



UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF INSPECTOR GENERAL

September 16, 2004

CONTROL NUMBER  
ED-OIG/A19-E0002

Theresa S. Shaw  
Chief Operating Officer  
Federal Student Aid  
U.S. Department of Education  
Union Center Plaza, Room 112G1  
830 First Street, N.E.  
Washington, DC 20202

Dear Ms. Shaw:

This **Final Audit Report**, (Control Number ED-OIG/A19-E0002), presents the results of our audit of the audit followup process for external audits in Federal Student Aid (FSA). This audit was part of a review of the audit followup process for Office of Inspector General (OIG) external audits being performed in several principal offices. A summary report will be provided to the Chief Financial Officer, the Department of Education (Department) audit followup official, upon completion of the audits in individual principal offices.

## BACKGROUND

Office of Management and Budget (OMB) Circular A-50, entitled "Audit Followup," provides the requirements for establishing systems to assure prompt and proper resolution and implementation of audit recommendations. The Circular states,

Audit followup is an integral part of good management, and is a shared responsibility of agency management officials and auditors. Corrective action taken by management on resolved findings and recommendations is essential to improving the effectiveness and efficiency of Government operations.

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*Our mission is to ensure equal access to education and to promote educational excellence throughout the Nation.*

The Department established a *Post Audit User Guide* (Guide) to provide policy and procedures for the audit resolution and followup process.<sup>1</sup> The Guide states,

Each Assistant Secretary (or equivalent office head) with cooperative audit resolution or related responsibilities must ensure that the overall cooperative audit resolution process operates efficiently and consistently.

The Guide also provides that as an Action Official (AO), the Chief Operating Officer's responsibilities include,

- Determining the action to be taken and the financial adjustments to be made in resolving findings in audit reports concerning respective program areas of responsibility,
- Monitoring auditee actions in order to ensure implementation of recommendations sustained in program determinations, and
- Maintaining formal, documented systems of cooperative audit resolution and followup.

## **AUDIT RESULTS**

FSA's audit followup process was not always effective. We found that FSA inappropriately relied on subsequent single or compliance audits for assurance that issues noted in some OIG audits were corrected. In addition, FSA did not always obtain or maintain documentation to provide assurance that corrective actions were taken. As a result, FSA did not have assurance that corrective actions were implemented, and the risk remains that related programs are not effectively managed.

We also noted that corrective actions were still in process for five audits that were reported as "closed" in the audit resolution system. This issue is addressed in the OTHER MATTERS section of this draft report.

FSA responded to our draft report, concurring with the results and supporting the recommendation provided. FSA described specific corrective actions it has taken and intends to take to address the issues noted. FSA also responded that it had corrected the status of the audits discussed in OTHER MATTERS. The full text of the FSA response is included as Attachment 3 to this audit report.

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<sup>1</sup> The *Post Audit User Guide*, draft version dated January 2, 2001, was in effect during the scope of our audit. The Guide was updated and reissued March 31, 2003. The statements quoted are also included in the current version of the Guide.

## **Finding 1 Federal Student Aid Audit Followup Process Was Not Always Effective**

FSA's audit followup process was not always effective. We reviewed audit followup activities for 27 OIG audits of FSA programs that included a total of 136 external recommendations. We found FSA inappropriately relied on subsequent single or compliance audits for assurance that issues noted in OIG audits were corrected for 7 of the 27 audits reviewed (26 percent). We also found FSA did not obtain or maintain documentation to provide assurance that corrective actions were taken for an additional 5 of the 27 audits reviewed (19 percent). In total, we found that FSA did not have assurance that requested corrective actions were completed for 31 of the 136 recommendations (23 percent) in 12 of the 27 audits reviewed (44 percent).

### Audit Followup Requirements:

OMB Circular A-50 states,

Each agency shall establish systems to assure the prompt and proper resolution and implementation of audit recommendations. These systems shall provide for a complete record of action taken on both monetary and non-monetary findings and recommendations.

The Department's *Post Audit User Guide*, Section III, Chapter 5, Part B, states:

Primary responsibility for following up on nonmonetary determinations rests with AOs, who must have systems in place to ensure that recommended corrective actions are implemented by auditees.

Part B of the Guide further states, "Accurate records must be kept of all audit followup activities including all correspondence, documentation and analysis of documentation."

OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations," provides standards for audits of non-Federal entities expending Federal awards (single audits). Follow up on prior audits is addressed in several sections of the circular. However, the auditor is only required to follow up on prior single audits, not on other audits performed by OIG or other entities.

Single auditors are also required to follow generally accepted government auditing standards. The 1994 revision to *Government Auditing Standards* (GAS) required that auditors follow up on known material findings and recommendations from previous audits that could affect the financial statement audit. In the 2003 revision to GAS, the definition of previous audits includes financial audits, attestation engagements, performance audits, or other studies. However, the auditor is only required to follow up on significant findings and recommendations that directly relate to the objectives of the audit being undertaken.

### Reliance on Subsequent Single or Compliance Audits Did Not Always Provide Assurance that Corrective Actions Were Completed

We noted that audit resolution staff inappropriately relied on subsequent single audits or compliance audits for assurance that corrective actions from OIG audits were completed. We identified two major categories where this occurred:

1. Audit resolution staff requested the institution to ensure that their independent auditors review and comment on the completion of certain corrective actions in subsequent single or compliance audit reports. In these cases, resolution documents issued to the external entities requested corrective actions similar to the following:

The auditor during the next regularly scheduled audit must review and comment on this area of program operations to ensure that Dowling College is performing monthly reconciliations of school and servicer data.<sup>2</sup>

However, we found that the independent auditors did not include the requested review or comment as requested in the subsequent audit reports.

2. Audit resolution staff stated in some cases they relied on single audits for assurance that corrective actions were completed. They considered the problem corrected if the subsequent single audits did not contain findings similar to those reported by OIG. However, we found that the subsequent single audit reports did not always contain statements that showed the independent auditor considered the findings reported by OIG or the completion of the corrective actions requested by FSA in conducting their audit. Single audit requirements do not ensure that follow up on prior OIG audits is performed. Prior OIG audits may not be determined to be “material” or “significant” by the auditor, or may not affect or directly relate to the objectives of the single audit, and as such followup procedures may not be performed.

For example, an audit resolution document required an institution to implement a monitoring system to detect students who enroll but do not attend school. The document stated that a review of the school’s independent auditor report showed no major program violations. However, we reviewed three subsequent independent auditor reports and determined there was no specific mention as to whether or not the auditors considered the implementation of the requested monitoring system in conducting their audit.<sup>3</sup>

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<sup>2</sup> Final Audit Determination letter dated December 15, 1997, for Audit Control Number A02-70001, “Audit of the Direct Loan Program Administered by Dowling College,” issued October 6, 1997.

<sup>3</sup> Final Audit Determination Letter dated September 6, 2002, for Audit Control Number A02-B0006, “Audit of Drake College of Business’s Compliance with the Title IV, Higher Education Act Program Requirements,” issued March 5, 2002.

Overall, we determined that FSA's reliance on subsequent single or compliance audit reports to document the completion of corrective actions was not adequate for 22 of the 136 recommendations (16 percent) in 7 of the 27 audits reviewed (26 percent). In these cases, the subsequent single or compliance audits did not mention the area involved in the OIG audits, or whether follow up was performed on the OIG audit findings.

Although FSA relied on the completion of subsequent single or compliance audits to document the completion of corrective actions, there was no documentation that showed the results of the audits were reviewed and reconciled to the outstanding corrective action requests. As such, FSA did not identify instances where the reports did not specifically address these areas.

#### Interim Audit Memorandum Issued:

An interim audit memorandum entitled, "Use of Single Audits for Followup on OIG Audits," was issued to FSA on March 18, 2004. In its response, FSA agreed to review and revise its procedures to ensure schools implement corrective actions on external OIG audit findings. FSA stated,

FSA will no longer use single audits to ensure that schools take appropriate corrective actions on OIG audits. FSA will develop and implement procedures for its audit resolution staff to request documentation directly from the auditees to support actions were completed.

On April 9, 2004, in response to the memorandum, FSA issued interim guidelines relating to followup on OIG external audits. In these guidelines FSA stated:

[W]e will no longer rely on the prior audit section of subsequent audits for documentation that corrective actions have been taken. Instead we will require the institutions to submit documentation of the completion of corrective action to the audit resolution staff prior to closing the audit.

The guidelines also provide preliminary procedures for audit resolution and closure.

#### Documentation of Corrective Actions Was Not Always Obtained/Maintained.

FSA was not always able to provide evidence that showed requested corrective actions were completed. We found that FSA was not able to provide documentation in a timely manner, initial documentation provided was not complete, and ultimately, documentation was not available to support the completion of corrective actions for 9 of the 136 recommendations (7 percent) in 5 of the 27 audits (19 percent) reviewed.

During our audit, FSA's Schools Channel staff did not always provide all documentation for audit resolution and followup activities in an effective manner.<sup>4</sup> This occurred with respect to

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<sup>4</sup> The Financial Partners Channel staff within FSA provided files relating to four other audits in a timely manner.

initial requests for resolution documentation and subsequent requests for documentation supporting the completion of corrective actions. FSA did not have hard copy audit resolution files, but maintained information on an electronic system. However, this system did not effectively lend itself to retrieving all related data for a particular audit. FSA staff encountered difficulties identifying and providing requested data in a timely manner.

To illustrate, in response to our initial request for audit resolution documentation, FSA provided information for 25 of the 35 audits in our universe (71 percent), but not until seven weeks after the request was made. FSA indicated that the documentation for the remaining 10 audits would be provided the following week, but they did not provide this documentation. FSA indicated that the delay in providing documentation was due to staff availability to access the data, and because they wanted to provide documentation supporting both resolution and the completion of corrective actions. However, the information FSA eventually provided did not include documentation that showed the completion of corrective actions. The data initially provided included only audit resolution documents.

FSA later provided information in response to our request for all documentation related to audit followup activity for our sample of audits. This information for 23 selected audits was provided another seven weeks after our request. We reviewed the documentation and submitted referrals to FSA relating to potential areas of concern. In response, FSA provided additional clarification or information not previously identified for 10 of the 23 audits (43 percent).

Subsequent to the resolution of the audits we reviewed, the Department established additional guidelines that expand upon the documentation requirements for audit resolution files. The Department's "Guidelines for Establishing File Folders and Maintaining Documentation For External Audits," were effective as of September 1, 2002, and state that audit resolution files should contain "All documentation pertaining to audit follow-up activities, e.g., documentation from the auditee substantiating the corrective action taken...." These guidelines are provided as Attachment 2 to this report.

#### Alert Memorandum Issued:

A related issue on audit resolution documentation was reported to FSA in an alert memorandum issued on May 4, 2004. In its response, FSA stated,

Procedures will be established to ensure that appropriate audit resolution files are maintained and document all actions taken to resolve findings of external OIG audits. Such procedures will take into consideration established OMB and Department guidelines....

In instances where FSA relied on subsequent single or compliance audits, they did not have assurance that the auditors reviewed areas in the OIG audits, or that the issues noted in the OIG audit were corrected. When FSA did not obtain or maintain appropriate documentation to show requested corrective actions were completed, it did not have assurance that identified

deficiencies were corrected. As such, the risk remains that related programs are not effectively managed.

### ***Recommendations***

We recommend that the Chief Operating Officer for Federal Student Aid:

- 1.1 Develop and implement procedures to ensure that OIG audit areas and related corrective actions are reviewed and commented on in subsequent single or compliance audit reports, if these reports are used by audit resolution staff to gain assurance that corrective actions were completed.
- 1.2 Ensure that all future recommended corrective actions are fully implemented and adequate documentation is obtained and maintained to support the completion of all corrective actions, in accordance with the Department's external audit documentation and file requirements.
- 1.3 Ensure that recordkeeping relating to audit followup activities, in compliance with guidance established by OMB and the Department, is included in the procedures FSA will be establishing for audit resolution files.

## **OTHER MATTER**

### **Corrective Actions Are Still Underway for Five FSA Audits**

At the time of our review, 5 of the 27 audits (19 percent) of FSA programs were reported as closed in the Department's audit tracking system, although resolution or followup activity was still ongoing. In total, 23 of the 136 recommendations (17 percent) we reviewed were associated with audits inappropriately reported as closed in the Department's current audit tracking system. The five audits are detailed below:

- Audit Control Number (ACN) A09-80023, "Academy Pacific Business and Travel College Eligibility to Participate in Title IV Programs," issued December 21, 1998. The audit was closed in the prior audit tracking system as of August 31, 2001. Corrective actions to address two recommendations had not been finalized. The Department withdrew a request for a compromise and stated they would redetermine the audit liability.
- ACN A06-80008, "Audit of Capital City Trade and Technical School, Inc. Compliance with the 85 Percent Rule," issued February 15, 2000. The audit was reported as closed in the prior audit tracking system as of December 31, 2000. Corrective actions to address two recommendations had not been finalized. FSA stated that the audit was being reexamined

to determine whether a fine action might be appropriate rather than seeking a repayment liability for an 85/15 violation.

- ACN A06-80013, “Hallmark Institute of Aeronautics’ Compliance With The 85 Percent Rule,” issued March 6, 2000. The audit was reported as closed in the prior audit tracking system as of March 29, 2002. Corrective actions to address two recommendations had not been finalized. FSA stated that the audit was being reexamined to determine whether a fine action might be appropriate rather than seeking a repayment liability for an 85/15 violation.
- ACN A06-B0011, “Livingstone College’s Compliance with the Title IV, Student Financial Assistance, Verification Requirements,” issued March 29, 2002. The audit was reported as closed in the prior audit tracking system as of September 30, 2002. At the time of this review, corrective actions to address three recommendations were not completed because the audit determination remained under appeal.
- ACN A05-A0028, “The Illinois Student Assistance Commission’s Administration of the Federal Family Education Loan Program Federal and Operating Funds,” issued March 30, 2001. The audit was reported as closed in the prior audit tracking system as of January 31, 2002. At the time of our review, corrective actions to address 12 recommendations were not completed because the audit determination remained under appeal. The Department had not defined corrective actions for two additional recommendations pending policy development and issuance.

Although the separate reporting of audits as resolved or closed was limited under the Department’s prior tracking system, the current system does allow audits to be separately reported as resolved or closed.

OCFO staff are implementing enhancements to the Audit Accountability and Resolution Tracking System (AARTS) that will allow a change in the status of an audit after it is closed. If corrective actions for these audits are still ongoing once these enhancements are complete, we suggest FSA reopen the audits in AARTS to correctly reflect the status as resolved, but not closed. Until the enhancements are completed, FSA should keep OCFO apprised of the status of corrective actions for the audits so that the audits may be appropriately reported as resolved, but with corrective action still in process, in Department management reports and in the *Semiannual Reports to Congress*.

## **OBJECTIVE, SCOPE, AND METHODOLOGY**

The objective of our audit was to evaluate the effectiveness of the Department’s process to ensure that external auditees implement corrective action. To accomplish our objective, we reviewed applicable laws and regulations, and Department policies and procedures. We conducted interviews with FSA staff responsible for resolving and following up on corrective actions for the audits selected. We also reviewed documentation provided by FSA staff to support the corrective actions taken for the recommendations included in our review.

The scope of our audit included OIG audits of FSA programs at external entities issued during the period October 1, 1997, through September 30, 2002. The audits in the scope were reported by the Department's audit resolution system as having been "closed" on or prior to September 30, 2002. We excluded certain audits from our scope including those relating to year 2000 initiatives, and alternative products. A total of 38 FSA audits, representing 181 recommendations, met the scope of our audit.

To select FSA audits for review, we evaluated the status of the recommendations and corrective actions required by the Department. We judgmentally selected all FSA audits that included monetary findings for this review. We excluded any internal and non-sustained recommendations included in these audits from our review. Overall, we selected 27 audits and 136 recommendations for review. The selected audits are listed on Attachment 1.

We relied on computer-processed data initially obtained from OIG's Audit Tracking System to identify OIG audits issued during the scope period. We reconciled this data to the Department's Common Audit Resolution System (CARS), and to audits reported in OIG's *Semiannual Reports to Congress* to ensure that we had captured all audits issued during the period. We also reviewed copies of the audit reports to ensure the audits met the scope period under review. We confirmed data in the audit reports to data in the Department's AARTS, which replaced CARS in July 2003. Based on these tests and assessments, we determined that the computer-processed data was reliable for meeting our audit objective.

FSA utilized an electronic system to maintain audit resolution and followup documentation for 23 of the 27 OIG audits. We did not perform an analysis to assess the contents and controls relating to the system. Instead, we requested that FSA provide all relevant documentation from this system during our review for the audits selected. We subsequently reviewed this documentation to assess the adequacy of audit followup.

We conducted fieldwork at Department offices in Washington, DC, during the period November 2003 through June 2004. We held an exit conference with FSA staff on June 15, 2004. Our audit was performed in accordance with government auditing standards appropriate to the scope of the 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 the audit followup process for OIG external audits of FSA programs. Our assessment was performed to review the level of control risk. Because of inherent limitations, a study and evaluation made for the limited purpose described above would not necessarily disclose all material weaknesses in the management controls. However, our assessment disclosed management control weaknesses that adversely affected FSA's ability to ensure corrective actions were taken by external entities in response to audits of FSA programs. These weaknesses and their effects are fully discussed in the AUDIT RESULTS section of this report.

## **ADMINISTRATIVE MATTERS**

Corrective actions proposed (resolution phase) and implemented (closure phase) by your office will be monitored and tracked through the Department's Audit Accountability and Resolution Tracking System (AARTS). Department policy requires that you develop a final corrective action plan (CAP) for our review in the automated system within 30 days of the issuance of this report. The CAP should set forth the specific action items, and targeted completion dates, necessary to implement final corrective actions on the finding and recommendation contained in this final audit report. ***OIG Standard Language, OIG Policy Manual, page 2560-16***

In accordance with the Inspector General Act of 1978, as amended, the Office of Inspector General is required to report to Congress twice a year on the audits that remain unresolved after six months from the date of issuance.

Statements that managerial practices need improvements, as well as other conclusions and recommendations in this report represent the opinions of the Office of the Inspector General. Determinations of corrective action to be taken will be made by the appropriate Department of Education officials.

In accordance with the Freedom of Information Act (5 U.S.C. § 552), reports issued by the Office of Inspector General are available 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 provided to us during this review. Should you have any questions concerning this report, please call Michele Weaver-Dugan at (202) 245-6941. Please refer to the control number in all correspondence related to the report.

Sincerely,

Helen Lew /s/  
Assistant Inspector General for Audit Services

Attachments

## FSA Audits Included in This Review

<b>Number</b>	<b>Audit Control Number</b>	<b>Report Title</b>	<b>Report Issue Date</b>
1	A02-70001	Audit of the Direct Loan Program Administered by Dowling College	October 6, 1997
2	A09-80023	Academy Pacific Business and Travel College Eligibility to Participate in Title IV Programs	December 21, 1998
3	A05-80008	Antonelli College's Administration of Student Financial Assistance Programs	February 19, 1999
4	A05-90009	East-West University's Administration of the Student Financial Assistance Programs	May 18, 1999
5	A09-80029	Pacific Travel Trade School Eligibility to Participate in Title IV Programs	June 11, 1999
6	A05-80016	City Colleges of Chicago's Administration of the Federal Pell Grant Program	July 23, 1999
7	06-80011	Audit of Texas Careers' Compliance With the 85 Percent Rule	August 6, 1999
8	06-80012	Audit of Collegiate Systems Inc Compliance With the 85 Percent Rule	August 9, 1999
9	A05-90002	The Illinois Student Assistance Commission's Administration of the Federal Family Education Loan Program Federal and Operating Funds	December 29, 1999
10	A06-80008	Audit of Capital City Trade and Technical School Inc Compliance with the 85 Percent Rule	February 15, 2000
11	A09-90011	Platt College - San Francisco Administration of Title IV Programs	February 28, 2000
12	A06-80013	Hallmark Institute of Aeronautics' Compliance With The 85 Percent Rule	March 6, 2000
13	A05-90053	St Augustine College's Administration of the Federal Student Financial Assistance Programs for the 1998-99 award year	March 8, 2000
14	A09-70022	University of Phoenix's Management of Student Financial Assistance Programs	March 31, 2000
15	A06-90004	Review of Student Financial Aid Compliance at Success Institute of Business	August 7, 2000
16	A06-90012	Review of Student Financial Aid Compliance at the International Institute of Chinese Medicine	August 8, 2000
17	A05-90052	Mount Senario College's Administration of the Title IV HEA Programs for the Period July 1, 1998 through June 30, 1999	September 14, 2000
18	A05-90054	Audit of the Title IV Higher Education Act Programs Administered by Cleveland State University Cleveland, Ohio	September 28, 2000

<b>Number</b>	<b>Audit Control Number</b>	<b>Report Title</b>	<b>Report Issue Date</b>
19	A05-A0002	Audit of Great Lakes Higher Education Corporation's Federal Family Education Loan Programs	March 30, 2001
20	A05-A0028	The Illinois Student Assistance Commission's Administration of the Federal Family Education Loan Program Federal and Operating Funds	March 30, 2001
21	A05-B0007	Audit of the Michigan Guaranty Agency's Administration of the Federal Family Education Loan Program Federal and Operating Funds	September 25, 2001
22	A06-B0013	University of Arkansas at Little Rock's Compliance with the Title IV Student Financial Assistance Verification Requirements	September 28, 2001
23	A06-B0009	Southwest Texas State University Compliance with the Title IV Student Financial Assistance Verification Requirements	September 28, 2001
24	A02-B0006	Audit of Drake College of Business's Compliance with the Title IV Higher Education Act Program Requirements	March 5, 2002
25	A09-B0017	Audit of Glendale Career College's Administration of the Higher Education Act Title IV Programs	March 18, 2002
26	A06-B0026	South Texas Vocational Technical Institute – Brownsville's Administration of the Title IV Student Financial Assistance Programs	March 20, 2002
27	A06-B0011	Livingstone College's Compliance with the Title IV Student Financial Assistance Verification Requirements	March 29, 2002

**Guidelines for Establishing File Folders & Maintaining Documentation  
For External Audits  
(Effective September 1, 2002)**

**The following procedures are set forth as *guidelines* for establishing file folders and maintaining accurate and complete documentation on all actions taken to resolve findings of external audits of ED programs.**

1. An official audit resolution file folder should be established for each audit report.
2. Each file folder should contain, at a minimum, the following documents:
  - The Federal Audit Clearinghouse’s audit cover sheet titled “Audit Description Data”
  - Copy of the CARS generated “Summary of Findings Requiring Resolution”
  - Copy of the audit report or pages of the audit report that provide relevant information to the resolution of the audit findings, including the findings, the auditee’s corrective action plan or response to the findings, the section on the status of prior year findings, and the ED portion of the Schedule of Expenditures of Federal Awards
  - A listing of the triage decisions for each audit finding
  - Documentation of all correspondence and communication with the auditee, the auditor, and other appropriate individuals, including corrective action plans and necessary work papers
  - Copy of the PDL [Program Determination Letter]
  - Copy of the Audit Clearance Document (ACD)
  - All documentation pertaining to audit follow-up activities, e.g., documentation from the auditee substantiating the corrective action taken, results of any monitoring visits, relevant information from the next year’s audit that reports whether appropriate corrective action was taken on a prior year finding.
  - Documented evaluations or conclusions of the PO [Principal Office] that support the adequacy of the corrective actions taken by the auditee, if not included in the PDL and/or occurring after the PDL is issued
3. Each official file folder should also contain, as appropriate, the following documents:
  - Documented evidence of technical assistance provided
  - OGC [Office of General Counsel] and ED-OIG comments
  - ED-OIG concurrence/non-concurrence of PDLs for all audits issued by ED-OIG or in which the audit has questioned costs of \$500,000 or more
  - In the event an Administrative Stay has been requested and approved, all documents pertaining to the request for an Administrative Stay, e.g., the request and approval memoranda
  - In the event an auditee requests a grantback, all documentation pertaining to the grantback



**FEDERAL  
STUDENT AID**  
*We Help Put America Through School*

Attachment 3

CHIEF OPERATING OFFICER

Ms. Michele Weaver-Dugan, Director  
Operations Internal Audit Team  
U.S. Department of Education  
Office of Inspector General  
400 Maryland Avenue, SW  
Washington, DC 20202-1510

AUG 3 2004

Dear Ms. Weaver-Dugan:

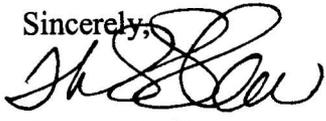
Thank you for the opportunity to review and comment on the draft audit report entitled, *Audit Follow-up—FSA External Audits*, ED-OIG/A19-E0002, issued on July 9, 2004.

Federal Student Aid (FSA) recognizes the importance of the audit function to program integrity and continually seeks to improve the effectiveness of the audit resolution process. Follow-up on the implementation of appropriate and effective corrective actions is an important part of FSA's ongoing commitment to program integrity. Therefore, we are pleased that your report acknowledges FSA's responsiveness to your interim report findings.

As you know, we agreed with you that FSA's internal controls on external OIG audits could be enhanced to ensure that corrective action is taken, and we moved quickly to change our procedures and improve controls over our follow-up activities for OIG audits in April of this year. In July, we also implemented new procedures to ensure our processes for requesting Administrative Stays on OIG audits were in compliance with the Department's procedures.

Recommendation 1.1 in this draft report has already been addressed: FSA developed and implemented new procedures on April 9 to ensure corrective actions are completed. Recommendations 1.2 and 1.3 will be addressed by the end of September.

The enclosure provides our response to each recommendation. Again, we appreciate the opportunity to review and comment on the draft report.

Sincerely,  
  
Theresa S. Shaw

Enclosure

cc: Pat Howard

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**Response to Draft Audit Report—*Audit Follow-up—FSA External Audits*, ED-OIG/A19-E0002**

**Recommendation 1.1:** Develop and implement procedures to ensure that OIG audit areas and related corrective actions are reviewed and commented on in subsequent single or compliance audit reports, if these reports are used by audit resolution staff to gain assurance that corrective actions were completed.

**Response:** Effective April 9, FSA no longer uses single audits to ensure that schools take appropriate corrective actions on OIG audits. FSA developed and implemented new procedures that require audit resolution staff to request documentation directly from the auditee to support that corrective actions have been completed.

**Recommendation 1.2:** Ensure that all future recommended corrective actions are fully implemented and adequate documentation is obtained and maintained to support the completion of all corrective actions, in accordance with the Department's external audit documentation and file requirements.

**Response:** We are implementing audit follow-up procedures for OIG audits that require FSA audit resolution staff to obtain and maintain adequate documentation to support the completion of corrective actions in OIG audits in accordance with the Department's external audit documentation and file requirements.

**Recommendation 1.3:** Ensure that recordkeeping relating to follow-up activities, in compliance with guidance established by OMB and the Department, is included in the procedures FSA will be establishing for audit resolution files.

**Response:** We are implementing audit follow-up procedures for OIG audits that include procedures for establishing audit resolution files. These recordkeeping requirements will be in compliance with guidance established by OMB and the Department.

**Other Matters:** Corrective actions are still underway for five FSA audits. We suggest that FSA reopen the audits in AARTS to correctly reflect the status as resolved, but not closed.

**Response:** The status of the five audits is being corrected in the Audit Accountability and Resolution Tracking System (AARTS) to reflect that they have been resolved. Further, Academy Pacific Business and Travel College's audit has since been closed. Therefore, the system will be updated to reflect that the current status of that audit is closed.