September 15, 2005

Sally Stroup
Assistant Secretary
Office of Postsecondary Education
U.S. Department of Education
1990 K Street, NW
Washington, DC 20006

Dear Ms. Stroup:

This Final Audit Report (Control Number ED-OIG/A19F0002) presents the results of our audit of the Audit Followup Process for Office of Inspector General Internal Audits in the Office of Postsecondary Education. The objective of our audit was to verify whether adequate documentation was maintained to support that corrective action items have been implemented as stated in the Department of Education’s (Department) corrective action plans (CAP). This audit is a part of a review of the Department’s internal audit followup process being performed in four principal offices (POs). A summary report will be provided to the Department’s Chief Financial Officer upon completion of the audits in individual 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 Department established a Post Audit User Guide (Guide) to provide policy and procedures for the audit followup process. Section I, “Overview,” of the Guide states,

The effectiveness of the post audit process depends upon taking appropriate, timely action to resolve audit findings and their underlying causes, as well as providing an effective system for audit close-out, record maintenance, and follow-up on corrective actions.
While overall responsibility for the audit followup process is assigned to the Office of the Chief Financial Officer (OCFO), Post Audit Group (PAG), each Assistant Secretary is responsible for ensuring that the overall audit followup process operates efficiently and consistently. The Guide defines further responsibilities of the Action Official (AO), generally the Assistant Secretary, to 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,
- Maintaining formal, documented systems of cooperative audit resolution and follow-up to ensure that audit recommendations are implemented, completion dates captured, and appropriate documentation maintained to support completed corrective actions.

The Department tracks audit resolution and the completion of corrective action items through the Audit Accountability and Resolution Tracking System (AARTS). For each audit, AARTS stores detailed information on audit resolution, proposed corrective action items, Office of Inspector General (OIG) concurrence with these action items, responsible individuals, and completion and closure data.

When a PO has completed all corrective action items for an internal OIG audit, the PO certifies this fact to PAG and requests closure of the audit in AARTS. PAG staff perform a review of the documentation in the audit resolution file maintained by the PO to determine whether implementation of corrective action items is supported. Once PAG is satisfied that implementation of the corrective action items reviewed is supported, the audit is closed in AARTS. PAG staff stated that until sometime in Fiscal Year (FY) 2004, only a sample of corrective action items was evaluated and that PO staff did not necessarily know that all corrective action items were not reviewed. PAG staff stated that currently all corrective action items are evaluated in these reviews.

**AUDIT RESULTS**

We found improvements are needed in the Office of Postsecondary Education’s (OPE) internal control over its audit followup process. While OPE maintained files with documentation regarding audit followup activity, we found OPE’s audit followup process did not support the completion of all corrective action items. In addition, this process did not always support completion of corrective action items by the date reported as completed in AARTS. Finally, OPE used the PO Comments field in AARTS to modify an agreed upon corrective action item instead of modifying the Action Item field.

OPE audit resolution staff were aware of the Department’s documentation requirements for audit resolution files, but expressed concern that the Department’s guidance was not specific and was subject to interpretation. OPE audit resolution staff generally believed they followed requirements and documented corrective actions taken. However, we found documentation did
not support completion of 7 of the 22\(^1\) corrective action items reviewed. As a result, OPE does not have assurance that corrective action items were implemented. In addition, reporting corrective action items as completed before the actions have actually been taken compromises the integrity of the data included in AARTS, understates internal management reports and reports to Congress on corrective action items that have not yet been completed, and may negatively impact the Department’s credibility. Finally, when the AARTS PO Comments field is used to modify corrective action items, OIG does not have the opportunity to review and either concur with or reject the revised action item as being sufficient to address the issues noted during the audit.

In response to our draft report, OPE concurred with our finding and provided corrective actions to address three of the four recommendations included in our report. OPE did not concur with recommendation 1.3 because it believed updating actual completion dates in AARTS would require reopening audits, which would be too time-consuming and, therefore, costly. OIG disagrees with OPE because modifying the actual completion dates would not require audits to be reopened, and the completion dates that need to be changed only impact one audit. In addition, OPE stated it was worth noting that it provided documentation supporting the completion of each action item reviewed by the OIG. However, as noted in the audit report, we found that while OPE provided us with documentation pertaining to audit followup activity for each corrective action item reviewed, this documentation did not always support completion of corrective action items.

The full text of the OPE response is included as Attachment 2 to this audit report.

**Finding 1 OPE Audit Followup Was Not Always Effective**

We found OPE’s audit followup process was not always effective. While OPE certified that corrective action items were completed, we found they were unable to support completion of 7 of the 22 corrective action items reviewed (32 percent). We were able to validate closure dates for 9 of the 15 supported corrective actions through OPE provided documentation.\(^2\) We found OPE reported 3 of these 9 action items (33 percent) as completed in the Department’s audit tracking system prior to dates reflected by supporting documentation. We also noted for one additional corrective action item reviewed OPE used the PO Comments field in AARTS to indicate that a corrective action item would not be completed as initially described instead of changing the Action Item field.

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1 Initially, we selected 23 corrective action items to verify if documentation was maintained in the audit resolution files to support completion of the action items. However, we subsequently determined OPE decided not to complete one of the agreed upon corrective action items, as further discussed in the finding.

2 In six cases, we could not validate closure dates because of limitations in the supporting documentation provided by OPE.
Documentation Did Not Support Completion of Corrective Action Items

While OPE maintained audit resolution files, the file documentation did not support completion of 12 of the 22 corrective action items reviewed (55 percent). OPE provided additional documentation not originally in the audit resolution files that supported completion of five additional corrective action items. Ultimately, OPE could not provide documentation to support completion of 7 of the 22 corrective action items (32 percent). Unsupported action items noted during this audit included the following:

1. In one audit, the corrective action item stated that training would be provided to program officers on conducting compliance reviews. OPE’s audit resolution file did not contain any documentation other than a list of 14 program officers. There were no copies of training certificates or information on when the training was given, who offered the training, or an agenda or other information about the content of the training. OPE subsequently provided the front cover of a training document, which was dated 10 months after the training was to have taken place, and an undated training agenda.

2. For this same audit, another corrective action item stated that the Acting Director shared Grants Policy # 22 with staff, directed that it be followed for authorizing grantees to drawdown funds from expired grant awards, and that proposed deviation from the procedures in the policy must be approved by the TRIO Director. The audit resolution file included an email with attached guidelines for Talent Search/Educational Opportunity Center grants that did not reach their proposed participants in the first year. Grants Policy Bulletin #22 was not discussed in the email or guidelines. The audit file did not include documentation of any direction stating that the TRIO Director must approve any proposed deviations.

3. In another audit, the corrective action item stated OPE would, “[f]ollow-up on audit resolution actions with OCFO and SFA [Student Financial Assistance] to help ensure findings and liabilities are properly resolved.” OPE provided us with results from a query of the Single Audit database. OPE staff stated the office randomly selected two grantees that were out of compliance with the Single Audit Act and OMB Circular A-133 to determine what documentation exists to indicate that Higher Education Programs (HEP) followed-up with grantees to resolve audit findings. However, OPE was unable to provide documentation that HEP followed-up on these two audits.

PAG issued Audit Closure Memos for each of the four audits included in this review. These four audits contained the 22 corrective action items we reviewed. We noted 8 of the 22 corrective action items were identified as reviewed by PAG prior to issuance of the Audit Closure Memos.

4 ACN A07-90034, Corrective Action 2.1.1.
5 ACN A04-90013: “Office of Higher Education Programs Needs to Improve Its Oversight of Parts A and B of the Title III Program,” issued December 27, 2000, Corrective Action 2.5.1.
We determined 6 of the 8 corrective action items reviewed by PAG were adequately supported by documentation provided by OPE. The results of our analysis of the effectiveness of PAG’s review process will be included in the audit followup summary report issued to the Chief Financial Officer upon completion of the audits in individual offices.

Documentation Did Not Support Reported Completion Dates

For the 9 corrective action items for which completion dates could be verified, OPE reported 3 corrective action items as completed in AARTS prior to dates reflected by supporting documentation (33 percent). These items were reported as completed from 12 to 22 months before dates reflected on supporting documentation. For example, OPE provided us an undated Annual Performance Report as supporting documentation for a corrective action item reported in AARTS as completed on September 24, 2002. Because documentation did not support completion of the corrective action item by that date, we requested additional documentation. OPE subsequently provided us with a data review and analysis report, dated July 15, 2004, which we reviewed and determined did not support the reported completion date in AARTS.

Principal Office Comment Field Used to Modify Proposed Corrective Action Item

In one additional corrective action item reviewed, data from the PO Comments field in the CAP indicated an action item would not be completed as initially described. This field was used instead of modifying the agreed upon action item to accurately reflect the final decision of management. Specifically, this action item called for OPE to implement a peer review process. The PO Comments field stated in part:

The Institutional Development and Undergraduate Education Service (IDUES) will not implement a peer review monitoring model . . . . The peer review model has not been funded or implemented. The [IDUES] area needs to evaluate the new executive information system and reconsider the feasibility of peer monitoring in light of budgetary and other resource constraints.

An AARTS database administrator stated when information is entered or changed in the PO Comments field there is no change to the resolution status and the OIG would not necessarily become aware of the change. However, he added when the Action Item field is changed within the system, the status reverts to "unresolved," OIG is notified of the change, and has the opportunity to concur or nonconcur with the revised action.

Requirements for Audit Followup

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—

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6 ACN A04-90013, Corrective Action 1.1.1.
7 ACN A04-90013, Corrective Action 1.7.1.
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.


Each AO must maintain documentation to support implementation of each corrective action in accordance with the Guidelines for Establishing File Folders and Maintaining Documentation. The documentation must be specifically identifiable to a corrective action to withstand any post audit closure review by PAG/OCFO, ED-OIG; [Government Accountability Office] GAO and/or OMB. All ED-OIG audit records must be retained by an AO for at least five years after ED-OIG is notified that all corrective actions have been completed.

The Department’s Guidelines for Establishing File Folders and Maintaining Documentation states:

A file folder should be established for each audit report beginning with the draft report. Each folder should contain . . .Documentation to support implementation of corrective actions or specific notes that indicate where said documents are located . . .Explanation of how such documentation supports the corrective action, if not readily understood or evident.

The Guidelines for Establishing File Folders and Maintaining Documentation also provides examples of supporting documentation to include memos of understanding, final regulations, Dear Colleague Letters, records from databases, and policies and procedures.

OPE audit resolution staff generally believed that available documentation was adequate to support completion of action items. However, they expressed concern with the Department’s guidance because they believed it was not specific enough to identify documentation that would support different types of corrective actions. OPE audit resolution staff also indicated that in some cases they attempted to document outcomes rather than processes followed. OPE audit resolution staff further indicated that they did not believe they could change the Action Item field in AARTS without PAG’s authority.

Without appropriate documentation, OPE does not have assurance that identified deficiencies were corrected. As such, the risk remains that related programs may not be effectively managed.
By reporting corrective action items as completed when they have not been, or in advance of the actual completion date, OPE compromises the integrity of the data included in AARTS and may negatively impact the Department’s credibility. Management reports on corrective action items due for completion may be understated. In addition, the Department’s *Semiannual Report to Congress on Audit Followup* may also under report the audits for which corrective action items have not been completed.

By documenting changes to an agreed upon action item in the AARTS PO Comments field, OIG did not have the opportunity to concur or nonconcur with the revised action item as being sufficient to address the issues noted during the audit.

In a written response to our preliminary findings and recommendations presented at the exit conference, OPE reiterated that staff believed the documentation was sufficient to be in compliance with requirements. In addition, OPE officials stated they are making and have made numerous changes to ensure corrective actions are documented in accordance with the Department’s guidance. OPE provided an Audit Processes document, dated April 5, 2005, which is being used by the office to automate internal tracking functions for OIG and Government Accountability Office audits. The document consists of various flowcharts relating to the different phases of the audit process.

During our audit, we noted three of the four audit resolution files we reviewed contained an email from an OPE staff member suggesting the types of evidence that would be needed to document completion of each corrective action item. However, these suggestions were not always followed by OPE staff. In four of the seven unsupported corrective action items noted in our audit, the suggested documentation would have adequately supported completion of the corrective action item. While OPE’s Audit Processes document flowcharts its internal processes for performing various audit-related functions, including audit followup, it does not address our concerns with adequately documenting and correctly reporting completion of action items.

**Recommendations:**

We recommend that the Assistant Secretary for the Office of Postsecondary Education:

1.1 Ensure audit followup documentation clearly supports completion of the stated action item as it is worded in the CAP.

1.2 Ensure completion dates reported in AARTS are consistent with dates reflected in supporting documentation.

1.3 Update AARTS to reflect the actual completion dates for the action items noted in the audit with discrepancies in the reported completion dates.

1.4 Ensure changes to agreed upon action items are identified by editing the Action Item field in AARTS rather than using the PO Comments field.

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**OPE Response:**

In its response to the draft report, OPE concurred with the finding and provided corrective actions to address three of the four recommendations included in our report. However, OPE did not concur with recommendation 1.3 because it believes updating the actual completion dates in AARTS would require closed audits to be reopened, which would be time-consuming and, therefore, costly. OPE also stated it was worth noting that it was able to provide documentation supporting the completion of each action item reviewed by the OIG.

Overall, OPE stated it has implemented several changes to improve the audit tracking process, which include: (1) documenting operating procedures for OPE audit resolution; (2) establishing a database to ensure tracking of OPE audit activities; and (3) maintaining electronic files of all OPE audits and supporting documentation. In addition, OPE has hired a contractor to automate OPE’s audit processes, including tracking and maintaining supporting documentation of all OPE action items.

**OIG Comments:**

OIG disagrees with OPE’s position that updating actual completion dates for selected action items in AARTS would be too time-consuming and costly. According to PAG staff, completion dates can be changed without having to reopen a closed audit. In addition, the three action items noted in the audit report with unsupported completion dates belong to just one closed audit. If the dates are not updated to reflect the actual completion dates, the integrity of the data in AARTS will be compromised.

OPE believed it was worth noting that it provided supporting documentation for each of the action items in the review. However, we found that while OPE maintained audit resolution files with documentation regarding audit followup activity for each corrective action item reviewed, this documentation did not always support completion of corrective action items, as noted in this report.

**OBJECTIVE, SCOPE, AND METHODOLOGY**

The objective of our audit was to verify whether adequate documentation was maintained to support that corrective action items have been implemented as stated in the Department’s CAPs.

To accomplish our objective, we performed a review of internal control applicable to OPE’s audit followup process. We reviewed applicable laws and regulations, and Department policies and procedures. We conducted interviews with OCFO/PAG staff regarding Department policy and procedures, and AARTS operation. We conducted interviews with OPE staff responsible for resolving and following up on corrective action items for the audits selected. We also reviewed documentation provided by OPE staff to support completion of corrective action items for the recommendations included in our review.

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The scope of our audit was limited to corrective action items developed in response to internal OIG audits of OPE processes and programs. Our scope included only those corrective action items reported as “completed” in AARTS during the period July 1, 2002, through September 30, 2004. We excluded from our review corrective action items for recurring audits, such as annual financial statement audits, information security audits, or those with prior or planned followup audits, so as not to duplicate audit effort. Overall, we selected a total of 23 corrective action items from 4 OPE related audits. The selected audits and corrective action items reviewed are listed in Attachment 1 to this report.

We relied on computer-processed data initially obtained from AARTS to identify action items applicable to the scope period. An alternative data source is not available to directly test the completeness of the corrective action items as reported in AARTS. However, we tested the accuracy of AARTS data by comparing AARTS data to supporting documentation. We also conducted a limited review of AARTS data controls and relied on feedback from resolution staff to gain additional assurance relating to the completeness and accuracy of AARTS data. Based on these tests and assessments, we determined that the computer-processed data was sufficiently reliable for the purpose of our audit.

Our review was based on the corrective action items defined by OPE in its CAPs and agreed upon by OIG in the audit resolution process. We reviewed and analyzed documentation in OPE’s audit resolution files to determine whether completion of each selected corrective action item was supported. In cases where documentation in the file did not support completion of the action item, we provided OPE with an opportunity to provide additional documentation from other sources. We reviewed any additional documentation subsequently provided to make a final determination as to whether completion of the corrective action items was then supported. In addition, we verified the reported completion dates in AARTS against the supporting documentation provided, where possible, for those corrective action items that were supported.

We conducted fieldwork at OPE offices in Washington, DC, during the period October 2004 through March 2005. We held an exit conference with OPE staff on May 12, 2005. Our audit was performed in accordance with generally accepted government auditing standards appropriate to the scope of the review described above.

**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 findings 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 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

cc: Dottie Kingsley, Audit Liaison Officer, OPE
    Charles Miller, Supervisor, PAG/OCFO

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## ATTACHMENT 1 – Audits and Corrective Action Items Reviewed

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MEMORANDUM

DATE: AUG 22 2005

TO: 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

FROM: Sally L. Stroup

SUBJECT: Draft Audit Report
Audit Follow-up Process for Office of Inspector General Internal Audits in
the Office of Postsecondary Education
Control No. ED-OIG/A19-F0002

Thank you for the opportunity to comment on the Office of Inspector General’s (OIG) draft audit report: Audit Follow-up Process for Office of Inspector General Internal Audits in the Office of Postsecondary Education dated July 5, 2005. The objective of the report was to verify whether adequate documentation was maintained to support that corrective action items have been implemented as stated in the Office of Postsecondary Education’s (OPE) Corrective Action Plans (CAP).

The draft report states that OPE audit follow-up was not always effective. However, it is worth noting that OPE was able to provide documentation supporting the completion of each action item reviewed by the OIG. In addition, OPE believes that in collecting the documentation, the written guidance in the Post Audit User’s Guide and the Department’s Guidelines for Establishing File Folders and Maintaining Documentation was followed. Nonetheless, OPE acknowledges that additional steps can be taken to strengthen the documentation collected.

Below are OPE’s comments on the OIG finding and each recommendation.
FINDING NO. 1 - OPE’s Audit Follow-up Was Not Always Effective.

The OIG cited issues in the following three areas:

- Documentation did not support completion of all corrective action items.
- Documentation did not always support reported completion dates.
- Modification of a corrective action item occurred without notification to the OIG.

The OIG made four recommendations with respect to the only Finding.

**RECOMMENDATION 1.1 - Ensure Audit Follow-up Documentation Clearly Supports Completion Of The Stated Action Item As It Is Worded In The CAP.**

OPE concurs with this recommendation.

Please note that the final audit reports reviewed by the OIG were completed between 2000 and 2002. Since that time, OPE has implemented several changes to improve the audit tracking process. These changes include: (1) documenting operating procedures for OPE audit resolution; (2) establishing a database to ensure tracking of OPE audit activities; and (3) maintaining electronic files of all OPE audits and supporting documentation.

In addition, OPE has hired a contractor to automate OPE’s audit processes, including tracking and maintaining supporting documentation of all OPE action items. With the completion and implementation of this centralized Web-based system called a “Pre-AARTS” module (estimated to be ready in the Fall of 2005), OPE’s audit team will have greatly enhanced capabilities to track the status of audits. The system will help to ensure that action items are successfully completed and accurately documented. Pre-AARTS will also generate reminders to key players to complete their audit responsibilities on time, and store dated communications and other supporting documentation for corrective actions prior to allowing one to enter the actual completion date.

Audit training materials will be developed for OPE staff who will use the Pre-AARTS module. Training sessions will be held shortly after implementation of the Pre-AARTS module and will include how to develop clearly worded CAPs and action item comments, the process by which to properly update an action item; and appropriate supporting documentation.

**RECOMMENDATION 1.2 - Ensure Completion Dates Reported In AARTS Are Consistent With Dates Reflected In Supporting Documentation.**

OPE concurs with this recommendation.

Currently, OPE collects documentation for an action item before requesting audit closure and is moving toward collecting and storing the supporting documentation in its centralized audit files prior to completion of the action item date in AARTS. Also, as
addressed in our response to Recommendation 1.1, OPE’s Pre-AARTS module and related training will directly address action item completion and recommended supporting documentation.

RECOMMENDATION 1.3 - Update AARTS To Reflect The Actual Completion Dates For The Action Items Noted In The Audit With Discrepancies In The Reported Completion Dates.

OPE does not concur with this recommendation. All of the audits included in the OIG’s review are officially closed. A closed audit must be re-opened to change any information about the action item. Re-opening audits would be time-consuming and, therefore, costly. OPE believes that prospective activities, such as OPE’s Pre-AARTS module training will address the concerns identified by the OIG.

RECOMMENDATION 1.4 - Ensure Changes To Agreed Upon Action Items Are Identified By Editing The Action Item Field In AARTS Rather Than Using The PO Comments Field.

OPE concurs with this recommendation.

OPE has already taken action to ensure that the OIG is notified of any action item changes by correctly entering this information in AARTS. This process was followed in July 2005 for an open Government Accountability Office audit. OPE’s planned Pre-AARTS module training will directly address CAP and action item development and updates. Further, OPE suggests that this process also be added to the Department’s AARTS User Manual for Internal Audits.

Again, thank you for the opportunity to comment on this draft audit report. If you have further questions, please feel free to contact Dottie Kingsley, OPE’s Audit Liaison Officer at (202) 502-7505 or by e-mail at dottie.kingsley@ed.gov.