NOTICE

Statements that financial and/or managerial practices need improvement or recommendations that costs questioned be refunded or unsupported costs be adequately supported, and recommendations for the better use of funds, as well as other conclusions and recommendations in this report, represent the opinions of the Office of Inspector General. Determinations on these matters will be made by the appropriate U.S. Department of Education officials.

AUDIT CONTROL NUMBER: A03-70010
June 1999
We reviewed the U. S. Department of Education’s (ED) closed school process [which is to assure the accountability of the federal funds, and to assist students in completing their education] for when a school ceases to provide educational instruction. (See the Attachment for a flowchart of ED’s closed school process) We determined that monetary liabilities owed to ED were not being accounted for and pursued. During our audit, ED developed and implemented new closed school policies and procedures. We found these policies and procedures to be adequate, however, we believe that additional procedures need to be included to assist in strengthening the closed school process.

We believe that action on the recommendations included in this report could further strengthen ED’s closure process, and that immediate attention to these issues is warranted.

Specifically, our review disclosed that:

- All Close Out Audit Reports are not Being Submitted and the Related Receivables are not Being Established; and
- The Securing of Federal Perkins Loan Program Promissory Notes and Funds from Closed Schools Need Improvement.

We determined that at least:

- $36,987,465 in federal funds, was received by 30 schools that did not submit the required close out audit report and has not been accounted for. Of this amount, receivables were not established for $23,523,432. This amount represents federal funds received by 24 of the 25 schools we selected for review in this area. A receivable should have been established, since funds not properly accounted for are owed to ED.

- $535,000 in Perkins Loan program funds are at risk because the Case Management Teams did not obtain the Perkins Loan promissory notes from seven of the nine schools we reviewed. Also, cash on hand, from the closed school’s Perkins Loan account, was not obtained from any of the nine schools.

**RECOMMENDATIONS:**
We recommend the Chief Operating Officer for Student Financial Assistance programs take the appropriate actions to ensure:

1. Receivables are established for all schools that have closed and failed to submit a close out audit report;

2. Close out audit procedures are implemented, in a timely manner to ensure that the procedures delineate the office and staff responsible for assessing liabilities and establishing receivables;

3. School owners with at least 25% ownership interest are required to provide their social security numbers when applying to participate in the SFA programs.

4. Periodic searches of the Postsecondary Education Participants System is performed to determine if the owner(s) of a closed school have ownership interest in any other school(s) that are still participating in the SFA programs.

5. Perkins Loan promissory notes are obtained for all schools that closed and did not assign their Perkins Loan notes to ED, including the seven schools noted in our review, and attempt to obtain any cash remaining in the school’s Perkins Loan account;

6. Additional policies and procedures are developed and implemented that establish timeframes and assign responsibility for the process by which closed schools Perkins Loan promissory notes are obtained by ED; and

7. The current closed school procedures are amended to include the measures that we are suggesting in the Other Matters section of this report.

OSFA RESPONSE:

The OSFA generally concurred with our recommendations. However, OSFA believes that the current closed school policies and procedure relating to the Perkins Loan program is adequate to address the Case Management Teams obtaining of Perkins loan promissory notes and cash on hand. OSFA is also exploring the best way to handle requiring school owners to provide their social security numbers when applying to participate in the SFA programs.

Our findings and recommendations did not substantially change from the draft report.
We believe that the Institutional Participation and Oversight Service (IPOS) has made significant progress in developing and implementing guidance to staff assigned the responsibility for closed schools. ED has also formed partnerships with State agencies, accrediting agencies, and guaranty agencies in order to effect communication and strengthen its oversight of matters related to school closures. However, we found that during our audit period, IPOS did not have updated closed school policies and procedures. We did not assess the adequacy of the policies and procedures used during the audit period because during our audit IPOS developed new closed school policies and procedures. The new policies and procedures appear adequate and we believe they will result in improvements, however, we believe that additional procedures need to be included to assist in strengthening the closed school process, as discussed in the Other Matters section of this report. Generally, IPOS was implementing the closed school policies and procedures that they were following during our audit period, except as explained in this report.

**FINDING NO. 1 - ALL CLOSE OUT AUDIT REPORTS ARE NOT BEING SUBMITTED AND THE RELATED RECEIVABLES ARE NOT BEING ESTABLISHED**

Our review disclosed that the majority of the required close out audit reports are not being submitted, and receivables for failure to submit the audits are not being established by ED for the unaudited and unaccounted for funds. As a result, federal funds possibly owed to ED are not being properly identified for follow-up and collection, and school owners are not being held accountable for not submitting close out audit reports.

34 CFR 668.26 (b) requires that when a school closes, the school is required to submit to ED an audit engagement letter. The engagement letter is to show that the school has contracted to have an independent audit of the SFA programs in which they participated performed covering the period of time from their last audit until the date of closure. The audit report [close out audit] is
required to be submitted to ED within 45 days after the date of the engagement letter. If the date to submit the engagement letter expired, ED requires that the school submit the close out audit within 45 days from the date of the close out letter sent to the school by the Case Management Teams (CMT) [See the Background section of this report for additional information]. In the absence of a close out audit, the associated federal funds remain unaccounted for. Therefore, when a school does not submit the close out audit, it is ED’s policy to assess a liability equal to the amount of SFA funds received by the institution during the unaudited period of time. The school is to be notified of the liability by a Final Audit Determination letter (FAD). The liability is forwarded to the Office of the Chief Financial Officer (OCFO) to be established as a receivable owed by the school for collection purposes.

**Close Out Audit Reports:**

During the period July 1, 1996 to July 31, 1997, we found that only 18% [34] of the 193 main campus locations in our audit universe, which were required to submit a close out audit report, appear to have submitted a close out audit. Based on our sample of 38 closed schools, we found that as of April 1998, $36,987,465[^2] in federal funds are unaudited and thus not accounted for.

Noncompliance with the close out audit requirement was previously reported as a finding by our

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[^1]: Three schools were excluded from our sample of 41, because they were private not-for-profit schools with SFA funding of less than $300,000. These schools are not required to submit a close out audit.

[^2]: This amount represents unaudited SFA funding received for 30 of 38 schools reviewed, that were required to submit a close out audit report. This amount includes the $23.5 million discussed later in the Finding. The $23.5 million represents unaudited SFA funding received [for 24 schools], and no close out audit report was submitted and we determined that a receivable for the liability was not established.
office in September 1995\(^3\). The report disclosed that 92% of the 530 schools that closed during the period January 1, 1989 through September 30, 1993 did not submit a close out audit. The amount of funds that went unaudited was approximately $2.4 billion. Four years later, 82% of the required audit reports are still not being submitted. There has only been a 10% increase in report submissions.

IPOS should have implemented appropriate corrective action to address the prior audit findings, such as establishing procedures to monitor compliance with the close out audit report requirement, assessing liabilities against schools that do not provide the close out audits and clarifying the roles of the various offices. However, due to the reorganization of IPOS, and the lack of updated closed school policies and procedures [See the Other Matters section of this report], effective corrective actions were not being accomplished.

Without the close out audit, ED does not know if the funds provided to the schools were expended properly. Although there is a federal requirement that a school that closes is to have a close out audit performed and must submit the audit to ED, there is no real compelling reason for the school owners to have the audits performed. IPOS is not enforcing the close out audit report submission requirement.

**RECEIVABLES:**

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\(^3\) *Closed Schools: $2.4 Billion Unaudited - ACN: 07-48051.*
Our review also disclosed that, as of May 1998, 10 months after the end of our audit period, receivables were not being established for schools that did not submit their required close out audit. We selected a sample of 25 schools that did not submit close out audits, to determine if a receivable was established. We found that a receivable was not established for 24 (96%) of the schools. IPOS had not issued Final Audit Determination letters (FADs) for these schools. As a result, $23,523,432 in amounts possibly owed to ED are not being pursued for collection.

Under IPOS’s new organizational structure, formal assignment of the responsibility for assessing liabilities and requesting that a receivable be established had not been delineated. Our review disclosed that IPOS did not have written closed school policies and procedures to correspond to the new IPOS structure. Formerly, under the old structure, the responsibility for requesting that a liability be established as a receivable was that of the Division of Audit and Program Review (DAPR). The DAPR no longer exists under the new structure. The CMTs assumed this function, although most were not sure who was actually responsible for performing this function. One CMT’s own procedures stated that:

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A...it is the former Audit Resolution Branch’s [part of the DAPR] responsibility to assess liabilities for all unaudited funds,... however, with the reorganization of IPOS, it’s reasonable to believe that it will be the case management division’s responsibility to monitor and issue the Final Audit Determination letter.@

We believe that factors contributing to the receivables not being established are the lack of sufficient close out audit procedures, that should detail the process of assessing liabilities and establishing receivables. The close out audit report processing is an integral part of the closed school process. As of October 1998, IPOS had not yet developed new procedures that apply to the new structure. An additional factor was the closed school audits were not made a priority for the CMTs.

IPOS officials indicated to us that there was no point in setting up a receivable on unaudited funds, because when a school closes, generally the owner of the school can not be located to obtain the close out audit report or enforce collection. We acknowledge the problem ED faces, however, if a debt is owed to ED it should be pursued and the Congress has passed additional laws to strengthen collection. Title 31 Money and Finance, as amended by Section 31001 of Public Law 104-134 the Debt Collection Improvement Act of 1996, requires that each person doing business with the Department, with respect to the student loan programs, is required to furnish a taxpayer identification number. A doing business with is defined as being in a relationship with the agency that may give rise to a receivable due to that agency, such as a partner of a borrower in or a guarantor of a Federal Direct or insured loan administered by the

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4 Two schools that filed for bankruptcy were excluded from the sample.
agency. Title 31 7701(c)(1) states that: **The head of each Federal agency shall require** each person doing business with that agency to furnish to that agency such person’s taxpayer identifying number, which can be a social security number (SSN). Although ED currently requests SSNs (on an optional basis), providing them is not required. Based on Title 31 7701, ED should **require** the SSN of school owners participating in or who want to participate in the SFA programs.

We also recognize that owners can cease operation of one school and continue to operate another school while ED carries a receivable for failure to submit the close out audit. IPOS should perform a search of the Postsecondary Education Participants System (PEPS) to identify for administrative action, owners of closed schools that failed to submit close out audits and who continue to operate or have ownership interest in another school currently participating in the SFA programs. The operating school can be considered to be not financially responsible based on 34 CFR 668.15(c) Past performance of an institution or persons affiliated with an institution, which states that:

An institution is not financially responsible if: a person who exercises substantial control over the institution...exercises or exercised substantial control over another institution or third party servicer that owes a liability for a violation of a Title IV, HEA program requirement; or owes a liability for a violation of a Title IV, HEA program requirement; and that person, ... institution ... does not demonstrate that the liability is being repaid.

We believe requiring the SSN and implementing a search of PEPS will strengthen IPOS’s ability to obtain compliance with closed school requirements.

**RECOMMENDATION:**

The Chief Operating Officer for SFA should require IPOS to:

< 1. Determine all closed schools that failed to submit the close out audit report and establish a receivable for these schools.

< 2. Finalize the close out audit policies and procedures, and ensure that the procedures delineates who is responsible for assuring close out audits are submitted, issuing FADs, and notifying the OCFO to establish a receivable.

< 3. Require all school owners with at least 25% ownership interest to provide their social security numbers when applying to participate in the SFA programs.

< 4. Perform periodic searches of PEPS to determine if the owner(s) of a closed school
have ownership interest in any other school(s) that are still participating in the SFA programs.

OSFA RESPONSE:

Recommendation 1 - Case Teams have been instructed to establish liabilities for closed schools that failed to submit audits.

Recommendation 2 - Procedures are being established that answer key questions in the tracking process. Area Case Directors (ACDs) will be responsible for ensuring that close out audits are submitted for schools under their jurisdiction. This will include issuing the final determination if the close out audit is not received, with the liability assessment. A copy of the final determination letter for failure to submit a close out audit will then be forwarded to the Financial Improvement and Debt Management Group in the OCFO to establish an account receivable. Case teams will be responsible for tracking the receipt of close out audit reports.

Recommendation 3 - We are exploring how best to require school owners with at least 25% ownership interest to provide social security numbers when applying to participate in SFA programs. We hope to add this requirement to the application when it is revised this summer. A major problem is the Postsecondary Education Participants Systems (PEPS) inability to provide the required security necessary for maintaining social security numbers. An alternative may be to require that owners' social security numbers be included in the compliance audit or financial statement because they are submitted on an annual basis.

Recommendation 4 - We agree with this recommendation. We will also revisit coordination between OCFO and IPOS to ensure OCFO notifies IPOS when liabilities are not paid.

OIG RESPONSE:

Recommendation 3 - We do not believe that requiring owners to provide social security numbers in a compliance or financial statement audit report is a viable alternative. An audit report is not a good vehicle to obtain the SSN, as it can be obtained through the Freedom of Information Act and the owner SSN would not be secure. Also, if no audit report is submitted then you will still not have the owner SSN.

FINDING NO. 2 - THE SECURING OF FEDERAL
PERKINS LOAN PROGRAM
PROMISSORY NOTES AND FUNDS
FROM CLOSED SCHOOLS NEEDS IMPROVEMENT

IPOS does not routinely obtain the Perkins promissory notes or the cash on hand from closed schools. We found for seven of nine schools in our sample that participated in the Federal Perkins Loan program (Perkins) for which this condition existed, that approximately $535,000 in Perkins Loan funds are at risk.

When a school ceases participation in the Perkins Loan program, it is required to inform ED of how it will provide for the collection of any outstanding loans. When a school closes, the school should assign/ its Perkins loans to ED. The school must terminate all billing and collection activities, return any remaining cash on hand and assign the promissory notes to ED. The CMT is responsible for arranging, coordinating, and monitoring the assignment of the Perkins promissory notes to ED. If the closed school does not arrange to submit its promissory notes or remit cash on hand, it is the CMT’s responsibility to obtain the portfolio and send the promissory notes to ED’s contractor for continuing collection on the notes. The CMT is also required to obtain the cash on hand from the school’s Perkins account.

Our sample of 41 schools included nine schools that participated in the Perkins program. We found no record in the OCFO that the schools returned any cash on hand from their Perkins account to ED. Although we can not be certain that there was any cash on hand in the Perkins account for these schools, it is possible.

We also found that seven [78%] of the nine schools did not submit their Perkins promissory notes to ED. Nor did IPOS obtain the promissory notes. Four of the five CMTs we visited had not obtained any Perkins promissory notes in the past year and did not perform any type of follow up to determine if the promissory notes were submitted to ED. If the promissory notes are not submitted to ED, no collection on the loans can be performed and ED will not receive the repayment of the loans. Every effort should be made to obtain the promissory notes and any

5 The amount of Perkins Loan funds received by the closed schools, according to ED’s Postsecondary Education Participants System and the amount of funds the school stated it would return to ED.
remaining funds.

Obtaining the Perkins promissory notes and the cash on hand were not made a priority within IPOS. IPOS set other priorities which took precedence over the closed school responsibilities. New policies and procedures detailing the CMT’s responsibilities regarding Perkins should assist in improving the process. Obtaining Perkins promissory notes and cash on hand needs to be emphasized by IPOS, as it was in prior years. Perkins procedures issued in 1989, stated that:

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Whenever regional staff become aware of a potential or actual school closure immediate steps must be taken to ensure that ED’s interest is protected, especially when Perkins Loan funds are involved. The prompt handling of a closed school must always be considered a high priority of the regional office. [emphasis added].
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This sense of priority needs to be reemphasized so that ED’s interest can be better protected.

**RECOMMENDATION:**

The Chief Operating Officer for SFA should require IPOS to:

- Attempt to obtain the promissory notes for the seven closed schools in our sample and begin collection of approximately $535,000 associated with those loans. Determine all schools that closed and participated in Perkins, and assure the promissory notes were assigned to ED and potential cash on hand was recovered. If the promissory notes were not assigned to ED, obtain them;

- Emphasize the importance of obtaining the Perkins promissory notes and cash on hand. A time limit should be established for the CMT to secure the notes and funds; and

- Develop additional Perkins Loan policies and procedures, which should include a strategy that would assist the CMT in obtaining the Perkins promissory notes and cash on hand. This should be made a priority.

**OSFA RESPONSE:**

[It should be noted that the first sentence of recommendation 1 was not included in the draft report].

**Recommendation 1** - We agree with this recommendation. The case teams will attempt to obtain the Perkins promissory notes and cash on hand for schools that closed and did not assign the notes to ED.
**Recommendation 2** - Performance Improvement and Procedures (PIP) Memorandum 98-04 instructed teams to collect Perkins notes. This has always been IPOS policy, as has collection of cash on hand. Although no time limit has been set, it has been stressed to the case teams that the assignment process should be completed in a timely manner to minimize the period of time accounts are not serviced.

**Recommendation 3** - The strategies outlined in PIP Memorandum 98-04 are sufficient. These procedures give guidance for each program the school participates in and also provide different instructions by the type of closure (i.e., precipitous, orderly, etc.).

**OIG RESPONSE:**

**Recommendation 2** - We are encouraged that the new closed school policies and procedures instructs the CMTs to collect Perkins notes and even though this was always IPOS policy, our review disclosed that the CMTs were not collecting the notes, therefore we believe that it is important to continue to emphasize obtaining the promissory notes and cash on hand, as well as establishing a time limit.

**Recommendation 3** - We recognize that the new closed school policies and procedures includes guidance relating to the Perkins Loan program, however, we believe additional procedures (a strategy) are needed to ensure that the CMTs obtain the prom notes and cash on hand. We have therefore amended our recommendation to express that additional procedures are needed.
OTHER MATTERS

ED HAD OUTDATED WRITTEN CLOSED SCHOOL POLICIES AND PROCEDURES

Currently, IPOS has uniform written closed school policies and procedures. We believe the policies and procedures will assist in improving IPOS’s closed school process although (as noted below) additional procedures are needed. During our audit period [July 1996-July 1997], IPOS did not have current written uniform closed school policies and procedures. The CMTs were using old, outdated policies and procedures from 1990 as guidance. These policies and procedures were based upon the old organizational structure and did not fit the new IPOS structure, which includes the CMT and the State Liaison and Closed School Branch (SLCSB). Each of the five CMTs reviewed developed their own closed school policies and procedures, and were performing their closed school responsibility differently. As a result three of CMTs were not performing all aspects of the closed school process, in part because the responsibilities were not properly assigned. We found that:

(1) CMTs were not sure who was responsible for performing some tasks, for example issuing FADs, assessing liabilities, and monitoring submission of the close out audit report. These responsibilities were previously performed by the Audit Resolution Branch (ARB), which was no longer in place. In fact, issuing FADs and assessing liabilities were generally not being done.

(2) The close out letters being sent to schools were not uniform. The version used by one CMT did not include some important information (i.e. the unaudited period, or a request to respond to the letter within 15 days) that the schools need to complete their close out responsibilities.

(3) The Closed School Monthly Reports were not being regularly received and utilized by the CMTs. Three CMTs did not account for and send close out letters to all schools in their portfolio of schools that closed during our audit period. The Monthly Reports should be reconciled to the CMT’s list of closed schools for the month to assure that all of schools in the CMT’s portfolio that closed during the month are accounted for.

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*IPOS reorganization began in November 1996.*
During our review, IPOS was developing written uniform policies and procedures. The policies and procedures were finalized in late April 1998. We reviewed these policies and procedures and believe they are adequate and will assist in improving ED's closed school process. However, during our review of the policies and procedures, we noted that several of the procedures identified did not include all of the necessary procedures that we believe will assist in strengthening ED's closure process and did not definitively define a specific timeframe or event for an action to be actioned or delineate all responsibilities.

We suggest the policies and procedures be amended as follows:

a. Define the specific event\date that starts the beginning of the two week time period in which the CMT is required to send the close out letter to the school;

b. Define a timeframe for when the CMT is required to secure the closed school's unobligated funds\excess cash;

c. Delineate the office that is responsible for notifying the Office of General Counsel (OGC) if a school's account cannot be zeroed out and if the receivable is greater than $100,000; and

d. Include a procedure to assure that the Closed School Monthly reports are provided to the responsible CMT member(s). The responsible team member should be required to review the Reports to assure that they have accounted for all the closed schools in their portfolio.

**OSFA RESPONSE:**

We agree with the suggested amendments to the policies and procedures.
BACKGROUND

When an institution is approved to participate in the Student Financial Assistance Programs, Title IV of the Higher Education Act of 1965, as amended, the school owner or a duly authorized representative of the institution is required to sign a Program Participation Agreement (PPA) with the U. S. Department of Education. Under the PPA, the school agrees to comply with the laws and regulations governing the SFA programs, which includes the requirements relating to closure.

When an institution closes or ceases to provide educational instruction, its participation in the SFA programs ends on the date of school closure. The institution is required to immediately notify the U. S. Department of Education of the closure, submit a letter of engagement to have an independent audit of all SFA funds received since the last audit performed, and submit the close out audit report to ED.

If a close out audit report is not received, it is ED’s policy that the school refund all SFA funds received from the date of the institution’s last required annual audit to the date of closure.

IPOS is responsible for ensuring that other ED offices are notified of institutional closures and ensuring that institutions meet the requirements when they close. Within IPOS, the State Liaison and Closed School Branch and the Case Management Teams carry out these responsibilities. The CMTs are composed of both regional and Washington, D.C. staff. Each CMT is responsible for a portfolio of schools for which they are responsible for all oversight functions, including closures.

When IPOS is notified of an institution’s closure, the SLCSB is responsible for verifying the closure (with the appropriate State and/or Accrediting Agency); informing the various ED offices of the closure, including the CMT, via the Closed School Notice; restricting an institution’s ability to drawdown funds from ED by placing a stop payment on the institution’s account, preparing and distributing the Closed School Monthly Report; and updating the database of closed schools. The SLCSB also handles inquiries from students and outside agencies regarding the closures, and assisting the closed school or state agency in arranging teach-out agreements.

The CMT is responsible for notifying the institution of its responsibilities when it closes, via issuing a close out letter. The CMT is also responsible for obtaining any SFA funds remaining in an institution’s accounts and assuring that the Perkins promissory notes are remitted to ED, if applicable. If the institution fails to submit a close out audit report, the CMT is responsible for assessing a liability against the institution and notifying the OCFO of the assessment so that an institutional receivable can be established. The liability amount is based on the amount of SFA funds received by the institution for the period of time since the institution’s last SFA audit to the date of closure.

The Data Management and Analysis Division’s Document Receipt and Control Center (DRCC) is responsible for receiving the close out audit reports and reviewing them for acceptability. The reports are then forwarded to the responsible CMT for additional review and, if appropriate, to assess any audit finding liability.
The Federal Perkins Loan Program

Perkins Loans (Perkins) are low-interest, long term loans made through institutional financial aid offices to help needy undergraduate and graduate students pay postsecondary educational costs. Each award year a school receives an allocation for the program from ED. This is the Federal Capitol Contribution (FCC). The school must provide matching funds, from its own resources, of one third of the FCC. This is the Institutional Capitol Contribution (ICC). A school that participates in Perkins is required to establish and maintain a Perkins account and to deposit into the account the FCC, the ICC, and any other funds collected in administering the program. Eligible students must sign a promissory note in order to receive a Perkins loan. The note is held by the school.

When a school ceases participation in the Perkins Loan program, it is required to inform ED of how will provide for the collection of any outstanding loans. When a school closes it must terminate all billing and collection activities, return any cash on hand maintained in the Perkins account, and assign the promissory notes to ED.

AUDIT SCOPE AND METHODOLOGY

The objectives of our audit were to determine and assess ED’s closed school policies and procedures (excluding the teach-out responsibility), and to determine if the policies and procedures were being implemented. The period audited was from July 1, 1996 to July 31, 1997.

To accomplish our audit objectives, we determined the closed school policies and procedures and reviewed the institutional files maintained by the SLCSB, CMT and the OCFO, and interviewed officials from these offices. We also obtained relevant data such as funding, audit report submission, liabilities & Perkins promissory note and cash on hand submission, from various ED database systems.

For our review of the institutional files maintained by the SLCSB and the OCFO, we randomly selected a sample of 25 closed schools from a universe of 299 schools (main campuses, branches and additional locations) that were reported closed on the Closed School Monthly Reports [prepared by the SLCSB] for the audit period.

We judgmentally selected five CMTs [see below] to review their closed school process. The sample selected was based on geographic location and the volume of closed schools for the audit period. From the five CMTs, we selected a sample of 41 closed schools [main campuses] to review. The sample was based on the original random sample used for the audit work at the SLCSB and the OCFO and augmented by additional selections in order to allow for sufficient coverage of the regional CMT universe of closed schools. The sample was obtained from the
CMT universe of school closures during the audit period, as follows:

<table>
<thead>
<tr>
<th>REGIONAL LOCATION</th>
<th>UNIVERSE</th>
<th>SAMPLE SIZE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Philadelphia, PA</td>
<td>23</td>
<td>5</td>
</tr>
<tr>
<td>Dallas, TX</td>
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<td>8</td>
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<tr>
<td>Chicago, IL</td>
<td>25</td>
<td>8</td>
</tr>
<tr>
<td>San Francisco, CA</td>
<td>30</td>
<td>9</td>
</tr>
<tr>
<td>Atlanta, GA</td>
<td>37</td>
<td>11</td>
</tr>
</tbody>
</table>

We also selected a sample of 25 schools, from the schools reviewed at the regional offices, to determine if a receivable was established for not submitting a close out audit report.

We conducted our fieldwork at the offices of IPOS and the OCFO in Washington, D.C. We also conducted fieldwork at the five regional offices detailed above from August 1997 to April 1998.

We conducted the audit in accordance with government auditing standards appropriate to the scope of review described above.

**STATEMENT ON MANAGEMENT CONTROLS**

As part of our review, we assessed the system of management controls, policies, procedures, and practices applicable to ED's closed school process. Our assessment was performed to determine the level of control risk for determining the nature, timing, and extent of our substantive tests to accomplish the audit objectives.

For the purposes of this report, we assessed the General Control Environment, which included personnel, delegation and communication of authorities\responsibilities, and policies and procedures.

Because of inherent limitations, a study and evaluation made for the limited purposes described above would not necessarily disclose all material weaknesses in the management controls. However, our assessment disclosed management control weaknesses. These weaknesses and their effects are fully described in the **Audit Results** section of this report.

Note: *Sitework performed at Philadelphia and Dallas was during the survey audit phase.*