

Additional Help: 591, 592, 595, 625  
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# MPI OPERATING PROCEDURE

M/MPI OP-3 (Revision 2)

April 30, 2003

**Subject: Audit Recommendation Final Action (Closure) Procedures**

## **1. Introduction**

M/MPI determines when final action has been taken on recommendations based on written requests with justification from Audit Action Officers (AAOs). The purpose of this guidance is to

- a. Detail M/MPI procedures for determining when final action has been taken;
- b. Implement the requirements of the following Automated Directives System (ADS) Chapters:
  - 591 - Financial Audits of USAID Contractors, Grantees, and Host Government Entities
  - 592 - Performance Audits
  - 595 - Audit Management Program
  - 625 - Administrative Accounts Receivable; and
- c. Ensure that all analysts follow a consistent methodology when making determinations. By doing so, we can avoid confusion by Mission and USAID/W office personnel regarding the level of acceptable supporting documentation required to obtain final action on a recommendation and reduce our internal workload.

This guidance is not meant to be all-inclusive and recognizes that situations will occur from time to time that require special handling.

## **2. Receipt of Request for Final Action**

- a. Requests for audit recommendation final action are received electronically from Action Offices via a centralized "MPI Audit" mailbox. If they are received

through other means such as faxes, cables, or hard-copy memos, analysts must acknowledge receipt and provide them to the analyst responsible for logging all closure requests into the Consolidated Audit Tracking System (CATS). In addition, the analyst must remind Action Offices to forward all audit correspondence, including audit reports and final action requests, to the "MPI Audit" mailbox.

- b.** The analyst who is responsible for logging all closure requests into the CATS will perform the following:
  - 1. Establish a "Closure Request Log" in the CATS, including assigning action to the responsible analyst.
  - 2. Perform a cursory review of the contents of the audit file, ensuring that the file includes the audit report, an audit recommendation summary sheet, documentation of the management decision<sup>1</sup> (either in the audit report or a separate memo) and any other pertinent correspondence. If there is no file, one will be prepared. If documentation is missing, it needs to be collected.
  - 3. Prepare the Audit Recommendation Closure Action Sheet.
  - 4. Forward the complete file to the assigned analyst for final action.
  - 5. Keep a manual log or tickler file to keep abreast of closure requests with audit recommendations awaiting Office of Inspector General acknowledgement or concurrence of management decisions. When the management decision is received, log it in and provide it to the assigned analyst.

### **3. Analyst Final Action Determination**

- a. The assigned analyst will review the correspondence to ensure that all the documentation required to make an informed determination is included. Missing documentation will be obtained from the Bureau/Office, Mission, or Office of Inspector General, Audit,

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<sup>1</sup> A management decision is the evaluation of a recommendation by management and a decision concerning an appropriate course of action. USAID's policy is that the Agency and OIG will agree on this decision. OIG takes the lead in managing a recommendation up to this stage.

Headquarters Liaison and Coordination Division (IG/A/HLC). [NOTE: IG/A/HLC maintains copies of all audit reports and management decision documents. This IG office is also responsible for entering all audit reports, recommendations, and management decision dates into CATS.] A formal English translation of a document that the Mission submitted as supporting documentary evidence is not required as long as the Mission indicates in its memo how it addresses the audit recommendation.

- b. The analyst will also determine if the information in CATS is consistent with the documentation in the file. For example, sustained questioned costs shown in CATS should be the same as the amount detailed in the closure request memorandum and on the audit recommendation summary sheet.
- c. When all required information and documentation is available to make an informed determination, the analyst will initiate a review to determine if actions agreed upon in the management decision have been completed and documented, using the following standards. If pertinent documentation is missing, the assigned analyst will inform the analyst responsible for logging closure requests into CATS, who will, in turn, ask the Audit Management Team Leader to delete the closure request log.
- d. The analyst will close the audit recommendation(s) in a timely manner but no later than seven business days from the closure request date indicated in CATS. [NOTE: The analyst responsible for logging closure requests into the CATS must deliver the audit file to the assigned analyst the same day the closure request was entered into CATS. This is when the clock starts running for the assigned analyst. If the analyst determines that additional supporting documentation is needed, then the clock will stop running when he or she notifies the analyst responsible for entering closure requests into the CATS.]

#### **4. Recommendation Final Action Standards**

- a. The analyst will use the following standards in determining whether final action has been taken on audit recommendations in **Financial Audit Reports**:

- 1. **Questioned Costs**

- When a recommendation involves a monetary recovery, the basis for recovery will be documentary evidence reflecting one of three basic methods used to satisfy a debtor's indebtedness (see ADS 625, Administrative Accounts Receivable):

- (a) **Direct payment** by the debtor (either by electronic means or through the issuance of a check);
- (b) **Recoupment** from amounts due under the same award; and
- (c) **Administrative offset** from other funds due to the debtor.

Examples of acceptable documentary evidence are a copy of a check payable to the Agency, a general receipt for a cash payment, a voucher showing an administrative offset, or appropriate documentation for an in-kind collection. The issuance of a Bill for Collection is not sufficient for recommendation final action.

**Contracting or Agreement Officers (COs/AOs)** are responsible for determining the amount of debt to be recovered under an acquisition or assistance instrument. Such a debt determination may be in the form of a negotiated settlement or a unilateral debt determination. The CO/AO is responsible for forwarding a copy of the confirmation of the negotiated settlement or the final settlement letter to the appropriate USAID billing office for numbering and recording the debt as a receivable.

**Food for Peace Officers** (USAID officials responsible for managing the implementation of Title II programs and activities) are responsible for monitoring commodities lost or damaged or other circumstances that give rise to either the U.S. Department of Agriculture or the appropriate billing office as outlined in 22 CFR 211 and Handbook 9, Food for Peace. Food for Peace Officers also maintain follow-up files on third party claims that could result in a USAID receivable.

It is not common practice for financial audits to have management efficiency recommendations (funds to be put to better use). However, if such a recommendation does occur, the procedures detailed in section 4. b. 1 will apply.

## 2. **Eligible Debt for Transferring to Treasury**

USAID has executed an agreement with Treasury formalizing its participation in Treasury's cross-servicing program. As part of the cross-servicing program, Treasury collects eligible USAID debts by administrative offset or administrative wage

garnishment, refers claims as necessary to private collection agencies, reports delinquent debt to credit reporting bureaus, and reports uncollectible debts to the Internal Revenue Service.

USAID policy is that all debts (other than employee debt and sovereign and foreign debts) with Taxpayer Identification Numbers (TIN) are referred to Treasury as soon as possible 90 days after issuance of a bill for collection or demand letter.

**Debts with TINS:** The **Mission Controller** is responsible for transferring eligible debts with TINs other than U.S. Direct Hire (USDH) employee debt to the Central Accounting and Reporting Division of the Office of Financial Management (M/FM/CAR) 90 days after issuance so that these debts can be transferred to Treasury for cross-servicing. This 90-day period allows sufficient time for each USAID billing office to complete applicable due process requirements and allow the debtor an opportunity to pay the debt in full. When a debt is transferred to Treasury for cross-servicing, all USAID collection efforts are discontinued and the recommendation can be closed.

**Foreign Debt:** The **Mission Controller** is also responsible for transferring eligible non-TIN debts to M/FM/CAR 180 days after they become delinquent. Foreign debtors (debtors located overseas who do not have and are not entitled to a TIN) are subject to the Debt Collection Improvement Act (DCIA) provisions. USAID's proximity to foreign debtors and its established procedures allow for the offset and collection of most foreign debts. Foreign debts require the most aggressive collection permitted in the local environment to protect the U.S. Government's interest. They are an exception to the rule and are not referred to Treasury for cross-servicing 90 days after issuance. However, any foreign debt over 180 days delinquent that is not in the process of being collected must be transferred to Treasury.

**3. Write-Off<sup>2</sup> of Claims<sup>3</sup>; Compromise<sup>4</sup>, Suspension<sup>5</sup>, or Termination of Collection<sup>6</sup>**

When a Bill for Collection has been issued and entered in USAID's books as an Accounts Receivable, the required evidence for the write-off of claim or compromise, suspension or termination of collection will be a written approval in accordance with the procedures taken from ADS 625.

**Approval Authorities:**

Up to \$5,000:	Mission Directors and other Principal Officers
\$5,001-\$100,000:	CFO [Chief Financial Officer] (via M/FM/CAR)
Over \$100,000:	Department of Justice

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<sup>2</sup> Removal of the debt from the Agency's accounting records based on a determination by the CFO or the Treasury Department that a debt or a portion of a debt is uncollectible. If a debt is compromised, the amount no longer must be reported as written off. All write-offs must be made through the allowance account. Generally, a write-off is mandatory for delinquent debt older than two years unless documented and justified to OMB in consultation with Treasury. Once the debt is written-off, the agency must either classify the debt as currently not collectible (CNC) or close out the debt.

<sup>3</sup> An amount of money, funds, or property that has been determined by an agency official to be due to the United States by any person, organization, or entity, except another Federal agency. As used in ADS 625, the terms debt, claim, and account receivable are synonymous.

<sup>4</sup> To accept less than the full amount of the debt owed from the debtor in satisfaction of the debt based on the improbability of the recovery of the full amount and other practical considerations.

<sup>5</sup> The temporary cessation of collection activity of a debt for a specified period of time. The debtor is still required to pay the debt. Suspension of collection action is most appropriate in those cases where a billing office has reason to believe that the debtor will have future ability to repay the debt and that active collection of the debt at the present time would not be productive.

<sup>6</sup> To cease active efforts to enforce recovery of a debt. Termination is a legal procedure, which is separate and distinct from the accounting procedure of write-off.

**Mission Directors and other Principal Officers**

have been delegated by the CFO the authority to settle Agency debts up to \$5,000, except employee indebtedness resulting from overpayment of salary or allowances. Standards for compromise and termination of debts are included in 22 CFR 213. [Note: The billing office is responsible for sending debts in excess of \$5,000 or employee indebtedness to M/FM/CAR for settlement or further processing. These authorities are in addition to the inherent authority of the CO/AO to determine the amount of the debt under a contract or assistance instrument. If the debt is under a USAID agreement and the Mission Director is the CO or AO, the Mission Director can determine the amount of the claim without regard to the above limits.]

The **CFO** may compromise, suspend, or terminate collection action, including accrued interest, penalty, and administrative costs, if the debt principal does not exceed \$100,000. The CFO, through the Financial Management Service (FMS) of the Department of Treasury cross-servicing agreement and by direct action, refers to **Department of Justice (DOJ)** for litigation all claims on which aggressive collection actions have been taken but which could not be collected, compromised, suspended, or terminated. Referrals to DOJ are made as early as possible, consistent with aggressive Agency collection action, and within the period for bringing a timely suit against the debtor. Unless otherwise provided by DOJ regulations or procedures, USAID refers for litigation debts of more than \$2,500 but less than \$1,000,000 to the DOJ Nationwide Central Intake Facility as required by the Claims Collection Litigation Report (CCLR) instructions. USAID must refer debts of over \$1,000,000 to the DOJ Civil Division.

The **Chief, Bureau for Management, Office of Financial Management, Central Accounting and Reporting Division (M/FM/CAR)** has been delegated authority by the CFO to approve the removal of uncollectible amounts from the active accounts receivable through write-off; and to approve final close-outs that result in the termination of all collection activity and the elimination of the debts from all further servicing. [Note: Individual debt suspension or termination greater than \$100,000 requires the approval of the

Department of Justice. If USAID determines that a debt is plainly erroneously issued or clearly without legal merit, the Agency may terminate collection activity, regardless of the amount involved, without DOJ approval.]

4. **Internal Control and Compliance (Procedural)**

Procedural audit recommendations in financial audits of contractors and grantees deal with internal control and compliance findings. Due to the large volume of documentation normally required to support final action of procedural financial audit internal control and compliance recommendations, it is often not practical or cost beneficial to require the Missions and Bureaus to submit documentary evidence with their final action requests. Therefore, the basis for final action of financial audit internal control and compliance recommendations is a certification from the cognizant Contract or Grant Officer (CO/GO) that the agreed-upon actions in the management decision have been implemented.

For first-time procedural issues (i.e., a finding that has occurred for the first time) from financial audits, the basis for final action is the Mission's statement that it has personally observed the corrections. Alternatively, the subsequent year's auditor report indicating correction of the finding is sufficient documentary evidence. If the finding is a repeat finding that was supposedly already corrected, the analyst will then require additional information to close the audit recommendation beyond what was accepted when it was a "first-time" finding.

- b. The general standards to be used by the analyst when determining final action on recommendations in **Performance Audit Reports** are as follows:

1. **Management Efficiency Recommendations (Funds to be Put to Better Use)**

When a recommendation involves a monetary benefit resulting from a management efficiency, the basis for determining when final action has been taken will be the completion of all actions outlined in the management decision. This normally involves actions such as

- Deobligation or reprogramming of funds,
- Deduction in outlays,



- Cost avoidance (a non-collectible monetary issue such as interest lost by not putting funds in an interest bearing bank account),
- Establishing new or revised policies or procedures, and
- Other savings realized from implementing the recommended improvement.

If a performance audit report contains a questioned cost audit recommendation, follow the procedures detailed in section 4. a. 1.

2. **Procedural Recommendations**

The basis for final action of a procedural recommendation is evidence that the agreed upon action in the management decision has been implemented. Acceptable documentary evidence includes

- A statement from the AAO and documentation demonstrating that corrective action has been fully implemented; or
- A statement from the AAO that includes a legal opinion or other authorization for non-implementation of the recommendation.

5. **Revised Management Decisions**

In those cases when the AAO decides to implement a final action other than the action agreed to in the initial management decision, the AAO must submit the revised management decision to the OIG office that issued the report.

- a. If the recommendation is from a performance or financial-related audit, and the OIG agrees that the revised action still satisfies the recommendation's concerns, the action office will be notified within 30 calendar days that the recommendation has a revised management decision. If the OIG office does not agree with the revised action, the recommendation status will be changed to "No Management Decision" by OIG/A/HLC, and CATS will be revised to reflect the changed recommendation status. If the OIG office fails to take action on the request within 30 calendar days, a revised management decision will have been made.
- b. If the recommendation is from a financial audit of a contractor or grantee, the action office will be notified within 30 calendar days that the OIG acknowledges a

revised management decision. If the OIG office fails to take action on the request within 30 calendar days, a revised management decision will have been made.

## **6. Notification of Final Action Decision**

- a. An official final action memorandum will be prepared that documents the analyst's determination. The memorandum will include the following information:
  - The "SUBJECT" line will include the audit report title, number, and issue date.
  - The "REF" line will detail all relevant correspondence used to make the final action determination, including the OIG's or RIG's concurrence or acknowledgement of the management decision. [NOTE: For financial audits of contractors and grantees, the Contracting Officer's (CO's) determination is final and not subject to the OIG's approval for a management decision. To reinforce this concept, the OIG is requiring that its management decision memos be worded as "acknowledging that a management decision has been made", instead of "concurring with the management decision". Therefore, MPI management analysts will also use the same terminology in their correspondence.]
  - The body of the memorandum will include the recommendation number(s), a re-statement of the recommendation(s) from the audit report, the current status of the recommendation(s), the basis for the analyst's determination, and a summary section detailing the current status of all audit report recommendations.
  - The Audit Management Officer (AMO), AAO, and cognizant OIG or RIG will be copied on the memorandum.
  - The Audit Management Team Leader or Lead Analyst will initial and date the clearance line if the drafter is not the Lead Analyst for closing the audit recommendation or if the Lead Analyst is still in training.
- b. The analyst will sign the final action memorandum and file it in the audit folder. An electronic copy of the memorandum will be transmitted via e-mail to the Bureau or Mission. [Signatures and initials on the electronic memorandum will be represented by the symbol "/s/".] In addition to the signed hard copy memo, a copy of the

email transmittal and electronic final action memorandum (see attached sample) will be placed in the audit file.

- c. The analyst will provide the final action memorandum and the audit folder to the analyst responsible for entering closure requests, final action information, and other data into CATS and ensuring all documents are properly filed.

(Sample Final Action Memo)

April 7, 2003

MEMORANDUM

TO: USAID/Caucasus Controller, John M. Avila

FROM: M/MPI, Gloria J.A. White /s/

SUBJECT: DCAA Report on the Agreed-Upon Procedures for Evaluation of Compliance with Terms and Conditions under the Georgia Winter Heating Assistance Program (GWHAP) IV by PA Government Services, Inc. (PA) Audit Report No. B-121-03-001-D (January 31, 2003)

REF: (a) GKinney/Avila Memo dated 3/18/03  
(b) Lokos/Avila Memo dated 3/26/03

We have reviewed the referenced document for closure of Recommendations 1 and 2. The status is as follows:

**Recommendation No. 1:** We recommend that the USAID/Caucasus contracting officer review the changes authorized by the Cognizant Technical Officer and amend PA Government Services' contract to incorporate authorized approvals, as appropriate.

**Status:** Per Reference (a), the Contracting Officer amended the contract to revise the method of computing heating subsidies. A copy of the amendment is attached to Reference (a). Reference (b) indicates that RIG/B concurred with the management decision and action.

**Recommendation No. 2:** We recommend that the USAID/Caucasus contracting officer present the Cognizant Technical Officer (CTO) of PA Government Services' new contract with a memorandum detailing CTO's responsibilities, authorities and the limitations on those authorities.

**Status:** Per Reference (a), the Contracting Officer issued a memorandum detailing the CTO's responsibilities, authorities and the limitations on those authorities. A copy of the memorandum

dated 3/13/03 is attached to Reference (a). Reference (b) indicates that RIG/B concurred with the management decision and action.

**Summary:** Final action is complete for audit recommendations 1 and 2.

cc: RIG/B, NLocos  
USAID/Caucasus Regional Contracting Officer, GKinney  
E&E/OM, MRocha  
E&E/OM/FIS, ADoman  
E&E/OM/FIS, ABraxton

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