September 23, 2004

Jack Martin
Chief Financial Officer
Office of the Chief Financial Officer
U.S. Department of Education
400 Maryland Avenue, SW, Room 4E313
Washington, DC 20202

Dear Mr. Martin:

This Final Audit Report (Control Numbers ED-OIG/A19-E0003 and ED-OIG/A19-E0005) presents the results of our audits of the audit followup process for external audits of discretionary grant audits resolved by the Post Audit Group (PAG) in the Office of the Chief Financial Officer (OCFO), and for external audits of contracts resolved by the Contracts and Purchasing Operations (CPO) group in OCFO.¹ These audits were part of a review of the audit followup process for Office of Inspector General (OIG) external audits being performed in several principal offices. Since audit resolution and followup activities by both PAG and CPO staff come under the responsibility of OCFO, we have combined the results into one audit report. As the Department of Education’s audit followup official, you will also receive a summary report upon completion of the audits in the 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. Each agency shall establish systems to assure the prompt and proper resolution and implementation of audit recommendations. These systems shall provide for a

¹ Effective August 11, 2004, CPO was renamed Contracts and Acquisitions Management (CAM). This report uses the former name to be consistent with references to CPO made in the Department’s response.
complete record of action taken on both monetary and non-monetary findings and recommendations.

The Department has established a Post Audit User Guide to provide policy and procedures for the audit resolution and followup process. This guide provides that, “[E]ach 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.” As an Action Official (AO), the Chief Financial 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**

We found that improvements were needed in OCFO’s audit followup process. Our audit revealed that PAG and CPO staff did not always follow up to obtain assurance that corrective actions were completed. This occurred because coordination on followup activities needed to be improved between PAG staff resolving audits and program staff responsible for grant oversight, and because CPO staff did not obtain documentation from a contractor to support implementation of corrective actions. As a result, the Department does not have assurance that corrective actions have been implemented.

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

OCFO responded to our draft report and concurred with recommendation 1.1 and with the intent of recommendation 1.2. OCFO did not agree with the suggestions presented in the OTHER MATTERS section of the report. The full text of the OCFO response is included as Attachment 2 to this audit report.

**Finding 1 Corrective Action Followup and Documentation Needs Improvement**

Audit resolution staff did not adequately follow up to ensure corrective actions were implemented. We found that PAG or program office staff did not obtain evidence that supported implementation of corrective actions for 3 of the 48 recommendations (6 percent) in discretionary grant audits reviewed. We also found that CPO staff did not follow up on 1 of 13 recommendations (8 percent) in contract audits reviewed.

ED-OIG/A19-E0003 and ED-OIG/A19-E0005
Audit Followup Requirements

OMB Circular A-50, “Audit Followup,” Section 5, 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. Each agency shall establish systems to assure the prompt 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 (Draft Version as of January 2, 2001, in effect during our audit scope)², 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. The OCFO has responsibility for verifying that AOs have systems in place to followup on corrective actions and ensuring overall effectiveness of ED’s [Department of Education’s] audit resolution followup system.

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.”

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…..” The guidelines are provided as Attachment 1 to this report.

PAG and Program Offices Need to Coordinate Followup Activities

We found that PAG or program offices did not completely follow up on corrective actions for the following recommendations:

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² The Post Audit User Guide was revised and updated as of March 31, 2003. The statements quoted are also in the current version of the guide.
Audit Control Number (ACN) A05-90045: “Audit of the Student Support Services Project Administered by Marian College, Fond Du Lac, Wisconsin,” issued March 27, 2000

1.1 Instruct Marian to refund $39,531 (9 percent) of the salaries and fringe benefits charged to the grant during the period September 1, 1994, through August 31, 1999,

2.1 Instruct Marian to refund $34,142, and

3.1 Instruct Marian to refund $4,286.

These recommendations represented a total monetary recovery of $77,959. The Program Determination Letter (PDL) stated that PAG determined through correspondence with Marian that the program office had resolved the audit issues. In relation to these recommendations, the PDL requested that the institution refund the amount to the project from institutional funds. It indicated that the Grant Award for Project Year 2000-2001 would be reduced by $77,959 and the College would use institutional funds in the amount of $77,959 to support the program on its campus for the 2000-2001 academic year. We reviewed grant documentation and verified that the school’s funding for the budget period had been reduced by $77,959.

The PDL stated that Marian would establish a budget account with institutional funds in the amount of $77,959, effective June 2000, to support the program. However, we found no documentation in PAG files, or in files maintained by the program office – the Office of Postsecondary Education (OPE) – that showed Department staff verified that Marian used institutional funds to maintain the project budget.

PAG stated that since program staff are responsible for monitoring the grants, communication is critical between PAG and the program office on audit issues. In a later discussion regarding the results of our review, PAG staff stated that it was their understanding that once the PDL was issued, the program office, through its monitoring role, would have followed up by reviewing subsequent project status reports from the school or contacting them in some manner.

OPE officials stated that they were aware that the institution’s award had been reduced, but added they had not obtained documentation from the College that showed how Marian contributed or expended the funds to maintain the originally proposed level of service. PAG and OPE did not effectively coordinate followup activities to ensure the College had taken corrective action.

CPO Staff Need to Pursue Followup Activities

We also found that CPO staff did not completely follow up on corrective actions for the following recommendation:

2. The Contracting Officer for the RFMS contract should ensure that CDSI adheres to the terms of the contract requiring that managers and supervisors be assigned to the contract full time and not be assigned any other duties.

In a letter to the contractor, the Contracting Officer reminded the contractor to adhere to this requirement for all managers and supervisors. However, contract files did not include any documentation to support that CPO staff had followed up to ensure this corrective action was implemented.

CPO staff stated that the only way CPO could have followed up on the contract audit recommendation would have been to conduct another audit. However, CPO could have obtained copies of timesheets or other documentation from the contractor to verify that managers and supervisors were assigned to the contract full time.

Without complete followup on corrective actions, the Department does not have assurance that the identified deficiencies are corrected.

Recommendations

We recommend that the Chief Financial Officer ensure that:

1.1 The responsibility for followup on discretionary grant audits is clarified and coordinated between PAG and the program offices.
1.2 For all future audits, followup is appropriately pursued and adequate documentation is maintained to support the completion of all corrective actions, in accordance with OMB requirements and the Department’s external audit documentation and file guidelines.

OCFO Response: OCFO concurred with Recommendation 1.1, and concurred with the intent of Recommendation 1.2. However, OCFO stated it did not concur with the part of the finding regarding the need for CPO to pursue followup activities. The response specifically stated, “…OCFO believes that the actions taken at the time of the audit referenced in the audit finding were appropriate.” OCFO added it was deferring to corrective actions that will be taken in response to the Department-wide summary report that OIG will issue upon completion of the audits in the individual principal offices.

OIG Response: We disagree with management’s assertion that actions taken in response to ACN A02-80002 were appropriate. During our review of contract files we found no
documentation to show CPO staff followed up on the letter to the contractor. The reminder provided in the letter to the contractor does not provide assurance that the contractor complied with the contract’s requirements, and does not meet the requirements in OMB Circular A-50 or requirements in the Department’s Post Audit User Guide to ensure that corrective actions are taken.

**OTHER MATTERS**

**Corrective Actions Are Still Underway for Three Audits Reported as Closed**

At the time of our review, PAG was actively working to ensure corrective actions were completed for an audit that had been reported as closed. In addition, recommendations for two CPO audits were currently in litigation and corrective actions had not been completed. These audits had also been reported as closed. 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. Specifically, we found that corrective action was still in process for the following three audits and eight recommendations:

- **ACN A05-A0004 “Title VII System-Wide Improvement Grant Administered by Community School District 300, Carpentersville, Illinois,” Recommendations 1 and 2 – Collection of funds for these recommendations was scheduled to be completed in August 2004. This audit was closed in the prior tracking system as of September 30, 2002.**

- **ACN A07-80018, “Audit of Title IV Wide Area Network Contract, National Computer Systems, Iowa City, IA,” Recommendations 2, 3, and 4 – The Department is currently in litigation with the contractor on these recommendations. This audit was closed in the prior tracking system as of September 30, 2001.**

- **ACN A07-90003, “Audit of the Central Processing System Contract,” Recommendations 2, 3, and 4 – The Department is currently in litigation with the contractor on these recommendations. The audit was closed in the prior tracking system as of September 30, 2001.**

PAG 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 that OCFO reopen these audits in AARTS to correctly reflect the status as resolved, but not closed. Until the enhancements are completed, OCFO should ensure that these audits are appropriately reported as resolved, but with corrective action still in process, in Department management reports and in the *Semiannual Report to Congress*.

**OCFO Response:** While a response to the OTHER MATTERS section is not required, OCFO provided a response regarding two of the three audits discussed in this section. In its response OCFO stated:
CPO does not agree with the draft report that states that the audits should have reflected “resolved” rather than “closed” in AARTS because of the ongoing litigation. The OIG concurred with CPO’s requests for closure and justification based on its commitment to do follow-up. In addition, OIG often closes action items on audits that relate to future events when there is evidence and assurance that action is taking place or policy has been implemented.

OCFO also referred to a separate informal response provided regarding issues presented at the exit conference for the Department-wide summary report. This informal response is noted as addressing management views on audits in collection or under appeal, as well as issues pertaining to the definitions of the terms “resolved” and “closed.”

**OIG Response:** We disagree with management’s position that audits subject to ongoing litigation can be reported as “closed.” When requested corrective actions are disputed, the final corrective actions that will be required cannot be determined until that dispute is settled. The outcome of the appeal or dispute may result in different corrective actions being taken, or some corrective actions no longer being required. A revised audit determination letter may be issued. As such, the corrective actions required in the initial audit determination cannot be considered completed until the dispute is resolved.

We also requested additional documentation to support OCFO’s last two statements above – (1) OIG concurred with request for closure of these audits based on OCFO’s commitment to do followup, and (2) OIG closes action items on audits that relate to future events when there is evidence and assurance that action is taking place. There was no documentation supporting these statements in the files reviewed. CPO staff could provide no additional documentation to support these statements. Additionally, PAG staff responded to our inquiries about these statements by stating that OIG is not involved in the closure of action items for external audits.

With regard to the response to the Department-wide exit conference point sheets noted by OCFO, we did not consider it in finalizing this audit report, as it was not a formal response from the Action Official. However, the issues presented in the OTHER MATTERS section of this report will be included in the Department-wide summary report and applicable comments will be addressed, accordingly, in that report.

**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 OCFO and program staff responsible for resolving and following up on corrective actions for the audits selected. We also reviewed documentation provided by OCFO and program staff to support the corrective actions taken for the recommendations included in our review.
The scope of our audit included OIG audits of discretionary grant audits resolved by PAG and audits of CPO contracts 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. A total of 15 audits, representing 70 recommendations, met these criteria.

To select the audits to review, we evaluated the status of the recommendations and the corrective actions required by the Department. We judgmentally selected all audits with monetary recommendations, resulting in the selection of 8 of the 10 OPE audits in our scope. The 8 OPE audits contained a total of 46 recommendations. As there was only one Office of English Language Acquisition audit in our scope, we selected it for review. The audit contained a total of two recommendations.

There were a total of 4 audits, containing a total of 17 recommendations in our scope for CPO. We selected the three audits with monetary recommendations. These audits contained a total of 13 recommendations.

The nine discretionary grant audits selected were as follows:

- ACN A05-A0004, “Title VII System-wide Improvement Grant Administered by Community School District 300, Carpentersville, Illinois,” issued December 6, 2000,
- ACN A07-80027, “Creighton University’s Administration of Its Federal TRIO Projects,” issued March 31, 2000,
- ACN A05-80005, “Central State University (CSU) Student Support Services Program,” issued April 10, 1998,
- ACN A05-90045, “Audit of the Student Support Services Project Administered by Marian College, Fond Du Lac, Wisconsin,” issued March 27, 2000,
- ACN A05-A0003, “Audit of the Student Support Services Project Administered by Mount Senario College, Ladysmith, Wisconsin,” issued September 28, 2000,
- ACN A07-A0006, “Audit of Independence Community College’s Administration of its Federal TRIO Projects,” issued October 15, 2001,
- ACN A05-A0022, “Audit of Selected Aspects of the Talent Search Grant (Project) Administered by South Suburban College, South Holland, Illinois,” issued January 22, 2001,
- ACN A04-A0009, “Higher Education Act Title III Part A Grant at Mars Hill College,” issued September 29, 2000, and
• ACN A03-A0019, “Audit of Lincoln University’s Administration of the Title III Grant,” issued July 27, 2001.

The three OCFO audits selected were as follows:

• ACN A02-80002, “Recipient Financial Management System Contract, Computer Data Systems, Incorporated, Rockville, Maryland,” issued September 22, 2000,

• ACN A07-80018, “Audit of Title IV Wide Area Network Contract, National Computer Systems, Iowa City, IA,” issued May 16, 1999, and


We relied on computer-processed data initially obtained from the 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 the 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 determine that 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.

We conducted fieldwork at Department offices in Washington, DC, during the period November 2003 through April 2004. We held an exit conference with OCFO staff on April 28, 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 discretionary grants resolved by PAG and of CPO contracts. Our assessment was performed to review the level of control risk and determine the nature, extent, and timing of our substantive tests to accomplish the audit objective.

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 OCFO’s ability to ensure corrective actions were taken by external entities in response to audits of discretionary grant programs resolved by PAG and of CPO contracts. 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 recommendations contained in this final audit report.

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. § 522), 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 numbers in all correspondence related to the report.

Sincerely,

Helen Lew /s/
Assistant Inspector General for Audit Services
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
   - 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
MEMORANDUM

To: Michelle Weaver-Dugan, Director
Operations Internal Audit Team/OIG

From: Jack Martin

Subject: Draft Audit Report
Audit Follow-up Process – External Audits -- OCFO
ACN: ED-OIG/A19-E0003 & ED-OIG/A19-E0005

We appreciate the opportunity to respond to the above referenced Office of Inspector General (OIG) draft audit report. The report represents the results of two audits of the audit follow-up process for discretionary grant audits issued by OIG and resolved by the Post Audit Group (PAG) and external audits of contracts issued by OIG and resolved by the Contracts and Purchasing Operations (CPO) of the Office of the Chief Financial Officer (OCFO).

OCFO recognizes the importance of audit follow-up as an integral part of the OIG audit process and overall has effective practices in place to follow-up on corrective actions. The draft audit reports that PAG successfully followed through on 94% (45 of 48) of the recommendations reviewed by OIG, and CPO followed through on 92% (12 of 13) of its recommendations.

We concur with the first finding and the corresponding recommendation that PAG and Principal Offices (POs) need to better coordinate follow-up activities for recommendations contained in discretionary grant audits. PAG resolution staff does try and work closely with their program counterparts in most cases. However, the coordinating of activities for audit follow-up is not well delineated or documented. We will work with the discretionary program offices to develop guidance that will clarify the roles and responsibilities for following up on corrective actions. This action will be initiated when revision of the Post Audit User Guide commences later this year. (Note: This recommendation is a repeat of a recommendation contained in the Point Sheets for the overall OIG Audit on the Audit Follow-up Process – External Audits.)

Concerning the second finding that states that CPO staff needs to pursue audit follow-up activities, we do not concur. OCFO believes that the actions taken at the time of the audit referenced in the audit finding were appropriate. While it is
true that the Department could have asked for timesheets to be submitted with the invoices, we felt that the action taken by the Contracting Officer to notify CDSI by letter to ensure that management personnel are on the contract full-time sufficiently addressed this issue.

Under “Other Matters,” the three audits cited were either in collection or under appeal/litigation. To respond to this matter in detail, please refer to our response to the exit conference point sheets for the audit report OIG will be issuing on the Audit Follow-up Process – External Audits. The response to the point sheets addresses how management views audits in collection or under appeal, as well as issues pertaining to the definitions of the terms “resolved” and “closed.”

For two of the audits listed under “Other Matters” -- ACN A07-80018, “Audit of Title IV Wide Area Network Contract, National Computer Systems (NCS), Iowa City, IA”; and ACN A07-90003, “Audit of the Central Processing System Contract” -- CPO has been thorough in following up on the Corrective Action Plan (CAP) action items. For both audits, OIG directed CPO to ensure that NCS refund overpayments for services of key personnel on new work and other contracts during the audit period; and that the Department ensures that NCS determine the amount of charges for key personnel on new work and other contracts subsequent to the audit period.

In the course of acting upon the CAP, NCS filed claims under both Title IV Wide Area Network (TIV-WAN) and CPS contracts stating that the actions of the Contracting Officer based on the findings of the audits were without merit. The Contracting Officer denied the claims, and NCS filed an appeal to the GSA Board of Contract Appeals (GSBCA). This case has been in litigation until recently, when the GSBCA ruled in favor of NCS, and the Department lost the appeal. In the CAP, CPO agreed to follow up on recovering potential overpayments based on the assumption that the initial findings and recommendations by the OIG were correct and justified. However, the recent GSBCA decision proves otherwise. Had the claim been resolved in the Department's favor, the Department would have taken the appropriate action as stated in the CAP to recover any potential overpayments.

Therefore, CPO does not agree with the draft report that states that the audits should have reflected “resolved” rather than “closed” in AARTS because of the ongoing litigation. The OIG concurred with CPO's requests for closure and justification based on its commitment to do follow-up. In addition, OIG often closes action items on audits that relate to future events when there is evidence and assurance that action is taking place or policy has been implemented.
In closing, OCFO concurs with the intent of Recommendation 1.2., to ensure follow-up is appropriately pursued and adequate documentation is maintained to support the completion of corrective actions. Given OCFO’s very high success rate in following up on corrective actions for the OIG external audits that were the subject of this review, we are deferring to the ED-wide corrective actions that will be undertaken when the overall Audit on the Audit Follow-up Process is issued.

Thank you, again, for the opportunity to respond to this draft report.