

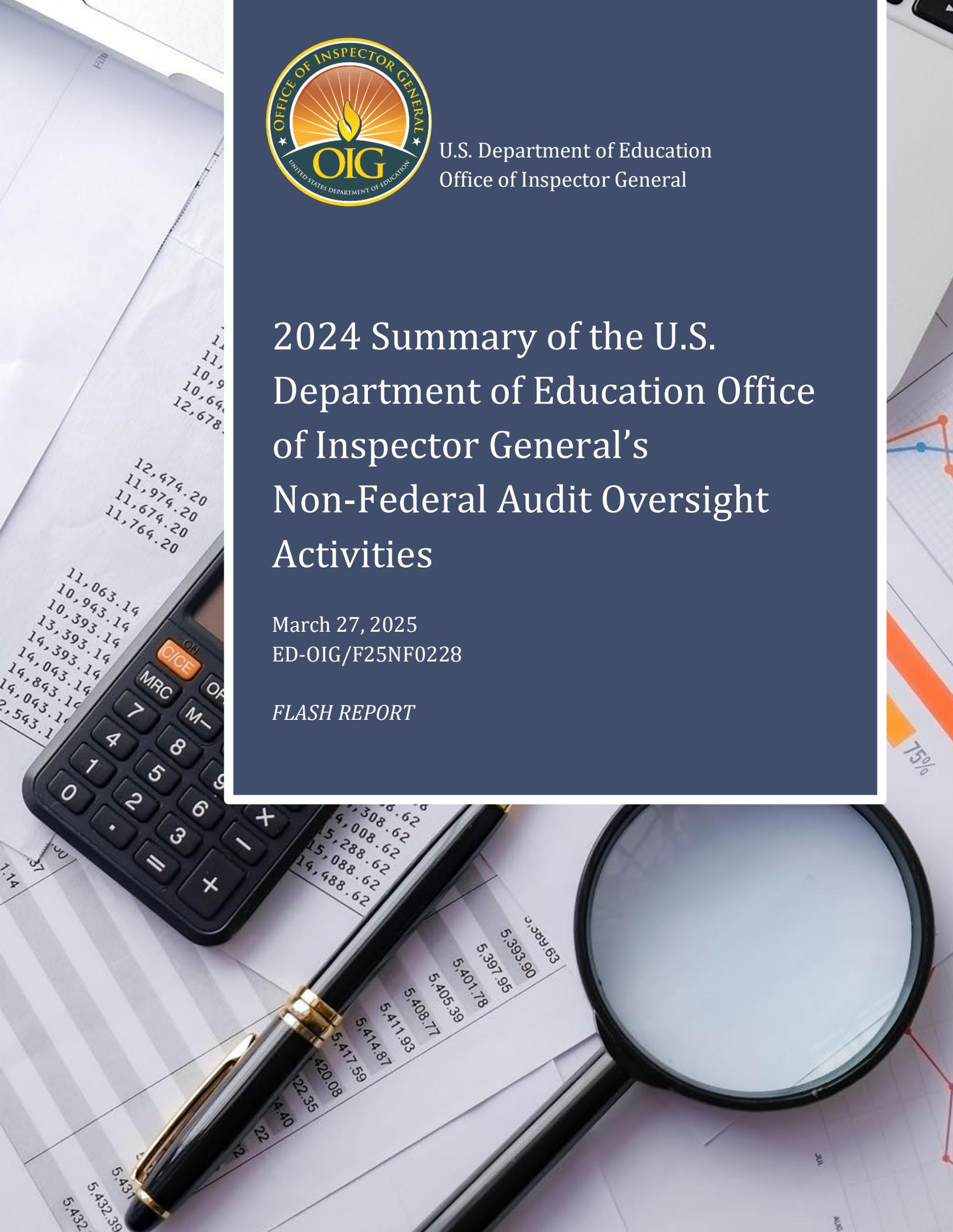


U.S. Department of Education  
Office of Inspector General

# 2024 Summary of the U.S. Department of Education Office of Inspector General's Non-Federal Audit Oversight Activities

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## NOTICE

In accordance with Freedom of Information Act (Title 5, United States Code, Section 552), reports that the Office of Inspector General issues are available to members of the press and general public to the extent information they contain is not subject to exemptions in the Act.

# Results in Brief

## 2024 Summary of the U.S. Department of Education Office of Inspector General's Non-Federal Audit Oversight Activities



### **Why the OIG Performed this Work**

Entities that spend or administer U.S. Department of Education (Department) funds are required to obtain annual audits conducted by independent auditors. These audits are referred to as non-Federal audits and serve as a critical oversight mechanism for the billions of dollars distributed annually by the Department.

It is critical that these audits are effectively planned, performed, and reported on to help ensure that audited entities comply with applicable laws and regulations while maintaining proper stewardship of Federal funds. The Office of Inspector General (OIG) is responsible for the oversight of non-Federal audits covering Department program funds. The OIG reviews reporting packages, and in some cases the supporting audit documentation, and notifies the relevant parties of any quality deficiencies identified.

This report provides non-Federal audit stakeholders with information on the OIG's non-Federal audit oversight activities in 2024.

### **What did the OIG Find?**

We found that 78 percent of the non-Federal audits and reporting packages we reviewed in 2024 had some level of quality deficiencies in how the engagement was planned, performed, or reported on. Nearly half of the quality deficiencies we identified in 2024 were in the reporting phase of the non-Federal audit engagement while the remaining deficiencies involved the planning and performance phases. Specific deficiencies that were identified by our reviews most often in 2024 included inaccurate or incomplete reporting of Federal award expenditure information by the audited entities, problems with the auditor's decisions about which compliance requirements to test and their use of sampling, insufficient testing of internal controls and compliance, and lack of sufficient details in reported findings. These results apply only to the non-Federal audits we judgmentally selected for review and should not be used to form a conclusion related to the quality of all non-Federal audits covering Department funds.

### **What is the Impact?**

The Department and other users of these non-Federal audit reports with quality deficiencies have less assurance that the audited entities properly managed and used their \$2.5 billion in program funds.

### **What Are the Next Steps?**

When the quality deficiencies we identified affected the reliability of the audit results, the OIG required corrective actions for the non-Federal audit or reporting package reviewed. During 2024 we recommended the Department reject three non-Federal audits due to the significant inadequacies we found during our review of the supporting audit documentation. In these instances, the Department determined that the audits would be rejected and it would require a new acceptable audit be submitted. We also referred the non-Federal auditors that performed those three original engagements for disciplinary actions. This may result in further remedial action by the auditors or suspension of the auditors' license or their membership in professional associations.

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## Purpose

The purpose of this flash report is to share information about the U.S. Department of Education (Department) Office of Inspector General's (OIG) oversight of non-Federal audits performed by independent certified public accounting firms and State audit organizations.

## The Importance of Non-Federal Audits

Each year, the Department distributes billions of dollars to non-Federal entities including State entities, local school districts, institutions of higher education (institutions), and nonprofit organizations. By law, these entities must undergo annual audits that generally include both financial and compliance components. Independent certified public accounting firms or State audit organizations perform the audits of these non-Federal entities. For their 2023 fiscal year ends, entities that administered Department funds submitted over 18,000 non-Federal audits.

Non-Federal audits are intended to promote sound financial management with respect to Federal awards and serve as a critical oversight mechanism for Federal education programs. They help hold thousands of recipients accountable for their use of Federal education assistance by reviewing areas that include their internal controls, financial reporting, and compliance with applicable laws and regulations. They also provide valuable insights that assist the OIG in fulfilling its mission of promoting efficiency, effectiveness, and integrity across the Department's programs.

## OIG's Oversight of Non-Federal Audits

At the OIG, the Non-Federal Audit Team is responsible for overseeing the quality of non-Federal audit work, in accordance with statutory and regulatory mandates. The OIG's main oversight tools are desk reviews—evaluations of non-Federal audit reporting packages for compliance with reporting requirements—and quality control reviews (QCR), which involve analyzing and evaluating the supporting documentation in addition to the reporting packages.

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**Figure 1. Information Evaluated and Analyzed During Desk Reviews and QCRs**



The team uses its judgment to select a nonstatistical sample of non-Federal audits covering Department program funds to review. If the team identifies noncompliance with an applicable audit or attestation standard or requirement, it reports a quality deficiency and notifies the auditor, the Department, and, when needed, the audited entity or other relevant Federal agencies of the results of the review. The team then works with these parties to resolve issues as needed and may take other enforcement actions if it finds significant inadequacies. The OIG can refer an auditor for possible disciplinary actions by their State licensing bodies or professional associations, which could lead to further remedial action for the auditor or even suspension of an auditor’s license or their membership in professional associations. The OIG could also recommend that the Department reject an audit that it finds to be unreliable, which could result in administrative action against the audited entity by the Department for failure to submit an audit as required.

## What We Did

We summarized the results of the 41 desk reviews and 17 QCRs issued by the OIG between January 1 and December 31, 2024. In total, this summary includes our review of the reporting packages for all 58 non-Federal audits subject to desk review or QCR and the supporting audit documentation for the 17 non-Federal audits subject to QCR. We also summarized the six enforcement actions taken by OIG between January 1 and December 31, 2024, based on the results of the QCRs performed.

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## What We Found

We identified quality deficiencies for 28 of the 41 non-Federal audits subject to desk reviews and for all 17 of the non-Federal audits subject to a QCR. In total, 45 of the 58 non-Federal audits we reviewed in 2024 had some level of quality deficiencies, as shown in Figure 2.<sup>1</sup>

**Figure 2. Total Reviews and Reviews with Quality Deficiencies by Type of Review**



The Department and other users of these 45 non-Federal audit reports with quality deficiencies have less assurance that the audited entities properly managed and utilized their \$2.5 billion in program funds. Quality deficiencies decrease the reliability of the non-Federal audits, weakening their role in improving the integrity and effectiveness of education programs.

The quality deficiencies we identified covered all phases of non-Federal audits—planning, performance, and reporting. Figure 3 illustrates that all 17 non-Federal audits that we reviewed supporting documentation for had audit planning and performance deficiencies and 37 of the 58 reporting packages we reviewed had reporting deficiencies.

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<sup>1</sup> The results from our non-Federal audit quality work applies only to the non-Federal audits that we judgmentally selected for review and should not be used to form a conclusion related to the quality of all non-Federal audits covering Department funds.

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**Figure 3. Reporting Packages and Sets of Supporting Documentation With and Without Quality Deficiencies**



Of the combined total of 197 quality deficiencies we identified in 2024 desk reviews and QCRs, 97 were related to reporting requirements for non-Federal audits and the remaining were split between the planning phase (38 deficiencies) and performance phase (62 deficiencies) of the non-Federal audits. Figure 4 shows the types of reviews that resulted in deficiencies for each of the three non-Federal audit phases.

**Figure 4. Quality Deficiencies in Non-Federal Audit Phases by Type of Review**



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Unresolved quality deficiencies identified for three engagements resulted in OIG recommending rejection of those non-Federal audits and referring the auditors for disciplinary actions.

## Non-Federal Audits Reviewed During 2024

Department program participants are subject to individual program audits or a single audit that could cover multiple Federal programs, depending on the participant's organization type and location.

Single audits are conducted on the financial statements and Federal award administration of States, local governments, Indian Tribes, and domestic public or private nonprofit institutions, as required by the Single Audit Act Amendments of 1996 (Public Law 104-156). In 2024, 35 of the 58 audits we reviewed were single audits of local school districts and public or private nonprofit institutions where the Department served as the designated Federal cognizant or oversight agency for audit. These audits, conducted by 26 certified public accounting firms and 4 State audit organizations, covered Department programs related to elementary and secondary education, special education, career and technical education, adult education, higher education, and student financial assistance.

Program audits, on the other hand, are audits or attestation engagements conducted to assess the administration of specific Department programs by for-profit or foreign institutions, lenders, or servicers. In some cases, these audits also include financial statement audits as required by Department laws and regulations. In 2024, 23 of the 58 audits we reviewed were program audits of for-profit and foreign institutions conducted by 21 certified public accounting firms. These engagements focused exclusively on the student financial assistance programs under Title IV of the Higher Education Act of 1965, as amended (Title IV).

## Results of 2024 Desk Reviews and QCRs

OIG categorizes desk reviews and QCR results based on whether they have identified any quality deficiencies and when any corrective actions must be taken. Corrective actions may be needed, either in the reviewed engagement or in future engagements. If the OIG determines that the quality deficiencies identified affect the reliability of the audit results or that the auditor's opinion is not adequately supported, the OIG will require corrective action for the non-Federal audit or reporting package reviewed.

The table summarizes the results of 2024 desk reviews and QCRs by presenting the percentage of each non-Federal audit review type that required corrective action for the reviewed engagement or future engagements or that required no corrective action.

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**Table. Corrective Action Needed by Review Type**

Type of Non-Federal Audit Review	Total Reviewed	Corrective Action Needed for Reviewed Engagement	Corrective Action Needed for Future Engagements	No Corrective Action Needed
Single Audit Desk Reviews	21	4.8%	47.6%	47.6%
Single Audit QCRs	14	42.9%	57.1%	-
Program Audit Desk Reviews	20	20%	65%	15%
Program Audit QCRs	3	66.7%	33.3%	-
<b>Total</b>	<b>58</b>	-	-	-

*SOURCE: Non-Federal Audit Team's Job Tracking Data*

Reviews of program audits (both desk reviews and QCRs) identified quality deficiencies that required corrective action for the engagement or reporting package under review at a higher rate than reviews of single audits.

## Deficiencies in Non-Federal Audit Planning

Engagement planning involves establishing the overall strategy and developing a plan for the nature and extent of procedures needed. Poor planning could result in auditors not devoting appropriate attention to important areas of the engagement. The planning deficiencies we identified most often in 2024 involved the auditor's documentation of their decisions about which compliance requirements to test in a single audit and issues with sampling in single audits and program audits.

- Decisions About Whether to Test Compliance Requirements Not Documented.** In a single audit, the auditor must identify the compliance requirements of the Federal programs selected for testing that could have a direct and material effect on the program. We found that auditor determinations on which compliance requirements were direct and material were not always sufficiently documented and that the auditors did not always provide a reasonable justification for not testing a compliance requirement that the Department identified as subject to audit.
- Sampling Requirements Not Met.** Minimum sampling requirements differ for single audits and Department program audits, but we identified deficiencies in the auditor's sampling for both types of non-Federal audits. In single audits, the deficiencies were due to the auditors not documenting their consideration of specific characteristics of the populations sampled from and selecting samples that were not representative of the population or not of appropriate size to

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meet the objectives of the testing performed. In program audits, we determined that auditors did not appropriately apply the required sampling methodology to select a sample that met minimum sampling size requirements.

## **Deficiencies in Non-Federal Audit Performance**

In a non-Federal audit, the auditor performs procedures to obtain sufficient and appropriate evidence about the audited entity's internal controls and compliance with Federal requirements. Proper execution of procedures is essential for the auditor to support their conclusions and opinions. The most common performance deficiencies we identified in 2024 were related to the auditor's understanding and testing of internal controls over compliance and their testing of compliance with Federal requirements.

- **Understanding and Testing Internal Controls Over Compliance Deficiencies.** Auditors performing compliance engagements as part of either a single audit or program audit are required to perform work on internal controls over compliance, but there is additional focus placed on internal controls over compliance in a single audit. Insufficient understanding and testing of internal controls over compliance during a single audit was the most common of all quality deficiencies we identified in 2024.
- **Compliance Testing Deficiencies.** Auditors are responsible for performing compliance testing sufficient to meet the defined objectives for the compliance requirements being tested. We identified compliance testing deficiencies in single audits and program audits. Each deficiency was unique to the Federal program and compliance requirement tested, but the deficiencies were generally due to the auditor's documented test work not addressing specific program requirements, such as the specific reports of the Federal program being audited.

## **Deficiencies in Non-Federal Audit Reporting**

Both the Department and its recipients or subrecipients that make subawards rely on information in non-Federal audit reporting packages to monitor award expenditures, verify compliance with Federal requirements, and ensure that entities implement corrective actions. The Department also uses the reporting packages to determine if an institution is financially responsible, gauge program risks, track audit finding trends, and develop strategies for effective grant management.

The non-Federal auditor and the audited entity share responsibility for non-Federal audit reporting. In general, the auditor reports on the results of their audit while the audited entity reports on its Federal expenditures and any corrective actions planned or taken to address auditor's findings. During 2024 desk reviews and QCRs, almost 60 percent of identified reporting deficiencies were attributed to auditors, while the

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audited entities accounted for over 40 percent. The most common reporting deficiencies involved inaccurate or incomplete reporting of Federal award expenditures by the audited entities and insufficient detail in the auditor's findings.

- **Schedule of Expenditures of Federal Awards (SEFA) Missing Required Information.** For single audits, the audited entity is responsible for preparing an SEFA that includes certain required information about Federal awards expended during the period covered by the entity's financial statements. The accuracy and completeness of information in the SEFA is vital since it is used as the primary basis for selecting Federal programs for testing during the single audit. SEFA deficiencies covered a variety of violations, such as missing or incorrect expenditures or expenditure totals for each Federal program and Federal programs not being identified as part of a cluster of programs.
- **Findings Missing Required Details.** The Department uses non-Federal audits to identify and address areas of concern for their grantees; therefore, it is important for auditors to develop and report findings that contain enough information to assist management or oversight officials in understanding the need for corrective action. Deficiencies on non-Federal audit findings were generally caused by the auditor not specifically identifying the impacted Federal program or award for single audit findings, or the auditor not providing information to provide proper perspective for judging the prevalence or consequences of the finding.

## Enforcement Actions Taken In 2024

When quality deficiencies identified affected the reliability of the audit results, the OIG required corrective actions for the non-Federal audit or reporting package reviewed. In 2024, after considering the results of the QCRs and whether corrective actions taken resolved the quality deficiencies identified, we recommended that the Department reject two single audits and one program audit that we found to be unreliable. These engagements involved significant quality deficiencies with auditors' work on several Department programs, including Title IV programs, Gaining Early Awareness and Readiness for Undergraduate Programs, Higher Education Institutional Aid, and the Education Stabilization Fund. Although we gave two of the auditors multiple opportunities to address the quality deficiencies, we deemed the third auditor unqualified to perform the engagement or take the necessary corrective action. Ultimately, the audit documentation for all three non-Federal audits failed to support the conclusions and opinions in the reports and the Department rejected, or plans to reject, all three audits based on our recommendations.

We also referred the respective engagement partners from the three certified public accounting firms that conducted the engagements to their relevant state boards of

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accountancy and, when applicable, to the American Institute of Certified Public Accountants. We have not yet received information about whether disciplinary actions have been taken against these firms or individuals.

## Scope and Methodology

Our summary covered all desk review and QCR results issued by the OIG and all enforcement actions taken by the OIG from January 1, 2024, through December 31, 2024. Our desk review and QCR work was limited to Department-mandated program audits and single audits for which the Department was the designated Federal cognizant or oversight agency for audit (generally defined as the audited entity's predominant Federal funding agency). The audit quality issues reported only represent the results for the 41 desk reviews and 17 QCRs that we issued in 2024 and should not be used to form a conclusion related to the quality of all non-Federal audits covering Department funds.

## Use of Computer-Processed Data

The use of computer-processed data for our flash report was limited to querying and exporting results from the OIG Non-Federal Audit Team's Job Tracking SharePoint list containing desk review and QCR data. The data included information about the type of review, the type of non-Federal audit conducted, the Department programs and funds covered by the engagement, the non-Federal auditor that conducted the engagement, and the results of the review. We analyzed this data to summarize the desk review and QCR results, including the enforcement actions taken. We did not assess the reliability of the computer processed data.

## Compliance with Standards

We conducted our work in accordance with OIG quality control standards and the Council of the Inspectors General on Integrity and Efficiency "Quality Standards for Federal Offices of Inspector General," which require that we conduct our work with integrity, objectivity, and independence. We believe that the information obtained provides a reasonable basis our conclusions.

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## Appendix A. Acronyms and Abbreviations

Department	U.S. Department of Education
institutions	institution of higher education
OIG	Office of Inspector General
QCR	quality control review
SEFA	schedule of expenditures of federal awards
Title IV	Title IV of the Higher Education Act of 1965, as amended