**U.S. Department of Education**

**Semiannual Report to Congress on Audit**

**Follow-up—No. 56**

**October 1, 2016 – March 31, 2017**

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Semiannual Report to Congress on

Audit Follow-up—No. 56

October 1, 2016 – March 31, 2017

U.S. Department of Education

Office of the Chief Financial Officer

**U.S. Department of Education**

Betsy DeVos

*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**

Ellen Safranek

*Acting Director*

May 2017

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**MEMORANDUM**

TO : Betsy DeVos

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. 56

In accordance with the *Inspector General Act,* as amended, I am pleased to submit the Department’s 56th *Semiannual Report to Congress on Audit Follow-up*, which covers the six-month period ending March 31, 2017.

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 Section 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, enterprisewide 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

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# ABBREVIATIONS

|  |  |
| --- | --- |
| **AARTS** | Audit Accountability and Resolution Tracking System |
| **BUF** | Better Use of Funds |
| **CFO** | Chief Financial Officer |
| **DMCS** | Debt Management Collection System |
| **FFEL** | Federal Family Education Loan |
| **FISMA** | Federal Information Security Management Act |
| **FSA** | Federal Student Aid |
| **FY** | Fiscal Year |
| **GAO** | Government Accountability Office |
| **IES** | Institute of Education Sciences |
| ***IG Act*** | *Inspector General Act of 1978, as amended* |
| **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 |
| **PII** | Personally Identifiable Information |
| **PO** | Principal Office |
| **PCA/GA** | Private Collection Agencies/Guaranty Agencies |
| **SD** | School District |
| **SEA** | State Educational Agency |
| **Single Audits** | External Audits Issued by OIG or Independent Auditors |
| **TCI** | Technical Career Institutions |
| **TROR** | Treasury Report on Receivables |
| **UIC** | University of Illinois at Chicago |

# OVERVIEW

The Department of Education (Department) submits this *Semiannual Report to Congress on Audit Follow-up―No. 56* in accordance with requirements of Section 5(b) of the *Inspector General Act of 1978,* 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 October 1, 2016, through March 31, 2017.

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 fiscal year (FY) 17, 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 continued progress in our work to mitigate these challenges. Over the past six months, senior leaders have convened monthly to discuss systemic root causes and share strategies for success to ensure the Department’s actions 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. While these challenges reflect continuing vulnerabilities and emerging issues, the Department remains committed to improved governance and better business processes. 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 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 a cross-cutting action plan with goals, indicators and milestones to demonstrate meaningful progress in addressing the Departmentwide 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 continues 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) improving our 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 continued the deployment of a data loss prevention (DLP) capability to automate the detection and prevention of potential data breaches from within the Department’s network. This capability complements the Department’s cybersecurity and privacy awareness training that is provided to all Department personnel on their role and responsibilities for protecting personally identifiable information (PII), and what tools are available to them to encrypt PII prior to sharing it with external partners.
  + On March 26, 2017, the Department concluded the deployment of Network Access Control (NAC) on the Department’s networks. This NAC deployment will validate the security posture of endpoints against standard policies prior to granting access to the Department’s trusted networks.
  + 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 in data quality. The Department also took steps to promote grantee awareness of data quality issues and strengthen its review of grantee data.
  + The Department made progress in the overall program management and oversight of IT systems, including implementing the Lifecycle Management Methodology at Federal Student Aid (FSA); conducting Independent Validation and Verification (IV&V) of a high-risk system; and establishing a formal contract monitoring plan.
  + 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 in the resolution of audits. 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 88 percent of its issued audits on time, and completed 67 percent of the open corrective action items on time. In addition, six audit reports with 67 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 22 open audits as of March 31, 2017. The backlog of open audits, which are audits overdue from previous years, currently stands at zero – a reduction of 100 percent since FY 2010. Of the current 22 open audits, eight were issued within this reporting period and nine were resolved well within the Department’s 90-day timeline.

* + 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 the Audit Accountability and Resolution Tracking System (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 did not support its continued reporting as a challenge to the Department at that time.

## External Audit Accomplishments and Highlights

For the past several years, the Department has significantly improved the timely resolution of external audit findings. The Department is continuing to make investments to sustain that performance. During this semiannual period, the Department also made significant progress in pursuing actions to speed the time it takes to close audits after they are resolved, and maintain complete documentation in official audit files.

Notable accomplishments and highlights for this reporting period include the following:

* *Government Accountability Office (GAO) Issues Report and Commends the Department for Its Oversight of Single Audit Process.* During this semiannual period, the GAO issued a final report, “Improvements Needed in Selected Agencies’ Oversight of Federal Awards” involving five Federal agencies. The report lauded the Department for having designed policies and procedures for audit follow-up, and for using risk-based approaches to manage high-risk and recurring single audit findings. High-risk single audit findings may have a serious adverse impact on federal programs and could result in improper payments. Because of the large number of audits, managing single audit findings using a risk-based approach can assist in identifying and prioritizing problem areas.

* *Percentage of Audits That are Closed.* While resolution provides timely management decisions on audit findings, audit closure addresses the recovery of funds and verification of the the actions taken to avoid a recurrence of findings. The Department continues to reduce the number of resolved-not-closed audits. At the end of this reporting period, that number had been reduced by 20 percent from the prior period.
* *Internal Review of Audit Closeout Requirements*. An important aspect of audit follow-up is ensuring that corrective actions are taken, including recovery of funds. In this reporting cycle, the Department started to take a number of steps to improve timely closure of audits and to ensure maintenance of sufficient documentation for all required actionns subsequent to resolution. Specifically, the Office of the Chief Financial Officer (OCFO) is developing an internal review process on audit closures conducted by Department offices that have audit resolution responsibilities. OCFO is in the process of piloting the review process with two offices during FY 17 and plans to review all offices with audit resolution responsibilities during FY 18 and FY 19. The review process will cover both Single Audits and ED-OIG external audits. In addition, OCFO is producing a monthly alert report to Department offices on the status of audits still pending closure , and additional attention to this issue is given in the revision of the Department’s Handbook for Audit Follow-up.
* *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. The Compliance Supplement is the leading information source relied on by auditors in the preparation of single audits, the most widely available audits of Federal programs. The discussions facilitated by Department staff provided valuable insight from key stakeholders that will help us 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. Subsequently, the program teams worked to incorporate the auditors’ comments and suggestions, and OCFO had a key role in coordinating significant policy discussions to ensure that the information included in the Compliance Supplement was accurate and complete. OCFO’s close coordination of the review and development of the overall process ensured timely submission to OMB for publication in late spring of 2017.

# CHAPTER ONE: Internal Audit Tables

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

| **Office** | **Number**  **of Reports Open 10/1/2016** | **Number of Reports Issued During**  **SAR\*56** | **Number of Reports Resolved During**  **SAR 56** | **Number**  **of Reports Unresolved as of 3/31/2017** | **Number**  **of Reports Completed**  **as of**  **3/31/2017** | **Number**  **of Reports Closed During**  **SAR 56** | **Number  of Reports Open as of 3/31/2017** |
| --- | --- | --- | --- | --- | --- | --- | --- |
| FSA | 7 | 2 | 3 | 0 | 1 | 2 | 7 |
| IES | 0 | 1 | 0 | 1 | 0 | 0 | 1 |
| ISU | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| OCFO | 5 | 3 | 2 | 1 | 1 | 0 | 8 |
| OCIO | 1 | 1 | 1 | 0 | 0 | 1 | 1 |
| OCR | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| OCTAE | 1 | 0 | 0 | 0 | 0 | 1 | 0 |
| ODS | 1 | 0 | 0 | 0 | 0 | 0 | 1 |
| OESE | 1 | 0 | 1 | 0 | 0 | 0 | 1 |
| OGC | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| OII | 1 | 0 | 0 | 0 | 0 | 1 | 0 |
| OM | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| OPE | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| OSERS | 2 | 1 | 1 | 0 | 0 | 1 | 2 |
| RMS | 1 | 0 | 1 | 0 | 0 | 0 | 1 |
| **Total** | **20** | **8** | **9** | **2** | **2** | **6** | **22** |

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** |
| A19P0004 | External Audit Followup Process-OCFO | OCFO | 09/28/2015 | 12/02/2015 |
| **Status:** **Resolved.** OCFO will be providing training to audit resolution staff to ensure that pertinent and adequate documentation is accumulated and filed properly in the correct section of the audit files. The estimated completion date is December 31, 2017. | | | | |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **ACN** | **Audit Title** | **Primary Office** | **Issue Date** | **Date of Management Decision** |
| A19P0003 | External Audit Followup Process-OSERS | OSERS | 09/22/2015 | 12/15/2015 |
| **Status:** **Resolved.** OCFO plans to meet with program offices that resolve audits to discuss audit resolution and closure in the context of the new Audit Handbook. The new Handbook is going through its final review internally in OCFO before it is reviewed Departmentwide. This training with program offices will most likely take place during the summer (June – August). The proposed completion date for the overall audit is August 23, 2017. | | | | |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **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.** FSA is reviewing the complaints received via the Enterprise Feedback System (EFS) and is seeking to better understand system reports to be utilized that will capture data trends and remediate repeated complaints against PCAs.  Language exists in Small Business contracts that allows complaints to be used in determining a PCA’s quarterly allocations. Work is being done to apply a similar performance metric for unrestricted solicitations; the award of which is delayed pending resolution of legal proceedings. The final two recommendations will be completed by June 30, 2017. | | | | |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **ACN** | **Audit Title** | **Primary Office** | **Issue Date** | **Date of Management Decision** |
| A17P0001 | FY 2015 ED Financial Statement Audit | OCFO | 11/13/2015 | 02/16/2016 |
| **Status:** **Resolved.** All corrective actions will be completed on April 3, 2017. | | | | |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **ACN** | **Audit Title** | **Primary Office** | **Issue Date** | **Date of Management Decision** |
| A17P0002 | FY 2015 FSA Financial Statement Audit | FSA | 11/13/2015 | 01/22/2016 |
| **Status:** **Completed.** All corrective actions were completed on March 29, 2017, and the audit is currently under review by OCFO for closure**.** | | | | |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **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 worked with its contractor to implement the change request to correct TROR reporting for defaulted debt maintained in the Debt Management Collection System (DMCS). The updated reporting was implemented in December of 2016, and FSA is currently in a postimplementation validation period, which is expected to conclude by May of 2017. The final corrective action is in the process of being closed. The estimated completion date 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 | 2/26/2015 |
| **Status:** **Resolved.** FSA has submitted a change request to its contractor to correct the Treasury Report on Receivables reporting for defaulted debt maintained in the DMCS and is currently working with its contractor to finalize the implementation schedule. Once the schedule is finalized and the contractor develops the associated requirements specification document, OCFO will review and close this corrective action plan.The planned completion date for this audit is August 25, 2017. | | | | |

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 March 31, 2017

| **Final Actions** | **Number of Reports** | **Disallowed Costs** |
| --- | --- | --- |
| Balance reported at the end of the previous period | **7** | **$36,991,568** |
| Audit reports with management decisions made during the period (includes interest, penalty, and fine accruals) | 2 | $456,580 |
| Total audit reports pending final action during the period | **9** | **$37,448,148** |
| Minus: Audit reports with final action taken during the period (includes collections and other reductions) | 2 | $365,997 |
| Total audit reports pending final action at the end of the period | **7** | **$37,082,151** |

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, 2017

| **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) | 1 | $5,200,000 |
| Value of recommendations implemented (completed) | 1 | $5,200,000 |
| 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) | **0** | **$0** |

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 | 1 |
| 06F0018 | PHILANDER SMITH COLLEGE | FSA | 11/2/2006 | $476,167 | $0 | 2 |
| A03H0010 | PHILA SD FISCAL CONTROLS OVER FEDERAL FUNDS | OESE | 1/15/2010 | $7,357,760 | $0 | 2 |
| A03I0006 | SALLIE MAE SUBSIDIARY, NELLIE MAE'S SAP UNDER 9.5% FLOOR | FSA | 8/3/2009 | $22,378,905 | $0 | 3 |
| A04J0005 | PRDE AWARD AND ADMIN OF PERSONAL SERVICES CONTRACTS | OESE | 1/24/2011 | $15,004,196 | $0 | 3 |

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 March 31, 2016. In this category, the Department has a total of six reports, with disallowed costs amounting to $46.2 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 Principal Office (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

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# APPENDIX

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

## Audit Follow-up Responsibilities

Office of Management and Budget (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 Principal Office‘s (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 Office of Inspector General (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 Government Accountability Office (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 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 *Inspector General Act of 1978, as amended (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.”

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**U.S. Department of Education**

**Office of the Chief Financial Officer**

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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)