**U.S. Department of Education**

**Semiannual Report to Congress on Audit**

**Follow-up—No. 60**

**October 1, 2018 – March 31, 2019**

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Semiannual Report to Congress on

Audit Follow-up—No. 60

October 1, 2018 - March 31, 2019

U.S. Department of Education

Office of Finance and Operations

**U.S. Department of Education**

Betsy DeVos

*Secretary*

**Office of Finance and Operations**

Denise Carter

*Acting Assistant Secretary, Office of Finance and Operations*

**Office of Grants Administration**

Jim Stader, P.E.

*Deputy Assistant Secretary, Office of Grants Administration*

May 2019

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**MEMORANDUM**

TO : Betsy DeVos

Secretary of Education

FROM : Denise Carter

Acting Assistant Secretary, Office of Finance and Operations

SUBJECT : Semiannual Report to Congress on Audit Follow-up, No. 60

In accordance with the *Inspector General Act of 1978,* as amended (IG Act), I am pleased to submit the Department’s 60th *Semiannual Report to Congress on Audit Follow-up*, which covers the six-month period ending March 31, 2019.

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 sections 5(b)(2) and (3) 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, under section 5(b)(5) of the same Act.

Over the reporting period, the Department continued to implement recommendations to correct deficiencies reported by the auditors in a timely manner. The Department remains committed to making measurable progress 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 |
| **AS** | Administrative Services |
| **BUF** | Better Use of Funds |
| **COR**  **Department** | Contracting Officer’s Representative  U.S. Department of Education |
| **DCL** | Dear Colleague Letter |
| **FFEL** | Federal Family Education Loan |
| **FISMA** | Federal Information Security Management Act |
| **FSA** | Federal 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 Officer  Information Technology |
| **LEA** | Local Educational Agency |
| **OFO** | Office of Finance and Operations |
| **OCIO** | Office of the Chief Information Officer |
| **OCR** | Office for Civil Rights |
| **OCTAE** | Office of Career, Technical, and Adult Education |
| **OESE** | Office of Elementary and Secondary Education |
| **OGC** | Office of the General Counsel |
| **OIG** | Office of Inspector General |
| **OMB** | Office of Management and Budget |
| **OPE** | Office of Postsecondary Education |
| **OSERS** | Office of Special Education and Rehabilitative Services |
| **POs** | Principal Offices |
| **SEA** | State Educational Agencies |
| **SOP** | Standard Operating Procedures |
| **TCI** | Technical Career Institutions |
| **TROR**  **UIC** | Treasury Report on Receivables  University of Illinois at Chicago |

# OVERVIEW

The U.S. Department of Education (Department) submits this *Semiannual Report to Congress on Audit Follow-up―No. 60* 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 Office of Inspector General (OIG) audit resolution and follow-up activity for the six-month period from October 1, 2018 through March 31, 2019.

The Department maintains similar but distinct processes to efficiently and effectively manage the two broad categories of OIG 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 Principal Offices (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 entities receiving Department grants, entities participating in student financial assistance programs, 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). OFO 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.

# Internal Audit Tables

| **Internal-Table 1:**  **OIG Internal Audit Report Activity** | | | | | | | |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Office** | **Number**  **of Reports Open 10/01/2018** | **Number of Reports Issued During**  **SAR\*60** | **Number of Reports Resolved During**  **SAR 60** | **Number**  **of Reports Unresolved as of 03/31/2019** | **Number**  **of Reports Completed**  **as of**  **03/31/2019** | **Number**  **of Reports Closed During**  **SAR 60** | **\*\*Number  of Reports Open as of 03/31/2019** |
| FSA | 5 | 2 | 3 | 1 | 0 | 0 | 7 |
| IES | 2 | 0 | 1 | 0 | 0 | 2 | 0 |
| OFO | 6 | 1 | 2 | 0 | 0 | 2 | 5 |
| OCIO | 1 | 1 | 1 | 0 | 0 | 0 | 2 |
| OCR | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| OCTAE | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| OESE | 3 | 0 | 2 | 0 | 0 | 0 | 3 |
| OPEPD | 0 | 1 | 1 | 0 | 0 | 0 | 1 |
| OPE | 1 | 0 | 1 | 0 | 0 | 0 | 1 |
| OSERS | 0 | 1 | 1 | 0 | 0 | 0 | 1 |
| **Total** | 18 | 6 | 12 | 1 | 0 | 4 | 20 |

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

\*SAR refers to Semiannual Report.

\*\*The number of Reports Open as of 3/31/2019 (20) is the Number of Reports Open 10/1/2018 (18) plus Number of Reports Issued during SAR 60 (6) minus Number of Reports Closed During SAR 60 (4).

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 | OFO | 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 the Office of Inspector General (OIG), the Office of the General Counsel (OGC), and the Office of Management and Budget (OMB) on improvements to the Compliance Supplement for FY 2017 to have revisions incorporated into the FY 2018 supplement cycle; however, OMB advised that there would not be any revisions to the FY 2018 Compliance Supplement. OFO 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 Quarter 1, FY 2020. | | | | | |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **ACN** | **Audit Title** | **Primary Office** | **Issue Date** | **Date of Management Decision** |
| A02M0012 | Audit of Charter and Education Management Organizations | OESE | 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 Dear Colleague Letter (DCL) by the Office of Elementary and Secondary Education (OESE), from the former Office of Innovation and Improvement (OII). OESE 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, the letter was delayed due to the program’s workload of essential activities and the recent reorganization which merged OII with OESE. 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 Quarter 3, FY 2019. | | | | |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **ACN** | **Audit Title** | **Primary Office** | **Issue Date** | **Date of Management Decision** |
| A17Q0001 | FY 2016 ED Financial Statement Audit | OFO | 11/14/2016 | 2/14/2017 |
| **Status:** **Resolved.** In coordination with the Office of Finance and Operations (OFO), Federal Student Aid (FSA) has developed documentation detailing the current Guaranty Agency (GA) Treasury Report on Receivables (TROR) reporting and compliance gaps. FSA implemented changes to the Debt Management and Collection System to close the reporting gaps and is revising the GA TROR reporting guidance. The planned completion date for this audit is Quarter 4, FY 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) is developing standard operating procedures (SOP) based on the Department’s [Contractor Employee Personnel Security Screenings](https://connected.ed.gov/Documents/Contractor%20Employee%20Personnel%20Security%20Screenings.pdf) Directive and updated supplemental guidance. AS is working on establishing a training program for Contracting Officer’s Representatives (CORs) and Information Systems Security Officers (ISSOs) that will be offered at least quarterly. Additionally, AS is working with FSA Acquisitions and CORs to review monthly contractor vendor and staffing reports. Reports will be compared to Security Manager data to initiate reinvestigations at the appropriate time to avoid lapses in investigations. FSA-Finance completed analysis of the TROR gaps, implemented changes to the Debt Management and Collection System to close the reporting gaps, and is revising the GA TROR guidance. In addition, FSA has developed the list of Treasury Offset Program exclusions and exceptions, which has been confirmed by OGC. The planned completion date for this audit is Quarter 4, FY 2019. | | | | |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **ACN** | **Audit Title** | **Primary Office** | **Issue Date** | **Date of Management Decision** |
| A17R0001 | FY 2017 Financial Statement Audit | OFO | 11/13/2017 | 3/23/2018 |
| **Status: Resolved.** FSA will evaluate milestones for FY19 and beyond and update the Debt Collection Improvement Act (DCIA) Compliance plan document for future years, if necessary. FSA will revise TROR specifications and guidance for the Non-Default and Defaulted Loan Servicers in coordination with implementation of Next Gen FSA. The planned completion date for this audit is Quarter 2, FY 2020. | | | | |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **ACN** | **Audit Title** | **Primary Office** | **Issue Date** | **Date of Management Decision** |
| A17R0002 | FY 2017 FSA Financial Statement Audit | FSA | 11/13/2017 | 2/16/2018 |
| **Status: Resolved.** FSA AS is working with FSA Acquisitions to review monthly contractor vendor and staffing reports and to compare them to Security Manager data for completeness and accuracy. FSA AS will then coordinate with the appropriate CORs/ISSOs to confirm the reinvestigations are initiated at the correct investigation level based on the risk designation of the assigned position according to findings.  FSA will revise TROR specifications and guidance for the Non-Default and Defaulted Loan Servicers in coordination with implementation of Next Gen FSA. The planned completion date for this audit is Quarter 2, FY 2020. | | | | |

| **ACN** | **Audit Title** | **Primary Office** | **Issue Date** | **Date of Management Decision** |
| --- | --- | --- | --- | --- |
| A11-R0001 | FY 2017 FISMA Audit | OCIO | 10/31/2017 | 03/23/2018 |
| **Status: Resolved**. The remaining corrective actions for this audit involve the development of an updated Employee Directive issued by OFO to provide additional guidance on background investigation requirements. Additionally, OCIO is updating the Department Cybersecurity Implementation plan, along with completing the cybersecurity workforce knowledge and skills assessment and associated analysis of the Department’s cyber workforce. Finally, FSA is developing SOPs to classify position designations at the time of new contract awards and providing validation that privileged user activity is tracked and validated as legitimate activity. The planned completion date for this audit is Quarter 4, FY 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.

# External Audit Tables

| **External-Table 1:**  **U.S. Department of Education Audit Recovery Activities Related to Disallowed Costs as of March 31, 2019** | | |
| --- | --- | --- |
| **Final Actions** | **Number of Reports** | **Disallowed Costs** |
| **Balance reported at the end of the previous period** | **4** | **$9,594,692** |
| 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** | **4** | **$9,741,063** |
| Audit reports with final action taken during the previous period (includes collections and other reductions)  Audit reports with final action taken during the period (includes collections and other reductions) | 0  0 | ($146,371)  ($38,984) |
| **Total audit reports pending final action at the end of the period** | **4** | **$9,555,708** |

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) 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, 2019** | | |
| **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** | **3** | $0 |
| Audit reports on which management decisions were made during the period | 1 | $0 |
| **Total: Audit reports pending final action during the period (total of two variables above)** | **4** | **$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)** | **2** | **$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 | OFO | 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 | OFO | 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 | OFO | 11/7/2016 | $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 October 1, 2018. In this category, the Department has a total of eight reports, with disallowed costs amounting to $82.6 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 Acting Assistant Secretary, Office of Finance and Operations (OFO), 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 Acting Assistant Secretary, OFO, 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 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 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 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, OFO 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, OFO 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), 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 Finance and Operations**

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

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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)