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CNCS HAS NOT APPOINTED A SENIOR ACCOUNTABLE OFFICIAL FOR AUDIT FOLLOW-UP AND LACKS OVERSIGHT AND ACCOUNTABILITY IN THIS CRITICAL AREA.

In the past 18 months, CNCS leadership and CNCS-OIG have identified significant weaknesses in the Corporation's follow-up on audit recommendations. In one case, critical anti-fraud and -mismanagement safeguards promised by CNCS were not implemented. In another example, a Draft Management Decision containing obvious flaws was submitted to CNCS-OIG without review by senior CNCS executives. On other occasions, the agency failed to address particular audit recommendations. CNCS leadership agreed that a more structured and disciplined process was required, including the appointment of a senior accountable official for audit follow-up, after the manager holding that responsibility left the Corporation in November 2015.

In support of our oversight, CNCS-OIG in December 2015 requested the names of the Corporation's "senior accountable officials" required by various laws and regulations. CNCS did not maintain such a list and took several months to assemble it, providing it to us in April 2016.

Based on the list, CNCS has not complied with Executive Branch requirements for centralized oversight of audit follow-up. OMB Circular A-50, *Audit Followup*, requires the agency head to appoint a "top management official to oversee audit followup, including resolution and corrective action." See OMB Circular A-50, paragraph 7(a)(1). That senior audit follow-up official has personal responsibility for three categories of action:

1. Systemic oversight—ensuring that the agency's systems and processes for audit follow-up, resolution and corrective action are appropriate, documented and in place;
2. Oversight of follow-up on individual audits—ensuring timely responses to all audit reports; resolution of all disagreements; and implementation of promised corrective actions, *i.e.*, making sure that the agency actually complies with its audit follow-up systems and procedures; and
3. Internal reporting—informing the agency head semi-annually of the status, reason and timetable for any delayed resolutions; aggregating amounts disallowed, written off, or for which payment has

been demanded; summarizing the reports or recommendations resolved during the period; and other similar data.

OMB Circular A-50, paragraph 7(c).¹ Despite these requirements, CNCS has not appointed a senior official accountable for performing the duties specified in Circular A-50.

Instead of designating a single senior official accountable for audit follow-up official, CNCS has adopted a decentralized approach that creates significant gaps in management oversight and a lack of accountability. It parcels out audit follow-up responsibilities by subject matter, depending on the office that owns the audited process.

<u>Audit</u>	<u>Accountable Official</u>
FISMA	Chief Information Officer
IPERA	Chief Risk Officer
Financial Statement Audit	Director of Accounting and Financial Management Services
Single Audits of grantees	Director of Grants Management
All other audits (“program and operations”)	Assigned <i>ad hoc</i> by the Chief Operating Officer or the Chief of Program Operations

CNCS’s division of responsibility appears to reflect a misconception that the official accountable for audit follow-up bears primary responsibility for responding to individual audits and implementing corrective actions. To the contrary, Paragraph 7(b) of the circular assigns those duties to “management officials,” rather than to the Audit Follow-up Official. The Audit Follow-up Official is responsible for *overseeing* those activities, not *performing* them. Thus, while the Corporation’s list of accountable officials may identify the management officials tasked with acting on individual audits, nowhere does it name an Audit Follow-up Official tasked with the oversight specified in Circular A-50.²

The absence of comprehensive, centralized oversight of CNCS’s audit follow-up is precisely what led to the serious deficiencies identified by CNCS-OIG more than one year ago. Matters fell through the cracks because no single top management official bore responsibility for the quality of the audit follow-up systems or for ensuring that the agency followed them in specific cases. CNCS-OIG observed that some individuals tasked with responding to an audit report did not understand the audit follow-up requirements, misunderstood and failed to complete the required corrective actions, and requested guidance from CNCS-OIG about the

¹ Paragraph 8(a) of the circular contains detailed requirements for audit resolution and corrective action, many of which lie within the duties of the accountable official.

² Indeed, the designations contain no indication who is responsible for systemic oversight or internal reporting and analysis.

appropriate format and content of management's response. Unsurprisingly, the lack of systems, established processes and quality control—all of which lie within the purview of the Audit Follow-up Official—gave rise to serious and embarrassing errors by the Corporation. Moreover, the lack of oversight left CNCS leadership in the dark about these deficiencies. Not only is CNCS out of compliance with OMB's requirements for oversight of audit follow-up, the agency is at risk for a recurrence of the prior defects.

It is a measure of the importance of audit follow-up oversight that Circular A-50 combines these tasks and entrusts them to a "top management official." For this reason, the senior official accountable for audit follow-up must be appointed by, and regularly furnishes data to, the agency head. Agencies are required to "assign a high priority to the resolution of audit recommendations and to corrective action." Circular A-50, paragraph 8(a). Aggregating this information is necessary to analyze audit findings and recommendations to look for trends and system-wide problems and to evaluate periodically "whether the audit followup system results in efficient, prompt, and proper resolution and corrective action on audit recommendations." Circular A-50, paragraph 8(a)(11). Without centralized oversight, none of this can happen.

Recommendations:

CNCS-OIG recommends that:

1. CNCS's executive leadership review the requirements for audit follow-up and the duties of the senior official accountable for it;
2. The Chief Executive Officer designate a top management official who is appropriately trained and well versed in the audit resolution process to serve as the senior Audit Follow-up Official, with all of the responsibilities of that position as per OMB Circular A-50;
3. The designated Audit Follow-up Official develop a plan for (1) evaluating and improving audit follow-up systems and processes, in accordance with the requirements of OMB Circular A-50; (2) oversight of follow-up concerning specific audits, including ensuring that performance appraisals of managers responsible for audit follow-up reflect their effectiveness in resolving and implementing audit recommendations.
4. The performance evaluation of the Audit Follow-up Official expressly take into consideration that individual's effectiveness in that capacity.

7. Responsibilities.

a. **Agency Head.** Agency heads are responsible for:

(1) Designating a top management official to oversee audit follow-up, including resolution and corrective action.

(2) Assuring that management officials throughout the agency understand the value of the audit process and are responsive to audit recommendations.

b. **Management Officials.** Agency management officials are responsible for receiving and analyzing audit reports, providing timely responses to the audit organization, and taking corrective action where appropriate. Where management officials disagree with an audit recommendation, the matter shall be resolved by the follow-up official.

c. **Audit Follow-up Official.** The audit follow-up official has personal responsibility for ensuring that (1) systems of audit follow-up, resolution, and corrective action are documented and in place, (2) timely responses are made to all audit reports, (3) disagreements are resolved, (4) corrective actions are actually taken, and (5) semi-annual reports required by paragraph 8.a. (8) below are sent to the head of the agency.

8. Action Requirements.

a. **Follow-up Systems.** Agencies shall assign a high priority to the resolution of audit recommendations and to corrective action. Systems for resolution and corrective action must meet the following standards:

(1) Provide for appointment of a top level audit follow-up official.

(2) Require prompt resolution and corrective actions on audit recommendations. Resolution shall be made within a maximum of six months after issuance of a final report or, in the case of audits performed by non-Federal auditors, six months after receipt of the report by the Federal Government. Corrective action should proceed as rapidly as possible.

(3) Specify criteria for proper resolution and corrective action on audit recommendations, whether resolution is in favor of the auditor or an auditee. These criteria should provide for written plans for corrective action with specified action dates, where appropriate.

(4) Maintain accurate records of the status of audit reports or recommendations through the entire process of resolution and corrective action. Such records shall include appropriate accounting and collection controls over amounts determined to be due to the Government.

(5) Provide a means to assure timely responses to audit reports and to resolve major disagreements between the audit organization and agency management or contracting

officials. The process should provide sufficient time to permit resolution to take place within the six month limit.

(6) Assure that resolution actions are consistent with law, regulation, and Administration policy; and include written justification containing, when applicable, the legal basis for decisions not agreeing with the audit recommendation.

(7) Provide for coordinating resolution and corrective action on recommendations involving more than one program, agency, or level of Government.

(8) Provide semi-annual reports to the agency head on the status of all unresolved audit reports over six months old, the reasons therefor, and a timetable for their resolution; the number of reports or recommendations resolved during the period; the amount of disallowed costs; and collections, offsets, write-offs, demands for payment and other monetary benefits resulting from audits. These reports should include an update on the status of previously reported unresolved audits.

(9) Provide for periodic analysis of audit recommendations, resolution, and corrective action, to determine trends and system-wide problems, and to recommend solutions.

(10) Assure that performance appraisals of appropriate officials reflect effectiveness in resolving and implementing audit recommendations.

(11) Provide for an evaluation of whether the audit follow-up system results in efficient, prompt, and proper resolution and corrective action on audit recommendations. The first evaluation will be made within one year of the date of this Circular, and evaluations will be made periodically thereafter.