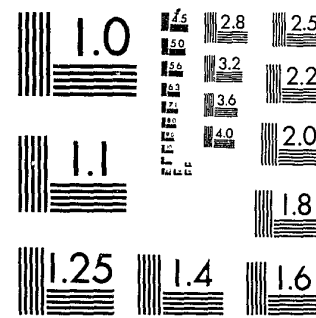


National Criminal Justice Reference Service



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EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

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ADDITIONAL

March 15, 1978

CIRCULAR NO. A-73
Revised

TO THE HEADS OF EXECUTIVE DEPARTMENTS AND ESTABLISHMENTS

SUBJECT: Audit of Federal Operations and Programs

- 10211
1. Purpose. This Circular sets forth policies to be followed in the audit of Federal operations and programs.
 2. Supersession. This Circular supersedes Federal Management Circular 73-2, dated September 27, 1973. The Circular is revised and reissued under its original designation of OMB Circular No. A-73.
 3. Summary of significant changes. The revised Circular implements the President's memorandum of September 9, 1977, (copy attached) to the heads of executive departments and agencies on coordination of audits of grants to State and local governments. It also strengthens the provisions on audit followup.
 4. Background. The primary objectives of this Circular are to promote improved audit practices, to achieve more efficient use of audit staff, to improve coordination of audits, and to emphasize the need for early audits of new or substantially changed programs.
 5. Applicability and scope. The provisions of this Circular are applicable to all agencies of the executive branch of the Federal Government and include all internal and external audit functions of such agencies.
 6. Definitions.
 - a. The term "audit" as used in this Circular means a systematic review or appraisal to determine and report on whether:
 - (1) Financial operations are properly conducted;

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(2) Financial reports are presented fairly;

(3) Applicable laws and regulations have been complied with;

(4) Resources are managed and used in an economical and efficient manner; and

(5) Desired results and objectives are being achieved in an effective manner.

The above elements of an audit are most commonly referred to as financial/compliance, items (1), (2), and (3); economy/efficiency, item (4); and program results, item (5). Collectively, they represent the full scope of an audit and provide the greatest benefit to all potential users of Government audits. In developing audit plans, however, the audit scope should be tailored to each specific program according to the circumstances relating to the program, the management needs to be met, and the capacity of the audit facilities.

b. The term "audit standards" refers to those standards set forth in Standards for Audit of Governmental Organizations, Programs, Activities & Functions issued by the Comptroller General of the United States.

7. Policies and procedures. Agencies are responsible for providing adequate audit coverage of their programs as an aid in determining whether funds have been applied efficiently, economically, effectively, and in a manner that is consistent with related laws, program objectives, and underlying agreements. The audit standards will be the basic criteria on which audit coverage and operations are based. Agencies administering Federal grant, contract, and loan programs will encourage the appropriate application of these standards by non-Federal audit staffs involved in the audit of organizations administering Federal programs. Each agency will implement the policies set forth in this Circular by issuing policies, plans, and procedures for the guidance of its auditors.

a. Organization and staffing. Audit services in Government are an integral part of the management process. Audit services and reports must be responsive to management needs. However, it is important in order to obtain the maximum benefit from this function that agency audit organizations have a sufficient degree of independence in carrying out their responsibilities. To provide an

appropriate degree of independence, the audit organization should be located outside the program management structure, report to an agency management level sufficiently high to ensure proper consideration of and action on audit results, and be given reasonable latitude in selecting and carrying out assignments. Adequate and qualified staff should be assigned this important function. The audit of all programs under a single Federal department or agency must be coordinated, and where economies and a more effective audit service will result, especially in large and geographically dispersed programs, the audit operations within a department should be consolidated. It is also important to establish close coordination between audit and such other management review activities as may exist in an agency.

b. Determination of audit priorities. Each agency will establish procedures requiring periodic review of its individual programs and operations to determine the coverage, frequency, and priority of audit required for each. The review will include consideration of the following factors:

- (1) Newness, changed conditions, or sensitivity of the organization, program, activity, or function;
- (2) Its dollar magnitude and duration;
- (3) Extent of Federal participation either in terms of resources or regulatory authority;
- (4) Management needs to be met, as developed in consultation with the responsible program officials;
- (5) Prior audit experience, including the adequacy of the financial management system and controls;
- (6) Timeliness, reliability, and coverage of audit reports prepared by others, such as State and local governments and independent public accountants;
- (7) Results of other evaluations; e.g., inspections, program reviews, etc.;
- (8) Mandatory requirements of legislation or other congressional recommendations; and
- (9) Availability of audit resources.

c. Cross-servicing arrangements. To conserve staff resources, promote efficiency, and minimize the impact of audits on the operations of the organizations subject to audit, each Federal agency will give full consideration to establishing cross-servicing arrangements under which one Federal agency will make audits for another--whenever such arrangements are in the best interest of the Federal Government and the organization being audited. This is particularly applicable in the Federal grant-in-aid and contract programs where two or more Federal agencies are frequently responsible for programs in the same organization or in offices located within the same geographical area. Under such circumstances, it will be the primary responsibility of the Federal agency with the predominant financial interest to take the initiative in collaborating with the other appropriate Federal agencies to determine the feasibility of one agency making audits for the others, and to work out mutually agreeable arrangements for carrying out the required audits on the most efficient basis.

d. Reliance on non-Federal audits. In developing audit plans, Federal agencies administering programs in partnership with organizations outside of the Federal Government will consider whether these organizations have periodic audits. This is especially necessary for those agencies that administer Federal grant-in-aid programs subject to OMB Circulars A-102 (State and local government organizations) and A-110 (nonprofit organizations). These Circulars provide standards for financial management systems of grant-supported activities, and require that such systems provide, at a minimum, for financial/compliance audits at least once every two years. Federal agencies will coordinate their audit requirements with State and local governments and nonprofit organizations to the maximum extent possible. The scope of individual Federal audits will give full recognition to the non-Federal audit effort. Reports prepared by non-Federal auditors will be used in lieu of Federal audits, if the reports and supporting workpapers are available for review by the Federal agencies, if testing by Federal agencies indicates the audits are made in accordance with generally accepted auditing standards (including the audit standards issued by the Comptroller General), and if the audits otherwise meet the requirements of the Federal agencies.

e. Audit plans. Based on the considerations set forth in b, c, and d, above, each agency will prepare an audit plan at least annually. At a minimum, such plans will reflect the:

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- (1) Audit universe (all programs and operations subject to audit);
- (2) Programs and operations selected for audit, with priorities and specific reasons for selection;
- (3) Audit organization that will make the audit;
- (4) Audit cycle or frequency, the locations to be audited, and the reasons therefor;
- (5) Scope of audit coverage to be provided and the reasons therefor; and
- (6) Anticipated benefits to be obtained from the audits.

The plans should be adjusted as necessary to provide for audit coverage of unforeseen priorities.

f. Coordination of audit work.

(1) General. Federal agencies will coordinate and cooperate with each other in developing and carrying out their individual audit plans. Such actions will include continuous liaison; the exchange of audit techniques, objectives, and plans; and the development of audit schedules to minimize the amount of audit effort required. Similar coordination and cooperation should take place among Federal and non-Federal audit staffs where there is a common interest in the programs subject to audit.

(2) Audit of State and local governments. In order to facilitate coordination, Federal agencies shall make public the State and local portion of the audit plans required by paragraph 7.e., above. The plans will be available to State and local governments, to the National and Regional Intergovernmental Audit Forums, and to other interested parties. The plans will be submitted to the Office of Management and Budget prior to the fiscal year in which they are implemented.

g. Audit reports. Reporting standards are set forth in the audit standards for the guidance of Federal agencies. With respect to public release of audit reports, each agency will establish policies in consonance with applicable laws, including the Freedom of Information Act. To the maximum extent possible, agencies will provide for the release of

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audit reports, in whole or in part, to those interested in them.

h. Followup: Each agency will establish policies for following up on audit recommendations. Timely action on recommendations by responsible management officials is an integral part of an agency's audit system, and has a direct bearing on its effectiveness. Policies will provide for designating officials responsible for followup, maintaining a record of the action taken on recommendations, establishing time schedules for responding to and acting on recommendations, and submitting periodic reports to agency management on action taken. When audit recommendations requiring corrective action involve more than one program, agency, or level of government, the agency making the audit should coordinate its corrective action with that of other affected organizations.

5. Responsibilities. Federal agencies will review the policies and practices currently followed in the audit of their operations and programs, and will initiate such action as is necessary to comply with the policies set forth in this Circular. The head of each Federal agency will designate an official to serve as the agency representative on matters relating to the implementation of this Circular. The name of the agency representative should be sent to the Financial Management Branch, Budget Review Division, Office of Management and Budget, Washington, D.C. 20503.

9. Reporting requirements.

a. Each Federal agency awarding grants to State and local governments will submit the State and local portion of their annual audit plan to the Office of Management and Budget prior to the fiscal year it is to be implemented. The plan will show the actions taken to improve interagency cooperation on audits, to increase coordination with State and local auditors, and to increase reliance on audits made by others.

b. Copies of agency issuances on the implementation of this Circular will be available to the public upon request.

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THE WHITE HOUSE
WASHINGTON

September 9, 1977

MEMORANDUM FOR THE HEADS OF EXECUTIVE
DEPARTMENTS AND AGENCIES

SUBJECT: Sharing Federal Audit Plans

The Administration is committed to forging new ties of cooperation among all levels of government. We want to eliminate the duplication and wasteful effort that too often has accompanied the management of Federal grants to State and local governments.

One area where improvements can be made is in coordinating the audit of these grants. All three levels of government have audit responsibilities, but it does not make sense for them all to audit the same transactions. Therefore, in order to improve coordination, I am ordering all Federal executive agencies to make public the State and local portion of the annual audit plans required by Federal Management Circular 73-2. The plans will be available to State and local governments, to the National and Regional Intergovernmental Audit Forums, and to other interested parties. The plans would also be available to the general public, and would be submitted to OMB prior to the beginning of the fiscal year in which they are to be implemented. They should be updated periodically throughout the year as significant changes are made.

I expect Federal agencies to use their audit plans as a basis for making greater efforts to improve interagency cooperation on audits, to increase Federal coordination with State and local auditors, and to increase reliance on audits made by others.

Jimmy Carter

Monday
December 3, 1979

Part VI

**Office of
Management and
Budget**

Audit of Federal Operations and
Programs; Revision

**Annual Report
Federal Register**

OFFICE OF MANAGEMENT AND BUDGET

[Circular No. A-73; Revised Transmittal Memorandum No. 1]

Audit of Federal Operations and Programs

November 27, 1979.

This Transmittal Memorandum revises OMB Circular A-73, "Audit of Federal Operations and Programs," by replacing paragraph 7.h. with a new paragraph 8 (attached).

The revision requires semiannual reports to the head of an agency, procedures for resolving major disagreements between audit and program offices, a maximum of six months to determine agency action on audit recommendations, and a requirement for periodic evaluations of an agency's system.

James T. McIntyre, Jr.,
Director.

Circular A-73, "Audit of Federal Operations and Programs"

Circular A-73 is revised by replacing paragraph 7.h. with a new paragraph 8. Other paragraphs are renumbered accordingly.

"8. *Followup.* a. Each agency will establish policies for prompt and proper resolution of audit recommendations. Timely action on recommendations by responsible management officials is an integral part of an agency audit system, and is the key to its effectiveness.

b. Agency followup systems must provide for a complete record of action taken on audit findings and associated disallowed, suspended, or questioned costs. Such systems must provide for the following:

(1) Designate officials responsible for audit followup.

(2) Maintain accurate records of all audit reports or significant findings until final resolution. Records will be maintained to insure appropriate accounting and collection controls over amounts determined to be due the Government.

(3) Make written determinations promptly on all audit findings, and initiate action to assure that these determinations are carried out. Such determinations shall be made within a maximum of six months after issuance of the report. Final resolution should proceed as rapidly as possible.

(4) Assure that resolution actions are consistent with law and regulation, including written justification and the legal basis for decisions not to seek

recovery of amounts due as a result of audit reports.

(5) Forward to the head of the agency or to a designee for resolution, all major disagreements between the audit office and officials responsible for acting on recommendations, and all reports or recommendations on which responsible officials have failed to provide a written determination within six months.

(6) Provide semiannual reports to the agency head on the status of all audit reports over six months old, the number of reports or findings resolved during the period, collections, or offsets made, and demands for payment made.

(7) Provide for an evaluation of whether the audit followup system is adequate and results in timely and proper resolution of audit findings and recommendations. The first evaluation will be made within one year of implementation of the system, and evaluations will be made every two years thereafter.

c. When audit recommendations requiring corrective action involve more than one program, agency, or level of government, the agency making the audit must coordinate its corrective action with that of other affected organizations."

Circular A-73, "Audit of Federal Operations and Programs"

AGENCY: Office of Management and Budget.

ACTION: Final Policy.

SUMMARY: This notice advises that OMB Circular A-73 has been revised by replacing paragraph 7.h. with a new paragraph 8. Previously, Circular A-73 provided that agencies were to have adequate followup systems for resolving audit recommendations and findings. Based upon our assessment of agency's followup systems, including recommendations in a GAO report on this matter, and subsequent Congressional hearings, we are specifying in the Circular the key elements each agency's system must contain.

The revision requires semiannual reports to the head of an agency, procedures for resolving major disagreements between audit and program offices, a maximum of six months to determine agency action on audit recommendations, and a requirement for periodic evaluations of an agency's system.

EFFECTIVE DATE: This revision becomes effective upon issuance.

FOR FURTHER INFORMATION CONTACT: John J. Lordan, Chief, Financial Management Branch, Office of

Management and Budget, Washington, D.C. 20503 (202) 395-6823.

SUPPLEMENTARY INFORMATION: On July 10, 1979, a notice was published in the *Federal Register* (44 FR 40461) to amend Circular A-73. Interested persons were invited to submit written comments by August 10, 1979. About 15 comments were received from Federal and State agencies. The comments were considered in developing these final regulations. Although all commenters agreed with our objective of strengthening agency followup systems, some raised questions or made suggestions for clarifying changes. The more significant comments received, and OMB's responses to them are discussed below.

Changes in Final Regulation:

Set forth below are changes that have been adopted in the final regulations. The paragraphs are keyed to the proposed regulations published on July 10, 1979.

1. Subparagraph (2) has been amended to clarify that records must be kept on audit recommendations until they are resolved.

2. Subparagraph (3) was revised to make it clear that resolution of audit findings should be accomplished as quickly as possible.

3. Subparagraph (4). A clause was added to make it clear that the legal basis for decisions not to seek recovery of amounts determined to be due the Government must be included in the written justification for such decision.

Suggested Changes Not Considered Necessary:

Comment: One commenter pointed out that reports on proposal evaluations may contain opinions on contractor estimates of future costs which are not true "questioned costs." As such, they need not be included in the same system of records that accounts for questioned incurred costs.

Response: We agree the inclusion of these costs would be misleading. However, these reports are subject to most of the other elements of the audit followup system. Specifically, they must be recorded as open reports until a written determination is made, and they are subject to top management review as provided in paragraph 8.b(5).

Comment: Several commenters felt contract audits should be excluded from some of the audit followup requirements.

Response: Our review of agency's followup systems indicated no need for such an exemption, except as noted above.

END