

## Eye on ED Podcast – Episode 11: Nonfederal Audits and the OIG

**[Ryan]** The U.S. Department of Education administers most Federal education assistance throughout the United States and its territories. Its annual budget is about \$79 billion, most of which is provided to States, local school districts, colleges, and universities. The Department administers some 100 programs that involve approximately 60 State and territorial educational agencies, 13,000 public school districts, 128,000 schools, and numerous other grantees and subgrantees. So how do taxpayers—whose hard-earned dollars provide the funding for these programs—know that the entities that receive these funds expended them as required? We'll tackle that subject right here, right now, in this episode of Eye on ED.

**[Music Intro]** This is Eye on ED, the official podcast of the U.S. Department of Education Office of Inspector General where you'll find the latest news about our audits, investigations, and efforts to find and stop fraud, waste, and abuse in Federal education programs, operations, and funding.

**[Ryan]** Welcome everyone to Eye on ED, the official podcast of the U.S. Department of Education, Office of Inspector General. I'm your host Ryan Traher.

I threw a lot of numbers at you in that opening and I won't hold you to memorizing them, but I wanted to give you a frame of reference for what we're covering today. Whether you are a regular Eye on ED listener or you're new to our podcast, you know that the Federal offices of Inspectors General are often called the government's watchdogs as our statutory mission is to help ensure that our agency's programs and operations are carried out as intended, are reaching the intended recipients, and achieving the desired results.

In past Eye on ED episodes we've talked about activities that help us meet our mission—namely audits and investigations. But there is something else that we do to help meet our statutory mission, and that's our nonfederal audit activities. And this is where those numbers I mentioned earlier come into play. With the thousands of entities like school districts and universities that participate in Federal education programs and receive Federal education funds, it's impossible for the OIG to audit every single one. That's why we—like other oversight entities of grant making agencies—rely on state and local auditors – referred to as nonfederal auditors -- to regularly check up on entities receiving Federal funds to make sure they expended those funds appropriately. And the work nonfederal auditors do really matters, as often it's the only way the Federal government has assurance that recipients of Federal funds comply with laws, regulations, and other requirements for Federal awards.

The OIG plays a vital role in nonfederal audit work— providing oversight, quality assurance, and producing critical materials and guidance to help nonfederal auditors conduct their reviews.

So let's dive into the world of nonfederal audits! To help us do so, we have the two people who lead our Nonfederal Audit Team, Director Mark Priebe and Assistant Director Amy Bales. Mark, Amy, welcome to Eye on ED.

**[Mark]** Of course, Thanks for having us, Ryan.

**[Amy]** We're happy to be here and ready to get started.

**[Ryan]** Alright—let's jump right in! So what exactly *is* a nonfederal audit, and are there different types of non-federal audits for different types of Department of Education funds and programs?

**[Mark]** Great question Ryan, so, for our purposes, a non-federal audit is any audit of an entity administering Federal funds that is performed by either a public accounting firm or a state auditor. And like you said in the beginning, Ryan, the Department has a budget of more than \$79 billion dollars and hundreds of thousands of program participants [and] therefore the Department needs to rely on annual audits for monitoring how that money is spent.

**[Amy]** And yes, Ryan, there are different types: entity-wide audits and audits of specific Department programs. Most entities that receive Department funds are required to have an annual entity-wide audit that covers their entire operations, where Federal programs selected for testing based on risk. That one audit is called a “single audit”, creative I know, and it applies to any State, local government, or nonprofit spending a certain amount annually. The Department has also established program audit requirements for certain entities that participate in the Federal student aid programs, such as for-profit schools, foreign schools, and the servicers that help schools administer their programs, since single audits don't apply to these entities.

**[Ryan]** Thank you both and what is the OIG's role in these nonfederal audits?

**[Amy]** Well, we're responsible for making sure these audits are reliable tools that show that the entity accounted for and expended Federal education funds as required. That starts with developing clear and effective audit guidance for the compliance requirements that the Department expects to be covered in an annual audit. We also provide support and guidance to auditors and working with the non-federal community, including other agencies and auditor associations, to improve audit quality.

**[Mark]** And I'd like to add that the primary way that we assess the quality and reliability of these nonfederal audits is through desk reviews and quality control reviews.

**[Ryan]** Oh, interesting. So, tell us more about the desk reviews and quality control reviews—what's the difference between the two and how do you determine the results of those reviews?

**[Mark]** Okay, so in a desk review, what we're doing there is reviewing and analyzing the report package submitted by the grantee that received the funds. We want to make sure that it has the necessary elements for the Department to identify areas of concern and to take action in resolving those audits. Now in a quality control review, we're actually taking a deeper dive into an audit, we're looking at the underlying audit documentation—like the auditor's work papers, and we're

checking to see if the auditor is performing their work in accordance with auditing standards and Federal requirements.

**[Amy]** And although there's different objectives for both desk reviews and quality control reviews, for both types of reviews, we're trying to identify first whether there are problems with the performance of or the reporting on the audit and second whether any follow up work is needed now or possibly just in future engagements. And, based on the answers to those questions, we'll assign a rating of Pass, Pass with Deficiencies, or Fail.

**[Ryan]** Can you go more into what each of those ratings mean?

**[Amy]** Sure. We use a Pass rating when we identify no audit quality deficiencies. If we find something that we just want to bring to the auditor or auditee's attention to fix in the future, we'll assign a Pass with Deficiencies rating and accept the audit as-is. However, when we find audit quality issues that affect the reliability of the audit, we assign a Fail rating and require corrective action for the audit under review.

**[Ryan]** And who is responsible for making sure the corrective actions happen?

**[Amy]** Well, if we decide that a corrective action is needed now, to support the audit we looked at, then we will have the auditor perform the corrective action and provide evidence of actions taken so that we can determine if the problem has been fixed. If we identify a problem that we tell an auditor or auditee to fix going forward, it's up to them to implement the corrective action, but I'd say there's a little more than random chance at getting selected again for another review.

**[Ryan]** So, what are the consequences of a fail rating?

**[Mark]** Okay, so at first I want to point out that we're always going to provide an auditor or auditee with an opportunity to fix their mistakes. Most of the time, they are willing and eager to do so. In those cases, nothing really happens beyond us notifying the Department that we found the audit to be acceptable. When necessary, we can refer auditors to the AICPA and State Boards of Accountancy for additional review. We've seen these associations impose disciplinary actions. On the rare occasion that we just can't get a reliable and supported audit, we will recommend that the Department not accept the audit, which could result in the department taking administrative action against the auditee.

**[Ryan]** Interesting. So, what could those administrative actions include?

**[Mark]** Well, the Department could subject an auditee to additional monitoring, put restrictions on drawdowns or withhold Department funds all together, or even suspend or terminate the auditee's participation in the program. So the consequences for receiving a fail rating or not taking corrective actions can have a pretty significant impact on both the nonfederal auditor and the audited entity.

**[Ryan]** Okay, you mentioned that you also produce audit guidance and provide technical assistance to nonfederal auditors. Tell us more about that.

**[Amy]** Well now you're talking about my favorite topic, so I'll take this one. We're tasked with developing audit guides for those department programs that are administered by foreign and for-profit entities. The programs that currently have those types of audit requirements attached to them are the Title IV Federal student aid programs (think Direct Loans and Pell Grants) and the pandemic relief money that went to postsecondary institutions, called Higher Education Emergency Relief Fund grants, or HEERF. And last, but not least, we have guides for audits of lenders and servicers that were involved in the previous Federal Family Education Loan or FFEL programs for private lenders that existed before 2010 when the Direct Loans came into play.

**[Mark]** And I can certainly attest that's Amy's favorite area in the non-federal world. But to add a little more to that – when we issue a new audit guide, we try to get out into the community as much as we can to talk about it. We often present at the annual Federal Student Aid Training Conference and other conferences put on by a number of associations. Auditors or schools can also contact our office directly via our website.

**[Ryan]** Wow, so you all are not just in your offices you're in the community engaging the people performing this work and making yourselves available to them.

**[Mark]** Exactly, we try to stay involved as much as possible so that we're aware of and can respond to topics impacting nonfederal audits. One example is our fraud reporting guide, which summarizes fraud reporting requirements relevant to entities receiving pandemic relief funds. And if you're interested you can find this guide on our website. I would like to add that with the issuance of our 2023 proprietary school audit guide we also have made our checklists available to help both auditors and auditees ensure they are covering all the necessary elements in the audit.

**[Ryan]** Wow sounds like there's a lot of information available on our website. We'll be sure to add a link to it. Now, this is always one of my favorite questions, what's the most rewarding part of what you do?

**[Mark]** Oh, great question, thanks for asking. For me the most rewarding part is ensuring the Department is receiving quality audits and can rely on the data provided in the audits to aid them in monitoring the Federal dollars expended by the grantees.

**[Amy]** And, I'd say that the most rewarding part is overcoming challenges. Whether it's the issuance of an audit guide that's the result of a year's worth of work or having a breakthrough with an auditor who was struggling with an aspect of their audit.

**[Ryan]** And what would you say is the most challenging part?

**[Mark]** Oh, my favorite question of all. I would say the most challenging is the ever-changing landscape of audits and auditors. Policies and procedures are always being updated and it

becomes a challenge to stay up to date with all of those changes. That's why we always encourage auditors and auditees to check our website where they'll find the most up-to-date information.

**[Amy]** For me, the most challenging part is when we come across an auditor that's just in over their head and didn't know what they'd signed up for. We do what we can do get auditors to utilize the resources available to them through us or other organizations, but ultimately it's an auditor's responsibility to only take on work when they are competent to perform it. That competence is gained from experience, so a firm performing one audit per year is more likely to have audit quality deficiencies and can really benefit from the resources we provide. We're here to provide support.

**[Ryan]** Alright, let's talk takeaways. What would you say is the biggest takeaway you'd like the public to know about our nonfederal work?

**[Amy]** Well Ryan, I think it's important for the public to know there are auditors looking at how tax dollars are spent in your community. It takes a real "boots on the ground" approach to get that sort of coverage. These audits are important to agencies that administer the programs because they'll use that information to assess an entity's ability to manage Federal funds, make sure that the entity takes appropriate corrective action to address audit findings, and also to plan oversight efforts.

**[Ryan]** Thanks Amy, and what are some good takeaways for nonfederal auditors?

**[Mark]** For me, I'd say we really are here to help our auditors. Over the last several years, we've really pushed to be more visible in the community so that auditors feel more comfortable reaching out to us. I want to highlight that we do listen and have taken feedback from the community to make meaningful changes. For example, the most recent updates to the Title IV audit guide and other resources available for auditors to use, such as recorded trainings, and quality assurance tools.

**[Ryan]** Where can people learn more about our nonfederal work?

**[Amy]** Well, this is where we get to plug in our website again. So, check out [oig.ed.gov](https://oig.ed.gov) for all of these resources. There you're going to find OIG's Semiannual Report to Congress, where we summarize our activities and the results of our reviews twice a year. We also have a dedicated Non-Federal Audits page where you can find audit guides, tools, and other resources. And if you're interested in looking at one of these nonfederal audits, go over to the Federal Audit Clearinghouse at [fac.gov](https://fac.gov) to look up the single audit for your state, your kids' school district, and maybe your alma mater as well.

**[Ryan]** Oh, alright I'll have to look up my own school district after this. Mark, Amy I want to thank you both for being here today and for sharing this information with us. As public servants in the oversight community, we never forget who we're working for. That's why we're always striving to meet our oversight mission and our nonfederal audit work is a big part that. I really appreciate your being here today and highlighting this important work.

**[Amy]** Absolutely – thank you.

**[Mark]** Thanks for having us Ryan, I’m always happy to discuss what we do here on the Nonfederal Team.

**[Ryan]** And thanks to our listeners for tuning in! Remember you can learn more about our nonfederal audit activities on our website—just click the Nonfederal Audits button at the top of the page. And be sure to follow us on Facebook, Twitter, and LinkedIn to keep up with all our work and efforts.

Until next time, I’m Ryan Traher with the U.S. Department of Education, Office of Inspector General, and this has been Eye on ED.