



# Audit Report



OIG-08-037

GENERAL MANAGEMENT: Office of Management Needs to Improve Its Monitoring of the Department's Audit Follow-up Process

June 23, 2008

Office of  
Inspector General

Department of the Treasury



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## Abbreviations

DCFO	Deputy Chief Financial Officer
DO	Departmental Offices
JAMES	Joint Audit Management Enterprise System
OIG	Treasury Office of Inspector General
OMB	Office of Management and Budget
PCA	planned corrective action
SAR	semiannual report
TFFC	Office of Terrorist Financing and Financial Crimes

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*The Department of the Treasury  
Office of Inspector General*

June 23, 2008

Peter B. McCarthy  
Assistant Secretary for Management  
and Chief Financial Officer

In December 2007, the House Committee on Oversight and Government Reform asked us to provide certain information relating to Treasury Office of Inspector General (OIG) audit recommendations that had not been implemented.<sup>1</sup> In letters dated January 30 and March 6, 2008, we provided this information to the Committee for 20 audit recommendations that had not been implemented as of September 30, 2007.

In obtaining the information, we noted certain weaknesses in Treasury's audit follow-up process. These weaknesses are the subject of this report. In brief, we found that (1) audit follow-up was not consistently performed on audit recommendations by the responsible Treasury officials; (2) the status of numerous audit recommendations was not updated in the Joint Audit Management Enterprise System (JAMES), Treasury's audit recommendation tracking system; (3) planned corrective actions (PCA) were not consistently recorded in JAMES; and (4) an audit follow-up officer was not designated for the Office of Terrorist Financing and Financial Crimes (TFFC). We are making three recommendations in this report to address these matters.

Appendix 1 contains a detailed description of our objective, scope, and methodology.

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<sup>1</sup> For each recommendation, the Committee asked us to provide (1) a summary of the recommendation; (2) the status of the recommendation, including whether management agreed with it and an explanation for the delay in its implementation; (3) estimated cost savings expected to result from implementing the recommendation; and (4) a description of any nonmonetary benefits expected to result from implementing the recommendation.

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## Background

As stated in the Office of Management and Budget Circular No. A-50, Revised, *Audit Follow-up*, dated September 29, 1982, audit follow-up is an integral part of good management and is a shared responsibility of agency management officials and auditors. Within the Department, Treasury Directive 40-03, *Treasury Audit Resolution, Follow-Up, and Closure*, dated February 2, 2005, assigns responsibilities and includes policies and procedures for implementing and monitoring audit follow-up.

The Department uses JAMES to track audit reports and the related recommendations. Treasury management is responsible for monitoring and updating the PCAs and status of audit recommendations in JAMES.

According to Treasury Directive 40-03, the Deputy Chief Financial Officer (DCFO) within the Office of Management is responsible for (1) ensuring the centralized tracking of audit reports from final report issuance through corrective action implementation, validation, and closure; (2) ensuring that the Department/bureaus provide timely and adequate information to the Office of the DCFO on the status of audit recommendations and corrective actions; (3) monitoring bureau actions and providing periodic reports for Departmental senior management officials; (4) evaluating audit follow-up performance Department-wide, through mechanisms including sample on-site verifications of corrective actions taken, gathering statistical data, and making recommendations to strengthen audit follow-up performance; and (5) ensuring the adequacy of audit follow-up activities within the Departmental Offices (DO) and designating audit follow-up officers for DO.<sup>2</sup>

Audit follow-up officers are responsible for (1) coordinating the audit report response, which includes PCAs, dates, and other milestones for achieving results; (2) following the completion of the audit resolution process; (3) ensuring, through independent verification and validation, that recommendations are implemented and corrective actions are taken in a timely fashion; and

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<sup>2</sup> Treasury Directive 40-03 states that bureau heads are responsible for designating bureau audit follow-up officers.

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(4) maintaining and tracking audit recommendations and corrective actions within their respective bureaus through JAMES.

We use the information recorded in JAMES to report certain statistical information in OIG's semiannual reports (SAR) to Congress required by the Inspector General Act, as amended.<sup>3</sup> Specifically, each SAR must include a list of significant, unimplemented recommendations.

In preparing SARs, we review JAMES reports that show unimplemented recommendations. For recommendations from prior annual financial audits showing as unimplemented in JAMES, we consider the results of any ongoing financial audits and exclude from the SAR list any recommendations that current audits confirm have been implemented. Such discrepancies occur frequently. For example, when preparing the SAR as of September 30, 2007, we identified 15 audit recommendations from prior financial audits that JAMES showed were unimplemented but that the most recent financial audits found had, in fact, been implemented. Because performance audits do not recur annually, we do not routinely conduct a firsthand assessment of the implementation status of performance audit recommendations.<sup>4</sup> Therefore, we typically rely solely on JAMES for reporting unimplemented recommendations from performance audits.

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<sup>3</sup> The SAR reporting requirements are defined in 5 U.S.C. App. 3, § 5. The Inspector General is required to issue the SAR to the Secretary of the Treasury by April 30 and October 31 each year, covering the activities for the 6-month periods ending March 31 and September 30, respectively. The Secretary then has 30 days to transmit the SAR to the appropriate congressional committees. Our SARs are publicly posted on the [Treasury OIG Web site](#).

<sup>4</sup> As described in the OIG's Annual Plans, we perform corrective action verifications on selected recommendations that have been recorded as implemented in JAMES. We also perform follow-up audits on higher-risk program areas as considered necessary.

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## Finding and Recommendations

### Treasury's Audit Follow-up Needs to be Improved

We noted the following deficiencies in the Department's audit follow-up process:

- *Responsible Treasury officials did not consistently follow up on audit recommendations.*

Treasury Directive 40-03 states that audit follow-up is an essential component of sound management controls and overall government efficiency. According to Department management, the Office of the DCFO does not monitor the bureaus and offices, with the exception of DO, to assure timely and proper resolution and implementation of audit recommendations. In addition, Treasury offices and bureaus did not consistently (1) include PCAs in JAMES, (2) monitor the status of the audit recommendation, and (3) update the Department's audit tracking system as necessary.

- *Numerous audit reports and related audit recommendations were not updated as closed in JAMES after implementation of PCAs were completed.*

During our review, we found that 21 audit recommendations listed as open in JAMES were considered closed by the responsible Treasury official. For 15 of the 21 recommendations, we identified the erroneous information in JAMES when preparing our SAR for the period ended September 30, 2007. PCAs for 9 of these 15 recommendations had been implemented as much as 2 years earlier.

The remaining 6 of the 21 audit recommendations were identified in the preparation of our response to the Committee. We found that the responsible Treasury officials had considered the PCAs implemented for 6 recommendations listed as open in the SAR as of that date but JAMES had not been updated to reflect the change in status. The PCAs for 2 of the 6

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recommendations had been implemented more than a year earlier.

See appendix 2 for a list of the audit reports and the 21 audit recommendations.

- *No PCAs were included in JAMES for 43 audit recommendations.*

PCAs were not included for (1) 16 of the 21 audit recommendations discussed above that were considered closed by management but had not been properly updated in JAMES; (2) 4 of the 20 unimplemented recommendations included in our January 30 and March 6, 2008 letters to the House Committee on Oversight and Government Reform; and (3) 23 recommendations reported in fiscal year 2007 and still considered open in JAMES.

Treasury Directive 40-03 lists “development, implementation, and validation of detailed corrective actions” as a primary step in the audit follow-up process.

See appendix 2 for a list of the audit reports and recommendations lacking PCAs.)

- *No audit follow-up officer had been formally designated for TFFC, an office within DO.*

JAMES contained no PCAs, due dates, or status information for four recommendations to TFFC management made in a March 2005 OIG audit report. Lack of such items is further indication of inadequate monitoring and audit follow-up by the Office of DCFO. After this matter was brought to the DCFO’s attention, an audit follow-up officer was designated for TFFC.

An inadequate audit follow-up process increases the risk that the Department’s offices and bureaus will not properly and promptly address audit recommendations, diminishing the value of the audit process to improve program and operations.

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## Recommendations

We recommend that the Assistant Secretary for Management and Chief Financial Officer ensures the Office of the DCFO does the following:

1. develop and implement a plan to perform its responsibilities required by Treasury Directive 40-03 to include, among other things, monitoring and performing oversight of all bureaus and offices to assure timely and proper resolution and implementation of audit recommendations.

### Management Response

Management agreed with the recommendation and plans on developing and implementing a plan to improve the execution of the DCFO's responsibilities as required by TD 40-03 and OMB Circular A-50 to include monitoring and performing oversight of all bureaus and offices to assure timely and proper resolution and implementation of audit recommendations. The target implementation date this action is September 30, 2008.

2. ensure audit follow-up officers Treasury-wide perform the duties required by Treasury Directive 40-03, including (a) preparing PCAs, (b) monitoring the status of the audit recommendations, and (c) updating the Department's audit tracking system as necessary.

### Management Response

Management agreed with the recommendation and plans on including actions in the plan referenced in the corrective action to Recommendation 1 to ensure audit follow-up officers Treasury-wide perform the duties required by TD 40-03, including preparing PCAs, monitoring the status of their audit recommendations, and updating JAMES as necessary. The target implementation date for this action is September 30, 2008.

3. ensure that audit follow-up officers are designated to provide for appropriate, continuous coverage of all DO offices.

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Management Response

Management agreed with the recommendation and plans on compiling and maintaining a Treasury-wide list of audit follow-up officers and coordinators. The target implementation date for this action is July 31, 2008.

OIG Comment

We believe the planned corrective actions are responsive to our recommendations.

\* \* \* \* \*

The major contributors to this report were Susan Barron, Audit Director, and Catherine Yi, Audit Manager. We appreciate the courtesies and cooperation provided to our staff. If you wish to discuss this report, you may contact me at (202) 927-5400.

Marla A. Freedman  
Assistant Inspector General for Audit

In December 2007, the House Committee on Oversight and Government Reform asked us to provide certain information relating to Treasury OIG audit recommendations that had not been implemented. We obtained the information from the responsible offices and bureaus within the Department. In letters dated January 30 and March 6, 2008, we provided the requested information to the Committee.

We focused, but did not limit, our work to recommendations from Treasury Office of Inspector General audit reports issued before fiscal year 2007 that, according to the Joint Audit Management Enterprise System (JAMES), had not been implemented as of September 30, 2007. However, as a result of certain weaknesses noted in obtaining the requested information, we performed additional procedures.

Specifically, we:

- reviewed Office of Management and Budget and Treasury policies and procedures related to audit follow-up;
- reviewed issued audit reports;
- discussed the audit follow-up process and JAMES with Department management;
- reviewed and discussed with the appropriate bureau or office officials the necessary information related to audit recommendations listed in JAMES as being unimplemented;
- reviewed the necessary information provided by the appropriate officials for consistency with the information reported in JAMES; and
- reviewed the respective JAMES PCA reports for the OIG audit reports, that, according to JAMES, had unimplemented recommendations as of September 30, 2007, to determine whether PCAs had been prepared and/or PCA due dates had been updated.

We performed our work from December 2007 to February 2008. We conducted our audit in accordance with generally accepted government auditing standards.

Appendix 2  
Deficiencies Noted in the Department's Audit Tracking System

Deficiency	Report No.	Recommendations Nos.
Recommendations implemented but shown as open in JAMES (21 recommendations)	OIG-04-035	Finding 4, Recommendation 1
	OIG-05-036	Finding 1, Recommendations 1,2,3
	OIG-05-037	Finding 1, Recommendations 1,2
	OIG-05-043	Finding 2, Recommendations 3,5
	OIG-05-045	Finding 1, Recommendation 1
	OIG-06-002	Finding 1, Recommendation 1
		Finding 2, Recommendation 1
		Finding 4, Recommendation 1
	OIG-06-020	Finding 1, Recommendation 1
		Finding 4, Recommendation 1
	OIG-06-023	Finding 1, Recommendations 1,2
	OIG-06-024	Finding 1, Recommendations 1,2
	OIG-06-043	Finding 3, Recommendation 1
	OIG-06-044	Finding 1, Recommendations 1,2
Recommendations with PCAs not included in JAMES (43 recommendations)	OIG-05-032	Finding 1, Recommendation 1
		Finding 2, Recommendations 1,2,3
	OIG-05-036	Finding 1, Recommendations 1,2,3
	OIG-05-037	Finding 1, Recommendations 1,2
	OIG-05-045	Finding 1, Recommendation 1
	OIG-06-002	Finding 1, Recommendation 1
		Finding 2, Recommendation 1
		Finding 3, Recommendation 1
		Finding 4, Recommendation 1
	OIG-06-023	Finding 1, Recommendations 1,2
		Finding 2, Recommendations 1,2
	OIG-06-024	Finding 1, Recommendations 1,2
	OIG-07-022	Finding 1, Recommendations 1,2
		Finding 2, Recommendations 1,2
Finding 3, Recommendations 1,2,3,4		
Finding 4, Recommendations 1,2,3		
OIG-07-026	Finding 1, Recommendations 1,2	
	Finding 2, Recommendations 1,2,3	
	Finding 3, Recommendations 1,2	
OIG-07-027	Finding 1, Recommendations 1,2	
OIG-07-028	Finding 1, Recommendations 1,2,3	

Appendix 3  
Management Response



ASSISTANT SECRETARY

DEPARTMENT OF THE TREASURY  
WASHINGTON

JUN 1 3 2008

MEMORANDUM FOR MARLA A. FREEDMAN  
ASSISTANT INSPECTOR GENERAL FOR AUDIT

FROM: Peter B. McCarthy  
Assistant Secretary for Management  
and Chief Financial Officer

SUBJECT: Management Response to OIG Draft Report: *Office of Management Needs to Improve Its Monitoring of the Department's Audit Follow-up Process*

I have reviewed the subject draft report and appreciate your observations. We recognize the need to ensure proper oversight of audit follow-up activity in the bureaus and program offices. Your report will help our continuing efforts to improve the Department's internal control program.

As a result of your findings, we have performed a number of education and outreach activities to ensure the bureaus and offices understand their audit follow-up responsibilities. These include a bureau site visitation, a meeting of audit follow-up coordinators, and an article in the quarterly Financial Systems Update newsletter. We have also started to revisit the capabilities of the Joint Audit Management Enterprise System (JAMES), the Department's tracking system for internal control activity. We will make better use of existing JAMES reporting and monitoring capabilities and explore enhancements that will enable us to improve our oversight of the bureaus and offices. In addition, we will review some of the audit follow-up business rules as we update the Treasury Directives that provide guidance for our internal control program.

The attachment to this memorandum contains our planned actions in response to your recommendations. If you have any questions or suggestions regarding our planned actions, please let me know, or your staff may contact Elaine Munroe, Assistant Director for Internal Control, at (202) 622-4154.

Attachment

Appendix 3  
Management Response

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Attachment

**Recommendation 1:** The Office of the Deputy Chief Financial Officer (DCFO) should develop and implement a plan to perform its responsibilities required by Treasury Directive (TD) 40-03 to include, among other things, monitoring and performing oversight of all bureaus and offices to assure timely and proper resolution and implementation of audit recommendations.

**Corrective Action:** We agree with this recommendation. We will develop and implement a plan to improve the execution of the DCFO's responsibilities as required by TD 40-03, *Treasury Audit Resolution, Follow-up, and Closure*, and Office of Management and Budget (OMB) Circular A-50, *Audit Follow-up*, to include monitoring and performing oversight of all bureaus and offices to assure timely and proper resolution and implementation of audit recommendations.

**Implementation Date:** September 30, 2008

**Responsible Officer:** Deputy Chief Financial Officer

**Recommendation 2:** The Office of the DCFO should ensure audit follow-up officers Treasury-wide perform the duties required by TD 40-03, including (a) preparing planned corrective actions (PCAs), (b) monitoring the status of the audit recommendations, and (c) updating the Department's audit tracking system as necessary.

**Corrective Action:** We agree with this recommendation. We will include actions in the plan referenced in the corrective action to Recommendation 1 to ensure audit follow-up officers Treasury-wide perform the duties required by TD 40-03, including preparing PCAs, monitoring the status of their audit recommendations, and updating JAMES as necessary.

**Implementation Date:** September 30, 2008

**Responsible Officer:** Deputy Chief Financial Officer

**Recommendation 3:** The Office of the DCFO should ensure that audit follow-up officers are designated to provide for appropriate, continuous coverage of all Departmental Offices.

**Corrective Action:** We agree with this recommendation. We will compile and maintain a Treasury-wide list of audit follow-up officers and coordinators.

**Implementation Date:** July 31, 2008

**Responsible Officer:** Deputy Chief Financial Officer

**Department of the Treasury**

Office of the Treasury Deputy Chief Financial Officer  
Office of Accounting and Internal Control

**Office of Management and Budget**

OIG Budget Examiner

**United States House of Representatives**

Chairman, Committee on Oversight and Government Reform  
Ranking Member, Committee on Oversight and Government Reform