AUDIT REPORT

OVERSIGHT OF THE AUDIT RESOLUTION PROCESS

OFFICE OF THE CHIEF FINANCIAL OFFICER

2002-KC-0001

NOVEMBER 13, 2001

OFFICE OF AUDIT, GREAT PLAINS
KANSAS CITY, KANSAS
TO:  Angela M. Antonelli, Chief Financial Officer, F

FROM:  Roger E. Niesen, District Inspector General for Audit, 7AGA

SUBJECT:  Chief Financial Officer’s Oversight of the Audit Resolution Process

We have completed an audit of the Chief Financial Officer’s controls over the audit resolution process. The review was conducted in accordance with the Office of Inspector General’s annual audit plan.

Our overall audit objective was to evaluate whether HUD’s audit resolution practices and procedures ensure closure actions for completed Office of Inspector General (OIG) audit recommendations are supported, effectively implemented and properly documented. Additionally, we determined whether HUD staff adhered to policies and procedures. Our report contains two findings. However, since the Chief Financial Officer is implementing a new follow-up system and has initiated an audit resolution task force that is addressing the issues in our findings, we are not including any recommendations for action by your office.

Please furnish us copies of any correspondence or directives issued because of the audit.

Should you or your staff have any questions, please contact me at (913) 551-5870.
Executive Summary

We have completed an audit of the Chief Financial Officer’s (CFO’s) controls over the audit resolution process. Our overall audit objective was to evaluate whether HUD’s audit resolution practices and procedures ensure that closure actions for completed Office of Inspector General (OIG) audit recommendations are supported, effectively implemented, and properly documented. Additionally, we determined whether HUD staff adhered to policies and procedures.

We determined the oversight of the audit resolution process by the CFO’s office has improved markedly since the previous OIG audit in 1996. We found no examples of abuse of the recommendation closure process, as in the audit issued in September 1996, nor did we find significant errors by the current Audit Liaison Officers in our current review of the audit resolution process. However, we found some areas where procedures/controls can be improved to ensure that agreed-upon recommendations are supported and properly documented when closed. These areas are summarized below and detailed in the findings section of the report.

Controls And Training Program Are Not Adequate

Action Officials and Audit Liaison Officers and/or their designated representative do not always follow the correct procedures to ensure timely management decisions and final actions are achieved. Although they have copies of HUD Handbook 2000.06 Rev-3 “Audits Management System” available, they do not always follow or feel confident they understand the policies and procedures contained in the Handbook. HUD Handbook, Chapter 4, "Audit Liaison Officer", Paragraph 4-3.A.1, places responsibility for providing appropriate training with the CFO’s Departmental Audit Liaison Officer. We believe the CFO does not have a training program in place that ensures Action Officials and Audit Liaison Officers have a full understanding of the policies and procedures outlined in the HUD Handbook. As a result, some files lack the required documentation to support official actions. In addition, at least 49 percent of the closed recommendations in our sample missed their final action target dates.

HUD Handbook Is Not Specific

HUD Handbook 2000.06 Rev-3 does not contain sufficient guidance regarding procedures to ensure recommendations are implemented correctly. The process of tracking and verifying the resolution of audit recommendations has been continually refined over the past several years and the Handbook has not been updated to reflect the changes. It is important for the Handbook to be updated with the current procedures to provide assurance the controls are followed and resources not wasted.
We did not make any recommendations since the CFO is in the process of implementing a new follow-up system and has initiated an audit resolution task force that is addressing the issues in our findings. The CFO’s response to the draft report substantially disagreed with the substance of our findings. However, those comments, in conjunction with verbal comments made by the CFO’s staff at the exit conference and subsequent meetings with Headquarters OIG staff, indicate that the problems we identified should be remedied with the CFO’s new follow-up system, Audit Resolution and Corrective Action Tracking System. Whereas the Departmental Automated Audits Management System required the Audit Liaison Officer to take an overt action at prescribed intervals, the new system will provide automatic notifications to management officials/action officials at 60/90/110 days from report issuance advising that their response to the recommendation is due.

We provided our draft findings to the Deputy Assistant CFO for comment on September 5, 2001. The CFO provided written comments to our draft findings on September 19, 2001. We included excerpts of the comments with each finding. The complete text of the comments is included in Appendix A.
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Introduction

Effective April 1, 1994, HUD management assumed responsibility for closing audit recommendations in Office of Inspector General (OIG) issued reports. Effective January 1, 1996, OIG was no longer required to concur in any final action and HUD management became responsible for follow-up and timely implementation of final actions on all recommendations as agreed to in the management decision. The OIG issued an audit report on the new process in September 1996. We reviewed the previous audit report and its findings. The oversight of the audit resolution process has improved markedly since the audit in 1996. We found no examples of abuse of the recommendation closure process, as in the audit issued in September 1996, nor did we find significant errors by the current Audit Liaison Officers in our current review of the audit resolution process.

The Chief Financial Officer (CFO) issued revised HUD Handbook 2000.06 Rev-3, Audits Management System, on February 26, 1999. The Handbook included several significant changes. In lieu of Regional Comptrollers that were abolished as part of a HUD organizational change, the Handbook created two Audit Liaison Officer positions in the field. The two Officers report directly to the Director, Audit Coordination Division in the CFO’s Office, and address field audit resolution issues. As in the past, Headquarter’s issues are addressed by applicable Liaison Officers assigned to the various Divisions. The Handbook requires Audit Liaison Officers to maintain official audit files and says Action Officials and the OIG must provide the Audit Liaison Officers copies of all significant correspondence for official files. Finally, the Handbook institutes Audit Closure Quality Control Reviews performed by the CFO’s office that assess audit closure procedures. This is OIG’s first audit of the process since issuance of the revised Handbook.

Our overall audit objective was to evaluate whether HUD’s audit resolution practices and procedures ensure closure actions for completed OIG audit recommendations are supported, effectively implemented, and properly documented. Additionally, we determined whether HUD staff adhered to policies and procedures.

We reviewed a sample of closed OIG audit recommendations to assess compliance with HUD’s policies and procedures. Our sample is from the universe of 1,714 closed OIG audit recommendations as recorded in the Departmental Automated Audits Management System for the audit period April 1, 1999 through March 31, 2001. We selected the top 34 (two percent) closed OIG recommendations with the highest associated monetary costs for review. We also randomly selected 50 (three percent) of the remaining closed OIG recommendations. We chose the five percent sample to discover whether the
CFO’s office followed its audit resolution controls, not to project our sample results to the entire universe of closed OIG recommendations.

We conducted interviews with the CFO, HUD program, and OIG headquarters and field office staff; and we reviewed HUD’s policies and regulations to evaluate current procedures regarding resolution of OIG audit recommendations.

We reviewed the results of previous audit work performed by the OIG in relation to the September 1996 report to gather background information and assess changes to HUD’s audit resolution procedures.

We performed audit work from May through August 2001. The audit covered the period April 1, 1999 through March 31, 2001. The audit was conducted in accordance with generally accepted government auditing standards.

We provided a copy of this report to the CFO.
Training Of Action Officials And Audit Liaison Officer’s Designees Is Not Adequate

Action Officials and Audit Liaison Officers (and/or their designated representatives) do not always follow the correct procedures to ensure timely management decisions and final actions are achieved. Although they have copies of HUD Handbook 2000.06 Rev-3, “Audits Management System” available, they do not feel confident they understand the policies and procedures contained in the Handbook. HUD Handbook, Chapter 4, "Audit Liaison Officer", Paragraph 4-3.A.1 places responsibility for providing appropriate training with the Chief Financial Officer’s (CFO’s) Departmental Audit Liaison Officer. However, the CFO does not have an adequate training program in place to help Action Officials and Audit Liaison Officers obtain a full understanding of the policies and procedures outlined in the HUD Handbook. As a result, some files lack the required documentation to support official actions. In addition, at least 49 percent of the closed recommendations we reviewed missed their final action target dates.

HUD Handbook 2000.06 Rev-3, Chapter 4, "Audit Liaison Officer", Paragraph 4-3, “Duties and Responsibilities,” states at A.1.: “The Departmental Audit Liaison Officer is responsible for overseeing the Audit Management System process and ensuring individual Audit Liaison Officers are notified of any changes in the Audit Management System process and are provided appropriate training.”

HUD Handbook 2000.06 Rev-3, Chapter 4 "Audit Liaison Officer", Paragraph 4-3, “Duties and Responsibilities,” states at B.1.g.: “The individual Audit Liaison Officer’s responsibilities include the following: The Audit Liaison Officer ensures that: For each audit within his/her area of responsibility, each Audit Liaison Officer will maintain a file that contains all documentation from receipt of the audit report through final action. This includes the management decision memorandum, Office of Inspector General’s (OIG’s) concurrence/nonconcurrence of the management decision, required status reports, revised management decision memorandum and OIG’s concurrence/nonconcurrence as applicable, and final action certifications along with supporting documentation to evidence final action.”
Response times for management decisions and final actions are delayed when Action Officials, Audit Liaison Officers, and/or their designated representatives are unaware or unsure of proper procedures to pursue. The OIG’s semi-annual report to Congress, issued March 31, 2001, shows 7 audits without management decisions and 21 with final action target dates over 1 year old.

The following chart displays some information we gathered from review of the Audit Liaison Officers’ files:

<table>
<thead>
<tr>
<th>ALO</th>
<th>Number Reviewed</th>
<th>Management Decision/Corrective Action Plan</th>
<th>Final Action Form</th>
<th>Support for Final Action</th>
<th>Missed Target Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public Housing</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Housing</td>
<td>11</td>
<td>10</td>
<td>11</td>
<td>11</td>
<td>6</td>
</tr>
<tr>
<td>CIO</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Administration</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>CFO</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Eastern District</td>
<td>46</td>
<td>35</td>
<td>30</td>
<td>46</td>
<td>19</td>
</tr>
<tr>
<td>Western District</td>
<td>21</td>
<td>21</td>
<td>21</td>
<td>21</td>
<td>13</td>
</tr>
<tr>
<td><strong>TOTALS</strong></td>
<td><strong>84</strong></td>
<td><strong>72 (86%)</strong></td>
<td><strong>68 (81%)</strong></td>
<td><strong>82 (98%)</strong></td>
<td><strong>41 (49%)</strong></td>
</tr>
</tbody>
</table>

We reviewed 84 closed OIG recommendations. Only 72 (86 percent) correctly contained a corrective action plan. Forty-one (49 percent) of the audit recommendations missed their final action target dates, while records for one other did not contain information on what the target date was even though the recommendation was closed. Therefore, for that recommendation, we could not determine if it met the implementation date.

Eighty-two of eighty-four audit recommendation files contained sufficient documentation to support closure action taken by Action Officials or their staff. This is a marked improvement from the previous OIG audit (Report #96-SF-177-0003, issued September 16, 1996). However, a completed final action certification form or management summary letter was missing from 16 of the 84 (19 percent) recommendation files reviewed. HUD Handbook 2000.06 Rev-3 requires that one of the two be in the Audit Liaison Officers’ audit files.
Based on interviews conducted with the Departmental Audit Liaison Officer, Action Officials, Audit Liaison Officers, and OIG report issuers we determined the Office of the CFO does not have a sufficient training program to ensure responsible parties understand the policies and procedures necessary to promptly and properly close open recommendations. The CFO's Audit Coordination Division conducts some Departmental Automated Audits Management System training and is always available to consult with any parties involved in the audit resolution process. However, this has not ensured that actions are properly documented or recommendations are promptly closed. While all Audit Liaison Officers and Action Officials had a general knowledge of the Audit Management System process and HUD Handbook 2000.06, they had questions regarding the steps necessary to move audit recommendations from report to closure. Our review found instances (16 of 84, 19 percent) in the two field office Audit Liaison Officers' files, where the Audit Liaison Officer had to instruct Action Officials on the proper steps they needed to take in order to close audit recommendations. These Action Officials were not familiar with the requirements of HUD Handbook 2000.06 Rev. 3, so the Audit Liaison Officers had to walk them through the process, which caused delays in closing recommendations.

Auditee Comments

The OIG’s use of the term “Audit Liaison Alternate” should be changed to “designated representatives.” The CFO’s written response requested that the finding be re-written to clarify the condition of the finding. The CFO interprets the condition of the finding as “audit recommendations were not always promptly or properly closed.” Specifically the CFO suggested that the finding should show that the results of the CFO’s reassessment, which are provided in the Attachment, found that some of the documents were actually in the file, or that the file reflected circumstances that reasonably explained why certain documents were not available or needed to justify close-out action. The CFO requests that information in the Attachment be considered by the OIG, with appropriate revisions to the chart on page 4 and other places in the draft report where corrections are found to be warranted.
OIG Evaluation of Auditee Comments

We revised Finding 1 to reflect the CFO’s comments and suggestions. We changed the term Audit Liaison Officer “alternate,” which we used in the draft report, to Audit Liaison Officer “designated representative.” However, we did not revise the condition of the finding because we do not believe clarification is needed. We believe the CFO’s comments do not reflect the condition of the finding. As stated in the first paragraph of the finding, “Action Officials and Audit Liaison Officers (and/or their designated representatives) do not always follow the correct procedures to ensure timely management decisions and final actions are achieved.” Based on file reviews and interviews with Audit Liaison Officers and Action Officials, we concluded this is a result of a lack of understanding of the policies and procedures by responsible parties.

Auditee Comments

The CFO says the results of their analysis of the adequacy of the Audit Liaison Officer file documentation differed from the OIG’s review results. This is because the CFO interpreted the Handbook to allow for “equivalent” documentation as support for closed recommendations. In addition, the CFO believes some documentation was actually present which was identified as missing by the OIG. The CFO also states, in the Attachment, that they believe it is appropriate for the OIG to consider the above circumstances in determining the adequacy of an Audit Liaison Officer’s actions and audit files. Too rigid of an interpretation of paper process requirements, they believe, can result in unnecessary and wasteful actions that may actually impede the timely closure of audit recommendations.

OIG Evaluation of Auditee Comments

The CFO’s position is that some documentation we noted as missing from the files could be explained by “equivalent” documentation within those files. However, as explained above, the condition of this finding is that the Action Officials and Audit Liaison Officers (and/or their designated representatives) do not always follow the correct
procedures to ensure timely management decisions and final actions are achieved. This finding does not consider the amount and type of “equivalent” documentation that exists in the files. Since the CFO’s office has not provided us any guidance directing the Audit Liaison Officers to use “equivalent” documentation, we reviewed the files using specific requirements as stated in Handbook 2000.06 Rev-3.

The CFO, in the Attachment, explains their interpretations of the Handbook guidance and what they regard as “equivalent” documentation. They then used this interpretation to reassess our audit work. We reviewed the CFO’s reassessment of our audit work by using criteria specifically stated in the Handbook. The following addresses the CFO’s reassessment:

- We agree with the CFO’s reassessment that the corrective action plans for three of the recommendations were in the Audit Liaison Officer’s audit files. The responsible Audit Liaison Officer provided us copies of the corrective action plans after we issued the draft report. Therefore, we revised the chart on page 4 and other places in the draft report where corrections were needed. We reviewed the three corrective action plans and noted that these three recommendations missed their final action target dates. As a result, we also revised the number of recommendations that missed their final action target dates to show an increase of three and made the appropriate changes in other places in the report.

- We disagree with the CFO’s reassessment that two final action certification forms in the audit files are complete (CFO’s Attachment - page 36 of Appendix A.) The responsible Audit Liaison Officer provided us copies of the final action certifications after we issued the draft report. As was the case during our initial review, the forms do exist but are not signed and dated by the Audit Liaison Officer. The CFO considers the Audit Liaison Officers’ closing entry in the Departmental Audits Management System as the Audit Liaison Officers’ electronic signature and thus, equivalent documentation to the Audit Liaison Officers’ signature and date on the final action certificate.
The CFO made determinations that acceptable equivalent documentation existed in their reassessment of all the other audit recommendation files the OIG reviewed (documented in the CFO’s Attachment to their comments.) We disagree with the CFO’s determinations that equivalent forms of documentation satisfy the requirements of Handbook 2000.06 Rev-3. Therefore, we did not make any other revisions to our chart on page 4 of the draft report. If the CFO determines they will accept other forms of documentation within the audit recommendation files, then we suggest the CFO include specific details of what constitutes equivalent documentation in the Handbook. The fact that the CFO needed to review the file and interpret its contents in considering these findings emphasizes the need for the CFO to implement educational initiatives (see Finding 2.)

Auditee Comments

The CFO also suggested our finding show that the Audit Liaison Officers are responsible for training their designated representatives and remove the term “Audit Liaison Alternate.” The CFO does not agree that the draft report supports the premise that the lack of training on the audit resolution process - for Audit Liaison Officers, Audit Liaison Officer Designees, and Action Officials - significantly delays the closure of audit recommendations.

Further, the CFO says, the draft report does not convincingly support that there is a need for further training on the audit resolution process. The audit resolution process is fairly simple and easy to understand, and the CFO believes the Audit Liaison Officers are well versed in the process. The CFO believes the draft report is actually contradictory on this point in that it indicates that Audit Liaison Officers know the process, and cites file evidence of Audit Liaison Officer communications with Action Officials to explain the process to them. The CFO says it sounds as though the process is working the way it was intended, according to the above-cited criteria on duties and responsibilities, Section 4-3 of HUD Handbook 2000.06.
Lastly, the CFO says, the draft report provides no evidence to show that delays in the closure of recommendations can be attributed to a lack of understanding of the audit resolution process. The draft report cites the number of audits with overdue management decisions or final actions reported in the OIG’s March 31, 2001 Semiannual Report to the Congress as evidence of the alleged effect of inadequate training on the audit resolution process. However, an analysis of those audits was not included in the scope of the OIG’s review, and no other evidence is provided to support any cause and effect relationship between knowledge of the process and delays in actual audit resolution. While the chart on page 4 of the draft report reflects that 45 percent of the sampled recommendations missed their target date for completion of final corrective action, the CFO believes no analysis is provided as to the reasons for the missed targets. Based on the CFO’s experience, delays in audit resolution have more to do with competing management priorities, the complexity and sensitivity of the audit finding issue, and the availability of resources, than they do knowledge of the audit resolution process.

While the CFO disagrees with the current construct of much of this draft finding, the CFO agrees that providing a condensed checklist to Action Officials outlining the steps to be taken during the audit resolution process, with references to applicable portions of the Handbook (including pertinent Handbook paragraphs, forms, etc.), immediately following the issuance of OIG audit reports is a good idea for strengthening the process and the CFO plans to pursue it. The CFO believes it does not make sense to train HUD’s Audit Liaison Officers and support staff in a process that is likely to be revised in the near future.

OIG Evaluation of Auditee Comments

We revised the finding and all affected areas of the report to change Audit Liaison Officer “alternates” to “designated representatives.”

We disagree with the CFO’s assessment that knowledge of the audit resolution process is less of a factor in reaching timely final actions than the other management issues
Finding 1

presented (competing management priorities, complexity and sensitivity of the audit finding issues, and availability of resources). The CFO states that the process is fairly simple and easy to understand, yet responds in the Attachment that Handbook guidance requires interpretation and evaluation of ambiguities in closing audit recommendations. We agree that communication between the Audit Liaison Officers and Action Officials regarding the process is what makes the system work. However, having to walk an Action Official through the process step by step and instructing them on the proper steps to follow is not merely explaining the process but rather it is providing basic training to the Action Official within a very limited timeframe and at the last possible moment. It is management’s responsibility to arrive at realistic final action target dates. Forty-six percent (19 of 41) of the recommendations with missed target dates exceeded them between 9 months and 5 and 1/2 years. This shows that the process is not operating as intended. We believe educational opportunities exist within the context of the CFO’s responsibilities to better monitor and analyze the timeliness of the audit resolution process.

We also disagree with the CFO that training in a process that is likely to change in the near future does not make sense. We believe the current process requires educational emphasis. We believe the word “training” was interpreted by the CFO as being too formal and requiring expensive and complicated classroom instruction. That was not our intent. We believe the CFO can determine the most beneficial format and setting for disseminating educational information. The CFO’s response to the draft report substantially disagreed with this finding. However, verbal comments by the CFO’s staff at the exit conference and subsequent meetings with Headquarters’ OIG staff indicate that problems we identified regarding untimely actions should be remedied with the CFO’s new follow-up system, Audit Resolution and Corrective Action Tracking System.
Since the CFO is implementing a new follow-up system and has initiated an audit resolution task force that is addressing the issues in this finding, we are not making any recommendations at this time.
HUD Handbook Does Not Contain Sufficient Guidance For Ensuring Recommendations Are Correctly Implemented

HUD Handbook 2000.06 Rev-3 does not contain sufficient guidance regarding procedures to ensure recommendations are implemented correctly. The process of tracking and verifying resolution of audit recommendations has been continually refined the past several years, yet the Handbook has not been updated. It is important for the Handbook to be updated with current controls to assure these controls are followed and resources are not wasted.

General Accounting Office (GAO) Standards for Internal Control in the Federal Government state:

Appropriate Documentation of Transactions and Internal Control - Internal control and all transactions and other significant events need to be clearly documented, and the documentation should be readily available for examination. The documentation should appear in management directives, administrative policies, or operating manuals and may be in paper or electronic form. All documentation and records should be properly managed and maintained.

Handbook 2000.06 Rev-3 states: “the Chief Financial Officer (CFO) will evaluate the effectiveness of the Audits Management System through a system of Corrective Action Verifications.” The Handbook also states: “the Corrective Action Verifications system is intended to be the quality control process over the Audits Management System.” The Handbook does not say how many Corrective Action Verifications are required, when or by whom they are to be conducted. The Handbook also does not contain information on other controls implemented by the CFO’s Office that achieve the same purpose as Corrective Action Verifications.

The process of tracking and verifying resolution of audit recommendations has been continually refined over the past several years, but the Handbook has not been updated. The CFO does not use Corrective Action Verifications as part of the quality control process. Instead, the CFO's Office uses
Quality Control Reviews and Quality Management Reviews as the quality control process.

The CFO’s Audit Coordination Division performed a Quality Control Review for the period May 26, 1999 through May 15, 2000. The objectives of the review were to determine whether the Department's Audit Liaison Officers were following the audit resolution process and to ensure Audit Liaison Officers' files contained adequate documentation to justify decisions to close audit recommendations. The CFO found no instances in the entire sample where documentary-supporting evidence was considered inadequate to warrant closure.

The Quality Management Reviews are new control procedures used by the CFO to ensure recommendations are correctly implemented. The Assistant Deputy CFO, set up a risk management division to monitor Office of Inspector General (OIG) and GAO audit work. The Risk Management Division does not perform Corrective Action Verifications, but they follow up on material weaknesses. They perform Quality Management Reviews, which focus on control issues, material weaknesses or past material weaknesses. We did not review any Quality Management Reviews, as they are a part of a process to address significant audit issues. Our audit scope only included the control procedures directed at the individual recommendation level. However, we believe Quality Management Reviews can serve as an effective control if they are directed to focus on important control areas and are consistently applied.

The CFO's Audit Division did not conduct any Corrective Action Verifications for the period under review. The Departmental Audit Liaison Officer believes the annual Quality Control Review provides ample assurance that auditees have implemented final actions. The Deputy Assistant CFO stated the need for Corrective Action Verifications is not as great as in the past because of the addition of Quality Management Reviews and the increased OIG audit cycle for major programs (one year on most). He believes the increased audit cycle serves as a control over major program areas.
We agree there is no longer a need for the CFO's Office to use Corrective Action Verifications as a control. The need for the CFO to spend scarce resources on what is a very expensive review of one recommendation is precluded by other management controls. Quality Control Reviews and Quality Management Reviews should provide effective controls, if they are properly and consistently used. The HUD Handbook needs to be revised to specifically state and document the use of these management controls. It is important for the Handbook to be updated with the current controls to provide assurance the controls are followed and resources are not wasted.

Auditee Comments

The CFO’s written response recommends deletion of this finding and the two associated recommendations from the final report.

The CFO says the draft report does not present direct evidence or a compelling case that supports the contention of the finding. Further, the CFO says no evidence is presented which demonstrates that something is missing from the Handbook that prevents or impedes the audit resolution process itself.

The CFO says the issue is whether overarching management controls exist to provide reasonable assurance that audit recommendations are not being inappropriately closed. The audit finding appears to find HUD’s overarching controls generally adequate, but advocates that they be different or more fully incorporated into the Audits Management System Handbook.

The CFO also says, as pointed out in the draft report, there is no specific number of Corrective Action Verifications that must be performed. In fact, the Handbook does not state anywhere that Corrective Action Verifications must be performed. The CFO contends this supports their interpretation that Corrective Action Verifications are optional, to be performed if and when needed. The CFO believes the OIG has a similar interpretation, as very few Corrective Action Verifications are being scheduled in the Departmental Automated Audits Management System by OIG, as the OIG is placing greater reliance on the annual
Finding 2

financial statement audit work at HUD to determine the effectiveness of implemented recommendations. As the CFO and OIG are the only entities recognized as authorized to perform Corrective Action Verifications, the CFO believes no Handbook change is necessary.

OIG Evaluation of Auditee Comments

We disagree with the CFO’s assertion that nothing is missing from the Handbook that prevents or impedes the audit resolution process. What the Handbook lacks is a sufficient, specific description of management controls for the audit resolution process. We agree with the CFO’s statement that the Handbook does not state anywhere that Corrective Action Verifications must be performed. However, we disagree with their interpretation that Corrective Action Verifications are optional, to be performed if and when needed. The Handbook states the Corrective Action Verifications are intended to be the quality control process. It would be nonproductive to designate a procedure as the quality control process and then not require it be performed.

Auditee Comments

The CFO says the usefulness of some tools is not always governed by the frequency of use, but rather by their lack of use. Such tools are intended as a deterrent. Knowing that a Corrective Action Verification may be performed, coupled with Quality Control Reviews that are performed, discourages Action Officials and Audit Liaison Officers from improperly closing recommendations. In any instance where a Quality Control Review finds insufficient documentation to close a recommendation, the recommendation would be reopened; but, only if appropriate, via a Corrective Action Verification. Note that the CFO’s Audit Coordination Division has no authority to reopen a recommendation other than through the Corrective Action Verification process. A Quality Control Review tests whether evidence is ample to support closure and, even if evidence is found insufficient, it does not prove the corrective action did not occur. Therefore, the Corrective Action Verification tool must remain available to determine if corrective actions were taken and to gauge their effectiveness.
OIG Evaluation of Auditee Comments

We disagree with the CFO’s opinion that usefulness of some tools is not always governed by the frequency of use, but rather by their lack of use. If a tool exists to be the quality control of a process and it is not used, then there is no assurance about the quality of the process. During our two-year review period, the CFO did not conduct any Corrective Action Verifications. Therefore, either the CFO has no assurance over the quality of the process, or there are other factors that provide assurance. We concluded the Quality Control Reviews and Management Reviews serve that purpose. We agree with the CFO that this tool is needed, however, the Handbook should clearly state that it is optional, identify when it should be used, and outline other factors in place to provide assurance on the quality of audit recommendation files and final actions.

Auditee Comments

The CFO points out that the Handbook, at Chapter 8-1, discusses Correction Action Verifications and, at 8-2, discusses the Quality Control Review. The CFO believes this sequencing is not accidental. Further, the words “quality control” are indicative of what is included in the review. As stated in paragraph 8-2 A.: “The objectives of these reviews are to determine if: 1.) The Department’s ALOs are effectively monitoring the audit resolution process; and 2.) Audit resolution files contain the required justification for recommendation closure.” Therefore, it is clear that the Quality Control Review is already a part of the quality control process.

The CFO also states that the appropriate handbook for the general consideration of Quality Management Reviews is HUD Handbook 1840.1 Rev-3, Departmental Management Control Program. The Quality Management Review is a form of alternative internal control review, as described on pages 3-2, paragraph 3-5, of that handbook. Quality Management Reviews are performed under the leadership of the Deputy Secretary’s Office, which has oversight as to frequency, content, and participation. The CFO’s Risk Management Division participates in Quality Management Reviews and assesses the effectiveness of corrective actions on material weakness issues associated with HUD’s annual
Finding 2

financial statement audits and annual certifications under the Federal Managers’ Financial Integrity Act. These reviews do not generally address specific audit recommendation issues and are clearly outside the scope of HUD Handbook 2000.06 Rev-3, Audits Management System.

OIG Evaluation of Auditee Comments

We agree that Quality Control Reviews are a part of the quality control process and state so in our Finding.

We understand the Quality Management Reviews are broader in scope than individual OIG audit recommendations. If implemented properly and consistently, they provide some assurance as to the quality of the process. We included reference to them in this finding because we agree with the Deputy Assistant CFO’s statement that the need for Corrective Action Verifications is not as great as in the past due to the addition of Quality Management Reviews. We further agree with the Deputy Assistant CFO that the broader scope reviews are a more efficient use of resources than the Corrective Action Verifications. However, the implementation of the Quality Management Reviews as a general management control over the audit resolution process needs to be documented by reference, at the least, in Handbook 2000.06 Rev-3, to ensure they are recognized as part of the quality control process and they are properly and consistently applied. The CFO’s response to the draft report substantially disagreed with this finding. However, verbal comments made by the CFO’s staff at the exit conference and subsequent meetings with Headquarters’ OIG staff indicate that problems we identified should be remedied with the CFO’s new follow-up system, Audit Resolution and Corrective Action Tracking System.

Recommendations

Since the CFO is implementing a new follow-up system and has initiated an audit resolution task force addressing the issues in this finding, we are not making any recommendations at this time.
Management Controls

In planning and performing our audit, we considered management controls in the Office of the Chief Financial Officer to determine our auditing procedures, not to provide assurance on the controls. Management controls include the plan of organization, methods, and procedures adopted by management to ensure that its goals are met. Management controls include the processes for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance.

We determined the following management controls were relevant to our audit objectives:

- Maintenance of documentation to support closure of recommendations in Audit Liaison Officers' files.
- Monitoring of Audit Liaison Officer performance.
- Management status reporting procedures.
- Documentation of Handbook 2000.06 controls and procedures.

We assessed the relevant controls identified above.

It is a significant weakness if management controls do not provide reasonable assurance that the process for planning, organizing, directing, and controlling program operations will meet an organization’s objectives.

Based on our review, we believe the following items are significant weaknesses:

- The Chief Financial Officer does not have a training program in place to ensure Action Officials and Audit Liaison Officers have a full understanding of the policies and procedures outlined in the HUD Handbook. As a result, some files lack required documentation to support official actions (See Finding 1).

- The process of tracking and verifying resolution of audit recommendations has been continually refined over the past several years, and Handbook 2000.06 has not been updated to reflect these changes (See Finding 2).
Follow Up On Prior Audits

The San Francisco Office of Audit conducted an audit of the audit resolution process and issued a report on September 16, 1996. The scope of the audit included recommendations closed by HUD program staff from April 1, 1994 through September 30, 1995. The report contained two findings with recommendations. The report was conducted before HUD Handbook 2000.06 Rev-3 was issued in final form and, as a result, procedures have changed since that report was issued. Finding 1 is related to our audit objective concerning effectiveness of HUD's policies and procedures. However, the positions, supervisory oversight, and HUD's policies and procedures have changed. The recommendations associated with Finding 1 are closed. We did not have a repeat finding regarding this objective. Our review of HUD's policies and procedures involved new positions and responsibilities outlined by the finalized version of Handbook 2000.06 Rev-3. Finding 2 in the September 1996 report addressed the incorrect certifying of recommendations by Action Officials. The recommendations associated with Finding 2 are also closed. Our review did not find any examples of incorrect certifying of recommendations by Action Officials.
Appendix A

Auditee Comments

MEMORANDUM FOR:  Roger E. Niesen, District Inspector General for Audit, 7AGA

FROM:   James M. Martin, Deputy Assistant Chief Financial Officer for Financial Management, FM

Subject:   Response to Draft Report on the Department’s Audit Resolution Process

Thank you for the opportunity to respond to the subject draft report of September 13, 2001, and for your staff’s responsiveness to our numerous e-mail requests for clarification regarding the two draft findings that were provided to us on September 6, 2001.  We are pleased with the overall conclusion that the oversight of the audit resolution process by the Office of the Chief Financial Officer (OCFO) has improved markedly since the previous OIG audit in 1996, and that no examples of abuse or significant errors by the current Audit Liaison Officers were found.

While we are in agreement that HUD’s audit resolution process, and management’s adherence to it, can be further improved, we do not agree with the two draft finding issues as they are currently developed and presented, and request reconsideration.  The basis for our disagreement, and other comments, are provided in the belowcaptioned sections.  As you may be aware, the Acting Inspector General and Assistant Inspector General for Audit have recently proposed a joint Office of Inspector General (OIG)/Management Task Force effort to consider possible improvements to HUD’s audit resolution process.  In consideration of this pending Task Force effort, and our below comments, we ask that the draft finding on Corrective Action Verifications (CAVs) be dropped from the final report, and that the draft finding on training be restated, or shown as an “other matter” or “observation” for management’s consideration in conjunction with the outcome of the proposed Task Force effort on further audit resolution improvements.

Finding 1 – Training of Action Officials and Audit Liaison Alternates Is Not Adequate

We found the draft report’s presentation of the condition, cause, effect and criteria for this internal audit finding to be unclear and inadequately supported by the information provided.  Based on our reading and analysis of the report, the elements of the OIG’s draft finding appear to us as follows:

Condition - Audit recommendations were not always promptly or properly closed.

Cause - Action Officials and Audit Liaison Alternates were not adequately trained on the Audit Management System by the OCFO’s Departmental Audit Liaison (DALO).
Appendix A

**Effect** - Some required documents were missing from some of the ALO files on the 84 audit recommendations sampled, and the OIG’s semiannual report to the Congress for the six-month period ending March 31, 2001 showed seven audits without a management decision and 21 with final action target dates over 1 year old.

**Criteria** – HUD Handbook 2000.06 Rev-3 prescribes that: “The Departmental Audit Liaison Officer is responsible for overseeing the Audit Management System process and ensuring individual Audit Liaison Officers are notified of any changes in the Audit Management System process and are provided appropriate training.” and “For each audit in his/her area of responsibility, each Audit Liaison Officer will maintain a file that contains all documentation from receipt of the audit report through final action.”

We request that the finding be re-written to clarify the elements of the finding, in consideration of our following concerns with the current construct of the finding elements depicted in the draft report:

1. The actual “condition” needs to be clarified and put in the proper context. Our understanding is that ALOs were able to satisfy the OIG’s audit team that there was an adequate basis for closing all 84 of the audit recommendations selected in the OIG’s sample. This is supported by the OIG’s stated overall conclusion “… that no examples of abuse or significant errors by the current Audit Liaison Officers were found.” However, the OIG does present some evidence of a technical compliance deficiency condition that the ALOs did not always maintain all required audit resolution documents in a separate audit resolution file. The lone finding of the OCFO DALO’s Fiscal Year 2000 “Quality Control Review of Audit Resolution Files,” issued in December 2000, was that “ALO’s Files Did Not Always Contain All Required Documentation.” Similar to the OIG’s current review, which has a significant overlap in the period of coverage, the DALO’s review “…found no instances in the entire sample of 190 recommendations where documentary supporting evidence was considered inadequate to warrant closure,” despite the absence of some technically required documents.

Subsequent to the receipt of the OIG’s draft finding, the DALO and his staff reassessed the audit resolution files associated with the reported documentation deficiencies summarized in the chart on page 4 of the draft report. The results of that reassessment, which are provided in the Attachment, found that some of the documents were actually in the file, or that the file reflected circumstances that reasonably explained why certain documents were not available or needed to justify the close-out action. We request that the information in the Attachment be considered by the OIG, with appropriate revisions to the chart on page 4 and other places in the draft report where corrections are found to be warranted.

2. The OIG needs to clarify the AMS “criteria” with respect to training and ALO responsibilities. As stated in HUD Handbook 2000.06:

“4-3 Duties and Responsibilities.

A. The Departmental ALO is responsible for:
1. Overseeing the AMS process and ensuring individual ALOs are notified of any changes in the AMS and are provided appropriate training.

B. The individual ALO’s responsibilities include the following:

4. The ALO assures the appropriate staff receives training in AMS and DAAMS.”

Regarding the OIG’s use of the term “Audit Liaison Alternate,” please note that there are no Audit Liaison Alternates prescribed in HUD’s process, although Section 4-2 A. of the AMS Handbook does refer to an ALO’s “designated representatives” that can assist ALOs in the execution of their responsibilities. Some ALOs do have support staff to provide full or part-time assistance, nevertheless, these support staff are not “alternates” and are not equivalent or alternates to the ALOs. As subordinate employees, they operate within the specific guidance and parameters as determined by their ALO, and the ALO is ultimately responsible for their actions.

3. With respect to the OIG’s attributed “cause” and “effect,” we do not agree that the draft report supports the premise that the lack of training on the audit resolution process - for Audit Liaison Officers (ALOs), ALO Designees, and Action Officials - significantly delays the closure of audit recommendations. First, the draft report does not convincingly support that there is a need for further training on the audit resolution process. The audit resolution process is fairly simple and easy to understand, and we believe the ALOs are well versed in the process. The draft report is actually contradictory on this point in that it indicates that ALOs know the process, and cites file evidence of ALO communications with Action Officials to explain the process to them. It sounds as though the process is working the way it was intended, according to the above-cited criteria on duties and responsibilities in Section 4-3 of HUD Handbook 2000.06.

Second, the draft report provides no evidence to show that delays in the closure of recommendations can be attributed to a lack of understanding of the audit resolution process. The draft report cites the number of audits with overdue management decisions or final actions reported in the OIG’s March 31, 2001 Semiannual Report to the Congress as evidence of the alleged effect of inadequate training on the audit resolution process. However, an analysis of those audits was not included in the scope of this review, and no other evidence is provided to support any cause and effect relationship between knowledge of the process and delays in actual audit resolution. While the chart on page 4 of the draft report reflects that 45 percent of the sampled recommendations missed their target date for completion of final corrective action, no analysis is provided as to the reasons for the missed targets. Based on our experience, delays in audit resolution have more to do with competing management priorities, the complexity and sensitivity of the audit finding issue, and the availability of resources, than they do knowledge of the audit resolution process.

While we disagree with the current construct of much of this draft finding, and with the current need for recommendation 1A, we do agree that recommendation 1B is a good idea for
strenghthening the process and we plan to pursue it. During our audit exit conference we also agreed that the audit resolution process would benefit from the OIG’s consistent inclusion of a standard audit resolution paragraph in all audit reports and transmittal memoranda to HUD Action Officials. This would help to reinforce Action Official responsibilities and required response times with the issuance of each individual audit report. These are the types of actions we want to consider as part of the Acting Inspector General’s plan for a joint OIG/management task force to study the audit resolution process for possible improvements. If audit resolution processes are modified as a result, we can anticipate that a Department-wide training effort would be necessary. Even if we were to agree on the merits of recommendation 1A, it does not make sense to train HUD’s ALOs and support staff in a process that is likely to be revised in the near future.

**Finding 2 - HUD Handbook Does Not Contain Sufficient Guidance for Ensuring Recommendations Are Implemented Correctly**

The draft report does not present direct evidence or a compelling case that supports this contention. The AMS Handbook is a tool that provides procedural rules and guidance to various audit resolution participants. It outlines who is responsible for what and clearly states the conditions under which management may request closure of recommendations and the conditions under which ALOs may close the recommendations. It includes impasse processes and processes for obtaining revised management decisions, as well as guidance on debt write-off. No evidence is presented which demonstrates that something is missing from the handbook that prevents or impedes the audit resolution process itself.

The following two points form the draft report’s basis for this finding: 1) the AMS Handbook states “the Corrective Action Verification system is intended to be the quality control process over the Audit Management System,” yet “the CFO’s Office does not use Corrective Action Verifications as part of the quality control process,” and 2) “the CFO’s Office uses Quality Control Reviews and Quality Management Reviews as the quality control process” yet those processes are not fully reflected in the AMS Handbook. At issue is whether overarching management controls exist to provide reasonable assurance that audit recommendations are not being closed inappropriately. The audit finding appears to find HUD’s overarching controls generally adequate, but advocates that they be differently or more fully incorporated into the AMS Handbook.

As pointed out in the draft report there is no specific number of CAVs that must be performed. In fact the handbook does not state anywhere that CAVs must be performed. This supports our interpretation that CAVs are optional, to be performed if and when needed. We believe the OIG has a similar interpretation, as very few CAVs are being scheduled in DAAMS by OIG, as the OIG is placing greater reliance on the annual financial statement audit work at HUD to determine the effectiveness of implemented recommendations. As the CFO and OIG are the only entities recognized as authorized to perform CAVs, we believe no handbook change is necessary.
The usefulness of some tools is not always governed by the frequency of use, but rather by their lack of use. Such tools are intended as a deterrent. Knowing that a CAV may be performed, coupled with Quality Control Reviews that are performed, discourages Action Officials and ALOs from improperly closing recommendations. In any instance where a Quality Control Review finds insufficient documentation to close a recommendation, then the recommendation would be reopened, but only if appropriate, via a CAV. Note that the CFO’s Audit Coordination Division has no authority to reopen a recommendation other than through the CAV process. A Quality Control Review tests whether evidence is ample to support closure and even if evidence is found insufficient, it does not prove the corrective action did not occur. Therefore, the CAV tool must remain available to determine if corrective actions were taken and to gauge the effectiveness. The OIG has two venues for reopening recommendations—one is via a CAV, the other is through conducting another audit. Presumably the OIG wishes to retain the ability to reopen recommendations via CAV without conducting a full audit.

As for recognizing that the DALO’s Quality Control Reviews are part of the quality control process, the handbook at Chapter 8-1 discusses CAVs and at 8-2 discusses the Quality Control Review. This sequencing is not accidental. Further the words “quality control” is indicative of what is included in the review. As stated in paragraph 8-2 A. “The objectives of these reviews are to determine if: 1. The Department’s ALOs are effectively monitoring the audit resolution process; and 2. Audit resolution files contain the required justification for recommendation closure.” Therefore it is clear that the Quality Control Review is already a part of the quality control process.

As for the incorporation of Quality Management Reviews into the AMS handbook, please be advised that the appropriate handbook for the general consideration of Quality Management Reviews is HUD Handbook 1840.1 Rev-3, Departmental Management Control Program. The Quality Management Review is a form of alternative internal control review as described on pages 3-2, paragraph 3-5 of that handbook. Quality Management Reviews are performed under the leadership of the Deputy Secretary’s Office, which has oversight as to frequency, content and participation. The OCFO’s Risk Management Division participates in the Quality Management Reviews, and assesses the effectiveness of corrective actions on material weakness issues associated with HUD’s annual financial statement audits and annual certifications under the Federal Managers’ Financial Integrity Act. These reviews do not generally address specific audit recommendation issues and are clearly outside the scope of HUD Handbook 2000.06 Rev-3 Audits Management System. We therefore recommend this finding and the two associated recommendations be deleted from the final report.

If you have any questions, please contact me at (202)-708-0614, extension 3706 or Larry McGhee at extension 3895.

Attachment
Results of OCFO’s Analysis of File Documentation
Deficiencies Identified in OIG’s September 6, 2001
Draft Finding 1 on the Audit Resolution Process

September 19, 2001
Appendix A

The below Table 1 summarizes the results of the Office of the Chief Financial Officer (OCFO) review of the 32 specific Audit Liaison Officer (ALO) file documentation deficiencies cited in the Office of the Inspector General’s (OIG) September 6, 2001 draft findings on the review of HUD’s audit resolution process. Table 1 reflects that OCFO is satisfied that all but 2 of the 32 deficiency issues have acceptable explanations. Further details on OCFO’s review are discussed below and presented in Table 2.

### Table 1

<table>
<thead>
<tr>
<th>ALO</th>
<th>Total Number of Deficiencies Cited By OIG</th>
<th>Management Decision/Corrective Action Plan or Equivalent Evidence Found By OCFO</th>
<th>Final Action Form or Equivalent Internal Control Found By OCFO</th>
<th>Support for Final Action Found By OCFO</th>
</tr>
</thead>
<tbody>
<tr>
<td>Eastern District</td>
<td>27</td>
<td>11</td>
<td>16</td>
<td>N/A</td>
</tr>
<tr>
<td>Western District</td>
<td>3</td>
<td>3</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Public Housing</td>
<td>2</td>
<td>N/A</td>
<td>N/A</td>
<td>0</td>
</tr>
</tbody>
</table>

For the Eastern ALO, the OIG’s draft finding cited missing management decision/corrective action plans for 11 closed recommendations, and missing final action certification (FAC) forms for 16 closed recommendations. Eighteen of those 27 missing items were related to a single 1991 audit report, significantly skewing the OIG’s overall results. Through a long and dogged effort on that 1991 audit, the government ultimately collected $15,858,000, including double damages of $5 million, in 1999. The District Inspector General for Audits in Atlanta also concurred in the closure of these 9 recommendations. Upon further review of all 27 questioned items, the OCFO was able to locate the documentation, or what was considered to be substantially equivalent documentation, for all 27 deficiencies.

For the Western ALO, OIG cited no management decision/corrective action plans for 3 closed recommendations. OCFO found that the ALO’s files actually contained the specific documentation identified as missing for those 3 recommendations.

For the PIH ALO, OCFO concurs with the OIG’s file documentation deficiency finding. On 9/17/01, the OCFO reviewed the same two files reviewed by OIG and determined the management decisions were missing from both files and conclusive evidence of final action was also missing. The PIH ALO has been requested to provide the documentation to OCFO. The PIH ALO was cited for file documentation deficiencies in the OCFO’s December 2000 Quality Assurance Review report, and was issued a reminder notice on proper documentation requirements. The two closure actions in question by the OIG occurred prior to the PIH ALO’s receipt of the reminder notice from the OCFO.

To develop the information displayed in Tables 1 and 2 the following actions were taken: 1) where the draft finding identified file documentation deficiencies ALOs were required to review their files immediately and confirm the deficiencies or provide evidence limited to documentation already available in their existing files, and 2) file documentation was sent to Headquarters for further analysis by the OCFO Audit Coordination Division Headquarters’ staff. The results of the
OCFO’s analysis of the adequacy of the ALO file documentation differed from the OIG’s review results. This was because: 1) OCFO interpreted the Audits Management System (AMS) Handbook’s guidance to account for the actual circumstances under which each audit recommendation was closed, and 2) some documentation was actually present which had been identified as missing. OCFO’s AMS Handbook interpretation took into account the following:

1. Sometimes there is ambiguity as to whether actions completed are sufficient to close a recommendation, and a conscientious ALO may seek the opinion of the originating OIG audit staff. Though it is outside of the mainstream process described in the handbook, OCFO encourages such collaboration. Sometimes the auditor agrees closure is appropriate (or provides an explanation as to why not). As long as the ALO documents the agreement of the auditor, we do not consider the absence of a formal Final Action Certificate (FAC) as a deficiency, since we view the concurrence of an auditor as a stronger internal control, than the attestation of the program manager conveyed by signing a FAC. In fact, once the auditor agrees to closure, obtaining a FAC becomes an unnecessary and redundant delay as the FAC becomes pro forma. What manager and ALO would not sign a FAC after the auditor has already concurred?

2. Some of the files sampled in the OIG’s review were inherited from the old 10 Standard Regional structure and predate the publication of the current AMS Handbook criteria. Some documentation such as original and iterative generations of corrective action plans remaining missing despite extensive efforts made to reconstruct files in the late 1990’s. In such instances, the Field ALO may have worked with the affected manager and/or the auditor to reach agreement as to what really needs to be done. As long as this is activity is documented and the participating parties are in agreement, we generally consider this the equivalent of a corrective action plan, whether a formal signed memorandum exists or not. In most cases this will involve the collection of funds, coupled with write-offs. OIG approval for the write-offs is normally the last step in the process and in effect closes out the recommendation.

3. Several of the recommendations for which “no action plans were found” were at some point coded “I” for investigation or “J” for judicial. I is generally used for OIG investigations and J for Department of Justice activity. After an investigation is completed, HUD abides by the OIG investigation/Attorney of the USA (AUSA) action/results. There for the outcome of these investigations are the final “action plans”. At some this point in this process HUD management may no longer play an active role as the ALO often works directly with the AUSA and the OIG. In addition, the approval of the AUSA and/or OIG auditor to close the recommendation in such circumstances is a stronger control than a FAC.

4. Where an ALO has no support staff and possesses a unique traceable identifier access code in the Departmental Automated Audits Management System (DAAMS), the entry in DAAMS of the closure of a recommendation may be considered the equivalent of an electronic acceptance of the sufficiency of evidence to close a recommendation. DAAMS retains a permanent record of the ALO’s access code, the date the closure was entered and the
date of the completion of final action. By itself, OCFO does not consider this unique identifier equivalent to a FAC but it does carry weight.

OCFO believes it is appropriate to consider the above circumstances in determining the adequacy of an ALO’s actions and files. Too rigid of an interpretation of paper process requirements can result in unnecessary and wasteful actions that may actually impede the timely closure of audit recommendations.

Table 2 provides a detailed summary of the questioned file contents. Copies of supporting documentation will be supplied to OIG upon request.
<p>| Eastern District | Corrective Action Plan Missing From Files | 1991-AT-212-1012 | Hato Rey Psychiatric Hospital | 1A, 2A, 2B, 3A, 4A, 6C, 8B, 9A, &amp; 10A | All recommendations were coded “J” by OIG on 9/16/92 and then coded “I” by OIG on 2/22/94. 1/1/97. ALO became responsible for this audit and “built” files as no records were transferred from Atlanta. 9/28/98. Email from OGC identifies the action that was going to be taken to resolve this audit. ALO has numerous conversations with Atlanta OIG DIGA and they agree to abide by the outcome of OGC’s &amp; the AUSA’s investigation to resolve this report. Documentation in the CFO’s workpaper file from its QCR review for the period from 5/26/99 to 5/15/00 shows this case was selected by the CFO’s Office. A workpaper in the file (see attached) noted that the ALO’s file did not contain a final action certification (FAC), but stated “no FAC necessary since matter was in litigation and was closed upon receipt of documentation from AUSA, not HUD program management. OIG concurred in PALO’s closure action”. Conclusion: Because these recommendations were coded “J” and “I” from the issue date of the report, the corrective action plan consists of conducting the AUSA’s investigation and abiding by its results. |
| Eastern District | Missing Final Action Certification or Management Summary Letter | 1991-AT-212-1012 | Hato Rey Psychiatric Hospital | 1A, 2A, 2B, 3A, 4A, 6C, 8B, 9A &amp; 10A | 9/24/99. ALO’s file contained a letter from the Asst. US Atty. to Ray Buday, Atlanta OGC, advising him that US Gov’t had received $15,857,865.75 and closed their case. A copy of the electronic funds transfer evidencing receipt of the money, pertinent emails and a DOJ deposit slip was also in the file. 9/29/99. Email from OIG’s Nancy |</p>
<table>
<thead>
<tr>
<th>ALO</th>
<th>Deficiency</th>
<th>Audit Report #</th>
<th>Report Name</th>
<th>Rec. #’s</th>
<th>Documentation Found in File Based On Review By The CFO’s Office</th>
</tr>
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<tbody>
<tr>
<td>Eastern District</td>
<td>Missing Final Action Certification or Management Summary Letter</td>
<td>1995-PH-204-1003</td>
<td>Fayette County Housing Authority (FCHA)</td>
<td>1A</td>
<td>Cooper to Andy Cianci stating she considered the AUSA’s note to Ray Buday “enough” documentation to close the case. 10/5/99. ALO Andy Cianci sends email to Nancy Cooper advising her how he posted the dollars recovered in DAAMS and that he considered the audit closed. 9/20/00. Documentation in the CFO’s workpaper file from its QCR review for the period from 5/26/99 to 5/15/00 shows this case was selected by the CFO’s Office. A workpaper in the file (see attached) noted that the ALO’s file did not contain a final action certification (FAC), but stated “no FAC necessary since matter was in litigation and was closed upon receipt of documentation from AUSA, not HUD program management. OIG concurred in PALO’s closure action”. Conclusion: An OIG DIGA approving closure is an equivalent or superior internal control to a FAC. Final closure activity was between OIG, ALO and the AUSA, as management was not an active participant, a FAC signed by management would have been redundant. This ALO has a unique DAAMS access code to enter closure, equivalent to an electronic signature. 4/7/00. File contained a copy of a memorandum from the Director of Finance at FCHA to a PIH Revitalization Specialist in HUD’s Pittsburgh TARC advising that all funds due from the audit had been repaid. 8/25/00. Copy of email from above two parties stating all ineligible expenses had been paid. 8/28/00. Copy of memorandum to Executive Director of FCHA from the</td>
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<tr>
<td>ALO</td>
<td>Deficiency</td>
<td>Audit Report #</td>
<td>Report Name</td>
<td>Rec. #’s</td>
<td>Documentation Found in File Based On Review By The CFO’s Office</td>
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<td></td>
<td></td>
<td>1998-AT-206-1005</td>
<td>Housing Authority of the City of Tampa</td>
<td>4D &amp; 4E</td>
<td>TARC states full restitution of all funds had been made by the FCHA. 12/4/00. Email from ALO to PIH, OIG &amp; TARC employee stating that all costs in the report had been repaid and the audit was resolved. <strong>Conclusion:</strong> The 4/7/00 memorandum from the Director of Finance at FCHA to a PIH Revitalization Specialist in HUD’s Pittsburgh TARC advising that all funds due from the audit had been repaid is equivalent to a management summary letter, when coupled with OIG notification by the ALO and the fact this ALO has a unique DAAMS access code to enter closure, equivalent to an electronic signature. 8/7/00. Copy of FAC for 4D was in file. 8/16/99. Copy of FAC for 4E was in file. Conclusion: Both FACs were in the files.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>1998-CH-202-1003</td>
<td>Bloomfield Indiana Housing Authority</td>
<td>1E</td>
<td>This audit report was issued 5/6/98 to the local Cleveland and Indiana Office Directors. The audit resolution activity was handled by local program staff at this time. Subsequently, the TARC became responsible for audit resolution because Bloomfield is a troubled housing authority. 9/3/98. TARC provides proposed final action target dates to OIG. 9/3/98. OIG DIGA concurs with TARC Director’s proposed final action target dates. 5/26/99. Deputy Director of TARC writes to the Executive Director of the Bloomfield Hsg. Authority stating the</td>
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<tr>
<td>ALO</td>
<td>Deficiency</td>
<td>Audit Report #</td>
<td>Report Name</td>
<td>Rec. #’s</td>
<td>Documentation Found in File Based On Review By The CFO’s Office</td>
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</tr>
<tr>
<td>Eastern District</td>
<td>Missing Final Action Certification or Management Summary Letter</td>
<td>1998-CH-202-1003</td>
<td>Bloomfield, Indiana Hsg. Authority</td>
<td>1E</td>
<td>TARC has reviewed correspondence and supporting documentation and verified corrective action has taken place. The TARC faxed this memorandum to the ALO as the corrective action plan. Although this memorandum was titled “Clearance of Audit Findings”, the ALO accepted it as the action plan. <strong>Conclusion:</strong> File contained a corrective action plan, (though memorandum title was misleading).</td>
</tr>
<tr>
<td>Eastern District</td>
<td>Corrective Action Plan Missing From Files</td>
<td>1998-PH-212-1002</td>
<td>Caru &amp; Caru East Apts.</td>
<td>1A</td>
<td>This recommendation was originally coded “I” (Investigation) by OIG. ALO’s file contained a copy of a letter from the OIG for Investigation and a copy of their investigative report. OIG’s letter represented the original</td>
</tr>
</tbody>
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The 8/30/99 memorandum from the Deputy TARC to the Midwest DIGA transmitting an Admission and Occupancy policy is equivalent to a management summary letter, when coupled with an OIG notification by the ALO and the fact this ALO has a unique DAAMS access code to enter closure, equivalent to an electronic signature.
management decision.  
2/7/00. ALO’s file contains memorandum from Philadelphia DIGA Dan Temme to Charles Famuliner, Director, Richmond Program Center advising Famuliner that OIG’s investigative follow-up determined that no HUD rules or guidelines were violated. Therefore, on 2/7/00, OIG recoded this recommendation from an “I” to a “P” and reduced the ineligible cost from $369,228 to $18,503, thereby revising the original management decision. The ALO collected and posted the $18,503 as established by the OIG in the 2/7/00 memorandum. OIG’s memorandum constituted a revised management decision or action plan.  
Conclusion: This recommendation was coded “I” - The corrective action plan consists of the investigation, its results and the 2/7/00 action by the OIG to lower the ineligible costs, thereby unilaterally revising the management decision.

<table>
<thead>
<tr>
<th>ALO</th>
<th>Deficiency</th>
<th>Audit Report #</th>
<th>Report Name</th>
<th>Rec. #’s</th>
<th>Documentation Found in File Based On Review By The CFO’s Office</th>
</tr>
</thead>
<tbody>
<tr>
<td>Eastern</td>
<td>Missing Final Action Certification</td>
<td>1998-PH-212-1002</td>
<td>Caru &amp; Caru East Apts.</td>
<td>1A</td>
<td>2/7/00. ALO’s file contains memorandum from Philadelphia DIGA Dan Temme to Charles Famuliner, Director, Richmond Program Center, stating OIG concurred with HUD’s determinations for recommendations 1A, 1B, 1C &amp; 2A. 3/23/00. Famuliner writes HUD OIG to inform them all monies related to rec. 1A have been repaid and enclosed copies of checks and deposit receipts. 3/31/00. ALO writes Famuliner advising him all documentation for 1A was reviewed and was sufficient to close the recommendation and the entire report. OIG was cc’d on the memo. Conclusion: The 3/23/00</td>
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<tr>
<td>Eastern District</td>
<td>Missing Final Action Certification or Management Summary Letter</td>
<td>1999-CH-202-1001</td>
<td>Springfield Ohio Metropolita n Housing Authority</td>
<td>5B</td>
<td>Memorandum from the Deputy TARC to the Mid-Atlantic DIGA transmitting a notification of all monies ($18,503) were collected and providing copies of checks and deposits is the equivalent of a management summary letter, when coupled with an OIG notification by the ALO and the fact this ALO has a unique DAAMS access code to enter closure, equivalent to an electronic signature.</td>
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<tr>
<td>Eastern</td>
<td>Missing Final</td>
<td>1999-NY-2001</td>
<td>Stanley</td>
<td>1A</td>
<td>8/13/99. Email from OIG’s Bill</td>
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<tr>
<td>District</td>
<td>Action Certification or Management Summary Letter</td>
<td>212-1802</td>
<td>Park Houses</td>
<td></td>
<td>Rooney to ALO advising him that rec. 1A could be closed because evidence in form of a cancelled check was received documenting that costs in rec. 1A had been paid and the rec. could be closed. 9/17/99. ALO receives copy of cancelled check supporting payment of funds due. 9/17/99. ALO emails HUD staff and cc’s OIG stating he concurred with actions taken to close rec. 1A. Conclusion: An email approval notification from the OIG is an equivalent or superior internal control to a FAC. This ALO has a unique DAAMS access code to enter closure. Final closure activity was between HUD OIG and HUD ALO, management was not an active participant, hence a FAC signed by management would have been redundant.</td>
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<td>Corrective Action Plan Missing From Files</td>
<td>1994-FW-214-1003</td>
<td>Eastfield Management Company, Inc.</td>
<td>1C, 1D &amp; 4C</td>
<td>4/15/94. File contains copies of memorandums from HUD management to Ft. Worth DIGA describing the planned corrective actions and requesting OIG’s concurrence and coding of recommendations to “J”. OIG concurred with the proposed management decisions on 4/25/94. 3/7/00. File contains settlement agreement dated 1/11/00 between US Gov’t and owner of Eastfield Mgt. Co., Inc. Agreement outlines how HUD, DOJ and the owner will resolve judgments related to several HUD projects, one of them being Eastfield Village. Part of the settlement agreement includes a promissory note that outlines how some $1,250,000 was to be repaid by the owner. 6/29/00. File contains copy of disallowed cost control log that</td>
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<td>identified adjustments to the disallowed costs based on the settlement agreement. The log shows the balance due as $1,250,000. On 7/5/00, OIG concurred on the disallowed cost control log. Conclusion: File contains corrective action plan for the 3 recommendations.</td>
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</tbody>
</table>
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