

Archived Information

Objective 4.6: Management of our programs and services ensures financial integrity.

Our Role. Ensuring financial integrity of the Education Department's programs and services is achieved through compliance with numerous financial laws and regulations while focusing on results, service quality, and customer satisfaction. To achieve this objective, the Education Department's Office of the Chief Financial Officer is implementing the following systems and policies: a new general ledger software system; financial policies and procedures designed to enhance internal controls, reconciliation, and reporting processes; and improvements to the agency's acquisition system to support mission-critical departmental and program office objectives.

Our Performance

How We Measure. Objective 4.6 includes two measures. The first measure is to achieve an annual unqualified (clean) audit opinion from an independent audit firm. The annual audit is a measure of the quality and timeliness of the financial information central to sound financial management and essential for program decision-making. The second measure, performance-based contracting, inspires confidence in taxpayers, because it ensures that each Department-awarded contract for goods and services yields valuable results for each dollar spent.

- **Unqualified (Clean) Audit Opinion.** An annual audit by an independent audit firm is an indicator of the quality of the Education Department's financial information. At the completion of an audit, the auditor issues an opinion of the Education Department's financial statements. If the auditor is confident that the financial statements are a fair representation of the Education Department's financial position and operations, then an unqualified opinion is issued.

As part of the audit of the financial statements, the auditors conduct a review of the internal controls. Internal controls ensure compliance with laws; safeguard against waste, loss, unauthorized use, and misappropriation; and maintain an accurate record and accountability of assets. The auditors issue a report on the results of their review. The report identifies conditions as material weaknesses and reportable conditions. The Education Department is working hard to implement improvements to eliminate these reported weaknesses and reportable conditions. These improvements will ultimately increase the quality and timeliness of data for decision making.

- **Performance-based Contracting.** To support America's Federally funded education programs, a large number of contracts for goods and services is necessary. Performance-based contracts help to ensure that the American taxpayers receive results and that good financial management and stewardship support education goals. The Education Department's contracts are evaluated on several points to ensure sound financial management of the nation's education dollars.

Indicator 4.6.a. Auditors will issue an unqualified (clean) opinion on the Department of Education-wide annual financial statements every year.

Assessment of Progress. The goal for 2000 was not met, but significant improvement toward target was made. In FY 1998, the general ledger software proved inadequate for the Education Department's needs. Inadequacies in the system led to difficulties in producing financial statements that ultimately

translated into a disclaimer of opinion (no opinion). This led to the Education Department's decision to replace its general ledger software. The process of replacing the general ledger software package is under way and will be completed by the end of 2001. In the interim, the Education Department has designed and utilized software tools that use the current general ledger software source data to produce auditable financial statements. This enhancement, along with other process improvements, documentation of procedures, and additional staff training, has led to a reduction in the Education Department's number of material weaknesses and reportable conditions. These improvements resulted in the Education Department receiving a qualified opinion on the FY 1999 and FY 2000 audits.

Although the Education Department did not attain a "clean" opinion in the FY 2000 audit, it did make significant progress toward that goal. A major milestone in the process was its ability to analyze and correct problems in prior years' accounting data. This included the Education Department's reconciliation of variances that existed between grant and loan accounting feeder systems and its general ledger; its general ledger and its fund balances with the U.S. Treasury Department; and within its general ledger, between budgetary and proprietary (cash) accounts.

In addition, the Education Department has implemented numerous improvements designed to assist in the financial management of the Education Department. For example:

- The phased implementation of the new general ledger system is on schedule. Phase I including accounts receivable was completed in October 2000.
- A majority of financial management audit issues (prior to FY 2000) were addressed and closed.

While material weaknesses and reportable conditions do not necessarily prevent the Education Department from receiving a clean opinion, they make it more difficult to audit the financial statements. By reducing, eliminating, and preventing weaknesses, the Education Department is assured better quality financial data.

Figure 4.6.a.1

Fiscal Year	Audit opinion	Material Weaknesses**	Reportable conditions***
1997 actual	Unqualified	4	3
1998 actual	Disclaimer*	3	4
1999 actual	Qualified	4	4
2000 actual	Qualified	3	2

**The FY 1998 financial statements received a disclaimer (no opinion) due to the inadequacies and difficulties of the financial management software system. The system is being replaced.*

*** Material Weakness – The design or operation of one or more of the internal control components that do not reduce to a relatively low level the risk that error or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.*

**** Reportable Condition – Significant deficiencies in the design or operation of internal control that could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.*

Source: Annual Auditor's reports. **Frequency:** Annual. **Next Update:** FY 2001 Financial Statement Audit Report (due from auditors in March 2000). **Validation procedure:** Independent auditors follow professional standards and conduct the audit under the oversight of the Office of the Inspector General. The Inspector General participates in the conduct of the audit and the reporting/tracking of material weaknesses. **Limitations of data and planned improvements:** None.

Indicator 4.6.b. Evaluation of contracts will indicate that better than fully successful performance, including quality, cost control, timeliness, and other factors, is being received by the government and the taxpayer.

Assessment of Progress. The goal for 2000 was met. The Education Department has increased the number of performance-based contracts in place between FY 1999 and FY 2000 by 150 percent. The value of the goods and services represented by these contracts has also increased by 150 percent. The Education Department evaluates each contractor’s performance based on his or her contract, and approximately five percent of the contractors have improved its performance.

Figure 4.6.b.1

Fiscal Year	Number of contract actions awarded based on performance objectives	Contract dollars based on performance objectives (in millions)	Contractor past performance ratings (percent improved)
1998 baseline	20	\$ 41	0%
1999 actual	72	\$142	5%
2000 actual	110	\$385	5%

Source: U.S. Department of Education Contract Data (from The Department of Education’s Central Automated Processing System (EDCAPS) and actual contracts). *Frequency:* Continuous. *Next update:* Annually. **Validation procedure:** Administrative reports prepared by the Education Department staff independently evaluated by random sampling and review. **Limitations of data and planned improvements:** The contract dollars include only new contracts and modifications to existing Performance-Based Service Contracting (PBSC) contracts awarded in a particular fiscal year. The figure does not include the "Total Cumulative Amount" of all of the Education Department's PBSC contracts. Several contracts are long term and were put in place prior to the measurement period and lack performance measures.