



Department of Defense DIRECTIVE

NUMBER 7650.3

September 5, 1989

Administrative Reissuance Incorporating through Change 3, February 14, 1992

IG, DoD

SUBJECT: Followup on General Accounting Office, DoD Inspector General, *and*
Internal *Audit* Reports

- References:
- (a) DoD Directive 7650.3, subject as above, March 19, 1985 (hereby canceled)
 - (b) Public Law 95-452, "Inspector General Act of 1978," October 12, 1978, as amended
 - (c) Office of Management and Budget (OMB) Circular A-50, "Audit Followup," September 29, 1982
 - (d) Comptroller General of the United States, "Government Auditing Standards," July 1988
 - (e) through (j), see enclosure 1

1. REISSUANCE AND PURPOSE

This Directive:

1.1. Reissues reference (a) to update responsibilities, reporting requirements, and followup procedures for the findings and recommendations of the General Accounting Office (GAO); the Inspector General, Department of Defense (IG, DoD); and other DoD *audit organizations* (hereafter referred to collectively as "auditors").

1.2. Implements references (b) and (c), Chapter 3.41 of reference (d), paragraph E.7.f of reference (e), and reference (f).

2. APPLICABILITY AND SCOPE

This Directive:

2.1. Applies to the Office of the Secretary of Defense (OSD), the Military Departments, the Joint Staff, the Unified and Specified Commands, the Defense Agencies, and the Army and Air Force Exchange Service (hereafter referred to collectively as "DoD Components").

2.2. Does not apply to the formulation of DoD positions on GAO reports. Applicable policies and procedures are contained in DoD Directive 7650.2 (reference (g)).

2.3. Does not apply to reports issued by the Defense Contract Audit Agency (DCAA) and the Army Corps of Engineers that are designated as contract audit reports. Followup policies and procedures are contained in DoD Directive 7640.2 (reference (h)).

3. DEFINITIONS

Terms used in this Directive are defined in enclosure 2.

4. POLICY

It is DoD policy to recognize, support, and use auditors and inspectors as important elements of DoD management systems. Followup is an integral part of good management and is a responsibility shared by DoD managers and oversight personnel. Resolution of disputes on findings and recommendations shall be well-documented and consistent with statutes, regulations, and DoD policy. Prompt, responsive, constructive, and corrective actions shall be taken by DoD Component management in response to GAO; IG, DoD; and other DoD audit reports to improve the effectiveness and efficiency of DoD operations. Followup systems shall provide for a complete record of action taken on findings and recommendations.

5. RESPONSIBILITIES

5.1. The Deputy Secretary of Defense shall decide issues pertaining to IG, DoD, reports that cannot be decided otherwise.

5.2. The Inspector General, Department of Defense (IG, DoD), shall oversee and

coordinate followup programs within the Department of Defense. In discharging that responsibility, the IG, DoD, shall:

5.2.1. Work with the DoD Components to resolve disagreements pertaining to Office of the Inspector General (OIG) reports. Submit information on disagreements that cannot be resolved at a lower management level to the Deputy Secretary of Defense for decision. This would include the views of all involved DoD Components.

5.2.2. Maintain followup records consistent with DoD Directive 7750.5 (reference (i)) of management actions and time schedules for responding to and acting upon GAO and OIG findings and recommendations until final disposition has been made.

5.2.3. Evaluate corrective actions taken by DoD Components on GAO and OIG reports and identify any discrepancies to officials of the DoD Components or, if necessary, to the Secretary of Defense.

5.2.4. Establish policy for, monitor, evaluate, and report to, the Secretary of Defense on the DoD followup programs.

5.3. The Principal Staff Assistants; the Director, Joint Staff; and Directors of Defense Agencies shall:

5.3.1. Work with the IG, DoD, to resolve disagreements between their respective DoD Components and OIG. If agreement cannot be reached, assist the IG, DoD, in timely elevation of the matter to the Deputy Secretary of Defense for decision.

5.3.2. Provide such assistance as is appropriate to the IG, DoD, to facilitate resolution of differences between the IG, DoD, and other DoD Components when the subject matter impacts their Component's area of responsibility. If agreement cannot be reached, assist the IG, DoD, in timely elevation of the matter to the Deputy Secretary of Defense for decision.

5.3.3. Take corrective action on agreed-upon OIG and GAO findings and recommendations requiring their action.

5.3.4. When acting as the primary action officer, advise cognizant DoD managers of what corrective actions are expected of them on agreed-upon OIG and GAO findings and recommendations.

5.3.5. Provide documentation and assistance requested by the IG, DoD, to learn the status of corrective action by DoD Components on agreed-upon OIG and GAO findings and recommendations.

5.3.6. Designate *a followup* focal point to assist followup activities of the IG, DoD.

5.3.7. Ensure that performance appraisals of appropriate managers reflect the degree of effectiveness in addressing audit findings and recommendations and implementing agreed-upon corrective actions as required by OMB Circular A-50 (*reference (c)*).

5.4. The Secretaries of the Military Departments shall:

5.4.1. Designate officials to decide issues about disagreements over findings, recommendations, and estimates of monetary benefits made by the audit organizations of the Military Departments. These officials shall be at an appropriate management level separate from the program or function that is the subject of the audit report.

5.4.2. Work with the IG, DoD, to resolve differences between their Component and the OIG. If agreement cannot be reached, assist the IG, DoD, in timely elevation of the matter to the Deputy Secretary of Defense for decision.

5.4.3. Take corrective action on agreed-upon OIG, GAO, and internal audit findings and recommendations.

5.4.4. Provide documentation and assistance requested by the IG, DoD, to learn the status of corrective action by DoD Components on agreed-upon OIG and GAO findings, recommendations, and potential monetary benefits.

5.4.5. Designate *a followup* official to ensure the effective execution of their Component's audit followup program and to assist the followup activities of the IG, DoD.

5.4.6. Establish audit followup policies, procedures, and systems for the Component's audit followup program consistent with this Directive.

5.4.7. Establish accounts receivable to recoup amounts due to the Government when DoD Components and auditors concur that resources should be recovered.

5.4.8. Ensure that performance appraisals of appropriate managers reflect the degree of effectiveness in addressing audit findings and recommendations and implementing agreed-upon corrective actions as required by OMB Circular A-50 (reference (c)).

5.4.9. Provide periodic followup status reports on the Component's followup program to the IG, DoD, as specified in enclosure 3.

6. PROCEDURES

6.1. Response To Reports

6.1.1. Timeframes

6.1.1.1. Timeframes for responses to GAO reports are in DoD Directive 7650.2 (reference (g)).

6.1.1.2. Responses to draft DoD internal audit reports shall be made not later than 60 days after the date of the draft report. At the option of the Secretaries of the Military Departments, management responses to the final reports of the Military Services internal audit organizations also may be required. For OIG audit reports, managers shall respond within 60 days after the final audit report.

6.1.1.3. For quick reaction internal audit reports, management responses shall be made within the timeframe specified in the audit report to allow elevation of disputed issues to higher authority, if necessary, before the impending adverse occurrence identified by the auditors can take place.

6.1.1.4. Responses to draft and final OIG reports, other than audit reports, shall be made in appropriate timeframes specified by the OIG.

6.1.2. Content of Responses. Management responses shall:

6.1.2.1. Express explicit concurrence or nonconcurrence on each finding, recommendation, and estimated monetary benefit. If appropriate, such comments shall include proposed alternative methods for accomplishing desired improvements.

6.1.2.2. Describe the corrective actions that have been taken or are

planned. Provide the completion dates for actions taken, the estimated monetary or other anticipated benefits, and the estimated dates for completion of planned actions. When corrective actions are to be taken over an extended period of time (in excess of 1 year), DoD Components shall establish suspense dates for the completion of major segments of the plan.

6.2. Procedures for Deciding Disputed Reports

6.2.1. GAO Reports. Disagreements on GAO reports shall be decided through the agency response process prescribed by DoD Directive 7650.2 (reference (g)).

6.2.2. DoD Component Audit and OIG Reports. When submitting comments to audit and OIG reports, DoD Components shall state explicit positions on all findings, recommendations, and estimated monetary benefits pertinent to that component and shall state the reasons for any nonconcurrences. When corrective actions are to be taken over an extended period of time (in excess of 1 year), DoD Components shall establish suspense dates for the completion of major segments of the plan. If the response is accepted by the audit or OIG organization, the issue is decided. If contested, the following applies:

6.2.2.1. In the case of DoD Component audit reports, the issue shall be forwarded through higher management levels for review and reevaluation. If the opposing positions cannot be reconciled, the issue shall be referred to the designated DoD Component official for decision.

6.2.2.2. In the case of OIG reports, the issue shall be referred to the Assistant Inspector General for Analysis and Followup (AIG(AFU)) who will attempt to mediate the matter. If the opposing positions cannot be reconciled, the IG, DoD, will refer the issue to the Deputy Secretary of Defense for decision.

6.2.2.3. In the case of both DoD Component audit and OIG reports, the decision on contested issues shall be a matter of written record.

6.2.3. Timeframes. Disagreements between DoD Components and DoD audit organizations shall be decided within 6 months from the date of the final report in accordance with P.L. 95-452 and OMB Circular A-50 (references (b) and (c)).

6.2.4. Implementation. Management decisions on disputed reports, along with other agreed-upon recommendations of the report, are subject to followup procedures.

6.3. Followup Procedures. Followup programs shall be established within each DoD Component for monitoring and reporting corrective actions begun and completed.

6.3.1. Managers shall:

6.3.1.1. Take timely and effective corrective action on agreed-upon OIG, GAO, and internal audit findings and recommendations that are applicable to their programs and activities.

6.3.1.2. Assist followup officials in maintaining accurate followup status records (to include explicit written confirmation and documentation that corrective actions have been taken) and in responding to requests for status reports from higher authority and from the AIG(AFU).

6.3.2. *Followup* officials shall manage and oversee their Component's audit followup program. This includes:

6.3.2.1. Establishing Component procedures, to include the establishment of followup focal points, as appropriate, to ensure that accurate followup status records are maintained.

6.3.2.2. Directing selective on-site verification efforts or other measures to determine whether corrective actions taken by managers were timely, complete, and properly reported; what monetary benefits were achieved; and whether those actions corrected the problems reported by the auditors. The status of agreed-upon open corrective actions shall be determined and documented in followup files at least semi-annually for all reports exceeding 1 year from date of issue. To facilitate on-site verification efforts by internal audit, inspection, internal review, or other oversight organizations, the followup officials shall ensure that followup status data are readily available to those organizations.

6.3.2.3. Reviewing instances of unjustifiable noncompliance or unreasonable slippage identified through the above followup procedures or reported by internal audit, inspection, or internal review organizations; the OIG; or the GAO. Directing appropriate corrective actions or bringing the discrepancies to the attention of senior management officials who shall ensure that appropriate measures are taken promptly.

6.3.2.4. Establishing points of contact to assist the followup activities of the IG, DoD.

6.3.2.5. Maintaining formal records of audit reports to include the DoD Component's:

6.3.2.5.1. Position on each finding, recommendation, and estimated monetary benefit.

6.3.2.5.2. Organization responsible for implementation of agreed-upon corrective actions.

6.3.2.5.3. Planned actions with the time schedules for completion.

6.3.2.5.4. Status of planned corrective actions.

6.3.2.5.5. Status of agreed-upon potential or achieved monetary benefits. For OIG and GAO reports, the AIG(AFU) performs this record-keeping function in accordance with paragraph 5.2.2., above; however, *followup* officials should assist in keeping their Component's managers apprised of what agreed-upon OIG and GAO findings and recommendations require action.

6.3.2.5.6. Determining when final action has occurred. Reports shall be recorded as closed in followup records only after cognizant managers have furnished explicit written confirmation that all agreed-upon corrective actions have been completed or on-site verification has so indicated, and documentation of this is contained in the followup files. Monetary benefits shall be recorded in followup systems as having been achieved only after cognizant managers have completed the related corrective actions and have furnished explicit written confirmation, including documentation such as references to official budget or accounting data or, if such documentation is not feasible, an updated estimate and the rationale for that estimate.

6.3.2.5.7. Providing periodic followup status reports on the DoD Component's followup program to the IG, DoD, as specified in enclosure 3.

6.3.3. DoD internal audit organizations shall:

6.3.3.1. Review management responses provided in accordance with paragraphs 6.1.1. and 6.1.2., above, and do the following:

6.3.3.1.1. Forward the report and management response to the appropriate audit *followup* official for necessary followup action and reporting.

6.3.3.1.2. Advise the appropriate followup official whether the response is considered adequate in terms of planned corrective actions, time schedule for completion of agreed-upon corrective actions, and estimated monetary benefits to be achieved as the result of those actions.

6.3.3.1.3. If the response is not considered adequate, refer the matter for decision in accordance with paragraph 5.2.2., above.

6.3.3.2. Assist *followup* officials and the AIG(AFU) in assessing the responsiveness of actions taken by DoD Components regarding agreed-upon OIG, GAO, and internal audit recommendations.

6.3.3.3. In accordance with Chapter 3.41 of the Government Auditing Standards (reference (d)), perform followup on known findings and recommendations from previous audits that could have an effect on current audit objectives to determine whether prompt and appropriate corrective actions have been taken and maximum benefits achieved.

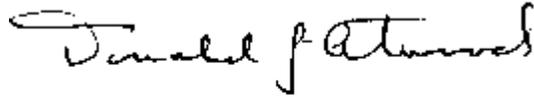
6.3.3.4. Report instances of noncompliance with agreed-upon audit recommendations to the appropriate DoD Component followup official and the appropriate Component Manager, with a copy of the report to the AIG(AFU).

7. INFORMATION REQUIREMENTS

The followup status report is assigned Report Control Symbol DD-IG(SA) 1574 in accordance with DoD Directive 7750.5 (reference (i)). Detailed reporting procedures are outlined in enclosure 3.

8. EFFECTIVE DATE AND IMPLEMENTATION

This Directive is effective immediately. Forward one copy of implementing documents to the Inspector General, Department of Defense, within 120 days.



Donald J. Atwood
Deputy Secretary of Defense

Enclosures - 3

1. References
2. Definitions
3. Followup Status Report to the Inspector General

E1. ENCLOSURE 1

REFERENCES, continued

- (e) DoD Directive 7600.2, "Audit Policies," January *26, 1990*
- (f) DoD Directive 5106.1, "Inspector General of the Department of Defense," March 14, 1983
- (g) DoD Directive 7650.2, "General Accounting Office Audits and Reports," July 19, 1985
- (h) DoD Directive 7640.2, "Policy for Followup on Contract Audit Reports," February 12, 1988
- (i) DoD Directive 7750.5, "Management and Control of Information Requirements," August 7, 1986
- (j) DoD 5000.12-M, "DoD Manual for Standard Data Elements," *July 1989*, authorized by DoD Instruction 5000.12, April 27, 1965

E2. ENCLOSURE 2

DEFINITIONS

E2.1.1. Agreed-Upon Recommendation. A recommendation for management action that is approved explicitly by the cognizant DoD Component(s) and incorporated into program plans.

E2.1.2. Closed. Cognizant managers have furnished explicit written confirmation that all corrective actions have been completed or on-site verification has so indicated, and documentation of this is contained in the followup files.

E2.1.3. Decided. An agreement has been reached between management and auditors or a decision has been made by a senior official settling the disagreement. In the case of GAO reports, disputed findings, recommendations, or monetary benefits are considered decided once an official DoD response has been made to the final *report*. The reporting of non-Federal audits should be as determined appropriate by the Component followup official.

E2.1.4. Disallowed Cost. A questioned cost that management, in a management decision, has sustained or agreed should not be charged to the Government. (This term is applicable only to incurred cost audits such as those about defective pricing on defense contracts.)

E2.1.5. Final Action. The completion of all actions that management has concluded, in its management decision, are necessary regarding the findings and recommendations included in an audit report. If management concludes no action is necessary, final action occurs when a management decision has been made.

E2.1.6. Finding. As defined in the U.S. Comptroller General "Government Auditing Standards" (reference (d)), a statement made on the basis of the information developed about an organization, program, activity, function, condition or other matter that was analyzed or evaluated. Certain DoD inspection organizations refer to findings as observations.

E2.1.7. Funds Put To Better Use. The financial impact of a recommendation by the auditors that funds could be used more efficiently if management of an establishment took actions to implement and complete the recommendation, including the following:

E2.1.7.1. Reductions in outlays;

E2.1.7.2. Deobligation of funds from programs or operations;

E2.1.7.3. Withdrawal of interest subsidy costs on loans or loan guarantees, insurance, or bonds;

E2.1.7.4. Costs not incurred by implementing recommended improvements related to the operations of the establishment, a contractor, or grantee;

E2.1.7.5. Avoidance of unnecessary expenditures noted in pre-award reviews of contract or grant agreements; or

E2.1.7.6. Any other savings that are specifically identified. Such financial impact may be calculated on the basis of statistical projections, where appropriate. All financial impact of DoD and GAO audits shall be reported either as "Funds to Be Put to Better Use" or as "Questioned Cost" (see definition E2.1.12., below), but not both.

E2.1.8. Management Decision. The evaluation by management of the findings, recommendations, and monetary benefits included in an audit report and the issuance of a final decision by management concerning its response including actions concluded to be necessary.

E2.1.9. Monetary Benefits. Questioned costs or funds put to better use.

E2.1.10. Open. Agreed-upon corrective action has not been completed.

E2.1.11. Principal Staff Assistants. The Under Secretaries of Defense; the Assistant Secretaries of Defense; the General Counsel, Department of Defense; the Inspector General, Department of Defense; the Comptroller, Department of Defense; the Assistants to the Secretary of Defense; and the OSD Directors who report directly to the Secretary of Defense or the Deputy Secretary of Defense.

E2.1.12. Questioned Cost. An incurred cost that is questioned by auditors because of the following:

E2.1.12.1. An alleged violation of a provision of a law, regulation, contract, grant, cooperative agreement, or other agreement or document governing the expenditure of funds;

E2.1.12.2. A finding that, at the time of the audit, such cost is not supported by adequate documentation; or

E2.1.12.3. A finding that the expenditure of funds for the intended purpose is unnecessary or unreasonable. (This term would be applicable only to incurred cost audits such as those about defective pricing on defense contracts.)

E2.1.13. Quick Reaction Report. Interim reporting of situations demanding immediate action to prevent, correct, or reduce a serious problem that cannot be addressed expeditiously enough by normal audit reporting methods. Such reports include specific recommendations and are normally addressed to the lowest level that is capable of taking the necessary corrective action. The originating audit organization requests management comments in a time frame that allows elevation of the matter to higher authority before an adverse effect occurs if a responsive reply is not received.

E2.1.14. Undecided. Management has not yet commented on a DoD audit organization's final findings, recommendations, or estimated potential monetary benefits, or does not concur and the DoD audit organization does not agree with the management position. Also applies when management and the DoD audit organization are attempting to resolve disagreements at lower levels, or the disagreement is being submitted to a senior official for decision.

E3. ENCLOSURE3

FOLLOWUP STATUS REPORT TO THE INSPECTOR GENERAL

E3.1. General

E3.1.1. The attached report format shall be used to report to the IG, DoD, on the status of action of all audit reports. Existing data elements and codes that have been registered with Comptroller, Department of Defense (C, DoD), and published in DoD 5000.12-M (reference (j)) shall be used in preparing the report. The reporting requirements have been assigned Report Control Symbol DD-IG(SA) 1574.

E3.1.2. The Military Departments shall report on their internal audits. The AIG(AFU) shall report on GAO and OIG reports.

E3.1.3. Reports shall be prepared for each 6-month period ending March 31 and September 30. DoD Components shall forward their reports to the IG, DoD, within 30 days of the close of each reporting period, with the exception of the listing required under E3.2.1.4., below, of this enclosure, which shall be forwarded within 15 days of the close of each reporting period.

E3.2. PREPARATION GUIDELINES

E3.2.1. Part I is the DoD Component followup official's narrative summary providing:

E3.2.1.1. An assessment of the overall status of the Component followup effort during the period.

E3.2.1.2. An explanation of what measures have been taken to provide verification, either through on-site review or other measures, to ensure that deficiencies in corrective action are being identified.

E3.2.1.3. A discussion of any systemic followup weaknesses revealed during the period together with an explanation of what is being done to correct those problems.

E3.2.1.4. A listing of all Component centrally directed audit reports issued during the period indicating each report's number, title, date of issue, and quantifiable monetary benefits estimates claimed by the *auditors*. Classified reports shall be

identified with an asterisk after the report number.

E3.2.1.5. A listing of all Component centrally directed audit reports over 18 months old from date of issue on which final action has not been completed indicating each such report's number, title, date of issue, agreed-upon monetary benefits not yet achieved, and an explanation for the reasons final action has not been *taken*.

E3.2.1.6. For possible inclusion in the IG, DoD, semi-annual report to the Congress and the Secretary of Defense, three to five examples of particularly noteworthy management actions completed during the period.

E3.2.2. Part II (attachment 1) is a statistical summary of the status of management decisions on Component centrally directed audit reports, to include decisions on quantifiable monetary benefit estimates claimed by the auditors.

E3.2.3. Part III (attachment 2) is a summary status of each Component centrally directed audit report issued before the commencement of the reporting period for which no management decision has been made by the end of the reporting period.

E3.2.4. Part IV (attachment 3) is a statistical summary of the status of management action on Component centrally directed audit reports, to include status of quantifiable monetary benefit estimates agreed to by *management*.

E3.2.5. Explanations for information required in part I and parts II, III, *and IV*, (attachments 1 through *3*) are as follows:

E3.2.5.1. Reporting Activity. Abbreviated name of DoD Component submitting the report.

E3.2.5.2. For Period Ending. Enter the last two digits of the calendar year and 0331 or 0930, as appropriate.

E3.2.5.3. Date of Transmittal. Enter the last two digits of the calendar year, two digits for the current month, and two digits for the day the report actually is forwarded to the IG, DoD.

E3.2.5.4. Point of Contact. Name of the official responsible for submitting the report. Enter last name, first name, and middle initial (in that sequence).

E3.2.5.5. Monetary Benefits. Report all amounts to thousands. It will be assumed that all monetary benefits are in the category of "Funds Put to Better Use"

(see definition E2.1.7. of enclosure 2) unless specifically indicated otherwise.

Attachments - 3

1. PART II - Status of Management Decisions on Centrally Directed Reports
2. PART III - Centrally Directed Reports That Remain Undecided Issued Prior to the Reporting Period
3. PART IV - Status of Management Action on Centrally Directed *Reports*

E3.A1. ENCLOSURE 3, ATTACHMENT 1

PART II

STATUS OF MANAGEMENT DECISIONS ON CENTRALLY DIRECTED REPORTS

<u>Undecided - Beginning</u> <u>of Period</u>		<u>Issued During Period</u>		<u>Decided During Period</u>		<u>Undecided - End</u> <u>of Period</u>		
<u>Number</u>	<u>Monetary Benefits</u> ¹	<u>Number</u>	<u>Monetary Benefits</u> ¹	<u>Number</u>	<u>Monetary Benefits</u> <u>Agreed</u> ²	<u>Monetary Benefits</u> <u>Disagreed</u> ³	<u>Number</u>	<u>Monetary Benefits</u> ¹
Reports	_____	_____	_____	_____	_____	_____	_____	_____

NOTES:

1. Use quantifiable monetary benefit estimates claimed by the auditors.
2. Use quantifiable monetary benefit estimates specifically agreed to by management.
3. Difference between monetary benefit estimates claimed by auditors and those specifically agreed to by management for reports decided.

E3.A2. ENCLOSURE 3, ATTACHMENT 2

PART III

CENTRALLY DIRECTED REPORTS THAT REMAIN UNDECIDED ISSUED PRIOR TO THE REPORTING PERIOD

<u>Report Number, Title, and Report Date</u>	<u>Explanation of the Reasons a Management Decision Has Not Been Made</u>	<u>Quantifiable Monetary Benefits Estimated by the Auditors</u>	<u>Timetable for Achieving Management Decision</u>
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E3.A3. ENCLOSURE 3, ATTACHMENT 3

PART IV

STATUS OF MANAGEMENT ACTION ON CENTRALLY DIRECTED REPORTS

	<u>Action in Progress - Beginning</u>		<u>Decided During Period</u>		<u>Action Completed - During</u>		<u>Action in Progress -</u>	
	<u>Number</u>	<u>Monetary Benefits</u> ¹	<u>Number</u>	<u>Monetary Benefits</u> ¹	<u>Number</u>	<u>Monetary Benefits</u> ²	<u>Number</u>	<u>Monetary Benefit</u> ¹
Reports	_____	_____	_____	_____	_____	_____	_____	_____
Recommen- dations	_____	_____	_____	_____	_____	_____	_____	_____

NOTES:

1. Use quantifiable monetary benefits specifically agreed to by management.
2. Monetary benefits shall be reported as completed (achieved) only after cognizant managers have completed the related corrective actions and have furnished confirmation, including documentation such as references to official budget or accounting data or, if such documentation is not feasible, an updated estimate and the rationale for that estimate.