ORDER

DEPARTMENT OF TRANSPORTATION
FEDERAL AVIATION ADMINISTRATION

2970.3

7/17/84

SUBJ: AUDITS BY THE OFFICE OF INSPECTOR GENERAL

1. PURPOSE. This order establishes the Federal Aviation Administration's (FAA) policy, responsibilities, and procedures relating to: (a) audits of FAA activities by the Departmental Office of Inspector General (OIG); and (b) handling OIG audit reports. It also implements Order DOT 8000.1A, Audit and Investigation Report Findings, Recommendations, and Followup Action, Chapter I, Audits, except for matters relating to audit followup.

2. DISTRIBUTION. This order is being distributed to the branch level at FAA headquarters, AMA, regions, and centers; to all GAO/OIG Audit Liaison Offices; and an information copy to the OIG.

3. CANCELLATION. FAA Orders 2970.1B, Audits by the OST Office of Audits, dated December 20, 1978, and 2970.2A, Followup Action and Resolution of Audit Recommendations Made by the Office of Inspector General, dated February 18, 1983, are cancelled.

4. BACKGROUND. In accordance with the Inspector General Act of 1978, the OIG was established on February 25, 1979, as an independent and objective unit within the Office of the Secretary of Transportation (OST) to conduct and supervise audits and investigations relating to the programs and operations of the Department. Previously, audits were performed by the OST Office of Audits and auditors located in each of the modal administrations. The Act authorized transfer to the OIG of all the auditor positions in the Department.

5. EXPLANATION OF CHANGES.

a. The mission and responsibilities of the OIG have been added (paragraphs 8 through 11). All audits within the Department will be performed under the centralized direction of the OIG rather than by individual Departmental organizational elements.

b. FAA Order 2970.1B, which implemented Order DOT 2920.1A, Audit Service in the Department of Transportation, dealt primarily with internal audits performed by the former OST Office of Audits. Order DOT 2920.1A has been cancelled. This revised order covers both internal and external audits.

c. The handling of audit reports addressed to Metropolitan Washington Airports (AMA) officials has been clarified (paragraph 15d).

d. The material contained in FAA Orders 2970.1B and 2970.2A has been updated and combined into one order. Thus, all matters relating to the OIG audit activities, except audit followup, can be located in this order.

e. Audit followup procedures have been deleted from this order and will be included in a separate order.

f. Procedures for resolution of differences between the OIG and FAA are explained in paragraph 16.

6. FORM AND REPORT. FAA Form 2900-3, GAO/OIG Audit Activity Report (RIS: AA 2900-3), shall be submitted by the regions, centers, and AMA as required by paragraph 17f below.

7. AUTHORITY TO CHANGE THIS DIRECTIVE. The Director of Accounting, AAA-1, is authorized to issue changes to this directive which do not change or establish policy, assign responsibilities, or delegate authority.

8. MISSION OF THE OFFICE OF INSPECTOR GENERAL. The Inspector General (IG), in accordance with the Inspector General Act of 1978, directs an independent and objective organization whose purposes are to: (a) ascertain the need for, formulate, and recommend Departmental policy, plans, and programs for audits and investigations; (b) conduct and supervise audits and investigations relating to programs and operations of the Department; (c) provide leadership and coordination and recommend policies for activities designed to (1) promote economy, efficiency, and effectiveness in the administration of, and (2) prevent and detect fraud and abuse in such programs and operations; and (d) provide a means for keeping the Secretary and the Congress fully and currently informed about problems and deficiencies relating to the administration of such programs and operations, and the necessity for and the progress of corrective actions.

9. RESPONSIBILITIES OF THE OIG.

a. The OIG will issue a draft report for all audits which contain significant findings. The draft report is used to confirm the facts presented, foster understanding of the findings and recommendations, and provide management with an opportunity to prepare a written response to the OIG's position or to outline a plan for correcting the deficiency. The response to the draft report is required within 45 days and will be included in the final report. If a response is not received in a timely manner, the final report may be issued by the OIG with a statement that a response to the draft report was requested but not received.

b. The OIG will indicate in the final report, or report transmittal letter, which findings require followup action and which findings are resolved. For those findings resolved, the final report will contain the agreed-upon action and a time frame for implementation. If findings remain unresolved or a more detailed response is needed, a formal response will be requested within 90 days of issuance of the final report.

c. The OIG will review management's responses to recommendations on all final reports and attempt to resolve any differences. The OIG will normally reply to management's response within 15 working days.

d. The OIG will maintain a record of findings and recommendations on all audit reports until the findings have been resolved. The information maintained will be as follows:

(1) Record of each recommendation.

(2) Response to each recommendation.

(3) Corrective action planned and estimated date(s) for implementation or the reason for nonconcurrence with the recommendation.

(4) Decisions resulting from referral of unresolved matters to higher management.

(5) Corrective action taken.

e. In those instances when the management official and the OIG do not agree on a proposed resolution of the audit finding, the OIG will attempt to resolve the matter with the next higher level of management directly concerned. The OIG will, on a quarterly basis, submit to FAA for resolution, unresolved findings over 90 days old.

f. The OIG will include in its Semiannual Report to Congress each significant condition described in previous semiannual reports on which corrective action has not been completed.

g. In addition, the Senate Committee on Appropriations, in its report on Public Law 96-304 and Public Law 96-400, directed the Inspectors General to include as part of their periodic report to Congress a summary of unresolved audits at the beginning of and completed during the reporting period.

10. NATURE OF AUDIT SERVICE.

a. Audit. An audit is a systematic review or appraisal to determine and report on whether: (1) financial operations are properly conducted; (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 categorized as financial/compliance, economy/efficiency, and program results.

(1) Financial and compliance audits determine: (a) whether the financial statements of an audited entity present fairly the financial position and the results of financial operations in accordance with generally accepted accounting principles; and (b) whether the entity has complied with laws and regulations that may have a material effect upon the financial statements.

(2) Economy and efficiency audits determine: (a) whether the entity is managing and utilizing its resources (such as property, space, and personnel) economically and efficiently; (b) the causes of inefficiencies or uneconomical practices; and (c) whether the entity has complied with laws and regulations concerning matters of economy and efficiency.

(3) Program results audits determine: (a) whether the desired results or benefits established by the Congress or other authorizing body are being achieved; and (b) whether the agency has considered alternatives that might yield desired results at a lower cost.

b. Types of Audits. Audits performed by the OIG are classified as: (1) internal (program/functional); and (2) external (grant/contract).

c. Fraud Prevention and Detection Surveys.

(1) General. The Inspector General Act of 1978 states that a primary purpose and function of the OIG is preventing and detecting fraud and abuse in Departmental programs and operations. To more effectively meet this mandate, the OIG utilizes joint audit and investigative teams to conduct narrowly scoped surveys of highly vulnerable program areas for the purpose of preventing and detecting fraud. The most important aspect of these surveys is that they are neither audits nor investigations. These surveys draw upon the positive features of such existing tools as risk analyses, vulnerability assessments, audit surveys, and fraud prevention surveys. They examine part of a program to determine if established procedures are being followed, if controls are adequate, and if any existing weaknesses are being exploited with a resultant adverse impact on the interests of the Government.

(2) Concept. A team approach similar to the Fraud Prevention and Detection Survey was used previously in the OIG to conduct vulnerability assessments. The survey is unique in that it extends the study goals beyond the identification of weaknesses and vulnerabilities to include the detection of fraud. This joint concept, which utilizes audit experience for financial, organizational, and record reviews and investigative expertise in the identification and pursuit of weaknesses and fraud indications, permits the simultaneous development and evaluation of information from two perspectives--audit and investigations.

(3) Project Selection. Identification and selection of projects may be based on information developed out of prior investigative or audit experience or from requests by FAA program officials. Projects may initially be directed at a general program area or activity and subsequently narrowed to focus on a target of limited scope.

(4) Project Team. Each survey team will be comprised of a mix of auditors and investigators.

11. AUTHORITY OF THE OIG. The Inspector General Act of 1978 sets forth the authority given to the OIG for the performance of its mission. The OIG is authorized:

a. Access to all records, reports, audits, reviews, documents, papers, recommendations, or other materials which relate to the programs and operations of the Department;

b. To request such information or assistance, as may be necessary, from any Federal, state, or local governmental agency or unit;

c. To report to the Secretary, without delay, whenever requested information or assistance is, in the judgment of the IG, unreasonably refused or not provided.

d. To make sure investigations and reports relating to the administration of the Department's programs and operations are, in the judgment of the IG, necessary and desirable.

e. To require by subpoena the production of all information, documents, reports, answers, records, accounts, papers, and other data and documentary evidence necessary in the performance of the functions assigned by the Act. It is enforceable by order of any United States district court provided that procedures other than subpoenas shall be used to obtain documents and information from Federal agencies.

12. ACCESS TO RECORDS. The agency will cooperate with OIG auditors in the performance of their assigned functions. Upon specific request, agency personnel will make available documents, files, and other records required for audit purposes subject to the following:

a. Agency directives dealing with the general subject of handling information do not preclude release of information but do set forth certain requirements to be met prior to release of classified data. The main directive is FAA Order 1600.2B, National Security Information. Any questions relating to Order 1600.2B should be directed to the Office of Civil Aviation Security or the appropriate Civil Aviation Security Division.

b. FAA Order 1600.15D, Control and Protection of "For Official Use Only" Information, governs the external release of privileged and other sensitive data. OIG auditors will be advised clearly of the official and current status of the data at the time it is released.

13. COOPERATION WITH OIG ELEMENTS.

a. All organizations, elements, and personnel in FAA are expected to cooperate with the OIG to the fullest practical extent and to respond promptly to all reasonable requests.

b. Cooperation and/or assistance to the OIG may be prevented because of the time frame or degree of assistance requested by the OIG. When this occurs, information regarding the impact on FAA operations and resources should be furnished to the OIG. The effect on personnel and dollar costs must be considered. Replies to the requesting OIG element should be in writing and should include the reasons for noncompliance with the request and should offer reasonable alternatives.

c. If mutually satisfactory arrangements cannot be reached at the local level, the next higher level of authority and AAA-1 shall be advised promptly.

14. POLICY.

a. OIG audit reports provide independent evaluations of the manner in which FAA carries out its assigned responsibilities and administers its affairs and resources. These evaluations are a valuable and necessary tool of management and shall be viewed as a constructive service to FAA managers.

b. OIG findings, conclusions, and recommendations resulting from audits shall be given careful consideration by management officials. FAA comments on draft and final reports shall be objective, responsive, and indicate the corrective actions taken or anticipated. They shall be submitted within time limits specified by the OIG and shall provide target dates for completion of corrective actions. The normal time periods for responding to draft and final reports are 45 and 90 days, respectively.

c. OIG audit recommendations may be rejected if they are deemed to be incompatible with program objectives or if they will not, in management's opinion, contribute to the effectiveness, efficiency, or economy of operations. Reasons for nonacceptance of audit recommendations must be clearly stated.

d. AAA-1 shall prepare all official FAA responses to OIG audit reports addressed to management officials at FAA headquarters and the Aviation Standards National Field Office (AVN). In those rare instances where the audit reports involve complex legal or technical matters, AAA-1 may request either the Chief Counsel or the appropriate program office to respond directly to the OIG. Audit reports addressed to management officials at the regions, centers, and AMA shall be handled by the local director's designee herein referred to as the GAO/OIG Audit Liaison Office as indicated by paragraphs 15c and 15d below.

e. On recommendations relating to external operations, management officials may transmit the audit report to the grantee or contractor requesting comments on the auditor's findings and recommendations. In cases of audit findings involving the application and/or interpretation of law or regulation, consideration should be given to obtaining a legal opinion when a decision is made not to disallow or recover questioned costs. Management officials will evaluate responses from the grantees or contractors and inform the OIG as to what action is planned on the audit recommendations. A letter will be forwarded by management officials to the grantee or contractor advising what actions are to be taken by the Government and what action is required of the grantee or contractor.

15. RESPONSIBILITIES OF FAA OFFICIALS.

a. General.

(1) Director of Accounting, AAA-1.

(a) Serves as the central control and liaison point for all FAA relationships with the OIG on audit matters.

(b) Controls and monitors all OIG audit reports and correspondence on audit matters addressed to management officials at FAA headquarters and AVN and ensures that all FAA offices/services/regions/centers that can contribute to the review and reply to OIG audit reports are made aware of such reports.

(c) Establishes uniform FAA standards for handling all OIG audit matters.

(d) Prepares or provides for prompt, factual, and responsive replies to requests for comments on OIG audit matters addressed to management officials at FAA headquarters and AVN.

(2) Chief Counsel, FAA. Provides prompt, legal review, counsel, and opinion on issues of law and policy raised in OIG audit reports. The Chief Counsel may delegate this function to regional and center counsels when such delegation is appropriate.

b. OIG Audit Reports Addressed to the Administrator, Other Headquarters Officials, or AVN.

(1) Director of Accounting, AAA-1. Develops FAA's official position on OIG findings and recommendations and prepares a reply for the signature of the Administrator or other appropriate headquarters official.

(a) Gathers data on reported findings through meetings and correspondence with interested offices and services.

(b) Coordinates proposed replies with interested offices and services.

(c) Replies to OIG requests for comments on audit reports within the time frame established by the OIG.

(d) Ensures that replies are responsive, factual, and furnished to OIG in a timely manner.

(2) Office, Service, Regional, and Center Directors. Submit prompt, factual, and forthright replies to AAA-1 requests for comments on OIG audit reports.

c. OIG Audit Reports Addressed to Regional and Center Directors. Regional and center directors or designees are responsible for developing the official position on OIG findings and recommendations contained in local OIG audit reports. In preparing replies, they:

(1) Gather data on reported findings through meetings and correspondence with interested local officials.

(2) Coordinate proposed replies with interested local officials.

(3) Reply to OIG requests for comments on audit reports within the time frame established by the OIG.

(4) Do not comment on policy or procedural matters that can only be resolved at FAA headquarters, except to suggest that such matters be referred to FAA headquarters for action. Replies should comment on the factual information contained in the reports, if appropriate.

(5) Ensure that replies are responsive, factual, and furnished to OIG in a timely manner.

d. OIG Audit Reports Addressed to the Director, Metropolitan Washington Airports, AMA-1.

(1) All reports (both internal and external) addressed solely to AMA-1 or other AMA officials. This includes OIG regional audits and concession/contract type audits. AMA-1 is authorized to reply directly to the OIG. These replies shall not comment on policy or procedural matters that can only be resolved at FAA headquarters, except to suggest that such matters be referred to FAA headquarters for action. Replies should comment on the factual matters contained in the audit reports, if appropriate.

(2) All internal audit reports issued to multiple addressees, including AMA-1. This includes OIG headquarters program audits that have policy implications. These will be handled by AAA-1 in accordance with paragraph 15b(1) above. AMA-1 shall submit prompt, factual, and forthright replies to AAA-1 requests for comments on OIG audit reports addressed to multiple management officials at FAA headquarters which involve AMA operations.

16. RESOLUTION OF DIFFERENCES BETWEEN THE OIG AND FAA.

a. Involved FAA Organizational Elements. Any management official who is the recipient of an audit report could be involved in the resolution of differences between the OIG and FAA. Audit reports are issued to management officials at various organizational levels within FAA. Reports issued by OIG regional offices are usually directed to FAA regional or center directors. Reports issued by the OIG headquarters staff are directed to office/service directors, associate administrators, and/or the Administrator depending on the importance of the audit findings and recommendations.

b. OIG procedures for resolution of differences between the OIG and FAA state that, when the management official and OIG do not agree on a proposed resolution of the audit finding, the OIG will attempt to resolve the matter with the next higher level of management directly concerned. This means that reports where the regional or center director disagrees with the OIG, the OIG should refer the matter to the Administrator. In actual practice, the appropriate program office at FAA headquarters is usually contacted in an attempt to resolve differences between the OIG and regional or center directors. For reports issued by the OIG headquarters staff, the final report is usually issued to the Administrator with a request for comments on the report's findings and recommendations.

17. AUDIT LIAISON PROCEDURES.

a. The contact point for all proposed OIG audits within FAA headquarters shall be the Financial Programs Staff, AAA-60. The OIG will notify AAA-60 of all surveys and audits to be performed by OIG headquarters auditors a few days before the estimated starting date. The contact point for all field audits shall be the cognizant GAO/OIG Audit Liaison Office. The designated official should be contacted in advance of any audit work so that arrangements can be made for an entrance conference with an appropriate level of FAA management.

b. At the Entrance Conference.

(1) The OIG auditor will be expected to outline the scope of the audit, the approximate length of time it will require, the general sequence of the review, and any other data that the auditor feels would be appropriate.

(2) The FAA official who is responsible for the area to be audited should appoint a liaison person for the function being audited with whom the auditor will arrange entrance into specific areas, staff audit findings, and generally coordinate the activities of the audit.

c. After initial liaison and contact arrangements at the entrance conference, OIG auditors will deal with the various officials that have primary responsibility for the areas being audited.

d. An exit conference shall be arranged through AAA-60 or the regional/center audit liaison office, as appropriate. Such conference should be held following completion of the audit work with the same official whom the entrance conference was held or a higher level official, as appropriate.

e. Field visits by OIG headquarters personnel. The OIG has agreed to notify AAA-60 immediately when a determination is made by OIG headquarters personnel to visit FAA field locations. AAA-60 will immediately notify by telephone the appropriate regional/center audit liaison office of the visits. About 1 to 2 days later, the OIG headquarters personnel will also advise responsible FAA headquarters program officials of the visits so that the latter may contact their field counterparts, provide specific information, and make any necessary arrangements. The 1- to 2-day interval will allow sufficient time for the field audit liaison office to advise all appropriate regional/center personnel of the OIG visits.

f. Reporting of Local OIG Activity To FAA Headquarters. Each regional/center/AMA audit liaison office shall assist the Office of Accounting (AAA) in carrying out its central control and followup functions by:

(1) Advising of the planned scope of OIG audits as defined at entrance conferences and of tentative findings having agencywide implications as soon as they are disclosed. FAA Form 2900-3, GAO/OIG Audit Activity Report (RIS: AA 2900-3), should be used for this purpose. Forms for regions and centers are stocked in the FAA Depot, National Stock Number 0052-00-809-5001, Unit of Issue (U/I): Sheet (SH).

(2) Forwarding a copy of each OIG final audit report (other than on contracts and grants) and related reply to AAA for post review and central reference.

18. AVAILABILITY OF INFORMATION (AUDIT REPORTS) TO THE PUBLIC.

a. The Freedom of Information Act (FOIA) (5 U.S.C. 552) requires each agency to make information available to the public. It is the policy of the Department to make information within the Department available to the public to the greatest extent possible in keeping with the spirit of the Act. Certain information, however, may be withheld for reasons specified in prescribed exemptions to the FOIA.

b. Responsibility. Within the Office of the Secretary, the Director of Public Information (A-30) has been delegated authority to implement the FOIA. The determination as to whether or not to release an audit report is made by A-30.

c. Requests for Release of Audit Reports. All requests for copies of audit reports received from the public shall be forwarded to AAA-1 for transmittal to A-30.

19. SUPPLEMENTATION. Two copies of each internal directive containing supplemental or implementing instructions shall be forwarded to AAA, Attention: AAA-10. Instructions issued by regions/centers should designate an OIG liaison point.

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