

APPALACHIAN REGIONAL COMMISSION

INSPECTOR GENERAL'S

SEMIANNUAL REPORT

TO CONGRESS

OCTOBER 1, 1994 - MARCH 31, 1995



May 18, 1995

MEMORANDUM FOR THE FEDERAL CO-CHAIRMAN
SUBJECT: Semiannual Report to Congress

In accordance with the requirements of the Inspector General Act Amendments of 1988, Public Law 100-504, I am pleased to submit the semiannual report of the Office of Inspector General (OIG) for the period October 1, 1994, through March 31, 1995.

During this period, operational activities included issuance of 24 reports, including 23 individual reviews and 1 program survey. Primary recommendations were directed at improved accounting, financial systems, internal controls, and deobligations of funds. During this period, our reports highlighted factors affecting physician and provider compliance with provisions of the J-1 waiver program, especially employer failure to utilize J-1 physicians to provide primary care in health professional shortage areas. Emphasis continued to be placed on audit followup and resolution. ARC initiated various actions to address issues noted in OIG reports and memorandums.

The Inspector General had continuing responsibilities as the Vice Chair of the Executive Council on Integrity and Efficiency (ECIE), which was established by Executive Order in May 1992 to provide for coordination and cooperation between the 32 designated Offices of Inspectors General (OIGs). This responsibility included participating as a member of the President's Council on Integrity and Efficiency and required extensive coordination and liaison between OIGs, OMB, and Congressional sources with respect to OIG activities. The Inspector General appreciates the support, cooperation, and assistance provided by ARC management to facilitate performance of ECIE Vice Chair responsibilities.

The continued support of the OIG by ARC management and utilization of OIG reports and recommendations have contributed to improved controls and operations. Of particular significance during this reporting period was management's actions to address reported issues with respect to J-1 visa waiver program and grant administration. The Inspector General Act of 1978, as amended by the Inspector General Act Amendments of 1988, provides that this report be forwarded to appropriate Congressional committees within 30 days and that you provide whatever additional comments you consider appropriate.

Hubert N. Sparks
Hubert N. Sparks
Inspector General

Enclosure

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EXECUTIVE SUMMARY

During this reporting period, 24 reports were issued, including 23 individual reviews and 1 program survey. Primary recommendations were directed at improved accounting, financial systems, internal controls, deobligations of funds, and employer compliance with provisions of the J-1 visa waiver program. At the end of the reporting period, 12 reviews were in process, i.e., 10 grant reviews and 2 headquarters surveys dealing with grants management and business development revolving loan funds. Of particular significance were management actions to address conditions affecting the J-1 visa waiver program and grant administration.

We continued to emphasize improved grantee financial management systems, accomplishment of grant objectives, eligibility of claimed costs, and timely actions to identify potential fund deobligations. Recommendations were made for improvements in these areas. Six significant reports with respect to the J-1 waiver program, which provides for extension of resident provisions for physicians who agree to work in the Appalachian Region, were issued. These reports highlighted physician and employer failure to comply with ARC program provisions that foreign physicians, approved for a 2-year (J-1) waiver of requirements to return to their home country, must practice primary care 40 hours per week in an Appalachian health professional shortage area (HPSA). The conditions noted occurred where employers were approved multiple J-1 physicians at HPSA sites in close proximity to more urban non-HPSAs and were primarily attributable to employers who used the J-1 physicians to perform subspecialty practices and/or practice in non-HPSAs.

ARC initiatives with respect to this program included increased employer accountability, notification to physicians and providers about violations and needed improvements, actions to reduce impediments for the achievement of a program goal to ensure increased and permanent medical service in Appalachia, and emphasis on identification of physician need.

Audit resolution actions also included significant progress toward settlement of open issues and questionable costs. We noted that, in connection with a prior report dealing with expired grants, actions were initiated to improve control over such grants and about \$675,000 was deobligated during the reporting period for other ARC-administered grants. Also, management emphasis on timely followup and review of expired grants included assigning staff to implement improvements and improved management information system to facilitate grant tracking. Additionally, about \$1 million was recovered with respect to older grants administered by other agencies.

A report dealing with grant administration and controls identified several issues for ARC action, including emphasis on performance goals and measures, assessment of project results, timely receipt of necessary reports, and guidance to smaller and/or first time grantees. ARC responded positively to the recommendations and noted increased emphasis and staff responsibilities for grant monitoring and followup, improved grant information system, and identification of performance goals and measures.

In line with reinvention and customer service principles during our field reviews, we continued to work with first time and smaller grantees with respect to eligible costs and necessary records and reports. Management agreed with our recommendation to provide increased guidance to grantees.

**PURPOSE AND REQUIREMENTS OF THE
OFFICE OF INSPECTOR GENERAL SEMIANNUAL REPORT**

The Inspector General Act of 1978 requires the Inspector General to keep the Federal Co-Chairman and Congress fully and currently informed about problems and deficiencies in the Commission's operations and the necessity for corrective action. In addition, the Act specifies that semiannual reports will be provided to the Chairman by April 30 and October 31 and to Congress 30 days later.

The Co-Chairman may transmit comments to Congress along with the report but may not change any part of the report. The specific requirements prescribed in the Act, as amended (Public Law 100-504), are listed below.

Reporting Requirements

Section 4(a)(2)	Review of legislation and regulations	Page 10
Section 5(a)(1)	Problems, abuses, and deficiencies	Page 3
Section 5(a)(2)	Recommendations with respect to problems, abuses, and deficiencies	Page 3
Section 5(a)(3)	Prior significant recommendations not yet implemented	*
Section 5(a)(4)	Matters referred to prosecutive authorities	*
Section 5(a)(5) and 6(b)(2)	Summary of instances where information was refused	*
Section 5(a)(6)	Listing of audit reports showing number of reports and dollar value of questioned costs	App A
Section 5(a)(7)	Summary of each particularly significant report	**
Section 5(a)(8)	Statistical table showing number of reports and dollar value of questioned costs	App B
Section 5(a)(9)	Statistical table showing number of reports and dollar value of recommendations that funds be put to better use	App C
Section 5(a)(10)	Summary of each audit issued before this reporting period for which no management decision was made by end of the reporting period	*
Section 5(a)(11)	Significant revised management decisions	*

I. INTRODUCTION

The Inspector General Act Amendments of 1988 (P.L. 100-504) provided for the establishment of an Office of Inspector General at 32 designated Federal entities, including the ARC. The Appalachian Regional Commission (ARC) Office of Inspector General became operational on October 1, 1989, with the appointment of an Inspector General and provision of budgetary authority for contracted audit and/or investigation activities.

II. BACKGROUND

A. APPALACHIAN REGIONAL COMMISSION

The ARC was established by the Appalachian Regional Development Act of 1965 (P.L. 89-4). The Act authorizes a Federal/State partnership designed to promote long-term economic development on a coordinated regional basis in the 13 Appalachian States. The Commission represents a unique experiment in partnership among the Federal, State, and local levels of Government and between the public and private sectors. It is composed of the Governors of the 13 Appalachian States and a Federal representative who is appointed by the President. The Federal representative serves as the Federal Co-Chairman with the Governors electing one of their number to serve as the States' Co-Chairman.

- o Through joint planning and development of regional priorities, ARC funds are used to assist and encourage other public and private resources to address Appalachia's unique needs. Program direction and policy is established by the Commission (ARC Code) by the vote of a majority of the State members and the affirmative vote of the Federal Co-Chairman. Emphasis has been placed on highways, infrastructure development, business enterprise, and human resources programs.
- o Administratively, the Office of the Federal Co-Chairman, with a staff of 11, and the Commission, with a staff of 50, are responsible for ARC operations. The States maintain an Office of States' Representative (3 persons) that has primarily liaison responsibilities. All personnel are located in Washington, DC. The Commission staff's administrative expenses, including salaries, are funded jointly by Federal and State funds; the States' Representative staff is funded entirely by the States; and the Federal Office staff is funded entirely from Federal funds.
- o The Commission's appropriation for FY 1995 is \$282 million, which is divided approximately \$193.6 million for highway projects, \$84.8 million for non-highway projects, and \$3.6 million for administrative expenses. ARC is authorized through its current appropriation.
- o Program funds are distributed to State and local entities in line with an allocation formula intended to provide fair and reasonable distribution of available resources. ARC staff have responsibilities for program development, policy analysis and review, grant development, technical assistance to States, and management and oversight.

and 8 percent, for all other activities (training, equipment, space, supplies, etc.). The OIG funding level represents about .0014 percent of the total funds available to the Commission.

Initial OIG operations included authorization for an Inspector General and a Confidential Assistant. A senior auditor was employed in the latter half of FY 1991; no additional staff have been employed. Grant review activities will continue to emphasize use of contracted services (e.g., independent public accounting firms or other OIG offices) supplemented by programmatic and performance reviews directed by OIG staff. Investigative assistance is provided by other OIG offices on an as-needed basis. This approach has been deemed the most appropriate to date in view of the nature of ARC operations and limited resources. However, we are participating with other OIG offices to facilitate sharing of investigative resources in order to strengthen this aspect of OIG operations. The OIG will continue to monitor this situation as well as the efficiency and effectiveness of the use of contracted services.

III. OIG ACTIVITY

A. AUDITS

During the reporting period, 24 reports were issued, including 23 individual reviews and 1 program survey report. At the end of the reporting period, 10 grant reviews, and 2 program surveys were in process. Emphasis was placed during this period on completing reviews of the J-1 visa waiver program. The division of OIG resources results in audit work being performed by a combination of permanent and contractor staff. Emphasis continues to be placed on surveys of ARC operations and programs, completion of grant audits, audit planning, and audit resolution and followup. During the reporting period, the Inspector General continued as Vice Chair of the Executive Council on Integrity and Efficiency (ECIE), which is comprised of 32 statutorily designated Inspectors General and nonstatutory Inspectors General. The Inspector General was heavily involved with efforts to ensure implementation of ECIE responsibilities for effective and efficient OIG operations.

J-1 Visa Waiver Program

During this period, 8 reviews dealing with the J-1 visa waiver program were completed and reports issued. These reviews were conducted by ARC OIG staff with assistance of investigative staff from TVA OIG under a Memorandum of Agreement. Review work emphasized medical providers located in or near urban areas in West Virginia and Maryland that employed multiple J-1 physicians. As noted below, our reviews disclosed that J-1 physicians were not always being used in accordance with agreements to provide 40 hours per week of primary care in a Health Professional Shortage Area (HPSA) and that an excessive number of J-1 approvals had been recommended for some locations.

ARC acts as a Federal sponsor for the J-1 visa waiver program, which permits foreign physicians to remain in the US for a 2-year period upon completion of training, provided they provide primary care medical services in an Appalachian HPSA. Substantial OIG resources have been committed to assessing compliance with program requirements and addressing concerns raised by employers and physicians. These concerns deal primarily with reassignment of physicians by

- o Excess J-1 Placements: Several reports have noted excess J-1 placements in Appalachian HPSAs. We fully concur that the existence of excessive placements represents a distinct danger to the continued effective operation of this program, which is based on attempts to alleviate actual shortages of medical professionals in rural Appalachia. Consequently, since June or July of 1994, we have been screening each application for an ARC J-1 waiver on the basis of actual need in the community sponsoring the placement. Our method of scrutiny has been to calculate actual ratios of physicians to populace in those communities by combining Public Health Service (PHS) data with our own database of ARC J-1 placements. The resulting ratio takes into account the J-1 doctors practicing in the area, which are not considered in the ratios that PHS calculates to justify HPSA designations. At this point, we have not developed a strict cut off point below which we will not recommend applications for approval; but as the ratios decrease in size, we scrutinize the requests closer and closer and require the state health personnel with whom we work to provide correspondingly more justification for the placement. We are continuing to monitor this approach carefully to determine whether a mandatory cut off should be imposed and whether program integrity can continue to be ensured through the current case-by-case method.
- o Placement in non-HPSAs: The current Federal Co-Chairman has insisted that all doctors for whom he requests J-1 waivers actually practice in an Appalachian HPSA. Although, technically, the ARC policy, as currently written, would permit a placement outside a HPSA if that placement will "best serve" the HPSA population, ARC has required an extremely narrow interpretation of this provision of the policy and is unwilling to extend it to allow a non-HPSA placement in any but the most compelling circumstances. We believe this issue is at the heart of the J-1 visa program and will continue to scrutinize each application to ensure that service is actually being provided in the HPSA.
- o Noncompeté Clauses: At present, based on the recommendations contained in OIG reports, the Federal Co-Chairman will not approve a J-1 waiver request, except upon the demonstration of unusual and compelling circumstances, if the contact between the sponsor health facility and the J-1 applicant contains a noncompeté clause. This issue, however, is the subject of our continuing review. We understand from discussions with state health care officials and others that smaller not-for-profit facilities serving Appalachian HPSAs may be placed in financial jeopardy by the rigorous application of this rule.
- o Employer Certification: In response to recommendations that we increase employer/sponsor accountability under the J-1 program, we will begin to require that the representative of each sponsor health facility include a statement to the following effect in the waiver request letter: "I hereby certify that I have read and fully understand and will comply with the ARC J-1 Visa Waiver Policy, and that all of the information contained in this letter is true to the best of my knowledge and belief."

Although OIG will conduct followup reviews to evaluate program compliance, we noted that the number of inquiries and complaints relative to alleged program violations have declined substantially since the conduct of our field reviews and ARC and state agency actions.

Grant Administration

A survey report on grant administration, including controls, performance criteria, and evaluation emphasized the effectiveness of program and management controls with respect to timely use or approval and payment of funds and the availability and effectiveness of performance measures in grant agreements. This review coincided with a major ARC strategic planning effort initiated by the Federal Co-Chairman. Based on the testing of samples of older and newer grants for a variety of attributes, including availability of required reports, evidence of project monitoring, actions on grant extension requests, availability of quantifiable performance criteria in grant agreements, and evidence of performance evaluations, we made recommendations related to:

- o Timely followup and file documentation to identify grant status and establishment of reasonable time frames for project completion, receipt of required reports and/or deobligation of funds.
- o Ensuring timely receipt of necessary reports.
- o Emphasizing performance goals and measures, as practical, in grant agreements and assessments of project results.
- o Providing of grant implementation guidance to smaller and/or first time grantees simultaneous with grant agreement approval.

ARC responded positively to the recommendations and noted as follows:

The function of the grants management staff now being recruited will be to perform continuous monitoring of grant status and to follow through with ARC staff and staff at other Federal agencies so that appropriate actions are taken and documented. In addition, although the design for data systems on the planned computer network is not yet complete, management anticipates that project status information on the network will include not only implementation status and expiration dates, but also the time frames for grantee actions as recommended in the report.

Management agrees that report and waiver reviews should be prompt and that waivers should be documented. Commission managers were called to a meeting with the Inspector General to discuss the report, and the problem should not recur.

With regard to performance measures, the Commission is now undertaking a substantial strategic planning initiative that will include, among many other things, the identification of performance goals and measures associated with the agency's mission. Management sees this analysis as essential to establishing a process of reasonable performance expectations for individual projects that should be designed to carry out the agency mission. In addition, management is considering methods for reorganizing staff program work, including monitoring of projects in the field.

computer network. This work will be the starting point for redesigning and improving record control.

First-time Program Participants

- o Continued emphasis continued to be placed on testing first-time program participants in order to determine and evaluate the extent of knowledge and understanding of program procedures and requirements. Our tests disclosed that these grantees often did not have adequate financial systems or accounting controls and, thus, were unable to fully support claims for reimbursement and/or submitted ineligible costs for reimbursement. Of particular significance was limited understandings with respect to information necessary to support required matching contributions and allocation of costs between different funding sources and allowable costs as noted in the applicable OMB Circulars (A-87 and A-122). ARC is developing additional guidance for grantees with respect to necessary records, reports, and minimum accounting controls and systems.

B. INVESTIGATIONS

The Inspector General Act of 1978, as amended, provides that the Inspector General may receive and investigate complaints or information concerning the possible existence of an activity constituting a violation of law, rules, or regulations or mismanagement, gross waste of funds, or abuse of authority. The OIG does not employ special investigators. Should the need arise, the matter would be referred to the Federal Bureau of Investigation or assistance would be contracted with another Federal Office of Inspector General. Also, the results of investigations may be referred to the appropriate Federal, state, or local prosecutive authorities for action.

During the reporting period, a Memorandum of Understanding was signed with the Office of Inspector General, Tennessee Valley Authority, in order to obtain investigative assistance with respect to the J-1 visa waiver program. The results of these inquiries are noted in the audit section. Additionally, a state agency debarred one employer for 2 years; and several cases were referred to INS for review.

IV. AUDIT PLANNING

During the remainder of FY 1995, audit work will include individual grant audits in about seven states; followup testing in areas such as staff monitoring; and additional followup on grants with completed budget periods, grant extensions, revolving loan funds, and J-1 waiver program. Continued emphasis will be placed on audit followup and corrective action plans, including working with agency management to address open issues and achieve audit resolution and closure.

In order to maximize use of available resources directed at reviewing ARC activities, increased emphasis continues to be placed on nonstandard reporting formats including memorandum, letter, and survey reports. Although such reporting formats reduce the time and resources necessary for review completion, the results and information included in such reports is based on evidence and supporting documentation consistent with generally accepted auditing standards.

VII. OTHER

The Inspector General continued as the Vice Chair of the Executive Council on Integrity and Efficiency, which was established by Executive Order in May 1992. The ECIE, which is chaired by OMB, is comprised of the 32 statutorily designated IGs and other administratively established IGs and is intended to promote the efficiency and effectiveness of the IG community. As such, the Vice Chair serves as a coordinator and liaison for ECIE members in dealings with OMB, Congress, and the PCIE.

Specific activities, which required considerable resource use during the reporting period, included coordinating monthly ECIE meetings; conducting committee meetings; transmitting IG related information to all members; correlating and summarizing ECIE positions on various issues; representing ECIE members' interests; briefing OMB and Congressional staff; coordinating project activity, annual reports, and training conferences; and representing ECIE at PCIE meetings.

The ECIE Vice Chair responsibilities and workload, although considered of the highest importance by the ARC OIG, required a substantial expenditure of time and resources in order to address member issues and ensure ECIE actions in line with the Executive Order. The normal workload attributable to coordinating and addressing interests and concerns of member entities was increased by the inherent activity and concerns resulting from a change in Administration. Consequently, ARC OIG time was diffused between ECIE and ARC activities during this reporting period; and the OIG appreciates the support of ARC management with respect to the IG's involvement as the ECIE Vice Chair.

The Inspector General continues to advocate use of Interservice Agreements by smaller designated IG offices in order to substantially reduce the costs of independently contracting for external auditors. This process, which was initiated by the ARC OIG in 1989, is now used by approximately 10 designated IG offices and results in a substantial reduction in costs with respect to advertising and bid evaluation, without any reduction in competition or quality of work.

SCHEDULE OF REPORTS ISSUED OCTOBER 1, 1994, TO MARCH 31, 1995

APPENDIX A

Report No.	Title	Program Dollars or Contract/Grant Amount	Questioned Costs*	Funds to Better Use**
95-1(H)	Grant Controls	1/		
95-2(H)	J-1 Waiver--MDO	2/		
95-3(H)	Kentucky Tourism	\$ 100,000	\$ 661	
95-4(H)	J-1 Waiver--Community Health Systems	2/		
95-5(H)	J-1 Waiver--Pediatric & Adolescent Medicine	2/		
95-6(H)	J-1 Waiver--Williamson Memorial Hospital	2/		
95-7(H)	J-1 Waiver--Southern West Virginia Clinic	2/		
95-8(H)	J-1 Waiver--Merit Medical Group	2/		
95-9(H)	SUNY Alternative Agriculture	77,048		
95-11(H)	Seneca Trail R&D	100,000	3,782	
95-12a(H)	South Carolina COG RLF	1,250,000		
95-12b(H)	Western Piedmont COG RLF	250,000		
95-12c(H)	Ohio Valley RDC RLF	500,000		
95-12d(H)	Buckeye Hills-Hocking Valley RDD RLF	550,000		
95-12e(H)	SEDA COG RLF	250,000		
95-14(H)	J-1 Waiver--Med-Surg Clinic	2/		\$ 5,727
95-15(H)	West Virginia Department of Tourism & Parks	111,000	5,000	
95-16(H)	NE Mississippi P&DC	1,524,000		
95-17(H)	Mississippi Resource Center	100,000	878	
95-18(H)	Alabama Technical Assistance	105,000		
95-19(H)	Auburn University, Project LEED	611,283		
95-20(H)	J-1 Waiver--Vaughn Chillon Regional Medical Center	2/		
95-26(H)	Upper Catawba River Basin Water Quality Program	145,000		
95-37(H)	SEDA COG (Administration)	390,000		
TOTALS		\$ 6,063,331	\$ 10,321	\$ 5,727

* A cost the Office of Inspector General has questioned because of an alleged violation of law, regulation, contract, or other agreements governing the expenditure of funds; such cost is not supported by adequate documentation; or the expenditure of funds for the intended purpose is unnecessary or unreasonable.

** Funds the Office of Inspector General has identified in an audit recommendation that could be used more efficiently by reducing outlays, deobligating program or operational funds, avoiding unnecessary expenditures, or taking other efficiency measures, such as timely use of funds.

1/ Survey of grant and management controls at headquarters office. 2/ Reviews of J-1 Visa Waiver Program that provides for foreign physicians who agree to practice primary care in HPSAs to remain in US after completion of training.

**SCHEDULE OF AUDIT REPORTS WITH
QUESTIONED OR UNSUPPORTED COSTS**
(\$ in thousands)

	<u>No. of Reports</u>	<u>Questioned Costs</u>	<u>Unsupported Costs</u>
A. For which no management decision was made by the commencement of the reporting period	7	\$ 172	-
B. Which were issued during the reporting period	4	\$ 10	-
Subtotals (A + B)	11	\$ 182	-
C. For which a management decision was made during the reporting period	11	\$ 182	-
(i) dollar value of disallowed costs	2	\$ 6	-
(ii) dollar value of costs not disallowed	-	\$ 176 ^{1/}	-
D. For which no management decision has been made by the end of the reporting period	-	-	-
E. Reports for which no management decision was made within 6 months of issuance	-	-	-

^{1/} In most instances, questioned costs were agreed with but resolved when grantee provided additional information to justify expenditures or obtained approval of actions for which the funds were utilized.

**SCHEDULE OF AUDIT REPORTS WITH
RECOMMENDATIONS THAT FUNDS BE PUT TO BETTER USE**

	<u>No. of Reports</u>	<u>Dollar Value (\$ in thousands)</u>
A. For which no management decision was made by the commencement of the reporting period	3	\$ 162
B. Which were issued during the reporting period	1	\$ 6
Subtotals (A + B)	4	\$ 168
C. For which a management decision was made during the reporting period	3	\$ 162 ^{1/}
(i) dollar value of recommendations that were agreed to by management	2	\$ 158
--based on proposed management action	2	\$ 158
--based on proposed legislative action	-	-
(ii) dollar value of recommendations that were not agreed to by management	1	\$ 4
D. For which no management decision has been made by the end of the reporting period	1	\$ 6
E. Reports for which no management decision was made within 6 months of issuance	-	-

1/ Does not include ARC followup actions to deobligate about \$785,000 in ARC-administered grants in connection with a prior report dealing with grants having expired reporting periods. Action is continuing on expired grants with fund balances approximating \$1 million that were noted in the prior report.

DEFINITIONS OF TERMS USED

The following definitions apply to terms used in reporting audit statistics:

Questioned Cost	A cost which the Office of Inspector General (OIG) questioned because of an alleged violation of a provision of a law, regulation, contract, or other agreement or document governing the expenditure of funds; such cost is not supported by adequate documentation; or the expenditure of funds for the intended purpose is unnecessary or unreasonable.
Unsupported Cost	A cost which the OIG questioned because the cost was not supported by adequate documentation at the time of the audit.
Disallowed Cost	A questioned cost that management, in a management decision, has sustained or agreed should not be charged to the Commission.
Funds Be Put To Better Use	A recommendation made by the OIG that funds could be used more efficiently if management took actions to implement and complete the recommendation.
Management Decision	Management's evaluation of the findings and recommendations included in the audit report and the issuance of a final decision by management concerning its response to such findings and recommendations, including actions concluded to be necessary. Interim decisions and actions are not considered final management decisions for the purpose of the tables in this report.
Final Action	The completion of all management actions that are described in a management decision with respect to audit findings and recommendations. If management concluded that no actions were necessary, final action occurs when a management decision is issued.

