



UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF INSPECTOR GENERAL

AUDIT SERVICES

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Tim Soltis
Delegated to Perform Functions and Duties of the Chief Financial Officer
Office of the Chief Financial Officer
U.S. Department of Education
400 Maryland Avenue, S.W.
Washington, DC 20202

Dear Mr. Soltis:

This **Final Audit Report**, titled *Audit of the Department's Followup Process for External Audits*, presents the results of our audit. The objective of the audit was to evaluate the effectiveness of the Department of Education's (Department) process to ensure that external auditees implement corrective actions as a result of Office of Inspector General (OIG) audits.

BACKGROUND

Office of Management and Budget (OMB) Circular A-50, "Audit Followup," provides the requirements for establishing systems to assure prompt and proper resolution and implementation of audit recommendations. The Circular provides that audit followup is an integral part of good management, a shared responsibility of agency management officials and auditors, and management's corrective action on resolved findings and recommendations is essential to improving the Government's effectiveness and efficiency. Agencies are responsible for establishing systems that provide a complete record of actions taken on findings and recommendations to assure that audit recommendations are promptly and properly resolved.

The Circular requires that each agency designate a top management official to oversee followup, including resolution and corrective action. The Department's designated followup official is the Chief Financial Officer (CFO). Within the Office of the Chief Financial Officer (OCFO), the Post Audit Group (PAG) is responsible for assisting the CFO in the audit followup process.

The Department established the “Handbook for the Post Audit Process” (OCFO-01), dated June 22, 2007 (Handbook), to provide policies and procedures for the resolution and followup of internal and external audits of Department programs, activities, and functions. External audits are of external entities that receive funding from the Department, such as State educational agencies, local educational agencies, institutions of higher education, contractors, and nonprofit organizations. External OIG audit reports generally include recommendations for Department management to require the external entity to take corrective action. These recommendations may be either monetary, which recommend that the entity return funds to the Department, or nonmonetary, which recommend that the entity improve operations, systems, or internal controls. The audit resolution process begins with the issuance of a final audit report.

An external audit is considered resolved when the Department issues a program determination letter to the external entity that is agreed to by the OIG. Upon resolution, the Department is responsible for followup to ensure that corrective actions are actually taken. An audit is considered closed when the Department ensures that all corrective actions have been implemented including funds repaid or settlement made.

The Handbook provides that the CFO is responsible for ensuring that a system of cooperative audit resolution and followup is documented and in place, including followup to ensure corrective actions are implemented.

The Handbook notes specific responsibilities of the Assistant Secretaries or designated Action Officials (AO) that include:

- Determining the action to be taken and the financial adjustments to be made in resolving findings in audit reports concerning respective program areas of responsibility,
- Monitoring auditee actions in order to ensure implementation of recommendations sustained in program determinations, and
- Maintaining formal, documented systems of cooperative audit resolution and followup.

The Handbook also defines roles and responsibilities for PAG that include:

- Ensuring that AOs have appropriate audit followup systems in place and that these systems are being effectively used,
- Monitoring the Department's compliance with OMB Circular A-50, and
- Ensuring the overall effectiveness of the Department’s audit followup system.

The Handbook specifies that accurate records must be kept of all audit followup activities, including all correspondence, documentation and analysis of documentation. The Department’s Audit Accountability and Resolution Tracking System (AARTS) is a web-based application designed to assist Department management with audit followup and closure.

In March 2005, the OIG issued a report entitled: “Audit of the Department of Education’s Followup Process for External Audits,” (Control Number ED-OIG A19D0007). OIG reported that PAG did not fulfill its responsibilities to ensure that AOs had systems in place to follow up on corrective actions, monitor the Department’s compliance with OMB Circular A-50, and

ensure the overall effectiveness of the Department's audit resolution and followup system. In addition, OIG found that audits were closed prior to completion of corrective actions. As a result of these findings, OIG concluded that the Department did not have assurance that requested corrective actions were completed and risks remained that related programs were not being effectively managed and Department funds were not being used as intended.

This report presents the results of our audit of the Department's audit followup process for external OIG audits. It combines the results of work conducted within four principal offices (POs). In conducting this audit, separate reports were issued to POs with responsibility for audit resolution and followup for the audits included in our scope. A listing of these reports is included as Attachment 2 to this report. The following POs were included in our audit:

- Federal Student Aid (FSA)
- Office of Elementary and Secondary Education (OESE)
- Office of Special Education and Rehabilitative Services (OSERS)
- Office of the Chief Financial Officer

A listing of the audits reviewed is included as Attachment 3 to this report.

AUDIT RESULTS

We found that the Department's audit followup system was not always effective. PAG did not fulfill its responsibilities to ensure that AOs had systems in place to follow up on corrective actions, monitor the Department's compliance with OMB Circular A-50, and ensure the overall effectiveness of the Department's audit resolution and followup system.

We noted that the Department closed 241 OIG external audits between October 1, 2008 and September 30, 2015. Of the 241 closed audits, 169 (70 percent) were closed more than 2 years after resolution, 93 (39 percent) were closed more than 5 years after resolution, and 29 audits (12 percent) were closed more than 7 years after resolution. In addition, adequate documentation was not maintained for 75 out of 126 recommendations (60 percent) in the 28 closed audits we reviewed, to include monetary corrective actions totaling \$8,471,024.

As a result, the Department did not have assurance that requested corrective actions were taken and that the issues noted in the OIG audits were corrected. Not ensuring that corrective actions are taken as quickly as possible allows identified deficiencies to continue to exist. As such, the risk remains that related programs may not be effectively managed and funds may not be used as intended.

In its response to the draft audit report, OCFO concurred with all but one of the recommendations. Specifically, OCFO did not concur with recommendation 1.7 with regard to modifying AARTS so that only PAG staff are authorized to close audits in the system after the issuance of a closure memorandum. OCFO stated that it believed this would disassociate

accountability and responsibility that AOs currently have to ensure that the grantee takes appropriate corrective action and also to close out actions when they are deemed completed.

OCFO stated that it takes the responsibility of audit followup very seriously but acknowledged that further improvements are needed, especially with respect to ensuring that AOs have appropriate audit followup systems in place and are closing audits timely. OCFO stated that it intends to more vigorously review and assist offices to ensure timely closure and maintenance of effective documentation of both Single Audit and ED-OIG external audit findings.

OCFO's comments are summarized at the end of the finding. As a result of OCFO's comments, we did not make any changes to the audit finding or the related recommendations. The full text of OCFO's response is included as Attachment 4 to this report.

FINDING NO. 1 – The Department's Audit Followup Process Was Not Always Effective

The Department's PAG did not fulfill its responsibilities to ensure that the Department's audit followup system for external OIG audits was operating effectively. Specifically, we found that PAG did not effectively:

- Ensure that Action Officials had systems in place to follow up on corrective actions,
- Monitor the Department's compliance with OMB Circular A-50, and
- Ensure the overall effectiveness of the Department's audit resolution and followup system.

Timeliness of Audit Closure

During our review, we evaluated the Department's AARTS data to determine the number of external OIG audits that were closed between October 1, 2008 and September 30, 2015. We noted that the Department closed 241 audits during this time period. Of the 241 closed audits, 169 (70 percent) were closed more than 2 years after resolution, 93 (39 percent) were closed more than 5 years after resolution, and 29 audits (12 percent) were closed more than 7 years after resolution. The total of the monetary recommendations associated with the 241 audits was \$2,444,490,404 as depicted in Table 1.

Table 1. Count and Percentage of Closed Audits by Elapsed Time Between Resolution and Closure

<u>Elapsed Time</u>	<u>Number of Audits</u>	<u>Percentage of Audits</u>	<u>Total of Monetary Recommendations</u>	<u>Percentage of Monetary Recommendations</u>
Greater than 84 months	29	12%	\$35,700,120	1%
73 to 84 months	24	10%	\$23,730,260	1%
61 to 72 months	40	17%	\$206,327,030	8%
49 to 60 months	25	10%	\$42,625,903	2%
37 to 48 months	29	12%	\$405,699,468	17%
25 to 36 months	22	9%	\$5,679,401	0%
Less than 25 months	72	30%	\$1,724,728,222	71% ¹
Total	241		\$2,444,490,404	

Further, we noted that median timeliness of audit closure was 1,174 days for the most recent fiscal year. While that appears to be an improvement from the prior year, time between audit resolution and closure has not shown consistent improvement, as depicted in Table 2, and still needs continued focus.

Table 2. Median² Days Between Audit Resolution and Closure by Fiscal Year

Fiscal Year of Audit Closure	Number of Closed Audits	Median Number of Days Between Audit Resolution and Closure
2009	20	1,093
2010	20	1,228
2011	7	611
2012	38	2,090
2013	40	1,365
2014	64	2,242
2015	52	1,174

¹ The audit *Special Allowance Payments to Nelnet for Loans Funded by Tax-Exempt Obligations* (ED-OIG/A07F0017) represents \$1,160,000,000 (67 percent) of the \$1,724,728,222 total for audits that had an elapsed time of 2 years or less.

² We used the median to reduce the potential impact of extreme values.

Documentation of Audit Followup Activities

We also found that POs did not always adequately maintain documentation of audit followup activities. This included not maintaining supporting documentation of corrective actions in the official audit file as well as not maintaining documentation that supported that requested corrective actions were actually taken prior to audit closure. We reviewed audit followup activities in four of the Department's POs, to include a nonstatistical sample of 31 resolved and closed audits.³ Of these 31 audits, 22 were closed between October 1, 2008 and September 30, 2013, while 6 were closed during our audit fieldwork. Three of the selected audits remained in resolved status at the completion of our fieldwork. For the 28 closed audits, the POs determined that 126 recommendations required corrective actions, to include \$31,607,083 in monetary corrective actions. We found that PO files did not adequately maintain documentation for 75 out of 126 recommendations (60 percent), to include monetary corrective actions totaling \$8,471,024. Additionally, for two of the three audits that were not yet closed, the PO was not able to provide documentation to support that any followup activities were taking place since the audits were resolved. Resolution dates for these audits were August 2010 and March 2011.

Of the 75 recommendations for which POs did not adequately maintain documentation, we found that 40 (53 percent) were attributable to audits associated with entities that have been designated by the Department as either high-risk or active engagement grantees. We found that audit followup and closure of these audits was a collaborative effort between the Department's Risk Management Services (RMS) and the PO designated in AARTS as the primary or lead office for the applicable audits. This PO noted that it did not have access to the RMS files and therefore could not ensure appropriate supporting documentation was maintained to support completion of corrective actions. Additionally, this PO noted that in some audits it may be assigned as the lead office for followup and closure but other principal offices are assigned responsibility for following up on specific findings/recommendations within the audits. The PO stated that it may complete work on its assigned findings, but it does not have the authority to require timeframes within which other POs must complete work on theirs. This PO noted that there is a disconnect in the process under these circumstances as the lead office is given responsibility for something that it does not have complete control over.

We noted that some PO staff were not familiar with the Department's related audit followup policies and procedures and there appeared to be a general lack of understanding of requirements. POs also noted that followup and closure activities were not the individuals' primary responsibilities and as such did not appear to be a priority. One PO added that there has been an emphasis on the resolution of audits rather than the followup and closure of audits. Another PO stated that many of the selected audits were closed in terms of verifying that all

³ We selected the three POs with the largest number of audits closed between October 1, 2008 and September 30, 2013. We also selected one PO based on the low proportion of audits closed to the large number of audits resolved during the same time period. This resulted in selected audits that were still in resolved status during our audit fieldwork. Selected audits included those with monetary recommendations totaling \$5 million or greater. In addition, we selected an audit from a grantee designated by the Department as high-risk that had significant monetary findings albeit less than the threshold noted.

corrective actions have been taken by the entity. However, there were weaknesses in its process in terms of documenting and officially closing these audits in AARTS.

OMB Circular A-50, "Audit Followup," states that each agency shall establish systems to assure the prompt and proper resolution and implementation of audit recommendations. These systems shall provide for a complete record of action taken on both monetary and nonmonetary findings and recommendations. It further states that corrective action is essential to improving the effectiveness and efficiency of Government operations and should proceed as rapidly as possible. It adds that the Audit Followup Official (AFUO) has personal responsibility for ensuring that systems of audit followup, resolution, and corrective action are documented and in place and that corrective actions are actually taken.

The Handbook, Section V, Chapter 1, Part D, states the CFO is the designated AFUO for the Department of Education. The Handbook also states the AFUO is responsible for ensuring that a system of cooperative audit resolution and followup is documented and in place, including followup to ensure corrective actions are implemented.

Part F of the same chapter states that PAG within OCFO provides support to the AFUO. The Guide further states PAG/OCFO is responsible for monitoring the Department's compliance with OMB Circular A-50, Audit Follow-up.

Section III, "External Audits," Chapter 5, Part B, of the Handbook states:

Primary responsibility for following up on non-monetary determinations rests with AOs, who must have systems in place to ensure that recommended corrective actions are implemented by auditees. PAG/OCFO has responsibility for verifying that AOs have systems in place to followup on corrective actions and ensuring overall effectiveness of ED's [Department of Education's] audit resolution followup system.

This section also states, "Accurate records must be kept of all audit follow-up activities including all correspondence, documentation, and analysis of documentation."

OCFO policies and procedures, "Revised Procedures for the Closure of ED-OIG External Audits," dated June 3, 2008, states that when all corrective actions have been implemented and all recommendations completed, the Action Official or Action Official designee should request closure of the audit report by submitting a Request for Closure Memorandum to the Director of PAG/OCFO. The Request for Closure Memorandum should state at a minimum that (1) all non-monetary corrective actions have been implemented, (2) there are no outstanding collections or active appeals, if applicable, (3) there is adequate documentation to support implementation of all non-monetary corrective actions, and (4) the documentation is available for review.

The procedures further state that PAG will perform a review of the PO's supporting documentation of corrective action taken. PAG will approve or deny the PO's request for audit closure based upon its review of the supporting documentation.

With regard to timeliness, the Director of PAG stated that PAG does not have a process in place to periodically review the status of audits to ensure audits are closed timely. Similarly, there is no policy that addresses the roles and responsibilities of PAG and affected POs, to include RMS, when there is more than one PO assigned to an audit.

As a result of our previous external audit followup work,⁴ in July 2007 PAG implemented a process to review PO audit resolution files to ensure that appropriate documentation had been obtained to assure that corrective actions were completed. PAG's process required this review to be conducted before audits could be considered closed and a closure memo issued. However, we noted several weaknesses with this process, as follows.

We found that 16 of the 28 (57 percent) closed audits we reviewed from the selected POs did not have adequate supporting documentation provided as part of the closure package submitted to PAG. Of the 28 closed audits in our sample, 102 of the 126 (81 percent) recommendations that required corrective action did not have appropriate support cited and attached to the Documentation Review Sheet. Further, we found no evidence that PAG requested additional information prior to approving closure. Examples of documentation accepted by PAG as adequate to close the audits are noted below.

- In one audit, the Documentation Review Sheet noted the "Final Audit Report" was being provided as the supporting documentation for all of the recommendations requiring corrective action. According to an explanation provided to us by RMS during our review, the appropriate support should have been a copy of a third party fiduciary agreement and related statement of work.
- In four audits, the Documentation Review Sheet noted the Program Determination Letter (PDL) was being provided as support for closure of monetary and nonmonetary corrective actions. As the PDL is the document that communicates the corrective actions that need to be taken, it would not provide support of completion of the corrective actions.
- In one audit, the PO submitted supporting documentation that had already been submitted by the auditee prior to issuance of the PDL and deemed by the PO to be insufficient as evidence that corrective action was taken.
- In one audit, we found that 4 of the 12 recommendations requiring corrective actions (33 percent) were not addressed by the PO in the Documentation Review Sheet.
- In another audit, the PO provided single audit reports⁵ as supporting documentation that did not specifically address the OIG audit recommendations.

⁴ Audit of the Department of Education's Followup Process for External Audits, ED-OIG/A19D0007, issued March 2005.

⁵ Single audits require comprehensive testing of compliance and internal controls over federal programs for entities expending annual federal assistance equal to or in excess of \$500,000 (\$750,000 for fiscal years beginning on or after December 26, 2014). These audits may be performed by an independent public accountant selected by the entity.

We also found that PAG did not always initial and date the Documentation Review Sheet to show that it had reviewed and accepted the supporting documentation submitted by the PO prior to the issuance of the closure memorandum. We noted that only 4 of the 28 audits (14 percent) had evidence of PAG review and approval on the Documentation Review Sheet, and only 1 of the 28 audits (4 percent) had a Documentation Review Sheet that was dated. In addition, we found 4 audits that were closed without a closure memorandum.

Further it appears that the associated PAG guidance provided some inappropriate examples of supporting documentation for corrective action completion. In a sample closure package provided by PAG to POs, dated June 3, 2008, the example of supporting documentation provided was a letter from the external auditee to the Department stating the corrective actions that had been taken. However, this alone does not provide support that the Department verified that the auditee actually implemented the corrective actions.

According to former staff, the validation process was created to provide an objective review process to ensure corrective action was taken. However, a former PAG Director streamlined the process, making it clerical in function. The current director of PAG stated that the process to validate the supporting documentation for audit closure is administrative only. The Director and PAG staff noted that they rely on the documentation submitted by the program offices and simply validate that something has been provided as support for audit closure. The Director of PAG noted that AOs have the ability to close audits at any time in AARTS since there are no system controls restricting when an audit can be closed. During the exit conference, OCFO noted that it is in the process of updating the AARTS system controls so that only PAG can close an audit in AARTS.

Lastly, it appears that OCFO did not complete prior corrective actions as a result of our previous external audit followup work.⁶ Specifically, as part of its identified correction actions in response to our prior audit, PAG stated it would develop and implement a process to periodically evaluate the appropriateness of the PO followup systems for external OIG audits. It also noted it would develop and implement procedures to periodically report on the adequacy of AO systems for followup on external corrective actions, and the overall effectiveness of the Department's external audit followup system, based on the reviews of audit followup documentation and any other related factors currently tracked by the Department. According to the Director of PAG, a formalized evaluation process has not been implemented and there are no processes in place to periodically report on the adequacy of the external audit followup system.

Following the exit conference, OCFO provided additional information related to efforts to improve the audit followup process. Specifically, in the Fiscal Year (FY) 2015 Federal Managers' Financial Integrity Act (FMFIA) Assurance Statement, dated September 30, 2015, OCFO noted that, based upon the series of reports that OIG issued related to this audit during FY 2015, timely and well documented external audit followup activities remain a significant deficiency for OCFO and the Department. OCFO noted efforts were being made to remediate timeliness and documentation deficiencies with external audit followup during FY 2016, to include improvements made to the timeliness of audit resolution which will allow them to focus

⁶ See footnote 4.

additional efforts on the audit followup and closure process and enhancements to AARTS to enable electronic record-keeping. OCFO stated it has reorganized PAG to improve management oversight and decrease the ratio of line staff to supervisors and began a new outreach initiative to better integrate audit followup with grant monitoring functions across the Department. OCFO also noted that it continues to leverage the potential of the Audit Governance Panel⁷ to improve audit followup activities, and plans to expand the Panel's focus beyond the resolution of OIG external audits to all aspects of audit followup.

As stated in the Department's Handbook, "The effectiveness of the post audit process depends upon taking appropriate, timely action to resolve audit findings and their underlying causes, as well as providing an effective system for audit close-out, record maintenance, and followup on corrective actions." As a result of our review, we found the Department was not in compliance with OMB Circular A-50 and its audit followup system for external audits was not always effective. The Department did not have assurance that requested corrective actions were taken and that the issues noted in the OIG audits were corrected. Not ensuring that corrective actions are taken as quickly as possible allows identified deficiencies to continue to exist. As such, the risk remains that related programs may not be effectively managed and funds are not being used as intended.

Recommendations

We recommend that the CFO:

- 1.1 Develop and implement a process to periodically evaluate the appropriateness of the PO followup systems for external OIG audits, to include tracking timeliness of closure.
- 1.2 Develop and implement procedures to periodically report on the adequacy of AO systems for followup on external corrective actions and the overall effectiveness of the Department's external audit followup system, based on the reviews of audit followup documentation, timeliness of audit closure, and any other related factors currently tracked by the Department.
- 1.3 Develop and implement guidance with regard to the audit followup and closure of audits involving multiple principal offices, to include PAG's involvement in facilitating and getting involved as necessary to ensure the timely closure of external audits. Also address documentation requirements to ensure the office responsible for closure has all appropriate supporting documentation.
- 1.4 Revise the procedures for closure to include appropriate examples of supporting documentation.
- 1.5 Provide training to PO audit resolution staff on the requirements for audit followup and closure, including the new guidance noted above and the documentation that should be

⁷ The Audit Governance Panel was established in 2012. It is a committee chaired by the PAG Director and comprised of representatives from the Department's POs. The team's original purpose was to address the significant backlog of unresolved ED-OIG audits.

maintained and provided with the Documentation Review Sheet to provide assurance that corrective actions are taken.

- 1.6 Ensure PAG staff accept from POs only documentation that adequately supports completion of the stated corrective action items prior to closing audits.
- 1.7 Modify AARTS so that PAG staff are the only individuals authorized to close audits in the system after the issuance of a closure memorandum.

OCFO Comments

In its response to the draft audit report, OCFO concurred with recommendations 1.1 through 1.6 but did not concur with recommendation 1.7. Specifically, OCFO did not agree with modifying AARTS so that only PAG staff are authorized to close audits in the system after the issuance of a closure memorandum. OCFO believed this would disassociate accountability and responsibility that AOs currently have to ensure that the grantee takes appropriate corrective action and also to close out actions when they are deemed completed. OCFO stated that it was not aware of any instances where a PO actually closed an audit prior to submitting a request for closure to and receiving approval from PAG. OCFO noted that it believed additional oversight, training, and support provided by OCFO will be sufficient to strengthen internal controls over audit closure.

OCFO stated that it takes the responsibility of audit followup very seriously and noted that audit followup has been incorporated into the Department's Strategic Plan and Organizational Performance Review processes. OCFO added that over the last few years priority has been given to the timely resolution of external audits, stating that the Department has reduced the percentage of overdue external audits, but acknowledged that further improvements are needed, especially with respect to ensuring that AOs have appropriate audit followup systems in place and are closing audits timely. OCFO noted that it intends to more vigorously review and assist offices to ensure timely closure and maintenance of effective documentation of both Single Audit and ED-OIG external audit findings.

OIG Response

We appreciate the efforts noted by OCFO to improve the audit followup process. We considered OCFO's comments regarding recommendation 1.7 but did not make any changes to it. Our position remains that only PAG staff should be authorized to close audits in AARTS after the issuance of a closure memorandum. While OCFO noted that it was not aware of any instances where a PO actually closed an audit prior to submitting a request for closure to and receiving approval from PAG, we identified three audits during our audit fieldwork that were closed in AARTS without a closure memorandum. This issue was communicated to OCFO at that time. OCFO subsequently confirmed the premature closures and noted that these audits were reset to "Resolved" status in AARTS while the applicable POs prepared closure packages and the proper audit closure approval process was followed. OCFO stated it was possible for an audit to be closed in AARTS without going through the PAG closure process because the two closure processes are separate, noting that AARTS is not configured to require that PAG closure be

verified nor is there a regular process to reconcile closure in AARTS and the PAG closure process.

We do not agree that providing PAG with sole authority for closing audits in AARTS would disassociate the accountability and responsibility that AOs currently have to ensure that the grantee takes appropriate corrective action and also to close out actions when they are deemed completed. AOs would still be required to submit an audit closure package to PAG that provides documentation supporting that all actions were completed. PAG is then responsible for approving or denying the AOs request for audit closure based upon its review of supporting documentation. If approved, PAG would issue the closure memo to the PO and PAG would set the audit to closed status in AARTS. This would be an effective and efficient control to prevent a PO from prematurely closing an audit before ensuring actions are completed. It would also assist with AARTS data reliability. As reported in our audit finding, OCFO had noted at the audit exit conference that it was in the process of updating AARTS so that only PAG staff could close an audit.

As a result of OCFO's comments, we did not make any changes to the audit finding or the related recommendations.

OBJECTIVE, SCOPE, AND METHODOLOGY

The objective of our audit was to evaluate the effectiveness of the Department's process to ensure that external auditees implement corrective actions as a result of OIG audits. To accomplish our objective, we gained an understanding of the Department's followup and closure processes for external OIG audits. We reviewed applicable laws and regulations and Department policies and procedures including OMB Circular A-50 and the Department's *Handbook for the Post Audit Process*, dated June 22, 2007. We also reviewed prior OIG audit reports relevant to our audit objective. We conducted interviews with Department staff responsible for following up on corrective actions for the audits selected and audit closure. We also reviewed documentation provided by Department staff to support the corrective actions taken for the recommendations included in our review as identified in the PDL.

The scope of our audit included OIG audits of programs at external entities with monetary or nonmonetary findings that were reported by the Department's AARTS and the OIG's Audit Tracking System (ATS) as closed during the period October 1, 2008 to September 30, 2013.⁸ We identified a total of 136 audits in this universe, as shown by PO in Table 3 below.

⁸ To provide more current analysis of timeliness, we expanded the scope prior to the issuance of this report to include audits closed through September 30, 2015. This resulted in a universe of 241 audits.

Table 3. Audit Reports in the Universe by PO

PO Title	PO Acronym	Number of Closed Audits in the Universe
Office of Elementary and Secondary Education	OESE	87
Office of the Chief Financial Officer	OCFO	29
Office of Special Education and Rehabilitative Services	OSERS	14
Office of the Deputy Secretary	ODS	2
Office of Postsecondary Education	OPE	1
Office of Career, Technical, and Adult Education	OCTAE	2
Federal Student Aid	FSA	1
Total		136

To select audits for review, we identified the three POs with the largest number of audits closed between October 1, 2008 and September 30, 2013. We also selected an additional PO based on the low proportion of audits it closed compared to the large number of audits it resolved during the scope period.⁹ Selected audits from these POs included those with monetary recommendations totaling \$5 million or greater.¹⁰ This resulted in a nonstatistical sample of 31 closed and resolved audits and 232 recommendations for review.¹¹ Of these 31 audits, 22 were closed between October 1, 2008 and September 30, 2013, while 6 were closed during our audit fieldwork. Three of the selected audits remained in resolved status at the completion of our fieldwork. The number of selected audits and recommendations for each PO is shown in Table 4 below. A complete listing of the selected audits is included as Attachment 3 to this report.

Table 4. Selected Audits and Recommendations by PO

PO Title	Number of Selected Closed Audits	Number of Selected Resolved Audits	Number of Recommendations
OESE	14	0	122
OCFO	4	0	37
FSA	1	9	59
OSERS	3	0	14
Total	22	9	232

Because there is no assurance that the nonstatistical sample used in this audit is representative of the respective universe, the results should not be projected over the unsampled audits.

⁹ This resulted in selected audits that were still in resolved status during our audit fieldwork.

¹⁰ We selected one audit from a grantee designated by the Department as high-risk that had significant monetary findings albeit less than the threshold noted.

¹¹ We excluded any internal and non-sustained recommendations included in these audits from further review.

We relied on computer-processed data obtained from the Department's AARTS and OIG's ATS to identify OIG external audits closed during the scope period. We reconciled the data in these two systems to ensure that we captured all audits closed during this period. Based on this assessment, we determined that the computer-processed data were sufficiently reliable for the purpose of this audit.

We conducted fieldwork at Department offices in Washington, DC, during the period February 2014 through February 2016. We provided our audit results to Department officials during an exit conference conducted on February 11, 2016.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

ADMINISTRATIVE MATTERS

Corrective actions proposed (resolution phase) and implemented (closure phase) by your office will be monitored and tracked through the Department's AARTS. Department policy requires that you develop a final corrective action plan (CAP) for our review in the automated system within 30 calendar days of the issuance of this report. The CAP should set forth the specific action items, and targeted completion dates, necessary to implement final corrective actions on the finding and recommendations contained in this final audit report.

In accordance with the Inspector General Act of 1978, as amended, the OIG is required to report to Congress twice a year on the audits that remain unresolved after 6 months from the date of issuance.

In accordance with the Freedom of Information Act (5 U.S.C. § 552), reports issued by the OIG are available to members of the press and general public to the extent information contained therein is not subject to exemptions in the Act.

We appreciate the cooperation given us during this review. If you have any questions, please call Michele Weaver-Dugan at (202) 245-6941.

Sincerely,

Patrick J. Howard /s/
Assistant Inspector General for Audit

Acronyms/Abbreviations/Short Forms Used in this Report

AARTS	Audit Accountability and Resolution Tracking System
AFUO	Audit Followup Official
AO	Action Official
ATS	Audit Tracking System
CAP	Corrective Action Plan
CFO	Chief Financial Officer
Department	U.S. Department of Education
FMFIA	Federal Managers' Financial Integrity Act
FSA	Federal Student Aid
FY	Fiscal Year
Handbook	Handbook for the Post Audit Process
OCFO	Office of the Chief Financial Officer
OCTAE	Office of Career, Technical, and Adult Education
ODS	Office of the Deputy Secretary
OESE	Office of Elementary and Secondary Education
OIG	Office of Inspector General
OMB	Office of Management and Budget
OPE	Office of Postsecondary Education
OSERS	Office of Special Education and Rehabilitative Services
PAG	Post Audit Group
PDL	Program Determination Letter
PO	Principal Office
RMS	Risk Management Services

PO Reports Issued in Conjunction with This Audit

Number	Audit Control Number	Title	Final Report Date
1	A19P0001	Audit of the Followup Process for External Audits in Federal Student Aid	6/17/2015
2	A19P0003	Audit of the Followup Process for External Audits in the Office of Special Education and Rehabilitative Services	9/22/2015
3	A19P0004	Audit of the Followup Process for External Audits in the Office of the Chief Financial Officer	9/28/2015
4	A19P0002	Audit of the Followup Process for External Audits in the Office of Elementary and Secondary Education	12/17/2015

Audit Reports Reviewed in This Audit

Number	Audit Control Number	Report Title	Report Issue Date	PO	Number of Recommendations
1	A07F0017	Special Allowance Payments to Nelnet for Loans Funded by Tax-Exempt Obligations	9/29/2006	FSA	2
2	A02H0008	Touro College's Title IV, Higher Education Act Programs, Institutional and Program Eligibility	10/30/2008	FSA	4
3	A05I0011	Special Allowance Payments to the Kentucky Higher Education Student Loan Corporation for Loans Made or Acquired with the Proceeds of Tax-Exempt Obligations	5/28/2009	FSA	4
4	A05E0017	Special Allowance Payments to New Mexico Educational Assistance Foundation for Loans Funded by Tax-Exempt Obligations	5/24/2005	FSA	5
5	A04B0019	Advanced Career Training Institute's Administration of the Title IV Higher Education Act Programs	9/25/2003	FSA	10
6	A03G0014	Special Allowance Payments to the Pennsylvania Higher Education Assistance Agency for Loans Funded by Tax-Exempt Obligations	11/19/2007	FSA	11
7	A09H0017	Fifth Third Bank's Eligible Lender Trustee Agreements Compliance with Lender Provisions of the Higher Education Act and Monitoring of Entities With Which It Has Agreements	1/5/2009	FSA	5
8	A05C0014	Educational Credit Management Corporation's Administration of the Federal Family Education Loan Program Federal and Operating Funds	3/18/2003	FSA	10
9	A03H0009	Star Technical Institute's Upper Darby School's Compliance with the 90 Percent Rule	8/15/2008	FSA	3

Number	Audit Control Number	Report Title	Report Issue Date	PO	Number of Recommendations
10	A06H0010	Eagle Gate College's Administration of Title IV Student Financial Assistance Programs	9/28/2007	FSA	5
11	A02B0014	Puerto Rico Vocational Rehabilitation Administration	6/26/2002	OSERS	5
12	A02E0009	Puerto Rico Department of Education's Special Education Program Services	12/14/2004	OSERS	3
13	A06F0019	The Department of Interior's Bureau of Indian Affairs Administration of the Individuals with Disabilities Education Act (IDEA) Part B Funds	3/28/2007	OSERS	6
14	A02H0003	Teach for America, Inc., Review of the U.S. Department of Education Discretionary Grant Awards	6/5/2008	OCFO	5
15	A09H0019	Los Angeles Unified School District's Procedures for Calculating and Remitting Interest Earned on Federal Cash Advances	12/2/2008	OCFO	13
16	A02E0008	U.S. Department of Education Funds Disbursed for New York City Department of Education Telecommunication Services	6/14/2005	OCFO	8
17	A06H0002	Review of Project GRAD USA's Administration of Fund for the Improvement of Education Grants	7/21/2008	OCFO	11
18	A02G0002	Audit of New York State Education Department's Reading First Program	11/3/2006	OESE	8
19	A06E0008	Audit of the Title I Funds Administered by the Orleans Parish School Board	2/16/2005	OESE	7
20	A09J0004	Colorado Department of Education's Use of Federal Funds for State Employee Personnel Costs	2/26/2010	OESE	5
21	A09D0018	Charter Schools' Access to Title I and IDEA, Part B Funds in the State of California	3/29/2004	OESE	12
22	A09G0020	Arizona Department of Education's Oversight of the ESEA, Title I, Part A Comparability of Services Requirement	3/26/2007	OESE	11

Number	Audit Control Number	Report Title	Report Issue Date	PO	Number of Recommendations
23	A02D0014	Puerto Rico Department of Education's Title I Expenditures for the Period, July 1, 2002 to December 31, 2002	3/30/2004	OESE	9
24	A02E0031	Wyandanch Union Free School District's Elementary and Secondary Education Act Title I, Part A and Title II Non-Salary Expenditures	9/14/2005	OESE	8
25	A05G0033	Illinois State Board of Education's Compliance with the Title I, Part A, Comparability of Services Requirement	6/7/2007	OESE	8
26	A06G0009	Audit of the Hurricane Education Recovery Act, Temporary Emergency Impact Aid for Displaced Students Requirements at the Texas Education Agency and Applicable Local Education Agencies	9/18/2007	OESE	4
27	A02B0012	Puerto Rico Department of Education Did Not Administer Properly Title I Contracts with National School Services of Puerto Rico for the 1999/2000 and 2000/2001 School Years	9/28/2001	OESE	10
28	A01A0004	Puerto Rico Department of Education Did Not Administer Properly a \$9,700,000 Contract with National School Services of Puerto Rico	3/28/2001	OESE	9
29	A06G0010	Louisiana Department of Education's Compliance with Hurricane Education Recovery Act, Temporary Emergency Impact Aid for Displaced Students Requirements	9/21/2007	OESE	4
30	A04G0015	Audit of Georgia Department of Education's Emergency Impact Aid Program Controls and Compliance	10/30/2007	OESE	9
31	A02C0012	The Virgin Islands Department of Education Did Not Effectively Manage Its Federal Education Funds	9/30/2003	OESE	18



UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF THE CHIEF FINANCIAL OFFICER

May 25, 2016

Patrick J. Howard
Assistant Inspector General for Audit
Office of the Inspector General
550 12th Street, SW
Washington, D.C. 20202

Dear Mr. Howard:

We appreciate the opportunity to respond to your draft report titled *Audit of the Department's Follow-up Process for External Audits*. We take the responsibility of audit follow-up, as directed by OMB Circular A-50, very seriously and, as a result, the Post Audit Group (PAG) within the Office of the Chief Financial Officer (OCFO) has helped focus the Department's attention and resources on following up on both Single Audits and ED-OIG external audit reports. Audit follow-up has been incorporated into the Department's Strategic Plan and Organizational Performance Review processes. Over the last few years priority has been given to the timely resolution of external audits. For example, between FY 2012-2015, the Department reduced the percentage of overdue external audits from 57% to 20%, far exceeding our target of 43%. However, we realize that further improvements are needed, especially with respect to ensuring that Action Officials have appropriate audit follow-up systems in place and that they are closing audits more timely.

The Department has begun work strengthening other aspects of audit follow-up including recordkeeping and identifying the root causes of repeat findings. We concur with recommendations 1.1 – 1.6. We intend to more vigorously review and assist offices to ensure timely closure and maintenance of effective documentation of both Single Audit findings and findings identified in ED-OIG external audits agencywide.

We agree with the need to strengthen the audit closure process, but we non-concur with recommendation 1.7, which states: 'Modify AARTS so that PAG staff are the only individuals authorized to close audits in the system after the issuance of a closure memorandum.' We believe implementing this recommendation would disassociate accountability and responsibility that Action Officials currently have to ensure that the grantee takes appropriate corrective action and also to close out actions when they are deemed completed. Additionally, we are not aware of

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any instances where a POC actually closed an audit prior to submitting a request for closure to and receiving approval from PAG. We believe that additional oversight, training, and support provided by OCFO will be sufficient to strengthen internal controls over audit closure.

We appreciate the information contained in this report, and look forward to making improvements to our systems for ensuring effective and compliant audit follow-up at the Department of Education.

Sincerely,

A handwritten signature in black ink, appearing to read "Tim Soltis". The signature is fluid and cursive, with a prominent initial "T" and a long, sweeping underline.

Tim Soltis

Deputy Chief Financial Officer, Delegated to Perform the
Duties and Functions of the Chief Financial Officer