APPROVAL/TRANSMITTAL

This manual section has been revised to recognize organizational changes, changes in titles, and updates to the management decision process.

OIG personnel shall follow the procedures in this directive, which incorporate and supplement *Government Auditing Standards*. *Government Auditing Standards* will prevail if this directive and *Government Auditing Standards* appear to disagree. *Government Auditing Standards* also prevail for instances where this directive is unclear or has not been updated to reflect a revision to *Government Auditing Standards*.

This supersedes IG-7218, dated October 12, 2006. Remove and destroy previous editions.

Signed by IG on 2-17-2014

_____
PHYLLIS K. FONG
Inspector General

==========

TABLE OF CONTENTS

Page

A. BACKGROUND 2
B. DEFINITIONS 2
C. POLICY 3
D. PROCEDURES 5

EXHIBITS

Exhibit A – Achievement of Management Decision Form
Exhibit B – Audit Decision Paper

A. BACKGROUND

Pursuant to the Inspector General Act of 1978, 5 U.S.C. app. 3, §§ 1-13, as amended, OIG has established a management decision process. Departmental Regulation (DR) 1720-1, *Audit Follow-up and Management Decision* (http://www.ocio.usda.gov/directives/doc/DR1720-001.pdf), issued November 2, 2011, sets forth related U.S. Department of Agriculture (USDA) policies, definitions, responsibilities, and procedures. DR 1720-1 provides actions required once an OIG audit report is issued and management decision has been reached for corrective actions taken and or planned to fulfill audit recommendations within USDA to final action. In addition, DR 1720-1 defines monetary categories for audit findings, outlines responsibilities for OIG and agency officials for reaching management decisions on audit recommendations, and assigns the Office of the Chief Financial Officer (OCFO) the responsibility for monitoring and tracking final action.

B. DEFINITIONS

1. Management Decision. The state of a reported recommendation when OIG agrees with agency management's response to the subject recommendation. This includes agreement with the plan of corrective action(s) taken and/or planned, the proposed completion dates for planned corrective action(s), and actions for each reported recommendation. Management decision can also be achieved directly through the enactment of final action.

   A management decision cannot be considered achieved until OIG concurs or until a final determination is rendered by the Departmental Audit Follow-up Official (currently the Deputy Secretary) in cases of dispute. The effective date of the management decision is the date of OIG's correspondence to the agency expressing acceptance.

2. Agency Management Response. An official response provided by the audited agency addressing the reported recommendation. Agency responses must include the following:

   - A plan of action to be taken on each recommendation and proposed completion dates for implementation of each corrective action.
   - A copy of the bill[1] for collection for amounts owed to the Government and documentary support that the amounts have been entered as a receivable on the agency's accounting records. If final action has occurred, evidence of collection would suffice. In certain unique circumstances, such as loans made to borrowers

[1] The Food and Nutrition Service (FNS) regulations for Special Nutrition Programs do not permit FNS to bill State agencies (SA) directly for losses occurring at the subgrantee level unless it can be demonstrated that the SA failed to follow program requirements for recovering the debt. We have agreed to accept management decision for these recommendations once the SA has billed the subgrantee and FNS has provided a copy of the SA's bill to us, along with an estimated date for recovery or resolution of the debt. Final action will be based on the recovery or related disposition of the debt.

for improper use, accounts receivable cannot be established until the borrower's appeal rights have been exhausted. For final action in situations such as this, require the agency to provide evidence that an accounts receivable has been established, disallowed costs have been collected, or disallowed costs have been modified during the appeals process.

- Justification for any recommendation and/or monetary amount not considered valid.
- A written agreement on reported monetary results amount coded as recovery recommended (detailed in Exhibit A of the audit report). If an acceptable time-phased corrective action plan has been proposed by management, but agreement has not been reached on the monetary results, the recommendations containing the monetary results in Audit's management information system (Automated Reporting and General Operations System (ARGOS) or TeamMate) will nonetheless continue to be classified as unresolved.

3. Final Action. The completion of all corrective actions and receipt of required documentation (as applicable) as specified in the Achievement of Management Decision Form. OCFO has the responsibility to determine final action for recommendation(s) where OIG has agreed to management decision. OCFO will evaluate agency provided documentation to support corrective actions taken/planned to determine if final action has occurred.

4. Interim Report. A stand-alone report of issues that need the immediate attention of agency management prior to the completion of the engagement. Based on the agency's response to recommendation(s) made, management decision may be reached on the recommendation(s) within the interim report before the audit report is issued.

5. Official Draft Report. OIG audit report formally provided to agency management for official written response to findings and recommendations.

C. POLICY

Actions necessary to achieve timely management decisions shall be accomplished in accordance with the provisions of DR 1720-1, *Audit Follow-up and Management Decision*, and this directive. The full value of an audit is realized when final action is taken. Acceptance of an inadequate management decision may preclude these benefits from being realized. It is at that point that misspent funds are recovered, operational efficiencies are implemented, vulnerabilities are reduced, etc. These benefits may not be realized, however, if OIG accepts an inadequate management decision put forth by the auditee.

OIG staff will review, decide, and process management decisions timely. Timely is defined as within 30 days of receipt of agency management response.

Generally, OIG should not accept management decisions if any of the circumstances below apply:

1. The proposed action(s) do not specifically meet the recommendations. If alternative actions put forth would correct the causes of the conditions noted in the audit, they may be accepted.

2. The proposed action(s) are not permanent in nature. For instance, if regulatory change is needed, do not accept any interim action such as an administrative notice having an expiration date. This does not preclude accepting interim actions or mitigating measures that meet the intent or nature of the recommendation. For instance, management may elect to immediately implement controls to address a recommendation while the change is made effective administratively. Additionally, mitigating actions may be presented for management decision while a legislative change is proposed. These actions would be considered acceptable and the management decision document should reflect the interim nature in relation to final action.

3. The proposed action(s) will take more than 12 months to implement. If corrective action is long term in nature, such as major changes to automated systems, an interim measure should be put forth by management to minimize the adverse condition during the corrective action period.

4. The proposed action(s) require further study or examination of the issues presented in the audit report. For example, if corrective action(s) may be contingent upon study results, neither a commitment to implement the audit recommendations nor the timeframes for implementation would have been obtained. In these circumstances, the recommendations should remain open until a detailed time-phased corrective action plan has been formulated.

5. Written agreement on the monetary results amounts classified as recovery recommended reported in exhibit A has not been reached. And, agreement on monetary results amounts classified under other terms has not been reached.

In order to ensure proposed auditee actions are sufficient to fully address our recommendations, we need to specifically state what we want the auditee to do to meet final action. This will ensure that both the auditee, in developing and fulfilling its corrective action plan, and OCFO, in its monitoring role, fully understand what specific steps must be taken.

The management decision process for Interim Reports is addressed in IG-7401, *Interim Reports*. Specifically, the timeframes related to the management decision process for interim reports are shorter. Refer to IG-7401 for specific timeframes.

D. PROCEDURES

Management's response for each reported recommendation in an official draft report is normally requested 30 days from the date of the report issuance.

The work unit responsible for making the recommendation will evaluate the response to determine whether the response addresses the recommendation and OIG accepts the management decision. The Assistant Inspector General for Audit (AIG/A) will sign all management decision correspondence associated with official draft reports issued at the headquarters level. Regional directors will sign all management decision correspondence associated with audit reports released at the regional/field office level, with the concurrence of the AIG/A. Timeframes, responsibilities, and procedures for achieving a management decision are outlined below:

1. Management Decision Accepted for One or More Recommendations. Within 30 days of receipt of the agency's reply to an official draft report, OIG will take the following actions:

   a. The work unit responsible for the audit will prepare a confirmation memorandum to the agency (cc: to OCFO) conveying OIG's acceptance of the agency's management decision. The memorandum will advise the agency of the following:

      (1) The recommendation(s) where management decision has been reached between OIG and the agency. A copy of the agency response, OIG's memorandum, and the *Achievement of Management Decision Form* are provided to OCFO.
      (2) To follow internal agency procedures in forwarding final action correspondence to OCFO.
      (3) That final action on the management decision should be completed within 1 year of the date of the management decision to preclude being listed in the Department's Performance and Accountability Report per Departmental Regulation 1720-1.

   b. Work units will prepare the *Achievement of Management Decision Form* for all recommendations for which management decision has been newly achieved (see Exhibit A). Where space permits, multiple recommendations and the associated management decisions/OIG position can be described on a single form. If the agency provides a single corrective action which would fulfill multiple recommendations, the recommendations should each be restated followed by the agency response and OIG's position, the estimated (or final) completion date, and if final action has not been taken, a description of the actions and/or documents necessary to achieve final action.

   c. In those cases where the recommendation and the agency's response (which resulted

in management decision) in the audit team's judgment, leave absolutely no doubt as to what actions are to be (or have been) taken and when, this requirement can be met by simply stating *For Final Action, provide documentation to OCFO that the (agreed upon actions) have been taken*. If not, greater specificity is needed.

d. Depending upon the signatory level, the applicable headquarters division or the work unit will transmit the memorandum and the form to the auditee, OCFO, and as applicable, the headquarters division.

e. When management decision is achieved through the agency management response to the official draft report, the *Achievement of Management Decision Forms* for these recommendations shall be prepared and presented with the final report for signature. Care should be taken to ensure the management decision correspondence (confirmation memorandum and the *Achievement of Management Decision Form*) is issued after release of the final report when management decision has been accepted for at least one or all of the report's recommendations. In that situation, the date on the *Achievement of Management Decision Form(s)* should correspond to the date of the report.

f. Prepare documents for ARGOS and/or TeamMate and input and ensure the accuracy of information entered.

g. Regional/field offices will include all correspondence into TeamMate.

2. <u>Management Decision Not Accepted for Recommendations.</u>

If agreement cannot be reached through correspondence or by telephone, meetings with agency personnel should be arranged. If at any time the regional/field office and program agency reach an impasse or if the reply is not received in a timely manner, the matter should be referred immediately to the next higher management official level, if appropriate.

Within 30 days after receipt of the agency reply for an official draft report, OIG will take the following actions:

a. The work unit responsible for the audit will prepare a confirmation memorandum to the agency (cc: to OCFO) conveying a rebuttal or explanation of the reasons for disagreement and the actions needed to reach agreement, correct the conditions, and/or recommend meetings with the auditee. If needed, additional information should be requested within a specified timeframe (usually 15 days). The actions that are set forth below are guidelines only; the actual actions and timeframes to be

undertaken are a matter of judgment contingent upon the underlying circumstances precluding or impairing resolution. Regional directors and headquarters directors should consult to develop the appropriate course of action for each individual audit.

Within 90 days after report release, the following actions should be taken.

a. Regional/field offices are to alert the appropriate headquarters division of the absence of management decision and enlist its assistance in dealing with the agency in an effort to achieve management decision.

b. Headquarters division is to keep the regional/field office informed of the actions taken and status of the process after the request for assistance.

Within 120 days after report release, the following actions should be taken:

a. Regional/field offices are to prepare and transmit to the appropriate headquarters director an audit decision paper addressed to the agency head (see Exhibit B). The audit decision paper should set forth both the OIG and agency management positions and include any documentation that may assist in resolving the disagreement. A transmittal memorandum should be prepared for the AIG/A's signature and forwarded to the agency head.

b. As necessary, headquarters division is to schedule a meeting to discuss the matters with the agency head. The meeting should normally be held within 15 days after the audit decision paper was sent to the agency. If management chooses to reply in writing in lieu of a meeting, the reply should be requested within 15 days.

Within 135 days after report release, the following actions should be taken.

a. Regional/field offices are to update the audit decision paper to reflect any new information obtained from the agency head and forward it to the appropriate headquarters director. A transmittal memorandum should be prepared for the AIG/A's signature to the appropriate Under- or Assistant Secretary, and a written response should be requested or meetings held within 10 days. A copy should be sent to the agency head.

Within 150 days after report release, the following actions should be taken.

a. If a satisfactory solution cannot be reached, the headquarters division is to update the audit decision paper to elevate matters to the Departmental Audit Follow-up Official, currently designated as the Deputy Secretary.

b. The headquarters division is to transmit the audit decision paper signed by the Inspector General to the Deputy Secretary with copies to the applicable Under- or Assistant Secretary and the agency head. The Deputy Secretary will render the Department's final decision.

c. Immediately upon learning that a previously agreed-to management decision has not been or will not be complied with (through notification from OCFO or through other sources, such as audit follow-up activity), the process is to be reinitiated at the appropriate agency level.

3. Changes in Management Decision

OCFO may transmit to OIG agency requests to change agreed upon management decisions. These requests should be reviewed for adequacy. If the proposal is accepted, the timeframe for achieving final action (12 months from the date of the original management decision) should generally remain unchanged. This correspondence is to be signed at the same level as prior correspondence (AIG/A for headquarters-level audits and regional/field office directors for regional-level audits).

END

ACHIEVEMENT OF MANAGEMENT DECISION FORM

AUDIT NUMBER	REPORT ISSUANCE DATE	MANAGEMENT DECISION DATE
TITLE		

RECOMMENDATION:

AGENCY RESPONSE:

OIG POSITION:

ESTIMATED (OR FINAL) COMPLETION DATE:

RECOMMENDATION:

AGENCY RESPONSE:

OIG POSITION:

ESTIMATED (OR FINAL) COMPLETION DATE:

RECOMMENDATION:

AGENCY RESPONSE:

OIG POSITION:

ESTIMATED (OR FINAL) COMPLETION DATE:

Instructions to Complete *Achievement of Management Decision Form*

1. **AUDIT NUMBER**: Enter the audit report number.

2. **REPORT ISSUANCE DATE**: Enter the date the audit report was issued.

3. **MANAGEMENT DECISION DATE**: Enter the date of the management decision (it should be the same management decision date entered into ARGOS).

   If management decision has been reached on all audit recommendations in the report, enter "FINAL" with the date of the management decision. This will inform the recipients that OIG's involvement in the management decision process is completed.

4. **TITLE**: Enter report title as shown in the audit report.

5. **RECOMMENDATION**: Enter the number and the recommendation exactly as it appears in the audit report. Do not summarize or cross-reference to the audit report.

6. **AGENCY RESPONSE**: This section should clearly describe the actions and timeframes proposed by the auditee in response to the recommendation. If the response is succinct as in, *Instruction 1924.16 will be revised by November 11, 1990, to eliminate all nonprogram loans*, it should be reported verbatim. If the response is overly lengthy, rambling, convoluted, or contains superfluous information, paraphrase or summarize to depict only the pertinent actions and timeframes. Considerable care must be taken not to misstate or misinterpret the response. The requirements needed to achieve final action must be readily identifiable and understandable for OCFO. If they are not, further correspondence/interaction with OCFO would be necessary to clarify what the agency needs to do and when. Without such communication, there is an increased risk OCFO could make an erroneous final action determination due to a misunderstanding and the benefits of the audit (i.e., the corrective action) would be lost.

7. **OIG POSITION**: There are two elements of the OIG position section: the statement of agreement and the description of what we want the auditee to do to meet final action.[2]

[2] The Food and Nutrition Service (FNS) regulations for Special Nutrition Programs do not permit FNS to bill State agencies (SA) directly for losses occurring at the subgrantee level unless it can be demonstrated that the SA failed to follow program requirements for recovering the debt. We have agreed to accept management decision for these recommendations once the SA has billed the subgrantee and FNS has provided a copy of the SA's bill to us, along with an estimated date for recovery or resolution of the debt. Final action will be based on the recovery or related disposition of the debt.

If the management decision is in accord with the recommendation and we agree that it is acceptable, the first part of this section should be limited to a statement of agreement, e.g., *We agree with the management decision*. If the agency has proposed an action alternative to the recommendation that is, nonetheless, acceptable, we should recognize this in conjunction with the statement of agreement.

In order to ensure proposed auditee actions are sufficient to fully address our recommendations, we need to specifically state what we want the auditee to do to meet final action. This will ensure that both the auditee, in developing and fulfilling its corrective action plan, and OCFO, in its monitoring of the completion of the corrective action plan, fully understand what specific steps must be taken. These actions should be prefaced in this section by the words *For Final Action, (the agency) needs to….*

In those cases where the recommendation and the agency's response (which resulted in management decision) leave absolutely no doubt as to what actions are to be (or have been) taken and when, this requirement can be met by simply stating *For Final Action, provide documentation to OCFO that the (agreed upon actions) have been taken*. If not, greater specificity will be needed.)

8. **ESTIMATED (OR FINAL) COMPLETION DATE**: These are the proposed completion dates for implementation of each corrective action. If agency action has already been taken, include the date final correction action was completed. **NOTE**: If the corrective action involves the repayment of funds over time, state "Under Collection." We use this designation to document that repayment is subject to a collection process.

AUDIT DECISION PAPER

A. ELEVATION TO AGENCY HEAD, UNDER OR ASSISTANT SECRETARY

The elements needed in the audit decision paper are dictated by the matters precluding management decision. If there is disagreement with OIG's position, it should be clearly stated. If there appears to be agreement but other action is needed for a management decision (for example, timeframes for the proposed corrective action have not yet been established by the agency), it should be stated. However, depending upon the circumstances, only the additional pertinent data should be included in the decision paper. (For example, if an agreement exists but a formal reply has not yet been received, request a formal reply. Or if the agreement exists, but the formal reply received did not adequately address all management decision criteria, request the additional criteria). A sample of the format of an audit decision paper to the agency head, Under- or Assistant Secretary is shown on page 2 of this exhibit.

1. AUDIT NUMBER, TITLE, AND REPORT DATE.

2. ISSUE. A statement of the matters requiring a decision summarizing areas where disagreement or other encumbrances to reaching management decision exist (for example, reply not yet received or unsatisfactory). The OIG recommendation should be restated in this section. Include as necessary OIG's estimate of the monetary values involved and the basis for the estimate.

3. AUDIT RESULTS. A brief statement of the findings relative to the recommendation.

4. AGENCY POSITION. The agency's position in response to the OIG recommendation.

5. OIG POSITION. OIG's rebuttal to the agency position.

6. ADDITIONAL INFORMATION. Any additional information on the audit and/or discussions with the agency (including any Office of the General Counsel, Government Accountability Office, etc., opinions which are pertinent to the decision).

B. ELEVATION TO DEPARTMENTAL AUDIT FOLLOW-UP OFFICIAL

A modified audit decision paper will be used as a stand-alone briefing paper for use in discussions with the Departmental Audit Follow-up Official. A sample of the format of a decision paper is shown on page 3 of this exhibit.SAMPLE FORMAT FOR AUDITSAMPLE FORMAT FOR AUDIT DECISION PAPER

FOR AGENCY HEAD, UNDER OR ASSISTANT SECRETARY

(On OIG Letterhead)

AUDIT DECISION PAPER

AUDIT NUMBER, TITLE, AND REPORT DATE:

ISSUE:

AUDIT RESULTS:

AGENCY POSITION:

OIG POSITION:

ADDITIONAL INFORMATION:

SAMPLE FORMAT FOR AUDIT DECISION PAPER FOR DEPUTY SECRETARY

(On OIG Letterhead)

DECISION MEMORANDUM FOR THE DEPUTY SECRETARY

FROM: (NAME)
Inspector General

SUBJECT: Audit Number, Title, and Report Date

ISSUE:

AUDIT RESULTS:

AGENCY POSITION RESPONSE:

OIG POSITION:

ADDITIONAL INFORMATION:

RECOMMENDATION:

DECISION BY THE DEPUTY SECRETARY:

Agree with OIG: _____ Date: _____

Agree with Agency: _____ Date: _____

Discuss with me: