

AGREED UPON PROCEDURES

INTRAGOVERNMENTAL TRANSACTIONS

U.S. Department of Education

Year Ended September 30, 2004

Independent Accountant's Report On Application of Agreed-Upon Procedures

To the Inspector General
U.S. Department of Education

We have performed the procedures enumerated in the Attachment I, which were agreed to by the U.S. Department of the Treasury's Financial Management Service (FMS), the U.S. Government Accountability Office (GAO), and the Office of Management and Budget (OMB) as stated in the FMS Agency Reporting Requirements for the Financial Report of the United States Government guidance, solely to assist FMS in the preparation of, and GAO in the audit of the consolidated financial statements of the U.S. Government as of and for the year ended September 30, 2004. The U.S. Department of Education management is responsible for the proper accounting, presentation and reporting of its consolidated financial statements and reporting on information to FMS.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the *Government Auditing Standards*, issued by the Comptroller General of the United States. The sufficiency of these procedures is solely the responsibility of FMS, GAO and OMB. Consequently, we make no representation regarding the sufficiency of the procedures described in the attachment either for the purpose for which this report was requested or for any other purpose. The procedures we performed and our associated findings are enumerated in the Attachment I.

We were not engaged to, and did not perform an audit of the matters addressed herein, the objective of which would be the expression of an opinion on such information. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the management of the Department, Office of Inspector General, U.S. Department of Education, OMB, FMS, and GAO, and is not intended to be and should not be used by any one other than these specified parties.

Ernst & Young LLP

December 1, 2004
Washington, D.C.

AGREED-UPON PROCEDURES AND E&Y FINDINGS

Procedure 1

Obtain all RSI schedules for intragovernmental activity/balances supporting the Closing Package Reclassified Balance Sheet's Federal Assets and Liabilities, Reclassified Statement of Net Cost's Federal Gross Cost and Federal Earned Revenue, and Reclassified Statement of Changes in Net Position's Federal Nonexchange Revenue and Budgetary and Other Financing Sources.

Finding:

No exceptions were noted.

Procedure 2

Trace the Closing Package Intragovernmental RSI schedules' identified intragovernmental transactions trading partners by Federal line item totals and/or trading partner activity/balances to the agency general ledger and the audited financial statements. Identify any differences.

Finding:

No exceptions were noted.

Procedure 3

Trace trading partner activities/balances from the Closing Package Intragovernmental RSI schedules to the agency's supporting schedules (Agency Fourth Quarter Intragovernmental Reconciliation and CFO Representations using Closing Package data). For items where agency reporting differences exist, trace the explanations to supporting documentation and identify any discrepancies.

Finding:

The Department did not respond to the following questions in the FY 2004 CFO Representations for Federal Intragovernmental Activity and Balances.

Question-A1: Is consistency maintained between the Audited Financial Statement line items and the Closing Package line items? If not, please provide an explanation.

Question-C: Did all of the trading partners report Closing Package Intragovernmental activity/balances? If not, list those Federal program agencies that did not report Closing Package Intragovernmental activity/balances.

Question-F: Did the independent auditor propose any adjustments? If so, list any auditor's adjustments.

We were informed by the Department that these questions were not answered because the response areas were not shaded in green, as instructed on the “FY 2004 CFO Representations for Federal Intragovernmental Activity and Balances”.

Procedure 4

Obtain FMS’ Comparative Closing Package Explanation of Differences Report for Intragovernmental activities/balances.

- Trace the differences between the agency and its trading partners by reciprocal category/line-item from FMS’ comparative reports to explanations from agency supporting documentation.
- Identify any inconsistencies in amounts or explanations between FMS’ comparative reports and agency supporting documentation.

In the event of non-reporting by trading partners, as indicated in the footer section of FMS’ comparative reports, identify that the difference is due to a non-reporting partner and do not proceed further with the review of the differences.

Finding:

A difference in the amount of \$145 million with the U.S. Department of Interior was classified as a timing difference. The U.S. Department of Interior reported this amount as an advance, while the U.S. Department of Education expensed the amount.

Procedure 5

Identify and include copies of internal control findings related to intragovernmental activities from the financial statements audit. Also, identify and report auditor-proposed intragovernmental adjustments that were waived by the agency, including items cited in the management letter.

Findings:

The followings were noted:

A. Ernst & Young proposed that the unobligated excess funds of Federal Family Education Loan program liquidating account in the amount of \$50 million should be reclassified as Payable to Treasury. This proposed adjustment was waived by the Department.

B. See Attachment II for the auditor’s observations related to intragovernmental activities as part of the financial statement audit cited in the management letter.

DRAFT - FY 2004 Management Letter Comment
(Final Management Letter Comments report will be issued by December 17, 2004)

Controls over the Intragovernmental process could be improved.

During our review of intragovernmental expenses, we noted several areas where controls over the intragovernmental expense process could be improved.

- Expenses were not properly coded as governmental and non-governmental. The payment system is designed to distinguished governmental and non-governmental transactions by using the sector codes “G” and “N” respectively. There were two transactions improperly coded as sector code “G” but they were actually non-governmental transactions.
- There were spending documents (Purchase Order, Contracts, etc.) that were lacking the contracting officer/executive officer/proper official signatures and dates.
- Paid invoices were not canceled to prevent duplicate payments. A paid invoice was improperly processed the second time. However, the invoice was rejected at the point of payment because there was no obligation available to fund the payment.
- The Department did not confirm intragovernmental transactions with all its trading partners on a quarterly basis.

We recommend that the Department enforce the control policies and procedures it has established by conducting routine supervisory monitoring and reviews. The Department should also consider whether its current manual process for identifying and creating invoice numbers require enhancement in order prevent duplicate payments and to ensure that internal controls objectives are achieved.