**U.S. Department of Education**

**Semiannual Report to Congress on Audit**

**Follow-up—No. 55**

**April 1, 2016 – September 30, 2016**

(This page is intentionally left blank.)

Semiannual Report to Congress on

Audit Follow-up—No. 55

April 1, 2016 – September 30, 2016

U.S. Department of Education

Office of the Chief Financial Officer

**U.S. Department of Education**

John B. King, Jr.

*Secretary*

**Office of the Chief Financial Officer**

Tim Soltis

*Deputy Chief Financial Officer, Delegated to Perform the Functions and Duties of the Chief Financial Officer*

**Financial Improvement Operations**

Phillip Juengst

*Director*

November 2016

This report is in the public domain. Authorization to reproduce it in whole or in part is granted. While permission to reprint this publication is not necessary, the citation should be: U.S. Department of Education, Office of the Chief Financial Officer, Financial Improvement Operations, *Semiannual Report to Congress on Audit Follow-up―No. 55,* Washington, D.C., 2016.

This report is available on the Department’s website at <http://www2.ed.gov/about/offices/list/ocfo/pubs.html>.

On request, this publication is available in alternate formats, such as braille, large print, or computer diskette. For more information, please contact the Department’s Alternate Format Center at 202-260-0852 or 202-260-0818.

**MEMORANDUM**

TO : John King

 Secretary of Education

FROM : Tim Soltis

 Deputy Chief Financial Officer, Delegated to Perform the Functions and Duties of the Chief Financial Officer

SUBJECT : Semiannual Report to Congress on Audit Follow-up, No. 55

In accordance with the *Inspector General Act,* as amended, I am pleased to submit the Department’s 55th *Semiannual Report to Congress on Audit Follow-up*, which covers the six-month period ending September 30, 2016.

This report highlights the Department’s accomplishments in implementing recommendations included in Departmental audits conducted by the Office of Inspector General. Additionally, it provides statistical tables as specified in Sec. 5(b)(2), (3), and (4) of the *Inspector General Act,* as amended, and statements with respect to audit reports for which management decisions have been made, but final action has not been taken.

Over the reporting period, the Department continued to implement recommendations to correct deficiencies reported by the auditors in a timely manner. In addition, the Department leveraged audit findings and recommendations to support a broader, enterprise-wide effort to identify and address the significant challenges identified in the Office of Inspector General’s *FY 2017 Management Challenges* report*.* The Department remains committed to making measurable progress to address these challenges and to ensure that effective oversight of the post audit process will assist in our continuous improvement efforts and support achievement of the Department’s mission, goals, and objectives.

Attachment

(This page is intentionally left blank.)

CONTENTS

MEMORANDUM: From the Executive Delegated to Perform the
Functions and Duties of the Chief Financial Officer iii

[ABBREVIATIONS vi](#_Toc466981851)

[OVERVIEW 1](#_Toc466981852)

[Internal Audit Accomplishments and Highlights 2](#_Toc466981853)

[External Audit Accomplishments and Highlights 4](#_Toc466981854)

[CHAPTER ONE: Internal Audit Tables 7](#_Toc466981855)

[CHAPTER TWO: External Audit Tables 10](#_Toc466981856)

[APPENDIX 14](#_Toc466981857)

[Brief Overview of Audit Follow-Up at the Department 14](#_Toc466981858)

[I. Audit Follow-up Responsibilities 14](#_Toc466981859)

[II. Audit Tracking System 14](#_Toc466981860)

[III. The Department’s Audit Resolution Process 15](#_Toc466981861)

[IV. Definitions 16](#_Toc466981862)

# ABBREVIATIONS

|  |  |
| --- | --- |
| **AARTS** | Audit Accountability and Resolution Tracking System |
| **BUF** | Better Use of Funds  |
| **CFO** | Chief Financial Officer |
| **ESEA** | Elementary and Secondary Education Act |
| **FFEL** | Federal Family Education Loan |
| **FISMA** | Federal Information Security Management Act |
| **FSA** | Federal Student Aid |
| **FY** | Fiscal Year |
| **GAO** | Government Accountability Office |
| **ISD** | Independent School District |
| **IDEA** | Individuals with Disabilities Education Act |
| **IES** | Institute of Education Sciences |
| **IG Act** | Inspector General Act, as amended |
| **NCLB** | No Child Left Behind |
| **OCFO** | Office of the Chief Financial Officer |
| **OCIO** | Office of the Chief Information Officer |
| **OCR** | Office for Civil Rights |
| **OCTAE** | Office of Career, Technical, and Adult Education |
| **ODS** | Office of the Deputy Secretary |
| **OESE** | Office of Elementary and Secondary Education |
| **OIG** | Office of Inspector General |
| **OII** | Office of Innovation and Improvement |
| **OMB** | Office of Management and Budget |
| **OPE** | Office of Postsecondary Education |
| **OSERS** | Office of Special Education and Rehabilitative Services |
| **PO** | Principal Office |
| **PCA/GA** | Private Collection Agencies/Guaranty Agencies |
| **RSA** | Rehabilitation Services Administration |
| **SD** | School District |
| **SEA** | State Educational Agency |
| **TCI** | Technical Career Institutions |
| **UFSD** | Union Free School District |
| **UIC** | University of Illinois at Chicago |
| **Uniform Guidance** | OMB’s Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Award |

# OVERVIEW

The Department of Education (Department) submits this *Semiannual Report to Congress on Audit Follow-up―No. 55* in accordance with requirements of Sec. 5(b) of the *Inspector General Act,* as amended (IG Act). This report provides information on the Department’s external and internal Office of Inspector General (OIG) audit resolution and follow-up activity for the six-month period from April 1, 2016, through

September 30, 2016.

This report also highlights the Department’s progress addressing its most significant management challenges. Over the last decade, the Department’s corrective action and risk mitigation strategies have focused largely on: improving IT security, strengthening financial management and internal controls; implementing better oversight and monitoring of contractors, grantees, and student financial assistance program participants; and improving the overall quality of data. For FY 2017, the OIG groups these ongoing management challenges into five categories:

1. Improper Payments,

2. Information Technology Security,

3. Oversight and Monitoring,

4. Data Quality and Reporting, and

5. Information Technology System Development and Implementation.

Despite inherent mission risks and resource limitations, the Department is pleased to report significant progress in our work to mitigate these challenges. In July, the Office of the Deputy Secretary announced an initiative to review the identified management challenges, assign senior managers to be accountable for each, and assemble an ongoing workgroup to address the noted challenges and ensure ongoing risk management efforts are impactful and produce results.

In its *FY 2017 Management Challenges* report, the OIG highlighted the Department’s new effort as a positive step towards addressing the long-standing management challenges. In the remaining sections of this report, we describe further the Department’s efforts to address these challenges. This includes efforts to improve the efficiency and effectiveness of audit follow-up for both external and internal OIG audits. Data and contextual information are included only for the six-month reporting period, as required by the IG Act.

## Internal Audit Accomplishments and Highlights

The Department leverages internal audit findings and recommendations to improve internal operations and effectiveness. Through timely implementation of corrective actions, the Department has made great strides addressing recommendations made by the OIG. Building on that progress, a new strategy is being implemented to address these management challenges through an enterprisewide approach. This approach is closely linked with the Department’s implementation of Enterprise Risk Management principles. Although individual Principal Offices (POs) remain responsible for addressing audit findings specific to their operations, the Department has identified cross-cutting weaknesses contributing to the management challenges.

Below are notable accomplishments and highlights of the progress made during the prior six-month reporting period:

* + The Department developed robust internal controls to prevent, detect, and recover improper payments. In designing controls, the Department strives to strike the right balance between providing timely and accurate payments to grant recipients and students, while at the same time, ensuring that the controls are not too costly and burdensome to fund recipients. The Department also continues to improve the reliability of its improper payment estimates and identify key controls needed to demonstrate payment integrity.
	+ The Department took a number of steps to strengthen the cybersecurity posture of the Department’s networks and systems, including 1) continuing to resolve and implement the Department of Homeland Security Incident Response Team recommendations for enhancing the security posture of the Department’s IT environments; 2) developing a process for tracking open audit findings; 3) establishing regular meetings with stakeholders to address outstanding Federal Information Security Management Act (FISMA) and financial audit findings; 4) executing tasks to ensure the successful implementation of the Federal Information Technology Acquisition Reform Act; and 5) continuing key activities to identify and retire outdated and unsupported software.
	+ The Department addressed recommendations to improve oversight and monitoring of Federal Student Aid program participants and delivered a comprehensive training program for program reviewers specifically on the process to evaluate distance education. The Department also issued guidance to offices that manage formula and discretionary grant programs, provided training for staff and engaged in technical assistance to both staff and external stakeholders to enhance business operations in the area of grant award monitoring and oversight.
	+ The Department continues to promote stronger State agency controls over data, improve its own controls over data submitted by grantees, and ensure transparency into data quality. The Department also took steps to promote grantee awareness of data quality issues and strengthen its review of grantee data.
	+ The Department has made progress in the overall program management and oversight of IT systems, including implementing the Lifecycle Management Methodology at FSA; conducting Independent Validation and Verification (IV&V) of a high risk system; and establishing a formal contract monitoring plan.
	+ The Department successfully completed the corrective actions for the 2011 and 2014 FISMA audit findings. These audits detail numerous information technology challenges. With the completion of these audits, the Department will further strengthen internal controls to help prevent repeat findings as it successfully implements a more robust cybersecurity plan to reduce hacker threats and vulnerabilities in the Department’s internal systems.
	+ The Department remains committed to implementing corrective actions as quickly as possible. Through internal policies, processes, and dashboards, the Department maintains strong internal controls to identify, evaluate, and address areas of disagreement or potential delay well in advance of the requirements in Office of Management and Budget (OMB) CircularA-50, “Audit Follow-up.” As a result, the Department is able to devote resources and time to the most challenging audit findings. During this reporting period, the Department resolved 100 percent of its open audits on time, and completed 94 percent of the open corrective action items on time. In addition, 12 audit reports with 92 recommendations were closed during this period. These metrics are measured monthly on the Department’s audit dashboard.
	+ The emphasis placed on audit follow-up by management has helped to reduce the number of open audits from a high of 79 at the end of fiscal year (FY) 2010 to 49 audits as of September 30, 2016. The backlog of open audits currently stands at six – a reduction of 92 percent since FY 2010. Of the current 49 open audits, 24 were issued within the last year and were resolved well within the Department’s 90-day timeline.
	+ The Department developed a new internal training program to improve management of the internal audit follow-up process. The training course, which began in March of 2016, is designed to walk a user through the entire internal process for both OIG and GAO internal audits. The training helps ensure that the staff members responsible for implementing corrective actions are more efficient and effective in managing and documenting their efforts. To date, four classes have been held and over thirty staff members received training. Additional courses, which include several one-on-one sessions, are planned throughout the next fiscal year.
	+ As an additional enhancement to audit tracking, the Department implemented a repeat finding indicator for internal audits. The Department will be able to detect repeat findings going forward with all future audits loaded into AARTS. This indicator will support data analytics and audit follow-up efforts to better identify and address repeat audit findings.
* Consistent with previous years, the Department continued to take steps to strengthen contract oversight in order to ensure mission success and the safeguard of taxpayer resources.  Moreover, OIG removed the contract oversight element from the FY 2017 report because their current body of work does not support its continued reporting as a challenge to the Department.

## External Audit Accomplishments and Highlights

The Department has, for the past several years, significantly improved its track record in assuring the timely receipt of audits and timely resolution of findings. Both the Department and its grantees benefit from the timely information audits provide and the improvements in performance and accountability resulting from swift resolution of audit findings and recommendations. The Department is continuing to make investments to sustain that performance. It has expanded its goals to improve the quality of audits, so they can yield even more useful and consistent information, in order to improve non-Federal entities’ accountability and to make informed award decisions. The Department is also pursuing actions to speed the time it takes to close audits after they are resolved.

In FY 2016, the Department expanded its external efforts, in relation to grantees and auditors, to improve audit readiness and the information yielded by audits. Notable accomplishments and highlights for this reporting period include the following:

* *Audit Readiness*. Apart from reminding grantees of the requirement to submit audits timely, in a letter issued in August 2016, the Department explained to grantees that their responsibilities related to audit includes ensuring that timely and competent audits are conducted, cooperating with auditors, and assuring that appropriate records are maintained and made available.

* *Audit Guidance*. In September 2016, the Department organized its first meeting with the auditor community to improve the guidance it provides through annual updates to the Compliance Supplement to the Single Audit. The Compliance Supplement is the leading information source relied on by auditors in the preparation of single audits, which are the most widely available audits of Federal programs. These discussions provided valuable insight from key stakeholders that will help us to improve the effectiveness of this document, ensure its value as a compliance tool to drive program improvement, and support the Department’s efforts to communicate the importance of data collection and other controls.
* *Outreach.* The Department continues to reach out to grant recipients to enhance understanding of grant requirements, including the impact of the Uniform Guidance on grant administration. In the period covered by this report, presentations were made to the national conference of GEAR UP grantees and Charter School state grantees.
* *Audits Received timely.* The Department’s efforts to improve timely submission of single audits have led to a significant decline in the number of “missing” audits, from 170 for FY 2012 to 31 for FY 2016.
* *Audits Resolved Timely*. The Department focused significant resources to resolve the vast majority of audits within the required six months, ending the reporting period with only 10 percent of Single Audits overdue compared to 20 percent one year ago. This substantially exceeded the Department’s long-term targets under Strategic Plan Goal 6.2, “Improve the Department’s program efficiency through comprehensive risk management and grant and contract monitoring.” This reflects a major accomplishment given the complex nature of and significant questioned costs associated with many audit findings. Although Single Audits comprise the bulk of audit volume, the Department similarly made a concerted effort to resolve and close timely external audits issued by the OIG. At the end of the reporting period, the Department maintained the overdue for resolution to as low as seven audits, the majority of which involve complex findings involving large sums of questioned costs.
* *Percentage of audits that are closed.* While resolution provides timely management decisions on audit findings, audit closure addresses the recovery of funds and the actions taken to avoid a recurrence of findings. The Department continues to reduce the number of resolved-not-closed audits, resulting in only nine ED-OIG audits open at the end of this reporting period, an 80 percent reduction since September 2014.
* *Electronic Recordkeeping.* In FY 2016, the Department completed all enhancements to its Audit Accountability and Resolution Tracking System to enable full electronic record-keeping. Beginning in the third quarter, the Office of Chief Financial Officer(OCFO), which resolves findings regarding all of the Department’s discretionary grants, issued almost all its decisions electronically. Training materials have been developed to assist other offices in adopting the same process in FY 2017.
* *Audit Handbook.* In the last quarter of FY 2016, the Department began the clearance process for a complete revision of its audit follow-up policies and procedures, which is expected to improve consistency in resolving audits, and in implementing audit requirements of the Uniform Guidance.

# CHAPTER ONE: Internal Audit Tables

**Internal-Table 1: OIG Internal Audit Report Activity**

| **Office** | **Number of Reports Open 4/1/2016** | **Number of Reports Issued During****SAR\*55** | **Number of Reports Resolved During****SAR 55** | **Number of Reports Unresolved as of 9/30/2016** | **Number of Reports Completed****as of****9/30/2016** | **Number of Reports Closed During****SAR 55** | **Number of Reports Open as of 9/30/2016** |
| --- | --- | --- | --- | --- | --- | --- | --- |
| FSA | 9 | 2 | 2 | 1 | 0 | 4 | 7 |
| IES | 1 | 0 | 0 | 0 | 0 | 1 | 0 |
| OCFO | 4 | 2 | 3 | 0 | 0 | 1 | 5 |
| OCIO | 3 | 0 | 0 | 0 | 0 | 2 | 1 |
| OCR | 1 | 0 | 0 | 0 | 0 | 1 | 0 |
| OCTAE | 1 | 0 | 1 | 0 | 0 | 0 | 1 |
| ODS | 1 | 1 | 1 | 1 | 0 | 0 | 2 |
| OESE | 2 | 1 | 0 | 1 | 0 | 2 | 1 |
| OII | 1 | 0 | 0 | 0 | 1 | 0 | 1 |
| OPE | 1 | 0 | 0 | 0 | 0 | 1 | 0 |
| OSERS | 2 | 0 | 0 | 0 | 0 | 0 | 2 |
| **Total** | **26** | **6** | **7** | **3** | **1** | **12** | **20** |

Source: U.S. Department of Education, AARTS.

\*SAR refers to Semiannual Report.

This table provides information on the audit follow-up activity from issuance to closure.

**Internal-Table 2: OIG Internal Audit Reports Pending Final Action One Year or More After Issuance of a Management Decision by Primary Office and Issue Date**

| **ACN** | **Audit Title** | **Primary Office** | **Issue Date** | **Date of Management Decision** |
| --- | --- | --- | --- | --- |
| A02-L0002 | Audit of SEA Oversight of Charter Schools | OII | 09/25/2012 | 06/26/2014 |
| **Status:** **Completed.** Corrective actions werecompleted on 20 September 2016, and the audit is currently under review by OCFO for closure. |

| **ACN** | **Audit Title** | **Primary Office** | **Issue Date** | **Date of Management Decision** |
| --- | --- | --- | --- | --- |
| A19-M0004 | Payback Provisions of Selected Grant Programs | OSERS | 04/25/2014 | 06/03/2014 |
| **Status:** **Resolved.** In report number A19-M0004 titled Payback Provisions for Selected Grant Programs, OIG recommended that there be a revision to the current payback manual, for protocols to be developed and shared through training on reviewing payback reports, to develop processes to increase the reliability of the data collected, issue communications concerning repayment status, and develop timelines for improving accuracy of reporting. As of September 2016, OSERS has completed thirteen (13) of fifteen (15) corrective actions contained within the audit.  OSERS has explored and submitted changes to the regulations to reflect current realities in employment of rehabilitation professionals in today’s economy. The final regulations were published on August 19, 2016.  Now that these regulations have been published, work will begin on revising the payback manual.  A copy of the manual will be made available online at [rsa.ed.gov](file:///C%3A%5CUsers%5CLisa.Dyson-Duffy%5CAppData%5CLocal%5CMicrosoft%5CWindows%5CTemporary%20Internet%20Files%5CContent.Outlook%5CSI0JNE1D%5Crsa.ed.gov) for future reference.  Discussions on payback issues continue internally on a biweekly basis.  The planned completion date for the audit is December 30, 2016. |

| **ACN** | **Audit Title** | **Primary Office** | **Issue Date** | **Date of Management Decision** |
| --- | --- | --- | --- | --- |
| A06M0012 | Borrower Complaints Against Private Collection Agencies | FSA | 07/11/2014 | 09/09/2014 |
| **Status:** **Resolved.**  All actions will be completed no later than June 30, 2017 when the new Enterprisewide complaint system is operational. |

| **ACN** | **Audit Title** | **Primary Office** | **Issue Date** | **Date of Management Decision** |
| --- | --- | --- | --- | --- |
| X11N0003 | Review of PCA/GA Security Control Reviews | FSA | 09/22/2014 | 11/24/2014 |
| **Status:** **Completed.** All corrective actions were completed on October 25, 2016. |

| **ACN** | **Audit Title** | **Primary Office** | **Issue Date** | **Date of Management Decision** |
| --- | --- | --- | --- | --- |
| A17O0002 | FY 2014 FSA Financial Statement Audit | FSA | 11/14/2014 | 01/29/2015 |
| **Status:** **Resolved.** FSA has submitted to the contractor the change request to correct the Treasury Report on Receivables reporting for defaulted debt maintained in the Debt Management Collection System and is currently working with the contractor to finalizing the implementation schedule for this change. Once the schedule is finalized and the contractor develops the associated requirements specification document, FSA will be able to close this corrective action plan.The planned completion date for this audit is July 31, 2017. |

| **ACN** | **Audit Title** | **Primary Office** | **Issue Date** | **Date of Management Decision** |
| --- | --- | --- | --- | --- |
| A17O0001 | FY 2014 ED Financial Statement Audit | OCFO | 11/14/2014 | 1/30/2015 |
| **Status:** **Resolved.** FSA has worked with the contractor to finalize the implementation schedule for the deployment of the Access Request Management System.  Once the contractor develops the associated project documentation, the Department will review and assess the project for deployment to the remainder of the agency. The planned completion date for this audit is December 30, 2016. |

Source: U.S. Department of Education, AARTS.

This table lists each OIG-prepared internal audit report and alternative product on which final action was not taken within one year of issuance of a management decision on the report.

# CHAPTER TWO: External Audit Tables

#### External-Table 1: U.S. Department of Education Audit Recovery Activities Related to Disallowed Costs as of September 30, 2016

| **Final Actions** | **Number of Reports** | **Disallowed Costs** |
| --- | --- | --- |
| Balance reported at the end of the previous period  | **7** |  **$35,908,413** |
| Audit reports with management decisions made during the period (includes interest, penalty, and fine accruals) | 1 | $3,823,346 |
| Total audit reports pending final action during the period | **8** | **$39,731,759** |
| Minus: Audit reports with final action taken during the period (includes collections and other reductions)  | 1 | $2,740,191 |
| Total audit reports pending final action at the end of the period | **7** | **$36,991,568** |

Source: U.S. Department of Education, Financial Management System.

This table presents statistical information on the Department's audit recovery activities related to disallowed costs (see definition in Appendix, section IV) for external OIG audits.

#### External-Table 2: U.S. Department of Education External OIG Audit Activities Related to Better Use of Funds as of March 31, 2016

| **Recommendations and Final Actions** | **Number of Reports** | **Dollar Value[[1]](#footnote-2)**  |
| --- | --- | --- |
| Audit reports with management decisions on which final actions had not been taken at the beginning of the period | **1** | **$5,200,000** |
| Audit reports on which management decisions were made during the period | 0 | $0 |
| Total: Audit reports pending final action during the period (total of two variables above) | **1** | **$5,200,000** |
| Minus: Audit reports on which final action was taken during the period (value of two variables directly below) | 0 | $0 |
| Value of recommendations implemented(completed) | 0 | $0 |
| Value of recommendations that management concluded should not or could not be implemented or completed | 0 | $0 |
| Audit reports needing final action at the end of the period (total less computed value directly above) | **1** | **$5,200,000** |

Source: External audit reports prepared by OIG.

This table presents data on the Department’s activities related to recommendations for Better Use of Funds (BUF). In the 1988 amendments to the IG Act, Congress directed IGs to standardize their reporting processes in order to develop an overall picture of the Federal government's progress against waste, fraud, and mismanagement. Pursuant to this request, Congress required IGs to start tracking recommendations for BUF and to report the total dollar value of all BUF recommendations on a semiannual basis.

#### External-Table 3: U.S. Department of Education OIG External Audit Reports Pending Final Action One Year or More after Issuance of a Management Decision by Primary Office and Issue Date

| **ACN** | **Audit Title** | **Primary Office** | **Issue Date** | **Disallowed Costs** | **BUF** | **Status\*** |
| --- | --- | --- | --- | --- | --- | --- |
| 02H0007 | TCI ADMINISTRATION OF PELL GRANT AND FFEL PROGRAMS | FSA | 5/19/2008 | $6,458 | $0 | 3 |
| 05D0017 | UIC ADMINISTRATION OF THE GEAR-UP GRANT PROJECT | OCFO | 1/14/2004 | $1,018,212 | $0 | 3 |
| 06F0018 | PHILANDER SMITH COLLEGE | FSA | 11/2/2006 | $476,167 | $0 | 2 |
| A02K0003 | AUDIT OF KIRYAS JOEL UFSD ESEA TITLE I PART A AND IDEA | OESE | 2/2/2011 | $5,667,567 | $5,200,000 | 2 |
| A03H0010 | PHILA SD FISCAL CONTROLS OVER FEDERAL FUNDS | OESE | 1/15/2010 | $7,357,760 | $0 | 3 |
| A03I0006 | SALLIE MAE SUBSIDIARY, NELLIE MAE'S SAP UNDER 9.5% FLOOR | FSA | 8/3/2009 | $22,378,905 | $0 | 3 |
| A03P0001 | STATE OF OH VR AGENCY RSA 911 REPORT DATA QUALITY | OSERS | 3/1/2016 | $0 | $0 | 1 |
| A03P0002 | COMMONWEALTH OF PA VR AGENCY RSA 911 REPORT DATA QUALITY | OSERS | 3/2/2016 | $0 | $0 | 1 |
| A04J0005 | PRDE AWARD AND ADMIN OF PERSONAL SERVICES CONTRACTS | OESE | 1/24/2011 | $15,004,196 | $0 | 3 |
| A05K0012 | SAINT MARY OF THE WOODS COLLEGE SMWC | FSA | 3/29/2012 | $42,362,291 | $0 | 3 |
| A06L0001 | EL PASO ISD COMPLIANCE WITH ACCOUNTABILITY OF NCLB ACT 2001 | OESE | 6/13/2013 | $0 | $0 | 4 |
| A09O0008 | CALIFORNIA DEPARTMENT OF REHABILITATION'S PERFORMANCE DATA | OSERS | 12/10/2015 | $0 | $0 | 1 |

Source: U.S. Department of Education, AARTS.

This table lists external OIG audit reports on which final action was not taken within one year after issuance of a management decision as of September 30, 2016. In this category, the Department has a total of 12 reports, with disallowed costs amounting to $94.2 million. Please note that some of these amounts have been recovered and some are in the process of being recovered. It is the responsibility of the lead PO to initiate the closure process by following the Department’s *Process for Closing ED-OIG External Audits* when audits are ready to be closed. The closure of each audit requires receipt of the Principal Office’s official request for closure and supporting documentation.

\*Reasons why external OIG audits were resolved but not closed within one year after management decisions were made:

1. Pending further evidence to support implementation of corrective actions
2. Disallowed costs in recovery
3. Disallowed costs under appeal
4. Closure in progress

(This page is intentionally left blank.)

# APPENDIX

## Brief Overview of Audit Follow-Up at the Department

## Audit Follow-up Responsibilities

OMB Circular A-50 provides that agency heads are responsible for designating a top management official to oversee audit follow-up, including resolution, corrective action implementation, and closure of individual audit recommendations. The Chief Financial Officer (CFO) is the Department's designated audit follow-up official, whose duties and responsibilities are:

* Ensuring that a system of cooperative audit resolution and follow-up is documented and in place;
* Ensuring that timely responses are made to all audit recommendations;
* Ensuring follow-up on corrective actions; and
* Resolving disputes regarding audit-related matters.

While general authority for program monitoring and oversight of audit follow-up under OMB Circular A-50 is delegated to the CFO, responsibility for responding to the audits, developing corrective actions to resolve findings and closing the audits is dispersed throughout the Department. At least six different POs play a role in external audit follow-up, and individual POs are directly responsible for resolving and closing recommendations contained in internal audits. Senior officers across the Department are charged with the timely resolution of audit reports and ensuring that appropriate corrective actions have been taken on agreed-upon audit recommendations within their PO. As required by OMB Circular A-50, *Audit* *Follow-up*, all audit recommendations are to be resolved within six months of issuance of an audit report.

## Audit Tracking System

The Audit Accountability and Resolution Tracking System (AARTS) is the Department’s system of record for audit tracking for all POs. AARTS is used to track, monitor, and report the status of all formally issued single audits, as well as OIG internal and external audits and alternative products. Alternative products are reports or memoranda issued by OIG that are not audit reports but raise issues that may need to be addressed by management. AARTS has been designed as a centralized data source, allowing Department staff to reduce duplication of effort and obtain and share data in a more efficient and effective manner. This system helps to facilitate the coordination of various activities across Department POs, including progress monitoring.

## The Department’s Audit Resolution Process

The Department resolves two types of audits.

* **Internal audits** are audits that typically focus on the efficiency or effectiveness of the Department’s internal business processes, including grant administration and oversight. Internal audits are conducted by OIG headquarters and regional staff. Internal audits identify deficiencies in and recommend improvements to Department operations and management efforts to ensure that Federal education funds are used effectively and efficiently and that program goals are accomplished. Individual POs that are the focus of any particular internal audit are usually directly responsible for resolving recommendations contained in such audits.
* **External audits** are reviews of contract-related activities, grant-related activities, or other activities of organizations external to, but doing business with, the Department. External audits are normally issued by the OIG or independent auditors (Single Audits). OCFO is generally responsible for resolving external audit findings stemming from reviews of all discretionary or competitively awarded grant programs, along with certain kinds of findings stemming from formula awards (e.g., cash management and subrecipient monitoring). Individual POs are generally responsible for resolving external audit findings stemming from formula awards.

The audit resolution process begins with the issuance of a final internal or external audit report and proceeds through the following stages (as tracked in AARTS).

| **Stages** | **Internal Audits** | **External Audits** |
| --- | --- | --- |
| Open | The audit is **open** when the Department receives a final audit report and there are audit findings to be resolved. | The audit is **open** when the Department receives a final audit report and there are audit findings to be resolved. |
| Unresolved | An internal audit is **unresolved** when agreement has not been reached between OIG and the PO (or between the PO and OCFO for GAO audits) on the recommended corrective actions identified in an internal audit. | An external audit is **unresolved** when a management decision, in the form of a Program Determination Letter, has not yet been issued. |
| Resolved | **Resolution** occurs when agency management and the OIG agree on action to be taken on reported findings and recommendations; or, in the event of disagreement, when the audit follow-up official determines the matter to be resolved. | **Resolution** occurs when a **management decision** is issued. This is when the audit organization and agency management agree on action to be taken on reported findings and recommendations; or, in the event of disagreement, when the audit follow-up official determines the matter to be resolved.A **management decision** contains two parts: 1) an evaluation of the validity of the findings and recommendations cited in the audit report; and 2) a decision about the course of action needed to correct any deficiencies. |
| Completed | An internal audit is **completed**when the responsible office indicates all corrective actions have been implemented. | This stage is not applicable in external audits housed in AARTS. |
| Closed | Audits are **closed** when every recommendation has been addressed by a corrective action. To close the audit in AARTS, OCFO will verify supporting documentation for corrective actions and issue a closure memo. | Audits are **closed**when every finding has been addressed by a corrective action and all funds have been collected as required. To close the audit in AARTS, OCFO will verify supporting documentation for corrective actions and issue a closure memo. |

## Definitions

* **Disallowed costs** are charges to an award that the Federal awarding agency determines to be unallowable, in accordance with the applicable Federal cost principles or other terms and conditions contained in the award. For the disallowable costs, repayments are due to the Federal government.
* **Better Use of Funds (BUF)** is a term that is used to track and report any audit recommendation that is intended to promote greater efficiency, accountability, or internal control through funds or other resources being “put to a better use.” BUF includes both monetary and nonmonetary efficiencies. The IG Act, as amended, defines BUF as “a determination that includes a potential efficiency in the use of funds if certain actions to implement and complete recommendations were followed that may include any of the following: 1) reductions in outlays; 2) deobligation of funds from programs or operations;  3) withdrawal of interest subsidy costs on loans or loan guarantees, insurance or bonds; 4) not incurring costs by implementing recommended improvements related to the operations of the Department, a contractor, or grantee; or 5) any other savings that are specifically identified.”

If you would like additional copies of this report, please send your request to:

**Semiannual Report to Congress on Audit Follow-up—No. 55**

**U.S. Department of Education**

**Office of the Chief Financial Officer**

**550 12th Street, S.W.**

**Washington, DC 20202-4450**

This report is available on the Department’s Web site at

<http://www.ed.gov/about/offices/list/ocfo/pubs.html>.

(This page is intentionally left blank.)

1. “Dollar Value” is OIG's assessment, measured in dollars, of the potential efficiency in the use of funds if certain actions and recommendations stemming from audit reports are followed. The dollar amount reported as “Dollar Value” in this table is not meant to be recovered by the Department. Rather, the “Dollar Value” represents efficiencies that may be realized if the actions noted on the following page are taken. [↑](#footnote-ref-2)