June 2, 2004

Troy Justesen
Acting Deputy Assistant Secretary
Office of Special Education and Rehabilitative Services
U.S. Department of Education
Mary E. Switzer Building, Room 3006
330 C Street, SW
Washington, DC  20202

Dear Mr. Justesen:

This Final Audit Report, (Control Number ED-OIG/A19-E0006), presents the results of our audit of the audit followup process for external audits in the Office of Special Education and Rehabilitative Services (OSERS). 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 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 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, “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.” As an Action Official (AO), the Assistant Secretary’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 OSERS’ audit followup process. Our audit revealed that documentation was not always maintained to support that corrective actions were completed. OSERS staff stated that they did not conduct audit followup once the Program Determination Letter (PDL) was issued and that they assumed that corrective actions were taken. OSERS staff further stated that they were unsure of the amount of documentation needed and record retention requirements. As a result, OSERS does not have assurance that corrective actions are implemented.

OSERS responded to our draft report, concurring with the results and supporting the recommendation provided. OSERS also described specific corrective actions it has taken and intends to take to address the issues noted. The full text of the OSERS response is included as Attachment 2 to this audit report.

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

We found that OSERS’ audit followup process was not always effective. OSERS did not always maintain documentation that showed corrective actions were completed. We found OSERS files did not contain documentation to support that corrective actions had been taken for 3 of the 15 (20 percent) recommendations included in our review.

Specifically, we found supporting documentation was not maintained to support completion of corrective actions for the following recommendations:

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Audit Control Number (ACN) A09-A0001: “Arizona Department of Education Management Controls over IDEA [Individuals with Disabilities Education Act], Part B-Special Education Performance Data,” issued September 2000.

Recommendation 1.1: Require ADE [Arizona Department of Education] to develop written policies and procedures for collecting, reviewing and reporting performance data for exiting, discipline and personnel. The procedures should include reviews of LEA [Local Educational Agency] reports and periodic reviews of LEA procedures and supporting documentation.

In response to the recommendation, OSERS requested that the ADE advise the Department of its progress in implementing recommendation 1.1 and submit a timetable for completion of revisions to a Desk Manual. OSERS also requested ADE provide a copy of the Desk Manual when revisions were complete.

ADE provided a draft copy of the Desk Manual, and indicated in its August 30, 2001, response that enhancements would be made to the manual by June 30, 2002. We found that OSERS staff did not followup to ensure that ADE completed and implemented the revised Desk Manual. OSERS did not receive a copy of the Desk Manual when revisions were complete.

Recommendation 2.1: Implement procedures for verifying the accuracy of data entry for exiting, discipline and personnel data.

In response to the recommendation, OSERS requested that ADE submit a written description of the procedures that were under development and copies of applicable written communications with LEAs. ADE indicated a new web-based application to collect data was created and that this application would include several edit checks.

We found OSERS files did not contain documentation to support that this new application had been implemented. ADE’s response also indicated that new procedures were being implemented to ensure greater accuracy and completeness of ADE’s data, but OSERS files did not contain copies of any such procedures. There was no documentation in the files indicating that OSERS had accepted the software revisions in lieu of the written descriptions of the procedures and copies of any applicable written communications with the LEAs, as originally requested.


Recommendation 1.1: Require CDE [California Department of Education] to issue guidance to school districts on the proper category to use when the reason for the exit is unknown so that CDE can properly include such exits in the “dropped out” category on the OSEP [Office of Special Education Programs] reporting form.
OSERS requested that CDE submit an anticipated schedule of meetings along with all available draft or final agendas and memoranda issued to the Special Education Local Plan Areas (SELPAs) and school districts regarding the proper category for use when the reason for the exit is unknown. Although CDE indicated that training was provided on the proper use of exit categories, we did not find any documentation in OSERS files that indicated CDE issued guidance or memoranda to the SELPAs and school districts in this area.

Audit Followup Requirements

The Department’s *Post Audit User Guide* (Draft Version as of January 2, 2001, in effect during our audit scope)\(^1\), 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 [Office of the Chief Financial Officer] has responsibility for verifying that AOs have systems in place to follow up on corrective actions and ensuring overall effectiveness of ED’s [Department of Education’s] audit resolution followup system.

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

OSERS staff stated that they did not conduct audit followup once the PDL was issued and that they assumed that corrective actions were taken. OSERS staff further stated that they were unsure of the amount of documentation needed and record retention requirements. OSERS staff stated that, as a result of our audit, they were in the process of developing a system to track completion of corrective actions.

Without appropriate documentation and followup of corrective actions, OSERS did not have assurance that the deficiencies identified were corrected.

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 in Attachment 1 to this report.

\(^1\) 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.

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Recommendation

We recommend that the Acting Deputy Assistant Secretary for OSERS:

1. Ensure that for future audits, adequate documentation is maintained to support the completion of all corrective actions, in accordance with the Department’s external audit documentation and file requirements.

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 OSERS program staff responsible for resolving and following up on corrective actions for the audits selected. We also reviewed documentation provided by OSERS staff to support the corrective actions taken for the recommendations included in our review.

The scope of our audit included OIG audits of OSERS 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. A total of 7 OSERS audits, representing 38 recommendations, met these criteria.

To select OSERS audits to review, we evaluated the status of the recommendations and the corrective actions required by the Department. We judgmentally selected two audits to review based on the fact that a series of audits was conducted on the same program. The 2 audits reviewed represented 15 recommendations and were as follows:

- ACN A09-A0001, “Arizona Department of Education Management Controls Over IDEA, Part B-Special Education Performance Data,” issued September 2000, 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 Audit Accountability and Resolution Tracking System, 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.

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We conducted fieldwork at Department offices in Washington, DC, during the period November 2003 through March 2004. We held an exit conference with OSERS staff on March 9, 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 OSERS programs. 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 OSERS’ ability to ensure corrective actions were taken by external entities in response to audits of OSERS 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. 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.

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) 863-9526. Please refer to the control number in all correspondence related to the report.

Sincerely,

Helen Lew
Assistant Inspector General for Audit Services

Attachments
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 [Principal Office (PO)] 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
   - [Office of General Counsel (OGC)] 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: Michele Weaver-Dugan, Director
   Operations Internal Audit Team
   Office of Inspector General

FROM: Troy R. Justesen, Ed.D.
   Acting Deputy Assistant Secretary
   Office of Special Education
   and Rehabilitative Services

SUBJECT: Comments Regarding ED-OIG/A19-E0006 (Draft Audit Report - OSERS’ Follow-up for External Audits)

The Office of Special Education and Rehabilitative Services (OSERS) would like the following comments to be considered prior to the Office of Inspector General (OIG) issuance of the above-referenced draft audit report in final. The audit report concerns OSERS follow-up activities for corrective actions specified in external audits issued by the OIG. This audit is part of a review of the audit follow-up process for OIG external audits being performed in several principal offices. Specifically, the audit report concludes that documentation was not always maintained in the file to support that the corrective actions undertaken by the auditee were completed.

OSERS concurs with OIG’s conclusions reached in this audit. In addition to highlighting the steps that will be instituted in response to the specific findings in the Audit Report, we would like to point out the actions that OSERS initiated immediately after the issuance of Arizona, California, and Michigan Performance Data audits intended to increase the quality of collecting, reviewing and reporting performance data for students exiting school, discipline, and personnel. At the Annual Data Manager’s Meeting held March 30 through April 2, 2002, OSERS staff, during certain sessions, highlighted particular issues that OIG identified as problematic in these audits as part of the effort to respond to these audits.
Immediate steps that OSERS intends to implement in response to the recommendations in the Draft Audit Report include:

- Assign staff at the Office of Assistant Secretary level to coordinate and review the resolution of both external and internal OIG Audits to ensure that proper follow-up activities are satisfactorily completed prior to closing the audit.
- Develop and OSERS-wide process and appropriate internal procedures for obtaining and maintaining documentation that supports implementation of corrective actions.

If you have any further questions, please contact Ms. Amy Egan of my staff at (202) 205-4746.