**U.S. Department of Education**

**Semiannual Report to Congress on Audit**

**Follow-up—No. 59**

**April 1, 2018 – September 30, 2018**

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Semiannual Report to Congress on

Audit Follow-up—No. 59

April 1, 2018 - September 30, 2018

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**

Larry Kean *Delegated to Perform the Duties of Chief Financial Officer*

**Financial Improvement Operations**

April Bolton-Smith

*Acting Director*

November 2018

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**MEMORANDUM**

TO : Betsy DeVos

 Secretary of Education

FROM : Larry Kean

 Delegated to Perform the Duties of Chief Financial Officer

SUBJECT : Semiannual Report to Congress on Audit Follow-up, No. 59

In accordance with the *Inspector General Act of 1978,* as amended (IG Act), I am pleased to submit the Department’s 59th *Semiannual Report to Congress on Audit Follow-up*, which covers the six-month period ending September 30, 2018.

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 IG Act 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 address the significant challenges identified in the Office of Inspector General’s *FY 2018 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 |
| **APR****AS** | Annual Performance ReviewAdministrative Services  |
| **BUF** | Better Use of Funds  |
| **CAP****CEAD** | Corrective Action Plan Cost Estimation and Analysis Division |
| **CFO** | Chief Financial Officer |
| **COR****Department** | Contracting Officer RepresentativeU.S. Department of Education |
| **DCL** | Dear Colleague Letter |
| **ERM****FSEMS** | Enterprise Risk Management Facilities Security and Emergency Management Services |
| **FFEL** | Federal Family Education Loan |
| **FISMA** | Federal Information Security Management Act |
| **FPR****FSA** | Final Performance ReviewFederal Student Aid |
| **FY** | Fiscal Year |
| **GA**  | Guaranty Agency  |
| **IES** | Institute of Education Sciences |
| **IG Act** | Inspector General Act of 1978, as amended |
| **ISSO****IT** | Information Systems Security OfficerInformation Technology |
| **LEA** | Local Educational Agency |
| **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 |
| **OGC** | Office of the General Counsel |
| **OIG** | Office of Inspector General |
| **OII** | Office of Innovation and Improvement |
| **OM** | Office of Management |
| **OMB** | Office of Management and Budget |
| **OPE** | Office of Postsecondary Education |
| **OSERS** | Office of Special Education and Rehabilitative Services |
| **PII** | Personally identifiable information |
| **POs** | Principal Offices |
| **RMS** | Risk Management Service |
| **SEA** | State Educational Agencies |
| **SMC****SS** | Senior Management CouncilSecurity Services |
| **TCI** | Technical Career Institutions |
| **TROR****UIC** | Treasury Report on ReceivablesUniversity of Illinois at Chicago |

# OVERVIEW

The U.S. Department of Education (Department) submits this *Semiannual Report to Congress on Audit Follow-up―No. 59* 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 April 1 through September 30, 2018.

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) 2018, the OIG grouped these management challenges into four categories[[1]](#footnote-2):

* Improper Payments,
* Information Technology Security,
* Oversight and Monitoring, and
* Data Quality and Reporting.

The Department is pleased to report continued progress in our work to manage the risks associated with these challenges. In the Department’s [FY 2017 Annual Performance Report and FY 2019 Annual Performance Plan](https://www2.ed.gov/about/reports/annual/2019plan/fy17apr-fy19app.pdf), the Department published an action plan including key milestones for addressing the four management challenges listed above. A common milestone across each challenge was working to integrate actions into the Department’s portfolio of enterprise risks, to align and calibrate actions with the Department’s broader strategy to deliver value for students and taxpayers. Although the Enterprise Risk Management (ERM) program continues to mature, this work has resulted in notable accomplishments over the past six months.

The Department made significant progress creating a more risk-aware culture, with increased communication and transparency about risks and the range of alternatives for best responding to those risks. The Department implemented a new governance process for ERM and invested significant time engaging and training all executives to enable the Department to manage risk in a more strategic and coordinated manner. The Department began tracking and discussing progress addressing key risks, especially the management challenges. In addition, the Department engaged OIG to improve coordination, which included sharing information about the Department’s ERM program and accomplishments related to the four management challenges.

The Department’s accomplishments reflect meaningful progress addressing root cause issues. For example, the Department developed a new, statistically valid approach for estimating future improper payments in the Pell Grant and Direct Loan programs. This is expected to improve the Department’s ability to establish targets for and achieve measurable reductions in improper payments. The Department has continued its work to implement a comprehensive set of solutions to strengthen the overall cybersecurity of its networks, systems, and data as highlighted by the improvement of one National Institute of Standards and Technology Cybersecurity Framework security function (*Recover*) from ‘Defined’ to ‘Consistently Implemented’ as noted in the [FY 2018 Federal Information Security Modernization Act (FISMA) report](https://www2.ed.gov/about/offices/list/oig/auditreports/fy2019/a11s0001.pdf).

In the remaining sections of this report, we describe further the Department’s efforts to address these inherent management 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

Through timely implementation of corrective actions, the Department has made progress addressing recommendations by the OIG. Building on that progress, a new strategy is being implemented to address these management challenges through an enterprise-wide 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 Department-wide management challenges.

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

* The Department continued to enhance internal controls to prevent, detect, and recover improper payments. The Department continues to improve the reliability of its improper payment estimates.
* 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 FISMA and financial audit findings; 4) executing tasks to ensure the successful compliance of the *Federal Information Technology Acquisition Reform Act*; and 5) continuing key activities to identify and retire outdated and unsupported software.
* In addition, the Department implemented a number of new risk-based oversight and monitoring tools to improve technical assistance and support to institutions and grant recipients. The Institute of Education Sciences (IES) updated the Annual Performance Review (APR) and Final Performance Review (FPR) requirements for Statewide Longitudinal Data Systems (SLDS) grants to include affirmation of and required information about grantee compliance with state laws and regulations regarding system security and the protection of personally identifiable information (PII). A Dear Colleague Letter (DCL) was distributed to grantees outlining the proposed new requirements within SLDS grant APRs and FPRs. IES adjusted the process and the documentation regarding both the program risk assessment, and the risk-based monitoring process to include information on system security and the protection of PII that has been added to monthly monitoring questions, on-site visit protocols, APRs and FPRs.
* The Department continued the deployment of a data loss prevention 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 required for, and provided to all Department personnel on their role and responsibilities for protecting PII, and what tools are available to them to encrypt PII prior to sharing it with external partners.
* The Department continues to promote stronger controls by state agency grantees 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 to strengthen its review of grantee data.

## EXTERNAL AUDIT ACCOMPLISHMENTS AND HIGHLIGHTS

For the past several years, the Department has significantly improved the timely resolution of external audit findings. During this semiannual period, the Department also made significant progress in pursuing actions to reduce the time it takes to close audits after findings are resolved, and to maintain complete documentation in official audit files to support closure decisions.

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

* *Timely Resolution of External Audit Findings*. The Department is continuing to sustain a high percentage of timely resolution of external audit findings, which has reached 97 percent in the most recent reporting period.
* *Internal Review of Audit Closeout Requirements*. While resolution provides timely management decisions on audit findings, audit closure addresses the recovery of funds and verification of the actions taken to avoid a recurrence of findings. The Office of the Chief Financial Officer (OCFO) continued to implement the internal review of audit closures conducted by Department offices that have audit resolution responsibilities. During this reporting period, OCFO conducted two offices’ reviews and made recommendations for improving recordkeeping and documentation of closure actions. The review of the audit closure process will continue into FY 2019 for any office that resolves external audits.
* *Guidance to State Educational Agencies –* As the result of the issuance of the OIG’s Management Information Report – “State Oversight of LEA Audit Resolution Capping Report,” OCFO has worked with staff from across the Department to develop guidance to State Educational Agencies (SEAs) regarding their responsibilities in their oversight of local educational agency (LEA) implementation of Single Audit requirements. In drafting this guidance, OCFO worked with a number of SEA staff from across the country to identify best practices in this area for inclusion in the final document. The guidance, a DCL to the field, is expected to be issued in December of this year, and will include all of the legal requirements mandated by the Uniform Guidance, as well as examples of exemplary SEA leadership in their implementation.

# CHAPTER ONE: Internal Audit Tables

| **Internal-Table 1:****OIG Internal Audit Report Activity** |
| --- |
| **Office** | **Number****of Reports Open 04/01/2018** | **Number of Reports Issued During****SAR\*59** | **Number of Reports Resolved During****SAR 59** | **Number****of Reports Unresolved as of 09/30/2018** | **Number****of Reports Completed****as of****09/30/2018** | **Number****of Reports Closed During****SAR 59** | **\*\*Number of Reports Open as of 09/30/2018** |
| FSA | 3 | 2 | 2 | 1 | 0 | 0 | 5 |
| IES | 2 | 0 | 1 | 0 | 0 | 0 | 2 |
| OCFO | 5 | 1 | 3 | 0 | 2 | 2 | 4 |
| OCIO | 2 | 0 | 0 | 0 | 0 | 1 | 1 |
| OCR | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| OCTAE | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| ODS | 1 | 1 | 0 | 1 | 0 | 0 | 2 |
| OESE | 1 | 1 | 0 | 1 | 0 | 1 | 1 |
| OGC | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| OII | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| OM | 0 | 1 | 0 | 1 | 0 | 0 | 1 |
| OPE | 0 | 1 | 1 | 0 | 0 | 0 | 1 |
| OSERS | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| RMS | 1 | 0 | 0 | 0 | 0 | 0 | 1 |
| **Total** | 15 | 7 | 7 | 4 | 2 | 4 | 18 |

Source: U.S. Department of Education, Audit Accountability And Resolution Tracking System (AARTS).

\*SAR refers to Semiannual Report.

\*\*The number of Reports Open includes internal audits that are either Unresolved, Resolved, or Completed.

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** |
| A06O0001 | Management Certifications of Data Reliability | ODS | 02/11/2016 | 05/09/2016 |
| **Status:** **Resolved.** All recommendations, except one are complete. The action item for the remaining open recommendation is to revise the Compliance Supplement to strengthen the focus on data quality issues. Work on this action item has been ongoing. The Department worked closely with OIG, the Office of General Counsel (OGC), and the Office of Management and Budget (OMB) on improvements to the Compliance Supplement for FY 2017 and was planning to have revisions incorporated into the FY 2018 supplement cycle; however, OMB advised that there will not be any revisions to the FY 2018 Compliance Supplement. OCFO is working to include the language for the revisions to the Compliance Supplement, which will be submitted in the next available Compliance Supplement cycle for FY 2019. The planned completion date for this audit is February 15, 2019. |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **ACN** | **Audit Title** | **Primary Office** | **Issue Date** | **Date of Management Decision** |
| A02M0012 | Audit of Charter and Education Management Organizations | RMS | 09/29/2016 | 1/10/2017 |
| **Status:** **Resolved.** All recommendations, except one are complete. The action item for the remaining open recommendation is the issuance of a DCL from the Office of Innovation and Improvement (OII). OII drafted the DCL and will work to respond to edits and comments on the draft DCL before submitting it into Department clearance. Although the Department originally planned to complete this action item sooner, due to OII’s workload of essential activities, the planned completion date was extended to allow the additional time needed to complete the DCL and finalize it through the Department clearance process. The planned completion date for this audit is March 31, 2019. |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **ACN** | **Audit Title** | **Primary Office** | **Issue Date** | **Date of Management Decision** |
| A17Q0001 | FY 2016 ED Financial Statement Audit | OCFO | 11/14/2016 | 2/14/2017 |
| **Status:** **Resolved.** The Cost Estimation and Analysis Division (CEAD) within Budget Service will develop a plan for and perform a risk assessment of the Department's modeling activities. In addition, CEAD will coordinate with the Credit Reform Work Group, to develop a series of actions to mitigate risks identified. The risk assessment and the mitigation actions will be presented to the Department's Senior Management Council (SMC) and Enterprise Risk Management Council. OCFO will align the Corrective Action Plan (CAP) with the rollout of the Department’s ERM implementation (FY19 Q1 and Q2). This will allow CEAD to use its PO’s ERM Risk Profile as a more formal means of communicating their plans for risk assessment and risk treatment to the SMC, which more fully satisfies the requirements of the CAP. Federal Student Aid (FSA) has developed documentation detailing the current Guaranty Agency (GA) Treasury Report on Receivables (TROR) reporting and compliance gaps. Once a decision is made regarding the best course of action based on the solutions’ costs and their ability to close the gap, FSA will work towards completing the new GA TROR reporting guidance. The planned completion date for this audit is March 29, 2019. |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **ACN** | **Audit Title** | **Primary Office** | **Issue Date** | **Date of Management Decision** |
| A17Q0002 | FY 2016 FSA Financial Statement Audit | FSA | 11/14/2016 | 1/26/2017 |
| **Status:** **Resolved.** FSA Administrative Services (AS) initiated a project to stand up a FSA Personnel Security Team in Facilities Security and Emergency Management Services (FSEMS). AS is actively working with Office of Management (OM) Security Services (SS) to clean up the data in Security Manager to aid in proper reporting and helping to reduce the adjudication backlog. AS/FSEMS updated the COR/ISSO training materials based on the draft OM: 5-101 and conducted a Personnel Security Update for COR's training using the updated training materials and processes. Administrative Services provided feedback and comments to the draft OM: 5-101 on April 25, 2018. OM/SS is in the process of vetting the comments and plans to issue an interim guidance document until they can issue the updated policy. FSA-Finance has completed the gap analysis of the TROR gaps and developed the list of Treasury Offset Program exclusions and exceptions. Finance has used this information to develop the TROR data call requirements, which will be submitted into the Paperwork Reduction Act clearance process, before being provided to the Guarantee Agencies. The planned completion date for this audit is September 27, 2019. |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **ACN** | **Audit Title** | **Primary Office** | **Issue Date** | **Date of Management Decision** |
| A19-R0002 | Review of IES Contractor Security Clearance Process | IES | 3/8/2017 | 5/3/2017 |
| **Status: Completed.** Institute of Education Sciences (IES) has submitted documentation for all corrective actions to address the recommendations in this audit report, but the audit cannot be closed until OM approves the IES plan for implementation of the Department’s Contractor Personnel Security Directive (OM:5-101). IES continues to work with OM to secure approval of this plan. The planned completion date for this audit is March 30, 2019. |

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

The preceding 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 ActivitiesRelated to Disallowed Costs as of September 30, 2018** |
| --- |
| **Final Actions** | **Number of Reports** | **Disallowed Costs** |
| **Balance reported at the end of the previous period**  | **6** |  **$25,432,787\*** |
| Audit reports with management decisions made during the period (includes interest, penalty, and fine accruals) | 0 | $0 |
| **Total audit reports pending final action during the period** | **6** | **$10,738,081** |
| Audit reports with final action taken during the period (includes collections and other reductions)  | 2 | $1,143,389 |
| **Total audit reports pending final action at the end of the period** | **4** | **$9,594,692** |

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

\*Three audit debts were reduced from previous period.

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

| **External-Table 2:****U.S. Department of Education External OIG Audit ActivitiesRelated to Better Use of Funds as of September 30, 2018** |
| --- |
| **Recommendations and Final Actions** | **Number of Reports** | **Dollar Value[[2]](#footnote-3)**  |
| **Audit reports with management decisions on which final actions had not been taken at the beginning of the period** | **5** | **$0** |
| 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)** | **5** | **$0** |
| **Minus: Audit reports on which final action was taken during the period (value of two variables directly below)** | **2** | **$0** |
| Value of recommendations implemented(completed) | 2 | $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)** | **3** | **$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 | 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 | 4 |
| A05K0012 | SAINT MARY OF THE WOODS COLLEGE  | FSA | 3/29/2012 | $42,362,291 | $0 | 3 |
| A09P0001 | SEA OVERSIGHT OF LEA SINGLE AUDIT FINDING RESOLUTION | OCFO | 1/25/2016 | $0 | $0 | 1 |
| A05O0007 | SOLEX COLLEGE | FSA | 9/30/2015 | $1,795,500 | $0 | 2 |
| A02P0008 | ILLINOIS' OVERSIGHT OF LEA SINGLE AUDIT FINDING RESOLUTION | OCFO | 11/7/2016 | $0 | $0 | 1 |
| A05O0004 | TENNESSEE DEPT. OF EDUCATION'S RACE TO THE TOP PERFORMANCE | OCFO | 3/30/2016 | $242,816 | $0 | 4 |
| A05O0005 | NORTH CAROLINA DEPT. OF PUBLIC INSTRUCTION'S RACE TO THE TOP PERFORMANCE | OCFO | 7/13/2015 | $12,532 | $0 | 4 |
| A07K0003 | METROPOLITAN COMMUNITY COLLEGE COMPLIANCE | FSA | 5/15/2012 | $90,007 | $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, 2018. In this category, the Department has a total of eleven reports, with disallowed costs amounting to $82.9 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 PO’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 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 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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**Semiannual Report to Congress on Audit Follow-up—No. 59**

**U.S. Department of Education**

**Office of the Chief Financial Officer**

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

**Washington, DC 20202-4450**

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1. The OIG removed a fifth category related to Information Technology System Development and Implementation because its current body of work did not support continued reporting. [↑](#footnote-ref-2)
2. “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-3)