



UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF INSPECTOR GENERAL

THE INSPECTOR GENERAL

MAR - 4 2002

Honorable Roderick Paige
Secretary of Education
Washington, D.C. 20202

Dear Mr. Secretary:

The enclosed report presents the results of the U.S. Department of Education's Federal Intragovernmental Activity and Balances agreed-upon procedures engagement for fiscal year 2001. The report is intended to assist the Department of the Treasury, Financial Management Service (FMS), the General Accounting Office (GAO), and the Office of Management and Budget (OMB), with evaluating Department management's assertions about its Federal Intragovernmental Activities and Balances. The Office of Inspector General (OIG) contracted with Ernst & Young, LLP, Certified Public Accountants, to perform the engagement. The OIG monitored the progress and completion of the work to ensure compliance with *Government Auditing Standards* and standards established by the American Institute of Certified Public Accountants.

The results of the engagement were discussed with Department officials having management responsibility for the matters discussed. In addition to providing the report to FMS, OMB and GAO, a copy is also being provided to the Department's Office of the Chief Financial Officer.

In accordance with the Freedom of Information Act (Public Law 90-23), reports issued by the OIG are available, if requested, to members of the press and general public to the extent information contained therein is not subject to exemptions in the Act.

We appreciate the cooperation given us and Ernst & Young, LLP, during the engagement.

Sincerely,

A handwritten signature in cursive script that reads "Lorraine Lewis".

Lorraine Lewis

Enclosure

AGREED UPON PROCEDURES
INTRAGOVERNMENTAL TRANSACTIONS
U.S. Department of Education
Year Ended September 30, 2001

 **ERNST & YOUNG**

**Independent Accountant's Report
On Applying Agreed-Upon Procedures**

To the Inspector General
U.S. Department of Education

We have performed the procedures enumerated in the attachment, which were agreed to by the Department of the Treasury's Financial Management Service (FMS), the General Accounting Office (GAO), and the Office of Management and Budget (OMB). These procedures were performed solely to assist them in evaluating the U.S. Department of Education (the Department) management's assertion that it reconciled Federal intragovernmental activity and balances for the fiscal year ended September 30, 2001, and compared the intragovernmental activity and balances per the financial records supporting the audited department consolidated financial statements for fiscal year 2001, as to amounts and USSGL accounts with the final amounts and USSGL accounts submitted to FMS (FACTS I and/or FACTS NOTES). This agreed-upon procedures engagement was performed in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described in the attachment either for the purpose for which this report was requested or for any other purpose. The procedures performed and the related findings are enumerated in the attachment.

We were not engaged to and did not conduct an examination, the objective of which would be an expression of an opinion on management's assertion. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of those parties specified in this report and is not intended to be and should not be used by any one other than these specified parties.

Ernst & Young LLP

March 4, 2002
Washington, D.C.

AGREED-UPON PROCEDURES AND E&Y FINDINGS**Procedure 1**

Review the Chief Financial Officer (CFO) responses to items (5) and (6) of the preliminary CFO Representations for Federal Intragovernmental Activity and Balances described in the Treasury Financial Manual (TFM), and copies of reconciliations and confirmations at item (9). For each "Yes" response to items (5) and (6), compare the amounts in the reconciliations to supporting documents. Obtain explanations for any differences noted.

Findings:

The following exceptions were noted:

- The Department did not confirm non-fiduciary transactions with its trading partners. The Department believes however that it received and responded to confirmation requests from its most significant trading partners and, in the case of the Department of Treasury, agreed balances to appropriate reports to and from the Department of Treasury.
- The Department was unable to identify all its trading partners.
- The Department elected to accept the balances reported by its trading partners that submitted requests for confirmation.
- The total fiduciary and non-fiduciary transactions accepted (e.g., confirmation received from trading partners with balances, signed by the Department and returned to trading partners) by the Department do not agree with the intragovernmental balances reported in the audited consolidated financial statements. The following differences, in thousands, were noted [the Department amounts were (less) more than counter party amounts]:

Intragovernmental Assets	(\$28,090)
Intragovernmental Liabilities	\$6,727,745
Intragovernmental Revenue	\$59,172
Intragovernmental Costs	\$595,116

The Department represented to us that although they did not send confirmations to its trading partners, the Department performed other procedures to determine that intragovernmental balances in the financial statements are fairly stated. The differences noted above are substantially related to accounting for credit reform downward subsidy re-estimates and estimated future collections. The Department confirms these intragovernmental liabilities as part of the fiduciary agency activity in the subsequent year. Neither of these balances represents borrowing

from the Bureau of Public Debt. Therefore, no borrowing confirmation is necessary. Other intragovernmental activity and balances not related to Treasury are not material to the financial statements taken as a whole.

- We were unable to verify the Department's CFO representations stating that reconciliations were performed for non-fiduciary intragovernmental activity and balances. The Department was neither able to identify its trading partners nor identify intragovernmental activity and balances by trading partners.

Procedure 2

Review the CFO responses to item (11) of the final CFO Representations for Federal Intragovernmental Activity and Balances described in the TFM. For each "Yes" response to item (11), compare the amounts excluding intradepartmental activity and balances, in the audited departmental consolidated financial statements to such amounts in the Department's final FACTS I and/or FACTS NOTES reports to FMS. Obtain explanations for any differences.

Finding:

No exceptions were noted.

