

BY THE U.S. GENERAL ACCOUNTING OFFICE
**Chairman, Subcommittee On Legislation
And National Security, House Committee
On Government Operations**

**Disappointing Progress In Improving
Systems For Resolving Billions
In Audit Findings**

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RELEASED

Although Government agencies spend hundreds of millions annually to audit Federal programs and operations, most of them still lack effective systems for resolving audit findings. In 1978, GAO reported \$4.3 billion in unresolved findings at 34 agencies. This report shows the problem is worsening.

Following GAO's 1978 report, the Office of Management and Budget revised its policy guidelines emphasizing prompt and proper resolution of audit findings. Most agencies' systems, however, are not yet in compliance. GAO turned up numerous examples of agency failures to correct problems or improve operations as recommended by audit.

OMB needs to clarify its policy guidance on audit resolution and extend its oversight to make sure agencies comply with it. Agency management must be made accountable for taking appropriate actions to resolve audit findings.



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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

B-200473

The Honorable Jack Brooks
Chairman, Legislation and
National Security Subcommittee
Committee on Government
Operations
House of Representatives

Dear Mr. Chairman:

This report is our response to your June 10, 1980 request for us to determine if agencies have in place audit resolution systems that meet Office of Management and Budget revised guidelines and General Accounting Office and House Committee recommendations. It follows up on our October 1978 report on the same subject.

This report shows that while some progress has been made, the absence of effective audit resolution processes is widespread and still a serious problem. It points out that the dollar value of unresolved audit findings has grown, but still remains a conservative figure because many agencies do not track audit findings to final disposition.

As you requested, we did not obtain agencies' official comments on this report; however, the facts were discussed with personnel of affected agencies and their comments were incorporated as appropriate. As arranged with your office, we plan no further distribution of this report until 30 days from its date unless you publicly announce its contents earlier. At that time, we will send copies to interested parties and make copies available to others upon request.

Sincerely yours,

A handwritten signature in black ink, appearing to read "Thomas P. Blasko".

Comptroller General
of the United States

COMPTROLLER GENERAL'S REPORT
TO THE CHAIRMAN, SUBCOMMITTEE
ON LEGISLATION AND NATIONAL
SECURITY, COMMITTEE ON
GOVERNMENT OPERATIONS

DISAPPOINTING PROGRESS IN
IMPROVING SYSTEMS FOR
RESOLVING BILLIONS IN
AUDIT FINDINGS

D I G E S T

The Government is losing billions of dollars because agencies are not acting on audit recommendations to recover funds, avoid cost, and improve operations. Although Federal agencies' systems for resolving audit findings have improved somewhat in the past 2 years, progress overall has been disappointing.

MAGNITUDE OF THE AUDIT
RESOLUTION PROBLEM

In 1978, GAO identified \$4.3 billion in unresolved findings at 34 agencies involving potential recoveries, penalties, revenues, or savings. GAO now reports \$14.3 billion in unresolved monetary findings at these agencies. This represents a \$2.4 billion increase in nonregulatory audit findings and a \$7.6 billion increase in audit findings of possible overcharges by oil refiners and fuel suppliers to their customers. These unresolved energy regulatory audits represent potential rebates to customers from oil refiners and other fuel suppliers that violated energy regulations. They do not represent potential Federal budgetary savings. (See p. 7.)

GAO also now reports an additional \$10.5 billion in unresolved contract proposal audits and \$170 million in unresolved findings at agencies not in the 1978 report.

GAO considers the numbers to be conservative and believes they would be even higher if agencies kept better records of audit findings. (See pp. 6-7.)

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Agency audit reports also contained thousands of unadopted procedural recommendations that would improve Government operations and have a substantial dollar impact as well.

It cannot be assumed that all dollars associated with unresolved audit findings are potentially returnable to the Treasury. Findings are sometimes settled without a return of funds, or are not concurred with by program officials for valid reasons. Other findings result in a cost avoidance. The unresolved \$10.5 billion in contract proposal audit findings, which identify avoidable cost, falls into this category.

IMPROVEMENTS NEEDED IN AUDIT
RESOLUTION SYSTEMS

In response to GAO's 1978 report the Office of Management and Budget (OMB) revised Circular A-73, its policy guidelines on audit resolution. With some exceptions, these guidelines provide a solid framework for effective audit resolution. Also, most of the 71 agencies GAO studied have taken some action since 1978 to improve their audit resolution systems.

Still, much more needs to be done to ensure prompt and proper audit resolution. Agency systems must include provisions for:

- maintaining accurate records of findings until final disposition;
- establishing adequate accounting and collection controls over amounts determined to be due as a result of audit;
- elevating disagreements and delays to an independent arbiter;
- providing complete and accurate reports to management;
- applying Circular A-73 to all audits;

- deciding the disposition of audit findings in 6 months and establishing final resolution schedules;
- ensuring that decisions to reject findings are consistent with laws and regulations; and
- coordinating corrective action with other affected agencies.

GAO's detailed review at 10 agencies demonstrates how a failure to address these provisions results in delayed or improper audit resolution. For 193 of 249 audit findings GAO examined, officials failed to act promptly or properly to correct problems or improve operations.

The following examples illustrate what can happen when agency officials fail to follow up properly on audit findings:

- Over a 3-year period a subsidy recipient received excess payments of almost \$100,000, but did not refund the amount as required. Agency auditors considered the finding resolved in April 1980 based on evidence that the accounting division was advised of the debt 3 months earlier. When GAO checked in October 1980, the debt was still not under accounting control and no effort had been made to recover it. More than a year has passed since the accounting division was informed of the debt, during which time an additional \$258,000 was paid to the subsidy recipient.
- Agency officials asked a grantee to respond to an audit report that questioned \$298,000. The grantee never replied. More than a year later the agency warned the grantee that funding would be suspended if it did not reply. The grantee still did not respond, yet it was awarded another \$90,000. Since the audit report was issued the grantee has received over a half-million dollars. Meanwhile, problems with the

grantee continue; the next year's audit questioned the allowability of another \$71,000 and reported excess funds on hand of \$684,000.

--Auditors reported a subsidy program's goal of reducing grain production was being subverted because farmers were taking dry, barren land out of production rather than irrigated, fertile land. In one State, over a 1-year period, farmers received windfall payments of \$8.4 million. Agency administrators disagreed with the finding and indicated a willingness to live with the inequity. Windfall payments could occur again in 1981.

--In January 1979 auditors reported that two Federal agencies had both paid a day care operator \$478,000 for the same food service costs. Officials of the agency receiving the report took no action, claiming the dual funding was not their responsibility. Their counterparts at the other agency claimed that they were not told about the dual funding. The funds have not been recovered and the day care operator is still funded by both programs.

FACTORS IMPEDING PROMPT AND EFFECTIVE AUDIT RESOLUTION

Prompt and effective resolution of audit findings is dependent upon:

- OMB providing sufficient leadership to agencies for improving audit resolution systems (See pp. 24-25.),
- Federal executives and managers being accountable for audit resolution (See pp. 25-27.), and
- auditors consistently and appropriately developing and reporting audit findings and questioning the adequacy of administrator's resolution proposals and actions (See p. 27.).

RECOMMENDATIONS TO THE DIRECTOR,
OFFICE OF MANAGEMENT AND BUDGET

The Director, OMB should:

- Include oversight of agency audit resolution practices in the budget review process to provide (1) an assessment of progress in establishing, revising, and implementing resolution systems, (2) an adjustment of agency budget allowances where appropriate, and (3) a report to the Chairpersons of the House and Senate Committees on Appropriations on progress and action plans.
- Clarify Circular A-73 so that (1) it provides that periodic reports to agency heads include complete details on the resolution of findings and on the age and amounts of unresolved findings, (2) it applies to all audit reports, including contract, subgrantee, and regulatory audits, and (3) written determinations and the legal basis for nonconcurrency with audit recommendations apply to both procedural and monetary findings.

RECOMMENDATIONS TO HEADS OF
FEDERAL AGENCIES

Federal agencies should:

- Further improve audit resolution policies, procedures, and practices to comply with the intent and spirit of OMB guidelines, designating a top level manager to coordinate these efforts and prepare progress reports for OMB.
- Take legal or administrative actions against the parties involved whenever audit findings concern fraud, waste, or abuse of Federal funds.
- Make the timeliness and quality of audit resolution a written performance standard and a factor in determining bonuses for Senior Executive Service members and merit pay for supervisors.

RECOMMENDATION TO INSPECTORS GENERAL
AND DIRECTORS OF AUDIT ORGANIZATIONS

The inspectors general and directors of audit organizations should develop internal procedures and controls for efficient and effective planning, coordinating, reviewing, and reporting of audit work and audit followup activities in accordance with GAO and other professional standards.

AGENCY COMMENTS

At the request of the Legislation and National Security Subcommittee, House Committee on Government Operations, GAO did not obtain agencies' official comments on this report. However, GAO discussed the facts with personnel of affected agencies and incorporated their comments as appropriate.

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ABBREVIATIONS

CSA	Community Services Administration
EPA	Environmental Protection Agency
GAO	General Accounting Office
GSA	General Services Administration
HHS	Department of Health and Human Services
HUD	Department of Housing and Urban Development
NASA	National Aeronautics and Space Administration
OMB	Office of Management and Budget
VA	Veterans Administration

CHAPTER 1

INTRODUCTION

This report follows up on our earlier report "More Effective Action Is Needed On Auditors' Findings--Millions Can Be Collected Or Saved" (FGMSD-79-3, Oct. 25, 1978). In that report we identified, at 34 agencies, nearly 14,000 audit reports containing unresolved findings involving more than \$4.3 billion in potential recoveries, penalties, revenues, or savings. Several thousand reports also contained unadopted recommendations to improve Government operations.

The Comptroller General testified on the report before the Senate Committee on Appropriations and the Subcommittee on Legislation and National Security, House Committee on Government Operations. In June 1979, based on the Subcommittee hearings and our report, the House Committee on Government Operations issued a report entitled "Failure of Government Departments and Agencies to Follow Up and Resolve Audit Findings."

Agreeing that the situation described in our report was intolerable, the Director, Office of Management and Budget (OMB), directed all agency heads to immediately begin strengthening audit resolution. After consulting the Congress and the Comptroller General, OMB made audit resolution one of nine issues in the former administration's financial priorities program. In December 1979, OMB issued new policy guidance to agency management on audit resolution in a revised Circular A-73.

In June 1980 we reported on the status of our followup efforts to the Chairman of the Senate Appropriations Committee. That Committee included language in the Supplemental Appropriations and Rescission Act, 1980, (Public Law 96-304, July 8, 1980) which requires agencies to resolve pending audits not later than September 30, 1981, and to decide on the disposition of any new audits involving questioned costs within 6 months.

THE ROLE OF AUDIT

Federal departments and agencies manage scores of programs worldwide, costing billions of dollars annually. They also spend almost half a billion dollars on audit each year. The audit function plays a vital role in assisting management by independently evaluating program activities and recommending improvements. It uniquely supplements internal management controls and is essential for determining whether

funds are spent efficiently, economically, and effectively and in a manner consistent with laws, regulations, and program objectives.

Audits may be performed by the agencies' own auditors, other Federal agency auditors under special agreements, independent public accountants, or State or local auditors under the direction of agency auditors. Within the Federal audit community, audits of the agencies' own records and operations are called internal audits. Audits of grant, contract, loan, and subsidy records are called external audits. Audits of companies', organizations', and individuals' compliance with Federal laws and regulations are called compliance or regulatory audits.

OBJECTIVES, SCOPE, AND METHODOLOGY

This review responds to a June 1980 request by the Chairman, Legislation and National Security Subcommittee, House Committee on Government Operations, that we determine if agencies have audit resolution systems in place that comply with OMB Circular A-73 guidelines and GAO and House Committee recommendations. The Chairman asked that we look especially for system deficiencies that permit findings to remain unresolved for long periods or to be resolved improperly in favor of contractors or grantees involved. He also wanted to know why deficiencies have not been corrected. (See app. I.)

OMB Circular A-73 states that agency systems must provide for

- designating officials responsible for audit resolution,
- maintaining accurate records of all significant findings until final resolution, including appropriate accounting and collection controls over amounts due the Government,
- making written determinations on all findings within 6 months of report issuance, with final resolution proceeding as rapidly as possible,
- assuring that findings are resolved according to laws and regulations, including written justification and the legal basis for decisions not to seek recovery of amounts due as a result of audit,

- forwarding to the head of the agency or a designee for resolution any major disagreements between audit and program officials and any findings whose disposition is not decided within 6 months,
- reporting semiannually to the agency head on the status of audit reports over 6 months old, the number of reports or findings resolved during the period, collections or offsets, and demands for payment,
- periodically evaluating whether the audit follow-up system is adequate and results in prompt and proper resolution of findings, and
- coordinating corrective action with other affected organizations.

These guidelines cover most GAO and House Committee recommendations. We also recommended that reports to the agency head include the age and amounts of unresolved findings and the results of findings closed during the period. The House Committee further recommended the following:

- The OMB Director should require agencies to submit for approval procedures for tracking and resolving audit reports and any revisions.
- The executive departments and agencies should provide tracking and reporting systems that separately identify questioned costs recommended to be recovered from contractors or grantees and that such recoveries be separately identified in agency accounting records.
- The Director of OMB should require that the periodic reports of the Inspectors General of the executive departments and agencies include summary data on the results of significant findings closed during the report period and significant problems in audit resolution.
- The Secretary of Defense should order a review of the adequacy of tracking, follow up, and resolution of audit reports in the Department of Defense. The review should evaluate the propriety of procurement officials' actions on audit reports and the adequacy of management reporting systems for audit tracking and resolution. The results of the review should

be reported to the Committee on Government Operations by December 31, 1979.

--The Director, Office of Personnel Management, should require that the executive departments and agencies include the promptness and adequacy of audit resolution in the performance criteria of Senior Executive Service officials responsible for acting on audit reports.

The Committee's report also highlights the importance of including the promptness and adequacy of audit resolution in the performance criteria of agency program and supervisory officials.

While this report is a followup to our 1978 report, its scope has been broadened to provide a Government-wide perspective. Our last report included 34 major agencies, this report includes 73 agencies. It also covers contract proposal audits and some regulatory audits, both of which should be subject to Circular A-73.

To complete our evaluation we requested 73 agencies to describe their audit resolution systems and the steps taken since our 1978 report to improve them. As before, we also asked them to provide statistics on the volume and type of audit reports, audit accomplishments, and age and amounts of unresolved findings. We received statistical data for all agencies and information on audit resolution systems for 71. Because of differences in agencies' recordkeeping systems, the information provided does not cover the same time periods, and in some cases, is not complete.

Based on written responses, submitted documents, and telephone contacts with high level audit and program officials and their staff, we evaluated whether agencies' policies and procedures for audit resolution complied with OMB Circular A-73 guidance and GAO and House Committee recommendations. To meet criteria for compliance, we expected written policies and procedures to address each applicable element of the guidelines and recommendations. With respect to the periodic reporting element, we examined reports and compared actual practice with the requirements. Some agencies indicated their practices were in compliance, but they had no documentation. Others had draft policies and procedures which had not been formalized, some of these had been in draft form for months.

To compare agency practices with policies and procedures, we selected and examined 249 audit findings at 10 agencies. We focused on significant findings involving large questioned costs or potential savings reported since our October 1978 report. We included findings which were considered closed during fiscal 1980 and findings which had been open 6 months or longer at the time of our review. We also reviewed agency reports addressing agency audit resolution practices. The 10 agencies are:

- Department of Agriculture,
- Department of Air Force,
- Department of Commerce,
- Community Services Administration,
- General Services Administration,
- Department of Housing and Urban Development,
- National Aeronautics and Space Administration,
- Department of the Navy,
- Department of Transportation, and
- Veterans Administration.

This selection provided a cross section of major Federal grant, contract, subsidy, and loan programs and internal agency operations.

Finally, we examined the status of 26 findings cited during the 1979 House hearings as examples of agency failures to resolve findings promptly or properly. Agencies have since taken action on each of the findings; final resolution action is pending on some.

Since our last contacts with agency officials in late 1980 and our compilation of the data for this report, agencies may have made changes in their resolution systems bringing them more in compliance with OMB guidelines. We expected such activity but it was impractical for us to recognize each change in this report.

Our primary focus was Government-wide, not on individual agencies. Agencies cited should be considered as typical examples, not as exceptions.

CHAPTER 2

CONTINUING WEAKNESSES IN AUDIT RESOLUTION

SYSTEMS ARE COSTING BILLIONS

Widespread absence of effective audit resolution systems continues. Cost to the Government in revenues not collected, funds not recovered, and savings not realized is in the billions. The Office of Management and Budget Circular A-73 provides agency management guidance which, if followed, could solve much of the problem. Since our 1978 report, most agencies have taken steps to improve their audit resolution systems and to comply with the Circular. Still, more substantive and extensive action is needed on the part of OMB and agencies.

MAGNITUDE OF THE AUDIT RESOLUTION PROBLEM

Federal agencies reported to us over 28,000 audit reports containing unresolved audit findings involving potential recoveries, penalties, revenues, or savings of \$24.9 billion. (See app. II.) Some \$5.3 billion of this total has been unresolved for over 1 year. These reports also contained thousands of procedural recommendations that would improve Government operations and have a substantial dollar impact as well.

The unresolved amount of \$24.9 billion involves 73 agencies and includes regulatory audits and contract proposal audits which account for the \$20 billion increase over the \$4.3 billion cited in our 1978 report for 34 agencies, as the following table shows.

<u>Major category</u>	<u>Unresolved monetary findings</u>	
	<u>1978 report</u>	<u>This report</u>
	-----millions-----	
Nonregulatory audits--		
original 34 agencies	\$2,582	\$ 4,936
Energy Department regu-		
latory audits	1,762	9,343
Contract proposal audits	-	10,482
Additional agencies	-	170
Total	<u>\$4,344</u>	<u>\$24,931</u>

Also, unresolved amounts increased because some agencies installed tracking systems or improved existing ones. For example, the Air Force total increased from \$26.4 million to \$470 million because it now tracks potential monetary findings until agency auditors validate corrective action.

Many dollars associated with unresolved audit findings are not potentially returnable to the Treasury. Findings are sometimes settled without a return of funds, or for valid reasons are not concurred with by program officials. Some findings identify costs that will not be incurred. The unresolved \$10.5 billion in contract proposal audit findings, which identify avoidable costs, fall in this category. Also, much of the \$9.3 billion in unresolved Energy regulatory findings represents potential rebates to customers from oil refiners and other fuel suppliers which violated energy regulations.

We think the unresolved audit findings of \$24.9 billion would be even higher if all agencies had accurate, current, and complete records.

IMPROVEMENTS NEEDED IN AUDIT RESOLUTION SYSTEMS

Improper and delayed audit resolution is widespread and worsening and is generally caused by agencies' failure to comply with OMB Circular A-73. Although most of the 71 agencies we studied have taken some action since 1978 to improve their audit resolution systems, much more needs to be done to ensure prompt and proper audit resolution, specifically:

- Audit resolution systems must be established and maintained for an accurate, current, and complete record of all audit findings until final disposition (40 agencies).
- Procedures must be established and followed for accounting and collection controls over amounts determined to be due the Government (37 agencies).
- Procedures must be established and followed for elevating to agency heads, or their designees, disagreements between program managers and auditors and reports on which responsible officials have not provided a written determination within 6 months (49 agencies).

- Periodic reports must be made to the agency head on the age and amounts of unresolved findings and results of findings closed during the period (56 agencies).
- Systems must cover findings in all audits of agency activities, including those in audits of contractors, subgrantees, and regulated activities (16 agencies).
- Decisions to act on audit findings must be made within 6 months and final disposition should proceed as rapidly as possible (22 agencies).
- Findings must be resolved according to laws and regulations, including written justification and the legal basis for decisions not to act (50 agencies).
- Procedures must be established for coordinating corrective actions with other affected agencies or organizations (28 agencies).

The first five of these improvements were also cited in our 1978 report. Appendix III specifies the agencies at which each deficiency exists.

Our detailed testing at 10 agencies demonstrates how a failure to address these provisions results in delayed or improper audit resolution. For 193 of 249 audit findings examined, officials failed to act promptly or properly to correct problems or improve operations.

Recent agency reports also describe similar faulty audit resolution systems, particularly regarding long delays and improper management resolution action.

As shown in the table on the following page, problems existed to some degree at all 10 agencies and involved both external audits of grants and contracts and internal audits of agency operations.

<u>Agency</u>	<u>Findings reviewed</u>	<u>Monetary amount</u> (thousands)	<u>Resolution actions slow or improper</u>	
			<u>Number of findings</u>	<u>Amount</u> (thousands)
Agriculture	27	\$ 39,241	22	\$ 37,144
Air Force	19	14,720	6	1,811
Commerce	33	4,747	30	3,759
Community Services Administration (CSA)	31	2,966	27	2,848
General Services Administration (GSA)	14	1,458	7	644
Housing and Urban Development (HUD)	42	11,145	36	10,839
National Aeronautics and Space Administration (NASA)	15	1,071	6	679
Navy	12	20,340	8	14,978
Transportation	28	21,458	23	16,578
Veterans Administration (VA)	<u>28</u>	<u>13,258</u>	<u>28</u>	<u>13,258</u>
Total	<u>249</u>	<u>a/ \$130,405</u>	<u>193</u>	<u>a/ \$102,540</u>

a/Totals do not add due to rounding.

The specific improvements needed, based on our study of 71 agencies' audit resolution systems, are discussed in detail below. They are illustrated by several examples from our testing at 10 agencies and from agencies' internal reports.

Maintain accurate records of findings until final disposition

To ensure that actions agreed to by management are taken, audit activities must establish and maintain accurate, current, and complete records of all audit findings until final disposition. When audit findings are not tracked or are prematurely dropped from the tracking system, administrators often overlook final settlement, or assume that findings are completely resolved when they are not. Findings should not be considered resolved until auditors verify that deficiencies have been corrected.

A few agencies do not track audit findings at all, while more commonly, agencies consider findings resolved when management agrees to implement recommendations. For example,

the Departments of Army and Navy, which together reported over \$1 billion in monetary findings in fiscal 1979, cannot describe how findings are resolved. HUD tracks potential recoveries until an administrative decision is reached and then drops them from the tracking system. Using this procedure, HUD reduced a large backlog of findings and reported no monetary findings open more than 1 year. Other examples of resolution following this practice include:

- Agriculture Department auditors reported that \$585,000 in food costs could be saved annually by merging two food programs in a certain county and giving program recipients food commodities instead of vouchers for food purchases. The program administrator did not address the finding, but the auditors considered it resolved and claimed a savings. The programs were merged, but the recipients still received vouchers rather than commodities, thus, no savings.
- VA auditors reported that a flaw in a computerized system granted duplicate pension payments to about 300 beneficiaries. They considered the finding resolved when management detected \$1.4 million in duplicate payments, established them as accounts receivable, and instituted controls to prevent a recurrence. In so doing, the auditors acted contrary to VA procedures which call for tracking dollar findings until the funds are collected or the debt forgiven. Moreover, they did not verify whether the corrective action was effective in preventing future double payments.
- Over a 3-year period, a HUD subsidy recipient received excess payments of almost \$100,000 but did not refund the amount as required. Agency auditors considered the finding resolved in April 1980, on evidence that the HUD accounting division had been advised of the debt 3 months earlier. When we checked in October 1980, the debt was still not under accounting control and no effort had been made to recover it. Since the accounting division was informed of the debt in January 1980, an additional \$258,000 subsidy has been paid to the debtor. Had accounting control been established, the debt would have been deducted from the additional payment. Two other cases, involving excess subsidy payments totaling \$169,000, were similarly mishandled.

--Auditors reported that one Navy disbursing center lost \$2.1 million in cash discounts during a 3-year period by processing invoices too slowly. Management concurred, the Navy issued a notice emphasizing the need to process invoices quickly, and the finding was considered resolved. The notice did not correct the problem, however, the center reported \$673,000 in lost cash discounts for the first 10 months of fiscal 1980.

--The situation at the Department of the Army has changed little since July 1977 when we reported that the Army's resolution process did not provide assurance that deficiencies identified by internal audits were promptly corrected. 1/ Instead of using Army auditors to followup and verify corrective actions, the Army relies on a small group in its Office of Inspector General for that purpose. Although this group does not seem to verify corrective actions in depth, it concluded, in fiscal 1979 that management had not completed corrective action on 160 of 555 selected findings.

Establish adequate accounting
and collection controls

Accounting and collection controls are necessary to ensure that all amounts determined to be due the Government as a result of audit are established as accounts receivable and recovered in accordance with the Federal Claims Collection Standards. Auditors identify amounts due the Government when, for example, grantees spend Federal funds in violation of regulations, program recipients and contractors receive duplicate payments or overpayments, or buyers are underbilled for purchases.

While the majority of agencies reviewed now require that accounting and collection controls be established for amounts due as a result of audit, many do not. CSA disallows several million dollars a year in costs questioned by audits but seldom requires grantees to return the disallowed amounts. The Economic Opportunity Act of 1964, as amended, permits CSA to "recover" these debts

1/"Why The Army Should Strengthen Its Internal Audit Function"
(FGMSD-77-49, July 26, 1977.)

through increases in the grantees' required contribution to the current or the next year's grant. However, CSA does not establish accounting control over these debts.

Also, officials at some agencies have adequate policies, but do not always follow them. In June 1980 the Department of Health and Human Services (HHS) auditors reported that the Health Care Financing Administration was not recording sustained audit disallowances as receivables in accounting records--\$19.3 million over a 9-month period--or recovering them according to the Federal Claims Collections Standards. Agriculture auditors reported in 1980 that the Food and Nutrition Service had not developed an effective system to quickly resolve and collect program losses cited in audit and other reports. Thus, 357 reports up to 5 years old contained potential claims totaling \$60 million which have not been resolved or collected.

We considered resolution improper if the agency did not establish accounting control over amounts due as a result of audit and attempt recovery in accordance with Federal Claims Collection Standards. Some actions to settle audit disallowances or otherwise recover amounts due as a result of audit were questionable. Of the 249 findings examined, 48 involved amounts due. We concluded that accounting and collection controls were improper in 28 cases, totaling \$3.6 million. The following are examples.

- GSA management sustained a finding that a lessor was improperly paid \$377,000 for space alterations the lessor was obliged to make without charge. The company has appealed this decision. In the meantime, the \$377,000 should be recorded and maintained in a GSA claims receivable register, but it is not.
- An Agriculture program official agreed with auditors that a nutrition program sponsor was overadvanced \$118,000 that should be returned. Contrary to Department procedures, however, the debt was not placed under accounting control, and recovery action did not begin until after our inquiry.
- Commerce auditors stopped tracking an audit finding and claimed a \$161,000 savings in November 1979 when the agency sent a letter to a contractor requesting reimbursement. No accounting and collection controls were established over this debt and no funds were recovered.

Elevate disagreements and delays
to an independent arbiter

Key to ensuring prompt and proper resolution of audit findings is a procedure for elevating to the agency head level major findings on which audit and program officials disagree and any findings for which officials have not determined disposition within 6 months. Although most agencies have designated individuals or panels to settle disputes and decide unresolved issues, their procedures or practices do not satisfy OMB guidelines.

Some agencies like the Environmental Protection Agency (EPA) exempt contract audit findings on the basis that decisions of contracting officers are not subject to arbitration or review. Other agencies have arbitration procedures, but they do not include a timeframe for elevating disputes and delays. Still other agencies elevate issues to a higher level of program responsibility, but that level is not always sufficiently independent. Also, some agencies have policies that are not effective because (1) auditors do not evaluate the program officials' determinations, (2) auditors do not routinely refer findings to arbiters which programs officials have not responded to in 6 months, or (3) arbiters do not act promptly. Some of these deficiencies are illustrated below.

- At the Commerce Department, major disagreements on external audit findings should be referred to the Controller. Although Commerce auditors disagreed with program administrators' rejection of two findings involving the improper spending of \$189,000 in leftover grant funds, over 15 months had passed and they had not referred the situation to the Controller.
- The Air Force has procedures for elevating disagreements between auditors and program officials. However, auditors simply noted that management rejected its finding that at least \$177,000 a year could be saved if two dining facilities were merged.
- GSA auditors did not evaluate the actions taken to resolve a finding that questioned the acquisition of \$131,000 in art objects. The objects were obscured by cabinets and partitions and were allegedly purchased illegally. GSA purchased the artwork to induce a reluctant agency to move into the space. GSA's General Counsel ruled that, although improper, the purchase was not illegal. Management also issued

new guidelines on the procurement of artwork but made no effort to deal with the officials who bypassed procurement regulations and acted without clear authority to induce an agency to move. The artwork was removed from the leased space and is gathering dust in a GSA warehouse.

--VA auditors reported that the workload did not justify a medical center's renal laboratory and that the same services could be provided by the center's central laboratory. As a result, the planned purchase of almost \$74,000 of equipment was not needed. Management considered the finding but later informed the auditors that the laboratory would not be closed and the equipment was purchased. The auditors disagreed with management's decision but planned no further action at the time of our review.

--A Defense Contract Audit Agency auditor disagreed when a contracting officer rejected most of a finding that a contract was overpriced by \$853,000 because a contractor submitted defective pricing data. The objections were never formally presented or discussed with procurement officials or superiors. In May 1979 we reported that differences between contracting officers and auditors are rarely reported to higher levels. 1/

Provide complete and accurate reports to management

OMB Circular A-73 requires that agency audit resolution systems provide for semiannual reports to the agency head on the status of all audit reports over 6 months old; the number of findings resolved during the period; and the collections, offsets, and demands for payment made. Even though few agencies meet these requirements, the requirements are not sufficient to ensure that management is adequately informed of resolution activity. Reports should indicate the age, and where applicable, the amounts of all audit findings over 6 months old and the results of findings resolved during the period. For monetary findings, the results of resolution action refer to the total dollar findings questioned, including those accepted and rejected. For

1/"The Effectiveness of the Defense Contract Audit Agency Can Be Improved" (FGMSD-79-25, May 10, 1979).

those accepted, reporting should include the amount recovered, offset, and written off and the amount for which payment was demanded but collection was not made.

Many agency heads do not receive complete and accurate reports on audit results and the status of unresolved audit findings because tracking and control systems are inadequate. Few agencies are able to report the ultimate disposition of either monetary or procedural findings. Those that close findings before corrective action is verified overstate accomplishments and understate unresolved findings. For example, according to semiannual reports of the Inspector General, the Labor Department resolved \$41.6 million in questioned costs and other monetary findings during a recent 12-month period. The reports give no clues as to amounts that were sustained, collected, or written off, nor could the agency provide these numbers. Other examples of report deficiencies follow:

- The semiannual report to the GSA Administrator covers findings in internal audit reports but excludes findings in contract audit reports. GSA contract audits are numerous and involve large dollar amounts. In fiscal 1979 GSA issued 240 contract audit reports questioning \$16.4 million.
- HUD's Inspector General prepares for the Secretary and other top officials a monthly statistical report which includes an aging of unresolved findings, but no aging of amounts, and the total number of findings resolved, but no information on how they were resolved. The semiannual report to the Congress has some data on audit accomplishments, but it is distorted and overstated because monetary findings are considered resolved before amounts due are actually recovered.
- A monthly report to the head of CSA summarizes the age and amount of unresolved monetary findings and total costs allowed and disallowed by fiscal year. The report is deficient, however, because it ignores procedural findings and does not report how disallowed costs were settled.
- HHS auditors reported that the Office of Education did not include, as required, audit disallowances of \$3.7 million in reports to top management.

Apply OMB Circular A-73 to all audits

Some agencies do not apply Circular A-73 to contract, subgrantee, and regulatory audits and cannot, therefore, ensure that findings are resolved properly and promptly.

Include contract audits

Several agencies--most notably the Department of Defense, EPA, and VA, believe that findings in all contract audit reports should be exempt from some Circular A-73 provisions. Disagreement over this point has delayed issuance of a Defense Department Directive drafted in late 1979 which would substantially meet the OMB guidelines. The directive would institute a uniform system for tracking and resolving significant findings reported by departmental internal and contract audit organizations, inspectors, investigators, and internal review groups. In fiscal 1979, the Defense Contract Audit Agency issued 54,700 reports with more than \$12 billion in monetary findings. The majority of these reports were audits of contract pricing proposals, but some were of incurred cost and defective pricing.

Various management levels in the Defense Department, notably the Joint Logistics Commanders, object to including contract audit findings in the system. Air Force officials contend that contract auditors' findings and recommendations are advisory and the contracting officer is free to accept or reject them without justification to the auditor or some higher official. They also balk at other features of the proposed system, such as semiannual reporting of results, which they dismiss as too costly. Because development of a departmentwide audit resolution system has been stalled, the Defense Department and the three services are independently working to improve their own processes.

Include subgrantee audits

Millions of dollars are questioned in audit reports on subgrantee operations. These findings deserve the same careful consideration as any audit findings, but for the most part, agencies are not aware of how they are being resolved. Agencies are not routinely including these findings in their own audit resolution systems, nor are they ensuring that grantee audit resolution systems meet the requirements of Circular A-73. Instead they have been relying on grantees' compliance with OMB Circulars A-102 and A-110 which require that grantees have systems for promptly and properly resolving audit findings.

For example, a State agency that administers Title I of the Elementary and Secondary Education Act has several hundred subgrantees. These subgrantees are supposed to arrange for federally financed annual fiscal and compliance audits. In May 1980, however, HHS auditors reported that the State was not resolving findings in subgrantee audit reports promptly or appropriately. They reported that more than 6 months after the reports were received the vast majority had not even been reviewed. When report reviews finally occurred, they frequently did not result in corrective action. For instance, not until HHS auditors brought it to their attention did State administrators attempt to recover \$300,000 of leftover project funds.

Several other major agencies also rely on grantees to recover disallowed amounts from subgrantees and to ensure that subgrantees adhere to administrative and regulatory requirements. Transportation and Labor officials said they would wait until the agency auditors' next review of the grantee--sometimes several years away--to determine what actions the grantee took to resolve audit issues. Unsound corrective actions as the following may go unnoticed for long periods.

--In February 1980 the Transportation Department reported on its audit of grants to a State's traffic safety committee. Over a 17-month period the grantee completed audits of 118 subgrants totaling \$16.5 million. Transportation auditors reported that the grantee's justification for allowing questioned costs was not always appropriate. For instance, the grantee should not have allowed \$682,000, questioned because a subgrantee spent it after a 6-year time limit for using project funds.

--A Labor Department audit similarly reported that a State grantee was lenient in allowing costs questioned in subgrantee audit reports. The grantee wrongly asserted that it had the authority to allow or disallow any questioned costs under \$100,000 without Labor's approval. The grantee's practice was to waive all such questioned costs if the subgrantee promised to avoid a recurrence.

Include regulatory audits

Regulatory audits cost millions of dollars and result in billions of dollars that can be quantified in monetary terms and in vast numbers of compliance findings that cannot be quantified. Monetary findings at the Department of Energy Economic Regulatory Administration alone totaled \$8.4 billion in a recent 1-year period.

Federal audit groups, such as those in the Department of Energy and the Interstate Commerce Commission believe that because agency operations are regulatory their audit reports need not comply with Circular A-73. An OMB official siding with that position asserted that Circular A-73 only applies to audits related to stewardship of Federal funds.

We believe there needs to be stewardship of Federal policy as it relates to regulatory agencies, as well as of Federal funds. Federal policy establishes safeguards to protect the public interest. Audits are conducted to ensure that policy is followed. It is not reasonable for the Government to spend millions on regulatory audits without requiring accountability for the results.

We evaluated selected regulatory agencies' compliance with Circular A-73 and found they had the same range of deficiencies as other agencies. For example, Energy's Economic Regulatory Administration complies with most Circular A-73 requirements. Alternatively, the Interstate Commerce Commission has no system for tracking and controlling audit findings and no provisions for meeting other applicable Circular A-73 requirements. According to agency officials, Commission auditors reported over several years that carriers were improperly receiving duplicate payments before a nationwide investigation was begun that resulted in suits against several shippers. In the meantime, higher costs to shippers probably translates to higher costs to consumers.

Meet timeframes for deciding and acting on audit findings

OMB Circular A-73 establishes a 6-month period for agency officials to provide, in writing, the action they will take in response to audit recommendations. Moreover, agencies are required by the Supplemental Appropriations and Rescission Act of 1980 to decide on audit findings in 6 months.

Many agencies have not established timeframes while others have failed to adhere to those established. Still other agencies make timely written determinations but do not

have controls in place to ensure that actions agreed to are carried out in a reasonable time. Recognizing this problem, the Congress, in the aforementioned Act, required that findings that were unresolved as of July 1980 be resolved by September 30, 1981.

A few agencies argue that the 6-month timeframe is too rigid since many audit issues are too complex to be decided in 6 months. One such agency, EPA, established a 9-month standard for deciding audit issues. We disagree with this argument. Audit findings are seldom so complex that a program official needs more than 6 months to determine a course of action. The following examples illustrate this problem:

--For over a year Commerce officials pondered a finding that a contractor could not support \$61,000 in payroll charges. The contractor contended that payroll records were stolen, but ignored repeated requests to provide a copy of the police report. Moreover, the auditors were unaware that the contractor had ever maintained any payroll records. Nevertheless, Commerce awarded the organization another \$270,000 in 1980. In December 1980 a Commerce official told us that the contractor finally submitted a police report and that he had decided to allow the questioned cost.

--A May 1979 audit reported that a former NASA contractor was marketing a computer program developed on Federal projects but was not making required lease payments to the Government. The company avoided payments of at least \$300,000 before the audit and more since the audit, because NASA had not decided on a course of action.

--A 1978 audit of an Urban Mass Transportation Administration grantee questioned the allowability of \$2.2 million. These same costs were questioned in a 1972 audit but had never been resolved. In November 1980, 8 years later the Transportation Administration informed the grantee that most of the costs would be allowed. No decision had yet been made on the allowability of \$661,000.

--The 1979 annual report of the HHS Inspector General commented on the unreasonably large backlog of audit reports that are not being resolved quickly and noted that 1,240 reports and \$135 million in monetary findings were over 6 months old. Likewise, in his September 1980 semiannual report, the acting Inspector General of Labor expressed concern over the continuing

and mounting backlog of unresolved monetary findings which had reached \$283 million. In her report, the Inspector General for Interior identified 39 reports and questioned costs of \$4.9 million for which management responses were overdue by more than 6 months.

Once the decision is made to accept a recommendation, management must act to correct deficiencies and recover mis-spent funds. For every day a needed improvement is delayed, the Government incurs unnecessary costs. Thus, target dates for completing corrective actions should be set when the resolution decision is made. Grantee appeals should be settled quickly. The importance of settling appeals and effecting other corrective actions quickly is illustrated below:

- In March 1980 HHS auditors reported that the Office of Education had large sums tied up in appeals of disallowances, some dating to 1973. Only \$5.2 million of the \$48.5 million of disallowances appealed since 1973 had been resolved.
- An Agriculture audit of Job Corps Centers remained unresolved more than 18 months. The auditors reported that the Department was duplicating Labor's food service funding of Job Corps Centers by \$14.6 million in a period of less than 1 year. Despite OMB's stated intention in June 1979 to end dual funding, it continued. OMB, through a budget prohibition, stopped the dual funding beginning October 1, 1980.
- CSA officials asked a grantee to respond to an audit report that questioned \$298,000 primarily due to inadequate records. The grantee never replied. More than 1 year later CSA warned the grantee that funding would be suspended if it did not answer. The grantee still did not respond, yet CSA awarded it another \$90,000. Since the report was issued CSA has provided the grantee with over one-half million dollars. Meanwhile, problems with the grantee continue--the next year's audit questioned the allowability of another \$71,000 and reported excess funds on hand of \$684,000.
- Almost 2 years after Navy auditors reported that as much as \$581,000 could be saved annually by consolidating mail and messenger services in the Washington, D.C., area, the activities still have not been combined.
- More than 18 months after the report was issued, officials of a Commerce Regional Action Planning

Commission had not decided how to resolve \$186,000 in questioned costs claimed by a contractor. This amount was questioned because of weaknesses in the contractor's accounting and internal controls. Although the Commission received no evidence that the contractor corrected the problem, it awarded more than \$300,000 in Federal contracts to the firm since the report was issued.

Ensure that decisions to reject findings are consistent with laws and regulations

OMB Circular A-73 requires that agencies have provisions for ensuring that resolution actions are consistent with laws and regulations. For monetary findings it specifically requires a written justification and the legal basis for decisions not to recover amounts due. The Circular is silent regarding procedural findings, many of which involve compliance with laws and regulations. Agencies should be required to provide written justification and the legal basis for decisions not to act on both monetary and procedural findings.

Agencies have been slow to develop and implement procedures for ensuring that resolution actions are consistent with laws and regulations. A few agencies' systems are in partial compliance to the extent that a decision not to seek recovery of an amount due must be justified in writing. Such is the case at Agriculture, where decisions involving amounts \$10,000 or more must be reviewed and approved by the agency's General Counsel. However, the system is silent about non-monetary findings. Some other agencies' systems, like Transportation's and CSA's give program officials the option of consulting agency attorneys before deciding not to disallow or recover questioned costs.

HHS is one agency that does have procedures for ensuring that audit resolution decisions are consistent with laws and regulations. All decisions must be justified in writing and reviewed by several senior officials. Also, HHS General Counsel approval is required whenever a program official disagrees with an audit finding based on a different interpretation of a law, rule, or regulation. This approval process applies to both monetary and nonmonetary findings.

We noted numerous instances, however, where program administrators and contract officials did not adequately justify their rejection of audit findings. Some examples of officials unilaterally rejecting findings without clear authority follow.

- Auditors questioned the allowability of \$365,000 claimed by a NASA contractor. The NASA contract negotiator at first concurred, then decided to allow \$125,000, but no specific reasons were given for the allowance or for the auditors' acquiescence to it.

- Agriculture auditors reported a subsidy program's goal of reducing grain production was being subverted by farmers who were taking dry, barren land out of production, rather than irrigated, fertile land. Thus, in 1 year farmers in one State received windfall payments of \$8.4 million. Agency administrators disagreed with the finding and indicated a willingness to put up with the inequity. Windfall payments could occur again in 1981 for dry land taken out of production.

- A city received a \$1.1 million grant to develop an industrial park, but the project cost less than anticipated. Commerce auditors reported that the city improperly spent \$62,000 of leftover funds to install utilities on an adjacent piece of land and recommended that the amount be returned. Commerce management rejected the audit finding and made a final payment of \$125,000 to the grantee. No legal justification was provided for apparently allowing the grantee to violate Federal regulations.

- HUD program officials allowed \$50,500 in unsupported personnel costs after a grantee submitted timesheets reconstructed from memory. The decision did not cite a legal basis. HUD's leniency in enforcing time and attendance standards increases the likelihood of fraud and abuse.

Coordinate resolution actions
with other affected agencies

Widely ignored is the OMB Circular A-73 requirement that when audit recommendations involve more than one program, agency, or level of government, the agency making the audit must coordinate its corrective action with that of other affected organizations.

OMB has taken one step in this direction--Circular A-88, revised in January 1980, designates for educational institutions a single agency to resolve audit findings on behalf of other agencies. Lack of coordination procedures is still a problem, however, for activities not covered by Circular A-88.

The following cases illustrate why such procedures should be incorporated into agency audit resolution processes.

--In January 1979 Agriculture auditors reported that both Agriculture and HHS reimbursed a day care operator \$478,000 for the same food service under different programs. Agriculture program officials did not act, claiming the dual funding was an HHS concern, not theirs. However, HHS program officials claimed they were not told about the dual funding. The funds have not been recovered and the day care operator is still funded by both programs.

--Auditors questioned a \$624,000 Transportation grant because the grantee used Federal revenue sharing funds to satisfy a local funding requirement. The Treasury Department should be consulted before the Transportation administrator decides on a course of action.

--Auditors reported that a grantee apparently violated regulations in lending CSA funds to other programs, including those of other Federal agencies such as ACTION, Labor, and HHS. The problem has worsened over the years and demonstrates the need for CSA to coordinate its corrective action with the other affected organizations.

CHAPTER 3

FACTORS IMPEDING PROMPT AND EFFECTIVE AUDIT RESOLUTION

The discussion and illustrations in the previous chapter show that agency officials are not complying with the Office of Management and Budget guidelines. Prompt and effective resolution of audit findings is dependent upon:

- OMB providing sufficient leadership to agencies for improving audit resolution systems,
- Federal executives and managers being accountable for audit resolution, and
- Auditors consistently and appropriately developing and reporting audit findings and questioning the adequacy of administrators' resolution proposals and action.

STRONG LEADERSHIP NEEDED TO IMPROVE AUDIT RESOLUTION

Strong leadership is needed to stimulate agencies to correct audit resolution problems. OMB has taken several aggressive actions in this regard. It made audit resolution one of nine issues in the former administration's financial priorities program, stressed its importance in meetings with agency heads, and revised Circular A-73. While these were decisive steps, OMB could have done more. The OMB Director testified in 1979 that the agency needed to extend its oversight beyond issuing guidelines. OMB could have done so by approving agencies' audit resolution systems--a recommendation of the House Committee on Government Operations--and by adjusting agency budget allowances where compliance was not satisfactory.

Had OMB reviewed agencies' audit resolution systems, it would have learned, as described in Chapter 2, that agencies are not complying with Circular A-73 and that clarification is needed relating to provisions on reporting, applicability of the Circular to all findings, and compliance with laws and regulations. In late 1979 OMB did gather information on executive agencies' audit resolution systems as part of the financial priorities program. OMB intended to analyze this data as it reviewed agencies' budgets and to use budget allowance letters as the means of presenting OMB's views on agencies' audit resolution systems. According to a senior OMB official, however, the allowance letters were not used for this purpose. He furnished only one instance where

OMB expressed concern to an agency regarding audit resolution. In the meantime, agencies have been devoting resources to revising their systems, some believing that they are in compliance with Circular A-73, when in fact they are not.

FEDERAL OFFICIALS MUST BE ACCOUNTABLE
FOR EFFECTIVE AUDIT RESOLUTION

The slow pace at which many agencies are moving to establish accountability for audit resolution is manifested in the inadequate resolution actions illustrated in this report. Few agencies include audit resolution in the performance standards of their senior executives and other managers responsible for resolving audit findings. In some cases responsibility rests with officials who do not have appropriate background or the incentive to take corrective action. Also, agencies that promised to strengthen their audit resolution processes have not done so.

In May 1980, the Secretary, Department of Health and Human Services, characterized the settlement of audit findings as a sensitive, unglamorous, and frequently unpleasant area of Government management. She concluded that several actions were needed to raise the consciousness and accountability of Department program officials and provide more Secretarial oversight. The laxity and lack of accountability at the program level prompted the House Government Operations Committee to recommend in June 1979 that the Director of the Office of Personnel Management require executive agencies to include the timeliness and adequacy of audit resolution in the performance criteria of Senior Executive Service officials.

When the Office of Personnel Management acted on the recommendation, it only instructed its analysts to determine whether the performance standards of senior executives responsible for financial auditing include audit resolution responsibilities. This action is too narrow because it excludes officials who are responsible for resolving other than financial audits. In August 1980 the Office of Personnel Management issued guidance to its own Senior Executive Service members for their use in developing individual and organizational performance standards for fiscal 1981. Several other agencies reported having developed audit resolution performance standards for SES members.

Many managers below the executive level, such as grant administrators and contracting officers, are responsible for resolving audit findings. Thus, their performance

standards must cover this duty, or they might not have the necessary incentive to give audit resolution high priority. We reviewed job descriptions and talked to agency officials, but noted little evidence that the performance standards of managers below the Senior Executive Service Level included audit resolution.

Along these same lines, resolution problems persist at a number of agencies because responsibility still rests with management officials who do not seem to have the appropriate background or the incentive to take corrective action. Environmental Protection Agency auditors recently reported that one of the underlying reasons agency administrators did not act adequately on audit recommendations was the lack of staff with appropriate academic background, training, or work experience. We noted a similar problem at Transportation.

Apart from omitting resolution duties from performance standards, some agencies do not clearly designate audit resolution responsibilities, or properly assign responsibilities to personnel without conflicting duties. Agriculture administrators responsible for approving about \$370,000 in loans which the agency determined to be improper rejected a recommendation that the funds be recovered. Also, HUD officials, who approved nearly \$103,000 in improper rehabilitation expenditures and who retroactively approved the improper sale of the related property, rejected audit findings questioning these activities.

In response to the House Committee, agencies outlined several steps that would be taken immediately to strengthen audit resolution processes. Some agencies have reneged on or have been slow in fulfilling these promises, neglecting initial steps to correct glaring deficiencies in their audit resolution systems. For example:

- Contrary to the EPA Administrator's assurances, the agency's new audit resolution system does not provide for periodic reports to the Administrator on the status of unresolved findings and the results of audits closed during the period.
- The Department of Labor is still working on a new system and has not yet reached the point where it will periodically report to the Secretary on the results of audits closed during the period.
- The Deputy Secretary of Defense promised twice that the Department would examine and report on the propriety of actions that procurement officials

take on audit reports. According to the Director of the Defense Audit Service, however, no such report has been prepared.

AUDITORS CAN DO MORE TO ENCOURAGE
PROMPT AND PROPER RESOLUTION

Auditors can facilitate resolution by reporting accurate and complete findings. The benefits of auditing are lost and the credibility of auditors is damaged when findings are poorly developed. For example:

- Veterans Administration auditors reported that a medical center had purchased about \$308,000 of automatic data processing equipment without required approval. The effect and importance of this purchase was not developed, e.g., underuse of equipment or incompatibility with existing equipment was not explored. Many VA findings were poorly developed leaving considerable doubt as to the nature of the findings and resolution strategies.
- In December 1978, auditors reported that a General Services Administration lessor received \$1,600 for space the Government vacated 5 months earlier. Auditors later reported the payment of over \$230,000 to a lessor for space vacated 3 years ago. The reason the overpayments occurred was not developed and discussed in the report.
- In September 1979, Defense Contract Audit Agency auditors reported that a contractor submitted defective pricing data and overstated a contract by \$598,000. The contractor challenged the finding and denied any wrongdoing. Ten months after the report's release, the auditors withdrew the finding, conceding it was in error.

Also contrary to our principles, some audit groups consider the audit finished when a report is issued and do not routinely ascertain whether reported recommendations receive management consideration or whether satisfactory corrective action has been taken. For example, the Army and Navy audit agencies each year report millions in monetary benefits that could result if their audit findings and recommendations were fully implemented. They do not check, however, to see whether benefits are achieved. A senior Army Audit official said that compiling potential monetary benefits is a waste of time and only causes conflicts with management over what reported savings should be.

CHAPTER 4

CONCLUSIONS AND RECOMMENDATIONS

CONCLUSIONS

While some progress has been made since 1978, the absence of effective audit resolution processes is widespread and still a serious problem. Officials frequently failed to act promptly or properly on recommendations to eliminate waste and to improve operations. These failures are costing the Government billions of dollars annually in potential recoveries and savings. The problem is worsening.

Most agencies' audit resolution processes are deficient in one or more respects: no tracking of findings, inadequate accounting and collection controls, inadequate procedures for settling disagreements and delayed determinations, incomplete reporting to management, no coverage of certain findings, no timeframes for deciding on or completing corrective actions, insufficient assurance that decisions comply with laws and regulations, and unsatisfactory coordination of corrective actions.

Audit resolution is an essential management responsibility. Management officials, however, do not want to be and in fact are not sufficiently accountable for their actions in this regard. Only a few officials are evaluated on their performance to resolve audit findings. Accountability must be strengthened immediately. Bonuses and merit pay should, in part, be based on officials' efficiency and effectiveness in timely and appropriate resolution of audit findings.

In many of our illustrations, officials show a great propensity to forgive and forget error, waste, abuse, and misuse of Federal funds. Agencies need to take legal or administrative action against grantees and other funding recipients who cannot account for expenditures or otherwise cannot comply with required conditions. Officials also need to take full advantage of opportunities to improve operations.

Auditors could enhance their credibility by issuing accurate and complete reports which fully demonstrate the discrepant conditions and the related causes and effects. In so doing, auditors will increase the likelihood that management will take appropriate resolution action.

Guidelines issued since our last report by the Office of Management and Budget provide a framework for effective resolution of audit findings. Clarity is needed, however, in provisions regarding the content of semiannual reports

and the requirements for ensuring compliance with laws and regulations. The guidelines also need to be clarified to ensure that contract, subgrantee, and regulatory audit reports are part of the agencies' audit resolution systems.

Guidelines, however, are not enough by themselves. In Congressional testimony, OMB said that it would review agency audit resolution systems as part of the budget review process, but this has not occurred. We presume that kind of review process also would have meant that an agency's budget would be adjusted if OMB concluded the agency's progress was not satisfactory. Such action would be a strong incentive for managers and administrators to properly resolve audit findings. We believe it unlikely that OMB guidance will ever be properly implemented unless OMB exercises stronger leadership in reviewing and approving agency resolution systems.

Congress has demonstrated its interest in audit resolution practices by including provisions in the Supplemental Appropriations and Rescission Act, 1980 for resolving findings in a timely manner. This should provide OMB and Federal agencies further incentive to bring audit resolution systems into compliance with Circular A-73.

RECOMMENDATIONS TO THE DIRECTOR,
OFFICE OF MANAGEMENT AND BUDGET

We recommend that the Director, OMB:

- Include oversight of agency audit resolution practices in the budget review process to provide, (1) an assessment of progress in establishing, revising, and implementing resolution systems, (2) an adjustment of agency budget allowances where appropriate, and (3) a report to the Chairpersons of the House and Senate Committees on Appropriations on progress and action plans.

- Clarify Circular A-73 so that (1) it provides that periodic reports to agency heads include complete details on the resolution of findings and on the age and amounts of unresolved findings, (2) it applies to all audit reports, including contract, subgrantee, and regulatory audits, and (3) written determinations and the legal basis for nonconcurrency with audit recommendations apply to both procedural and monetary findings.

RECOMMENDATIONS TO HEADS OF
FEDERAL AGENCIES

We recommend that agencies:

- Further improve audit resolution policies, procedures, and practices to comply with the intent and spirit of OMB guidelines, designating a top level manager to coordinate these efforts and prepare progress reports for OMB.
- Take legal or administrative actions against the parties involved whenever audit findings concern fraud, waste, or abuse of Federal funds.
- Make the timeliness and quality of audit resolution a written performance standard and a factor in determining bonuses for Senior Executive Service members and merit pay for supervisors.

RECOMMENDATION TO INSPECTORS GENERAL
AND DIRECTORS OF AUDIT ORGANIZATIONS

We recommend that the inspectors general and directors of audit agencies develop internal organizational procedures and controls for efficient and effective planning, coordinating, reviewing, and reporting of audit work and audit follow-up activities in accordance with GAO and other professional standards.

NINETY-SIXTH CONGRESS
Congress of the United States
House of Representatives
LEGISLATION AND NATIONAL SECURITY SUBCOMMITTEE
OF THE
COMMITTEE ON GOVERNMENT OPERATIONS
RAYBURN HOUSE OFFICE BUILDING, ROOM B-373
WASHINGTON, D.C. 20515

June 10, 1980

Honorable Elmer B. Staats
Comptroller General of the
United States
U.S. General Accounting Office
441 G Street, N.W.
Washington, D.C. 20548

Dear General:

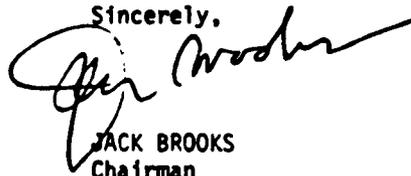
Last year this Subcommittee conducted a review of Federal departments and agencies failure to follow up and resolve audit findings. GAO was most helpful to us during this review. Hearings were held and a Committee report issued which underscored a most serious and costly problem. The Office of Management and Budget responded by issuing new policy guidance in November 1979. In addition, the departments and agencies have described to us the improvements they have made or are making in their audit resolution systems.

The Subcommittee has been monitoring progress in this area and believes sufficient time has now elapsed to allow management to have taken effective corrective actions. To assist the Subcommittee's monitoring efforts, it would be appreciated if GAO would determine whether the departments and agencies have systems in place in accordance with the Office of Management and Budget's new guidelines and the recommendations of the GAO and Committee reports on this subject. Using this as a measure, particular attention should be given to outlining the system deficiencies which would permit findings to go unresolved for long time periods or to be decided improperly in favor of contractors or grantees involved. A determination should also be made as to why the deficiencies have not been corrected. It would be appreciated if this review could be completed by August 31, 1980.

I was particularly pleased to learn that GAO has a review underway examining Federal departments' and agencies' collection procedures over audit disallowances. This matter was brought up during the hearings as an area where serious deficiencies may exist. I, therefore, hope you will give this project a high priority and will keep the Subcommittee informed of its progress.

With best wishes, I am

Sincerely,



JACK BROOKS
Chairman

MAGNITUDE OF AUDIT REPORT FINDINGS AMONG FEDERAL DEPARTMENTS AND AGENCIES

REPORTED TO GAO, MAY-JULY 1980 (note a)

<u>Department or agency</u>	<u>Audit findings recent yearly period</u>		<u>Unresolved findings</u>		
	<u>Number of reports</u>	<u>Monetary findings</u> (thousands)	<u>Number of reports</u>	<u>Total</u>	<u>Monetary</u> <u>Over 1 year</u> (thousands)
<u>Inspector General</u>					
<u>Audit Groups</u>					
Department of Agriculture	1,119	\$392,000	669	\$211,000	\$98,000
Department of Commerce	4,342	141,004	1,059	74,626	20,264
Community Services Administration	1,949	32,200	698	38,000	534 (Preaward)
				44,957	20,399
Department of Education	Included in Department of Health and Human Services Figures				
Department of Energy	1,200	21,880	449	19,800	6,900
Environmental Protection Agency	2,250	119,397	682	100,829	35,925
General Services Administration	326	16,388	260	51,069	40,014
Department of Health and Human Services	7,227	176,200	b/	338,004	160,516
Department of Housing and Urban Development	5,361	203,376	b/	54,395	-
Department of the Interior	831	112,000	138	14,034	6,219
			115	45,476	4,298 (Preaward)
Department of the Labor	396	111,312	1192	294,107	182,751
National Aeronautics and Space Administration	857	409,039	234	68,537	22,378
			448	358,419	45,524 (Preaward)
Small Business Administration	755	2,496	5	192	-

Department or agency	<u>Audit findings recent yearly period</u>		<u>Unresolved findings</u>		
	<u>Number of reports</u>	<u>Monetary findings</u> (thousands)	<u>Number of reports</u>	<u>Monetary</u> <u>Total</u>	<u>Over 1 year</u> (thousands)
Department of Transportation	1,679	\$ 1,521,140	c/ 239	\$294,008	\$ b/
Veterans Administration	370	37,500	159	21,200	1,800
<u>Established Audit Groups In</u> <u>Agencies Without Offices Of</u> <u>Inspector General</u>					
ACTION	149	1,047	54	873	-
Agency for International Development	171	16,500	37	b/	b/
Defense Department					
3 Defense Contract Audit Agency	54,678	12,055,830	3,974	1,949,463	690,622
			16,360	10,040,581	2,056,476 (Preaward)
Defense Audit Service	145	1,362,000	d/ 25	489,700	157,600
Department of the Air Force	2,918	382,819	b/	469,830	179,163
Department of the Army	387	424,159	b/	b/	b/
Department of the Navy	511	1,255,265	14	b/	b/
Federal Communications Commission	7	b/	2	b/	b/
Federal Deposit Insurance Corporation	53	773	3	-	-
Federal Home Loan Bank Board	17	b/	6	b/	b/
International Communication Agency	53	2,587	27	2,181	144

<u>Department or agency</u>	<u>Audit findings recent yearly period</u>		<u>Unresolved findings</u>		
	<u>Number of reports</u>	<u>Monetary findings (thousands)</u>	<u>Number of reports</u>	<u>Total</u>	<u>Monetary Over 1 year (thousands)</u>
Justice Department:					
Office of Audit	50	\$ <u>b/</u>	5	\$ <u>b/</u>	\$ <u>b/</u>
Federal Bureau of Investigation	98	<u>b/</u>	8	<u>b/</u>	<u>b/</u>
Office of Justice Assistance, Research and Statistics	763	14,048	306	15,160	5,023
National Science Foundation	209	27,339	114	<u>b/</u>	<u>b/</u>
Nuclear Regulatory Commission	70	1,088	<u>b/</u>	195	10
Office of Personnel Management	90	5,098	166	19,824	17,014
Smithsonian Institution	21	141	2	141	-
Department of the State					
Office of Inspector General	10	1,721	2	749	-
Department of the Treasury	5,407	725,821	406	414,169	7,222
Board of Governors, Federal Reserve System	101	<u>b/</u>	-	-	-
Civil Aeronautics Board	84	1,924	-	-	-
Commodity Futures Trading Commission	8	-	3	-	-

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<u>Department or agency</u>	<u>Audit findings recent yearly period</u>		<u>Unresolved findings</u>		
	<u>Number of reports</u>	<u>Monetary findings (thousands)</u>	<u>Number of reports</u>	<u>Total (thousands)</u>	<u>Over 1 year (thousands)</u>
Consumer Product Safety Commission	6	\$ 102	1	\$ -	\$ -
Equal Employment Opportunity Commission	37	272	7	265	203
Federal Emergency Management Agency	102	4,119	22	3,790	-
Federal Mediation and Conciliation Service	6	b/	b/	b/	b/
Federal Trade Commission	16	29	5	2	-
Interstate Commerce Commission (internal only)	1	b/	-	-	-
Legal Services Corporation	356	616	137	1,968	1,371
National Credit Union Administration	3	-	3	-	-
National Endowment for the Arts	80	75	59	306	217
National Endowment for the Humanities	60	4,699	48	3,042	39
National Labor Relations Board	7	22	4	-	-
National Transportation Safety Board	4	b/	4	b/	b/
Railroad Retirement Board	11	b/	b/	b/	b/
Tennessee Valley Authority	68	2,700	3	90	-

Department or agency	Audit findings recent yearly period		Unresolved findings	
	Number of reports	Monetary findings	Number of reports	Monetary Over 1 year
U.S. Postal Service	5,276	\$ 177,300	b/	\$ 145,600 \$ b/
<u>Audit Groups Outside Office Of Inspector General</u>				
Department of Justice:				
Federal Prison System	30	-	b/	b/
Drug Enforcement Administration	205	-	b/	b/
U.S. Marshal's Service	49	332	b/	b/
Department of Agriculture:				
Forest Service	30	346	b/	b/
Rural Electrification Agency	b/	14,200	b/	b/
Department of Health and Human Services:				
Office of Child Support Enforcement	94	2,189	11	-
Department of Energy Economic Regulatory Administration:				
Special Counsel for Compliance Enforcement	187	8,400,000	198	1,500,000
	313	153,000	138	13,000
Totals:	101,603	e/ \$28,333,762	28,501	e/ \$5,273,625 e/
		\$10,482,476		\$2,106,832 (preaward)

a/We did not verify the accuracy of the reported figures which were compiled by the individual agencies

b/Not determined or not available

c/Does not include audit reports issued before October 1, 1979

d/Reports are for fiscal year 1979 only. Earlier periods not provided.

e/Totals do not add due to rounding.

COMPLIANCE OF AGENCY POLICIES AND PROCEDURES WITH OMB
CIRCULAR A-75 AND GAO AND HOUSE COMMITTEE RECOMMENDATIONS

<u>Department or agency</u>	<u>System excludes some findings or reports</u>	<u>Some evidence of premature closure</u>	<u>Inadequate accounting or collection controls</u>	<u>No written decisions within 6 months</u>	<u>No assurance that resolution is consistent with laws and regulations</u>	<u>Auditor/official disagreements not elevated after 6 months</u>	<u>Semiannual reports to agency heads</u>		<u>No or inadequate procedures for coordinating corrective actions</u>
							<u>Not prepared</u>	<u>No status including age and amounts for reports over 6 months old</u>	
<u>Inspector General Audit Groups:</u>									
Department of Agriculture	<u>2/ c</u> X	X			<u>2/</u> X	X		X	X
Department of Commerce		X			X		<u>2/</u> X		X
Community Services Administration		X	X		X	X	X		X
Department of Education	Did not evaluate - was part of the Department of Health and Human Services system at the time of our review.								
Department of Energy (note 5)	<u>2/ c</u> X						<u>2/</u> X		X
Environmental Protection Agency		X		X	X	<u>2/</u> X	X		X
General Services Administration	<u>2/ c</u> X		X		X	X	<u>2/</u> X	<u>2/</u> X	X
Department of Health and Human Services	<u>2/ s</u> X	X					<u>2/</u> X	<u>2/</u> X	X
Department of Housing and Urban Development	<u>2/ n</u> X	X	X				X	X	X

Department or agency	System includes same findings or reports	Some evidence of premature closure	Inadequate (accounting) or collection controls	No written decisions within 6 months	No assurance that resolution is consistent with laws and regulations	Auditor program deficiencies not elevated after 6 months	Swanwood reports to agency heads			No of inadequate procedures for coordinating corrective action
							Not prepared	Do not show how findings resolved	No status including reports for 6 months	
Department of the Interior	2/5 X	X	X	2/5 X	X	X	2/5 X	2/5 X	2/5 X	X
Department of Labor	2/5 X	X	X		X	X	2/5 X	2/5 X		X
National Aeronautics and Space Administration	2/5 X				X	X	2/5 X	2/5 X	X	X
Small Business Administration		X	X		X	X	2/5 X	2/5 X		X
Department of Transportation	2/5 X	X			X	X				X
Veterans Administration					2/5 X	X		X		X
Established audit groups or agencies without offices of Inspector General		X	X		2/5 X	2/5 X		X		X
ACTION										
Agency for International Development					2/5 X			2/5 X		X
Department of Defense					2/5 X			2/5 X		X

Department or agency	System excludes some findings or reports	Some evidence of premature closure	Inadequate accounting or collection controls	No written decisions within 6 months	No assurance that resolution is consistent with laws and regulations	Auditor/program official disagreements not elevated after 6 months	Semiannual reports to agency heads			No or inadequate procedures for coordinating corrective action
							Not prepared	Do not show how findings resolved	No status including reports over 6 months old	
Defense Contract Audit Agency	2/ r X	X	X	X	X	X	X			X
Defense Audit Service		X	X	X	X	X	X			X
Department of the Air Force			X				X			X
Department of the Army	2/ n X	X	X	X	X	6/ X	X			X
Department of the Navy		X	X		X	4/ X	X			X
Federal Communications Commission (code 5)		X	X	X	X	X	X			X
Federal Deposit Insurance Corporation		X	6/					2/ X		
Federal Home Loan Bank Board			X	X	X	X	X			X
Intermodal Communication Agency									X	
Department of Justice										
Internal Audit Staff	2/ c X		X		X	X	X	X		X

Department or agency	System excludes some findings or reports	Some evidence of premature closure	Inadequate accounting or collection controls	No written decisions within 6 months	No assurance that resolution is consistent with laws and regulations	Auditor/program official disagreements not elevated after 6 months	Semiannual reports to agency heads		No or inadequate procedures for coordinating corrective action	
							Not prepared	Do not show how findings resolved		
Federal Bureau of Investigation (note 5)			X	X	X	X	X			
Office of Justice Assistance Research and Statistics								<u>2/</u> X	<u>2/</u> X	X
National Science Foundation		X	<u>6/</u>	X	X	X				
Nuclear Regulatory Commission (note 5)				X	X	X	X			X
Office of Personnel Management			X							
Smithsonian Institution			X	<u>2/</u> X	<u>2/</u> X	X			X	
Department of State:										
Office of Inspector General		X	X		X	X		<u>2/</u> X		X
Department of Treasury:										
Office of Inspector General		X	X		X		X			
Bureau of the Mint			X							
Bureau of Alcohol, Tobacco and Firearms (note 5)		X	X							

Department or agency	System excludes some findings or reports	Some evidence of premature closure	Inadequate accounting or collection controls	No written decisions within 6 months	No assurance that regulation is consistent with laws and regulations	Auditor/program official disagreements not elevated after 6 months	Semiannual reports to agency heads		No or inadequate procedures for coordinating corrective action
							Do not show how findings resolved	No status including age and amounts for reports over 6 months old	
Bureau of Engraving and Printing			X		X	X			
Bureau of Government Financial Operations	X					X			
Bureau of Public Debt									
Comptroller of the Currency		X	X		X	X			
Customs Service:									
Internal		X							
Regulatory		X	6/		X	X		2/ X	
Federal Law Enforcement Training Center		X	X		X	X			
Internal Revenue Service (note 5)			X		X			2/ X	6/
Office of Revenue Sharing			6/					2/ X	2/ X
Secret Service									
Board of Governors, Federal Reserve System	X		6/	X	X	X			
Civil Aeronautics Board:									
Internal	X		6/	X	X	X		X	X

Department or agency	System excludes some findings or reports	Some evidence of premature closure	Inadequate accounting or collection controls	No written decisions within 6 months	No assurance that resolution is consistent with laws and regulations	Auditor/program official disagreements not elevated after 6 months	Semiannual reports to agency heads		No or inadequate procedures for coordinating corrective action
							Not prepared	No status including age and amounts for reports over 6 months old	
Regulatory		X		X	X	X		X	X
Commodity Futures Trading Commission		X	X	X	X	X	X		
Consumer Product Safety Commission			X			X			X
Equal Employment Opportunity Commission		X	X	X	X	X			X
Federal Emergency Management Agency	X	X				X		X	X
Federal Mediation and Conciliation Service		X	X	X	X	X	X		
Federal Trade Commission				<u>6/</u>		<u>6/</u>	X		
Interstate Commerce Commission:									
Internal		X	<u>6/</u>	X	X	X	<u>6/</u>		
Regulatory		X				X		X	X

Department or agency	System excludes some findings or reports	Some evidence of premature closure	Inadequate accounting or collection controls	No written decisions within 6 months	No assurance that resolution is consistent with laws and regulations	Auditor/program disagreements not elevated after 6 months	Semiannual reports to agency heads			No or inadequate procedures for coordinating corrective action
							Not prepared	Do not show how findings resolved	No status including age and amounts for reports over 6 months old	
Loyal Services Corporation	X	X	X	X	X	X	X			6/
National Credit Union Administration			6/		X		X			
National Endowment for the Arts			X		X	X		2/ X		6/
National Endowment for the Humanities			6/	2/ X	X	X		X	2 X	6/
National Labor Relations Board			6/	X	X			X	X	
National Transportation Safety Board	2/ n X	X	6/	X	X	X	X			
Railroad Retirement Board			X			X	X			X
Tennessee Valley Authority		X	X	X	X	X	X			
U.S. Postal Service	2/ f X	X	X	2/ c X	X	X	X			

Department or agency	System excludes some findings or reports	Some evidence of premature closure	Inadequate accounting or collection controls	No written decisions within 6 months	No assurance that resolution is consistent with laws and regulations	Auditor/program official disagreements not elevated after 6 months	Semiannual reports to agency heads		No or inadequate procedures for coordinating corrective action
							Not prepared	No status including age and amounts for reports over 6 months old	
<u>Audit groups outside the Office of the Inspector General or established audit group</u>									
Department of Agriculture: Forest Service	Insufficient data to conclude								
Rural Electrification Agency	Insufficient data to conclude								
Department of Energy: Economic Regulatory Administration							X	X	6/
Department of Health and Human Services:									
Office of Child Support Enforcement	X	X	X	X	2/ X	X			X
Department of Justice: Federal Prison System	X	X	X	X	X	X			
Drug Enforcement Administration		X	X	X	X	X			
U.S. Marshals Service			6/	X	X	X	X	X	

(911518)

LEGEND:

- 1/ Evaluations are based on compliance of written policies and procedures with the subject requirements, except for those related to semiannual reporting). For those, we examined reports and compared actual practice with the requirements cited. If no report was prepared, even if required by agency policies and procedures, the column "not prepared" was marked.
- 2/ Partial compliance.
- 3/ Includes external contract audits, but excludes regulatory audits.
- 4/ Discrepancies are elevated to the next higher level which may not be independent of the program or operations audited.
- 5/ Evaluation limited to internal audit function.
- 6/ Did not determine.
- 7/ c - Contract audits
- 8 - Agency does not apply OMB Circular A-75 to subgrantee audits.
- f - Other federal agencies
- n - Only significant findings tracked



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