

AUDIT OF THE IMPLEMENTATION OF CORRECTIVE ACTIONS

Audit Report No. 00-019
May 25, 2000

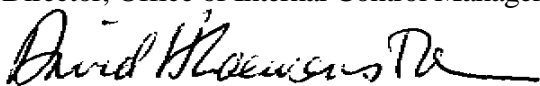


OFFICE OF AUDITS

OFFICE OF INSPECTOR GENERAL

DATE: May 25, 2000

TO: Vijay Deshpande
Director, Office of Internal Control Management

FROM: 
David H. Loewenstein
Assistant Inspector General

SUBJECT: Report Entitled *Audit of the Implementation of Corrective Actions*
(Audit Report No. 00-019)

The Office of Inspector General (OIG) has completed an audit of the Federal Deposit Insurance Corporation's (FDIC) implementation of corrective actions. Corrective actions originated from recommendations in OIG audit and evaluation reports. The audit covered agreed-upon corrective actions for which final action occurred from January 1, 1998 through June 30, 1999. The audit also covered collections of disallowed costs from audit and evaluation reports issued during this period.

BACKGROUND

Audit follow-up is an integral part of good management and is a shared responsibility of corporate management officials, the Office of Internal Control Management (OICM), and the Office of Inspector General. Corrective action taken by management on resolved findings and recommendations is essential to improving the effectiveness of FDIC operations. Corrective action is completed when final action has occurred. Final action means the completion of all actions that management has concluded are necessary with respect to the findings and recommendations included in an audit or evaluation report.

When the OIG issues an audit or evaluation report including findings and recommendations, FDIC management responds with a management decision on the report's recommendations. Management's decision is the evaluation by management of the findings and recommendations and its response to such findings and recommendations, including actions concluded to be necessary together with the expected completion dates for their implementation. The OIG will concur with management's decision if it is to implement the recommended corrective action or an acceptable alternative corrective action. If any recommendation identifies specific monetary benefits, management will respond with the amount agreed with and/or the amount that is disagreed with and the reasons for any disagreement. The amount management agrees to disallow is reported as the disallowed cost. Management will take actions necessary to recover disallowed costs unless management believes it is in the best interests of the FDIC to not pursue collection. Management reports the status of collections on disallowed costs to OICM, and when final action is to not pursue collection, the disallowed costs are reported as written off.

OICM has established the Internal Risks Information System (IRIS) as a tracking mechanism to provide a complete record of action on findings and recommendations. Within OICM, the Audit Follow-up and Resolution Section has been created as one means to help ensure the prompt and proper resolution and implementation of audit recommendations. In addition to monitoring audit follow-up and resolution activities, this section follows up on outstanding audit recommendations over 1 year old and assists in the resolution of disagreements between audit recommendations and corrective action plans.

OBJECTIVE, SCOPE, AND METHODOLOGY

The objective of this audit was to determine whether FDIC management implemented the agreed-upon corrective actions to audit and evaluation recommendations as reported in IRIS. We did not perform tests to determine whether the actions taken were effective in correcting existing weaknesses but only to verify that agreed upon corrective actions were implemented. The audit scope included disallowed costs agreed to by management and recommendations for which final corrective action occurred from January 1, 1998 through June 30, 1999. During this period, management reported final action on 261 recommendations related to 70 audit and evaluation reports, excluding legal fee bill audit reports. Because the legal fee bill audits included only monetary recommendations, they were included only in our review of disallowed costs.

Our audit methodology was to select a judgmental sample of 22 audit and evaluation reports from which management reported final action on 85 recommendations during the audit period. We selected our sample to include at least one report on each FDIC division that was the subject of an audit and to select those reports involving the most significant corrective actions. We reviewed IRIS for each audit report in our sample to identify the corrective actions completed by management. We then obtained documentation from the Internal Control Liaison (ICL) from each division as necessary to determine whether the corrective action had been completed as reported in IRIS. Where the documentation provided by the ICL was not conclusive, we performed testing to verify completion of the corrective action.

We also reviewed the status of collections on disallowed costs for all OIG audit and evaluation reports, including legal fee bill audit reports, issued from January 1, 1998 through June 30, 1999. When management wrote off disallowed costs, we reviewed documentation justifying the write-off.

We conducted the audit in accordance with generally accepted government auditing standards from September 1999 through March 2000.

RESULTS OF AUDIT

Our review found that management has been responsive to implementing agreed-upon corrective actions. Documentation provided by the ICL and additional testing performed during the audit confirmed information provided in IRIS for each corrective action reviewed in the audit sample. For each of the corrective actions, we found that management's efforts related to the corrective action addressed the agreed upon corrective action. Table 1 lists the number of audit reports and closed corrective actions in our sample by division.

Table 1

Division/Office ^a	Audit Reports	Closed Corrective Actions
DIRM	4	21
DOA	5	19
DOF	1	2
DOS	2	3
DRR	5	22
LEGAL	1	2
ODEO	1	1
OES	1	8
OLA	1	4
DCA	1	3
TOTAL	22	85

Source: *OIG Analysis*

FDIC management also initiated efforts to collect disallowed costs and involved the Legal Division when initial collection efforts failed. We found that management justified disallowed costs written off by documenting the write-off and including a litigation risk analysis where appropriate. Table 2 summarizes the status of disallowed costs by division.

^a The divisions and offices covered by our review were the Division of Information Resources Management (DIRM), Division of Administration (DOA), Division of Finance (DOF), Division of Supervision (DOS), Division of Resolutions and Receiverships (DRR), Legal Division (Legal), Office of Diversity and Economic Opportunity (ODEO), Office of the Executive Secretary (OES), Office of Legislative Affairs (OLA), and Division of Compliance and Consumer Affairs (DCA).

Table 2

Division	Disallowed Costs	Costs Recovered	In Process of Collection	Costs Written Off
LEGAL	\$ 4,048,391	\$ 1,827,610	\$ 352,122	\$ 1,868,659
DRR*	3,973,972	1,130,475	2,705,297	254,794
DOA	6,699,443	9,243	6,690,200	0
DIRM	293,621	170,007	0	123,614
TOTAL	\$15,015,427	\$ 3,137,335	\$ 9,747,619	\$ 2,247,067

Source: *OIG Analysis*

* DRR recovered \$116,594 in additional costs over the original disallowed costs after issuance of the final audit report based on procedures recommended in the OIG audit report.

Disallowed costs by the Legal Division related to 63 audits of outside counsel. Of the \$1,868,659 written off, the Legal Division did not pursue collection of \$593,442 because a law firm that had formerly provided legal services to the FDIC had entered bankruptcy. The remaining amounts were primarily based on legal analyses that litigation would not be cost effective. Disallowed costs by the Division of Resolutions and Receiverships related to 14 audits of asset management and liquidation activities. Of the \$254,794 written off, \$163,705 was not collected because a contractor went out of business. The majority of costs disallowed by the Division of Administration relate to three billing audits of a contractor. Collections are in process due to an ongoing OIG investigation and litigation analysis. The \$123,614 written off by the Division of Information Resource Management (DIRM) related to a billing audit of a computer systems contractor. DIRM negotiated a settlement and release agreement in order to collect the majority of the disallowed costs. All disallowed costs we tested were adequately documented and reported to OICM.

Because we found no significant areas of weakness in FDIC management's implementation of corrective actions, we are making no recommendations in this report.