



Handbook 2000.06 Rev-4

U.S. Department of Housing and Urban Development
Office of the Chief Financial Officer

Departmental Staff

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Audits Management System (AMS)

1. This Transmits

Handbook 2000.06 Rev-4, Audits Management System (AMS), effective August 1, 2011.

2. Significant Changes

This Handbook replaces all prior revisions of the Handbook and provides operating procedures for implementing HUD's AMS. This Handbook contains the following significant changes:

- A. The Departmental Automated Audits Management System has been replaced by the Audit Resolution and Corrective Action Tracking System (ARCATS), a Lotus Notes based system.
- B. A description of the role and responsibilities of the Recommendation Action Official (RAO) as well as the Program Point-of-Contact (POC) regarding the Office of Inspector General (OIG) audit resolution process has been added.
- C. Procedures for obtaining management decisions, revised management decisions, and submitting final action certifications have been changed to the following paperless procedures:
 1. To prevent management decisions from being accepted that do not contain all needed information the Action Official (AO), RAO, or the assigned POC should submit proposed and revised management decisions to the OIG through ARCATS;
 2. The OIG will concur on proposed management decisions and proposed revised management decisions in ARCATS; and
 3. To prevent acceptance of a paper final action certification from an official not assigned to a recommendation, the AO, RAO, or POC will submit final action certifications to their Audit Liaison Officer (ALO) through ARCATS. The AO, RAO, or POC will still need to provide the documents necessary to support recommendation closure to their ALO by electronic or hard copy. Storage of documentation in ARCATS is encouraged.
- D. Accelerated/early management decision procedures for obtaining a management decision on OIG audits to reflect the preference for obtaining a management decision prior to the final OIG external audit being published.
- E. The Government Accountability Office (GAO) audit resolution process section has been expanded to include the complete audit process including use

of the ARCATS system and the expanded roles and responsibilities of the ALO and the Office of General Counsel (OGC).

- F. The External Audit section has been expanded to help address the resolution of audits issued in accordance with the Single Audit Act.

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Acronym List

AIGA	Assistant Inspector General for Audit
ALD	Audit Liaison Division
ALO	Audit Liaison Officer
AMS	Audits Management System
AO	Action Official
ARRA	American Recovery and Reinvestment Act
ARCATS	Audit Resolution and Corrective Action Tracking System
CAV	Corrective Action Verification
CFO	Chief Financial Officer
CFDA	Catalog of Federal Domestic Assistance
CIR	Congressional and Intergovernmental Relations
CCU	Control Correspondence Unit Person
DAAMS	Departmental Automated Audit Management System
DALO	Departmental Audit Liaison Officer
DAS	Deputy Assistant Secretary
DCCO	Departmental Claims Collection Officer
Exec. Sec.	Executive Secretariat
FAC	Final Action Certification
FACH	Federal Audit Clearing House
FATD	Final Action Target Date
FPTBU	Funds-Put-To-Better-Use
GAO	Government Accountability Office
HPOH	Headquarters Primary Organization Head
IA	Independent Auditor
ODOC	Office of Departmental Operations and Coordination
OGC	Office of General Counsel
OIG	Office of the Inspector General
OMB	Office of Management and Budget
PAR	Performance and Accountability Report
POC	Point-of-Contact
QCR	Quality Control Reviews
RAO	Recommendation Action Official
RIGA	Regional Inspector General for Audits
SAA	Single Audit Act
SOF	Statement of Facts

Chapter 1: General

1-1 Purpose

The primary purpose of this Handbook is to provide operating procedures for the AMS - the Department's management system used to monitor the implementation of recommendations in audit reports prepared by the OIG, GAO, or other auditors. The Handbook also includes procedures and information on the Department's audit process for the purpose of providing employees with a better understanding of the AMS and its relationship to the Departmental audit process. The AMS is the system specifically designed to:

- A. Establish procedures to ensure timely decisions by HUD management on recommendations in audit reports, including actions needed to overcome deficiencies (action plan or management decision) and completion (final action) of the needed actions.
- B. Provide monitoring reports to top management, AOs, RAOs, POCs, and ALOs concerning the Departmental goal to promptly reach management decisions and implement audit recommendations.

Actions taken under the AMS process shall be in accordance with specific program laws, regulations, policies, and procedures. Since HUD administers many programs, this Handbook does not make reference to specific program requirements. However, management decisions shall be consistent with applicable program requirements and policies.

1-2 Requirements

The AMS has been designed to conform with the requirements of the Inspector General Act of 1978 as amended (5 USC APP.3), Office of Management and Budget (OMB) Circular A-50 revised "Audit Follow-up" and OMB Circular A-133 "Audits of States, Local Governments, and Non-Profit Organizations".

1-3 Applicability

The AMS is applicable to all external and internal audit recommendations contained in audit reports issued by the OIG; recommendations involving the Department that are developed by GAO; and recommendations contained in Single Audit Act audit reports where HUD is designated cognizant or oversight agency by OMB.

The AMS does not apply to audits, studies, reviews, or inspections performed under the direct authority of any Headquarters' Primary Organization Head (HPOH). Examples of audits, studies, and reviews to which the AMS does not apply are as follows:

performance reviews, physical inspections, financial reviews, compliance assessments, reviews of pricing proposals, and examinations of contract costs.

1-4 Definitions

Common terms that are used throughout this Handbook are defined in Appendix 1.

1-5 Responsibilities

The core responsibility for the successful implementation of the AMS process is vested within the Department's HPOHs and their subordinate Headquarters and field program and administrative managers. These managers, or their designees, are the usual respondents for most audit recommendations addressed to the Department. The AMS involves the OIG since OIG: (a) develops audit findings and recommendations; (b) serves as the primary advisor on all audit matters affecting the Department; (c) reviews management decisions and revised management decisions on recommendations to ensure that proposed corrective actions will correct problems disclosed; (d) performs corrective action verifications (CAVs) on selected recommendations to ensure that final action has been completed in accordance with the management decision and that this action has corrected the problems disclosed (see Chapter 8); and (e) serves as the National Single Audit Coordinator for Single Audit Act (SAA) Audits within their area.

A. General Guidelines. HUD program or administrative managers are to: (a) promptly evaluate recommendations reported by auditors; (b) determine proper actions to be taken in response to audit recommendations; (c) complete, within established time frames, all actions that correct or otherwise resolve the matters brought to management's attention; (d) certify that all necessary corrective actions have been taken and are supported with documented evidence as required by the management decision; and (e) maintain files which include all documentation evidencing corrective action as required by the management decision. OIG's concurrence is required prior to considering any OIG-issued recommendation as having a management decision. However, if the OIG non-concurs with program management's proposed action for a management decision or a revised management decision, the OIG may refer the disagreement to the HPOH or the OIG/HPOH may refer the disagreement to the Deputy Secretary for a final decision.

B. Specific Responsibilities.

1. The Deputy Secretary is HUD's principal audit follow-up official and makes final decisions on referrals from the OIG relating to OIG's nonconcurrence with program management's proposed management decisions and/or final actions. In the event that the position of Deputy Secretary is vacant, the General Counsel shall be HUD's principal audit follow-up official.

2. The AO is the Program Manager for those audit reports addressed to him/her by the OIG. Even when the AO moves on to a new position, he/she will always be listed as the AO in ARCATS since the hardcopy report was addressed to that specific person. Even though the audit report is recorded this way in ARCATS, the responsibility for resolving the individual recommendations in the audit is normally reassigned to a RAO, who, in most cases is the individual that has taken the AO's position within the Department. There are no restrictions on the number of RAOs assigned to an audit report. However, each recommendation may have only one.
 - a. The AO or designated RAO is responsible for ensuring that prompt management decisions are made and for certifying that final actions are taken on recommendations issued by the OIG.
 - b. Each AO or designated RAO must also ensure that the responsible ALO is kept informed of all significant actions they take on audit recommendations. This includes providing a copy of audit related correspondence and other documentation for inclusion in the ALO's audit file.
3. The RAO is either: 1) assigned by the AO to be the person responsible for the audit recommendations contained in an OIG report; 2) is the person who has taken over the AO's position when the AO has moved on; or 3) is assigned by the OIG due to the nature of the recommendation. Both the OIG and HUD have the ability to change the RAO in ARCATS as deemed appropriate. The RAO has the same responsibilities as the AO.
4. A POC may be designated by the AO or the RAO and is added to the ARCATS recommendation form by the AO, RAO, or ALO. The POC has the same level of access authority in ARCATS as the RAO. At the direction of the AO or RAO, the POC, through ARCATS, is able to: start electronic discussions regarding formulating proposed management decisions; enter proposed management decisions; enter proposed revised management decisions; submit proposed decisions to the OIG; enter comments; and submit a final action certification.
5. The HPOHs have overarching responsibility for assuring that prompt management decisions are made and that final actions are completed on audit recommendations addressed to their organizations, program components, or administrative areas. In addition, as supervisors of field program directors within their functional areas of responsibility, the HPOHs are responsible for monitoring and assisting these program managers in making timely management decisions and ensuring that final actions are completed for audit recommendations within their areas of responsibility. (Refer to Chapter 5 for specific details.)

- a. The HPOH is responsible for evaluating program managers' proposed management decisions that have been referred by the OIG because of disagreements or untimely management decisions.
- b. The HPOH is responsible for appointing an ALO to serve as a primary focal point to coordinate the tracking and processing of recommendations in those audit reports addressed to them or transferred to them. The HPOH must ensure that the Departmental Audit Liaison Officer (DALO) is informed of any changes in the assignment of ALO responsibilities by email or memo. If workload volume warrants, the HPOH may separately assign ALOs for OIG, GAO, and SAA audits.
- c. Each HPOH is responsible, through their designated ALO, for maintaining adequate files on each audit recommendation within their area of responsibility. (See Chapter 4 for additional information)
- d. Each HPOH, when an AO, must also ensure that the responsible ALO is kept informed of all significant actions they take on OIG and GAO audit recommendations. This includes providing a copy of audit related correspondence and other documentation for inclusion in the ALO's audit file.
- e. Each HPOH is responsible for providing responses to GAO regarding draft reports and to Congress regarding recommendations identified in final GAO reports that apply to their program area.

For SAA audits, the OIG has directly delegated responsibility for approving management decisions for audit recommendations to the affected HPOH. Consequently, OIG concurrence is not required for SAA related management decisions.

6. The DALO is located within the Chief Financial Officer's (CFO's) Office of Financial Management, Audit Liaison Division (ALD) and is the Department's focal point for ensuring timely action and resolution of OIG audit recommendations and the timely completion of GAO reviews of HUD. The ALD Director shall be designated the DALO for the purposes of carrying out these responsibilities including:
 - a. Ensuring that audit follow-up policies and procedures are in place;
 - b. Evaluating ALO audit follow-up performance through Quality Control Reviews (QCR), CAV Reviews, and other appropriate mechanisms;
 - c. Ensuring centralized tracking of OIG-issued audits from report issuance through final action in the ARCATS;
 - d. For OIG audits, supervising Field ALOs and monitoring Headquarters' ALOs who have the responsibilities of entering information into ARCATS to include

- accepting the final action certification submitted by the AO, RAO, or POC and maintaining a copy of the certification for their records;
- e. Serving as the primary focal point to coordinate the processing of all GAO new assignments, draft and final reports, and GAO recommendations that relate to HUD (See Chapter 9); and
 - f. Acting as the system sponsor and administrator for ARCATS.
7. The Assistant CFO for Accounting is responsible for establishing procedures for assuring the amounts due to HUD, pursuant to management decisions, are appropriately accounted for and collected.
 8. The Departmental Claims Collection Officer (DCCO) is responsible for aggressive collection action on disallowed costs due to HUD when a debt is delinquent. When the AO has exhausted the initial effort and the debt remains delinquent, the AO forwards evidence of their attempts to collect the debt to the DCCO and notifies the ALO (Refer to section 5-6 or the Delinquent Debt Collection Handbook 1900.25 for additional details).
 9. The Inspector General shall provide support to the Deputy Secretary and each HPOH in all audit matters. The Assistant Inspector General for Audit (AIGA) or the Regional Inspector General for Audits (RIGAs) are responsible for: a) issuing an OIG audit report and forwarding it to the report's addressee, appropriate ALO, and program comptroller or designee; b) monitoring the AMS process; c) monitoring and following up on recommendations requiring management decisions; d) settling impasses relating to audit reports with HPOHs; e) preparing and submitting referrals due to disagreements or overdue management decisions to the Deputy Secretary or HPOHs; f) conducting periodic audits of the Department's follow-up performance; g) ensuring each ALO is kept informed of all significant OIG activity on audit recommendations within the ALO's area of responsibility; h) keeping a record of each OIG-issued recommendation until management decision and, if applicable, until a CAV is performed; and i) ensuring that all appropriate OIG entries are made in ARCATS as described in the ARCATS Users Manual.
 10. The CFO has overall responsibility for monitoring the HPOH's progress toward obtaining final actions and reporting such activity to various management levels through appropriate periodic reports.

1-6 General Standards for Management Decisions and Final Actions

- A. Timing. The Department has established a goal for achieving a management decision within 120 calendar days so that any impasses can be satisfied prior to the federal requirement that management decisions be in place by 180 days after report issuance. A management decision is required on all recommendations in an audit report within

6 months (180 days) after the report is issued. The Department's goal for completion of final action is 1 year from the management decision date. However, when large amounts of disallowed costs are to be recovered by HUD or the program on an installment basis, the Department's goal is to have all costs recovered within 3 years. Final action could occur simultaneously with the management decision if the management decision can be made and the required corrective actions completed within 120 calendar days after issuance of an audit report. (See Appendix 2 for an OIG audit resolution timeline chart)

AOs are encouraged to work with the OIG on external audits to ensure that, when possible, management decisions are reached before the report is issued.

1. For external audits, the HUD AO should contact the auditee (program participant) within 15 days of report issuance and obtain its written response within 45 days as to what action the auditee plans to take to overcome the identified deficiencies. When the response is received, the AO should evaluate the recommendations in the audit report along with the auditee's response and decide what action is needed, including a corrective action plan to overcome the deficiencies (proposed management decision). The proposed OIG management decision shall be submitted through ARCATS to the OIG report issuer for concurrence as soon as possible but no later than the 104th day after audit issuance to allow enough time for the OIG to review the request before the 120 day Departmental goal.
 2. The OIG report issuer should evaluate the AO's proposed management decision within 15 days of receipt. The audit report issuer will advise the AO through ARCATS of the concurrence or nonconcurrence with the proposed management decision. Report issuers must not only concur in the action to be taken, but must agree that the documentation proposed to evidence final action will provide satisfactory evidence that all actions required by the management decision have been completed.
- B. Documentation. Management decisions and final actions shall be supported in ARCATS and supplemented by appropriate documentation so that the AMS status of each audit report and its controlled recommendations can readily be determined. An electronic Final Action Certification (FAC) in ARCATS is required for all final actions that are not closed by the OIG or where the OIG has requested that the ALO close the recommendation. ALOs will not close audit recommendations without the certification from the responsible AO, RAO, or POC as designated in ARCATS.
- C. Management Decision. A proposed management decision occurs when the AO evaluates the recommendations in the audit report and determines what action, if any, is needed and submits it to the OIG in ARCATS. The concurrence of the OIG audit report issuer is required on OIG-issued recommendations and this concurrence constitutes an approved management decision. For SAA audit recommendations, the approved management decision occurs when an HPOH designated authorized HUD management official approves the decision. OIG concurrence is not required for

SAA audit management decision or GAO action plans. Proposed management decisions provided for OIG concurrence must include:

1. A final action target date;
2. Details on the types of documentation that will be used to evidence that final action is completed;
3. A Program POC;
4. Projections of any savings (FPTBU) or amounts to be repaid (disallowed questioned costs) to the Department or program participants that will result from implementation of corrective actions, as applicable; and
5. A description of the actions to be taken.

Any changes to the corrective actions necessary, projections of any savings, amounts to be repaid (i.e. amounts disallowed), or the types of documentation to be used to evidence final action are considered revised management decisions. These changes must be submitted to the OIG through ARCATS and concurred on by the OIG report issuer before management can consider the recommendation as having a revised management decision.

- D. Final Action. Final action for an OIG issued recommendation occurs when all actions identified in the management decision (action plan) or the revised management decision have been implemented, the AO, RAO, or POC certifies to the completion of all actions, and the ALO accepts the certification and closes the recommendation. Final action should normally occur within 1 year of the original management decision date.

The AO, RAO, and POC is responsible for monitoring progress, documenting completion of the final action, forwarding the evidence to provide closure, as specified in the management decision, to the ALO within the target date. For an OIG recommendation to be considered as having final action, all actions required by the management decision or revised management decision must be completed. Additionally, the AO, RAO, or POC must certify in ARCATS that all necessary corrective actions have been taken and all necessary documentation has been obtained in accordance with the management decision that was concurred on by the OIG. If a recommendation contains disallowed costs, the amounts shall be recovered, adjusted, or forgiven before the recommendation can be considered to have final action for AMS purposes. (See Chapter 5 for additional details.)

1-7 Agency Report to Congress

The Inspector General's Act requires that the Inspector General and the Secretary report semiannually on the audit follow-up process in the Department. Their reports to

Congress require statistics on the number of audit reports, number of audit recommendations, amounts of disallowed and recovered costs in audit reports, and the extent to which the agency met timeliness goals. The Secretary's semiannual reporting requirements are met through the annual Performance and Accountability Report (PAR). In addition, the reports to the Congress are required to provide information on significant OIG nonoccurrence with management decisions, revised management decisions, overdue actions, and other audit matters.

1-8 ARCATS

The primary purpose of ARCATS is to: 1) track the status of OIG audit recommendations from the time an audit report is issued until all actions are completed; 2) track GAO reviews from inception through recommendation closure; and 3) serve as a centralized repository for SAA audits, findings, and recommendations. ARCATS is the official tracking system of the Department. The information recorded in ARCATS is the basis for the Department's reports on the status of audit recommendations to Congress. For ARCATS to be effective for OIG audit resolution management, it is mandatory that certain information be entered into the system directly by HUD management and the OIG. Both management and the OIG can obtain standard reports directly from ARCATS. The ARCATS Users' Manual describes detailed information on ARCATS and required fields. In addition, quick user guides, responses to frequently asked questions, and other aides are available at <http://hudatwork.hud.gov/po/f/audit/finmgmt2.cfm>.

Chapter 2: External Audits

2-1 General

- A. Purpose of External Audits. An external audit is an audit of a HUD program participant that commonly revolves around the expenditure of funds provided through a HUD program. External audits provide the Department and program participants with objective, independent, and factual information with respect to activities performed by program participants under contracts, grants, or other agreements. Audits are a means of ascertaining the degree of compliance with statutes, regulations, and terms and conditions of the agreements under which the federal funds are made available. Determinations also are made as to the appropriateness of the disposition of funds granted, loaned, or administered. In addition, audits provide program participants with information on whether locally adopted policies and requirements are being observed and whether operations are proper, efficient, and economical. Departmental policies governing external audits are found in OIG's Audit Operations Manual, OIGM-2000.
- B. Exit Conference and Other Auditee Communication. During the course of the audit, draft copies of the tentative recommendations are presented by the OIG, non-Federal Independent Auditors (IAs), or other federal audit agency representatives to auditees for their comments and subsequent discussion at an exit conference. Once the auditee reviews the draft audit findings/recommendations, the exit conference should be held between the auditors and representatives of the auditee.

The final audit report should consider the results of the exit conference and contain references to specific areas of disagreement between the auditor and auditee for any recommendation where differences exist.

- C. Discussion of Audit Results with Departmental Officials. For OIG-conducted external audits, the report issuer should discuss the audit recommendations with appropriate HUD program officials prior to the exit conference and invite additional input from them before final processing and issuance of the audit report. The report issuer should request that appropriate HUD program officials attend the exit conference and encourage participation in the development of appropriate recommendations for the deficiencies encountered in the audit report. Either before or after the exit conference, the program official who is responsible for the activity under the audit should be requested to:
1. Concur or non-concur with the audit findings/recommendations;
 2. Make known any facts not previously known to the auditor, which may influence the manner in which matters should be reported;
 3. Advise on any corrective measures proposed or taken in response to the recommendations; and

4. Propose any alternative action or change to the draft recommendations that would accomplish the same results more economically.

2-2 Content of Audit Report

Sections Included in an Audit Report. OIG audit reports generally include the following seven major parts: (1) Highlights; (2) Table of Contents; (3) Background and Objectives; 4) Results of Audit; 5) Scope and Methodology; 6) Internal Controls; and 7) Appendices. The Highlights section consists of an executive summary of what was audited and why, what was found, what was recommended, and the auditee's response. The Results of Audit section consists of findings and recommendations, compliances and internal controls, follow-up on prior audits, issues needing further study and consideration, and privileged and confidential information. Findings discuss problem areas concerning material weaknesses in financial or accounting controls, noncompliance with Departmental or legal requirements, inefficient program operations, and/or questioned costs. Each finding is numbered and each recommendation is lettered and controlled in ARCATS. The recommendations shall be followed up and reported on by the AO, RAO, or POC until final action is completed. Recommendations should have management decisions made and final actions taken using the criteria in Chapter 5 of this handbook. The Appendices section normally contains schedules and tables, a summary of ineligible costs, unsupported costs, unnecessary or unreasonable costs, cost efficiencies (funds put to better use (FPTBU)), and the auditee's written response.

2-3 Audit Reports Prepared by IAs

Audits performed in accordance with the SAA of 1984 (31 USC 7501-7505) and OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations" are usually prepared by IAs. The submission, monitoring, and tracking of recommendations resulting from these audit reports are under the direct authority and responsibility of each applicable HPOH and can be tracked in the ARCATS SAA module. Where an HPOH chooses not to utilize the SAA module, it is important that the HPOH have an alternative tracking and reporting mechanism for accurately monitoring and reporting SAA audit follow-up results at the individual recommendation and aggregate levels. This includes the ability to separately identify and report on the status of SAA recommendations involving American Recovery and Reinvestment Act (ARRA) funds and rapidly respond to Congressional and other inquiries. Further information on the SAA module and these audits is contained in the guidance/directives issued by the HPOHs and/or on the CFO HUD intranet web page at <http://hudatwork.hud.gov/po/f/audit/singleaudit.cfm>.

- A. SAA audits can involve more than one program, agency, or level of government. State and local governments, as well as, institutions of higher education and other non-profit organizations (entities) receiving federal financial assistance are required to have an audit performed in accordance with the SAA of 1984 as amended and the OMB Circular A-133. OMB has assigned federal agencies cognizant audit responsibility for the larger entities. Smaller entities not assigned a cognizant federal

agency are under the general oversight of the federal agency that provided them the most funds. SAA audit report review and processing requirements may vary slightly depending on whether HUD is the cognizant agency or has general oversight. HUD program officials have responsibilities to coordinate tracking and resolution of SAA audit recommendations. SAA reports are submitted by the auditee or the IA electronically to the Federal Audit Clearinghouse (FAC) and are viewable to authorized users through ARCATS. The following identifies differences in processing SAA reports:

1. HUD is a Cognizant or an Oversight Agency. If a recommendation relates to more than one agency (cross-cutting) funding the auditee, HUD, as the cognizant or oversight agency, shall coordinate the management decision for any crosscutting recommendations and monitor the crosscutting recommendations until final action is completed. An example of such a finding might be poor internal controls in the auditee's accounting system. If a finding identifies questioned costs pertaining to more than one agency, each agency is responsible for resolving the portion pertaining to its program(s).
2. HUD Is Not Cognizant or General Oversight Agency. When lead federal responsibility rests with another federal agency, HUD will address any recommendations that fall within HUD funding as defined by the Catalog of Federal Domestic Assistance (CFDA). In addition, HUD will coordinate with the cognizant agency to resolve crosscutting recommendations when requested to do so by the cognizant agency.

2-4 Management Decision Process for OIG External Audit Recommendations

- A. The decision to participate in an accelerated management decision process is to be made by the designated AO on a case-by-case basis at the time the AO receives the draft external audit report. If the AO sees an opportunity for early management decision at that time, management should directly contact the issuing OIG office to work out the process and timeframes for submitting the proposed management decisions for incorporation in the final audit report.
- B. In the event that accelerated management decisions are not made on OIG-issued recommendations, it is the Department's goal that a management decision on external audit recommendations is reached within 120 days from the report issuance date. The HUD AO should contact the program participant within 15 calendar days after the audit report issuance date and obtain its written response as to what action the program participant plans to take to overcome the identified deficiencies and implement the recommendations. The AO is to request a response from the program participant to ensure a response is obtained within 45 calendar days after the report issuance date. The initial 45 calendar day period is essential since a timely management decision on the recommendations may rely on the ultimate action of the program participant.

2-5 Management Decision Process for SAA External Recommendations

Within 180 days of its receipt of the report, HUD management is required to issue a final management decision on each audit recommendation. The management decision is a written evaluation of the recommendation that specifies the corrective actions to be taken by HUD and/or the auditee, as specified in the management decision. The management decision should include a final action target date. The office assigned to the recommendations should review any management decision proposed by the auditee. The office may work with the auditee to develop a better management decision or approve it as is. OIG approval is not required for SAA management decisions. The respective HPOH acts as the appeal authority in the event the auditee disagrees with the management decision.

Auditees of SAA audits have a responsibility to take corrective actions on audit findings and report the status of corrective actions in subsequent reports. An audit finding may include questioned program costs. If any of the questioned costs are disallowed by the management decision, the auditee may have to refund the disallowed amount.

Management decisions can be entered, approved, and tracked in ARCATS within the SAA module. If the ARCATS system is not being used, the HPOH must have an alternative tracking and reporting mechanism for accurately monitoring and reporting on SAA recommendation status at the individual recommendation and aggregate level.

Chapter 3: Internal Audits

3-1 General

A. Purpose of Internal Audits. Internal audits (also known as program audits, performance audits, or management reviews) are reviews performed by the OIG and are conducted on selected HUD administrative and program operations to evaluate the effectiveness and efficiency with which managerial responsibilities are being carried out. Audits are directed toward determining whether management controls, practices, and procedures at the levels reviewed are adequate, effective, and necessary. Internal audits can also be reviews of selected HUD programs and activities to evaluate the effectiveness of the particular program or activity and to determine whether the anticipated results are being achieved. Departmental policies governing internal audits are contained in OIG's Audit Operations Manual.

B. Audit Process

1. Audit Notification. The OIG will provide timely audit notification to the auditee and other affected parties with appropriate notification information. The parties to be notified and information required are described in OIG's internal policies and procedures.
2. Entrance Conference. Management and OIG will work together on scheduling the entrance conference. At the entrance conference, OIG will present the following:
 - a. The reasons for the audit;
 - b. Roles and responsibilities of OIG staff;
 - c. Audit objectives;
 - d. Data needs as currently known;
 - e. Sites where the OIG expects to work;
 - f. An overview of the audit schedule and significant steps; and
 - g. Any local support requirements.

At the entrance conference, management will do the following:

- a. Provide a POC for administrative support (if OIG requires support);

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- b. Provide “technical expert” POCs;
 - c. Identify potential/known sources of information related to the audit objectives;
 - d. Bring any special concerns to the auditors’ immediate attention; and
 - e. Support the auditors’ efforts to assure timely completion.
3. Timely Communication of Interim Audit Results. The OIG will provide management with notification of findings and recommendations, finding outlines, audit briefing documents, or other communication of results as they are developed for management’s consideration. Generally, these communications should contain details on the condition, cause, effect, and criteria for validation. Management should provide timely comments to these OIG communications to include agreement or disagreement, suggested changes, and identification of any contrary information unknown to the OIG. Once management agrees to a finding and its recommendation or provides alternatives acceptable to the OIG, the OIG and management should begin working together to achieve approved management decisions. Management should: 1) explore any legal ramification; 2) consider the feasibility of implementing suggested procedural corrective actions; 3) develop realistic timeframes for implementing corrective actions; and 4) provide feedback to the auditor to include any suggested revisions to the recommendation(s) and propose management decisions. In cases of the prevention of fraud, waste, or abuse, this may include immediate or near immediate implementation of corrective actions. All management decisions concurred upon by the OIG prior to report issuance are to be documented in the final report as completed recommendations with final action, if implemented; or pending final action, if not implemented. In this circumstance, the OIG will make the needed ARCATS entries as management decision reached or management decision reached and closed, and enters the effective date as the time of report issuance.
 4. Presenting the Discussion Draft Report to Management. A discussion draft report should be provided by OIG to management about 5 calendar days prior to the exit conference. The discussion draft should be complete and not contain any surprises to management because communication between management and the OIG has been ongoing. Any management decisions that have been previously presented by management and approved by the OIG are to be included in the draft. This includes management decisions that were implemented during the audit. If management and OIG have been communicating effectively, the draft should contain no findings or recommendations that have not been previously discussed.
 5. Management’s Response to the Draft Report and Final Report Issuance. Before the exit conference, the OIG will issue a draft report. At the exit conference,

management will provide OIG with comments and agree to a timeframe for responding to the draft report. The auditee will generally be allowed 10 to 15 calendar days to formally comment on the draft audit report. The RIGA/Director may extend this timeframe an additional 15 to 20 calendar days (not to exceed 30 days) without obtaining approval from the AIGA. If there are significant changes to the draft based upon what is discussed at the exit conference, then a “final draft” is issued. Management is strongly encouraged to provide proposed management decisions for those recommendations in the report that management agrees are valid and feasible. The OIG may choose to delay issuance of the report if management decision negotiations are ongoing or further clarification of management’s position is required. Alternatively, OIG may issue the final report and note that management and OIG have not yet agreed upon management decisions. The OIG will continue to include management’s comments in the Appendix to the report and incorporate comments in the text of the report where appropriate.

6. Recommendations Without Management Decisions After Final Report is Issued. If any recommendations contained in the final report do not have approved management decisions, refer to Chapter 5, Implementing Recommendations, for directions on how to proceed.
7. Exit Conference and Other Auditee Communications. During the course of the audit, OIG auditors provide a draft copy of tentative findings/recommendations to Departmental officials responsible for the activity under review. At the conclusion of the fieldwork, OIG auditors shall prepare a draft internal audit report and consider any information or comments received on tentative findings and/or recommendations.
 - a. The draft audit report shall be sent to Departmental officials for comment. Once the official responsible for the activity reviews the draft audit report, an exit conference shall be held between the OIG and HUD management representatives. During the exit conference, the official responsible for the activity under audit should:
 - (1) Concur or non-concur with the audit findings/recommendations;
 - (2) Make known any facts not previously known to the auditor that may influence the OIG’s judgment on how the condition, cause, and effect are reported;
 - (3) Provide information on any corrective measures proposed or taken on the recommendations; and
 - (4) Propose any alternative actions or changes to the draft recommendations that would accomplish the same results more efficiently and/or economically.

- b. The auditee will generally be allowed 10 to 15 calendar days to formally comment on the draft audit report. The RIGA/Director may extend this timeframe an additional 15 to 20 calendar days (not to exceed 30 days) without obtaining approval from the AIGA. In preparing the final report, the OIG shall give full consideration to the results of the exit conference and any written comments received.

These procedures provide several occasions when recommendations can be discussed and any disagreements aired. By the time an audit report is issued, both the auditor and auditee should know whether there is still disagreement or what action should be taken to correct the deficiencies. Therefore, if the recommendation does not have a management decision before the initial status report, the necessary action should be known and initial steps taken to make the management decision or make a referral to higher levels of authority in accordance with the procedures in Chapter 6.

3-2 Content of Audit Report

Internal audit reports include the results of reviews of Departmental activities. These reports provide managers with a constructive and independent evaluation of whether operations are conducted properly; reports are presented fairly; applicable laws, regulations, contracts, handbooks, etc. have been complied with; resources are managed and used economically and efficiently; and desired results and objectives are being achieved. An internal audit report generally includes seven major parts: (1) Highlights; (2) Table of Contents; (3) Background and Objects; (4) Results of Audit; (5) Scope and Methodology; (6) Internal Controls; and (7) Appendices. The Highlights section consists of an executive summary of what was audited and why, what was found, what was recommended, and the auditee's response. The Results of Audit section consists of findings and recommendations, compliance and internal control, follow-up on prior audits, issues needing further study and consideration, and privileged and confidential information. The Appendices section contains any general schedules and tables; any schedules of ineligible costs, unsupported costs, unnecessary or unreasonable costs; cost efficiencies (FPTBU); and the auditee's response.

Audit findings in internal audit reports relate to problem areas dealing with weaknesses in financial controls, important non-compliance with Departmental or legal requirements, inefficient or uneconomical operations, and ineffective program operations. Audit recommendations are suggestions to overcome the identified weaknesses.

Recommendations shall be monitored and reported on by Departmental managers until final action is completed (See Chapter 5).

3-3 Procedures for Processing Reports with Internal Audit Recommendations

It is a Departmental goal that management decisions on internal audit recommendations shall be made within 120 days from report issuance (See Chapter 5 for details on the processing of audit recommendations).

Chapter 4: **OIG Audit Liaison Officer**

4-1 General

The ALO serves as the primary focal point to coordinate the processing of OIG audit reports.

4-2 Designations

- A. DALO. The ALD Director is designated the DALO, and has the general coordination responsibility for the AMS and field and Headquarters audits for the Department.
- B. ALO. Each HPOH shall appoint one ALO who has the overall coordination responsibility for the AMS for OIG audits on Headquarters organizations and activities for their respective program office. In addition, the DALO shall appoint one or more “field” ALO(s) who have overall coordination responsibility for the AMS for OIG audits issued to non-Headquarters organizations and OIG external audits. Each ALO is responsible for ensuring that all requirements for processing audit recommendations within their area of responsibility, as described in this handbook, the ARCATS Users Manual, and any subsequent guidance issued by the DALO, are met. After the ALOs have been selected, the names, telephone numbers, and areas of responsibility shall be submitted by memorandum or email to the DALO. The HPOH shall promptly notify the DALO by memorandum or email of any changes in the assignment of ALO responsibilities. A current list of OIG ALOs is available on the intranet CFO web site on the Audit Resolution web page at <http://hudatwork.hud.gov/po/f/audit/finmgmt3.cfm>.

4-3 Duties and Responsibilities

- A. The DALO is responsible for the following:
1. Overseeing the AMS process and ensuring individual ALOs are notified of any significant changes in the AMS;
 2. Recommending audit resolution training courses and providing appropriate ARCATS user training;
 3. Assigning ALOs to audits issued to field offices;
 4. Facilitating the processing of OIG referrals relating to disagreements and/or impasses;
 5. Providing aggregated status reports to Headquarters management; and

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6. Ensuring ALOs monitor the actions of management to ensure timely and appropriate management decisions and final action for all OIG recommendations.
- B. The ALO's responsibilities include the following:
1. Serving as the contact point for all inquiries concerning the status of recommendations during the various stages of the AMS process;
 2. Maintaining and providing technical assistance and training for AMS and ARCATS for their program area;
 3. Entering and updating ALO comments in ARCATS for all open recommendations in their program area that are overdue or need a status update;
 4. Ensuring that the required status reports are provided to the OIG report issuer and AO or HPOH;
 5. Working with management, and when necessary OIG, to ensure that management decisions are reached timely;
 6. If a management decision is not obtained within the 120-day Departmental goal, negotiating/coordinating with OIG to ensure the recommendations are referred to upper management for resolution;
 7. Working with management, and when necessary OIG, to ensure that action plans are implemented within the final action target dates;
 8. Coordinating with OIG the need to recode recommendations to under judicial, legislative, and investigative review;
 9. Informing senior management of systemic or specific problems preventing timely implementation of action plans;
 10. Reviewing final action target date extension requests for action plans that are within 1 year of the original management decision and updating ARCATS to reflect the extension granted including the rationale;
 11. Coordinating with staff the necessary documentation needed to address each action plan;
 12. Reviewing the supporting documentation to ensure compliance with the agreed upon management decision;
 13. Providing a detailed analysis of what corrective action is needed to complete the requirements of the action plan if the submitted documentation does not

adequately address it, as contained in the OIG's approved management decision's Evidence to Provide Closure Section.

14. If the submitted documentation adequately addresses the action plan:
 - a) directing the AO, RAO, or POC to submit the FAC in ARCATS; b) receiving the FAC in ARCATS; c) reviewing the certification package; and d) if appropriate, closing the recommendation in ARCATS to reflect that final action has been taken. (Note that final action certification is not required to close a SAA or GAO recommendation.)
15. For action plans requiring a repayment:
 - a. When a repayment agreement has been reached, recoding the recommendation in ARCATS to under repayment and extending the final action to 30 days after the date of the last scheduled payment;
 - b. Verifying that repayments are being made;
 - c. Obtaining the necessary documentation to support the amount of repayment;
 - d. Posting any repayments in ARCATS;
 - e. Notifying staff of the posted amount and the outstanding balance; and
 - f. Monitoring and/or coordinating the activity on any delinquent repayments.
16. For each audit within his/her area of responsibility, maintaining a file that contains all documentation from receipt of the audit report through final action. This includes the management decisions printed or stored in ARCATS, required status reports, revised management decisions printed or stored in ARCATS, and final action certifications printed or stored in ARCATS along with supporting documentation to evidence final action.

Chapter 5: Resolving OIG Recommendations

5-1 General

The primary goals of an audit report are to identify the cause of disclosed weaknesses or deficiencies and to recommend what measures should be implemented to correct and prevent identified conditions from reoccurring. In order to accomplish these goals, program managers should ensure corrective actions are implemented in a timely manner.

Two Departmental goals have been established to accomplish efficient resolution of reaching a consensus on corrective action (management decision) and expedient final action or completion of the corrective action. First, the Department has set a goal of reaching management decisions within 120 days of report issuance in order to ensure impasses can be resolved prior to the 180-day statutory requirement for management decision. The second Departmental goal is to have all corrective actions contained in the management decision completed (final action) within 1 year of the date of the management decision. However, when large amounts of disallowed costs are to be recovered to HUD or to the program on an installment basis, the goal is to have all costs recovered within 3 years.

5-2 Responsibilities

A. HUD Management. The AO, RAO, or POC is responsible for:

1. Evaluating audit reports received and making a preliminary decision on what action is needed on the audit recommendations;
2. Contacting the external auditees within 15 days to request a written response within 45 days from the auditee as to what corrective action the auditee plans to take to overcome the identified deficiencies and implement the recommendations;
3. Proposing a management decision including:
 - a. Developing a corrective action plan with a target date for final actions;
 - b. Deciding on the types of documentation which will be used to evidence the completion of actions required by the corrective action plan;
 - c. Developing a corrective action plan that includes agreement or disagreement of the amount of any costs identified in the audit report as questioned costs or as FPTBU. When there are questioned costs in a recommendation coded as pending, whether they should be allowed or disallowed due HUD or program participant. When there are FPTBU, whether the amount saved when the management decision is implemented is due HUD or due program

participant. The corrective action plan may also include a statement that the decisions regarding the costs identified are subject to additional evaluation pending receipt of additional documentation or investigation. When this is the case, the OIG will record the entire amount as disallowed. When a recommendation is coded as Under Investigation, Judicial Review, or Legislative review, the amount of allowed or disallowed costs can be decided at a later date;

- d. Developing a plan for recovery of any disallowed costs, if applicable; and
 - e. Submitting the proposed management decision to the OIG through ARCATS.
4. Obtaining the OIG's concurrence in ARCATS on the proposed management decision for OIG-issued recommendations;
 5. Obtaining the OIG's concurrence in ARCATS on any revisions to the management decision when it becomes known that changes are necessary to:
 - a. The corrective action to be taken,
 - b. Projections of future savings, and
 - c. Amounts to be repaid to the Department or program participants;
 6. Implementing the corrective action plan and advising the external auditee of the corrective actions required;
 7. Certifying in ARCATS that final action has been completed and all documentation has been obtained in accordance with the management decision or the revised management decision as concurred on by the OIG; and
 8. Informing the responsible ALO of all significant audit-related activity by providing the ALO with a copy of all audit-related correspondence and appropriate supporting documentation to effect closure.

B. OIG. The OIG is responsible for the following:

1. Sending the audit report to the AO and, at a minimum, an electronic copy to the applicable AO and ALO;
2. Sending an electronic copy of audit reports to the DALO;
3. Assisting and providing technical guidance to the AO on matters contained in the audit report;
4. Collaborating with management to reach a management decision;

5. Evaluating and concurring/non-concurring in ARCATS on the AO's proposed management decision or any proposed revised management decision within 15 calendar days;
6. Performing selected CAV reviews of significant audit recommendations when final action has been completed; and
7. Performing audits of the AMS.

5-3 Receipt of Audit Report by AO

Upon receipt of an audit report from the OIG, the AO shall:

- A. Evaluate the audit report and determine if the audit recommendations are acceptable as written or if alternative actions would correct the problems stated in the audit report. During this process, a tentative corrective action plan (action needed to implement the recommendations) should be developed.
- B. Contact external auditee(s) within 15 calendar days after the audit report issuance date requesting a written response within 45 days as to the actions the auditee agrees to take. These actions should be based on the tentative corrective action plan to correct the identified deficiencies and to implement the recommendations.
- C. If a proposed management decision has not been entered into ARCATS for OIG to concur on at 60 or 90 days after issuance of the audit report, email a status update to the OIG with a copy to the responsible ALO. The update should include the progress that has been made toward developing proposed management decisions and should not actually contain the proposed management decisions; since, proposed management decisions need to be entered into ARCATS.
- D. Finalize and submit the proposed management decision in ARCATS including the corrective action plan (OIG concurrence is required for OIG-issued recommendations). The corrective action plan shall include the following:
 1. The identification of what action is needed on the part of an auditee and/or the AO to implement each recommendation, along with a final action target date;
 2. The amount of allowed/disallowed costs per recommendation and whether the costs are due to HUD or the program participant;
 3. The type(s) of documentation which will be used to evidence that final action is completed; and
 4. If the AO believed that corrective actions have already been completed, the proposed management decision should include documentation to demonstrate completion and a request that the OIG close the recommendation concurrent with the management decision.

5-4 Change of Program Office

The program office is the office responsible for obtaining final action on a recommendation. Whenever a recommendation is issued, it is assigned to a specific program office. Frequently, before a recommendation can be finally resolved, some action must be performed by another office, e.g., OGC's Enforcement Center is pursuing an action. It is imperative that program offices be kept current and transfers made to the appropriate office so timely audit resolution and follow-up can occur. The AO or his/her ALO initiating the transfer must communicate with the appropriate receiving AO or his/her ALO to include a discussion of the required action and transmit documentation as may be necessary. The transfer is officially processed through ARCATS by the ALD once both program offices agree to the transfer.

5-5 Obtaining a Management Decision

- A. Timing. The Departmental goal is to achieve a management decision on each recommendation within 120 calendar days after the report issuance date. (Section 5-5c gives the OIG 15 days to review and respond; thus, the proposed management decisions need to be entered into ARCATS and submitted to the OIG no later than the 104th day.) The Federal statutory requirement to achieve a management decision is 180 days. Specific time frames for referrals due to disagreement or inability to reach a management decision within 120 days are detailed in Chapter 6. For OIG-issued recommendations, a management decision occurs when the OIG concurs with the submitted proposed management decision. The proposed management decision contains the corrective action needed, addresses any cost values identified in the recommendation, documentation that will be needed to evidence closure, and a final action target date. The management decision date for OIG-issued recommendations is the date of the OIG concurrence in ARCATS. When OIG does not concur with the decision of lower levels of authority in HUD and an impasse occurs, the Deputy Secretary shall provide a written decision that becomes the management decision, which the OIG should enter into ARCATS before the 180-day statutory deadline.
- B. Management Decision Categories. Management decisions shall comply and be consistent with program laws, regulations, policies, and/or procedures. Management decisions can be categorized based on the actions required subsequent to the management decision date. The following are the categories that can occur during the AMS process:
1. Management Decision-Concurrent. No prior management decision has been made and either: a) the recommended action has been implemented satisfactorily; b) an acceptable alternative action has been implemented satisfactorily; or c) no action is necessary. For OIG-issued recommendations, OIG concurrence must be obtained. The AO shall submit, in ARCATS, a proposed management decision including any necessary supporting documentation and a request to close when OIG concurs. The OIG shall review

the AO's proposed management decision and concur/non-concur with the request within 15 calendar days. This is the preferred management decision.

2. Management Decision-Action Pending. This indicates that: a) the recommended action or some acceptable alternative action is underway or planned, but will not be implemented within 120 calendar days after audit report issuance; and b) the OIG and the AO have reached agreement on a corrective action plan related to an OIG-issued recommendation. It is imperative that the management decision be fully analyzed and supported by a realistic corrective action plan with a realistic final action target date. The plan shall also include the types of documentation that will evidence completion and the proposed plan shall be submitted to the OIG through ARCATS.
 - a. The Department has established a goal to complete final action within 1 year after the management decision date. There will be occasions when, at the time of the management decision, it is known that final action will extend beyond the 1-year goal. Program managers should make a realistic estimate of the time needed to complete the corrective actions when the proposed management decision is originally submitted to the OIG for concurrence. When large amounts of costs are to be repaid to HUD or to the program on an installment basis, the Department's goal is to have all costs repaid within 3 years with approved repayment plans. It is recognized that a 3-year limitation on repayment plans for large amounts may represent an undue hardship upon the auditee, and in such instances, program managers have the flexibility to negotiate appropriate repayment arrangements. AOs shall prepare appropriate documentation to the files documenting their actions for approving repayment plans beyond 3 years.
 - b. When a recommendation contains questioned costs or FPTBU and the AO agrees that a repayment is needed or that the FPTBU amount is reasonable, the action plan shall identify all such costs, whether the amounts are due to HUD or to the program participant, and a final action target date that reflects the anticipated date of final payment or implementation. If the AO does not agree that a repayment is needed, the AO provides the reason(s) why recovery is not required and the amount of cost to be adjusted (e.g., reversal, uncollectible, compromise/forgiven, program regulation) must be included in the proposed management decision and concurred on by the OIG. For more detailed information regarding costs please refer to section 5-7.

Costs that have been challenged during the audit by the auditor are comprised of two categories:

- (1) Questioned Cost are costs that have been challenged during the audit by the auditor and are comprised of three categories of cost:

- a. Ineligible Costs. Costs questioned because of an alleged violation of a provision of a law, regulation, contract, grant, cooperative agreement, or other agreement or document governing the expenditure of funds. Ineligible costs generally require those costs be disallowed. If the AO disagrees with a finding of ineligible costs, he/she shall: a) provide a legal opinion supporting eligibility of the amount; b) demonstrate a misapplication of the criteria by the auditors; or c) obtain a Departmental waiver.
- b. Unsupported Costs. A cost that is questioned by the auditor because the cost is not supported by adequate documentation. Unsupported costs have two parts. The first part generally requires that a responsible HUD official direct the auditee to find, reconstruct, or produce supporting documentation and make a decision regarding eligibility. The second part requires that the portion of the questioned costs that are considered unsupported, be disallowed.
- c. Unnecessary or Unreasonable Costs. A cost which is not generally recognized as ordinary, relevant, necessary, and/or exceed the costs incurred by an ordinarily prudent person within established business practices. If the AO agrees that the costs are unreasonable, these costs are disallowed and must be recovered. If the AO disagrees with the auditor's finding and/or recommended action, he/she shall document their conclusions in support of their position in the proposed management decision submitted to the OIG.
- (2) FPTBU. Audit recommendations may include actions that have the effect of preventing improper obligations or expenditure of funds or improving systems and operations, thereby avoiding unnecessary future expenditures. FPTBU are comprised of seven categories: a) reductions in outlays; b) costs not incurred; c) withdrawal of interest; d) avoidance of unnecessary expenditure; e) de-obligation of funds; f) loans/guarantees not made; and g) other savings.
3. Management Decision – Judicial, Legislation, or Investigation Pending. Some or all of the recommended actions may need to be suspended until one of these special conditions, which necessitated the suspension, is completed or becomes inapplicable. Should this occur, the AO and the OIG shall coordinate on these matters. If appropriate, they shall revise the management decision to suspend or modify the AMS process on the affected recommendations. The OIG is responsible for coding recommendations as under judicial, legislative, or investigative review in ARCATS. Recommendations should not be considered under judicial review when no litigation is contemplated. The AO shall monitor the status of the special conditions at least every 6 months and forward an update to their ALO. When either the AO or OIG become aware that the

special conditions are no longer applicable, they should communicate this information and take the appropriate steps to recode the recommendations to a pending status and revise the management decision when necessary.

- a. Recommendations can be considered suspended due to judicial litigation (“J” code in ARCATS) under the following conditions:
 - (1) The Department has sent a request to the Department of Justice recommending litigation;
 - (2) The Department has actually filed litigation directly;
 - (3) The Department has been notified that a suit has been filed against it;
 - (4) The auditee has filed for Bankruptcy or is in foreclosure;
 - (5) The auditee is being sued or is suing a third-party, making action on the recommendation beyond the control of the auditee;
 - (6) The auditee is under a Court’s receivership; or
 - (7) The Department has a case pending before an Administrative Law Judge, the Board of Contract Appeals, the Mortgagee Review Board, or similar entity.
- b. Actions on recommendations may also be suspended pending legislation (“L” code in ARCATS) and pending investigation (“I” code in ARCATS). A legislation pending code shall be recorded in ARCATS when the Department has determined that it will submit a legislative package to the Government Accountability Office, Office of Management and Budget, and/or Congress for consideration. An investigation pending code may be recorded in ARCATS only when an investigation has been initiated by OIG or a request has been submitted for investigation to the Department of Justice or the Federal Bureau of Investigation. The OIG Office of Investigation has 15 calendar days to acknowledge the referral from management for investigations. Once the OIG acknowledges the referral, the recommendation is to be coded as an “I” in ARCATS by the OIG and the FATD revised to reflect the anticipated conclusion of the activity.
- c. If the recommended action must be suspended because of the special conditions mentioned above, the AO will provide the OIG with the appropriate documentation evidencing the special condition. The OIG will concur that the special condition exists and record the appropriate code in ARCATS. Closure of recommendations in an “I”, “J”, or “L” status does not require OIG concurrence unless the actions taken differ from the management decision and/or involve a reduction in the amount of disallowed costs or FPTBU. If a recommendation is coded “L”, and it is

determined that legislation will not be enacted, the recommendation is to be closed by the OIG after the program office submits a proposed revised management decision through ARCATS requesting OIG concurrence and concurrent closure.

- d. If the management decision suspends the AMS process for a recommendation dealing with questioned costs, the decision to disallow or allow the costs may be deferred until the special conditions are removed. Once it has been determined that the recommendation should be removed from suspension the AO shall develop and submit in ARCATS within 30 days a proposed revised management decision that should result in all actions being completed within 1 year of the revised decision date. OIG concurrence is required for this revised management decision. After the OIG has concurred on the revised management decision the recommendation will be reclassified to Pending. In addition, any costs involved in the recommendation should be allowed or disallowed and normally recovered or written off within 1 year.
- C. Documentation For OIG Concurrence. For OIG recommendations, the AO shall submit a proposed management decision through ARCATS to the OIG along with any supporting documentation. The audit report issuer shall review the proposed management decision and supporting documentation within 15 calendar days and concur on the action or provide specific reasons for a nonconcurrence. The concurrence date on a proposed management decision in ARCATS becomes the management decision date.

5-6 Monitoring and Follow-up After a Management Decision Containing Cost is Reached

- A. If the management decision deals with an external audit report and includes disallowed costs due HUD, the AO should notify the controlling accounting office. The AO shall also notify the program participant with an “initial letter requesting payment of debt” as prescribed in Handbook 1900.25. This “initial letter” should instruct the debtor to make the payment(s) by a certain date(s).
- B. Regardless of whether a management decision has disallowed costs due HUD or due the program participant, it is the responsibility of the AO to monitor disallowed costs until they are recovered, forgiven, or transferred to the DCCO.
- C. In monitoring the auditee’s repayment plan, HUD management may determine that a modification to the plan is needed. If there is no change to the amount of the recovery after the AO provides a copy of the modified agreement to the ALO, the ALO will modify the final action target date to 30 days after the last payment is due. If the modification involves an increase/decrease in the amount of disallowed costs reported in ARCATS for recovery, the AO shall submit to the OIG a proposed revised management decision through ARCATS which includes the recovery history

to date, a modified plan, reasons for the modification, and any documentation needed to support the requested amount changes. The OIG shall concur on the modified plan or provide reasons for nonconcurrence within 15 calendar days. If the modification affects any “due HUD” amounts, the AO shall notify the appropriate accounting office after OIG’s concurrence.

- D. Disallowed costs due HUD become a delinquent debt when the debt has not been repaid in accordance with the terms of a repayment plan. Program management determines when the debt is delinquent and is to be transferred to the Departmental Claims Collection Officer (DCCO) for recovery. The DCCO and the responsible ALO shall coordinate their activities and keep each other advised of costs collected.
- E. It is the responsibility of the AO to monitor the timely implementation of each action identified in the corrective action plan. On occasion, circumstances or events occur which may delay the completion of the corrective action plan as concurred on by the OIG or may necessitate alternative corrective actions.
 - 1. If the actions in a previously agreed upon management decision cannot be implemented, management must submit to the OIG a proposed revised management decision through ARCATS. The proposed revised management decision should include the reasons why the originally planned actions cannot be implemented and provide the alternative actions deemed necessary to satisfy the recommendation(s). For recommendations involving costs, alternative actions could include compromise or forgiveness of disallowed costs. OIG concurrence of a revised management decision is required for revisions other than delayed final actions. OIG shall provide either concurrence or an explanation of nonconcurrence within 15 calendar days.
 - 2. To comply with the Inspector General Act Amendments of 1988, the OIG will include narrative descriptions of all significant revised management decisions along with the reasons the revision was necessary in the OIG’s Semiannual Report to Congress. A significant revised management decision includes implementing a different action than that originally concurred on by the OIG at management decision. It also includes seeking recovery of a disallowed amount less than originally disallowed. Generally, significant revised management decisions reported in the OIG’s Semiannual Report involve audit reports that were described in previous semiannual reports.
- F. Generally, if delays in implementation of final action involve other than judicial litigation, legislation, investigation, or repayment plans, an extension will not be granted. It is imperative that managers fully analyze the actions and timing required at the time of the management decision. Revision of target dates is not considered a revised management decision. If a revised final action target date is deemed to be unavoidable and the needed date is:

1. Less than 1 year past the management decision date, the ALO, after receiving a request and explanation from the AO, RAO, or POC, may extend the final action target date in ARCATS for up to 1 year past the original management decision date;
2. More than 1 year past the original management decision date, the AO, RAO, or POC must request an extension of the final action target date from the OIG either verbally or through email. The OIG will enter the newly agreed upon final action target date into ARCATS or provide an explanation as to why the date cannot be extended; or
3. For recommendations under investigation, judicial review, legislative review, or repayment, may be extended by the ALO or OIG when supported by documentation provided by the AO, RAO, POC, the office conducting the investigation, the office conducting the judicial review, or the office processing the legislation.

5-7 Detailed Cost Information

- A. Allowing Questioned Costs. The costs that are challenged by the auditors may be allowed if the AO can furnish: (a) material that supports the allowance of those costs, such as auditee accounting records or similar documents; (b) an interpretation or precedent that rebuts the audit report issuer's criteria or its application; (c) a legal opinion; or (d) a program management waiver, compromise, or decision to allow the questioned costs under applicable program laws, regulations, policies, and/or procedures. OIG shall have concurred on any compromise action related to OIG-issued recommendations prior to that action being included in any waiver, document, or agreement that will legally bind HUD to its provisions or prior to providing notice of that action to auditees or other parties outside of HUD.
- B. Disallowing Questioned Costs. When the AO agrees with the costs that are questioned by OIG, the OIG will disallow the costs in ARCATS. Recoveries of disallowed costs due HUD require additional communication and coordination between the CFO accounting offices in Fort Worth, Headquarters, and the AO. This is necessary because external auditees normally are instructed to transmit reimbursements to the controlling accounting office and not to the AO. When the accounting office receives payment, evidence of the recovery should be sent immediately to the AO, who in turn will send a copy to the responsible ALO for updating ARCATS. HUD AOs have a continuing responsibility to take all actions needed to recover disallowed costs. The OIG and the AO shall decide collectively whether the disallowed costs are due HUD or due the program participant, as discussed below:
 1. Disallowed Costs Due HUD. When the AO and the OIG agree that the costs are to be returned to HUD or the Treasury through a concurred upon management decision, the "due HUD" amount should be formally recorded by the OIG in

ARCATS. In addition, the HUD accounting office should record the accounts receivable. The resolution/recovery of these amounts should involve communication and coordination among the AO, accounting office, OIG, and, occasionally, the DCCO.

2. Disallowed Costs Due Program Participant. When the AO and the OIG agree that the costs are to be returned to the program participant through a concurred upon management decision, the “due Program Participant” amount should be formally recorded by the OIG in ARCATS.
 3. Disallowed Costs Under Repayment Plan. When the AO accepts a repayment plan, the plan shall include the method (e.g., repayment, accounting adjustment, net offset, etc.) and either a realistic target date for a single recovery amount or an installment recovery schedule. The plan may be determined through negotiation with the auditee; however, the size and frequency of the payment should bear a reasonable relationship to the amount of the debt and the auditee’s ability to make the repayment. The payment schedule should call for final recovery within 1 year from the management decision date. When large amounts are involved under an installment repayment plan, total recovery should be completed within 3 years. An exception to this Departmental goal for repayment of disallowed cost is when an outside party, such as the Department of Justice, enters into a repayment agreement on behalf of HUD. A copy of the repayment agreement must be provided to the ALO then the ALO will recode the recommendation in ARCATS as under repayment and extend the final action target date to 30 days after the last payment due.
 4. Increases to Disallowed Costs. During the management decision process or during the AO’s monitoring of the auditee’s repayment plan, it is possible for the disallowed costs to be increased. The AO shall advise the OIG of the increase and the basis for the increase by submitting a proposed revised management decision through ARCATS. Increases to disallowed costs can occur when:
 - a. The AO or auditee identifies applicable costs over those stated in the audit report;
 - b. The auditee expends additional disallowed questioned costs subsequent to the audit;
 - c. HUD assesses interest charges; or
 - d. HUD assesses fines and/or penalties.
- C. Reversal/Forgiveness of Disallowed Costs. HUD AOs have the continuing responsibility to take all actions needed to recover disallowed costs. There are two basic categories for “writing off” disallowed costs for AMS purposes:

1. Nonrecovery of Overstated Disallowed Costs (Reversals). When a management decision is made, the best available information and judgment is used, as of that date, to arrive at the amount of disallowed costs that should be recovered. However, occasionally, more recent information or an event shows that the original amount was actually overstated. The AO must be able to document that some specific amount or all of an original disallowed cost (whether due HUD or due the program participant) needs to be reversed. If the reversed amount is less than the total disallowed cost, the AO shall provide a schedule of any recoveries made to date and a revised recovery plan with dates for future recoveries. A revised management decision must be entered into ARCATS for OIG concurrence. When the OIG concurs on the reversal of any disallowed costs, OIG must update the costs in ARCATS. The AO shall notify the accounting office to adjust the related HUD account receivable once the OIG has concurred.
2. Forgiven Disallowed Costs. Occasionally, justifiable circumstances may arise for an AO, higher level of program management, or DCCO to forgive (terminate) the recovery or some portion (compromise) of disallowed costs due HUD or due program participant.
 - a. Due HUD. Each AO is responsible for monitoring the recovery of disallowed costs due HUD and if the debt becomes delinquent, to transfer it through the responsible ALO to the DCCO for processing. The provisions of Handbook 1900.25 shall be followed for the forgiveness of disallowed costs due HUD.
 - b. Due Program Participant. Each AO is responsible for monitoring the recovery of disallowed costs due a program participant. The following amounts and staff levels satisfy the minimum AMS forgiveness requirements. The criteria listed in Appendix 3 shall be considered in making this decision.
 - (1) Disallowed costs up to \$50,000 may be forgiven by the AO. Concurrence of the OIG report issuer is required.
 - (2) Disallowed costs up to \$100,000 may be forgiven based on the approval of the responsible office director in Headquarters. Concurrence of the OIG report issuer is required.
 - (3) Disallowed costs up to \$1,000,000 may be forgiven based on the approval of the appropriate HPOH. Concurrence of the AIGA is required.
 - (4) Disallowed costs in any amount may be forgiven based on the approval of the Deputy Secretary. However, the Deputy Secretary should be advised of the OIG's position, especially when the OIG disagrees, since the OIG is required to report the disagreement in their semiannual report to Congress.

- c. Documentation for Forgiving Disallowed Costs. To be considered for forgiveness, the AO shall include in its proposed revised management decision documentation to support its opinion that the disallowed costs should be partially (compromise) or fully forgiven. The proposed revised management decision submitted for OIG concurrence shall contain the following:
- (1) A chronology of the recovery efforts and actions taken;
 - (2) A history of recoveries made by date and amount of each recovery;
 - (3) The amount originally disallowed and the current balance;
 - (4) Documentation and justification of the condition(s) that support the need for the forgiveness;
 - (5) A listing of the administrative and/or legal actions taken to date and the outcome of those actions; and
 - (6) A copy of the compromise agreement (if applicable).

The OIG will review the documentation supporting the forgiveness to assure that the Department has pursued all possible remedies pertaining to the debt. The OIG will update ARCATS cost fields accordingly and close the recommendation, as appropriate. If any remaining costs are still to be recovered per a compromise agreement, the AO shall enter a proposed revised management decision into ARCATS for OIG concurrence and the usual AMS process resumes.

- D. FPTBU. Audit recommendations may include actions that have the effect of preventing improper obligations or expenditure of funds or improving systems and operations, thereby avoiding unnecessary future expenditures.
1. While preparing the proposed management decision, the AO should determine the reasonableness of the FPTBU amount contained in the recommendation. When the OIG and management agree to the FPTBU amount and the type of action to be taken, the FPTBU amount is considered sustained. When final action is completed, the FPTBU amount is considered implemented. However, subsequent to the management decision, if it is determined that the recommendation cannot be completed, the FPTBU amount is considered not implemented.
 2. FPTBU must be calculated using factual data. Extreme care and sound judgment must be exercised to ensure that such estimates are reasonable and clearly defensible. Estimated costs can be related to HUD's operations or to a contractor's or grantee's operations paid for with HUD funds.

3. Consideration must be given to whether expenses will be incurred in implementing the OIG-issued recommendation. Only the net amount after the offset should be recorded in ARCATS. Projections of FPTBU should not be based on a judgmental sample.
4. When annual savings are projected as a result of the implementation of a recommendation, the savings are recognized in ARCATS one time only; that is, only the savings that would be realized during the first year of recommendation implementation on recurring events, unless there is a documented basis for exceeding one year and one time savings on single events. To ensure uniform reporting in ARCATS, the FPTBU must have been originally reported in the audit report to be sustained or implemented in ARCATS.

5-8 Closing Recommendations

Final action occurs when all corrective actions, including recovery and/or forgiveness of disallowed costs, is completed. The date of the ALO's acceptance of the final action certification and closure of the recommendation in ARCATS is the date of the final action, except when the OIG closes a recommendation at the time the audit was issued.

- A. AO, RAO, and POC Responsibilities. The AO, RAO, or POC should obtain and review supporting documentation to ensure all action has been completed either through the review of documentation submitted, on-site review, or a combination of both. The AO, RAO, or POC shall certify in ARCATS that all actions have been taken in accordance with the management decision concurred on by the OIG and that all documentation evidencing final action has been obtained. The AO, RAO, or POC must forward to the responsible ALO the documentation evidencing final action taken on OIG-issued recommendations for purposes of closing the recommendation in ARCATS.
- B. ALO Responsibilities. Before recording the closure of a recommendation in ARCATS, the responsible ALO should take care to assure that all documentation of final action has been provided including the final action certification from the AO, RAO, or POC. The ALO must have sufficient evidence to demonstrate that the corrective actions have actually occurred before closing an audit recommendation (i.e. journal entries, copies of checks, copy of new procedure, etc.). The general rules on final action certification packages are as follows:
 1. Keep paper to a minimum (e.g., only get the table of contents, or the section that shows the policy was updated, not the whole manual), and whenever possible provide electronic copies in lieu of paper, ensuring that there is reasonable documentation for third-party review;
 2. Statements that the corrective actions have been observed are fine and either written or emailed statements are acceptable; or

3. The ALO will use their judgment to decide what is needed based upon the management decision; however, such documentation should be clear enough that anyone reviewing closure will understand and agree with the decision to close.

5-9 Repeated and Reopened Recommendations

Subsequent audits may contain the same deficiency and recommendation as a prior audit, or the CAV review (See Chapter 8) may conclude that the recommendation has not been implemented. If it is found that a recommendation had not been implemented, the OIG will reopen the recommendation and it will be tracked using the previous report. Only new recommendations (i.e., those that were not in the prior report) will be tracked using the current report. Once a recommendation has been reopened, the OIG shall enter a new final action target date that is 45 days from the date it is reopened. The AO should propose a revised management decision through ARCATS to the OIG within 30 days and then follow the usual audit follow-up procedures (See Chapter 8 for additional details).

5-10 OIG Disagreement

If, at any time, a disagreement arises which cannot be equitably satisfied and a referral is considered the only alternative, the procedures in Chapter 6 are to be followed. It is possible that a disagreement can occur at any time during the AMS process.

Chapter 6: Processing Referrals

6-1 General

The actions recommended in an audit report will not always be acceptable to the AO. Conversely, the AO's proposed alternative actions may not always be acceptable to the OIG. When a disagreement or impasse occurs, the timing and actions necessary are dependent on the level at which the dispute originates.

- A. Initial Action. As soon as the AO or the OIG is aware of a disagreement or impasse, a meeting shall be held to attempt to equitably resolve the issues in dispute. The meeting should include a discussion of the basis for OIG's nonconcurrence as a means of securing corrective action through implementation of the report recommendations or the taking of mutually acceptable alternative actions.
- B. Resolution of Issues. If the OIG and the AO settle the dispute to their mutual satisfaction, the AMS process discussed in Chapter 5 is to be followed. If an agreement is reached on disputed items raised to higher authority levels (management/OIG), specific instructions are to be provided by management/OIG to the AO, ALO, and the OIG so the program office can enter the proposed management decisions into ARCATS for OIG approval.
- C. OIG Reporting of Disagreements. Information concerning any significant management decision with which the OIG is in disagreement is required to be included in the IG's Semiannual Report to Congress.
- D. Criteria for OIG Nonconcurrence. Any OIG nonconcurrence with a proposed management decision or proposed revised management decision should be based on OIG's determination that such proposed decision or action meets the following criteria:
 - 1. Program violation, legal violation, or personnel misconduct so serious that it should be brought to the attention of top HUD management or Congress;
 - 2. Previously displayed Secretarial, White House, or Congressional interest;
 - 3. Problem is or could be the subject of adverse national or statewide press attention;
 - 4. Urgent need for clarification of law or regulation;
 - 5. Widespread prevalence of unsatisfactory conditions which, if not corrected, could adversely affect accomplishment of program objectives;
 - 6. Program objectives to be achieved through the expenditure of Federal funds have clearly not been met; or

7. If there is a disagreement over the amount of ineligible costs, unsupported costs, and/or FPTBU.

On some occasions, an impasse that does not meet one of the preceding criteria may be referred to the Deputy Secretary for final decision based on the AIGA's determination.

6-2 Timing

As soon as it is evident that an impasse exists, a recommendation is to be referred to higher program and OIG management. However, if an audit report does not have an agreed upon management decision within 120 calendar days of issuance, the report will automatically be referred by the OIG issuing office to the next higher level of program and OIG management to make the management decision. The specific time frames are as follows:

A. For Audits Issued to Field Management.

1. Report Issuer issues audit to field management;
2. Report Issuer works with field management to reach a management decision within 120 days of issuance;
3. If no management decision is reached, RIGA refers matter to appropriate Deputy Assistant Secretary (DAS) and the RIGA and AIGA work with DAS to reach a management decision during the next 20 calendar days;
4. If no management decision is reached, AIGA refers matter to the Assistant Secretary and the Report Issuer, AIGA, and IG work with the Assistant Secretary to reach a management decision during next 20 calendar days; and
5. If there is still no agreement on a management decision, the IG refers the matter to the Deputy Secretary for a management decision and the Deputy Secretary will issue a management decision prior to the 180-day deadline from the original date of issuance.

B. For Audits Issued to DAS.

1. Report Issuer issues audit to DAS;
2. Report Issuer and AIGA work with DAS to reach a management decision within 120 days after issuance;
3. If no management decision is reached, AIGA refers matter to the Assistant Secretary to reach management decision and the Report Issuer, AIGA, and the IG

work with the Assistant Secretary to reach a management decision during the next 30 calendar days; and

4. If no management decision is reached, the IG refers the matter to the Deputy Secretary for a management decision and the Deputy Secretary will issue a management decision prior to the 180-day deadline from the original date of issuance.

C. For Audits Issued to Assistant Secretary.

1. Report Issuer issues audit to Assistant Secretary;
2. Report Issuer and AIGA work with Assistant Secretary to reach management decision within 120 days after issuance;
3. If no management decision is reached, the AIGA and IG continue dialogue with Assistant Secretary to reach management decision during the next 30 calendar days; and
4. If no management decision is reached, the IG refers the matter to the Deputy Secretary for a management decision and the Deputy Secretary will issue a management decision prior to the 180-day deadline from the original date of issuance.

6-3 Preparing and Processing a Referral

When an impasse occurs and cannot be resolved, the referral is made by the OIG.

A. Processing of OIG Nonconcurrences.

1. The AO and the OIG should discuss the areas in dispute and/or alternative actions that can be taken. The DALO and/or the designated ALOs should assist program managers and OIG issuers in this effort. If the disputed issues cannot be settled, the AO shall enter a proposed management decision or revised management decision into ARCATS attaching all documentation that is pertinent to support his/her position.
2. The OIG has 15 calendar days from receipt of the AO's submission to review the package and determine if the matter should be referred to the next higher management level.
 - a. If the OIG determines that the matter should not be referred to the next higher management level, the OIG shall advise the AO of that decision and the procedures for reaching a management decision as discussed in Chapter 5 should be followed.

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- b. If the OIG determines that the matter should be referred to the next higher management level, the OIG shall prepare a memorandum of nonconcurrence indicating the areas of impasse and assemble the documentation in support of his/her position. This memorandum and attachments, including AO's position, are to be forwarded to the appropriate DAS with a copy to the RIGA and the DALO (See Appendix 4, pages 4 through 5 for referral package format).
 3. The RIGA or his/her representative is responsible for processing and monitoring referrals made to a DAS and Assistant Secretary following the time frames contained in Section 6-2. When a referral package is received, the appropriate Headquarters program ALO and the DALO should be provided a copy. Subsequent meetings should be held with representatives of the appropriate HPOH, OIG, and the DALO to settle the dispute and arrive at an acceptable action plan.
 - a. If an agreement is reached, the HPOH or his/her representative shall notify the field office program manager as to what action is needed. The program office shall enter the proposed management decision into ARCATS and shall include the actions to be taken, the evidence needed to support closure, and a realistic final action target date. The date the OIG accepts the proposed management decision is the date of the management decision.
 - b. If agreement cannot be reached with the HPOH, the OIG should submit a referral package to the Deputy Secretary for a final decision. The HPOH should also prepare a statement setting forth his/her position on the items at impasse. The HPOH statement should be included in the referral package to the Deputy Secretary. The DALO may attempt to obtain a compromise before advising the Deputy Secretary to make a final decision on the recommendation. If a compromise is obtained, the program office enters the proposed management decision into ARCATS for the OIG to approve.
 4. The Deputy Secretary shall review the HPOH's position and the OIG's position. He/she should meet with the parties to obtain any additional information and should render a decision on the referred recommendation within 180 days of the audit's issuance date. When the Deputy Secretary agrees with OIG, the HPOH, an alternative action, or that action is not needed, the program office shall enter the proposed management decision into ARCATS.
 5. If further action is required, the initial referring offices (the AO and OIG) shall be advised of the action needed and should monitor and track the actions until completed using the procedures in Chapter 5. If no action is needed, the recommendations are considered as having final action completed and the OIG will close them in ARCATS.

6. Referrals made on recommendations where management decisions are already established and a disagreement arises when a revised management decision is requested should be completed within 60 calendar days of the date of the initial submission of the proposed revised management decision.

6-4 Reporting Requirements

Tracking of the referred recommendations during the referral stages should be done in ARCATS. When necessary, the OIG is responsible for recording this information in the escalation section on the recommendation form in ARCATS.

Chapter 7: Tracking and Reporting

7-1 General

The IG Act imposes specific reporting requirements on HUD management and the OIG. Various statistical, tracking, and general information reports are needed for an effective management information system. The data and related reports are generated by ARCATS. Detailed information on the status of each open recommendation, actions completed, and actions to be taken are generated through status reports. ARCATS is the only statistical, general information, and tracking system of the Department for all activities related to audit reports issued by the OIG. The reports generated by ARCATS require the cooperative effort of HUD management and the OIG to record information and assure that the database is accurate. ARCATS affords the user many report options, which should satisfy Departmental needs.

7-2 ARCATS

Each audit report issued by OIG is recorded in ARCATS. ARCATS allows: (a) the OIG audit recommendations contained in audit reports to be tracked until final action is completed; (b) management to enter and track additional items in order to monitor the AMS process; and (c) retrieval of statistical information. ARCATS has specific data fields to be entered and controlled by the OIG and management. The OIG inputs all information following the issuance of the audit report, including entering all findings and recommendations. It is important to assure that the data in the system is current and accurate. In the OIG, a system coordinator is responsible for the timely entry and accuracy of the OIG's data fields. Management is responsible for entering proposed management decisions, proposed revised management decisions, final action certifications, comments on the status of the recommendations, actual collections, etc. Details on the system and other data fields available to the OIG and management are contained in the ARCATS Users' Manual.

There are over 75 standard reports and variations of reports that can be generated by ARCATS. Detailed information on the available reports and instructions for viewing and printing the reports are contained in the ARCATS Users' Manual.

7-3 Internal Reports

- A. Management's Status Update to OIG. At 60 days and 90 days after the issuance of an OIG report, an emailed status report is required on all OIG-issued recommendations without a proposed management decision entered into ARCATS. This report documents the actions taken toward proposing a management decision and identifies any potential recommendations that need to be elevated to the next level of management.

- B. Status Reports to Management. The ALD will provide a monthly Audit Resolution Report on the status of OIG-issued audit recommendations grouped by major program area. In addition, the report will provide the status of all ongoing GAO reviews.

7-4 External Reports

The IG Act requires HUD to submit semiannual reports to Congress and to make those reports available to the public. The IG is responsible for preparing the semiannual report summarizing the activities of the OIG's office during the 6-month periods ending March 31st and September 30th. The IG report is due to the Secretary 30 days after the close of the semiannual period. HUD's Secretary is responsible for transmitting the IG's report to the appropriate committees or subcommittees of the Congress. The statistics and data for these reports are generated by ARCATS.

- A. OIG Report. The semiannual report summarizes the activities of OIG during the preceding 6-month period. The OIG is required to transmit the semiannual report to the Secretary no later than April 30th and October 31st of each year. The report includes, but is not limited to:

1. Significant problems, abuses, and deficiencies relating to the administration of programs and operations;
2. Descriptions of recommendations for corrective action to correct the significant problems, abuses, and deficiencies;
3. Identification of previously reported significant recommendations where corrective action has not been completed;
4. Summary of matters referred to authorities and the prosecutions and convictions that have resulted;
5. Summary of reports to the Secretary where the IG was unreasonably refused, or not provided material (records, reports, audits, reviews, documents, papers, etc.) related to programs and operations, or requests for information or assistance from any federal, state, or local government agency or unit of government;
6. Listing, subdivided by subject matter, of each audit report issued with the total amount of questioned costs, unsupported costs included in the questioned costs, and of FPTBU;
7. Summary of each significant report;
8. Statistical tables which include total number of audit reports, total questioned costs, and unsupported costs included in the questioned costs for those audit reports for which: 1) no management decision was made at the start of the

reporting period; 2) they were issued during the reporting period; 3) a management decision was made during the reporting period listing total disallowed costs and costs not disallowed; and 4) no management decision was made at the end of the reporting period;

9. Statistical tables which include the total number of audit reports and dollar value of FPTBU recommendations using the same categories stated in Paragraph 8 above, except the dollar value is to be listed for recommendations agreed to and not agreed to at the time of the management decision;
 10. Summary of each audit report that was issued in the prior reporting period for which no management decision was made at the end of the current reporting period, an explanation of the reasons for the lack of a decision, and a timetable for achieving that decision;
 11. Description and explanation of the reasons for any significant revised management decision made during the reporting period; and
 12. Any significant management decision made with which the OIG disagrees.
- B. Management Report. Under the provisions of the Government Management Reform Act, the Secretary is not currently required to provide a semiannual report to Congress on the status of audit recommendations. Instead, the required information is incorporated into the Department's annual Performance and Accountability Report (PAR). This report includes the following information on the status of OIG-issued audit recommendations:
1. Any comments the Secretary deems to be appropriate;
 2. Statistical tables listing the total number of audit reports and the disallowed costs where final action had not been completed at the start of the reporting period; management decisions were made during the reporting period; final action was completed during the reporting period listing disallowed costs recovered and disallowed costs written off; and no final action was taken by the end of the reporting period; and
 3. Statistical table listing the total number of audit reports and FPTBU agreed to in a management decision using the same criteria stated in the above Paragraph 2 except the dollar value is to be listed for recommendations actually completed and for those recommendations that management subsequently concluded should not or could not be implemented or completed.

The Secretary is to transmit the OIG's semiannual report to Congress within 30 days after receiving the OIG's report. The Secretary's transmittal letter is normally prepared by the Office of the Chief Financial Officer (OCFO). The Department's PAR is due on November 15th of each year.

- C. Special Reports. The IG shall immediately report to the Secretary any serious or flagrant problems, abuses, or deficiencies relating to the administration of HUD's programs and operations. The Secretary, within seven calendar days, shall transmit the report to the appropriate committee or subcommittee of Congress with a Secretary's report containing any comments he/she deems appropriate.

Chapter 8: Audit Follow-up

8-1 Corrective Action Verification

The OIG will evaluate the effectiveness of the AMS by conducting periodic audits and CAVs on selected recommendations. The OIG and the CFO are responsible for selecting recommendations for and conducting CAVs after OIG-issued recommendations have all final actions taken. Management remains responsible to review, determine, and assure that corrective actions are completed and satisfactorily implemented before certifying that final action has been completed. The CAV system is intended to be the quality control process over the AMS.

- A. Time of Selection and Verification. When concurring on the management decision for each audit recommendation, the OIG audit report issuer shall make a determination as to whether a CAV will be conducted by the OIG. When final action on the recommendation is completed, the CFO shall make a determination as to whether a CAV will be conducted by the CFO's Office.
1. On occasion, events may become known after the final action date that changes the initial judgment. At that point, the recommendation can be selected for CAV. The CFO and OIG will coordinate CAVs to assure duplicative reviews do not occur. The CAV will normally be performed at the site where the audit was performed.
 2. It is not intended for HUD program managers to conduct CAVs. Normally, management may do site reviews to determine if actions are implemented before certifying that final action has been taken on the recommendation. However, after final action has been taken on a recommendation, HUD management, during its regular monitoring reviews or as it deems necessary, should review the adequacy of action taken. When reviews are made, management is to document its files on the scope of its review, material reviewed, conclusions reached, etc. If management finds a need to reopen an OIG-issued recommendation, the OIG is to be notified so appropriate entries can be recorded in ARCATS.
- B. CAV Procedures.
1. Selection Criteria. The OIG should select the more significant recommendations from internal and external audit reports. The following criteria should be considered, among other items, as the basis for selecting the more important recommendations for CAV:
 - a. Any one of the following conditions would continue to exist if the recommended actions were not implemented as reported:
 - (1) Continuation of large dollar losses to the program and/or the Government;

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- (2) Potential substantial income not realized;
 - (3) Widespread prevalence of unsatisfactory conditions in the Department or at the auditee that, if not properly corrected, could adversely affect the satisfactory accomplishment of program objectives;
 - (4) Health or safety violations that endanger the occupants of structures subsidized by or financed through a HUD program;
 - (5) Problems that could become a subject of adverse national or statewide press attention; or
 - (6) Internal control problems that, if not corrected, could permit significant fraud, theft, or embezzlement to go undetected.
- b. Previous White House, Congressional, or Secretarial interest in the matter, which initially caused the audit to be conducted;
 - c. Recommendations to correct program violations, legal violations, etc., which were reported to Congress;
 - d. Conditions and related recommendations that were included in the OIG's semiannual report to Congress; or
 - e. Special cases as determined by the OIG.

Circumstances during the AMS process may change the significance of a recommendation from the time a report was first issued. The significance for selection is to be determined at the time of management decision and may be reevaluated after final action has been completed. Upon selecting a recommendation, the OIG shall record the selection in ARCATS. Management, at any time, can order the appropriate ARCATS report which should display all reports and/or recommendations selected and the tentative target date for CAVs to be completed.

- 2. Notification to Management. Before the start of a CAV, the OIG, or CFO shall advise management of the CAV start date and arrange to review management's files (normally the ALO's) and interview the HUD staff member responsible for monitoring the completion of the final action for the recommendation. The purpose of the review and interview is to gather and review the documentation evidencing final action. The review should result in one of three courses of action:
 - a. CAV terminated based on documentation, such as HUD management review, third-party reviews, consultant reports, etc., which established corrective actions were implemented;

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- b. CAV terminated based on the fact that HUD management subsequently established that the recommendation was not implemented and should be reopened; or
 - c. Insufficient information is on file to make any further judgment and a site review is needed.
3. Suspension. When a recommendation selected for CAV is reopened based on management's monitoring reviews, OIG's plans to conduct a CAV should be suspended until the reopened recommendation is again considered implemented. At that time, the OIG or CFO is to evaluate the need for a CAV. If it is determined that a CAV is appropriate, it should be completed within 6 months of the latest date that the final action was completed.
 4. Reporting Results. At the completion of a CAV, a memorandum shall be issued to HUD management. The memorandum should basically advise HUD management that: a) the OIG or the CFO agrees with the basic action taken and the recommendation was satisfied; b) the recommended actions were not satisfactorily completed and the related recommendation is reopened; or c) the recommended actions were taken but did not eliminate the identified deficiency and the recommendation is reopened.
- C. ARCATS Entries and Reports. The OIG and CFO are responsible for entering all information on CAVs in ARCATS. The following information is to be recorded:
1. Date Selected. This is the same date as either the date of management decision or the date final action is completed.
 2. Target Completion Date. This is normally recorded at the time of final action and should not exceed the date of final action plus 6 months. For those recommendations selected for CAV after the final action date, the target date should not exceed the final action date plus 12 months.
 3. CAV Completion Date. This is recorded at issuance of a memorandum to management. This date is to be the date of the memorandum.
 4. Reopened Recommendations. If the CAV disclosed that the recommendation was not implemented as reported, ARCATS shall be updated to reflect the reopened status.

8-2 Audit Closure QCR

At least every other year, as resources permit, the CFO's ALD will conduct a QCR of the ALOs' audit resolution files for those audits that were closed during the period since the prior review or a lesser period with OIG concurrence. Regardless of existing general Government documentation retention procedures, ALOs must retain their audit files for all audits, including all recommendations closed, until the closed audit has been subjected to one QCR review sample selection period.

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.

B. Review procedures will include the following:

1. Identification of OIG audits with recommendations closed by management during the review period where the audit is also closed.
2. Selection, from the identified population, of a sample of audit resolution files to be included in the review:
 - a. A random sample of at least 20% of recommendations with unsupported costs over \$1 million.
 - b. A random sample of at least 10% of each ALOs files included in the population.
3. Review of the selected sample files for either an electronic or paper copy of:
 - a. Final action certification form;
 - b. Documentation to support/justify recommendation closure; and
 - c. Completeness and organization.
4. Discussions with ALOs to ensure their understanding of the audit recommendation resolution process and monitoring activities and to solicit suggestions for improvements to the AMS process.
5. Discussions with other Departmental personnel as necessary.

- C. At the conclusion of the review, a report of its results and the lessons learned will be prepared and distributed to all concerned parties.

Chapter 9: GAO Review Protocol

9-1 GAO Reviews

Reviews by GAO are either self-initiated by the Comptroller General, who is the head of the GAO; conducted at the request of Congress or HUD; or mandated by statute. Additionally, GAO may conduct research studies or issue questionnaires to survey potential areas of review interest or to develop background data where requests from Congress are anticipated.

GAO reports about HUD or including HUD, if it is a government wide report, are directed to: (1) Congress, (2) the Secretary, or (3) HPOHs. The reports, which may also include congressional testimony, may be directed specifically to HUD or crosscut other government agencies.

Information about protocols followed by GAO in review of agency matters can be found at <http://hudatwork.hud.gov/po/f/audit/finmgmt2.cfm>.

9-2 HUD Responsibilities

- A. The Deputy Secretary has been designated by the Secretary as the primary audit follow-up official for the Department, as described in OMB Circular A-50, "Subject: Audit Follow-up." In exercising this delegated authority, the Deputy Secretary:
1. May designate the HPOHs to take the GAO review follow-up lead for their program offices;
 2. At his/her discretion, chairs entrance and exit conferences when an ongoing review is crosscutting or of special interest to the Secretary or Deputy Secretary;
 3. Receives periodic briefings from the Office of Departmental Operations and Coordination (ODOC) on the status of ongoing reviews and open recommendations; and
 4. Receives a weekly report from the Office of Financial Management in the Office of the CFO outlining the responses due to GAO or Congress for draft and final reports, draft reports for which HUD has responded and is waiting for a final report to be published and made public, and any new assignments announced by GAO.
- B. The DALO is the Director of the ALD in the CFO's Office of Financial Management and is the initial point of contact with GAO for all review issues. The ALD:
1. Designates the Primary Program Office and, when applicable, Secondary Program Offices for GAO reviews, audits, and surveys;

2. Transmits the new assignment notification, draft reports, and final reports to the appropriate program GAO ALOs, the HPOHs, Principal Staff, and ODOC;
3. Delivers a copy of the new assignment notification and draft and final reports to the Office of the Executive Secretariat (Exec. Sec.) for processing in the correspondence tracking system;
4. Attends the pre-entrance and entrance conference;
5. Sets Departmental deadlines and monitors the timeliness of responses to GAO surveys and draft and final reports;
6. Attempts to negotiate new due dates for responses to draft reports when deemed necessary and appropriate by the ALD;
7. Assists the Program Office ALO in solving disputes between HUD and GAO regarding the delivery of documents;
8. Assists program managers and ALOs in resolving differences with GAO concerning closure of open recommendations and changes in implementation plans;
9. Maintains ARCATS, which tracks all ongoing GAO audits and recommendations;
10. Makes appropriate entries into ARCATS;
11. Directs Program Office ALOs to seek the assistance of the OGC in matters of sensitive data or where GAO requests access to potentially privileged data;
12. Communicates and coordinates with ODOC regarding entrance conferences;
13. Provides a weekly status update for the Assistant CFO for Financial Management to forward to the Secretary, Deputy Secretary, and other selected staff outlining the responses due to GAO or Congress for draft and final reports, draft reports for which HUD has responded and is waiting for a final report to be published and made public by GAO, and any new assignments announced by GAO;
14. Provides a similar but more detailed monthly report to Principal Staff Members and other HUD Managers; and
15. Provides updated review guidance when necessary.

C. ODOC is responsible for:

1. Serving as the Primary Program Office for reviews that crosscut multiple program offices or are areas of special interest to the Department;
2. Making a decision in consultation with the ALD and affected program offices as to whether a pre-entrance and entrance conference is necessary and determining the appropriate attendees list;
3. Scheduling the pre-entrance and entrance conference and providing notification of the meetings to affected staff;
4. Chairing the pre-entrance and entrance conference in the absence of the Deputy Secretary;
5. Recommending changes to lead Program Office and review participants as a result of the pre-entrance or entrance conference;
6. Keeping the Deputy Secretary informed of the status of significant ongoing GAO reviews, recommendations, and any potentially sensitive information requests;
7. Consulting with OGC concerning requests for potentially sensitive/privileged data; and
8. Attending exit conferences.

D. The Exec. Sec. is responsible for:

1. Entering information regarding new assignments and draft and final reports into the correspondence tracking system;
2. Providing a copy of the correspondence tracking document to ALD;
3. Filing a copy of the various documents in the official Departmental files; and
4. Providing copies of controlled GAO correspondence to the Deputy Secretary or Secretary upon request.

E. The HPOH is the program office head, usually the Assistant Secretary or an equivalent level official, and is responsible for:

1. Attending designated pre-entrance, entrance, and exit conferences, or delegating an authoritative spokesperson to attend and represent him/her;
2. Assigning a senior manager to serve as program expert and POC for each review where his/her program office is either a Primary or Secondary Program Office;

3. Assigning a Program Office ALO;
 4. Notifying the DALO by memorandum of changes in ALO status;
 5. Reviewing and signing the official response, on behalf of the Secretary, to a draft or final report where his/her program office is designated the Primary Program Office; and
 6. Notifying the Secretary and/or Deputy Secretary about any potential issues and sensitive recommendations in draft and final reports.
- F. The Program Office ALO must adhere to HUD's GAO processes and procedures as defined by this Chapter and to any subsequent modifications by the ALD. The ALO is designated by the HPOH to coordinate reviews for the ALO's respective program office. It is the responsibility of the ALO to:
1. Notify the ALD regarding any inquiries from GAO that are not a part of a known on-going GAO review or appear to be potential review scope violations and, pending a response from ALD, advise program staff not to provide information to GAO until clearance to proceed is provided;
 2. Ensure that appropriate program office staff members are notified in a timely manner regarding GAO assignments, statements of fact, draft and final reports, and ensure response deadlines are met for data requests, draft report comments, and final reports' recommendations;
 3. Provide ODOC with a list of proposed attendees for the pre-entrance and entrance conference;
 4. Attend the pre-entrance, entrance, and exit conferences;
 5. Once an Exec. Sec. control correspondence number has been forwarded to the ALO from the ALD for documents that do not require a response, the ALO must notify the Control Correspondence Unit Person (CCU) that the document associated with the control correspondence number has been received by the program office;
 6. Ensure that a POC is established for each review where his/her program office is the Primary or Secondary Program Office;
 7. Report to the DALO on any disagreements regarding document access between the Program POC and GAO;

8. Ensure a coordinated response to all GAO draft and final reports where the ALO is in the Primary Program Office for the review;
 9. Direct POCs and staff to consult with OGC concerning requests for data that may be subject to executive privilege;
 10. Obtaining Congressional and Intergovernmental Relations (CIR) concurrence on responses to final reports;
 11. Inform the DALO when a response to a draft report is anticipated to be late as soon as the delay is known;
 12. Ensure that the response to draft and final reports is delivered by the due date to the addressees and a copy is provided to the ALD and their program office CCU;
 13. Periodically obtain updates from program staff regarding the status of open recommendations; and
 14. Make necessary ARCATS entries.
- G. The CCU Person is responsible for closing Exec. Sec. tracking documents in the correspondence tracking system after notification from his/her Program Office ALO that a document has been received from the ALD. When a response is required, the ALO will provide a copy of the signed response to the CCU, who will close the tracking document using Exec. Sec.'s instructions for controlled responses.
- H. The review POC is designated by the HPOHs and should be a subject matter expert for the GAO review topic. These duties may also be performed by ODOC when reviews cut across program areas. The duties of the POC typically include:
1. Attending the pre-entrance, entrance, and exit conference meetings;
 2. Cooperating and communicating with GAO during the review process;
 3. Either arranging or directing the ALO to arrange GAO meetings with program staff at Headquarters or in field offices;
 4. Bringing any questions or disputes regarding the release of sensitive information or documentation to the attention of the ALO, DALO, and OGC;
 5. Keeping the HPOH informed of the status of the review, impediments, and any potentially sensitive issues;
 6. Maintaining a copy of documents provided to GAO;

7. Writing or directing the preparation of the Department's response to the draft and final report;
 8. Periodically following up with GAO regarding all open recommendations in his/her program area until GAO agrees that they should be closed; and
 9. Providing recommendation status updates to their ALO.
- I. The OGC is assigned as a Secondary Program Office for all reviews that are or may be sensitive in nature. This determination is established by OGC at the pre-entrance conference and reaffirmed at the entrance conference. OGC may change the sensitivity designation as each ongoing review evolves. OGC is responsible for:
1. Attending all pre-entrance, entrance, and exit conferences;
 2. Assisting HPOHs, POCs, and ALOs with the timely review of documents requested by GAO that are considered sensitive, determining whether the documents are releasable to GAO, and clearing documents for release, where and if appropriate;
 3. Providing advice and guidance to relevant program areas regarding information that can be disclosed to GAO during a review that is considered to be sensitive; and
 4. Participating in the preparation of responses to draft and final reports that OGC has determined to be sensitive.
- J. CIR is required to concur on all consolidated departmental responses to final reports.

9-3 Major GAO Review Process Steps

- A. New Assignment Notification. GAO will normally issue a notification letter to the Department before it begins any formal review activity. The letter indicates who requested the review, the GAO personnel who will conduct the review, the scope of the review, when the review will begin, and where the review will be conducted.
1. The ALD will transmit the new assignment notification to the Primary and Secondary Program Office HPOHs, ALOs, Exec. Sec., ODOC, and Principal Staff;
 2. The responsible ALOs will distribute a copy of the notification to affected program staff in their program office;
 3. Exec. Sec. will enter the new assignment information into the correspondence tracking system, file a copy of the new assignment notification, and provide a copy of the correspondence system document to the ALD;

4. The ALD will transmit the Exec. Sec. correspondence tracking system number to the CCU and responsible ALOs for processing; and
 5. The responsible ALOs will provide a suggested attendee list for the pre-entrance and entrance conferences to ODOC.
- B. Pre-Entrance Conference. ODOC will arrange for a pre-entrance conference, including relevant ALOs, relevant program staff, ALD, and the OGC before an entrance conference takes place. Any issues of particular concern should be brought to ODOC's attention at this meeting. As a result of this meeting, the list of attendees for the entrance conference will be finalized.
- C. Entrance Conference. ODOC will arrange for an entrance conference in coordination with GAO, the Deputy Secretary (for major reviews), HPOHs, program ALOs, programs staff, ALD, and OGC ALO. Entrance conferences may be waived for surveys, short-turn-around items, or where HUD will play a very minor role in the review. GAO may not begin its review until after the entrance conference has been completed. During the entrance conference, GAO will provide: background including the reason for the review, detail on its scope; insight into the types of data needed, the time frames for the review; where GAO will be conducting the review; and answer program office questions about the review. Program Offices that are impacted by reviews must be represented by either the HPOH or staff members designated by the HPOH, the HPOH assigned POC, and ALO. POCs names and contact information will be provided to GAO during the entrance conference.
- D. During the Review. Full cooperation shall be provided from HUD officials. Program officials interviewed by GAO should only speak to areas within their span of control and should refer any questions or requests for data outside their span of control to their ALO. A program official should not arbitrarily refuse to provide information to GAO. During the review phase, any significant issues raised by GAO, or areas of disagreement with GAO, must be brought to the immediate attention of the Program Office ALO, who will notify the DALO and ODOC. Program officials must contact OGC if the issue involves the release of potentially sensitive documentation.
- E. Exit Conference. Upon completion of its review, GAO will usually hold a formal exit conference and provide a summary or Statement of Facts (SOF).
1. The Primary Program Office's ALO is responsible for coordinating the date and time of the exit conference with GAO. The relevant program office staff including the HPOH or his/her designee, POCs, ODOC, ALD, and OGC must be invited to attend this meeting.
 2. The SOF is usually presented during the exit meeting or may be emailed by GAO directly to the Primary Program Office's ALO prior to the meeting. It is essential that HUD identify any areas of disagreement and attempt clarification

during this phase, even if there are no specific recommendations for the Department. Significant issues raised by GAO or HUD management, either in the data presented or in proposed recommendations, may be elevated to the Deputy Secretary via the HPOHs and/or ODOC.

- F. Draft Report. After the exit conference is completed and resulting comments are considered, GAO may issue a formal draft for official comment. GAO will set the due date for a response to a draft report, usually 10 working days. Every attempt should be made to have a response delivered to GAO by the due date. Requests for due date extensions must be directed to the DALO. Due to publication deadlines, GAO often rejects extension requests or only provides an extension of one working day.
1. The ALD will determine the HUD internal due date and transmit the draft report to the Primary and Secondary HPOHs, ALOs, Exec. Sec., OGC, and Principal Staff;
 2. Exec. Sec. will enter the draft report information, including the response due date, into the correspondence tracking system, file a copy of the report, and provide a copy of the correspondence system document to the ALD;
 3. The ALD will transmit the Exec. Sec. correspondence tracking number to the CCU and ALO for processing;
 4. When the formal draft report is issued, it may contain recommendations for HUD that will be directed to either the Secretary or HPOHs. Consolidated responses to draft reports must be prepared and delivered by the Primary Program Office. A copy of the reply must also be forwarded to the ALD and Control Correspondence Unit (CCU). HPOHs have the responsibility to notify the Secretary/Deputy Secretary of specific GAO recommendations that are potentially politically sensitive;
 5. The Primary Program Office ALO must ensure that all necessary concurrences are obtained before the response is delivered to GAO. Concurrences can include, when applicable, the POCs, Secondary Program Office HPOHs, and OGC;
 6. The Primary Program Office ALO must ensure that delivery is on time or must notify the DALO, as soon as the issue is known, that the delivery will be delayed so the DALO can attempt to negotiate a new due date when necessary and appropriate; and
 7. Responses to draft reports are to be directed to the GAO official who signed the announcement letter and a copy provided to the lead auditor, unless otherwise directed by the ALD.

- G. Final Report. After receiving formal draft comments, GAO usually issues a final report. If a final report is issued that contains recommendations, HUD must prepare a response to Congress within 60 calendar days of the final report transmittal letter from GAO. Responses must include a plan of corrective action with target completion dates. The Deputy Secretary has mandated that prompt responses are a top Departmental priority. The CFO and GAO track responses for timeliness. The due date is mandated by statute; therefore, no extensions can be authorized.
1. The ALD transmits the final report to the Primary and Secondary Program Office HPOHs, ALOs, Exec. Sec., OGC, and Principal Staff;
 2. Exec. Sec. will enter the final report information into the correspondence tracking system, file a copy of the report, and provide a copy of the correspondence system document to the ALD;
 3. The ALD will transmit the Exec. Sec. correspondence tracking number to the CCU and ALO for processing;
 4. If a final report contains recommendations, they may be directed to either the Secretary or HPOHs. Typically, the recommendations are addressed to the Secretary. Even if the issues raised were addressed in the response to the draft report, a response to the final report is still statutorily required. The ALD designates the Primary Program Office to respond on behalf of the Secretary. Typically, the response is prepared by the Primary Program Office and concurred on by Secondary Program Offices, including OGC for “sensitive” reports, and CIR for all responses, and sent to each of the following:
 - a. Comptroller General, GAO;
 - b. Director, OMB;
 - c. Chairman and Ranking Member, Committee on Appropriations, United States Senate;
 - d. Chairman and Ranking Member, Committee on Homeland Security and Governmental Affairs, United States Senate;
 - e. Chairman and Ranking Member, Committee on Government Reform, House of Representatives;
 - f. Chairman and Ranking Member, Committee on Appropriations, House of Representatives; and
 - g. The GAO Director who signed the report.

5. With the assistance of CIR, the ALD maintains a list of the current Committee Chairs and Ranking Members for each of the Committees and their respective addresses and fax numbers. Updates to the list are provided as they occur.

9-4 GAO REVIEW FOLLOW-UP

GAO tracks the status of corrective actions on open recommendations and follows up on their status throughout the year until the recommendations are closed. Program officials with open recommendations are authorized to directly inform GAO of changes in implementation plans, schedules, and completion dates, and must provide documentation as necessary to close open recommendations. Information provided should be limited to progress made toward the implementation of the open recommendations. Program officials should also keep their ALOs advised of completed actions and changes in schedule. HUD encourages open communication with GAO auditors for the purpose of resolving open recommendations. However, care should be exercised to ensure that any discussions remain on topic and within the scope of the recommendation being discussed.

9-5 REPORTING AND TRACKING

All GAO reviews will be tracked in ARCATS. Reviews will be input in ARCATS as soon as the new assignment notification is received and will be tracked until any final review recommendations have been closed. (For instructions on adding information to ARCATS, refer to the ARCATS training manual.) Input into ARCATS will be the responsibility of the ALD staff and the ALOs, as follows:

- A. The ALD will enter new assignment notifications, SOFs, draft reports, final reports, and GAO comments regarding open recommendations; notifications sent to HPOHs, program ALOs, and Principal Staff; and notes from pre-entrance, entrance, and exit conferences;
- B. Program ALOs will need to periodically update the status of open recommendations based on input from their program office staff. At a minimum, this should occur semiannually and whenever requested by the ALD; and
- C. ALD and ALO inputs are used to provide reports on the status of GAO on-going reviews and recommendations. Several reports are available through the ARCATS system.

9-6 MAINTAINING A COOPERATIVE RELATIONSHIP WITH GAO

Cooperation with GAO will be achieved if HUD staff involved in the review process follow the established protocols and promptly communicate information to the DALO, OGC, and their appropriate HUD Program Office ALOs regarding the GAO review or questions about the GAO review. Good internal communications will assist HUD in being more responsive to GAO.

Appendix 1: Glossary of Terms

Action Official (AO). The HUD official (program manager) to whom an audit report is addressed or who is responsible for taking action or assuring that action is taken on the recommendations in the report.

Allowed Costs. Allowed costs are those questioned costs which management determines that repayment is not necessary or another action is more appropriate. The costs that are challenged by the auditors may be allowed if the AO can furnish: (a) material that supports the allowance of those costs, such as auditee accounting records or similar documents; (b) an interpretation or precedent that rebuts the audit report issuer's criteria or its application; (c) a legal opinion; or (d) a program management waiver, compromise, or decision to allow the questioned costs under applicable program laws, regulations, policies, and/or procedures. (However, HUD management shall make sure that the Department can take such actions.) OIG shall have concurred in any compromise action related to OIG-issued recommendations prior to that action being included in any waiver, document, or agreement that will legally bind HUD to its provisions or prior to providing notice of that action to auditees or other parties outside of HUD.

AMS Process. A term used to represent the action taken, subsequent to the issuance of an audit report, through the management decision and final action stages.

Audit Finding. A written explanation of: errors, weaknesses in internal controls, deficiencies, adverse conditions, noncompliance with contractual, statutory, regulatory, or other legal requirements, or the need for improvements or changes which are disclosed by the audit. An audit finding usually includes a comparison of “what is” (criteria) with “what should be” (criteria) and an answer to the question “what does this mean?” or “so what?” (adverse effect). In addition, an audit finding usually identifies and explains the reasons why (cause) there is a difference between “what is” and “what should be.” The finding will be the basis for conclusions and recommendations for corrective action.

Audit Liaison Officer (ALO). An individual who serves as the primary focal point for monitoring the processing and handling of audit reports and audit recommendations issued by the HUD OIG.

Audit Report Issue Date. The date shown in the upper right corner of the face sheet on a HUD OIG-issued audit report or the date of the OIG’s acceptance transmittal memorandum on an audit report prepared by another Federal audit agency.

Audit Report Issuer. The HUD OIG official who is responsible for the issuance of audit reports. This representative is responsible for monitoring management decisions and all related actions on OIG-controlled recommendations contained in the audit reports.

Auditee. The principal entity being audited, i.e., the entity responsible for administering the programs and activities that are the subject of the audit. For an internal audit report, the auditee is the organization/activity within HUD. For an external audit, the auditee is the HUD program participant.

Audits Management System (AMS). The Department's formal management system for monitoring and obtaining timely resolution of recommended corrective actions in audit reports prepared by the OIG and other Federal auditors including the GAO. The AMS is designed to conform with Federal audit follow-up and management reporting requirements of the Inspector General Act and related OMB circulars. The actual tracking of recommendations and agency reporting of related data is accomplished in ARCATS.

Audit Resolution and Corrective Action Tracking System (ARCATS). An automated system used primarily to monitor the process of implementing corrective actions as a result of OIG-issued audit reports and tracking GAO reviews and recommendations. It is the Department's official system to track the status of corrective actions. The data recorded in the system is available for HUD managers and is used by the Inspector General in their semiannual report to Congress.

Cognizant Agency. The Federal agency that is assigned, by the Office of Management and Budget (OMB), with the responsibility for cost negotiation and monitoring audits of state and local governments in accordance with the requirements of the Single Audit Act of 1984 and OMB Circular A-133. Those local governments and non-profit organizations that are not assigned a cognizant Federal agency are under the general oversight of the Federal agency that provides the most funds.

Corrective Action Verification (CAV). A verification review conducted by the OIG or the CFO to determine if the corrective actions, as reported by the HUD action officials, have been completed. This review will also verify that the corrective actions taken were sufficient to correct the audit identified deficiency. This process does not supplement or replace HUD management's responsibility to monitor and ensure final action is completed, but is a system of quality control under the Audits Management System.

Cost Recovery Audit Recommendation. An external OIG-issued audit recommendation relating to questioned costs and their recovery.

Delinquent Debt. A debt that has not been repaid by the due date specified in the initial notification or installment repayment arrangement.

Departmental Audit Liaison Officer (DALO). The Director, ALD is the designated DALO. The DALO oversees all program and administrative ALOs and advises the CFO and Deputy Secretary on audit resolution matters within HUD. The DALO also develops HUD policy and procedures on OIG audit resolution activities with the advice of the OIG.

Departmental Automated Audits Management System (DAAMS). The now retired automated system that was used primarily to monitor the process of implementing corrective actions as a result of OIG-issued audit reports. This system has been replaced by ARCATS.

Departmental Claims Collection Officer (DCCO). The DCCO is responsible for collecting and reporting claims that have proven to be uncollectible by the AO and accounting office for debts due HUD. The DCCO has no responsibility for debts deemed due to program participants.

Disallowed Costs. Questioned costs that HUD and the OIG concurred upon management decision have agreed should not be charged to the Government or HUD programs and needs to be repaid (by repayment, reduction of costs, or offset).

Exit Conference. A closeout meeting for the auditors to formally discuss the audit results, i.e., the draft findings, the preliminary conclusions, and the possible corrective actions, with auditee management. The conference provides auditee management an opportunity to influence the fair presentation of issues and conditions, to have any errors corrected and to note any disagreements prior to issuance of the final audit report.

External Audit. An audit performed of the records and performance of external organizations (program participants), such as grantees, mortgagees, mortgagors, and contractors doing business with the Department.

Final Action. The completion of all corrective actions that management has concluded, in its management decision, are necessary with respect to findings and recommended actions included in an audit report. In the event it is concluded no further action is necessary, final action occurs when a management decision is made.

Funds-Put-To-Better-Use (FPTBU). The amount that could be realized by preventing improper obligations or expenditure of funds or improving systems and operations, thereby avoiding unnecessary future expenditures. FPTBU are not identified in SAA audits.

Headquarters Primary Organization Heads. Those officials who are responsible for organizational components that report directly to the Secretary or Deputy Secretary (except staff offices such as Public Affairs, etc.).

Independent Auditor (IA). An IA is either: (1) a firm or an individual that is a licensed certified public accountant; (2) a firm or individual that is a public accountant licensed or registered on or before December 31, 1970; or (3) a state or local government auditor or audit agency that meets the independence standard included in generally accepted government auditing standards. Accountants and/or accounting firms described in (1) or (2) above are required to comply with the applicable provisions of the public accountancy law or rules of the jurisdiction where the audit is being conducted and the jurisdiction(s) in which they are licensed. For purposes of this handbook, an IA is an auditor that is authorized to perform SAA audits.

Ineligible Costs. Costs that are questioned because of an alleged violation of a provision of a law, regulation, contract, grant, cooperative agreement, or other agreement or document

governing the expenditure of funds. Ineligible costs may be applicable to development or construction-type expenditures, fund reserves, distributions of project equity, or revenue activities that could cause higher net expenses.

Internal Audits. An independent in-house review and examination of HUD programs, operations, and management controls, including a systematic review or appraisal to determine and report whether: (1) operations are properly conducted; (2) reports are presented fairly; (3) applicable laws and regulations, contracts, handbooks, etc., have been complied with; (4) resources are managed and used in an economical manner; and (5) desired results and objectives are being achieved in an effective manner. Internal audits are performed by the OIG and may include either Headquarters or field office activities or both. Internal audits are sometimes called program, operational, performance, or management audits.

Management Decision. The management response to recommendations, included in an internal or external audit report, which includes corrective actions needed to resolve a recommendation.

Management Decision-Action Completed. The corrective action(s) required by the management decision has been implemented or no action is required.

Management Decision-Action Pending. The corrective action(s) required by the management decision has not been completed.

Management Decision-Investigation Pending. A management decision for which the AMS process is suspended because the action official is advised not to take further corrective action(s) until an investigation is completed.

Management Decision-Litigation or Legislation Pending. A management decision for which the AMS process is suspended because planned or ongoing litigation or legislation, in which HUD or the auditee is involved, precludes the corrective action(s) from being taken until the litigation or legislation is completed.

Offset. Amounts owed to the auditee are reduced by the amount of disallowed costs that is agreed to by the OIG and program management. For example, the Department has an accounts payable to a contractor of \$10,000 and an audit disallowance of \$5,000 as an accounts receivable. By paying the contractor only \$5,000, the audit disallowance would be collected by offset.

Operational Issues Audit Recommendation. An external OIG-issued audit recommendation relating to the on-site operational management of the audited entity (e.g., local government grant recipient), such as contracting procedures, training programs, policies and procedures, weak internal control procedures and practices, or accounting deficiencies, etc.

Program Management Audit Recommendation. An internal OIG-issued audit recommendation that affects, or is the direct responsibility of, program management. Examples might include things such as monitoring of Housing Authorities or income verification for Section 8 assistance recipients.

Program Participant. An organization outside the Department, such as a state or local government, public housing agency, mortgagor, mortgagee, or contractor, which receives federal assistance and performs functions in connection with a Department program. A state or local government (or one of its departments, agencies, or establishments) usually participates as a grantee. Program participants generally are contractually responsible to HUD.

Questioned Costs. Costs that have been challenged during the audit by the auditor and are comprised of three categories of costs: ineligible costs, unsupported costs, and unnecessary/unreasonable costs. Questioned costs may occur in an OIG or SAA audit.

Recommendation. The auditor's written suggestions for specific action to correct a deficient condition, prevent a recurrence of the condition, or alleviate the adverse effects of a condition. Recommendations are directed to specific HUD officials (action officials) who have the authority and the responsibility to take corrective action. There are two types of recommendations (corrective actions). First - OIG-issued, that are recommendations monitored and tracked by both the OIG and management. Second - program-controlled, that are recommendations monitored and tracked by HUD program management only. The majority of the recommendations contained in audit reports prepared by non-Federal independent auditors fall into this category.

Recovered Costs. The portion of disallowed costs that had been: (1) returned to the Government; (2) reimbursed to programs or projects funded by HUD; (3) reimbursed to projects whose mortgage loans are made or insured by HUD; (4) offset; (5) received pursuant to criminal or civil litigation; or (6) recovered through a reduction of a current or future grant. These amounts result primarily from external audit report recommendations.

Referrals. The transfer of one or more audit report recommendations to higher agency officials for consideration when an impasse, disagreement, or an untimely management decision occurs in the AMS process between the action official and the audit report issuer.

Reopened Recommendation. Reclassification of the status of a recommendation that was believed to have had final action completed, but the OIG, CFO's office, or responsible program manager discovered that the recommendation had not been adequately implemented.

Revised Management Decision. Management's evaluation and decision that it is necessary to pursue alternative corrective actions rather than those originally planned in the original corrective action plan. OIG concurrence of revision is required for changes made in corrective action after management decisions have been recorded in ARCATS on OIG-issued recommendations. When OIG does not concur with the decision proposed by lower levels of authority in HUD, the Deputy Secretary shall make the revised management decision.

Shall. When the term "shall" is used, the procedure, item, or task is to be completed. Departures are not considered in the best interest of the Department.

Should. When “should” is used, the procedure, item, or task is to be normally completed. Departures must be justified as in the best interest of the Department.

Single Audit. An audit requirement established by the Single Audit Act of 1984, which provides for independent audits of financial operations; including compliance with certain provisions of Federal law and regulations. Audits are made on an organization-wide basis of state and local governmental recipients of Federal assistance, rather than on an individual grant or project basis. Implementing guidance is provided in OMB Circular A-133 and in CFR Part 44 of the regulations. Generally any non-profit entity expending \$500,000 in their fiscal year is required to have performed a SAA audit by an independent accountant.

Sustained Costs. The portion of FPTBU (cost efficiencies) in a finding, which will be accomplished by a management decision, for the related audit recommendation. Non-sustained costs are the portion of FPTBU (cost efficiencies) that will not be accomplished.

Unnecessary Costs. Costs that are not generally recognized as ordinary, prudent, relevant, and/or necessary within established practices.

Unreasonable Costs. Costs that by their very nature and amount, exceed the costs incurred by the ordinarily prudent person in the conduct of a competitive business.

Unsupported Costs. Costs charged to a HUD-funded or insured program or activity whose eligibility cannot be determined at the time of audit since such costs were not supported by adequate documentation. These costs require a future decision on the part of HUD program officials. Unsupported costs may be applicable to development or construction type expenditures, operating or administrative type expenses, fund reserves, contributions of project equity, or revenue activities that could cause higher net expenses.

Appendix 2: OIG Audit Resolution Timeline

# CALENDAR DAYS FROM ISSUANCE OF THE AUDIT	AUDIT RESOLUTION ACTION TO BE COMPLETED
0	OIG issues audit to the AO, who is required to respond to the audit. The AO can assign someone as a RAO to act on his behalf. He can also assign a POC who is usually someone who is actively working on the audit issues.
0-60	The AO/RAO/POC should be developing proposed responses to each recommendation contained in the audit and engaging in discussions with the auditors, affected external entities, staff and Headquarters.
1-104	Proposed management decisions should be entered into ARCATS as they become available . They should be entered no later than the 104 th day after audit issuance, to provide the OIG 15 days to review the proposal and obtain clarification or changes when necessary.
15-45	If the audit is of an external entity such as a grantee, public housing authority, multifamily subsidized project, etc., the AO/RAO/POC must notify the entity of the audit report no later than (NLT) 15 days from issuance and request a written response to be received within 45 days of the reports issuance.
60	Not later than 60 days after audit issuance, the AO/RAO/POC should transmit by email to the OIG auditor a "60 day status report" that details the progress being made toward proposing a management decision for those recommendations that do not yet have a proposed management decision entered into ARCATS. The responsible ALO should be cc'd.
90	Not later than 90 days after audit issuance, the AO/RAO/POC should transmit by email to the OIG audit issuer a "90-day status" report that details the progress being made toward proposing a management decision for those recommendations that do not yet have a proposed management decision entered into ARCATS. The responsible ALO should be cc'd.
60-120	During this period OIG and the AO/RAO/POC should be working diligently together to achieve management decisions agreeable to both parties. This includes informal clarifications, discussions and suggestions.
120	If the AO/RAO/POC and the OIG have been unable to reach approved management decisions by the 120th day, then the audit is "referred" to a higher level of HUD management by the OIG. The audit may also be referred earlier if the OIG or HUD management

	believes an agreement cannot be reached.
150 - 180	If the responsible Assistant Secretary and the Assistant IG for Audits have not reached approved management decisions by the 150th day, this matter is referred by the IG to the Deputy Secretary and an "impasse" meeting is scheduled. The Deputy Secretary listens to the positions of HUD management and the OIG and may issue directed management decisions.
Post acceptance of a management decision	HUD staff should work with the auditee to obtain closure as outlined in the agreed upon action plan. Most recommendations should be closed within 1 year of the management decision date. If actions outlined in the management decision or the documentation called for in the management decision is not found to be feasible, then a proposed revised management decision should be submitted to the OIG through ARCATS.
Closure	Closure documentation, as outlined in the management decisions, "Evidence to Provide Closure" section of ARCATS will need to be forwarded to the responsible ALO for review. After the ALO's review and acceptance of the documentation, the AO, RAO, or POC should enter a final action certification into ARCATS so the ALO can close the recommendation.

Appendix 3: Suggested Text for a Repayment Agreement

Recovery Through Collection

The auditee agrees to:

- make a lump-sum payment of \$_____ on _____ (Date)

/or/

- make a monthly payment of \$_____ on the _____ day of each month, starting _____ . The final payment is scheduled to be made on_____.

Recovery Through Offset

We plan to recover the disallowed cost by reducing the _____ by \$ _____ on _____ and by \$_____ on _____ . We will provide you the appropriate documentation when the offset is made.

Recovery Through Property in Lieu of Cash

We plan to accept, in lieu of cash, the property at _____ valued at \$ _____ in settlement of the disallowed costs of \$ _____ . For the balance of the disallowed costs, we plan to _____.

NOTE: 1. The recovery plan should be shown as agreed to by the auditee. It can be on a recommendation by recommendation basis or it can be consolidated into one for dollars due program.

Appendix 4: Criteria for Forgiving Disallowed Costs

The Department may need to forgive some or all disallowed costs. At the minimum, the following criteria should be considered before disallowed costs are written off.

Compromise

For the Department to consider a compromise in the recovery of disallowed costs, consideration should be given to the following conditions:

- The auditee's ability to pay the full amount of the debt within a reasonable time is doubtful.
- The auditee's present and prospective ability to pay in accordance with a reasonable repayment plan is doubtful.
- HUD's ability to collect the full amount is doubtful.
- The cost of collecting the debt in full will exceed the amount collected.
- The cost of researching records to determine the debt's validity exceeds the amount of the debt.
- The auditee does not have any continuing relationship with HUD and none is foreseen in the future.
- Documentation reflecting that HUD provided incorrect or inaccurate information to the auditee.

Termination

For the Department to consider taking the necessary actions to terminate disallowed costs, consideration should be given to the following conditions:

- HUD cannot collect or enforce collection of any significant sum from the auditee. In determining the auditee's ability to pay, HUD considers several factors, including the auditee's age and health, present and potential income, inheritance prospects, evidence that the auditee has concealed or improperly transferred assets, and the availability of assets or income that may be realized by enforced collection proceedings.
- The auditee cannot be located.
- There is no security remaining to be liquidated.

- The statute of limitations has expired, and the likelihood of collecting by offset, notwithstanding the statute of limitations, is too remote to justify retaining the debt.
- The costs of collecting will exceed the amount of the debt when the debt is without legal merit, or HUD cannot produce the necessary evidence to prove the debt.

**Appendix 5: Audit Recommendation Referral Summary:
Referral of Recommendation Because of Disagreement**

AUDIT REPORT TITLE:

AUDIT REPORT NUMBER:

DATE ISSUED:

REPORT ADDRESSEE:

FINDING AT ISSUE:

Number and caption from report (if necessary for clarity of presentation, prepare a separate summary for each finding when more than one finding is at issue).

RECOMMENDATION(S):

Provide recommendation number and recommendation caption.

POSITION OF ACTION OFFICIALS:

Objective summary of the position of action officials with whom discussions have taken place. Name the officials and refer to supporting documents as necessary.

POSITION OF OIG:

Summary of OIG position. Provide details of why proposed actions are not acceptable, what action we would consider acceptable, and why the action is needed.

INDEX OF DOCUMENTS:

List of supporting documents attached with number and description.

REFERRAL MEMORANDUM TO DEPUTY ASSISTANT SECRETARY/ASSISTANT SECRETARY

MEMORANDUM FOR: Deputy Assistant Secretary or Assistant Secretary

FROM: Report Issuer, AGA (when addressed to Deputy Assistant Secretary)
AIGA , GA (when addressed to Assistant Secretary)

SUBJECT: Referral of Audit Recommendations Because of Disagreement

Audit Report Title
Number and Date
HUD Addressee Office

We have been unable to reach agreement with (the field manager, include title and name) on the actions necessary to correct the deficiencies identified in the subject report. In accordance with HUD Handbook 2000.06, REV-4, paragraph x-x, we have 20 days to attempt to reach

agreement. A summary of the disagreement and copies of relevant correspondence are attached for your information.

We would like to discuss these recommendations with you as soon as possible and will contact your office in a few days to schedule a meeting. If there is no agreement, the recommendation(s) will be referred to the Assistant Secretary as required by the Audits Management System. Should you have any questions, please contact me or xxxx at xxxx.

Attachment(s)

cc: Headquarters Program Office Audit Liaison Officer
Departmental Audit Liaison Officer
Assistant Inspector General for Audit
Deputy Assistant Inspector General for Audit
Director, Technical Oversight and Planning Division

Referral Memorandum Text to the Assistant Secretary

We have been unable to reach agreement with (the Deputy Assistant Secretary for . . .) on the actions necessary to correct the deficiencies identified in the subject report. In accordance with HUD Handbook 2000.06, REV-4, paragraph x-x, we have 20 days to attempt to reach agreement. A summary of the disagreement and copies of relevant correspondence are attached for your information.

If you would like to discuss these recommendations please contact our office to schedule a meeting. If there is no agreement, the recommendation(s) will be referred to the Deputy Secretary for management decision as required by the Audits Management System. Should you have any questions, please contact me at xxxx or xxxx.

Attachment(s)

cc: Headquarters Program Office Audit Liaison Officer
Departmental Audit Liaison Officer
Inspector General
Deputy Assistant Inspector General for Audit
Director, Technical Oversight and Planning Division

Referral Memorandum Text for the Deputy Secretary

Under the Department's Audits Management System, we are referring the subject to you for decision as the Departmental Audit Resolution Official. After review by the Assistant Secretary for xxx, disagreement still remains on the actions necessary to correct the deficiencies identified in the subject report. A summary of the disagreement and copies of relevant correspondence are attached for your information.

Please note that OMB Circular A-50 Revised, "Audit Follow-up," requires management decisions on audit recommendations within six months after issuance of the audit report. The Inspector General Act, as amended, requires us to discuss recommendations without a management decision in our Semiannual Report to the Congress. Management decisions are due by (provide the 180th day after report issuance). In accordance with HUD Handbook 2000.06, REV-4, paragraph x-x, it is requested that you provide your final management decision on the issues.

Upon receipt of your final management decision, we will make the appropriate entries in the Audit Resolution and Corrective Action Tracking System. If you would like to discuss this matter, please contact our office to arrange a meeting. Should you have any questions, please contact me at xxxx or xxxx, Assistant Inspector General for Audit, at xxxx.

Attachment(s)

cc: Headquarters Program Office Audit Liaison Officer
Departmental Audit Liaison Officer
Deputy Assistant Inspector General for Audit
Director, Technical Oversight and Planning Division