



UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF INSPECTOR GENERAL

November 4, 2005

CONTROL NUMBER
ED-OIG/A19F0004

Jack Martin
Chief Financial Officer
Office of the Chief Financial Officer
U.S. Department of Education
400 Maryland Avenue, SW
Washington, DC 20202

Dear Mr. Martin:

This **Final Audit Report** (Control Number ED-OIG/A19F0004) presents the results of our audit of the *Audit Followup Process for Office of Inspector General Internal Audits in the Office of the Chief Financial Officer*. The objective of our audit was to verify whether adequate documentation was maintained to support that corrective action items have been implemented as stated in the Department of Education's (Department) corrective action plans (CAP). This audit is a part of a review of the Department's internal audit followup process being performed in four principal offices (POs). As the Department of Education's audit followup official, you will also receive a summary report upon completion of the audits in the individual POs.

BACKGROUND

Office of Management and Budget (OMB) Circular A-50, entitled "Audit Followup," provides the requirements for establishing systems to assure prompt and proper resolution and implementation of audit recommendations. The Department established a *Post Audit User Guide* (Guide) to provide policy and procedures for the audit followup process. Section I, "Overview," of the Guide states,

The effectiveness of the post audit process depends upon taking appropriate, timely action to resolve audit findings and their underlying causes, as well as providing an effective system for audit close-out, record maintenance, and follow-up on corrective actions.

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While overall responsibility for the audit followup process is assigned to the Office of the Chief Financial Officer (OCFO), Post Audit Group (PAG), each Assistant Secretary (or equivalent office head) is responsible for ensuring that the overall audit followup process operates efficiently and consistently. The Guide defines further responsibilities of the Action Official (AO), generally the 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,
- Maintaining formal, documented systems of cooperative audit resolution and follow-up to ensure that audit recommendations are implemented, completion dates captured, and appropriate documentation maintained to support completed corrective actions.

The Department tracks audit resolution and the completion of corrective action items through the Audit Accountability and Resolution Tracking System (AARTS). For each audit, AARTS stores detailed information on audit resolution, proposed corrective action items, Office of Inspector General (OIG) concurrence with these action items, responsible individuals, and completion and closure data.

When a PO has completed all corrective action items for an internal OIG audit, the PO certifies this fact to PAG and requests closure of the audit in AARTS. PAG staff perform a review of the documentation in the audit resolution file maintained by the PO to determine whether implementation of corrective action items is supported. Once PAG is satisfied that implementation of the corrective action items reviewed is supported, the audit is closed in AARTS. PAG staff stated that until sometime in Fiscal Year 2004, only a sample of corrective action items was evaluated and that PO staff did not necessarily know that all corrective action items were not reviewed. PAG staff stated that currently all corrective action items are evaluated in these reviews.

AUDIT RESULTS

We found improvements are needed in OCFO's internal control over its audit followup process. While OCFO maintained files with documentation regarding audit followup activity, we found OCFO's audit followup process did not support the completion of all corrective action items. In addition, this process did not always support completion of corrective action items by the date reported as completed in AARTS.

OCFO audit resolution staff generally believed that completion of corrective action items was adequately documented. However, we found documentation did not support completion of 3 of the 38 corrective action items reviewed. As a result, OCFO does not have assurance that corrective action items were implemented. In addition, reporting corrective action items as completed before the actions have actually been taken compromises the integrity of the data included in AARTS, understates internal management reports and reports to Congress on corrective action items that have not yet been completed, and may negatively impact the Department's credibility.

In its response to the draft audit report, OCFO concurred with the finding and provided corrective actions to address each of the recommendations included in our report. The complete text of OCFO's response is included as Attachment 2 to this report.

Finding 1 OCFO Audit Followup Was Not Always Effective

We found OCFO's audit followup process was not always effective. While OCFO certified that corrective action items were completed, we found they were unable to support completion of 3 of the 38 corrective action items reviewed (8 percent). We were able to validate closure dates for 29 of the 35 supported corrective actions through OCFO provided documentation.¹ We found OCFO reported 2 of these 29 action items (7 percent) as completed in the Department's audit tracking system prior to dates reflected by supporting documentation.

Documentation Did Not Support Completion of Corrective Action Items

OCFO audit resolution file documentation did not initially support completion of 7 of the 38 corrective action items reviewed (18 percent). In response to an OIG request, OCFO provided additional documentation not originally included in the audit resolution files that supported completion of 4 additional corrective action items. Ultimately, OCFO could not provide documentation to support completion of 3 of the 38 corrective action items (8 percent). Unsupported corrective action items noted during this audit included the following:

- In one audit, the corrective action item stated in part that OCFO would correct 213 negative balances by December 31, 2003.² The audit resolution file contained an Obligation Amount Out of Balance report, which lists 46 awards, along with the award, obligation, and FMSS totals. In response to the OIG referral, OCFO advised us that the 213 balances were corrected, but the employee responsible for making the corrections did not maintain documentation of the action.
- In another audit, the corrective action item stated OCFO would "follow-up on COR [Contracting Officer Representative] delegations to ensure that every OERI [Office of Educational Research and Improvement] contract over \$100,000 has an appointed COR and that a delegation of responsibility memorandum has been issued."³

¹ In six cases, we could not validate closure dates because of limitations in the supporting documentation provided by OCFO.

² Audit Control Number (ACN) A17-D0001: "United States Department of Education: Office of the Chief Financial Officer - Contracting and Purchasing Operations Compliance with Appropriation Law," issued October 6, 2003, Corrective Action Item 2.2.1.

³ ACN A19-B0009: "Audit of The Department of Education's process for identifying and Monitoring High-Risk Contracts that Support Office of Educational Research and Improvement (OERI) Programs," issued September 20, 2002, Corrective Action Item 1.12.1.

The audit resolution file contained a listing of contracts that identified current contracts with values over \$100,000, as well as the program manager, project manager, COR, contract specialist, and contracting officer for each contract. In response to the OIG referral, OCFO referred to an email from a Contracts Group Chief that stated staff reviewed applicable OERI contracts and the contracts are current in file organization. While this email states contract files are organized, we have no assurance that delegation of responsibility memorandums were issued to the CORs.

PAG issued Audit Closure Memos for two of the five audits included in this review. These two audits contained 26 of the 38 corrective action items we reviewed. We noted 9 of these 26 corrective action items were identified as reviewed by PAG prior to issuance of the Audit Closure Memos. We determined all 9 corrective action items reviewed by PAG were adequately supported by documentation provided by OCIO. The results of our analysis of the effectiveness of PAG's review process will be included in the audit followup summary report upon completion of the audits in individual offices.

Documentation Did Not Support Reported Completion Dates

For the 29 corrective action items for which completion dates could be verified, OCFO reported 2 corrective action items as completed in AARTS prior to dates reflected by supporting documentation (7 percent). These items were reported as completed 13 and 15 months before dates noted on supporting documentation.

For example, a corrective action item for one audit was reported as completed on August 31, 2003. OCFO provided us with an AARTS printout of the "View Audit" screen that shows the issue date of a final audit report is logged in the system. This item was sufficient to support the completion of the corrective action item, but was dated December 3, 2004.

Requirements for Audit Followup

OMB Circular A-50, entitled "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 Department's Post Audit User Guide, Section IV, "Internal Audits," Chapter 1, "ED Office of Inspector General (ED-OIG) Audit Reports and Alternative Products," Part G, "Corrective Actions," states:

Each AO must maintain documentation to support implementation of each corrective action in accordance with the *Guidelines for Establishing File Folders and Maintaining Documentation*. The documentation must be specifically identifiable to a corrective action to withstand any post audit closure review by PAG/OCFO, ED-OIG, [Government Accountability Office] GAO and/or OMB. All ED-OIG audit records must be retained by an AO for at least five years after ED-OIG is notified that all corrective actions have been completed.

The Department's *Guidelines for Establishing File Folders and Maintaining Documentation* states:

A file folder should be established for each audit report beginning with the draft report. Each folder should contain . . . Documentation to support implementation of corrective actions or specific notes that indicate where said documents are located . . . Explanation of how such documentation supports the corrective action, if not readily understood or evident.

The *Guidelines for Establishing File Folders and Maintaining Documentation* also provides examples of supporting documentation to include memos of understanding, final regulations, Dear Colleague Letters, records from databases, and policies and procedures.

OCFO audit resolution staff generally believed that available documentation was adequate to support completion. OCFO stated they had no supporting documentation for one corrective action item because the employee responsible for implementing the action item did not maintain documentation supporting completion of the action. We concluded OCFO could not support an additional corrective action item because they were unsure of the type of documentation to provide that would show the corrective action item had been implemented.

Without appropriate documentation, OCFO does not have assurance that identified deficiencies were corrected. As such, the risk remains that related programs may not be effectively managed.

By reporting corrective action items as completed when they have not been, or in advance of the actual completion date, OCFO compromises the integrity of the data included in AARTS and may negatively impact the Department's credibility. Management reports on corrective action items due for completion may be understated. In addition, the Department's *Semiannual Report to Congress on Audit Followup* may also under report the audits for which corrective action items have not been completed.

Recommendations:

We recommend that the Chief Financial Officer:

- 1.1 Establish and implement procedures to ensure that implementation of corrective action items is fully supported by adequate documentation, in accordance with the Department's audit related documentation and file requirements.
- 1.2 Establish and implement procedures to ensure that completion dates reported in AARTS are consistent with dates reflected in supporting documentation.
- 1.3 Update AARTS to reflect the actual completion dates for the corrective action items noted in this audit with discrepancies in the reported completion dates.

OCFO Response:

In its response to the draft audit report, OCFO concurred with the finding and provided corrective actions to address each of the recommendations included in our report. OCFO stated PAG will implement procedures that will require the Audit Liaison Officers (ALOs) within OCFO to complete a documentation checklist that will include line items regarding adequate documentation for each corrective action as well as ensuring that completion dates in AARTS match dates of supporting documentation. PAG will also implement procedures to ensure that its staff will include confirmation that the dates match in the verification review before closure of an audit. In addition, PAG will train the ALOs within OCFO on what is considered reasonable documentation, as well as the new process and procedures. OCFO also indicated it has already changed the actual completion dates in AARTS as recommended.

OBJECTIVE, SCOPE, AND METHODOLOGY

The objective of our audit was to verify whether adequate documentation was maintained to support that corrective action items have been implemented as stated in the Department's CAPs.

To accomplish our objective, we performed a review of internal control applicable to OCFO's audit followup process. We reviewed applicable laws and regulations, and Department policies and procedures. We conducted interviews with OCFO/PAG staff regarding Department policy and procedures, and AARTS operation. We conducted interviews with OCFO staff responsible for resolving and following up on corrective action items for the audits selected. We also reviewed documentation provided by OCFO staff to support completion of corrective action items for the recommendations included in our review.

The scope of our audit was limited to corrective action items developed in response to internal OIG audits of OCFO processes and programs. Our scope included only those corrective action items reported as "completed" in AARTS during the period July 1, 2002, through September 30,

2004. We excluded from our review corrective action items for recurring audits, such as annual financial statement audits, information security audits, or those with prior or planned followup audits, so as not to duplicate audit effort. Overall, we selected a total of 38 corrective action items from 5 OCFO related audits. The selected audits and corrective action items reviewed are listed in Attachment 1 to this report.

We relied on computer-processed data initially obtained from AARTS to identify action items applicable to the scope period. An alternative data source is not available to directly test the completeness of the corrective action items as reported in AARTS. However, we tested the accuracy of AARTS data by comparing AARTS data to supporting documentation. We also conducted a limited review of AARTS data controls and relied on feedback from resolution staff to gain additional assurance relating to the completeness and accuracy of AARTS data. Based on these tests and assessments, we determined that the computer-processed data was sufficiently reliable for the purpose of our audit.

Our review was based on the corrective action items defined by OCFO in its CAPs and agreed upon by OIG in the audit resolution process. We reviewed and analyzed documentation in OCFO's audit resolution files to determine whether completion of each selected corrective action item was supported. In cases where documentation in the file did not support completion of the action item, we provided OCFO with an opportunity to provide additional documentation from other sources. We reviewed any additional documentation subsequently provided to make a final determination as to whether completion of the corrective action items was then supported. In addition, we verified the reported completion dates in AARTS against the supporting documentation provided, where possible, for those corrective action items that were supported.

We conducted fieldwork at OCFO offices in Washington, DC, during the period January 2005 through August 2005. We held an exit conference with OCFO staff on August 16, 2005. Our audit was performed in accordance with generally accepted government auditing standards appropriate to the scope of the review described above.

ADMINISTRATIVE MATTERS

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. Department policy requires you develop a final 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 finding 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.

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.

We appreciate the cooperation provided to us during this review. Should you have any questions concerning this report, please call Michele Weaver-Dugan at (202) 245-6941.

Sincerely,

Helen Lew /s/
Assistant Inspector General for Audit Services

cc: Gail Cornish, Audit Liaison Officer, OCFO
Charles Miller, Supervisor, PAG/OCFO

ATTACHMENT 1 – Audits and Corrective Action Items Reviewed

Number	Audit Control Number	Title	Issue Date	Corrective Action Items Reviewed	Unsupported Action Items	Unsupported Completion Dates
1	A17-D0001	United States Department of Education: Office of the Chief Financial Officer - Contracting and Purchasing Operations Compliance with Appropriation Law	10/6/03	2.1.1, 2.2.1, 2.3.1, 2.4.1, 2.5.1	2.2.1, 2.4.1	None
2	A19-B0009	Audit of The Department of Education's process for identifying and Monitoring High-Risk Contracts that Support Office of Educational Research and Improvement (OERI) Programs	9/20/02	1.1.1, 1.1.2, 1.1.3, 1.1.4, 1.1.5, 1.2.1, 1.3.1, 1.4.1, 1.5.1, 1.6.1, 1.7.1, 1.8.1, 1.8.2, 1.9.1, 1.10.1, 1.10.2, 1.11.1, 1.12.1, 1.13.1, 1.14.1, 1.16.1, 1.18.1, 1.19.1	1.12.1	None
3	A19-C0004	Audit of Funds Not Recovered Due to the Statute of Limitations	5/10/04	1.5.1, 1.6.1, 1.6.2, 1.6.3, 3.1.1, 3.2.1	None	1.6.1, 3.2.1
4	A19-B0010	Audit of Controls over Government Travel Cards	3/27/02	1.1.1, 1.2.1, 1.3.1	None	None
5	A17-E0001	Reconciliation of Principal Office Records to the United States Department of Education Central Automated Processing System	7/8/04	1.2.1	None	None
TOTAL				38	3	2



UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF THE CHIEF FINANCIAL OFFICER

THE CHIEF FINANCIAL OFFICER

OCT 24 2005

MEMORANDUM

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

FROM: Jack Martin

SUBJECT: Draft Audit Report: Audit Followup Process for Office of Inspector
General Internal Audits in the Office of the Chief Financial Officer,
Control Number ED-OIG/A19F0004

Thank you for the opportunity to respond to the above referenced draft audit report. The Office of the Chief Financial Officer (OCFO) agrees that audit followup procedures could be improved to ensure implementation of corrective actions is supported by adequate documentation, and completion dates in the Audit Accountability and Resolution Tracking System (AARTS) are consistent with dates reflected on supporting documentation.

OCFO takes audit followup seriously, which is supported by the low percentage of errors or instances of non-compliance disclosed in the subject audit. In this regard, the audit indicated that in eight percent of the corrective actions reviewed (3 of 38), documentation was not provided to support completion of corrective actions, and in seven percent of the corrective actions reviewed (2 of 29) completion dates in AARTS did not agree with the dates reflected by supporting documentation. Further, based upon documentation provided by OCFO staff, OIG was also able to adequately validate closure dates for 29 of the 35 supported corrective actions.

While we acknowledge that improvements can be made, our goal is to ensure that our audit followup system provides a reasonable level of assurance that OCFO complies with current guidance and regulations. We believe that your report validates our actions and efforts in this regard.

The following are our proposed corrective actions to address the three recommendations cited in your audit:

Recommendation 1.1

Establish and implement procedures that ensure implementation of corrective action items is fully supported by adequate documentation, in accordance with the Department's audit related documentation and file requirements.

OCFO's Response

The Post Audit Group (PAG) will continue taking a leadership role by implementing additional procedures that will require the Audit Liaison Officers (ALOs) within OCFO to complete a documentation checklist that will include line items regarding adequate documentation for each corrective action, as well as ensuring that completion dates in AARTS match dates of supporting documentation. PAG will also train the ALOs within OCFO on what is considered reasonable documentation, as well as the improvements to the process and procedures.

Recommendation 1.2

Establish and implement procedures to ensure that completion dates reported in AARTS are consistent with dates reflected in supporting documentation.

OCFO's Response

PAG will take more of a leadership role by implementing procedures that will require the ALOs within OCFO to complete a documentation checklist that will include line items regarding adequate documentation for each corrective action as well as ensuring that completion dates in AARTS match dates of supporting documentation. PAG will also implement procedures to ensure that its staff will include confirmation that the dates match in the verification review before closure of an audit. PAG will train the ALOs within OCFO on what is considered reasonable documentation, as well as the new process and procedures.

Recommendation 1.3

Update AARTS to reflect the actual completion dates for the corrective action items noted in this audit with discrepancies in the reported completion dates.

OCFO's Response

OCFO completed this corrective action on August 23, 2005, by changing the actual completion date in AARTS as recommended. Implementation of new procedures that will address Recommendations 1.1 and 1.2 will also address the recurrence of this type of discrepancy.

Thank you for the opportunity to respond to the draft report. If you have any questions, please contact Gail Cornish, Management Analyst, Post Audit Group at (202) 401-2853.