



National Endowment for the Arts

Office of Inspector General

*Helping What Works -
Work Better*

AUDIT FOLLOW-UP PROCESS

*An overview of the Federal requirements and NEA's
implementation roles, responsibilities and process steps*

OMB Circular A-50

The principal objectives are:

- a. To specify the role of the designated audit followup officials, and the role of Inspectors General.
- b. To strengthen the procedures for resolution of audit findings and corrective action on audit recommendations.
- c. To emphasize the importance of monitoring the implementation of resolved audit recommendations so that promised corrective action is actually taken.
- d. To improve accounting and collection controls over amounts due the Government as a result of claims arising from audits.

Policy

- Audit followup is an integral part of good management and is a **shared responsibility of agency management** officials and auditors.
- Corrective action taken by management on resolved findings and recommendations is **essential to improving the effectiveness and efficiency of Government operations.**
- Each agency shall establish systems to assure the prompt and proper resolution and implementation of audit recommendations.

Definitions

- **Responses to Audit Reports** -- Agency officials, or grantees must provide written comments indicating agreement or disagreement on reported findings and recommendations.
 - Agreement on final reports shall include planned corrective actions and, where appropriate, dates for achieving actions.
 - Disagreement shall explain fully the reasons for disagreement. The response must include the legal basis if it is based on interpretation of law, regulation, or the authority of officials to take or not action.

Definitions Cont'd

- **Resolution** -- the point at which the audit organization and agency management, grantee or contracting officials agree or disagree on action to be taken on reported findings & recommendations; and the audit followup official, *or disputes official (if they disagree)*, determines the matter to be resolved.
- **Corrective Action** -- **Measures taken** to implement resolved audit findings and recommendations.

The Players and Their Roles

- **Agency Audit Follow-up Official (AFO)** – Designated by the Chairman to oversee a system and report on the status of reports in resolution and corrective actions taken. *Deputy Chairman for Management Budget*
- **Agency Resolution Dispute Official** – Makes decisions on disputes over acceptance of audit recommendations or corrective action plans. *Senior Deputy Chairman*
- **Management Action Official** – The management official responsible for responding to the audit and implementing (internally), or ensuring (externally) completion of agreed-to corrective action. *Directors of affected offices*
- **Auditee:** Externally, the Grantee subject of the Audit
Internally, the NEA component subject of the Audit.
- **OIG:** Issues audit recommendations, reports to Congress and does follow-up reviews as needed to verify reported completed actions.

OMB Circular A-50:

Responsibilities

- **Audit Followup Official** (*Deputy Chairman for Mgmt. & Budget*) — has personal responsibility for ensuring that:
 - Systems of audit followup, resolution, and corrective action are documented and in place with accurate and timely status of reports;
 - Timely responses are made to all audit reports;
 - Disagreements are resolved;
 - Corrective actions are actually taken; and
 - Required Semi-annual reports are sent to the head of the agency.

The Audit Followup Official should not also be the Management Action Official

Requirements

- **Follow-up Systems** -- Agencies shall assign a high priority to the resolution of audit recommendations and corrective action. Agency follow-up systems must require:
 - Prompt resolution (within six months after issuance of the final report);
 - Prompt corrective actions completed (within one year of resolution) on audit recommendations;
 - Accurate record of the status of reports and recommendations;
 - Assurance that the resolution actions are consistent with laws, regs & policies;
 - An evaluation of the audit follow-up system results in efficient, prompt, and proper resolution and corrective action on audit recommendations.

Audit Followup Steps in NEA

■ Getting to Resolution within 180 days:

- OIG Issues Final Report to the Auditee Management Action Official: 180 day clock starts in **Agency Tracking System** until resolution (management response and agreement with OIG acceptance);
- If the Management Action Official does not agree with the recommendations, or the OIG does not agree with the CAP* – the report goes to the Audit Followup Official for a decision.
- If there is a conflict of interest between the Management Action Official and Audit Followup Official, or disagreement by the OIG on the final decision and resolution, the action goes for dispute resolution to the Senior Deputy Chairman or a third party. *A “no response” to a report is considered an agreement/resolved.*
- *The OIG and Agency report to Congress individually on unresolved reports over 180 days.*

■ Getting to Agreed-to Completed Actions within 365 days of Resolution:

- Upon resolution: a 365 day clock starts in the **Agency Tracking System** for implementation of agreed-to corrective actions.
- The Management Action Official reports to the Audit Follow-up Official on the status of agreed-to actions taken. The Audit Followup Official must be satisfied that actions are completed.
- *The OIG and Agency report to Congress individually on reports with incomplete actions over 365 days.*
- The OIG may perform follow-up assessments to verify that completed actions were in fact taken.

*Corrective Action Plan

Agency Reports Required by the IG Act

It is the Agency's responsibility through its Audit Followup Official to track progress and status on recommendations

Agency Reports to Congress Annually the number of:

- Audit Reports over 180 days without resolution;
- Resolved audit reports, but without completed final action past 365 days, along with an explanation.
- New audit reports that were resolved within 180 days,
- New audit reports with no resolution within 180 days.

OIG Reports to Congress Semiannually the number of:

- Audit Reports over 180 days without resolution;
- Resolved Significant Recommendations on which action is not completed past 365 days from resolution.

Other Relevant References to Followup Generally Accepted Gov't. Auditing Standards

- When planning the audit, auditors should ask management of the audited entity to **identify previous audits, attestation engagements and other studies directly related to the objectives of the audit, including whether related recommendations have been implemented.**
- For financial audits, auditors should evaluate whether the audited entity **has taken appropriate corrective action from previous engagements** that could have a material effect on the financial statements.

Audit Follow-Up

Agency Interests In the Process

- To Implement Corrective Actions or Improvements for Better Performance and/or Cost Efficiency – Getting More for Our Money
- Better Controls to Prevent Loss or Noncompliance with Laws/Regulations
- Compliance with OMB Circular A-123/FMFIA* which includes...“Paying Active Attention to Open Recommendations is a Factor of Strong Internal Management Controls”

*Federal Managers Financial Integrity Act