

CHAPTER 1-180 AUDIT RESOLUTION AND COST DISALLOWANCES

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1-180-00 What does this chapter do?

This chapter provides an overview of our policies and procedures for resolving audit findings related to assistance agreements awarded by us, the Office of Surface Mining Reclamation and Enforcement (OSM). It also describes how we may evaluate audit cost disallowances based on projecting audit findings to time periods not specifically examined by the auditors.

1-180-10 What audits and reviews are covered by this chapter?

- A. Office of Management and Budget (OMB) Circular A-133 requires recipients that expend \$500,000 or more in a year in Federal awards to conduct a single audit of the organization's financial statements and Federal awards. Audit issues for our assistance agreements normally come from the single audit process through the cognizant Federal agency, the lead Federal agency working with your organization. We will use the procedures in this chapter to resolve single audit issues.
- B. These procedures also apply to issues raised by other audits, such as the Government Accountability Office or the Department of the Interior Inspector General's Office. They also apply to other financial or management reviews of the assistance agreements with findings or recommendations which we must resolve.

1-180-20 What is our primary emphasis in resolving an audit?

- A. When auditors report deficiencies in an organization with which we have a continuing relationship, our primary emphasis is to ensure that the deficiencies are adequately corrected. We must ensure that the deficiencies will not occur again under this agreement or any future assistance agreements.
- B. If we disallow costs, we will limit the disallowance to costs incurred during (a) the organization's three fiscal years immediately preceding the starting date of the audit, and (b) subsequent periods up to the date the deficiencies are corrected.

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For example, if an audit of a grant for the period July 1, 2009, through June, 30, 2010, found deficiencies in a recipient's management system, and questioned cost amounts based on extending the findings to earlier or later grants, we would limit the disallowed costs as follows.

Date audit started:	December 12, 2010
Organization's three previous fiscal years:	July 1, 2007, through June 30, 2010
Date deficiencies corrected:	July 1, 2011
Limitation on cost disallowances:	July 1, 2007, through June 30, 2011

1-180-30 What process do we use to develop an audit resolution?

- A. We must resolve all audits in a timely and proper manner. Our awarding office will resolve audits within 60 calendar days of our receipt. The 60-day period allows 30 days for you, the recipient, to respond to the audit findings. In the remaining 30 days, we will review your response, develop an appropriate resolution of the issue, approve the resolution, and inform you and our agency officials.

- B. We receive the audit report and distribute it to the awarding office for review and resolution.
 - 1. Normally, the Department of the Interior Office of Inspector General (DOI-OIG) receives an audit report from your cognizant Federal agency or from the auditors. DOI forwards the audit to OSM's Office of Planning, Analysis and Budget (OPAB).
 - 2. OPAB reviews the report and forwards it to the appropriate Regional Director (RD) for review. If we have any issues to resolve, OPAB enters the report into OSM's audit tracking system.
 - 3. The RD forwards the audit report to the grants specialist who works with that recipient. The grants specialist must review the report. If we have no issues to resolve, the awarding office need not take any further action on the audit.

- C. We request your response to the audit findings.
 - 1. Our grants specialist will prepare a written request to you asking you to respond to the audit findings. The request must include a summary of the findings to be resolved, and a copy of the relevant portion of the audit report. We will inform you that your response is due back to us 30 days after you receive the request. Our request should be signed or approved by the official authorized to approve your assistance award. Our grants specialist must confirm the date you receive the letter, through the use of certified mail, a documented telephone conversation or other means. Our grants specialist will keep in contact with you throughout the 30-day response period, and provide technical assistance as needed.

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2. You may request an extension to the 30-day response deadline. Your request must be fully justified, with an explanation of the unusual circumstances which prevent your timely response. Your request must also include a schedule for the final response.
 3. Our awarding office may choose to approve or disapprove your request. If approval will delay resolution of the audit beyond the 60-day period, our grants specialist must notify OPAB of the reason for the extension, and the new audit resolution due date.
- D. You respond to the audit findings in writing.
1. Your audit response must state whether you concur or disagree with each finding or recommendation. If you concur, you should specify how and when you will implement corrections and system changes. If you concur that questioned costs should be disallowed, you must specify when you will pay back the funds for the disallowed costs.
 2. If you dispute a finding or recommendation or questioned cost, you should justify your position and offer any alternative information or supporting documentation. You should send the response to our grants specialist.
- E. If you do not respond within the 30-day deadline, our grants specialist may proceed on the basis of the available information to recommend resolution actions, and prepare the decision letter to be signed by our authorized official.
- F. We review your response.
1. In evaluating your response, the standard we apply is whether the costs are allowable, documented, and reasonable and justified. Factors such as the good faith of the organization, successful accomplishment of program objectives, or your ignorance of requirements should not be used as a basis for allowing costs which are unallowable. Our awarding office is not authorized to waive collection of unallowable costs.
 2. The auditor's findings may have been based on estimates or statistical sampling of a few documents, with the findings projected to the total population. If you present an alternative sampling methodology or analysis, we may choose to accept it.
 3. If the auditor questioned costs because you failed to request advance agency approval, but we would have approved the action if you had requested it, the official who would have approved the request may allow the questioned costs.
 4. If the information you submit is inadequate or inconclusive, our grants specialist may recommend disallowance of the entire questioned amount. Alternatively, our grants specialist may work with you to obtain more information.

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- G. We may have meetings and discussions with you before we make audit decisions.
1. If your response is inadequate, our grants specialist may contact you and request additional information or a revised response. Alternatively, the grants specialist or other staff may perform an on-site review of your records to acquire the needed information. However, the requirement for timely resolution of audits still applies. If these actions will result in a delay of audit resolution beyond the 60-day period, our grants specialist must notify OPAB of the reason for the delay and the new audit resolution due date.
 2. Our officials may need to meet with your officials to develop acceptable actions and schedules to resolve audit concerns or to design needed changes in procedures and systems. Written meeting notes must be kept. The decision letter resolving the audit must include agreements developed in these meetings.
 3. We have found that it is best to get your concurrence with all aspects of a proposed resolution before we make our decision. When possible, we will discuss any plan to require changes in your processes, or systems with you before we include it in our audit decision.
 4. If we decide to disallow costs, our awarding office will discuss with you how you will pay them. If appropriate, we will meet with you either before or after issuance of the decision letter to negotiate an extended payment plan for disallowed costs.

1-180-40 How do we process our audit decision?

- A. After full consideration of your responses and other pertinent information obtained, our grants specialist will recommend whether or not to allow any questioned costs, and what corrective actions we will require to resolve administrative findings. The official authorized to approve your assistance agreements must approve the resolution.
- B. We will document our audit decision and prepare a transmittal to send it to you.
1. Our awarding office will use the Audit Decision Form ([Exhibit 1](#) at the end of this chapter). to document all decisions made to resolve the audit. Our grants specialist, and the official authorized to approve our assistance awards must both approve the form. For each finding, the form will do the following.
 - a. Summarize the initial audit report finding.
 - b. Summarize your response.
 - c. Summarize any discussion or any other pertinent factors.
 - d. State the final decision.
 - e. Identify any corrective actions to be taken by you and include the schedule to implement them.
 - f. Identify any follow-up reviews or actions we will be doing.

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- g. Identify total disallowed costs and include a plan for collecting them.
 - 2. We will use a transmittal document to send the Audit Decision Form to you. ([Exhibit 2](#)) is an outline of a sample letter). The transmittal is prepared by our grants specialist and approved by the official authorized to approve your assistance awards. Our transmittal will do the following.
 - a. Identify the audit number.
 - b. Refer to the attached Audit Decision Form.
 - c. Specify payment procedure, address, and due date for any amounts owed. The due date should be 30 days after your receipt of the decision.
 - d. Identify any revised cost reports you must submit.
 - e. Summarize the appeal procedures you may use.
 - f. State that the resolution is final unless questioned by DOI OIG.
 - g. Identify an OSM contact for further assistance.
- C. We will distribute the Audit Decision Form and approved cover letter as follows.
- 1. Send the approved Audit Decision Form and transmittal to you. The grants specialist will confirm the date you receive them.
 - 2. Send the Audit Decision Form and transmittal to OPAB. They will send it to DOI-OIG for final approval of the resolution.
 - 3. If we will collect any disallowed costs, send the transmittal to our Division of Financial Management (DFM).
 - 4. File the approved Audit Decision Form and transmittal in our awarding office. It should be filed in the audit resolution file as well as in the official file for each assistance agreement affected.
- D. If we disallowed any costs, we will develop a written agreement with you confirming the payment plan included with the Audit Decision Form. Authorized officials of your organization and our awarding office must sign or approve the payment agreement. We must send a copy of the approved payment to DFM for collection. DFM will initiate collection proceedings according to the payment plan.
- E. If the audit decision calls for a follow-up review to confirm that corrective actions have been implemented, our grants specialist should schedule and perform the review as soon as feasible for the review topic. The grants specialist must notify the official authorized to sign our assistance awards and OPAB of the results of the follow-up review.

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- F. Upon repayment of all identified disallowed costs and implementation of all required corrective actions, our awarding office must notify you, and OPAB that the audit resolution is complete. OPAB must close out the audit in our audit tracking system.

1-180-50 How can you appeal our audit decision?

- A. If you do not concur with the awarding office's decision on an audit finding, whether fiscal, or administrative, you may appeal the decision to the RD of the appropriate Region.
1. You must send a formal appeal letter within 30 days after you receive the awarding office decision. Your appeal must include the reasons for contesting the audit decision and all information necessary for review of the appeal.
 2. Our RD should assign a coordinator for the audit appeal process. The coordinator should not have been involved in the initial decisions being appealed.
 3. The coordinator must provide you with written confirmation that we have received your appeal letter within three days of receipt.
 4. If you are appealing disallowed costs, the coordinator must notify DFM that you have filed an appeal. DFM will suspend collection procedures during the appeal, but late charges will continue to accrue.
 5. The coordinator should obtain comments on the appeal from our grants specialist and our authorized official who signed the initial audit decision, and from all other interested parties. The coordinator will provide to the RD all information needed to decide the appeal.
 6. The RD will make an initial decision on the appeal within 30 days of receiving your appeal. We will not send this initial decision to you. OPAB must concur with the decision before it becomes final. We should complete this coordination and review process within 30 days. Our final decision is due to you within 60 days of receiving your appeal.
 7. If we cannot issue the final decision within 60 days of receiving your appeal, the appeal coordinator will notify you and OPAB of the reason for the delay, and the revised decision date.
- B. If you do not agree with the appeal decision, you may appeal the decision to the Director of OSM for final resolution.

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Exhibit 1

Audit Decision Form

1. Audit Control Number:
2. Recipient:
3. Audit findings resolved: *(For each audit finding resolved, show the finding number, the agreement number(s), the original finding, the amount of costs questioned, the recipient's response, the resolution decision, and the amount of costs disallowed. Use space "A" below for the first finding resolved, and add another letter for each additional finding. Expand this section or use additional pages as needed.)*

A.

4. Total amount of costs disallowed: \$
Collection plan: *(Fully describe all elements of plan, including schedule for payment(s).)*

5. Approvals
Grants Specialist:

Signature Date

Authorized Approving Official:

Signature Date

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Exhibit 2

Sample Decision Transmittal to Recipient

Dear:

The purpose of this letter is to inform you of our resolution of the Single Audit of the State of _____, for the period ending _____, dated _____.

Enclosed is the Audit Decision Form detailing the resolution of each audit finding relating to the OSM assistance agreements.

The disallowed costs resulting from this audit total \$ _____. Please send a check in this amount payable to the Office of Surface Mining Reclamation and Enforcement to the following address by no later than [date] _____. If payment is not received by OSM prior to this date, interest charges will begin.

[grants specialist or payment address]

Please prepare revised [final] cost reports for agreements _____ [numbers] _____, and send them to the following address by no later than _____ [date] _____.

[report address]

If you wish to appeal any of these decisions, an appeal letter must be sent to the following address by [due date] _____.

Director, Regional Office
[address]

You may consider this resolution to be final unless notified otherwise by this office. If the Department of the Interior, Office of Inspector General questions any of these decisions, we may reopen the audit resolution

If you have any questions or we may be of any assistance, contact _____ [grants specialist] _____ at _____.

Thank you for your assistance with this audit resolution.

Sincerely,

[Official authorized to approve agreements]