

Corrective Action Plan Guidance for State Agencies

Prepared by the General Accounting Office (GAO)

Purpose

To provide guidance to State agencies on responding to current audit findings.

Definitions:

Code of Federal Regulations (CFR) – is the codification of the general and permanent rules published in the Federal Register by the departments and agencies of the Federal Government produced by the Office of the Federal Register (OFR) and the Government Publishing Office.

Corrective Action – means action taken by the auditee that:

- a) Corrects identified deficiencies;
- b) Produces recommended improvements; or
- c) Demonstrates that audit findings are either invalid or do not warrant auditee action.

Management Decision – means the evaluation by the Federal awarding agency or pass-through entity of the audit findings and corrective action plan and the issuance of a written decision to the auditee as to what corrective action is necessary.

State of Arizona Accounting Manual (SAAM) – the accounting manual is prepared and maintained by the GAO and updated as necessary. It is to assist state agencies in their interaction with the central accounting function and is intended to be a learning tool as well as a reference manual. It contains instructional material as well as general policy and procedural information.

Overview

As a State agency that has received a finding, you have the responsibility to respond by preparing a corrective action plan (CAP). Per 2 CFR 200.511 (c) an auditee must prepare a corrective action plan when the audit is completed for each audit finding in the current year’s audit report. The auditee must proceed with corrective action(s) as soon as possible, beginning no later than upon receipt of the auditor’s report (200.521(d)). Additionally, [SAAM 1017](#) states that agencies are required to submit agency-specific single audit findings, whether from a federal review’s management decision or performed by an independent auditor. Below, you will find the elements of the finding as well as the required elements of the corrective action plan.

Elements of a Finding:

<i>Condition</i>	What is the problem or issue?
<i>Effect</i>	Why does the condition matter? What is the impact?
<i>Cause</i>	Why did the condition happen?

<i>Criteria</i>	How do we know this is a problem?
<i>Recommendation(s)</i>	How do we solve the condition?

Example of a federal finding:

Finding: 2022-124

Assistance Listings number and name: Various

Award number and year: Various

Federal agency: Various

Compliance Requirement: Activities allowed or unallowed and allowable costs/cost principles

Questioned Costs: Unknown

<i>Condition</i>	The Arizona Department of Administration (ADOA) reported to us that during fiscal year 2022, the State may have used an estimated \$2.8 million of restricted federal program monies, including interest, for unallowable purposes, contrary to federal regulations.
<i>Effect</i>	Similar to prior years, ADOA will be required to repay the U.S. Department of Health and Human Services (HHS) the total amount of restricted federal program monies the State spent for unallowable purposes once HHS finalizes its review of ADOA's estimate and either approves or adjusts it. Additionally, this finding could potentially affect any federal programs the State administers through its various agencies that have State legislatively mandated transfers that include restricted federal program monies.
<i>Cause</i>	Despite ADOA having informed us that the State may have used restricted federal program monies for unallowable purposes, and our having included this finding in the State's Single Audit Report for at least the past 12 years, during the 2021 legislative session, laws were enacted that mandated or directed transfers of monies from specific State agency account balances that included restricted federal program monies. These laws directed the transferred monies to be used for general operating expenses or other specific purposes, such as child safety litigation services. For example, Laws 2021, Ch. 408, §77, transferred unused monies from the State's Risk Management Revolving Fund, which included a proportional share of monies from restricted federal program sources to the Department of Public Safety (DPS) for general operating expenses. When the State transferred and DPS spent the monies, which included the restricted federal program monies to pay for the legislatively mandated uses, it did not have a basis to show the relative benefits for each specific federal program's objectives.
<i>Criteria</i>	Federal regulation requires the State to use federal program monies for only those costs allowed by federal regulations and that provide a benefit directly or indirectly to the program's purposes (2 CFR §200.405[a]). In addition, federal regulation prohibits the State from using federal monies to cover the general costs of government, such as police and litigation services, or the costs of prosecutorial activities having no direct benefit to a federal program (2 CFR §200.444[a][4-5]).
<i>Recommendations</i>	ADOA should: 1. Continue to work with HHS for remittance of any disallowed costs identified, including disallowed costs identified in prior fiscal years.

	<p>2. Continue to inform the Legislature, the Arizona Governor’s Office of Strategic Planning and Budgeting, and other State agencies of the State agency funds that include restricted federal program monies in their fund balance.</p> <p>3. Continue to monitor legislative bills being considered during legislative sessions and recommend bill revisions to help prevent transferring restricted federal program monies.</p>
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Example of a financial finding:

Finding: 2022-06

<p><i>Condition</i></p>	<p>We reviewed the risk-assessment process at 5 State agencies including the Departments of Administration (ADOA), Child Safety (DCS), Economic Security (DES), Revenue (DOR), and Land (LDA) and found that DCS’, DES’, and LDA’s processes for managing and documenting their risks did not include an overall risk-assessment process that included identifying, analyzing, and responding to the agency-wide information technology (IT) risks, such as potential harm from unauthorized access, use, disclosure, disruption, modification, or destruction of IT systems and data. Further, ADOA’s, DCS’, DES’, and LDA’s processes did not include identifying, classifying, and inventorying sensitive information that might need stronger access and security controls.</p>
<p><i>Effect</i></p>	<p>The State agencies’ administration and IT management may put the agencies’ operations, IT systems, and data at unintended and unnecessary risk of potential harm.</p>
<p><i>Cause</i></p>	<p>Because the State’s risk-assessment process is decentralized and managed at each agency, the agencies are in various stages of developing or implementing policies and procedures for assessing and managing risk and have not fully implemented agency-wide risk-assessment processes that address IT security.</p>
<p><i>Criteria</i></p>	<p>The State agencies are required to follow the State IT policies the Arizona Strategic Enterprise Technology Office established to help effectively manage risk at State agencies. Effectively managing risk includes an entity-wide risk-assessment process that involves members of the agencies’ administration and IT management. An effective risk-assessment process helps the agencies determine the risks the agencies face as they seek to achieve their objectives to not only report accurate financial information and protect their IT systems and data but to also carry out their overall mission and service objectives. Additionally, an effective risk-management process provides the agencies the basis for developing appropriate responses based on identified risk tolerances and specific potential risks to which the agencies might be subjected. To help ensure the agencies’ objectives can be met, an effective annual risk assessment considers and identifies IT risk in the agencies’ operating environment, analyzes and prioritizes each identified risk, and develops a plan to respond to each risk within the context of the agencies’ defined objectives and risk tolerances. Finally, effectively managing risk includes the agencies’ process for identifying, classifying, and inventorying sensitive</p>

	information that might need stronger access and security controls to address the risk of unauthorized access and use, modification, or loss of that sensitive information.
Recommendations	<p>The State agencies' administration and IT management should:</p> <ol style="list-style-type: none"> 1. Identify, analyze, and reduce risks to help prevent undesirable incidents and outcomes that could impact business functions and IT systems and data. (DES, LDA) 2. Plan for where to allocate resources and where to implement critical controls. (ADOA, DCS, DES) 3. Ask responsible administrative officials and management over finance, IT, and other entity functions for input in the agencies' process for managing risk. (DES, LDA) 4. Perform an annual entity-wide IT risk-assessment process that includes evaluating and documenting risks and safeguards. Such risks may include inappropriate access that would affect financial data, system changes that could adversely impact or disrupt system operations, and inadequate or outdated system security. (DCS, DES, LDA) 5. Evaluate and manage the risks of holding sensitive information by identifying, classifying, and inventorying the information the agencies hold to assess where stronger access and security controls may be needed to protect data in accordance with State statutes and federal regulations. (ADOA, DCS, DES, LDA)

Corrective Action Plan required elements:

Audit Finding Number:	This is the number assigned by the auditor
Assistance listing number and program name:	This is the assigned assistance listing number (formerly known as the CFDA) and program name that are listed on the federal finding. If this is a financial statement corrective action plan, this line will not be included in the header details.
Agency:	This is the official name of the State agency and not the acronym (example: use the Department of Administration and not ADOA or ADA)
Name of contact person and title:	The name of the person who is responsible for the resolution of the finding and that person's official title (example: Kari Cruz, Manager)
Anticipated Completion Date:	This is the planned date of resolution; it should be in the format month, 2-digits for the day, 4-digits for the year (example: January 30, 2019).
Agency Response:	Choose either <u>Concur</u> or <u>Do Not Concur</u> (if the agency <u>does not concur</u> with the audit finding, they should reach out to GAO immediately , even if the finding has not been received)
Corrective Action Plan:	Narrative of the planned corrective action

Example of a federal corrective action plan:

Assistance listing number and program name: Various

Agency: Arizona Department of Administration (ADOA)

Name of contact person and title: Ashley Retsinas, ADOA Assistant Director

Anticipated completion date: Unknown

Agency's Response: Concur

We have an established process in place for monitoring legislation. On multiple occasions, we have advised that these transfers were not consistent with established Federal cost principles and would result in an obligation to the Federal government. Until the State changes its approach to the transfer of monies, there will likely continue to be disallowed costs which will require repayment with applicable interest.

This is a cross-cutting finding and is appropriately being addressed with the U.S. Department of Health and Human Services, Cost Allocation Services (U.S. HHS) for the payment and appropriate resolution of the questioned costs. We agree and commit to continue to work with the DHHS-CAS and appropriate bodies within the State, to the best of our ability, to find an equitable resolution to this issue.

Example of a financial corrective action plan:

Four State agencies had deficiencies in their processes for managing and documenting IT risks, which may put operations and IT systems and data at unintended and unnecessary risk of potential harm.

Agency: Arizona Department of Administration (ADOA)

Name of contact person and title: Ashley Retsinas, ADOA Assistant Director

Completion date: June 30, 2024

Agency's Response: Concur

The State is actively working to correct all issues related to the analyzing, managing and documenting of IT risks and identification, classification, and inventorying of sensitive information on the State's IT systems. Policy, processes and procedures have been implemented or are being developed to address any gaps. Each agency has developed a detailed corrective action plan to address this finding and will work with Department of Administration-Arizona Strategic Enterprise Technology Office as needed to implement recommendations in accordance with State-wide prescribed policies and procedures.

Directions for writing a corrective action plan:

1. Indicate the **strategy**- the specific means, methods, or approach to solving the identified issue.
2. List the **major actions** that must be taken to implement the strategy. They should be listed in order of completion. In articulating the actions, stay focused on the big picture, naming only the most significant to achieve resolution. However, the owner of a specific action step may wish to add detail to the internal action plan to guide his or her particular work.
3. The actions should be written such that they indicate the **measures of implementation** that tell when the action step or strategy is fully realized or carried out.
4. Ensure the CAP is sent to federalgrants@azdoa.gov for any findings and copy the auditors.

As you prepare to write a response consider the following common issues with responses:

- Over-promise – If a law change is required, ensure research is done on how that would be achieved and the probability it can be done.
- Under-promise – Federal grantors review the plans, if the plan does not adequately address the issue, the grantor will require additional actions. Additionally, the finding will not be resolved and will occur again.
- Unrealistic time frame – Resolutions that involve outside vendors etc. will likely take a lot of planning, more people involved, and external processes. Even internal corrections can be difficult to complete timely as it may require coordination between multiple departments. It is important to do the legwork before committing to a resolution timeframe. If an anticipated completion date is given and not met, additional explanations are required.
- Does not address the issue – The response should be concise and address the actual issue/cause of the finding. If the issue is there are no desktop procedures, the plan should be getting the procedures written and distributed.
- Too much detail – The response should address the required elements and be as concise as possible. Again, if the issue is there are no desktop procedures, the plan should be getting the procedures written and distributed. The Federal grantor does not need to know the location of the procedures. When the audit team follows up they may ask that question, but that is part of the audit work, do not include it in the response.

CAP template:

Audit Finding Number:

Assistance listing number and program name: *delete this line if **not** a federal finding*

Agency:

Name of contact person and title:

Anticipated Completion Date:

Agency Response:

Corrective Action Plan:

If you have any questions, please contact GAO at FederalGrants@azdoa.gov.