary for presentation before the

⁶The Department of Administration is an executive branch agency whose responsibilities include those of a budget division.

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next meeting of the Audit Subcommittee. When the legislature is in session, a copy of the 6-month report is provided to each member of the Senate Finance and the Assembly Ways and Means Committees.

**Review by the Audit
Subcommittee**

Before the Audit Subcommittee meeting, the Legislative Auditor notifies the head of the agency and the Director of the Department of Administration that its report will be reviewed. If further information on a recommendation's status is needed, the agency and the Department of Administration are requested to attend the meeting. The Legislative Auditor prepares additional information to be used by members of the Audit Subcommittee. The information usually addresses recommendations not fully implemented or those needing further clarification. If significant recommendations have not been implemented, the Audit Subcommittee may request continuing updates from the agency.

**Review by
Legislative Money
Committees**

During the next regular session of the legislature, the Legislative Auditor meets with subcommittees from the Senate Finance and Assembly Ways and Means Committees to review audit recommendations. The meetings are held before the agency's budget hearings. Their purpose is to bring to the attention of the subcommittees any significant recommendations that may not be fully implemented. The Legislative Auditor provides each subcommittee member with a summary of significant audit findings from the prior audit and identifies concerns that can be addressed to agency officials during the budget hearings. The concerns usually deal with how audit recommendations have been carried out or when a recommendation will be implemented.

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**Subsequent
Followup**

When an audit report generates significant legislative interest, the Audit Subcommittee, the Legislative Commission, the Senate Finance Committee, or the Assembly Ways and Means Committee may request the agency to report back on the progress of audit recommendations on an ongoing basis.

During the subsequent audit of each agency, the Legislative Auditor verifies the implementation status of recommendations made in the prior audit. The status of each prior recommendation is included in the back of each current audit report. This completes the cycle of audit followup.

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**State of Nevada, Department of Wildlife, Big Game Tag Draw System Performance
Audit: Summary of Recommendations**

<u>Recommendation</u> <u>Page/Number</u>	<u>Requires</u> <u>Statutory</u> <u>Change</u>	<u>Implementation Status</u> <u>Per Reply</u>		
		<u>Accepted</u>	<u>Deferred</u>	<u>Rejected</u>
20.10/1 Require supervisory review and approval of adjustments before recording them in the draw system.....	_____	X	_____	_____
20.11/2 Completely document, on the adjustment form, the reason for the adjustment.....	_____	X	_____	_____
20.11/3 Use sequentially numbered adjustment forms.....	_____	X	_____	_____
20.11/4 Account for the numerical sequence of adjustment forms purchased and used.....	_____	X	_____	_____
20.11/5 Require the adjustment form be signed by the preparer and supervisor to document approval of the adjustment....	_____	X	_____	_____
20.11/6 Separate the duties of preparing and approving the adjustments.....	_____	X	_____	_____

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<u>Recommendation</u> <u>Page/Number</u>	<u>Requires</u> <u>Statutory</u> <u>Change</u>	Implementation Status			
		<u>Per Reply</u>	<u>Accepted</u>	<u>Deferred</u>	<u>Rejected</u>
20.11/7 Ensure that every adjustment recorded is properly completed and approved.....		X			
20.11/8 Ensure adjustments are properly recorded.....		X			
* * * * *					
GAO note: This report made a total of 39 recommendations. The status of each was included in the "Summary of Recommendations" from which this material was excerpted.					

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**Nevada Department of Wildlife, Audit Implementation Plan, Big Game Tag Draw
System Audit—1989**

The following plan has been developed to implement audit recommendations as accepted by the Legislative Commission on April 17, 1990.

Recommendation:

1. (Page 20.10) Require supervisory review and approval of adjustments before recording them in the draw system.
2. (Page 20.11) Completely document, on the adjustment form, the reason for the adjustment.
3. (Page 20.11) Use sequentially numbered adjustment forms.
4. (Page 20.11) Account for the numerical sequence of adjustment forms purchased and used.
5. (Page 20.11) Require the adjustment form be signed by the preparer and supervisor to document approval of the adjustment.
6. (Page 20.11) Separate the duties of preparing and approving the adjustments.
7. (Page 20.11) Ensure that every adjustment recorded is properly completed and approved.
8. (Page 20.11) Ensure adjustments are properly recorded.

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Page

20.10 We feel there is a very high risk someone could change the results of the draw because of the poor controls over the adjustment process. The Department, in their response on page 20.29, disagrees the risk is very high and state they believe they could prove the draw results were, in fact, not changed. We believe that because the control weaknesses over the adjustment process are so pervasive, the risk of the draw results being changed is, in fact, very high.

20.11 We stated that having knowledge of the draw numbers the program will generate allows for the slight possibility of placing an application in a position to receive a low draw number. The Department, in their response on page 20.30, states they believe the complexities of the system and the number and status of the applications make predicting who will receive a low draw number, or placing an application in a position to receive a low draw number, a virtually impossible task. As we stated on page 20.11, the possibility is slight; however, it could be done and therefore is not impossible.

GAO note: These comments were excerpted from "Auditor's Comments on Agency Reply." They include material that relates to items in the "Summary of Recommendations" on p. 64.

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State of Nevada, Department of Wildlife, Big Game Tag Draw System Performance
Audit: Auditor's Comments on Agency Reply

The agency, in its response, does not agree with certain of our findings and recommendations. The following comments identify those sections of the report where the agency has taken exception to our position and also provides assurance to the reader that we believe our position is appropriate.

Page

- 20.6 We have stated some of the exceptions and errors we discovered could be considered indications of abuse or illegal acts. The Department, in their response on page 20.28, states they strongly believe the errors and exceptions discovered during the audit were a direct result of human error and are not indications of intentional abuse or illegal acts. As we stated on page 20.6, we were unable to obtain sufficient documentation and evidence to allow us to conclude the exceptions and errors we discovered were, in fact, instances of abuse or illegal acts.
- 20.10 We stated there is virtually no control over adjustments or changes made to the draw system records. The Department, in their response on page 20.29, states there is a completed adjustment form for each adjustment and this does serve as a record of the adjustment. As we stated on page 20.10 of our report, the adjustment forms are not sequentially numbered and therefore there is no way to determine if all of the adjustment forms used have been accounted for or that all adjustments have been recorded on an adjustment form.

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CORRECTIVE ACTION: The Department has accepted the eight recommendations concerning adjustments made to the application hunt master file. A program and procedure will be developed and approved by the agency Director which will provide for supervisory review and approval, complete documentation, separation of duties, document accountability, and proper recording of all adjustments.

The adjustment form will be revised to ensure compliance with the program and procedure. The new two-copy form will be sequentially numbered and accounted for so that proper internal controls are achieved.

Assignments of duties among current staff will be assessed and adjustments made where necessary to ensure an efficient process for the 1990 big game drawing.

During the next year, research and planning will be conducted to determine if the adjustment process can be electronically automated. The duties of the license office staff will be further assessed to determine the need for additional personnel and changes in assignments.

CURRENT STATUS: A program and procedure, an agency worksheet, a new adjustment form, and a license office organizational chart have been developed in final draft and submitted to the agency Director for his review and approval. The new procedures have been implemented for the 1990 big game drawing.

GAO note: This material was excerpted from the audit implementation plan submitted to the Director, Department of Administration, by the head of the auditee agency.

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State of Nevada, Department of Administration, Report to Legislative Auditor on
Recommendation Compliance

STATE OF NEVADA
DEPARTMENT OF ADMINISTRATION
Capitol Complex
Carson City, Nevada 89710
Fax (702) 687-3983
(702) 687-4065

MEMORANDUM

TO: Legislative Auditor
FROM: Director, Department of Administration
SUBJECT: Compliance With Recommendations of the Legislative Auditor
for the Nevada Department of Wildlife, Big Game Draw
System Audit for 1989

NRS 218.8245 requires the Director of the Department of Administration to report to the Legislative Auditor on measures taken to comply with audit findings. On April 17, 1990, the Legislative Commission accepted a performance audit for the Nevada Department of Wildlife (NDOW), Big Game Tag Draw System for 1989. The Director of the Department subsequently filed a plan of action with this office. Copies of these plans were also provided to the LCB Audit Division.

The following outlines the status of corrective action taken by NDOW to the recommendations issued by the audit as of this date.

- 20.10 1 Require supervisory review and approval of adjustments before recording them in the draw system.
- 20.11 2 Completely document, on the adjustment form, the reason for the adjustment.
- 20.11 3 Use sequentially numbered adjustment forms.
- 20.11 4 Account for the numerical sequence of adjustment forms purchased and used.
- 20.11 5 Require the adjustment form be signed by the preparer and supervisor to document approval of the adjustment.
- 20.11 6 Separate the duties of preparing and approving the adjustments.
- 20.11 7 Ensure that every adjustment recorded is properly completed and approved.

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20.11 8 Ensure adjustments are properly recorded.

A program and procedure, an agency worksheet, a new adjustment form, and a license office organizational chart have been developed and were implemented for the 1990 big game drawing.

GAO note: This material was excerpted from the Department of Administration's status report on the implementation of audit recommendations.

Laws and Regulations Requiring Federal Agencies to Followup and Report the Status of Audit Recommendations

Laws and regulations requiring federal agencies to followup and report the status of actions taken in resolving and implementing audit recommendations are referred to in various chapters of this guide. This appendix gives additional information on

- 31 U.S.C. § 720;
- the Inspector General Act of 1978, as amended;
- the Federal Managers' Financial Integrity Act;
- Comptroller General standards; and
- "OMB Circular A-50."

Not all provisions are included here, and the language is paraphrased unless it is shown in quotation marks.

31 U.S.C. § 720

GAO's general duties and powers are included in chapter 7, subchapter II, of title 31, beginning at section 711. Section 719 provides for reports to be submitted by the Comptroller General. Section 720 requires the following reporting by agency heads:

(a) This section, which is not quoted, defines "agency."

"(b) When the Comptroller General makes a report that includes a recommendation to the head of an agency, the head of the agency shall submit a written statement on action taken on the recommendation by the head of the agency. The statement shall be submitted to—

"(1) the Committee on Governmental Affairs of the Senate and the Committee on Government Operations of the House of Representatives before the 61st day after the date of the report; and

"(2) the Committees on Appropriations of both Houses of Congress in the first request for appropriations submitted more than 60 days after the date of the report."

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("OMB Circular A-50" requires agencies to submit copies of this report to GAO and to OMB.)

**Inspector General
Act of 1978, as
Amended**

The Inspector General Act of 1978, as amended, established the Offices of the Inspector General. Two of its stated purposes are to keep the agency heads covered by the act and the Congress fully and currently informed about problems and deficiencies, including fraud and abuse, and to report on progress in implementing corrective actions. To achieve those purposes, the act included the requirements summarized below.

**Semiannual Report
of the Inspector
General**

"Section 5(a). Each Inspector General shall, not later than April 30 and October 31 of each year, prepare semiannual reports summarizing the activities of the Office during the immediately preceding six-month periods ending March 31 and September 30."

Inspectors general are required to include the following information in their semiannual reports:

- A summary of significant matters (1) disclosed during the reporting period together with recommended corrective actions and (2) disclosed in prior reports if corrective action has not been completed.
- Referrals to prosecutive authorities and the results of the referrals.
- Unreasonable refusal or failure to provide information.
- The dollar value of both questioned costs and recommendations that funds be put to better use for each applicable audit report issued during the period.
- A summary of each particularly significant report.
- Statistical tables showing the number of reports and the dollar value of questioned costs for (1) reports for which no management decision had been made at the beginning of the period; (2) reports for which management decisions were made during the

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period, including the dollar value of costs that were disallowed and those that were allowed; and (3) reports for which no management decision had been made by the end of the period.

- Statistical tables, similar to those for questioned costs, that show the number of reports and the dollar value of recommendations to put funds to better use.
- A summary of each report issued before the reporting period for which no management decision had been made by the end of the period, including an explanation of why a decision was not made and a desired timetable for getting the management decision.
- A description and explanation of the reasons for significant management decisions that were revised during the period.
- Information concerning any significant management decision with which the inspector general disagrees.

**Information
Required From the
Agency Head**

Section 5(b) builds upon the inspector general reports by requiring the agency head to report semiannually on the status of final actions on inspector general recommendations for which management decisions have been made. Management is to submit to the Congress, along with the inspector general's report, statistical tables showing these actions concerning disallowed costs and better use of funds. Management also is to include statements on audit recommendations for which decisions have been made, but final actions are still incomplete after 1 year.

Public Availability

Section 5(c) provides for copies to be made available to the public.

**Immediate Reporting
of Serious or
Flagrant Matters**

Section 5(d) states that each:

"Inspector General shall report immediately to the head of the establishment involved whenever the

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**Immediate Reporting
of Serious or
Flagrant Matters**

Section 5(d) states that each:

“Inspector General shall report immediately to the head of the establishment involved whenever the Inspector General becomes aware of particularly serious or flagrant problems, abuses, or deficiencies relating to the administration of programs and operations of such establishment. The head of the establishment shall transmit any such report to the appropriate committees or subcommittees of Congress within seven calendar days, together with a report by the head of the establishment containing any comments such head deems appropriate.”

**Restrictions on
Public Disclosure**

Section 5(e) deals with restrictions on public disclosure.

**Definitions of Terms
Used in Reporting
Requirements**

Section 5(f) defines the following terms:

- Questioned cost.
- Unsupported cost.
- Disallowed cost.
- Recommendation that funds be put to better use.
- Management decision.
- Final action.

**Federal Managers’
Financial
Integrity Act**

The Federal Managers’ Financial Integrity Act requires the head of each executive agency to establish internal accounting and administrative controls in accordance with standards prescribed by the Comptroller General. It states that “Standards the Comptroller General prescribes . . . shall include standards to ensure the prompt resolution of all audit findings.”

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**Comptroller
General Standards**

Standards for Internal Controls in the Federal Government, published by the Comptroller General in 1983, state:

“Managers are to (1) promptly evaluate findings and recommendations reported by auditors, (2) determine proper actions in response to audit findings and recommendations, and (3) complete, within established time frames, all actions that correct or otherwise resolve the matters brought to management’s attention.”

The 1988 revision of Yellow Book standards emphasized agency management’s primary responsibility for directing action and followup on audit recommendations. (See p. 6.)

**Office of
Management and
Budget Circular
A-50**

“OMB Circular A-50,” which sets requirements for executive agencies in connection with audit reports, states that:

“Agency heads are responsible for:

“(1) Designating a top management official to oversee audit followup, including resolution and corrective action.

“(2) Assuring that management officials throughout the agency understand the value of the audit process and are responsive to audit recommendations.”

**A-50 Requirements
for Agency
Followup Systems**

With respect to agency followup systems, “OMB Circular A-50” states:

“a. Followup Systems. Agencies shall assign high priority to the resolution of audit recommendations and to corrective action. Systems for resolution and corrective action must meet the following standards:

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“(1) Provide for appointment of a top level audit followup official.

“(2) Require prompt resolution and corrective actions on audit recommendations. Resolution shall be made within a maximum of six 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.

“(3) Specify criteria for proper resolution and corrective action on audit recommendations, whether resolution is in favor of the auditor or an auditee. These criteria should provide for written plans for corrective action with specified action dates, where appropriate.

“(4) Maintain accurate records of the status of audit reports or recommendations through the entire process of resolution and corrective action. Such records shall include appropriate accounting and collection controls over amounts determined to be due the Government.

“(5) Provide a means to assure timely responses to audit reports and to resolve major disagreements between the audit organization and agency management or contracting officials. The process should provide sufficient time to permit resolution to take place within the six month limit.

“(6) Assure that resolution actions are consistent with law, regulation, and Administration policy and include written justification containing, when applicable, the legal basis for decisions not agreeing with the audit recommendation.

“(7) Provide for coordinating resolution and corrective action on recommendations involving more than one program, agency, or level of Government.

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“(8) Provide semi-annual reports to the agency head on the status of all unresolved audit reports over six months old, the reasons therefor, and a timetable for their resolution; the number of reports or recommendations resolved during the period; the amount of disallowed costs; and collections, offsets, write-offs, demands for payment, and other monetary benefits resulting from audits. These reports should include an update on the status of previously reported unresolved audits.

“(9) Provide for periodic analysis of audit recommendations, resolution, and corrective action to determine trends and system-wide problems and to recommend solutions.

“(10) Assure that performance appraisals of appropriate officials reflect effectiveness in resolving and implementing audit recommendations.

“(11) Provide for an evaluation of whether the audit followup system results in efficient, prompt, and proper resolution and corrective action on audit recommendations. The first evaluation will be made within one year of the date of this Circular, and evaluations will be made periodically thereafter.”

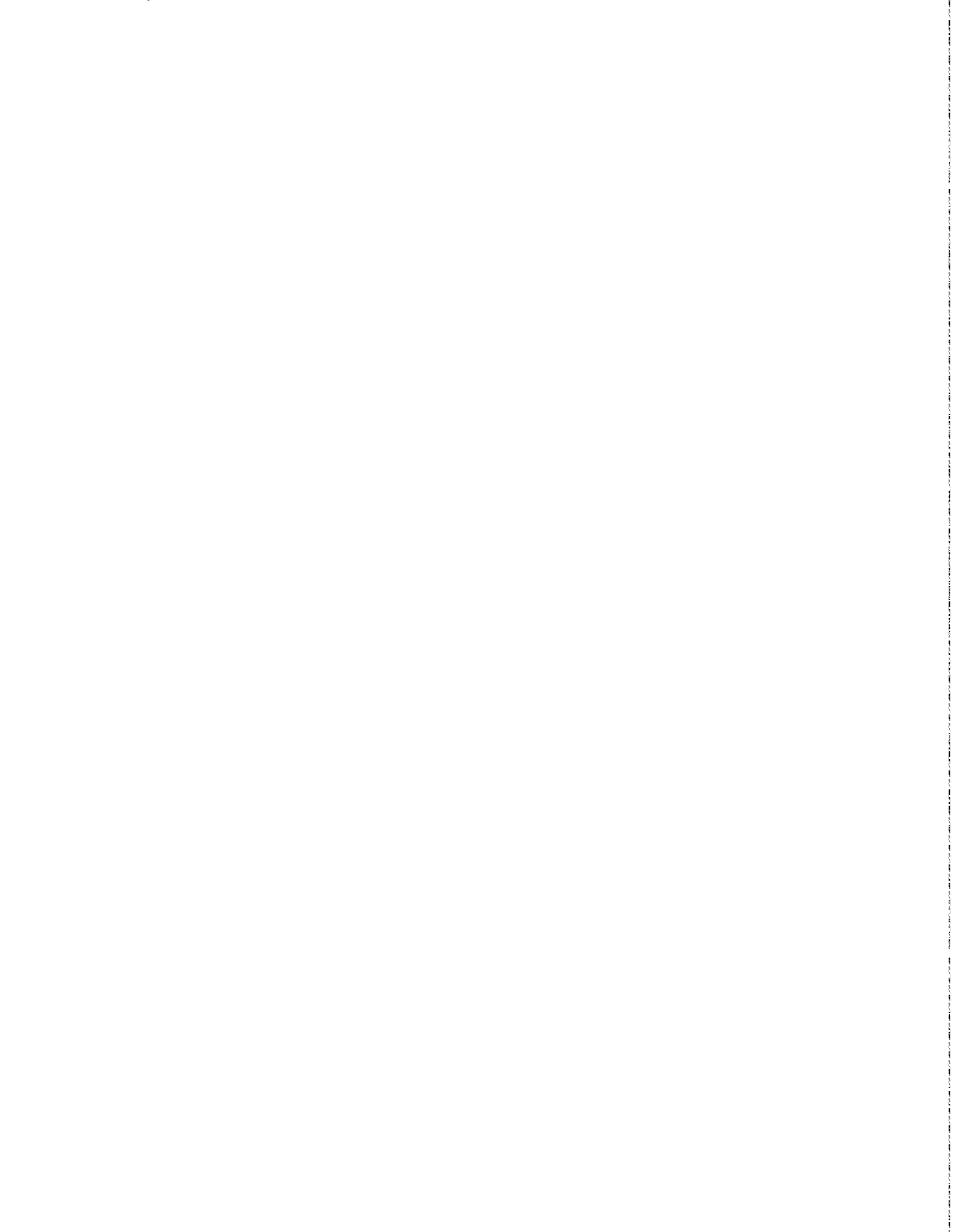
**Special
Requirements for
GAO Reports**

“OMB Circular A-50” requires agencies to provide OMB with a statement on certain GAO reports, including those with a recommendation to an agency head. The statement

“should inform the OMB of the agency views on the findings and recommendations made by the GAO. It should also identify any action taken, or planned, in response to each significant finding or recommendation . . . When corrective action is incomplete, still under study, or planned, the agency will include a statement of when it expects action to be completed, and will report on corrective action after it is completed.”

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“OMB Circular A-50” also requires that a statement be made to certain congressional committees on action taken or planned on GAO recommendations to an agency head.



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