



Council of the
INSPECTORS GENERAL
on INTEGRITY and EFFICIENCY

Federal Audit Executive Council
Audit Resolution Survey Summary Report
June 2016

Preface

This report summarizes the results of the Federal Audit Executive Council (FAEC) Audit Resolution Roundtable that was held with the Office of Inspector General (OIG) community on April 4, 2017 at the U.S. Nuclear Regulatory Commission. The goal of the Roundtable was to do a deeper dive into audit followup processes and associated challenges that were identified in the December 2016 FAEC Audit Resolution Survey. Over 40 executives and audit resolution professionals from 25 OIGs participated in the Roundtable.

Items of Note

A key take-away from the meeting discussion was that there is a very wide variety of agency approaches, needs, and philosophies on how to address audit resolution. We are bringing to light these discussion items and offering some solutions that might be helpful for the community to consider as they further enhance their audit resolution culture and processes in their own agency. General topics with sub-topics are outlined below, with further discussion items included in the meeting details.

I. Writing effective and actionable audit recommendations.

- A. Need to discuss what is possible with agency management
 - i. Getting agency insight and input while maintaining audit independence.
 - ii. Making unrealistic or impossible recommendations is not helpful and only hinders relationship with agency.
 - ii. Make sure recommendations are addressed to the appropriate level of management for action.
- B. Word the recommendations with quantifiable and actionable items.
 - i. Avoid vague and general language. Ensure policy is followed and procedures to ensure, e.g., training, additional internal controls. There is also a need to balance being prescriptive and writing recommendations in a manner that lets managers manage. Later audit resolution efforts should ensure more corrective action specificity.
 - ii. Avoid multi-step recommendations unless intend to track as a series or will not close the recommendation until all intermediate steps are taken.

II. Record/report/track audit recommendations

- A. Organizations that track audit recommendations.
 - i. Agency/OIG/both.
 - ii. Recommendations tracking
 - a. Separate systems for OIGs and agencies that are reconciled routinely.
 - b. If a joint system, the need for access controls.
 - c. Closure determinations – OIG or agency.
 - d. Reporting of closure.
- B. Systems used for audit resolution
 - i. TeamMate, AutoAudit, and MS Access-based systems are common tools.
 - ii. Custom developed systems.
 - iii. Basic spreadsheets.
 - iv. Reporting/metrics that can be captured/reported.
 - a. Aging schedule – how long old recommendations have been open and what the similar characteristics.
 - b. Reporting of basic statistics (e.g., the number of open/resolved/closed in a given time).

III. How to work with the Agency/Department to act on OIG recommendations? (The softer side of audit resolution)

- A. Develop a commitment by both agency and OIG to work collaboratively on audit resolution (must have buy-in from senior management that this is a priority).
- B. Develop a formal process that both sides are committed to.
 - i. Establish a stewardship collaborative where agency and OIG meet routinely to discuss past, current, and emerging issues regarding audit resolution.
 - ii. Invest in cooperative audit resolution training to enforce this commitment (available through the Association of Government Accountants).
- C. Utilize other available avenues for addressing impasses
 - i. Semiannual Report to Congress – now required to report on unimplemented recommendations and why not adopted.
 - ii. Routine status reports (possibly reported on OIG webpage) to bring outstanding recommendations to light and keep as a focal point for discussion.
 - iii. Seven day letter to congress to report critical issues

Audit Resolution Roundtable
Meeting Details
April 4, 2017
8 a.m. – 12:00 p.m.

Opening Remarks by Louise Nelson and Ken Lish

This is going to be an informal discussion based on the *Audit Resolution Survey Summary Report, December 2016*. We would like the discussion to focus on collectively identifying best practices for audit recommendation resolution and sharing ideas and concerns with your peers.

The discussion will center on three topic areas identified from the survey including the following: 1) Approaches to Audit Resolution, 2) Legislation and Audit Resolution, and 3) Discussion of common issues and concerns. Please freely share your experience, ideas, and concerns regarding audit resolution. Since we come from different offices this is an opportunity to share a wealth of information in an environment that respects the differences in our offices and office/agency mission.

Meeting participants introduced themselves and identified questions and/or concerns regarding the audit resolution process as noted below:

- transitioning responsibility to OIG from the agency (with regard to recommendation resolution and closure.
- approach to tracking recommendations (via dedicated team or via individual auditor)
- consistency in how recommendations are tracked and closed within an office
- authority of audit follow-up process manager
- improving the timeliness of the recommendation follow-up process
- tracking the effectiveness of recommendations
- recommendation writing: balancing being prescriptive with what agency will agree to
- writing effective recommendations
- exploring the possibility of having a single CIGIE managed recommendation tracking system
- consistent messaging to agency throughout the recommendation follow-up process
- identifying best practices for recommendation writing
- determining when to perform a follow-up audit if recommendations are not addressed by agency in a timely manner
- identifying how agencies of different sizes handle the recommendation follow up process
- identifying best practices for managing audit resolution when there is staff turnover in OIG and the agency
- introducing automation into the recommendation process and associated lessons learned
- securing agency buy in on the recommendations
- identifying the benefits/drawbacks of having OIG or the agency manage the recommendation resolution process
- identifying the benefits/drawbacks of sharing limited access to OIG recommendation tracking systems with the agency

Topic I: OIG Approaches to Audit Resolution

What are some ways that the OIG Community can take action to address longstanding issues with the recommendation resolution process?

- Set up CAROI (Cooperative Audit Resolution and Oversight Initiative – through Association of Government Accountants (AGA)) training to help OIGs facilitate recommendation resolution through various approaches and communication efforts with the agency.
- Identifying clear metrics for audit resolution can be helpful in benchmarking progress for closing out recommendations. If metrics are established, monitor the metrics on a quarterly basis.
- It is important to track recommendations through closure especially given the new Semi-Annual Report to Congress requirements.
- Some recommendations can take several years to close; therefore, it is important to maintain tracking systems that reflect the actual status of the recommendation as well as key dates in recommendation follow-up process.
- It may be beneficial if the OIG community establishes a committee (stewardship collaborative) with agency and OIG representatives to focus on recommendation resolution. Setting a positive tone and a collegial cooperative relationship between agency and OIG senior management is integral to an effective and efficient recommendation resolution process.

Topic 2: Legislation and Audit Resolution

What are some courses of action if the agency is not timely or reasonable in its response to recommendations?

- OIGs can bring outstanding recommendations to the attention of Congress via the Semi Annual Report to Congress
- OIGs can also employ the 7 Day Letter. However, consideration should be given to when it is appropriate to use a 7 Day Letter.
- Educating agency senior management on the requirements of the OIG ACT and the standards of the Yellow Book.

Legislation (and legislative bodies) can affect the audit resolution process in either a negative or beneficial way. Examples include the following:

- Use of 512A to highlight those *significant* recommendations that the agency will not address/implement (i.e. open recommendations.)
- New requirements under the Semi Annual Report to Congress calling for all unimplemented recommendations to be identified.
- The OIG Empowerment Act gives OIG's significantly more leverage with regard to getting agency buy-in on recommendations and then in turn facilitate cooperation in the audit recommendation resolution process.
- Using Congress to get agency's attention on recommendation resolution.

If the agency is not timely or providing an appropriate response to recommendations, we need to ask the following questions:

1. “Are we being clear with the agency regarding what closure looks like or are we being too ambiguous?”

- Discussion about the recommendation resolution process should be had before the audit report is issued. Also, follow-up meetings after the report is issued can be helpful in explaining to the agency what action(s) would be acceptable for closing the recommendation.
- There is an administrative and relational aspect to the recommendation process as well. Sometimes follow-up meetings after the report is issued can be helpful to explain what is acceptable to reach closure on a recommendation.

2. “Is the agency aware of recommendation status?”

- Recommendation status could be tracked using a shared database or via a report that is regularly shared with agency senior management. Using a color schematic to categorize the recommendations according to status may also be helpful.

Topic 3: Group Discussion on Issues Identified by Discussion Participants

A. Best practices regarding automated recommendation Tracking Systems

Tracking recommendations in an Excel type spreadsheet allows you to import recommendations from Teammate to Team Central.

- There is some learning curve to using this import system and it may require running two tracking systems until the import process is complete. A Sequel-based system to track recommendations allows for limited read/review access and can be shared with the agency.
- If an automated system is shared between the OIG and the agency, there is potential for independence being compromised with regard to data control. Ultimately, for those with shared systems, the OIG has the responsibility for closing the recommendations while the agency has the ability to input data. Roles and responsibilities of the OIG vs. the agency with regard to data access/control need to be clearly documented for any shared system approach.

The Federal Audit Advisor Community for Enterprise Technology Solutions (FAACETS), which may be able to provide insight into additional automated tracking systems for audit resolution as well as associated best practices.

Subgroup of FAACETS: Looks into alternatives to Teammate; solicits vendors and creates an environment to present solutions to OIG community. Potentially a forum where vendors would be invited in to present ideas if they meet specific requirements.

Note: There is a list serve for FAACETS which individuals can subscribe to upon request.

Melissa Yahoudy currently maintains the FAACETS listserv. Please email her to be added to the group at: melissa.yahoudy@OIG.HHS.GOV.

B. Varying Recommendation Status Categories

Some OIG's only have open and closed status options for recommendations. Other OIGs also have a resolved status. This can be a point of confusion for stakeholders including the public and Congress. The following issues should be considered when determining the status of recommendations:

There is merit in having the same statuses (i.e. resolved, closed, and open) for recommendations throughout the OIG community. This would minimize any potential for stakeholder confusion as well as bring the OIG community into better alignment. How recommendations are written is key. Specifically, recommendations should be written in a manner where they can be tracked. Additionally, sometimes reaching agreement from the agency is easier with less subtext under each recommendation.

OIGs need to be clear with the agency regarding what recommendation closure looks like. This is a point that needs to be stressed before the report and recommendations are issued. Sometimes follow-up meetings after the report is issued can be helpful to explain what is acceptable to reach closure on a recommendation. Essentially, agencies also want recommendations to be closed and are motivated to hold OIG offices accountable to better track recommendations and update their status.

C. Getting Past Disagreements with the Agency

It is of great benefit to the OIG to inform/educate the agency about the audit process to ensure a mutual understanding of the various phases of the audit as well as the reporting and recommendation resolution process. The following issues should be considered when establishing a working relationship with the agency:

- It is important to identify the appropriate individuals within the agency who will serve as points of contact for the OIG and then take steps to ensure the sustainability of this relationship despite any staff attrition.
- Building relationships with the agency through the agency liaison is key. However, in most instances the agency liaison consistently aligns with the agency because they are an employee of the agency and cannot be independent.
- Meet with individual staff and organizational leads, as well as agency senior management to ensure buy-in and understanding of recommendations at all levels.
- Publishing the open recommendations on-line is also a motivating factor to facilitate the agency's early agreement to the recommendations. It also provides incentives to be responsive, in a timely manner, to the recommendations. However, this also may cause the agency to push back in identifying what they can/cannot do with regard to specific, more prescriptive recommendations.
- Having agency management sign the Statement of Assurance for financial reporting should be considered especially if there are outstanding recommendations that agency management will not address. This is another way to give leverage to the audit recommendation resolution process.
- A recognized best practice is continued outreach from the OIG, and OIG senior management/staff, to agency management and staff. The purpose is to have a presence,

but also to use such outreach for annual planning purposes as well as address specific issues regarding auditing and audit recommendation resolution.

- OIGs retain the right to disagree with agency management via A-50, while the SAR and OIG Act allow OIGs to report significant disagreement with agency management decisions. If the SAR is used as to report such disagreements the OIG should inform agency management via discussion before officially publishing of the report.
- Some OIG offices provide a stewardship report (i.e. recommendation status report) as one way to keep agency abreast of recommendation status. Other OIGs post the status of each recommendation on their Web site which can be an effective tool in getting more timely resolution to long outstanding recommendations.
- It is important to direct recommendation resolution at the right level of agency management. Starting with staff level has proven to be successful as demonstrated by some agencies with a higher recommendation closure rate. Reports go to the head of the agency; but the recommendations are handled/implemented by the actual program managers. Other agencies issue the recommendations directly to the action official which may be a division director and not the head of the agency. The OIG ACT only says submit to the head of the agency which means that supplying a copy of the report would meet the requirement of the act. Other times, OIG's can act strategically and direct recommendation correspondence to the friendlier level within the agency in order to get a more receptive response.

D. Audit resolution: Centralized or Decentralized Responsibility

The survey results indicated OIGs are split with regard to their approaches to tracking audit recommendations (e.g. centralized vs. decentralized). In some instances there is a hybrid of both approaches. The following should be considered when determining if a centralized or decentralized approach is best suited for an OIG:

- Some OIGs of larger agencies have a decentralized approach where the respective/responsible audit manager determines if a recommendation should be closed, and then after making the determination, works with the OIG recommendation resolution group to facilitate closure. The OIG recommendation resolution group then works with the agency point(s) of contact. This is easier for the agency who may have multiple audits going on with various audit managers.
- Some OIGs have one person that tracks the recommendations; however, this person usually doesn't have sole authority to close recommendations without input from the respective audit team. However, they do have responsibility for managing the tracking process and meeting established metrics.
- By having the respective audit team maintain responsibility for managing/tracking the recommendations, it continues to have a soup to nuts view of the audit process. In the instance where individual audit teams manage the recommendation process for their respective audits, there also needs to be an established process to ensure consistency across teams.

Acknowledgements I would like to thank Louise Nelson, Director for Audit Services, National Science Foundation (NSF) OIG, and Ken Lish, Audit Manager, NSF OIG, for their leadership in moderating the April 4, 2017 FAEC Audit Resolution Roundtable. Jacki Storch, Quality Assurance Manager, U.S. Nuclear Regulatory Commission (NRC) OIG, and Jimmy Wong, Senior Analyst, NRC OIG, also made significant contributions. I'd also like to thank the Roundtable participants for their thoughtful and meaningful insight and perspectives, and the CIGIE Audit Committee for its support. The Roundtable is another example of how we come together as an OIG community in a collaborative manner and it makes us better.

A handwritten signature in black ink, appearing to read "Brett Baker", with a long horizontal flourish extending to the right.

Dr. Brett Baker, Chair
Federal Audit Executive Council