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# Audit of the Department of Education's Followup Process for External Audits

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## FINAL AUDIT REPORT



**ED-OIG/A19-D0007**  
**March 2005**

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Our mission is to promote the efficiency,  
effectiveness, and integrity of the  
Department's programs and operations.



U.S. Department of Education  
Office of Inspector General  
Operations Internal Audit Team  
Washington, DC

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**Statements that managerial practices need improvements, as well as other conclusions and recommendations in this report, represent the opinions of the Office of Inspector General. Determinations of corrective action to be taken will be made by the appropriate Department of Education Officials.**

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



UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF INSPECTOR GENERAL

**MEMORANDUM**

March 31, 2005

**TO:** Jack Martin  
Chief Financial Officer  
Office of the Chief Financial Officer

**FROM:** Helen Lew /s/  
Assistant Inspector General for Audit Services

**SUBJECT:** Final Audit Report  
Audit of the Department of Education's Followup Process for External Audits  
Control Number ED-OIG/A19-D0007

Attached is the subject final audit report that covers the results of our review of the followup process for external audits at various Principal Offices for external OIG audits issued during the period October 1, 1997, through September 30, 2002. An electronic copy has been provided to your Audit Liaison Officer. We received your comments which generally concurred with the findings and most of the recommendations in our draft report.

Corrective actions proposed (resolution phase) and implemented (closure phase) by your office will be monitored and tracked through the Department's Audit Accountability and Resolution Tracking System (AARTS). ED policy requires that you develop a final corrective action plan (CAP) for our review in the automated system within 30 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 findings and recommendations contained in this final audit report.

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

In accordance with the Freedom of Information Act (5 U.S.C. §552), reports issued by the Office of Inspector General 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.

Enclosure

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## EXECUTIVE SUMMARY

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Office of Management and Budget (OMB) Circular A-50, *Audit Followup*, states,

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.

The Circular requires that each agency designate a top management official to oversee followup, including resolution and corrective action. The Department of Education's (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 objective of our audit was to evaluate the effectiveness of the Department's audit followup process to ensure that external auditees implement corrective actions as a result of Office of Inspector General (OIG) audits.

We found that the Department's audit followup system was not always effective. PAG did not fulfill its responsibilities to ensure that Action Officials (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 total, we found that audit followup activities were not effective for 17 of the 46 audits reviewed. As a result, the Department did not have assurance that requested corrective actions were completed for 40 of the 239 recommendations reviewed. The risks remain that related programs are not being effectively managed and Department funds are not being used as intended.

We also found that Principal Office (PO) staff closed audits prior to completion of corrective actions. As a result, PAG was no longer tracking audits for which all corrective actions had not been completed, and these audits were underreported to Congress.

To correct the identified weaknesses, we recommend that the Chief Financial Officer:

- Develop and implement a process to periodically evaluate the appropriateness of the PO followup systems for external OIG audits.
- Develop and implement guidance that (a) defines the roles of PAG and the POs for followup activity for discretionary grant audits resolved by PAG, and (b) defines audit closure for external OIG audits, including audits on appeal and audits for which collection activity is ongoing.

- Provide training to PO audit resolution staff on the requirements for audit followup, the documentation that should be maintained, and the requirements that must be met before an audit should be considered closed.
- Develop and implement a process requiring AO certification and PAG validation that adequate documentation was received to support completion of corrective actions prior to closing external OIG audits.
- Ensure the status of external OIG audits currently in litigation, or awaiting re-evaluation, is reflected as resolved, but not closed, in the Audit Accountability Resolution Tracking System (AARTS) to accurately reflect status.
- Identify all external OIG audits that were closed since September 30, 2004, determine those audits for which corrective actions have been completed, and those for which corrective actions are still in process. For those audits where corrective action has been completed, ensure an appropriate “closed” date is reflected in AARTS. For those audits where corrective actions are still in process, correct the data in AARTS to accurately reflect the status of the audits, and continue tracking the completion of corrective actions.
- Ensure the Department’s *Semiannual Report to Congress on Audit Follow-up* accurately reports audits which have been resolved, but for which corrective actions have not been completed.

We discussed our findings and recommendations in our exit conference with OCFO and PO staff. OCFO provided a written response to the preliminary findings and recommendations presented at the exit conference. Where appropriate, we included and addressed elements of the OCFO response to the exit conference in this draft report.

The Department concurred with our recommendations with two exceptions. The Department stated our recommendation to develop and implement a process requiring AO certification and the PAG review of the adequacy of audit follow-up documentation prior to closing external OIG audits was impractical in terms of cost, travel and staff hours it will demand. The Department added the PO should have discretion in how follow-up is accomplished based upon resources available, and that implementing this recommendation would require a dedication of staff and budgetary resources that far exceeds any marginal benefits to be realized.

We recognize the role and responsibility of the Department in resolving and closing OIG external audits. However, in accordance with OMB Circular A-50, the Department’s *Post Audit User Guide*, and the Department’s *AARTS User Manual*, when corrective actions are defined, the Department has the responsibility to ensure they are taken. The Department also expressed concern in certifying actions taken by external entities. Based on the Department’s comments we modified the recommendation to clarify that the recommended certification and review process relates to the adequacy of information obtained prior to closing the audit.

The Department also disagreed with our recommendation to identify all external OIG audits that have been closed since September 30, 2003, and review the status of each corrective action. The Department stated this would be extremely resource intensive and detract from current resolution efforts. Finally, the Department did not believe that the findings in the draft audit report warrant this degree of scrutiny. Our audit determined that the Department closed recommendations prior

to the completion of corrective action in 24 of the 46 audits reviewed (52 percent). We found that this caused data to be underreported to Congress in reports submitted by the Department and the OIG. We believe it is imperative that data provided to Congress is complete and accurate. We reconsidered this recommendation in response to the Department's request at our exit conference for this audit and reduced the time period subject to review from external OIG audits closed over the past two years to those closed since September 30, 2003. We have subsequently modified this period to those closed since September 30, 2004 to help ensure the data included in the next reports to Congress are accurate.

In its response, the Department requested a meeting with OIG to further discuss these issues and the impact of the recommendations before the final report is issued. OIG modified two of its recommendations based on the Department's comments as detailed above, and is willing to meet with the Department during the audit resolution process to discuss any concerns that may remain in these areas. The entire text of the Department's response is provided as Attachment 3 to this report.

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## BACKGROUND

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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 states,

Audit followup is an integral part of good management, and is a shared responsibility of agency management officials and auditors. Corrective action taken by management on resolved findings and recommendations is essential to improving the effectiveness and efficiency of Government operations. 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 non-monetary findings and recommendations.

The Circular requires that each agency designate a top management official to oversee followup, including resolution and corrective action. The Department of Education's (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.

When an external Office of Inspector General (OIG) audit report is issued, Department officials review available information including items such as the audit report and the auditee response. They develop a resolution document that provides notice to the auditee of management decisions or program determinations made by the Department.<sup>1</sup> These determinations relate to the monetary and non-monetary findings in the audit report. Once this document has been issued to the auditee, the audit is considered "resolved."

OMB Circular A-50 defines audit resolution as follows:

For most audits, the point at which the audit organization and agency management or contracting officials agree on action to be taken on reported findings and recommendations; or, in the event of disagreement, the point at which the audit followup official determines the matter to be resolved.

OMB Circular A-50 further states that the audit followup official has the responsibility for ensuring that corrective actions are taken.

The Department implemented the Audit Accountability and Resolution Tracking System (AARTS) in July 2003. AARTS is a web-based application designed to assist the Department's management with audit reporting and followup activities. The AARTS User Manual for External Audits states that an audit is considered "closed" when ". . .the PO [Principal Office] Specialist

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<sup>1</sup> Audit resolution documents include Final Audit Determination Letters (FAD) issued by Federal Student Aid and Program Determination Letters (PDL) issued by other Department Principal Offices.



indicates that all required corrective action has been taken.” The Common Audit Resolution System (CARS) preceded AARTS as the Department’s audit tracking system for external audits.

The Department has established a *Post Audit User Guide* (Guide) to provide policy and procedures for the audit resolution and followup process. The Guide provides that,

Each Assistant Secretary (or equivalent office head) with cooperative audit resolution or related responsibilities must ensure that the overall cooperative audit resolution process operates efficiently and consistently.

The Guide defines the responsibilities of an Action Official (AO) – generally an Assistant Secretary or equivalent office head – to 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 Guide 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.

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 seven 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 1 to this report. The following POs were included in our audit:

- Federal Student Aid (FSA)
- Office of Elementary and Secondary Education (OESE)<sup>2</sup>
- Office of Postsecondary Education (OPE)
- Office of Special Education and Rehabilitative Services (OSERS)
- Office of the Chief Financial Officer (OCFO)
- Institute of Educational Services (IES)<sup>3</sup>
- Office of English Language Acquisition (OELA)

A listing of the audits reviewed is included as Attachment 2 to this report.

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<sup>2</sup> Our review included four OIG audits of programs that were originally part of OESE. Followup activities for two of the four audits became the responsibility of the Office of Safe and Drug-Free Schools (OSDFS).

<sup>3</sup> This office was previously part of the Office of Educational Research and Improvement (OERI).

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## AUDIT RESULTS

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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. In total, we found that audit followup activities were not effective for 17 of the 46 audits reviewed. As a result, the Department did not have assurance that requested corrective actions were completed for 40 of the 239 recommendations reviewed. The risks remain that related programs are not being effectively managed and Department funds are not being used as intended.

We also found that PO staff closed audits prior to completion of corrective actions. As a result, PAG was no longer tracking audits for which all corrective actions had not been completed, and these audits were underreported to Congress.

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### **Finding No. 1 – PAG Did Not Ensure the Department's Audit Followup System for External OIG Audits was Effective**

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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 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 Department's audit resolution and followup system.

During our review we evaluated audit resolution documents and the corrective actions requested by the Department when resolving OIG external audits. The 46 audits reviewed included a total of 239 recommendations sustained by the Department. We evaluated the resolution documents to identify whether any corrective actions were requested in response to the recommendations. We discussed the audit followup process with PO staff, and evaluated documentation maintained by the POs to determine whether the Department had obtained assurance that requested corrective actions were taken. We found that in 17 of the 46 audits, for 40 of the 239 recommendations, the Department did not have documentation adequate to support corrective actions taken by the auditee.

We found that some PO staff were not familiar with the requirements included in OMB Circular A-50 and the *Post Audit User Guide* regarding audit followup. Staff in one PO stated that they did not followup on corrective actions once the audit resolution documents were issued. They

stated that they assumed the auditee would take the corrective actions requested. Staff in one PO stated that they did not have sufficient resources to follow up on all requested corrective actions. Staff in one PO stated they were not familiar with the documentation needed and were unsure of record retention requirements. Staff in one PO inappropriately relied on subsequent single or compliance audits for assurance that actions taken during OIG audits were corrected. We also found there was confusion as to whether PO staff or PAG were responsible for following up on corrective actions requested for OIG discretionary grant audits resolved by PAG.

### Audit Followup Requirements

OMB Circular A-50, Section 7, “Responsibilities,” states:

- b. Agency management officials are responsible for receiving and analyzing audit reports, providing timely responses to the audit organization, and taking corrective actions where appropriate. . . .
- c. The audit followup official has personal responsibility for ensuring that (1) systems of audit followup, resolution, and corrective action are documented and in place. . . .(4) corrective actions are actually taken.

Government Accountability Office (GAO), “Standards for Internal Control for the Federal Government,” defines the minimum level of quality acceptable for internal control in government. The fifth standard for internal control, “Monitoring,” states,

Internal control monitoring should assess the quality of performance over time and ensure that findings of audits and other reviews are promptly resolved. . . .Managers are to. . .(3) complete, within established timeframes, all actions that correct or otherwise resolve the matters brought to management’s attention. . . .

OCFO’s *Post Audit User Guide*, Chapter 1, Part D, states the Chief Financial Officer is the designated Audit Followup Official (AFUO) for the Department of Education. The Guide also states the AFUO is responsible for:

Ensuring that a system of cooperative audit resolution and follow-up is documented and in place, including follow-up to ensure corrective actions are implemented.

Part E of the same chapter states that the PAG within the OCFO provides support to the AFUO. The Guide further states PAG/OCFO is responsible for, “. . .[M]onitoring the Department’s compliance with OMB Circular A-50, Audit Follow-up.”

Section III, “External Audits,” Chapter 5, Part B, of the Guide states:

Primary responsibility for following up on nonmonetary 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 followup activities including all correspondence, documentation, and analysis of documentation.”

While PAG did issue policy and procedures on audit followup requirements through the *Post Audit User Guide*, and clarification in September 2002 on specific documentation requirements, it had not established a process to verify that the POs fully understood the requirements, were in compliance, and had appropriate systems in place to follow up on corrective actions. As a corrective action to a prior OIG audit of the effectiveness of the audit followup process for OIG internal audits,<sup>4</sup> 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 requires this review to be conducted before audits can be considered closed. This process went into effect as of January 1, 2003, but only applies to internal OIG and GAO audits of the Department. PAG does not review the adequacy of documentation obtained to support corrective actions taken for external OIG audits.

Without this review, PAG could not evaluate the effectiveness of the PO systems for audit followup and could not identify that PO staff did not always obtain and maintain appropriate documentation that corrective actions were taken by the auditees. We also found that PAG was not effectively following up on corrective actions requested for the discretionary grant audits it resolved, or ensuring that the appropriate program office was following up on the requested corrective actions. As a result, the Department was not in compliance with OMB Circular A-50, and its audit resolution and followup system for external OIG audits was not always effective. The Department did not have assurance that the requested corrective actions were taken and that the issues noted in the audits were corrected. As such, the risks remain that related programs are not being effectively managed and Department funds are not being used as intended.

In a written response to our preliminary findings and recommendations presented at the exit conference, PAG stated:

[T]here is a discrepancy in the definitions of the terms “resolved” and “closed” as interpreted by OIG in its point sheets versus the practicality of how these terms are currently defined by management. Once a management decision (PDL or FAD) is issued, the audit is both “resolved” and “closed” *unless* the decision

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<sup>4</sup> Audit Controls Over of the Audit Followup Process, ED-OIG/A19-B0002, issued October 2001.

specifically requests follow-up activity from the auditee, e.g., within 60 days provide written policies....

PAG further stated:

[T]he findings and recommendations are based on the premise that all external audit findings have equal value, either procedurally or monetarily, without consideration of management's discretion to determine the degree of effort required based on the complexity or severity of the finding and staff resources. Triage is a process that has been effectively used throughout the Department, with OIG and OGC's support and participation, for many years. It provides a consensus and direction on how to address audit findings. Requesting an entity to take a particular action for a finding determined by Triage members to be "minor," and not obligating resources to follow up on the action, should not be construed as a management weakness; instead, it should be acknowledged as management using its discretion to dedicate staff resources responsibly.

OIG did not misinterpret the definitions of the terms "resolved" and "closed" as used by the Department. Our audit began with closed audits for which the Department requested corrective actions in the management decision. These audits would be considered resolved at the time of the management decision, but not closed until corrective actions were completed. We confirmed the definitions of these terms with PAG staff during our review. PAG staff confirmed our understanding of these terms in verbal discussions, and also provided the following in an email during our review:

An audit is considered closed when all findings/recommendations are closed. A finding or recommendation is closed when a PDL has been issued or, if there are instructions in the PDL to provide additional data or assurances, when the material has been received, analyzed and determined sufficient.

This definition of "closed" agrees with that provided in the Department's response to the exit conference, and the definition in the AARTS User Manual for External Audits, which states that an audit is considered "closed" when "...the PO Specialist indicates that all required corrective actions have been taken." This is the definition used in our review.

As stated above, our basis for determining corrective actions to review was the audit resolution document. We identified the corrective actions requested by the Department and obtained and evaluated the adequacy of supporting documentation for each corrective action. Since Department managers made the determination as to what actions were required, we did not evaluate the significance of the actions requested in the audit resolution document. We merely identified that the Department did request corrective action. At no time during our review did we find or were we provided with any documentation to indicate a recommendation was determined to be "minor," and/or that the Department did not intend to dedicate resources to follow up on the corrective action.

Our audit methodology was conveyed to PAG and other Department staff during our entrance conference, discussions with PO staff, and interim status briefings with PAG staff. At no time prior to or during our fieldwork within each office did Department staff indicate to us that they had concerns with the audit methodology or selected audits/recommendations. The Department's position that some actions were considered minor and therefore would not require followup was not mentioned until presentation of our findings at the exit conferences for one PO and for the overall project.

OIG did not question the discretion of the Department in sustaining or not sustaining the findings, or in determining the corrective actions needed. However, without documentation regarding the Department's determination that some corrective actions were considered minor, and its intent not to follow up on those actions, we cannot conclude that such a decision process took place prior to the presentation of our findings from this audit. In each case where we cited ineffective followup, the Department had requested corrective actions from the auditee. In resolving the audits, the Department had the discretion to concur with the finding but not require any corrective action due to materiality, if that was its determination.

### **Recommendations**

We recommend the Chief Financial Officer:

- 1.1 Develop and implement a process to periodically evaluate the appropriateness of the PO followup systems for external OIG audits.
- 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 and any other related factors currently tracked by the Department.
- 1.3 Provide training to PO audit resolution staff on the requirements for audit followup and on the documentation that should be maintained to provide assurance that corrective actions are taken.
- 1.4 Develop and implement guidance that defines the roles of PAG and the respective program offices in completing followup activity for external OIG discretionary grant audits resolved by PAG.

### **Department of Education Response:**

The Department generally concurred with each of the above recommendations. With respect to recommendation 1.4, the Department stated a process had already been implemented in response to an OIG recommendation from a prior audit report.

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## **Finding No. 2 – The Department Closed External OIG Audits Prior to Completion of Corrective Actions**

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Principal Office staff closed external OIG audits prior to completion of corrective actions. We identified nine audits that were reported as closed, but for which corrective action had not been completed at the time of our review. We also identified 15 additional audits where the corrective actions had been completed at the time of our review, but had not been completed at the time the audits were closed. In total, we found that 24 of the 46 audits reviewed (52 percent) were closed before corrective actions were completed. As a result, PAG was no longer tracking the status of the corrective actions, and the number of audits for which corrective actions had not yet been completed was underreported to Congress.

The results by PO were as follows:

<b>Principal Office</b>	<b># Audits Reviewed</b>	<b># Closed Before Corrective Actions Completed</b>
FSA	27	13
Discretionary Grants <sup>5</sup>	9	3
OESE	4	3
OCFO	3	2
OSERS	2	2
IES	1	1
<b>Total</b>	<b>46</b>	<b>24</b>

For the nine audits where corrective actions had not been completed at the time of our review, we found PO staff:

- Closed two of the audits although corrective actions were ongoing,
- Were reevaluating the management decision for three audits, and
- Closed four audits although the management decision was under appeal.

### Audit Followup Requirements

OMB Circular A-50, Section 8.a.(4), states that systems for resolution and corrective action must, “[M]aintain accurate records of the status of audit reports or recommendations through the entire process of resolution and corrective action.”

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<sup>5</sup> Includes eight OPE discretionary grant audits, and one OELA discretionary grant audit. These audits are resolved by PAG, rather than by program officials.

Section 5(a) of the Inspector General Act of 1978, as amended, states:

Each Inspector General shall, not later than April 30 and October 31 of each year, prepare semiannual reports summarizing the activities of the Office during the immediately preceding six-month periods ending March 31 and September 30. Such reports shall include. . .(3) an identification of each significant recommendation described in previous semiannual reports on which corrective action has not been completed. . .

Since the Department is responsible for audit followup, information for this section of the OIG's Semiannual Report is received from the Department through its audit resolution and tracking system.

Section 5(b)(4) of the Act also requires the Department to provide to Congress a semiannual report along with the Inspector General's report, which includes:

[A] statement with respect to audit reports on which management decisions have been made but final action has not been taken, other than audit reports on which a management decision was made within the preceding year. . .except that such statement may exclude such audit reports that are under formal administrative or judicial appeal or upon which management of an establishment has agreed to pursue a legislative solution, but shall identify the number of reports in each category so excluded.

We found that audits were closed before corrective actions were completed in part because the Department did not previously track external audits as resolved or closed. In CARS, the prior audit resolution tracking system, one status code was entitled "Resolved (Closed)." The CARS database provided another status code entitled, "All corrective actions completed," but this status code was not used. In addition, the database included separate fields for the audit resolution document date (indicating an audit was resolved), and the closed date (indicating all corrective actions were completed). However, the closed field was not always used appropriately and was often the same as or within a short time after the audit resolution document date. Used in this manner, the closed date did not accurately reflect the date all corrective actions were completed.

The Department's current system, AARTS, also includes the ability to distinguish between these phases of the audit resolution and followup process and accurately report status of the corrective actions. While the recently issued AARTS User Manual for External Audits states that an audit is considered "closed" when all required corrective actions have been taken, prior Department guidance did not include any definition or instruction for closing external OIG audits.

As discussed in Finding 1, staff from one PO did not followup on actions requested in audit resolution documents, and assumed that the auditees would take the requested actions. Some PO staff stated that they did not have sufficient resources to followup on all requested corrective actions. PAG stated that limited resources and an increasing workload made it difficult to ensure



that corrective actions were taken for external audits. PAG also stated that in some cases prior practice was to consider audits closed when the resolution documents were issued.

While OCFO's *Post Audit User Guide* includes specific direction relating to closure for internal OIG audits, it does not contain similar direction for external OIG audits. The *Post Audit User Guide* also requires certification by AOs that all corrective actions were completed prior to closure for internal OIG audits. However, it does not require a similar certification for external OIG audits. As discussed in Finding 1, PAG reviews audit followup documentation for internal OIG and GAO audits before the audits are considered closed. The same type of review is not conducted for external audits.

As a result, audits that were reported as closed but for which corrective actions were still in process may not have been appropriately tracked and could not be monitored by OCFO. Department management may not have been aware of the audits for which corrective actions were still in process. In addition, audits that were listed as closed, but for which all corrective actions had not been completed, were underreported to Congress in the OIG Semiannual Report, Table 1, "Recommendations Described in Previous Semiannual Reports on Which Corrective Action Has Not Been Completed," and in the Department's Semiannual Report to Congress on Audit Follow-up, Chapter Three, "Reports Pending Final Action One Year or More After Issuance of a Management Decision."

Of the nine audits we identified where corrective actions were not completed at the time of our review, two were audits where corrective actions were currently ongoing, four were currently under appeal, and the Department was reevaluating the management decision for three audits. Only four of these nine audits were correctly reflected in statistical data in Department's semiannual reports. Two audits where a corrective action was ongoing and three audits still on appeal were not reflected in the Department's semiannual report. None of the nine audits were correctly listed in OIG's semiannual report since the audits were closed in the Department's audit resolution tracking system, OIG's source for this information.

In a written response to our preliminary findings and recommendations presented at the audit exit conference, PAG stated:

It has been a long-standing practice, and one we support continuing, not to keep an external audit "open" that is on appeal or results in the establishment of a receivable. As discussed at the exit conference, PAG will work with POs, OGC [Office of General Counsel], and OIG to issue clearer guidance on audit follow-up, including precise definitions for the terms "resolved" and "closed."

While OMB Circular A-50 does provide a definition for resolution, we could not identify a definition of audit closure in the Circular or in the Department's guidance for external OIG audits. During our audit we contacted PAG regarding the definition of audit closure, to which it provided the following:

An audit is considered closed when all findings/recommendations are closed. A finding or recommendation is closed when a PDL has been issued or, if there are

instructions in the PDL to provide additional data or assurances, when the material has been received, analyzed and determined sufficient. Resolution specialists and AOs have the latitude to determine when material received in response to a request for additional information or information presented in the audit is sufficient to resolve and close a finding. Oftentimes, a decision to close a finding is reached after consultation from OGC and/or OIG. Because of the myriad of requirements unique to each program, there is no one-way to determine when a finding is closed. These decisions are reached on a finding by finding basis.

We recognize that issuing clearer guidance on audit follow-up, including precise definitions for the terms “resolved” and “closed” could remove some of the confusion that exists in this area. However, we do not concur that an audit should be “closed” when corrective action is under appeal. OMB Circular A-50 allows that audits under appeal may still be considered resolved. The *Post Audit User Guide* does not specify how audits under appeal should be reflected. When an audit is appealed, the auditee does not concur with the management decision and corrective actions requested. There is no certainty the requested corrective actions will be upheld and ultimately completed by the auditee. As such, the audit cannot accurately be considered closed.

With respect to audits for which a receivable has been established, but collection has not been completed, OCFO policy does not address how to reflect the status of these audits. As such, it is not clear whether these audits should be considered closed, since the return or repayment of funds is a corrective action not yet completed. OCFO indicated in its response to the exit conference that it would develop clearer guidance on audit followup and the definitions of “resolved” and “closed.” The status of audits currently under appeal and in collection status should also be addressed in this revised guidance. As appropriate separate categories for tracking the status of these audits in AARTS should be established.

## Recommendations

We recommend that the Chief Financial Officer:

- 2.1 Develop and implement a process requiring AO certification and PAG validation that adequate documentation was received to support completion of corrective actions prior to closing external OIG audits.
- 2.2 Ensure the status of external OIG audits currently under appeal, awaiting re-evaluation, or in collection, is reflected as resolved, but not closed, in AARTS, to accurately reflect the status of the audit. Establish additional categories in AARTS as appropriate to allow for tracking these audits.
- 2.3 Enhance the accuracy of AARTS data by identifying all external OIG audits that were closed since September 30, 2004, and coordinate with the program offices to

identify those audits for which corrective actions have been completed, and those for which corrective actions are still in process. For those audits where corrective action has been completed, ensure an appropriate “closed” date is reflected in AARTS. For those audits where corrective actions are still in process, correct the data in AARTS to accurately reflect the status of the audits.

- 2.4 Ensure the Department’s *Semiannual Report to Congress on Audit Follow-up* accurately reports audits which have been resolved, but for which corrective actions have not been completed.
- 2.5 Develop and implement guidance that defines audit closure for external audits. The guidance should be consistent with OMB policy and definitions identified in other documents such as AARTS User Manuals, and address audits on appeal and those for which the only remaining corrective action is collection of funds due the Department.
- 2.6 Provide training to PO staff to ensure they are informed of the updated policy guidance and that audits should not be considered closed until all corrective actions have been completed.

Implementation of the recommendations made in Finding 1 will also strengthen controls and the accuracy of reporting in this area.

### **Department of Education Response:**

The Department generally concurred with recommendations 2.2, 2.4, 2.5, and 2.6. With respect to recommendation 2.1, the Department stated:

As discussed during the exit conference; program offices, OGC and OCFO have very serious concerns with this recommendation and respectfully request that the OIG reconsider its position. Certification does work well for internal audits. However, the AO is certifying the completion of corrective actions taken within the PO. The logistical and resource ramifications involved with having an AO certify the actions of an entity external to the Department of Education and subsequently with having PAG review the adequacy of follow-up documentation, is impractical in terms of cost, travel and staff hours it will demand. The PO should have discretion in how follow-up is accomplished based upon resources available. Implementing this recommendation would require a dedication of departmental staff and budgetary resources that far exceeds any marginal benefits to be realized. We believe that corrective actions taken on Recommendations 1.1, 1.2 and 1.3 above will adequately address weaknesses in the audit follow-up process. We request that the OIG meet with the program offices, OGC and OCFO to further discuss the concerns expressed in implementing this recommendation.

With respect to recommendation 2.3 the Department stated:

As discussed during the exit conference, program offices, OGC and OCFO have concerns with this recommendation. The task of determining OIG-issued external audits closed during the past year and a half and reviewing the status of each corrective action would be extremely labor intensive and would not add value to the process. We also do not believe that the findings in the draft audit report warrant this degree of scrutiny. The Department's audit workload has increased dramatically over the past year; therefore, implementing this recommendation would have an adverse impact on efforts to resolve and close external audits that are currently in the follow-up process. During the exit conference, we requested that the OIG reconsider this recommendation, and we were given assurances that this would occur. We request that the OIG meet with the program offices, OGC and OCFO to further discuss the concerns expressed in implementing this recommendation.

#### **Office of Inspector General Comments:**

With respect to recommendation 2.1, during our audit we identified corrective actions sought by the Department through the resolution document and obtained and evaluated the adequacy of supporting information for each requested corrective action. We recognize the role and responsibility of the Department in resolving and closing OIG external audits. However, when corrective actions are defined the Department has the responsibility to ensure they are taken.

OIG agrees the Department's discretion includes determining the means to gain assurance that requested corrective actions were completed. The method chosen to ensure that corrective actions were completed need not be resource intensive. For example, the Department could require the auditee to submit documentation rather than conducting on-site visits. However, in accordance with OMB Circular A-50, the Department's *Post Audit User Guide*, and the Department's *AARTS User Manual*, the method chosen should provide evidence that the required corrective action has been taken. During this review we noted instances where the applicable method selected by the Department was not completed or did not provide adequate information to show that corrective actions were completed. This included instances where planned on-site monitoring was not conducted, documentation to support completion of requested actions was not obtained, and single audits did not provide assurance that the independent auditor reviewed the action item for completion.

Based on the Department's comments regarding certifying actions taken by external entities, we modified the recommendation to clarify that the suggested certification and review process relate to the adequacy of information obtained prior to closing the audit.

With respect to recommendation 2.3, the audit determined that the Department closed recommendations prior to the completion of corrective action in 24 of the 46 audits reviewed (52 percent). We found that this caused data to be underreported to Congress in reports submitted by the Department and the OIG. We believe it is imperative that data provided to Congress is complete and accurate. We reconsidered this recommendation in response to the Department's

request at our exit conference for this audit and reduced the time period subject to review from external OIG audits closed over the past two years to those closed since September 30, 2003, in the draft report. We have subsequently modified this period to those audits closed since September 30, 2004, to help ensure data included in the next reports to Congress is accurate.

OIG modified two of its recommendations based on the Department's comments as detailed above and is willing to meet with the Department during the audit resolution process to discuss any concerns that may remain in these areas.

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## OBJECTIVES, SCOPE, AND METHODOLOGY

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The objective of our audit was to evaluate the effectiveness of the Department’s process to ensure that external auditees implement corrective action. To accomplish our objective, we reviewed applicable laws and regulations, and Department policies and procedures. We conducted interviews with Department staff responsible for resolving and following up on corrective actions for the audits selected. We also reviewed documentation provided by Department staff to support the corrective actions taken for the recommendations included in our review.

The universe for our audit included OIG audits of external entities issued during the period October 1, 1997, through September 30, 2002. We identified a total of 204 audits in this universe, as shown below by PO.

**Table 1**  
**Audit Reports in Universe - By PO**

PO Title	PO Acronym	Number of Reports in the Audit Universe
Office of Federal Student Aid	FSA	103
Office of Elementary and Secondary Education and Office of Safe and Drug Free Schools	OESE/OSDFS	30
Office of Special Education and Rehabilitative Services	OSERS	25
Office of the Chief Financial Officer	OCFO	18
Office of Postsecondary Education	OPE	18
Institute of Education Sciences	IES	5
Office of Vocational and Adult Education	OVAE	3
Office of the Chief Information Officer	OCIO	1
Office of English Language Acquisition, Language Enhancement, and Academic Achievement for Limited English Proficient Students	OELA	1
<b>Total</b>		<b>204</b>

We refined our scope to include only those audits reported by the Department’s audit resolution system as “closed” on or before September 30, 2002. We also excluded certain categories of audits from our scope, including those relating to Year 2000 compliance, alternative products, and discontinued programs. We determined a total of 75 audits were within the scope of our audit. The number of audits and recommendations within our scope is shown below for each PO.

**Table 2**  
**Audit Reports within Audit Scope - By PO**

PO	Number of Reports Within Audit Scope	Number of Recommendations Within Audit Scope
FSA	38	181
OESE/OSDFS	12	49
OPE	10	51
OSERS	7	38
OCFO	4	17
IES	3	19
OELA	1	2
<b>Total</b>	<b>75</b>	<b>357</b>

To select audits within our scope for review, we evaluated the status of the recommendations and corrective actions required by the Department. We excluded any internal or non-sustained recommendations in these audits from our review. We judgmentally selected all 42 audits that included monetary findings for this review. We also judgmentally selected four additional audits from high-risk programs with no monetary findings.

In total, we selected 46 audits and 239 related recommendations for review. This represented 61 percent of the audits and 67 percent of the recommendations within our scope. The number of selected audits and recommendations for each PO is shown below. A complete listing of the selected audits is included as Attachment 2 to this report.

**Table 3**  
**Selected Reports and Recommendations - By PO**

PO	Number of Reports Selected	Total Number of Recommendations Selected
FSA	27	136
OESE/OSDFS	4	18
OPE	8	46
OSERS	2	15
OCFO	3	13
IES	1	9
OELA	1	2
<b>Total</b>	<b>46</b>	<b>239</b>

We relied on computer-processed data initially obtained from OIG's Audit Tracking System to identify OIG audits issued during the scope period. We reconciled this data to the Department's CARS, and to audits reported in the OIG semiannual reports to Congress to ensure that we had captured all audits issued during the period. We also reviewed copies of the audit reports to ensure the audits met the scope period under review. We confirmed data in the audit reports to data in AARTS, which replaced CARS in July 2003. Based on these tests and assessments, we determined that the computer-processed data was reliable for meeting our audit objective.

The focus of this audit was on assurance that corrective actions were completed. We based our review on corrective actions requested in the issued final audit resolution document. We reviewed and analyzed documentation provided by the Department to determine if sufficient assurance was obtained that auditees implemented requested corrective actions. For monetary findings, we also evaluated documentation supporting the return of funds to the Department.

We conducted fieldwork at Department offices in Washington, DC, during the period September 2003 through June 2004. We held an exit conference with PAG on July 1, 2004. Our audit was performed in accordance with government auditing standards appropriate to the scope of the review described above.



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## STATEMENT ON INTERNAL CONTROLS

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We made a study and evaluation of the internal control structure relating to the Department's audit followup process for external OIG audits in effect from September 2003 through June 2004. This study and evaluation was conducted in accordance with Government Auditing Standards. For the purpose of this report, we assessed and classified the significant internal control structure into the following categories:

- Documentation of Completed Corrective Actions
- Effectiveness of Followup Systems
- Timeliness of Resolution and Followup

Because of inherent limitations in any internal control structure, errors or irregularities may occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the degree of compliance with the procedures may deteriorate.

Our assessment disclosed internal control weaknesses that adversely affected the Department's ability to ensure corrective actions were taken by external entities in response to OIG external audits. These weaknesses and their effects are fully discussed in the AUDIT RESULTS section of this report. These weaknesses resulted in more than a relatively low risk that errors, irregularities and other inefficiencies may occur resulting in inefficient and/or ineffective performance.

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## Attachment 1: PO Reports Issued in Conjunction with This Audit

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Number	Audit Control Number	Title	Final Report Date
1	A19-E0003 & A19-E0005	Audit Followup Process – External Audits – OCFO (includes results of audits resolved by Contracts and Acquisitions Management within OCFO, and discretionary grants resolved by PAG)	9/23/04
2	A19-E0002	Audit Followup Process – External Audits – FSA	9/16/04
3	A19-E0004	Audit Followup Process – External Audits – OESE/OSDFS	8/27/04
4	A19-E0006	Audit Followup Process – External Audits – OSERS	6/2/04
5	A19-E0007	Audit Followup Process – External Audits – IES (Close-out letter – one audit reviewed, no issues noted.)	4/1/04
6	A19-E0010	Audit Followup Process – External Audits – OELA (Close-out letter issued since PAG is responsible for resolution of discretionary grant audits. Results included in A19-E0003/A19-E0005 above.)	3/16/04
7	A19-E0011	Audit Followup Process – External Audits – OPE (Close-out letter issued since PAG is responsible for resolution of discretionary grant audits. Results included in A19-E0003/A19-E0005 above.)	3/16/04

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## Attachment 2: Audit Reports Reviewed in This Audit

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<b>Number</b>	<b>Audit Control Number</b>	<b>Report Title</b>	<b>Report Issue Date</b>	<b>PO</b>	<b>Number of Recommendations</b>
1	A02-70001	Audit of the Direct Loan Program Administered by Dowling College	10/6/97	FSA	10
2	A09-80023	Academy Pacific Business and Travel College Eligibility to Participate in Title IV Programs	12/21/98	FSA	2
3	A05-80008	Antonelli College's Administration of Student Financial Assistance Programs	2/19/99	FSA	5
4	A05-90009	East-West University's Administration of the Student Financial Assistance Programs	5/18/99	FSA	9
5	A09-80029	Pacific Travel Trade School Eligibility to Participate in Title IV Programs	6/11/99	FSA	2
6	A05-80016	City Colleges of Chicago's Administration of the Federal Pell Grant Program	7/23/99	FSA	8
7	A06-80011	Audit of Texas Careers' Compliance With the 85 Percent Rule	8/6/99	FSA	2
8	A06-80012	Audit of Collegiate Systems, Inc., Compliance With the 85 Percent Rule	8/9/99	FSA	1
9	A05-90002	The Illinois Student Assistance Commission's Administration of the Federal Family Education Loan Program Federal and Operating Funds	12/29/99	FSA	3
10	A06-80008	Audit of Capital City Trade and Technical School, Inc., Compliance with the 85 Percent Rule	2/15/00	FSA	2
11	A09-90011	Platt College - San Francisco Administration of Title IV Programs	2/28/00	FSA	10
12	A06-80013	Hallmark Institute of Aeronautics' Compliance with the 85 Percent Rule	3/6/00	FSA	2
13	A05-90053	St Augustine College's Administration of the Federal Student Financial Assistance Programs for the 1998-99 Award Year	3/8/00	FSA	2
14	A09-70022	University of Phoenix's Management of Student Financial Assistance Programs	3/31/00	FSA	9
15	A06-90004	Review of Student Financial Aid Compliance at Success Institute of Business	8/7/00	FSA	3
16	A06-90012	Review of Student Financial Aid Compliance at the International Institute of Chinese Medicine	8/8/00	FSA	4

<b>Number</b>	<b>Audit Control Number</b>	<b>Report Title</b>	<b>Report Issue Date</b>	<b>PO</b>	<b>Number of Recommendations</b>
17	A05-90052	Mount Senario College's Administration of the Title IV HEA Programs for the Period July 1, 1998, through June 30, 1999	9/14/00	FSA	11
18	A05-90054	Audit of the Title IV Higher Education Act Programs Administered by Cleveland State University Cleveland, Ohio	9/28/00	FSA	9
19	A05-A0002	Audit of Great Lakes Higher Education Corporation's Federal Family Education Loan Programs	3/30/01	FSA	4
20	A05-A0028	The Illinois Student Assistance Commission's Administration of the Federal Family Education Loan Program Federal and Operating Funds	3/30/01	FSA	14
21	A05-B0007	Audit of the Michigan Guaranty Agency's Administration of the Federal Family Education Loan Program Federal and Operating Funds	9/25/01	FSA	4
22	A06-B0013	University of Arkansas at Little Rock's Compliance with the Title IV Student Financial Assistance Verification Requirements	9/28/01	FSA	1
23	A06-B0009	Southwest Texas State University Compliance with the Title IV Student Financial Assistance Verification Requirements	9/28/01	FSA	3
24	A02-B0006	Audit of Drake College of Business' Compliance with the Title IV Higher Education Act Program Requirements	3/5/02	FSA	6
25	A09-B0017	Audit of Glendale Career College's Administration of the Higher Education Act Title IV Programs	3/18/02	FSA	3
26	A06-B0026	South Texas Vocational Technical Institute – Brownsville's Administration of the Title IV Student Financial Assistance Programs	3/20/02	FSA	3
27	A06-B0011	Livingstone College's Compliance with the Title IV Student Financial Assistance Verification Requirements	3/29/02	FSA	4
28	A05-A0004	Title VII Systemwide Improvement Grant Administered by Community Unit School District 300, Carpentersville, Illinois	12/6/00	OELA	2

<b>Number</b>	<b>Audit Control Number</b>	<b>Report Title</b>	<b>Report Issue Date</b>	<b>PO</b>	<b>Number of Recommendations</b>
29	A02-80002	Recipient Financial Management System Contract, Computer Data Systems, Incorporated, Rockville, Maryland	9/22/00	OCFO	2
30	A07-80018	Audit of Title IV Wide Area Network, Contract, National Computer Systems, Iowa City, IA	5/6/99	OCFO	6
31	A07-90003	Audit of the Central Processing System Contract	3/15/00	OCFO	5
32	A09-60009	WestEd's Administration of the Regional Education Laboratory Contracts	3/31/98	OERI	9
33	A02-A0001	Audit of New York City Oversight of Title I	3/28/01	OESE	2
34	A05-B0005	The Chicago Public Schools' Administration of Title I, Part A, Funds for Providing Services to Private School Children	3/29/02	OESE	8
35	A06-A0006	New Mexico State and Local Education Agencies' Compliance with the Gun-Free Schools Act of 1994	9/28/00	OESE/ OSDFS	6
36	A03-A0008	Colorado State and Local Educational Agencies' Compliance with the Gun-Free Schools Act of 1994	9/13/00	OESE/ OSDFS	2
37	A03-A0019	Audit of Lincoln University's Administration of the Title III Grant	7/27/01	OPE	7
38	A04-A0009	Higher Education Act Title III, Part A, Higher Education Grant at Mars Hill College	9/29/00	OPE	2
39	A05-80005	Central State University Student Support Services Program	3/16/98	OPE	2
40	A05-90045	Audit of the Student Support Services Project Administered by Marian College, Fond Du Lac, Wisconsin	3/27/00	OPE	10
41	A05-A0003	Audit of the Student Support Services Project Administered by Mount Senario College, Ladysmith, Wisconsin	9/28/00	OPE	9

<b>Number</b>	<b>Audit Control Number</b>	<b>Report Title</b>	<b>Report Issue Date</b>	<b>PO</b>	<b>Number of Recommendations</b>
42	A05-A0022	Audit of Selected Aspects of the Talent Search Grant Administered by South Suburban College, South Holland, Illinois	1/22/01	OPE	4
43	A07-80027	Audit of Creighton University's Administration of its Federal TRIO Projects	3/31/00	OPE	4
44	A07-A0006	Audit of Independence Community College's Administration of its Federal TRIO Projects	10/15/01	OPE	8
45	A09-A0001	Arizona Department of Education Management Controls Over IDEA, Part B-Special Education Performance Data	9/22/00	OSERS	7
46	A09-A0016	California Department of Education Management Controls Over IDEA, Part B-Special Education Performance Data	3/30/01	OSERS	8
	<b>Total</b>				<b>239</b>



## UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF THE CHIEF FINANCIAL OFFICER

THE CHIEF FINANCIAL OFFICER

MAR - 4 2005

**Memorandum**

**To:** Michelle Weaver-Dugan, Director  
Operations Internal Audit Team  
Office of Inspector General

**From:** Jack Martin *Jack Martin*

**Subject:** OCFO Response to Draft Audit Report: Audit of the Department of Education's Follow-up Process for External Audits  
ACN: ED-OIG/A19-D0007

We appreciate the opportunity to respond to the referenced draft audit report. Audit follow-up is an integral part of good management and is a shared responsibility of agency management officials, program staff and auditors. The Office of the Chief Financial Officer (OCFO) has long recognized this fact, and as a result, has put in place policies, procedures and systems for tracking, resolving and closing audit findings, in compliance with Office of Management and Budget (OMB) Circular A-50.

While we agree with the thrust of the overall findings and most of the report's recommendations to improve the audit follow-up system, we believe the report could be more balanced to reflect improvements in the process. In this regard, the Department has made great strides over the last few years to enhance the efficiency and effectiveness of the Department's audit follow-up process. Significant efforts have been taken to: (1) improve policies and procedures for audit follow-up, (2) continually enhance the Audit Accountability and Resolution Tracking System (AARTS) to effectively track the Department's follow-up and resolution activities, (3) provide appropriate training to departmental staff on AARTS, the single audit process, and the Federal Audit Clearinghouse, (4) promote communications and consistency across the Department regarding audit follow-up, and (5) issue improved guidance on maintaining supporting documentation for corrective actions taken and on the role of OCFO and the Principal Offices (POs) in following up on discretionary grant audits. These actions and other enhancements we have taken to improve the process provide a reasonable assurance that OIG external audits are receiving appropriate attention and timely follow-up actions. This assurance is also supported by the report's findings showing a low percentage (11%) of audit recommendations with incomplete corrective actions and finding significance. But, as with any process, there is always room for improvement, and we are constantly looking for additional ways to build upon the progress we have achieved to-date.

As discussed during the exit conference on this audit, we have concerns with a couple of the report's recommendations. Specifically, we have concerns with the recommendation that the Department develop and implement a process, similar to that established for

internal OIG audits, requiring Action Official (AO) certification and the OCFO's Post Audit Group's (PAG) review of the adequacy of audit follow-up documentation prior to closing external OIG audits. This recommendation is impractical in terms of the resources it will demand to document corrective actions taken by entities prior to closing external OIG audits. As the OIG does in its audit plans and in its choice of activities to audit and investigate, priority and follow-up attention given to corrective actions should be weighted and "triaged" appropriately. Based on such factors as risk and the significance of the underlying violation being corrected, resolution officials should have discretion to decide which corrective actions to track by on-site monitoring, which to monitor by other means, which to review in writing, and which to leave to single auditors to review in subsequent years. Some of the audit findings and corrective actions chosen by the OIG to review were relatively minor, and some follow-up actions suggested by the OIG would use more resources than the value of the corrective action to be taken. Additionally, the recommendation requiring the Department to identify all external OIG audits that have been closed since September 30, 2003, and review the status of each corrective action would be extremely resource intensive and detract from current resolution efforts.

We appreciate the thoughtful review the OIG performed and the professional approach followed by the auditors throughout the engagement. Given our above concerns and more detailed comments below, we believe the OIG should carefully reconsider the viability of the two above-mentioned recommendations. We also believe that prior to issuing a final report that a meeting be held among the OIG, affected program offices, OGC and OCFO to discuss these issues and the impact of recommendations in more detail.

The following are our specific comments in response to the report's findings and recommendations.

**Finding #1    PAG Did Not Ensure the Department's Audit Follow-up System for External OIG Audits was Effective**

**1.1 Develop and implement a process to periodically evaluate the appropriateness of the PO follow-up systems for external OIG audits.**

**OCFO Response**

Current practice in the Department is to give the POs discretion in the type of follow-up that is appropriate for individual programs. OCFO provides written formal guidance through the *Post Audit User Guide* and periodically provides updates to the policy and procedures on an interim basis until such time that the guide is formally updated. Since the guide was issued in 2003, we have issued guidance on maintaining supporting documentation for corrective actions taken and on the role of OCFO and the POs in following up on discretionary grant audits. Based upon the low percentage (11%) of audit recommendations with incomplete corrective actions, we believe that audit follow-up in OCFO and the POs is being performed well. We



will, however, look for ways to strengthen the process through continued staff training and sample testing of PO follow-up.

- 1.2 Develop and implement procedures to periodically report on the adequacy of Action Official (AO) systems for follow-up on external corrective actions, and the overall effectiveness of the Department's external audit follow-up system, based on the reviews of audit follow-up documentation and any other related factors currently tracked by the Department.**

**OCFO Response**

As is stated in 1.1 above, we will look for ways to strengthen the process based on sample testing of PO follow-up.

- 1.3 Provide training to PO audit resolution staff on the requirements for audit follow-up and on the documentation that should be maintained to provide assurance that corrective actions are taken.**

**OCFO Response**

We concur with this recommendation and will train audit resolution staff on the requirement for follow-up and documentation maintenance. We are currently working with OM to establish an Audit Resolution Curriculum, and will ensure that training on follow-up activities is included. In March 2005, we began the process of updating the *Post Audit User Guide*, and once the guide is updated, staff training on updates and revisions will take place.

- 1.4 Develop and implement guidance that defines the responsibilities of PAG and the respective program offices in completing follow-up activity for external OIG discretionary grant audits resolved by PAG.**

**OCFO Response**

This recommendation is a duplicate of a recommendation in the OIG Audit Report on the Audit Follow-up Process for OCFO (ACN: ED-OIG/A19-E0003). On November 10, 2004, PAG issued a notice via e-mail to all appropriate parties titled "Clarification of Audit Resolution Policy for Audits Resolved in PAG and CAM." The OIG concurred with this action on November 29, 2004. Therefore, this recommendation has been implemented.

**Finding #2 The Department Closed External OIG Audits Prior to Completion of Corrective Actions.**

**2.1 Develop and implement a process, similar to that established for Internal OIG audits, requiring AO certification and PAG review of the adequacy of audit follow-up documentation prior to closing external OIG audits.**

**OCFO Response**

As discussed during the exit conference; program offices, OGC and OCFO have very serious concerns with this recommendation and respectfully request that the OIG reconsider its position. Certification does work well for internal audits. However, the AO is certifying the completion of corrective actions taken within the PO. The logistical and resource ramifications involved with having an AO certify the actions of an entity external to the Department of Education and subsequently with having PAG review the adequacy of follow-up documentation, is impractical in terms of cost, travel and staff hours it will demand. The PO should have discretion in how follow-up is accomplished based upon resources available. Implementing this recommendation would require a dedication of departmental staff and budgetary resources that far exceeds any marginal benefits to be realized. We believe that corrective actions taken on Recommendations 1.1, 1.2 and 1.3 above will adequately address weaknesses in the audit follow-up process. We request that the OIG meet with the program offices, OGC and OCFO to further discuss the concerns expressed in implementing this recommendation.

**2.2 Ensure the status of external OIG audits currently under appeal, awaiting reevaluation, or in collection, is reflected as resolved, but not closed, in AARTS, to accurately reflect the status of the audit. Establish additional categories in AARTS as appropriate to allow for tracking these audits.**

**OCFO Response**

This recommendation, to establish in AARTS additional categories for tracking the status of audits under appeal or in receivables, is one we support. Our contract resources for this year have been finalized, but we will discuss these enhancements with the AARTS team and include them as future improvements to AARTS.

- 2.3 Enhance the accuracy of AARTS data by identifying all external OIG audits that were closed since September 30, 2003, and coordinate with the program offices to identify those audits for which corrective actions have been completed, and those for which corrective actions are still in process. For those audits where corrective action has been completed, ensure appropriate “closed” date is reflected in AARTS. For those audits where corrective actions are still in process, correct the data in AARTS to accurately reflect the status of the audits.**

**OCFO Response**

As discussed during the exit conference, program offices, OGC and OCFO have concerns with this recommendation. The task of determining OIG-issued external audits closed during the past year and a half and reviewing the status of each corrective action would be extremely labor intensive and would not add value to the process. We also do not believe that the findings in the draft audit report warrant this degree of scrutiny. The Department’s audit workload has increased dramatically over the past year; therefore, implementing this recommendation would have an adverse impact on efforts to resolve and close external audits that are currently in the follow-up process. During the exit conference, we requested that the OIG reconsider this recommendation, and we were given assurances that this would occur. We request that the OIG meet with the program offices, OGC and OCFO to further discuss the concerns expressed in implementing this recommendation.

- 2.4 Ensure the Department’s *Semiannual Report to Congress on Audit Follow-up* accurately reports audits which have been resolved, but for which corrective actions have not been completed.**

**OCFO Response**

Once Recommendation 2.2 above is implemented, data can be drawn from AARTS for use in preparing management’s *Semiannual Report to Congress on Audit Follow-up* that will differentiate in the report, OIG audits that are resolved, but for which corrective actions have not been completed.

- 2.5 Develop and implement guidance that defines audit closure for external audits. The guidance should be consistent with OMB policy and definitions identified in other documents such as AARTS User Manuals, and address audits on appeal and those for which the only remaining corrective action is collection of funds due the Department.**

**OCFO Response**

We will issue guidance that defines audit closure for external OIG audits. The guidance will be incorporated into the *Post Audit User Guide*. In March 2005, we

began the process of updating the guide. We will ensure that the AARTS User Manuals are also revised.

**2.6 Provide training to PO staff to ensure they are informed of the updated policy guidance and that audits should not be considered closed until all corrective actions have been completed.**

**OCFO Response**

We concur with this recommendation and will train audit resolution staff on the updated policy guidance, that audits not be considered closed until all corrective actions have been completed. We are currently working with OM to establish an Audit Resolution Curriculum, and will ensure that training regarding this matter is included in the course.

Thank you for the opportunity to respond to the draft audit report. We look forward to meeting with you to discuss further Recommendations 2.1 and 2.3. Please contact Randy Prindle of the Post Audit Group at 202-377-3821 with dates and times convenient to you. We will continue to work with you and other offices in the Department to improve upon the audit follow-up process.