

Archived Information

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

National Need

National Concerns. The Nation needs accurate and timely financial information to make informed decisions on how education dollars are spent. Taxpayer confidence is earned when entrusted education funds are applied toward those program results and expenditures that Congress intended. The Department is committed to sound financial management and maintaining financial systems that fulfill these needs.

Our Role. Ensuring financial integrity of ED'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 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 Department's financial information. At the completion of an audit, the auditor issues an opinion of the Department's financial statements. If the auditor is confident that the financial statements are a fair representation of the 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. That report identifies conditions as material weaknesses and reportable conditions.

The Department is making several improvements to eliminate financial management weaknesses and reportable conditions, which will increase the quality and timeliness of data for decision making. The following corrective actions are under way: The procurement and implementation of a new general ledger system, enhanced financial policies and procedures to strengthen internal controls, and improved reconciliation and reporting processes.

- **Performance-based Contracting.** To fulfill America's Federally funded education programs, a large number of contracts for goods and services are necessary. Performance-based contracts help to ensure that the American taxpayers receive results and that good financial management and stewardship

support education goals. The Department’s contracts are evaluated on several points to ensure sound financial management of our Nation’s education dollars.

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

Assessment of Progress. Significant improvement toward target made. In FY 1998, our general ledger software proved inadequate for the Department’s needs. Inadequacies in the system led to difficulties in producing financial statements that ultimately translated into a disclaimer of opinion (no opinion). Temporary solutions referred to as “work-arounds” have and will mitigate the current system limitations for FY 1999 and FY 2000 until a new system is in place. In addition, the department did not adequately perform reconciliations and could not provide sufficient documentation to support transactions. Our goal for the FY 1999 financial statements is to receive an improved opinion, and for the FY 2000 financial statements is to receive an unqualified opinion.

The process of replacing the general ledger software package is under way and will be completed in December 2001. The new software will not be implemented in time to affect the Department’s 1999 or 2000 financial statements. In the interim, we have designed and will use software tools that use the current general ledger software source data to produce auditable financial statements. These tools will assist the Department achieving reductions in material weaknesses and reportable conditions.

While material weaknesses and reportable conditions do not necessarily prevent the Department from receiving a clean opinion, weaknesses make it more difficult to audit the financial statements. By reducing, eliminating, and preventing weaknesses, the Department is assured better quality financial data. By FY 2000, there will be a significant reduction in the number of material weaknesses and reportable conditions identified in the auditor’s reports.

In FY 1999, the Office of the Chief Financial Officer (OCFO) planned and began implementing significant process changes to ensure better financial data and a clean audit opinion:

- Developed in-house reporting tool for the preparation of the FY 1999 financial statements.
- Conducted financial statement training to strengthen staff skills.
- Created a consolidation team to focus solely on financial statement preparation and consolidation and acquired contractor resources to support FY 1999 statement preparation.
- Analyzed data to improve data integrity and corrected unnatural balances.
- Delivered FY 1999 trial balances and financial statements as scheduled.
- Purchased reconciliation automation software.
- Implemented formal procedures for tracking and controlling manual adjustments.
- Developed new reconciliation tools to automate parts of the data match process between Treasury and general ledger.

Figure 4.6.a.1

Fiscal Year	Audit opinion	Material weaknesses**	Reportable conditions***
1997 actual	Unqualified	4	3
1998 actual	Disclaimer*	3	4
1999 target	Unqualified	1	3
2000 target	Unqualified	0	2
2001 target	Unqualified	0	0

**The FY 1998 financial statements received a disclaimer (no opinion) due 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 1999 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 Department of Education has increased the number of performance-based contracts in place between FY 1998 and FY 1999 by almost 350 percent. The value of the goods and services represented by these contracts has also increased by more than 350 percent. The Department evaluates each contractor’s performance based on their contract, and approximately 5 percent of the contractors have improved their 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 target	108	\$213	5%
2001 target	162	\$319	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 ED 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 ED’s PBSC contracts. Several contracts are long term and were put in place prior to the measurement period and lack performance measures.

How We Plan to Achieve Our Objectives

How ED’s Activities Support the Achievement of This Objective.

To meet our national needs for high-quality financial data for decision-making and performance-based contracting that yields program results, the Department is implementing and enhancing strategies to improve financial management and integrity.

- **Provide accurate and timely financial data.** The Department is focusing on system improvement, reporting and reconciliation, and financial integrity strategies for improving accuracy and timeliness of financial data. Replacement of the Department’s general ledger software system and improvement of

internal controls will help achieve reductions in material weaknesses and reportable conditions. The reduction of these material weaknesses and reportable conditions will enhance the Department's ability to obtain an unqualified opinion on its financial statements.

System Improvement:

- **New General Ledger Software.** Begin a phased implementation of a new Joint Financial Management Improvement Program (JFMIP) certified general ledger (GL) software system. The new system will improve data integrity and facilitate production of required Federal reporting and financial statements.
- **System Controls.** Enhance controls surrounding financial information systems: security plan, passwords, information technology architecture, policy and procedures, and physical security measures.

Reporting and Reconciliation:

- **Reporting and Reconciliation Tools.** Development and implementation of new reporting and reconciliation tools to enhance and automate the preparation of quarterly financial statements and monthly reconciliations.
- **Monthly Reconciliation.** Provide timely and reliable financial information for program and support offices to use in managing their responsibilities. By 2000, the Office of the Chief Financial Officer (OCFO) will reconcile on a monthly basis and use the Department of Education's Central Automated Processing System (EDCAPS) to provide this data to users on a daily basis.
- **Recipient Accounts.** Reconcile all recipient accounts in The Department of Education's Central Automated Processing System (EDCAPS) and provide recipients with accurate data.

Financial Integrity:

- Continue to work toward a clean audit opinion.
- Eliminate material weaknesses and reportable conditions by correcting systemic problems and implementing policies and procedures.
- Continue to provide training of staff in core financial management competencies.
- Prepare standard operating procedures for all OCFO processes.

Performance-based contracting. ED is working to make each new contract performance-based, and at the same time is converting older contracts to the new performance-based standards.

Implementing performance-based contracting:

- Control costs by implementing performance-based contracting and by repatriating work contracted out when effective and possible within staff ceilings.
- Review every contract for the maximum use of effective performance objectives and measures to assess the value provided in order to determine extent to which the goods and services the Department is receiving represent better than successful performance.
- Linking contract language to the goals and objectives of the Department's strategic plan to align and support the Department's education mission and goals.
- Continue to provide training to all ED procurement and technical personnel in their capability to productively manage the performance of contractors.

■ **Converting old contracts to performance-based contracts:**

- In FY 1997, ED pledged 66 future recompetitions for conversion to performance-based service contract requirements. As of the end of FY 1999, 45 of those conversions have occurred and 32 new requirements have been put in place. The systems life value of these contracts is more than one billion dollars.
- More than 250 ED personnel with acquisition responsibilities have received basic training in the principals of performance-based service contracting.

How We Coordinate with Other Federal Agencies

■ **Financial management:**

- The Department is responsible for the delivery of financial data to program managers, ED recipients, the Office of Management and Budget (OMB), Treasury, and Congress.
- ED's financial management goals are made consistent with government-wide strategies and initiatives as required by the OMB, the Chief Financial Officers Council, Joint Financial Management Improvement Program, the General Accounting Office (GAO), and the Department of Treasury.
- The Department also coordinates, or is working to coordinate, with other Federal agencies in the area of debt collection by sharing information that will facilitate debt collections and improve management controls.

■ **Performance-based contracting:**

- **Office of Federal Procurement Policy, Small Business Administration, and other agencies on performance-based contracts.** The Department will continue to maximize the use of government-wide acquisition system resources and work with the Office of Federal Procurement Policy, Small Business Administration, and other agencies that can assist with applying best practices and lessons learned for similar-type requirements. For example, the Department has been able to use the efficiencies of government-wide contract vehicles but also build performance-based requirements into individual orders. We also worked with the Office of Federal Procurement Policy on ways to improve earlier efforts in performance-based contracts as well as being able to assist other agencies as they develop performance-based requirements in financial management, research and analysis, and information dissemination.

Challenges to Achieving Our Objective

Any improvements the Department makes in the performance of its contract resources requires equal commitment from its business partners and agreement on meaningful performance objectives and measures. Initially, we had to contend with working with the private sector in new ways—viewing how both sides value the goods and services provided to us. Our efforts to increase the number of performance-based requirements has been a learning experience for our contractors. A performance-based relationship is a new first-time experience for many contractors who have had to adapt to do business with the Department. As businesses gain experience, we expect improved ability to develop and compete future performance based contracts with less effort and greater alacrity. We would also expect to improve competition as well as the evolution of improved performance measures.

FY 1998 Financial Statements Audit. The current general ledger software system was unable to produce financial statements automatically, which ultimately resulted in the auditors' inability to render an audit opinion. A new system is in the process of being implemented. In addition, reconciliation automation software is being implemented to speed and improve the reconciliation process.

Duplicate Improper Payments. The Student Financial Assistance (SFA) program and the Office of the Chief Financial Officer (OCFO) have made some duplicate improper payments. The Department takes this issue very seriously and is working to enhance procedures to prevent any improper or duplicate payments.

To improve identification of improper payments, SFA and OCFO will be doing additional work with the offices that have monitoring and oversight responsibility for postsecondary institutions, lenders, and

guaranty agencies. Procedure changes have been implemented in the OCFO to prevent duplicate payments.