

**Functional Series 500 – Management Services
ADS 595 – Audit Management Program**

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*An asterisk indicates that the adjacent material is new or substantively revised.

ADS 595 – Audit Management Program

595.1 OVERVIEW

Effective Date: 11/07/2001

The purpose of this chapter is to provide the policy directives and required procedures for managing audit report recommendations issued by the Office of Inspector General (OIG).

595.2 PRIMARY RESPONSIBILITIES

Effective Date: 01/01/2004

- a. The Administrator is responsible for
 - Designating a senior management official to oversee the USAID audit follow-up program; and
 - Ensuring that management officials throughout USAID understand the value of the audit process and are responsive to audit recommendations.
- b. The Deputy Administrator is responsible for
 - Making the final management decision on appropriate corrective actions to be taken in response to performance audit report recommendations when a management decision cannot be made at a lower level.
- c. The Procurement/Assistance Executive is responsible for
 - Serving as the Agency's final level of appeal for protests related to assistance and procurement instruments, including audit questioned costs; and
 - Making the final management decision on all recommendations from financial audits of contractors/grantees, when a decision has not been made by the cognizant Contract/Grant Officer.
- d. The Assistant Administrator for Management (AA/M) is responsible for
 - Serving as USAID's Audit Follow-Up Official in accordance with OMB Circular A-50. (See mandatory reference, [OMB Circular A-50](#))
- e. The Bureau for Management, Office of Management Planning and Innovation (M/MPI) is responsible for
 - Implementing USAID's audit management program;

- Determining when audit recommendation final action has been taken and ensuring that those actions are reflected in USAID's Consolidated Audit Tracking System (CATS);
 - Co-developing and maintaining USAID's audit management policies and procedures; and
 - Participating in the management and maintenance of CATS.
- f.** The Assistant Administrators, Independent Office Directors, and Mission Directors are responsible for
- Ensuring proper follow-up of audit recommendations in their areas of responsibility; and
 - Designating an appropriate official to act as the Audit Management Officer in their Bureau, Office, or Mission.
- g.** The Audit Management Officer (AMO) is responsible for
- Establishing an audit recommendation follow-up system for the Bureau, Independent Office, or Mission;
 - Serving as liaison with USAID's Audit Follow-Up Official and with M/MPI;
 - Advising and reporting to Mission, Bureau, or Independent Office management on the status of the audit recommendation follow-up system; and
 - Ensuring that audit recommendations receive management decisions and final action in a timely manner.

The Mission Controller normally functions as the Mission AMO.

- h.** The Chief, Bureau for Management, Office of Financial Management, Accounting Division (M/FM/A) and Mission Controllers are responsible for
- *Ensuring that the policies and procedures in ADS 625, Administrative Accounts Receivable, are followed for amounts determined to be due to USAID as a result of audit recommendations.
- i.** The Audit Action Officer (AAO) is responsible for
- Developing responses to draft and final audit reports related to his or her area of responsibility;

- Ensuring that corrective action is completed for all deficiencies identified in audit reports; and
- Requesting management decision and final action on audit recommendations.

AAOs are appointed based on technical knowledge or responsibility for the function being audited.

- j.** The Contract or Grant Officer is responsible for **(see also k and I below)**
- Functioning as the AAO for financial audits of non-U.S.-based organizations;
 - Making determinations on questioned cost and procedural findings from financial audits within his or her scope of authority;
 - *Determining the amount of debt to be recovered under an acquisition or assistance instrument. Such a debt determination may be in the form of a negotiated settlement or a unilateral debt determination (see [ADS 625.2d](#)); and
 - ***Immediately** forwarding a copy of the confirmation of the negotiated settlement or the final settlement letter, and accompanying demand letter, to the appropriate USAID billing office for numbering and recording the debt as a receivable. (See [ADS 625.2d](#))
- k.** The Bureau for Management, Office of Procurement, Procurement Support Division, Contract Audit Management Branch (M/OP/PS/CAM) is responsible for
- Making management decisions and requesting final action for recommendations from financial audits of U.S.-based organizations assigned to M/OP Contract/Grant Officers in Washington.
- l.** The Bureau for Management, Office of Procurement, Procurement Support Division, Overhead, Special Cost and Contract Close Out Branch (M/OP/PS/OCC) is responsible for
- Making management decisions and requesting final action for recommendations from financial audits of U.S.-based organizations involving questioned indirect costs.
- m.** The Strategic Objective (SO) Teams are responsible for
- Advising management regarding audit status and issues within their area of responsibility; and
 - Functioning as the AAO for audits related to their SO.

- n. The Management Control Review Committee (MCRC) is responsible for
 - Providing oversight for the audit recommendation follow-up process; and
 - Serving as a policy and decision-making body in situations involving audit issues.
- o. The Office of General Counsel (GC) or Regional Legal Advisor (RLA) is responsible for
 - Making determinations regarding a legal basis for nonrecovery of disallowed costs; and
 - Providing assistance when a legal opinion is required to determine appropriate action in response to audit recommendations.
- p. The Office of Inspector General (OIG) is responsible for
 - Formally indicating agreement or disagreement with all management decisions for performance and financial audits of USAID's programs, activities, systems, functions, and operations;
 - Formally acknowledging management decisions for financial audits of contractors and grantees;
 - Co-developing and maintaining USAID's audit management policies and procedures;
 - Participating in the management and maintenance of CATS; and
 - Developing and issuing the Inspector General (IG) Semiannual Report to Congress.

595.3 POLICY DIRECTIVES AND REQUIRED PROCEDURES

595.3.1 The Audit Recommendation Follow-Up Process

Effective Date: 11/07/2001

The audit recommendation follow-up process begins with the issuance of a final audit report containing recommendations for USAID action. The OIG codes audit recommendations as either questioned cost (QC), management efficiencies/funds to be put to better use (BU), or procedural (PR). The type of audit recommendation indicates which specific decisions and actions are needed to reach a management decision or final action. (See mandatory references, [ADS 591](#) and [ADS 592](#) for information on audits.)

There are three stages in the audit recommendation follow-up process: no management decision, management decision, and final action.

595.3.1.1 Management Decision

Effective Date: 11/07/2001

A management decision must be reached within six months of issuance of an audit recommendation. A management decision is reached when the OIG agrees with the decision of the AAO at the Bureau, Office, or Mission level, or when the OIG acknowledges that a Contract, Grant, or Agreement Officer has made a management decision.

- a. Contract, Grant, or Agreement Officers make all management decisions on questioned cost and procedural audit recommendations resulting from OIG desk reviews of financial audits of contractors and grantees. For example, a Mission Director is the Grant Officer for Strategic Objective Grant Agreements (SOAGs) that he or she signs, and an Assistant Administrator is the Grant Officer for grants to public international organizations that he or she signs. **(See section 595.2 paragraphs j, k, and l for further clarification.)** These decisions are final when made within the scope of their authority. The OIG acknowledges these decisions with a formal written response.
- b. For performance audits, the AAO is determined on a case-by-case basis depending on the audit subject. The AAO makes all management decisions for performance audits. The OIG agrees or disagrees with these decisions in a formal written response.
- c. The Deputy Administrator makes final management decisions in those cases where agreement between USAID and OIG does not occur at a lower level. Authority to make final management decisions on recommendations from financial audits of contractors and grantees is delegated to the Procurement Executive by the Deputy Administrator when a management decision has not been made by the cognizant Contract/Grant Officer.
- d. Recommendations without a management decision within six months of issuance and disagreements between OIG and USAID on management decisions must be included in the Inspector General's Semiannual Report to Congress.
- e. The AAO must convey management decisions in writing and must clearly explain the action to be taken and provide an estimated target date for final action. The AAO must promptly send management decisions to the OIG office that issued the audit report. The AAO must forward an information copy of all management decisions to M/MPI.

595.3.1.2 Management Decisions by Recommendation Type

Effective Date: 11/07/2001

In order to make a management decision, the responsible AAO must decide on the appropriate corrective actions to take in response to a recommendation. The information to include in a management decision depends on the recommendation type as follows:

a. Questioned Cost (QC) Recommendations:

Contract/Grant Officer determination of allowability of questioned costs. This determination must specify the amount of questioned costs allowed and/or disallowed and a target date for collection of the disallowed amounts.

b. Management Efficiencies or Funds to Be Put to Better Use (BU) Recommendations:

- (1) AAO review of recommendation and proposed savings amount;
- (2) AAO indication of agreement with proposed savings amount or identification of sustained/not sustained savings;
- (3) AAO identification of any procedural actions planned; and
- (4) Target date for completion of all actions.

c. Procedural (PR) Recommendations:

- (1) AAO indication of agreement or disagreement with recommendation;
- (2) Detailed information regarding planned corrective actions; and
- (3) Target date for completion of all actions.

595.3.1.3 Recording Receivables

Effective Date: 11/07/2001

Amounts due to USAID as a result of audit recommendations must be recorded as accounts receivable after establishing the sustained amount through a management decision. All billing and collection activities must be carried out in accordance with [ADS 625](#), Administrative Accounts Receivable. Please contact M/MPI for information on these policies.

In instances where a portion of the funds on a grant, contract, or other agreement are periodically advanced, it is not necessary to record a receivable, since disallowed costs may be offset against undisbursed funds.

595.3.1.4 Revised Management Decision

Effective Date: 11/07/2001

In those cases when the AAO decides to implement a final action other than the action agreed to in the initial management decision, the AAO must submit the revised management decision to the OIG office that issued the report.

- a. If the recommendation is from a performance audit, and the OIG office agrees that the revised action still satisfies the recommendation's concerns, the OIG will notify the action office within 30 calendar days that the recommendation has a revised management decision. If the OIG office does not agree with the revised action, it will change the recommendation status to "No Management Decision." If the OIG office fails to take action on the request within 30 calendar days, the revised action will be determined to be sufficient.
- b. If the recommendation is from a financial audit of a contractor or grantee, the OIG will notify the action office within 30 calendar days that it acknowledges a revised management decision. If the OIG office fails to take action on the request within 30 calendar days, a revised management decision will have been made.

595.3.1.5 Recommendation Elevation

Effective Date: 11/07/2001

Every effort must be made to reach a management decision that is mutually acceptable to the Bureau, Office, or Mission and the OIG within six months of final report issuance. To facilitate these efforts, recommendations may be elevated to the next management level.

- a. If a management decision has not been made within three months of final audit report issuance, the OIG may refer the issue to the appropriate Assistant Administrator to facilitate a management decision. The OIG must provide a copy of the referral to M/MPI, which will facilitate efforts to reach a management decision.
- b. If a management decision has not been made within four months of final audit report issuance or has already been elevated to the Bureau Assistant Administrator level with no success, the OIG may refer the issue to the Deputy Administrator for a final management decision.
- c. If a management decision on a recommendation under a contract, grant, or cooperative agreement has not been made within four months of final audit report issuance at the Bureau Assistant Administrator level, the OIG may refer

the issue to the Procurement/Assistance Executive for a final management decision.

d. The appropriate Assistant Administrator has the option of referring the issue to the Deputy Administrator if the possibility of reaching an agreement between management and the OIG has been exhausted.

595.3.1.6 Final Action

Effective Date: 01/01/2004

A reasonable effort must be made to complete corrective action on audit recommendations within one year of a management decision. All actions that USAID has detailed in its management decision must be completed before final action can be considered to have taken place.

a. In order to ensure effective recovery action, M/FM/A and field controllers must follow established accounting and collection controls when pursuing amounts due to the Government as a result of audit recommendations. (See [ADS 625](#), Administrative Accounts Receivable)

b. AAOs must ensure that policy documents, such as Automated Directives System (ADS) chapters, that are developed as a result of audit recommendations are cleared by M/MPI during the required ADS clearance process in order to determine compliance with the management decision. Requests for final action may be submitted to M/MPI after the policy documents are issued in final form. (See mandatory reference, [ADS 501](#), for information on the clearance and issuance process for ADS material.)

c. Audit Action Officers must provide M/MPI with a written request for determination of final action that includes the following:

- (1) The audit report number;
- (2) Recommendation number(s);
- (3) Documentation supporting the correction of procedural recommendations, recovery of monetary findings, or savings from management efficiency findings; and
- (4) The date of final action.

*d. M/MPI determines when final action has been taken on audit recommendations based on written requests with justification from AAOs. M/MPI uses the following standards in determining whether final action has been taken on audit recommendations (see [MPI Audit Recommendation Final Action \(Closure\) Procedures](#)).

(1) Questioned Costs:

When a recommendation involves a monetary recovery, the basis for final action will be the actual offset, a monetary/in-kind collection, or a written statement establishing a legal basis for non-recovery. The amount must be consistent with the disallowed amount conveyed in the management decision.

(2) Management Efficiency (Funds to Be Put to Better Use):

When a recommendation involves a monetary benefit resulting from a management efficiency, the basis for determining when final action has been taken will be the completion of all actions outlined in the management decision. This normally involves procedural actions such as deobligation of funds, reprogramming of funds, deduction in outlays, cost avoidance, establishing new or revised policies or procedures, or other savings realized from implementing the recommended improvement.

(3) Procedural Actions:

- (a) A statement from the AAO and documentation demonstrating that corrective action has been fully implemented; or
- (b) A statement from the AAO that includes a legal opinion or other authorization for non-implementation of the recommendation.

Procedural audit recommendations in financial audits of contractors and grantees deal with internal control and compliance findings. Due to the large volume of documentation normally required to support final action for these types of recommendations, it is often not practical or cost beneficial to require Missions and Bureaus to submit documentary evidence with their final action requests. Therefore, the basis for final action of financial audit internal control and compliance recommendations is a certification from the Contract or Grant Officer that the agreed-upon actions in the management decision have been implemented.

- e. If final action has not been taken on significant recommendations described in previous Inspector General Semiannual Reports to Congress, the information will be included in the next semiannual report. (See [595.3.3.1](#))
- f. If final action has not been taken on audit reports within one year from the management decision date, the information will be included in USAID's Performance and Accountability Report, which incorporates the Administrator's semiannual reporting requirements to Congress. (See [595.3.3.2](#))

g. The one exception to M/MPI determining when final action has taken place is when the OIG determines that final action on the recommendation has been taken upon issuance of the final audit report. In these instances, the OIG audit offices must use the standards used by M/MPI for making a determination of final action.

595.3.2 Records and Documentation

Effective Date: 11/07/2001

Each USAID Bureau, Independent Office, and Mission must maintain accurate records of the status of audit reports and recommendations issued to them through the entire process of recommendation follow-up and final action. Audit Management Officers serve as the point of contact on matters related to audit follow-up and provide updates on the status of outstanding recommendations as requested by OIG and M/MPI.

USAID and OIG jointly manage a centralized automated information system, which provides accurate records on the status of all audit reports and recommendations. In USAID's Consolidated Audit Tracking System (CATS), IG/A/HLC maintains information related to the issuance of audit reports and management decisions. M/MPI maintains information required after management decisions, such as bill for collection information, status information, and final action data. Information on how to use CATS is described in the CATS System and Operations Manual, which is accessible by clicking on the Help button in CATS.

595.3.3 Reporting Requirements

Effective Date: 01/01/2004

*The Administrator must furnish the Inspector General's Semiannual Report to Congress to appropriate congressional committees and subcommittees no later than 30 days after April 30 and October 31 each year. The Administrator's semiannual reporting requirements, as outlined in the [Inspector General Act of 1978, as amended](#), are currently incorporated into the Agency's Performance and Accountability Report.

595.3.3.1 The Inspector General's Semiannual Report to Congress

Effective Date: 11/07/2001

In accordance with the [Inspector General Act](#), the Inspector General's report must include the following:

- a. Any comments the Inspector General determines to be appropriate.
- b. A description of significant problems, abuses, and deficiencies relating to the administration of the Agency's programs and operations disclosed during the reporting period.

- c. A description of recommendations for corrective action made by the Inspector General during the reporting period with respect to significant problems, abuses, or deficiencies.
- d. An identification of significant recommendations described in previous semiannual reports on which corrective action has not been completed (Table C).
- e. A summary of matters referred to prosecuting authorities and prosecutions and convictions that have resulted.
- f. A summary of any reports to the Administrator concerning information or assistance that was unreasonably refused or not provided to the Inspector General.
- g. A listing, divided by subject matter, of all audit reports issued by the Inspector General during the reporting period, and for each audit report, where applicable, the total dollar value of questioned costs, unsupported costs, and the dollar value of recommendations that funds be put to better use (Table A).
- h. A summary of each particularly significant audit report issued by the Inspector General during the reporting period.
- i. Statistical tables showing the total number of audit reports and the total dollar value of questioned costs and recommendations that funds be put to better use. One table must be prepared for audit reports containing questioned costs and unsupported costs (Table D), and another table must be prepared for audit reports containing recommendations to put funds to better use (Table E). Specifically, the tables must account for the following:
 - (1) Audit reports without management decisions at the commencement of the reporting period;
 - (2) Audit reports issued during the reporting period;
 - (3) Audit reports on which management decisions were made during the reporting period to include the dollar value of disallowed costs or the dollar value of recommendations agreed to by management, and costs not disallowed or the dollar value of recommendations not agreed to by management; and
 - (4) Audit reports on which no management decisions were made at the end of the reporting period.
- j. A summary of each audit report issued in prior reporting periods for which a management decision has not been made by the end of the current reporting period. The summary must include a discussion explaining why a management

decision has not been made, a timetable for achieving a management decision, and the date and title of each such report (Table B).

k. Information concerning any significant management decisions with which the Inspector General is in disagreement.

l. A description and explanation of the reasons for any significant revised management decisions made during the reporting period.

595.3.3.2 USAID's Audit Follow-Up Report

Effective Date: 11/07/2001

The Administrator's reporting responsibilities on audit issues in accordance with the [Inspector General Act](#) are included in the annual Performance and Accountability Report. USAID is responsible for compiling the following information:

- a. Any comments the Administrator determines to be appropriate.
- b. Statistical tables showing the total number of audit reports and the dollar value of disallowed costs for the following:
 - (1) Audit reports on which final action had not been taken by the commencement of the reporting period;
 - (2) Audit reports on which management decisions were made during the reporting period;
 - (3) Audit reports for which final action was taken during the reporting period, including (1) the dollar value of disallowed costs that were recovered by management through collection, offset, property in lieu of cash, or otherwise; and (2) the dollar value of disallowed costs that were written-off by management; and
 - (4) Audit reports for which no final action has been taken by the end of the reporting period.
- c. Statistical tables showing the total number of audit reports and the dollar value of recommendations that funds be put to better use by management agreed to in a management decision for the following:
 - (1) Audit reports for which final action had not been taken by the commencement of the reporting period;
 - (2) Audit reports on which management decisions were made during the reporting period;

(3) Audit reports for which final action was taken during the reporting period, including (1) the dollar value of recommendations that were actually completed; and (2) the dollar value of recommendations that management has subsequently concluded will not be implemented or completed; and

(4) Audit reports for which no final action has been taken by the end of the reporting period.

d. A statement with respect to audit reports on which management decisions have been made but final action has not been taken, other than audit reports on which a management decision was made within the preceding year, containing the following:

(1) A list of such audit reports and the date each report was issued;

(2) The dollar value of disallowed costs for each report;

(3) The dollar value of recommendations that funds be put to better use agreed to by management for each report; and

(4) An explanation of the reasons final action has not been taken for each such audit report. The statement may exclude audit reports that are under formal administrative or judicial appeal or upon which management of an establishment has agreed to pursue a legislative solution, but must identify the number of reports in each category so excluded.

595.3.4 Audit Management in Closeout Countries

Effective Date: 11/07/2001

Closing Missions must make every effort to ensure that open audit recommendations are closed. Those audit issues that cannot be settled before the closing of a Mission, or close-out of a program or award, become the responsibility of the receiving Mission or Office. Receiving officers are responsible for ensuring that management decisions are reached and final action is taken on audit recommendations.

595.3.5 Evaluation of Staff Performance in Conducting Audit Follow-up Responsibilities

Effective Date: 11/07/2001

Annual Evaluation Forms (AEFs) must reflect, when applicable, audit follow-up responsibilities, and employees must be evaluated on their effectiveness in carrying out those responsibilities. When applicable, USAID managers must ensure that work elements and performance appraisals reflect the effectiveness of staff in resolving and implementing audit recommendations. (See mandatory reference, [ADS 462](#) for information on the employee evaluation program.)

595.4 MANDATORY REFERENCES

595.4.1 External Mandatory References

- *a. [Inspector General Act of 1978, as amended](#)
- b. [OMB Circular A-50, Audit Follow-Up](#)

595.4.2 Internal Mandatory References

- *a. [AAPD 03-07, Instructions to Contracting/Agreement Officers on their Role in the Debt Collection Process](#)
- b. [ADS 462, Employee Evaluation Program](#)
- c. [ADS 501, The Automated Directives System \(ADS\)](#)
- d. [ADS 591, Financial Audits of USAID Contractors, Grantees, and Host Government Entities](#)
- e. [ADS 592, Performance Audits](#)
- *f. [ADS 625, Administrative Accounts Receivable](#)
- *g. [Guidelines for Financial Audits Contracted by Foreign Recipients](#)

595.5 ADDITIONAL HELP

- *a. [MPI Audit Recommendation Final Action \(Closure\) Procedures](#)

595.6 DEFINITIONS

Effective Date: 11/07/2001

The terms and definitions listed below have been included in the ADS Glossary. See the [ADS Glossary](#) for all ADS terms and definitions.

Agency Audit Follow-Up Official

The senior management official designated by the Administrator in accordance with OMB Circular A-50 to oversee audit follow-up. The Assistant Administrator for Management is USAID's Audit Follow-up Official. (Chapter 595)

allowed costs

An incurred cost questioned by the audit organization that USAID has determined to be an acceptable charge to the government. (Chapter 595)

Audit Action Officer (AAO)

The USAID employee assigned specific responsibility for responding to

recommendations from audits and ensuring that corrective action is completed. (Chapter 595)

audit follow-up

The process used to ensure that prompt and responsive action is taken on findings and recommendations contained in final audit reports. (Chapter 595)

Audit Management Officer (AMO)

The individual designated to coordinate and monitor the overall audit program at the Mission, Bureau, or Independent Office level. (Chapters 591, 592, 593, and 595)

Consolidated Audit Tracking System (CATS)

An audit report and recommendation follow-up and tracking system shared by USAID and the Office of Inspector General (OIG). (Chapter 595)

corrective action

Measures taken to implement audit findings and recommendations. (Chapter 595)

desk review

A limited review of a financial audit report prepared by non-Federal auditors to determine whether the report contains all the required elements and appears to be accurate and logical. (Chapters 590, 591, and 595)

disallowed cost

An incurred cost questioned by the audit organization that USAID has agreed is not chargeable to the government. (Chapter 595)

final action

Based on a management decision, the completion of all actions that are necessary to resolve and implement the findings and recommendations of an audit report. (Chapter 595)

financial audit

An audit to assess whether a recipient (contractor, grantee, or host government) has accounted for and used USAID funds as intended and in compliance with applicable laws and regulations. (Chapters 591 and 595)

grant

A legal instrument used where the principal purpose is the transfer of money, property, services, or anything of value to the recipient in order to accomplish a public purpose of support or stimulation authorized by Federal statute and where substantial involvement by USAID is not anticipated. (Chapters 304, 591, and 595)

Management Control Review Committee (MCRC)

A group of senior officials at the Mission, Bureau, or Office level who provide oversight

and assistance for the management control program and audit management issues. (Chapters 591, 595, 596)

management decision

The evaluation of a recommendation by management and a decision upon an appropriate course of action. (Chapter 595)

management efficiency

A monetary recommendation that could result in funds being used more efficiently. The recommendation may include (a) savings from such items as reprogramming or recapture of unliquidated obligations; (b) more efficient contract negotiations; and (c) reduction or elimination of payments, costs, or expenses that would be incurred by the Agency. This term has the same meaning as "funds be put to better use." (Chapter 595)

no management decision

A management decision has not yet been made regarding an audit recommendation. (Chapter 595)

not sustained amount

The amount of a proposed management efficiency audit recommendation that is not agreeable to USAID. (Chapter 595)

procedural recommendation

An audit recommendation type that involves non-monetary corrective actions. (Chapter 595)

questioned costs

Costs determined to be potentially unallowable. It includes (1) *ineligible costs* (violation of law, regulation, contract, grant, cooperative agreement, etc., OR unnecessary or unreasonable expenditure of funds); and (2) *unsupported costs* (those not supported by adequate documentation at the time of the audit). (Chapters 591 and 595)

sustained amount

The amount of a proposed management efficiency audit recommendation that is agreeable to USAID. (Chapter 595)

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