



**U.S. Department of Education
Office of Inspector General**



American Recovery and Reinvestment Act of 2009

Department Progress in Implementing Corrective Actions for
Prior Audits of Programs that Subsequently Received Funding Under the
American Recovery and Reinvestment Act of 2009

Final Alert Memorandum



ED-OIG/L20K0003

July 2010



UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF INSPECTOR GENERAL

AUDIT SERVICES

Control Number L20K0003

July 12, 2010

FINAL ALERT MEMORANDUM

TO: Phil Maestri, Director
Risk Management Service

Hugh Hurwitz, Deputy Chief Financial Officer
Office of the Chief Financial Officer

FROM: Keith West, Assistant Inspector General for Audit /s/
Office of the Inspector General

SUBJECT: Department Progress in Implementing Corrective Actions for Prior Audits of Programs that Subsequently Received Funding Under the *American Recovery and Reinvestment Act of 2009*

The purpose of this *Final Alert Memorandum* is to report progress made by the U.S. Department of Education (Department) in expediting corrective actions from prior Office of Inspector General (OIG) audits of programs that subsequently received funding under the *American Recovery and Reinvestment Act of 2009* (Recovery Act).

In February and April 2009, the Office of Management and Budget (OMB) issued two memoranda with government-wide implementing guidance for Recovery Act programs.¹ The guidance requires agencies to identify, prioritize, and develop plans to mitigate risks associated with Recovery Act programs. As part of this effort, the guidance states that agencies should expedite final actions with respect to findings from prior audits and investigations affecting programs funded by the Recovery Act or explain why such actions cannot or should not be taken.

On March 19, 2009, OIG provided a Recovery Act Advisory Memorandum (prior memorandum) which identified unimplemented corrective actions from OIG audits to assist the Department in implementing the OMB requirements. This alert memorandum provides updated information on the status of these corrective actions and assesses the Department's progress in meeting OMB requirements.

¹ See the Background section of this report for detailed excerpts from guidance issued by the OMB and other authorities related to the audit resolution and implementation of corrective actions.

RESULTS AND RECOMMENDATIONS

In the prior memorandum, OIG identified 152 recommendations for which corrective actions had not yet been implemented as of February 28, 2009. The recommendations were from OIG audits issued prior to September 2008 and as such represent audits of funds expended prior to the enactment of the Recovery Act. The prior audits did not review Recovery Act funding but included recommendations related to programs that subsequently received funding under the Recovery Act, as described in the OMB guidance.

As of April 30, 2010, we found the Department made progress in completing corrective actions for internal audits; however, the majority of corrective actions for external audits had not been implemented. In total, corrective actions for 99 of the 152 recommendations (65 percent) had not been completed in the 14 months since the prior memorandum.

Department staff stated that no specific efforts were made to expedite implementation of corrective actions from audits of programs that subsequently received funding under the Recovery Act. Although the Department had included consideration of prior audits in its risk mitigation plan, other than the list provided by OIG through the prior memorandum, it had not taken action to identify all relevant prior audits, such as single or compliance audits, or audits conducted by the Government Accountability Office (GAO). Nor had the Department assessed the status of its progress in this area, although such an assessment was included in its risk mitigation plan. Without a complete list of the audits, corrective actions to be implemented, and an assessment of progress made, the Department cannot ensure that corrective actions were being expedited as required by OMB.

Through review of Federal and State Web sites, we noted that 9 of the 11 entities involved in the prior OIG external audits subsequently received funding under the Recovery Act. The Department may be vulnerable to criticism for providing Recovery Act funds to these entities, or permitting subrecipient awards to these entities, without first requiring correction of known conditions that impair the entities' abilities to use and account for the funds in accordance with applicable requirements, or without first providing conditions on the grants or subgrants to ensure Recovery Act funds are protected and used for their intended purposes.

Status of Corrective Action Implementation for Previously Identified OIG Audits

A list of the internal and external OIG audit reports identified in the prior memorandum, detailing the numbers of recommendations for which corrective actions were not yet implemented as of February 28, 2009, and as of April 30, 2010, is provided as Attachment B. The prior memorandum is provided as Exhibit 1. Summary information is provided below.

Internal Audit Recommendations

The prior memorandum identified 38 recommendations from 12 internal audits for which the Department had not implemented corrective action. As of April 30, 2010, corrective actions for 6 of these recommendations (16 percent) had still not been completed. These audits were issued by OIG in FY 2007 and FY 2008. The corrective actions that had not yet been implemented addressed recommendations related to data quality and reporting, grant monitoring, and information technology (IT) security. All of these issues remain relevant to the Department's administration of Recovery Act programs.

External Audit Recommendations

The prior memorandum identified 114 recommendations from 11 external audits that the Department had not yet resolved. Resolution is the process by which the management decision is issued to the auditee as to what corrective actions are to be taken to address the recommendations. We found that 9 of the 11 entities involved in the prior audits subsequently received funding under the Recovery Act. These entities related to 91 of the 114 recommendations identified in the prior memorandum. As of April 30, 2010, 82 of the 91 recommendations (90 percent) from these 9 external audits remained unresolved. The audit reports were issued as long ago as FY 2005, with the most recent issued in FY 2008. Since OMB Circular A-50, *Audit Followup*, requires audits to be resolved in a maximum of 6 months, each of these external audits was overdue for resolution, some significantly overdue, at the time of the prior memorandum.

For external audits, the Department's resolution process includes review of the OIG audit report and other documentation prior to providing its management decision. In its response to the draft alert memorandum, the Department also reported actions in process to work with the auditees on implementing corrective actions during the resolution process. In some cases, the Department reported placing special conditions on the grants or freezing grant funding to mitigate risks associated with the unresolved recommendations (see Attachment A for the Department's response). Until the Department issues its decision, however, the external auditee is under no obligation to change its operations or processes to correct weaknesses or deficiencies noted, or to return funds that were inappropriately expended. Since February 28, 2009, only 3 of the 9 external audits have been resolved. Until the Department resolves the audits, any weaknesses or deficiencies may continue, placing additional funds at risk for inappropriate use.

The external audit recommendations that remain unresolved addressed unallowable costs charged to grants, lack of adequate documentation to support costs charged to grants, weaknesses in accounting systems and internal controls, use of Federal funds to supplant non-Federal funds, weaknesses in contract monitoring, conflicts of interest, and training needed for grant and contract administration staff. All of these issues remain relevant to the Department's and the entities' administration of the Recovery Act programs.

Department Risk Mitigation Plan

The Department's Recovery Act risk mitigation plan followed the template provided in OMB guidance and also added a column entitled "Impediments to Mitigation Actions." Risks 11 and 12 of the plan addressed audit resolution and corrective action implementation for internal and external audits, respectively.

Risk 11 – [Department of Education] ED has not completed corrective actions related to OIG and [Government Accountability Office] GAO audits of ED programs – Weaknesses in program operations or management that are identified by internal audits and remain unresolved or for which corrective actions are not complete leave programs with some degree of continuing risk.

Risk 12 – ED has not resolved outstanding findings of OIG and [OMB Circular] A-133 audits of grantees – Known weaknesses in grantees' grants management continue because ED OIG external and A-133 audits are not resolved and closed.

Under Risk 11, the plan assigned the responsible office as the individual offices for the grant programs, and included a plan to review the status of the audits early in calendar year 2010. The Department listed as impediments to mitigation actions limited resources and staff expertise to develop and execute corrective action plans, and that some corrective actions will take a long time to complete.

Under Risk 12, the Department assigned the Office of the Chief Financial Officer (OCFO) and individual program offices as responsible offices. There was no information included in the plan related to a trigger for reassessing the area or a review of the status of the area at a later date. The Department listed as impediments to mitigation actions lack of resources for audit resolution and follow-up.

We met with Department officials in Risk Management Service (RMS), the office that coordinated development of the Recovery Act risk mitigation plan. RMS stated that it did not "own" these particular risks and was not responsible for following up on actions taken. RMS stated it was not aware whether progress in the area had been reassessed or whether responsible offices had provided updates in this area. RMS stated that the risk plan was available on a shared drive for Department staff but that it had not been officially distributed with a memorandum or email or other guidance regarding implementation or requirements for progress reports or other updates.

The Office of the Chief Financial Officer (OCFO) Financial Improvement and Post Audit Operations (FIPAO), Post-Audit Group (PAG), is the office responsible for Department-wide oversight of the audit resolution and follow-up process. PAG stated the Department's Audit Accountability and Resolution Tracking System (AARTS) includes information for all audits – those conducted by OIG, GAO, and non-Federal auditors under the Single Audit Act. PAG stated that through AARTS, individual principal offices have access to information regarding resolution and corrective actions and are responsible for taking appropriate actions.

PAG stated that no new processes or reporting was developed to address the OMB requirements. Other than the list provided by OIG through the prior memorandum, PAG was not aware of any list developed of all audits that included weaknesses or deficiencies in programs funded under the Recovery Act. PAG stated no special reports have been generated and no specific efforts were made to expedite corrective actions of these audits over other audits. PAG was not aware of any assessment of progress made in this area.

OMB continues to emphasize the timely implementation of corrective actions related to Recovery Act programs and the OMB memoranda discussed remain in effect. OMB issued further guidance in March 2010 to require agencies to prioritize and expedite corrective actions on Recovery Act program single audit findings with the highest risk.

The data presented in the prior OIG memorandum included reports issued prior to September 2008. Since that time, OIG has issued 23 additional internal and external audit reports resulting from our reviews of programs that subsequently received funding under the Recovery Act and from reviews of the implementation of the Recovery Act by the Department and by external entities. These additional reports and products included 203 total recommendations related to the programs. (A list of these products and the numbers of recommendations made in each is provided as Attachment C to this memorandum.)

Recommendations

To ensure actions are taken to meet OMB requirements and to enhance effective implementation of the Recovery Act risk management plan, OIG recommends that the Director, Risk Management Service, in conjunction with the Chief Financial Officer:

- 1.1 Identify corrective actions that have not yet been completed regarding weaknesses or deficiencies disclosed by audits in programs that subsequently received funding under the Recovery Act, or in audits or other reviews of the Department or external entities' implementation of the Recovery Act. This identification process should include review of prior and more recent audits from all sources – OIG, GAO, and non-Federal auditors, as well as any relevant investigations, as provided in OMB guidance.
- 1.2 Based on the above, prioritize audit resolution activities and corrective action implementation for the findings with the highest risks to protect the integrity of Recovery Act and other funding and to enhance internal control over and management of these programs. As stated in the prior memorandum, OIG is prepared to assist the Department in providing additional information it may need to expedite resolution and corrective actions for OIG audits.
- 1.3 Develop and implement a periodic monitoring process to measure progress in expediting audit resolution and implementing corrective actions for the identified audits and other reviews, and provide status reports to the Department's senior leadership and affected managers.

- 1.4 Ensure all appropriate Department officials are aware of their responsibilities for items included in the Recovery Act risk mitigation plan by distributing the plan, assigning coordinating offices as needed, and providing guidance on any requirements for status or progress reports.

Department Response:

A draft of this memorandum was provided to RMS and OCFO for comment. In its response, the Department stated it “agreed with the importance of addressing significant audit findings in a timely manner; having appropriate follow-up and accountability measures in place; and prioritizing limited resources to ensure that funds under the American Recovery and Reinvestment Act of 2009 and all of the programs administered by the Department are administered properly.” The Department agreed that the majority of the auditors’ recommendations had not been fully resolved within the six-month timeframe set forth in OMB Circular A-50.

The Department provided statistical information on the status of resolution for the unimplemented external audit recommendations included in the draft alert memorandum. The Department reported audit resolution actions in process or taken to date as follows—20 of the 93 recommendations had been resolved, 17 had been substantially resolved with closeout pending, and 56 recommendations were in the process of resolution. For the 56 recommendations in the process of resolution, the Department provided general information on the resolution activity underway. The Department asked that the alert memorandum be updated to include the updated status information to reflect a more accurate assessment of the progress made in resolving external audits and mitigating risk associated with the audits that remain open.

The Department also stated that it determined AARTS does not necessarily provide a complete view of actions taken to date with respect to the implementation of corrective actions or risk mitigation activities, and that the timeliness of audit resolution might be potentially improved by more coordinated tracking. The Department stated it intends to review the overall audit resolution process, and consider changes to AARTS. The Department stated it would work with OIG to address the alert memorandum’s recommendations.

The Department’s response in full, including updated audit resolution activity provided, is included as Attachment A of this memorandum.

Office of Inspector General Comments:

The Department agreed with the importance of timely audit resolution, and agreed that the majority of the audit recommendations were not resolved within the OMB guidelines. We commend the Department on its intention to upgrade its resolution system to provide more complete information for external audits. In its response, the Department stated that the contract for AARTS will be re-competed in FY 2011. As such, a more immediate solution is needed to address the OMB memoranda requirements.

We presented the updated audit resolution information provided by the Department as part of its response in Attachment A. We annotated the audits listed in Attachment B to indicate the Department provided additional information and that the updated information could be found in Attachment A. We also added statements within the alert memo that the Department reported actions in process to work with the auditees on implementing corrective actions during the resolution process. We noted that the Department reported placing special conditions on the grants or freezing grant funding to mitigate risks associated with unresolved recommendations. In one case, the Department pointed out that the grantee no longer receives education funds. (Our memorandum correctly reflected this fact and reported that 9 of the 11 grantees received Recovery Act funding, and that 82 of the recommendations related to grantees that subsequently received Recovery Act funds.)

The Department did not provide supporting documentation or detailed information on the resolution actions it included in its response, and as previously mentioned, AARTS does not present the status of resolution or corrective action implementation on a recommendation level. OIG did verify that two of the audits had been resolved since our draft alert memorandum was issued, indicating the Department issued its management decision. These audits represented the 20 recommendations the Department reported as resolved. Since these actions took place after our draft memorandum was issued, we did not change the specific results in the memorandum which were accurate as of April 30, 2010. We did not otherwise verify the accuracy of the information provided by the Department for the other audits, or when the resolution or other mitigating actions were taken, as the audits remained unresolved.

The OMB memoranda requirements focus on expediting final corrective actions. We acknowledge that some actions reported by the Department in its resolution process represent corrective actions, but final corrective action cannot be completed until the Department resolves the audit, issues its management decision, and the auditee completes all corrective actions. Since we identified these still unresolved audits for the Department more than a year ago in our prior memorandum, and the audits were originally issued between February 2005 and July 2008, we do not believe that final corrective action has been expedited as required.

We look forward to working with the Department on the specific recommendations made in this memorandum.

BACKGROUND

Federal agencies have long been responsible for taking timely corrective actions to address audit recommendations. OMB Circular A-50 (OMB Circular), *Audit Followup* (issued September 29, 1982) and the GAO *Standards for Internal Control in the Federal Government* (issued November 1999), each include requirements for timely resolution and implementation of audit recommendations. The OMB Circular requires agencies to establish systems to assure the

prompt and proper resolution and implementation of audit recommendations. The OMB 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...Resolution shall be made within a maximum of six months after issuance of a final report... Corrective action should proceed as rapidly as possible.”

GAO’s *Standards for Internal Control in the Federal Government* state:

Monitoring of internal control should include policies and procedures for ensuring that the findings of audits and other reviews are promptly resolved. Managers are to (1) promptly evaluate findings from audits and other reviews...(2) determine proper actions in response to findings and recommendations...and (3) complete, within established timeframes, all actions that otherwise correct or resolve the matters brought to management’s attention.

Specific to the Recovery Act, OMB issued two memoranda to provide government-wide guidance for carrying out programs and activities under the Recovery Act.

- OMB Memorandum, M-09-10, *Initial Implementing Guidance for the American Recovery and Reinvestment Act of 2009*, was issued February 18, 2009 (Initial OMB Memorandum).
- OMB Memorandum, M-09-15, *Updated Implementing Guidance for the American Recovery and Reinvestment Act of 2009*, was issued April 3, 2009 (Updated OMB Memorandum).

Our prior memorandum cited the requirements of the Initial OMB Memorandum in effect at that time. All areas involving the subject of this report are also included in the Updated OMB Memorandum. Excerpts provided below are from the Updated OMB Memorandum currently in effect.

Section 3.10 –“How should agencies begin developing such a [risk mitigation] plan?”

Agencies should also begin their planning by determining whether final action has been taken regarding weaknesses or deficiencies disclosed by prior audits and investigations in program areas under which Recovery Act funds are authorized. If final action has not been completed, agencies should: (1) expedite such action to preclude the continuance of such weaknesses or deficiencies in the administration of Recovery Act funded programs; or (2) provide an explanation of why such corrective actions cannot or should not be taken in the administration of Recovery Act funded programs.

Section 3.12 – “What risk mitigation actions must agencies take for risks specific to their agency and programs?”

... [A]gencies should develop mitigation plans that align with specific risks. At a minimum, agencies should prepare mitigation plans for those risks with the highest probability of occurrence and the greatest impact if not mitigated. Whenever possible, agencies should identify quantifiable measures of performance, including ranges of acceptable and unacceptable performance. Along with mitigation actions, agencies should also identify a “trigger” to determine if it should initiate a contingency plan. Triggers could include program performance falling outside of an acceptable range or not completing critical actions by specified dates.

Section 3.13 – “What are the reporting requirements for these agency-specific risk areas?”

... [A]gencies will eventually be required to report on their risk management efforts to OMB and/or the [Recovery Accountability and Transparency] Board, including performance measures for the accountability objectives with associated performance ranges. However, agencies risk assessments, mitigation plans, and reporting for risks specific to an agency or program will initially be for internal agency use. Agencies must include details in program-specific planning documents details on how managers will be held accountable for achieving recovery program goals.

Appendix 4 to the Updated OMB Memorandum includes program risk considerations. Under “Overarching/Performance” risks, the following is listed,

“Does my organization have a corrective action plan process in place to promptly resolve the audit findings identified that may impact the ability to successfully implement Recovery Act?”

Appendix 6 to the Updated OMB Memorandum provides a template for use in developing a risk mitigation plan.

On March 22, 2010, OMB issued Memorandum M-10-14 entitled, “Updated Guidance on the American Recovery and Reinvestment Act.” This memorandum instructs Federal agencies to take immediate action, as appropriate, to review and act on Single Audit findings.

Section 7 – What steps should be taken on Single Audits reports for oversight and accountability of Recovery Act funding?

Single Audit is a key tool used to drive accountability for Federal awards under the Recovery Act. Non-Federal entities (States, local governments, colleges and universities, and non-profit organizations) are required by the Single Audit Act Amendments of 1996 (Single Audit) and OMB Circular A-133 to have an annual

audit of their Federal awards, including the Recovery Act programs. Many non-Federal entities, particularly states, will submit their annual Single Audit by March 30, 2010 (for entities with fiscal year-end June 30, 2009). The Federal Audit Clearinghouse (FAC) processes all Single Audit submissions and will prepare a report that summarizes the audit findings by type of non compliance (i.e., activities allowed or unallowable, allowable costs, eligibility, reporting) for all Recovery Act programs identified by recipients for all single audits with fiscal year ended September 30, 2009 and later.

Federal awarding agencies shall review these reports and take action on them. Actions at a minimum should include the following:

- Expedite review and resolution of audit findings to ensure all findings are resolved within 6 months after the date the FAC shows filing status as complete.
- Focus audit resolution on high risk programs and auditees.
- Analyze audit findings across grantees and programs to identify high risk areas. Use the FAC's special report for Recovery Act programs as a tool to identify areas of weaknesses. (<http://harvester.census.gov/sac/>).
- Work with recipients of Federal awards to make sure appropriate corrective action plans are developed and implemented to address areas of highest risk for ARRA [American Recovery and Reinvestment Act] programs as identified in the previous bullet.
- Consider additional monitoring, inspections, or audits for grantees where Single Audits identified greatest risk.
- Report synopses of highest risk audit findings by major Recovery Act programs to OMB by September 30, 2010.

For fiscal year 2009, OMB has implemented an internal control project that resulted in early reporting of internal control deficiencies and weaknesses for major Recovery Act programs by 16 volunteer States. Interim reports along with corrective action plans were submitted to the Department of Health and Human Services (the Federal cognizant agency) and OMB by January 31, 2010. Federal agencies should immediately follow-up on weaknesses disclosed by the Single Audit Internal Control Pilot Project and work with the States in implementing the necessary steps in the corrective action plan.

OBJECTIVE, SCOPE, AND METHODOLOGY

The purpose of the prior memorandum was to assist the Department in meeting its requirements under the Recovery Act by summarizing unimplemented OIG audit recommendations that include issues relevant to the Recovery Act. The objective of this review was to provide updated

information on the status of the corrective actions and assess the Department's progress in meeting these requirements.

To accomplish this objective, we reviewed guidance provided by OMB and GAO. We held discussions with Department officials to obtain information about risk mitigation plans and progress, and on actions taken as a result of our prior memorandum. We also evaluated the Department's risk mitigation plan as it relates to audit resolution and corrective action implementation.

We relied on computer-processed data included in the Department's audit resolution system, AARTS, to identify internal audits for which corrective actions had not been completed, and external audits that had not been resolved. We validated and supplemented AARTS data with that from OIG's Audit Tracking System (ATS), and from the OIG audits reports, where appropriate. Based on this validation, and since AARTS is the Department's official system of records for tracking audit resolution and corrective action implementation, and OIG has extensive experience using the system, we deemed the information extracted from this system as reliable for the purposes of our review.

For the prior memorandum, we extracted data from AARTS to include only OIG audits that had been issued prior to August 2008 so that at the time of the prior memorandum, all the audits were at least 6 months old, and by the standards set in OMB Circular A-50, overdue for resolution. For external audits, once resolved, information is not available in AARTS as to the status of corrective action implementation. To ensure our analysis included only those external audits for which corrective action had not been completed, we included only unresolved external audits. For the prior memorandum, information was extracted as of February 28, 2009. We identified 12 internal audits with 38 recommendations, and 11 external audits with 114 recommendations relevant to the Recovery Act for which corrective actions had not been implemented. The total represents the 152 recommendations identified in the prior memorandum.

For this report, we again evaluated AARTS and ATS data to determine the current status of corrective action implementation for the same 152 recommendations as of April 30, 2010. We also assessed information on Federal and State Web sites to determine whether the external entities included in the prior memorandum received Recovery Act funds. Due to the number of programs involved, the fluid nature of the data, and the undetermined reliability of Web site data, we did not attempt to calculate total Recovery Act funding provided these entities. Instead, we used these data for informational purposes only to indicate the number of external entities that were allocated Recovery Act funding for which prior audit findings have still not been resolved. We determined the data sufficiently reliable for this purpose, especially as a number of the entities were large school districts and U.S. territories that would likely receive Recovery Act funding.

Finally, we queried OIG records for reports issued from September 1, 2008, through April 30, 2010, to determine the number of OIG internal and external audits reports issued and recommendations made since the time of the prior memorandum. We identified OIG audit reports that either (a) resulted from reviews of programs that subsequently received funding under the Recovery Act, or (b) resulted from reviews of the implementation of the Recovery Act

by the Department and by external entities. We identified 23 such reports with a total of 203 recommendation made.

The fieldwork for the review was conducted at Department and OIG offices in Washington, D.C., during the period January 2010 through May 2010. We conducted our work in accordance with OIG quality standards for alert memoranda.

ADMINISTRATIVE MATTERS

Corrective actions proposed (resolution phase) and implemented (closure phase) will be monitored and tracked through the Department's Audit Accountability and Resolution Tracking System (AARTS). ED 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.

Alert memoranda issued by the Office of Inspector General will be made available to members of the press and general public to the extent information contained in the memoranda is not subject to exemptions in the Freedom of Information Act (5 U.S.C. § 552).

Should you have any questions or need any further information, please contact me at (202) 245-7041.

Attachments

**UNITED STATES DEPARTMENT OF EDUCATION****MEMORANDUM**

DATE: June 9, 2010

TO: Keith West
Assistant Inspector General for Audit
Office of Inspector General

FROM: Philip A. Maestri
Director, Risk Management Service
Office of the Secretary

Hugh J. Hurwitz
Deputy Chief Financial Officer
Office of the Chief Financial Officer

SUBJECT: Response to Draft Alert Memorandum
“Department Progress in Implementing Corrective Actions for Prior Audits of
Programs that Subsequently Received Funding under the *American Recovery and
Reinvestment Act of 2009*”
Control Number ED-OIG/L20K0003

Summary. We appreciate the opportunity to review and provide comments on the draft Alert Memorandum (Alert Memo) regarding implementing audit-related corrective actions. The U.S. Department of Education (Department or ED) fully agrees with the importance of addressing significant audit findings in a timely manner; having appropriate follow-up and accountability measures in place; and prioritizing limited resources to ensure that funds under the American Recovery and Reinvestment Act of 2009 (ARRA) and all of the programs administered by the Department are administered properly.

With respect to Office of Inspector General (OIG) external audits in particular, we agree that the majority of the auditors’ recommendations have not been fully resolved within the six-month timeframe set forth in OMB Circular A-50. However, we believe that the Alert Memo does not adequately represent the progress made to date in implementing the corrective actions, nor does it reflect the internal controls that have been put in place and interim steps taken to ensure appropriate accountability for the affected Federal funds. As such, we are concerned that anyone reading the current draft version may be left with an inaccurate impression of the level of unmitigated risk associated with recommendations that have not yet been fully resolved.

We request that the Alert Memo include updated audit status information as outlined below to reflect a more accurate assessment of the progress we have made in resolving external audits, as well as the steps we have taken to mitigate risk associated with the audits that remain open.

Status of Audit Recommendations. With respect to the specific audits referred to in the Alert Memo, we agree that the majority of the 93 external-audit recommendations have not been fully resolved within the six-month timeframe set forth in OMB Circular A-50. The status of these recommendations as of June 3, 2010 is as follows:

- 20 Fully resolved (22%)
- 17 Substantially resolved, close-out pending (18%)
- 7 Work ongoing, close-out within 45 days (13%)
- 38 Work ongoing, close-out within 3 months (68%)
- 11 Work ongoing, close-out within 4 months (12%)

The status of the 56 recommendations where work is ongoing is further detailed below:

- 05H0016 – The Office of the Chief Financial Officer (OCFO), the Office of the General Counsel (OGC), and the Office of Post-Secondary Education (OPE) are working to resolve the questioned cost items in this audit (7 recommendations). We anticipate that this audit will be resolved by July 23. Questioned costs in the amount of \$85,705 are expected to be recovered from the grantee by June 25th. The Program Determination Letter (PDL) is currently being drafted and OCFO expects to share this document with OIG for its review shortly. To mitigate risks associated with this award while the grantee addresses on-going deficiencies, the Department froze the funding to this grantee for a period of approximately 18 months.
- 04H0011 – The Office of Elementary and Secondary Education (OESE) is revising the PDL and anticipates that the audit (10 recommendations) will be resolved by August 30. The Department convened an ED-wide task force to provide oversight and targeted assistance to this grantee. Special conditions are placed on all grant awards to this grantee and quarterly progress reviews are being conducted. Task force efforts have resulted in improving the grantee’s procurement process and policies, which should mitigate the risk of recurring procurement issues.
- 06E0008 and 05H0010 – Due to the scale and complexity of the issues involved, we anticipate that the PDLs for these two audits (7 and 21 recommendations respectively) will be issued by August 30. It should be noted that, resolution of the Orleans Parrish issues has been hindered by the aftermath of the Katrina disaster. The Department and the States are providing additional oversight of these two grantees, such as interim fiscal managers and quarterly progress reviews by ED, to mitigate future risk. Both grantees have been declared high risk. ED-wide teams have provided on-site technical assistance and are working with the State education agencies involved to provide the necessary oversight and assistance required to rebuild failing management infrastructures that led to the findings. Both grantees have new management structures in place as a result of State actions and legislation.
- 06H0002 – OCFO is working to resolve this audit (11 recommendations). We anticipate that the PDL will be issued by September 30. OCFO is currently focused on resolving disagreements among OCFO, OIG, and OGC on how to proceed with resolution. It should be noted that the ongoing risk associated with this grantee is mitigated because the grantee is not currently a recipient of any Department funds and is not receiving ARRA funds. OCFO is working with the Office of Innovation and Improvement (OII) and OESE to ensure that appropriate controls are put in place to address all financial risks associated with this grantee.

Process and Systems Changes. In the course of addressing the issues raised in the memorandum, we have determined that our current Audit Accountability and Resolution Accounting System (AARTS) does not necessarily provide a complete view of the actions taken to date with respect to the implementation of corrective actions or risk mitigation activities and that the timeliness of audit resolution might potentially be improved by more coordinated tracking. Therefore, we intend to review our overall audit resolution process and as part of this review, we will consider changes to AARTS to enable more timely and complete tracking of audits.²

Any changes made to improve the process for tracking and resolving audits in a more timely manner would pertain to all programs, including the funds made available under ARRA.

Under the leadership of OCFO, the Risk Management Service, OGC, and the Office of the Deputy Secretary, the Department looks forward to working with you to address the Alert Memo's recommendations. If you have any questions, please do not hesitate to contact either one of us.

² The AARTS maintenance contract will be re-competed in FY 2011.

**Prior OIG Internal Audit Reports with
Unimplemented Recommendations in Programs Funded under the Recovery Act
As of 2/28/2009 and 4/30/2010**

Control Number	Internal Audit Title	Office³	Issue Date	Total # of Rec.	2/28/09 Unimpl. Rec.	4/30/10 Unimpl. Rec.
04I0040	The Government of the Virgin Islands Has Not Fully Implemented a Credible Financial Management System to Manage Department Funds (Alert Memorandum) **	RMS	05/14/08	4	3	3
06H0001	Selected Portions of the U.S. Department of Education's Oversight of the Consolidated State Performance Reports	OESE	04/04/08	6	4	0
02H0018	Teach for America, Inc., Review of the U.S. Department of Education Discretionary Grant Awards (Alert Memorandum) **	OII	12/12/07	1	1	0
11H0001	Common Origination Disbursement System Security Controls **	FSA	09/27/07	68	1	0
11H0002	Information Security Risk – Keylogger Vulnerability (Alert Memorandum) **	OCIO	07/02/07	3	2	1
11F0005	Effectiveness of the Department's Financial Management Support System Oracle 11i Reimplementation	OCIO	06/26/07	9	5	0
19F0025	Controls Over Excessive Cash Drawdowns by Grantees	OCIO	12/18/06	9	2	2
11G0004	Department's Online Privacy Policy and Protection of Sensitive Information Review**	OCIO	09/29/06	2	1	0
11G0002	System Security Review of the Education Data Center FY 2006**	OCIO	09/28/06	14	5	0
11F0006	Department of Education's IT Contingency Planning Program – Asset Classification**	OCIO	01/31/06	4	4	0
07F0014	The U.S. Department of Education's Activities Relating to Consolidating Funds in Schoolwide Programs Provisions	OESE	12/29/05	4	4	0
11F0002	Department of Education's Incident Handling Program and EDNet Security Controls**	OCIO	10/06/05	9	6	0
	Total			133	38	6

* See Attachment C for office acronym definitions

** Reports not publicly posted on the website, but available to Department officials upon request

**Prior OIG External Audit Reports with
Unresolved Recommendations in Programs Funded under the Recovery Act
As of 2/28/2009 and 4/30/2010**

Control Number	External Audit Title <i>(Click on title to link to report on website)</i>	Office	Issue Date	Total Rec.	2/28/09 Unresol. Rec.	4/30/10 Unresol. Rec. **
06H0002	Review of Project GRAD USA's Administration of Fund for the Improvement of Education Grants	PAG	07/21/08	11	11	11
05H0010 *	The School District of the City of Detroit's Use of Title I, Part A Funds Under the No Child Left Behind Act of 2001	OESE	07/18/08	21	21	21
05H0016 *	Saint Paul Public Schools' Teacher Quality Enhancement Grant	PAG	05/23/08	7	7	7
04H0011 *	Puerto Rico Department of Education's Administration of Contracts Awarded to Excellence in Education, Inc. and the University of Puerto Rico's Cayey Campus	OESE	05/20/08	10	10	10
09H0014 *	San Diego Unified School District's Use of Federal Funds for Costs of Its Supplemental Early Retirement Plan	OCFO	12/18/07	1	1	0
02G0020 *	Elizabeth School District Allowability of Title I, Part A Expenditures	OESE	10/09/07	14	14	14
05G0031 *	Columbus City School District's Compliance with Financial Accountability Requirements for Its Expenditures Under Selected No Child Left Behind Act Programs	OESE	06/20/07	8	8	0
06F0019 *	Bureau of Indian Affairs Administration of Individuals with Disabilities Education Act	OSERS	03/28/07	6	6	6
03F0010	The Education Leaders Council's Drawdown and Expenditure of Federal Funds	ICG	01/31/06	12	12	0
02E0020 *	The Virgin Islands Department of Health's Administration of the Infants and Toddlers Program	OSERS	09/28/05	17	17	17
06E0008 *	Title I Funds Administered by Orleans Parish School Board	OESE	02/16/05	7	7	7
	Total			114	114	93 **

* Indicates external entities that subsequently received funding under the Recovery Act. These entities represented 91 of the 114 total recommendations in the prior memorandum, 82 of which (90 percent) remain unresolved as of 4/30/2010.

** In its response (see Attachment A), the Department reported audit resolution actions in process or taken to date for some of these audits as follows—20 of the 93 recommendation had been resolved, 17 had been substantially resolved with closeout pending, and 56 recommendations were in the process of resolution. The Department did not report that corrective actions were completed for any of these audits. As such the detailed information included in this chart was not updated.

**Recent Recovery Act and Related OIG
Internal and External Audit Reports
(Not included in the March 19, 2009 OIG Recovery Act Advisory Memorandum)**

Control Number	Internal Audits	Office	Issue Date	Total Rec.
A19H0010	Audit of the Department's Process to Resolve Lapsed Funds	OCFO	8/24/2009	3

Control Number	External Audits	Office	Issue Date	Total Rec.
A02J0006	New York State System of Internal Control Over American Recovery and Reinvestment Act Funds	OESE	11/10/2009	7
A02J0009	New York State Local Educational Agencies Systems of Internal Control Over American Recovery and Reinvestment Act Funds	OESE	2/17/2010	16
A03H0010	Philadelphia School District's Controls Over Federal Expenditures	OESE	1/15/2010	27
A03J0010	Commonwealth of Pennsylvania Recovery Act, Audit of Internal Controls over Selected Funds	OESE	3/15/2010	8
A04H0017	Puerto Rico Department of Education's Administration of Title I Services Provided to Private School Students	OESE	10/9/2008	15
A04I0041	Puerto Rico Department of Education's Compliance with Title I – Supplemental Educational Services	OESE	4/21/2009	8
A04I0042	Virgin Islands Department of Education's Administration of Property Purchased with Federal Funds	OESE	8/17/2009	10
A04J0004	Virgin Islands Department of Education's Current Efforts to Address Prior Audit Findings	OESE	11/23/2009	3
A04J0009	Puerto Rico Recovery Act Audit, Vocational Rehabilitation Administration	OSERS	12/14/2009	11
A04J0010	Tennessee Recovery Act Audit, Internal Controls over Selected Funds	OESE	12/15/2009	2
A05H0025	Harvey Public Schools District's Use of Selected U.S. Department of Education Grant Funds	OESE	11/25/2008	9

Control Number	External Audits (Continued)	Office	Issue Date	Total Rec.
A05I0016	Illinois State Board of Education's Oversight of Subrecipients	OESE	9/23/2009	9
A05J0011	Systems of Internal Control Over Selected ARRA Funds in the State of Indiana	OESE	1/14/2010	7
A05J0012	Systems of Internal Control Over Selected ARRA Funds in the State of Illinois	OESE	2/23/2010	4
A06H0011	Adequacy of Fiscal Controls Over the Use of Title I, Part A Funds at Dallas Independent School District	OESE	4/14/2009	6
A06H0017	Adequacy of Houston Independent School District's Fiscal Controls over Accounting for and Using Federal Funds	OESE	6/30/2009	9
A06J0013	Systems of Internal Control Over Selected ARRA Funds in the State of Texas	OESE	1/27/2010	5
A07H0017	St. Louis Public School District's Use of Selected U.S. Department of Education Grant Funds	OESE	9/29/2008	7
A09H0019	Los Angeles Unified School District's Procedures for Calculating and Remitting Interest Earned on Federal Cash Advances	OCFO	12/2/2008	15
A09H0020	California Department of Education Advances of Federal Funding to Local Educational Agencies	OCFO	3/9/2009	10
A09J0004	Colorado Department of Education's Use of Federal Funds for State Employee Personnel Costs	OESE	2/26/2010	5
A09J0006	State and Local Controls over ARRA Funds in California	OESE	1/15/2010	7
	Total Internal/External Audits – 23 Reports			203

Acronyms/Abbreviations Used in this Report

AARTS	Audit Accountability and Resolution Tracking System
ATS	Audit Tracking System
Department	U.S. Department of Education
ED	U.S. Department of Education
EDNet	Education Network
FAC	Federal Audit Clearinghouse
FIPAO	Financial Improvement and Post Audit Operations
FSA	Federal Student Aid
GAO	Government Accountability Office
ICG	Indirect Cost Group, Office of the Chief Financial Officer
IT	Information Technology
OCFO	Office of the Chief Financial Officer
OCIO	Office of the Chief Information Officer
OESE	Office of Elementary and Secondary Education
OIG	Office of Inspector General
OII	Office of Innovation and Improvement
OMB	Office of Management and Budget
OSERS	Office of Special Education and Rehabilitation Services
PAG	Post Audit Group, OCFO
Recovery Act	<i>American Reinvestment and Recovery Act of 2009</i>
RMS	Risk Management Service



UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF INSPECTOR GENERAL

The Inspector General

March 19, 2009

MEMORANDUM

TO: Tony Miller
Chief Operating Officer
U.S. Department of Education

FROM: Mary Mitchelson /s/
Acting Inspector General

SUBJECT: *Recovery Act Advisory Memorandum*
Unimplemented Recommendations Relevant to the Programs in the *American Recovery and Reinvestment Act of 2009*

The purpose of this *Recovery Act Advisory Memorandum* is to summarize U.S. Department of Education (Department), Office of Inspector General (OIG) audit recommendations that include issues relevant to the programs included in the *American Recovery and Reinvestment Act of 2009* (Recovery Act) that have not yet been implemented. This memo lists audit reports that are overdue for resolution or for which corrective actions have not been completed, and highlights selected recommendations related to Recovery Act programs that illustrate the types of issues OIG has noted.

Background

Office of Management and Budget (OMB) Memorandum, M-09-10, *Initial Implementing Guidance for the American Recovery and Reinvestment Act of 2009*, dated February 18, 2009, contains actions that Federal agencies must take to meet the objectives and implement the Act effectively. Section 3 of the memorandum is entitled, "Governance and Risk Management," and includes the following under Item 3.8 related to risk mitigation:

Agencies should determine whether final action has been taken regarding weaknesses or deficiencies disclosed by prior audits and investigations in program areas under which Recovery Act funds are authorized. If final action has not been completed, agencies should: (1) expedite such action to preclude the continuance of such weaknesses or deficiencies in the administration of Recovery Act funded programs; or (2) provide an explanation of why such corrective actions cannot or should not be taken in the administration of Recovery Act funded programs.

OMB Circular A-50 (Circular), *Audit Followup*, requires agencies to establish systems to assure the 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.” The Circular further states, “Resolution shall be made within a maximum of six months after issuance of a final report Corrective action should proceed as rapidly as possible.”

The Circular provides definitions as follows:

- **Audit Resolution** – The point at which the audit organization and agency management or contracting officials agree on action to be taken on reported findings and recommendations.
- **Corrective Action** – Measures taken to implement resolved audit findings and recommendations.

The Government Accountability Office, *Standards for Internal Control in the Federal Government*, issued November 1999, states, “Monitoring of internal control should include policies and procedures for ensuring that the findings of audits and other reviews are promptly resolved. Managers are to (1) promptly evaluate findings from audits and other reviews... (2) determine proper actions in response to findings and recommendations ... and (3) complete, within established timeframes, all actions that otherwise correct or resolve the matters brought to management’s attention.”

Summary Information on Recommendations Not Implemented

For this memorandum, OIG has identified recommendations from its audit reports that include issues relevant to Recovery Act programs that have not yet been implemented as of February 28, 2009. We included only those OIG reports issued up through August 31, 2008, to focus on those recommendations that are overdue for resolution; in other words, recommendations made in reports issued more than six month ago. Information on the status of resolution and corrective action implementation was extracted from the Department’s Audit Accountability Resolution Tracking System (AARTS). Information on the numbers of external audit recommendations and dollar amount of the findings included in those reports was determined from OIG’s Audit Tracking System. Resolution and recommendation status was verified in AARTS as of March 11, 2009.

- **Internal Audits** – As of February 28, 2009, a total of 38 recommendations from internal audits relevant to Recovery Act programs had not yet been implemented. AARTS provides recommendation-level detail for internal reports. Of these recommendations, all 38 were resolved. Thirty-one of the recommendations were from reports issued more than a year ago; 22 of the recommendations were from reports issued more than 2 years ago (as of February 28, 2009). The oldest recommendations that had not been implemented dated from reports issued in 2005.

- **External Audits** – As of February 28, 2009, a total of 114 recommendations were listed for external audits relevant to Recovery Act programs that were not resolved. AARTS does not provide recommendation-level detail for external audits, so information is not readily available as to which recommendations for resolved external audits have been implemented (barring review of Department or auditee files to follow up on each recommendation). Our review was therefore limited to unresolved external audits. These audits included findings totaling over \$492 million. Sixty-five of the 114 unresolved recommendations were from reports issued more than a year ago; 36 of the recommendations were from reports issued more than 2 years ago. The oldest recommendations that had not yet been resolved by the Department dated from reports issued in 2005.

In total, 152 recommendations had not yet been implemented from internal audits and unresolved external audits that contain issues relevant to Recovery Act programs. A list of the internal/external reports, detailing the numbers of recommendations not yet implemented and dollar value of findings in external audit reports, is provided as Attachment A to this memorandum. Links are provided in the attachment to the reports on the OIG website.

Highlighted Recommendations Not Yet Implemented/Resolved

In an effort to assist the Department as it implements the Recovery Act, OIG has highlighted significant recommendations that are illustrative of the types of issues OIG has noted that are relevant to Recovery Act programs. A high-level summary of the unimplemented recommendations for each report is provided below, as well as a link to the report on the OIG website.

Internal Audit Recommendations

As stated above, as of February 28, 2009, corrective actions for a total of 38 recommendations for internal audits had not been implemented. The unimplemented recommendations relate to data quality and reporting, grant monitoring – including monitoring of funds drawn by grantees – and information technology (IT) security and management. Given the magnitude of funds made available under the Recovery Act, these critical areas will require heightened management attention.

- **Selected Portions of the U.S. Department of Education’s Oversight of the Consolidated State Performance Reports, April 4, 2008** – OIG recommended that the Department continue to impress upon the states the importance of data quality and the need to provide regular guidance, training, and monitoring of their local educational agencies. OIG also recommended that the Department publish a list of data definitions that states will be required to use in No Child Left Behind reports and include procedures on how to handle different classifications of students. OIG further recommended that the Department continue to develop and implement written policies and procedures to monitor states that are in the process of developing data collection systems and

periodically review its procedures to monitor the accuracy of data used by the states and districts to compute graduation rates and make any necessary adjustments. Although the focus of this audit was on the Department's oversight of graduation and dropout rates to ensure the rates were supported by reliable information, data quality and reliability are critical to the Recovery Act programs and the accuracy of reporting on Recovery.gov.

Link to report:

<http://www.ed.gov/about/offices/list/oig/auditreports/fy2008/a06h0001.pdf>.

- **Controls over Excessive Cash Drawdowns by Grantees, December 18, 2006** – OIG recommended improvements to the Department's monitoring of cash drawdowns by grantees. OIG recommended that the Department design additional fields in the payment system to allow staff to enter resolution information for potentially excessive drawdowns so that, if resolved, the grants do not appear on future reports until the next threshold is reached. OIG also recommended that the Department develop and implement a method to communicate payment flag information, including the reasons the flag was imposed or cleared, to all program offices responsible for monitoring additional grants awarded to the same recipient.
Link to report: <http://www.ed.gov/about/offices/list/oig/auditreports/a19f0025.pdf>
- **Information Technology Security and Management, Reports issued between October 6, 2005, and August 31, 2008** – Annually, OIG issues reports related to the security of the Department's IT systems, and the Department's management of those systems and programs. The Department's network and these systems are used to provide funds to grantees and are also used for tracking and monitoring grantees. Security of these IT assets is critical to allow effective management of all Department programs, including management of the funds provided under the Recovery Act. As of February 28, 2009, recommendations related to incident handling, contingency planning, security controls, on-line privacy policy, and the Common Origination and Disbursement system⁴ remain unimplemented. Because of the sensitive nature of the issues discussed, IT security and similar audit reports are generally not posted on OIG's website but are available to Department officials upon request.

External Audit Recommendations

As stated above, as of February 28, 2009, corrective actions for a total of 114 unresolved recommendations for external audit reports had not been implemented. A selection of unresolved reports related to Recovery Act programs, and highlights of the more significant recommendations for those reports, are provided below. The audits highlighted include unresolved recommendations related to lack of adequate documentation to support costs charged to grants, weaknesses in accounting systems and internal controls, using Federal funds to supplant non-Federal funds, weaknesses in contract monitoring, conflicts of interest, and training needed for grant and contract administration staff. Given the magnitude of funds made available under the Recovery Act, these critical areas will require heightened management attention.

⁴ The Common Origination and Disbursement system supports disbursements made under the Pell Grant Program.

The external reports below include additional recommendations that are not highlighted here. Because the reports have not yet been resolved, all recommendations in the reports remain unimplemented. Please see the links provided for additional recommendations in the reports.

- **Project GRAD USA's Administration of Fund for the Improvement of Education Grants, July 21, 2008** – OIG recommended review of \$13.8 million charged as pre-award costs to the grant to identify those costs that meet the criteria for a pre-award cost. For the eligible pre-award costs, OIG recommended the grantee provide adequate documentation to support allowability; for the remaining costs, OIG recommended the grantee provide adequate documentation supporting the allowability of the cost as if the cost had been claimed in the appropriate grant period. OIG further recommended that any amounts that could not be adequately supported be returned to the Department. OIG also recommended that the grantee develop and implement policy and procedures that provide reasonable assurance that documentation adequately supports expenses charged. Link to report: <http://www.ed.gov/about/offices/list/oig/auditreports/fy2008/a06h0002.pdf>
- **The School District of the City of Detroit's Use of Title I, Part A Funds Under the No Child Left Behind Act of 2001, July 18, 2008** – OIG made a number of recommendations related to the District's administration of Title I funds. OIG recommended that training be provided to officials regarding the allowability of costs charged to the program and that the District either provide adequate documentation to support \$47.5 million in projected costs or return any portion of the amount for which it does not provide adequate documentation. Recommendations were also made regarding appropriately accounting for multiple cost activity charges, approval of journal entries, and developing and implementing policies and procedures to ensure proper controls over Federal funds. OIG also recommended that the Michigan Department of Education provide greater oversight of Federal grant funds that are distributed to the District. Link to report: <http://www.ed.gov/about/offices/list/oig/auditreports/fy2008/a05h0010.pdf>
- **Puerto Rico Department of Education (PRDE) Administration of Contracts Awarded to Excellence in Education, Inc. and the University of Puerto Rico's Cayey Campus, May 20, 2008** – OIG made a number of recommendations to improve PRDE's procurement and contract administration processes. The recommendations included actions to ensure employees' independence from contractors, to establish adequate controls to ensure compliance with contract requirements and regulations, to ensure payments made are proper, and to provide training and oversight to PRDE staff responsible for overseeing contracts. Acquisition planning and contract administration are significant areas stressed in the OMB Guidance for the Recovery Act. Link to report: <http://www.ed.gov/about/offices/list/oig/auditreports/fy2008/a04h0011.pdf>
- **Elizabeth Public School District Allowability of Title I, Part A Expenditures, October 9, 2007** – OIG recommended that the District be required to provide support for over \$822,796 in expenditures or return the funds with applicable interest and provide support that Title I funds were not used by the District to supplant non-Federal funds or return \$505,737 with applicable interest. OIG also recommended that the District

implement internal control procedures to provide reasonable assurance that Title I is managed in accordance with laws and regulations, including adequate segregation of duties. Link to report:

<http://www.ed.gov/about/offices/list/oig/auditreports/fy2008/a02g0020.pdf>

- **Individuals with Disabilities Education Act (IDEA), Part B Requirements at Schools under the Supervision of the Department of the Interior's (Interior) Bureau of Indian Affairs (BIA), March 28, 2007** – OIG issued this report to summarize the results noted in five audits. OIG recommended that the Department obtain assurance from BIA officials that the \$111 million of IDEA, Part B funds were used to deliver educational assistance to the children with disabilities at all of the BIA funded schools and return any funds not used for those purposes. OIG also recommended that the Department coordinate with Interior to require BIA to account for the remaining \$217 million in other Department funds it received during the audit period or return those funds to the Department. OIG made additional recommendations regarding documentation of services provided, establishing written accounting policies and procedures, and ensuring problems identified in the individual school audits are corrected at all BIA-funded schools. Link to report:
<http://www.ed.gov/about/offices/list/oig/auditreports/a06f0019.pdf>
- **Virgin Islands Department of Health (VIDH) Administration of the Infants and Toddlers Program, September 28, 2005** – VIDH established a contractual arrangement with a third-party fiduciary to manage the Individuals with Disabilities Education Act (IDEA), Part C grants. OIG evaluated the effectiveness of this arrangement and the status of IDEA, Part C grant funds. OIG recommended that the fiduciary follow applicable cash management requirements, correct over \$201,576 in incorrectly charged items, and either provide support for expenditures or return \$99,512 to the Federal government for overdraws of the grant. Link to report:
<http://www.ed.gov/about/offices/list/oig/auditreports/a02e0020.pdf>
- **Title I Funds Administered by the Orleans Parish School Board , February 16, 2005** – OIG recommended the School Board establish a formal system of management controls to ensure costs charged to Title I and other Federal grants are properly accounted for and used in accordance with applicable laws and regulations. OIG also recommended establishment of proper controls in the School Board's accounting system and improvements to its documentation, records storage, and records retention and retrieval procedures. Link to report:
<http://www.ed.gov/about/offices/list/oig/auditreports/a06e0008.pdf>

Suggestions

Resolving audits and implementing corrective actions are important internal controls to ensure that operations are improved and deficiencies noted are corrected and do not continue. Timely audit resolution and corrective action implementation assists in safeguarding the funds managed

by the Department and provided to its recipients. OIG is prepared to assist the Department in providing additional information it may need to expedite the process.

As the Department implements the Recovery Act and develops its risk mitigation processes, OIG suggests that the Department's Chief Operating Officer:

1. Ensure Principal Offices take timely action to resolve and implement corrective actions for internal audits and to resolve and provide management decisions to external entities so that they may begin to take corrective action. Especially for those reports involving Recovery Act programs, weaknesses identified in OIG reports, including potential inappropriate use of funds, may continue until the Department issues its management decision to the external entity.
2. In addition to OIG reports, evaluate *Single Audit Act* and compliance audit reports received to identify issues relevant to Recovery Act programs and ensure Principal Offices take timely action to resolve the audits and instruct the external entities on corrective actions required.
3. When considering new grant or contract awards, OIG suggests that the Department consider results of OIG audits, as well as any applicable single or compliance audits, of the program and on any individual grant recipients to address weaknesses. If OIG has noted problems with a grantee's management of education funds – whether in the grant program under consideration or another program – OIG suggests the Department consider carefully whether that entity should receive additional education funds, whether restrictions should be included in the grant for that entity to allow closer monitoring of the use of grant funds, and whether other risk mitigation strategies should be employed.

No response is required to this memorandum. The information is provided to assist the Department in meeting its responsibilities under the Recovery Act. Should you have any questions or need any further information, please contact Keith West, Assistant Inspector General for Audit, at (202) 245-7041.

cc: Thomas Skelly, Acting Chief Financial Officer
Linda Stracke, Financial Improvement and Post Audit Operations, Office of the Chief
Financial Officer (OCFO)
Insuk Chin, Post Audit Group, OCFO

Attachment

Audit Reports with Unimplemented Recommendations Relevant to Recovery Act Programs

Internal Audits: (No resolution date indicates the audit is not yet resolved)

Control Number	Audit Title <i>(Click on title to link to report on website)</i>	Office⁵	Issue Date	Audit Resolution Date	Total # Rec	# Un-impl. Rec.
04I0040	The Government of the Virgin Islands Has Not Fully Implemented a Credible Financial Management System to Manage Department Funds (Alert Memorandum) *	RMS	05/14/2008	08/08/2008	4	3
06H0001	Selected Portions of the U.S. Department of Education's Oversight of the Consolidated State Performance Reports	OESE	04/04/2008	12/22/2008	6	4
02H0018	Teach for America, Inc., Review of the U.S. Department of Education Discretionary Grant Awards (Alert Memorandum) *	OII	12/12/2007	09/30/2008	1	1
11H0001	Common Origination and Disbursement System Security Controls *	FSA	09/27/2007	11/20/2007	68	1
11H0002	Information Security Risk – Keylogger Vulnerability (Alert Memorandum) *	OCIO	07/02/2007	09/20/2007	3	2
11F0005	Effectiveness of the Department's Financial Management Support System Oracle 11i Re-Implementation	OCIO	06/26/2007	05/12/2008	9	5
19F0025	Controls Over Excessive Cash Drawdowns by Grantees	OCIO	12/18/2006	09/28/2007	9	2
11G0004	Department's Online Privacy Policy and Protection of Sensitive Information Review*	OCIO	09/29/2006	11/17/2006	2	1
11G0002	System Security Review of the Education Data Center FY 2006*	OCIO	09/28/2006	04/09/2007	14	5
11F0006	Department of Education's IT Contingency Planning Program – Asset Classification*	OCIO	01/31/2006	05/25/2006	4	4
07F0014	The U.S. Department of Education's Activities Relating to Consolidating Funds in Schoolwide Programs Provisions	OESE	12/29/2005	07/10/2007	4	4
11F0002	Department of Education's Incident Handling Program and EDNet Security Controls*	OCIO	10/06/2005	11/16/2005	9	6
	Total Internal Audits				133	38

* = Reports not posted on the website but available upon request.

⁵ See last page of attachment for definitions of office acronyms

External Audits: (All external audits listed are unresolved, all recommendations are unimplemented)

Control Number	Audit Title <i>(Click on title to link to report on website)</i>	Office	Issue Date	Total # Rec	Total Value of Findings
06H0002	Review of Project GRAD USA's Administration of Fund for the Improvement of Education Grants	PAG	07/21/2008	11	\$31,384,603
05H0010	The School District of the City of Detroit's Use of Title I, Part A Funds Under the No Child Left Behind Act of 2001	OESE	07/18/2008	21	\$53,618,859
05H0016	Saint Paul Public Schools' Teacher Quality Enhancement Grant	PAG	05/23/2008	7	\$124,646
04H0011	Puerto Rico Department of Education's Administration of Contracts Awarded to Excellence in Education, Inc. and the University of Puerto Rico's Cayey Campus	OESE	05/20/2008	10	\$189,011
09H0014	San Diego Unified School District's Use of Federal Funds for Costs of Its Supplemental Early Retirement Plan	OCFO	12/18/2007	1	\$1,904,918
02G0020	Elizabeth School District Allowability of Title I, Part A Expenditures	OESE	10/09/2007	14	\$1,946,925
05G0031	Columbus City School District's Compliance with Financial Accountability Requirements for Its Expenditures Under Selected No Child Left Behind Act Programs	OESE	06/20/2007	8	\$48,158
06F0019	Bureau of Indian Affairs Administration of Individuals with Disabilities Education Act	OSERS	03/28/2007	6	\$328,000,000
03F0010	The Education Leaders Council's Drawdown and Expenditure of Federal Funds	ICG	01/31/2006	12	\$760,570
02E0020	The Virgin Islands Department of Health's Administration of the Infants and Toddlers Program	OSERS	09/28/2005	17	\$327,577
06E0008	Title I Funds Administered by Orleans Parish School Board	OESE	02/16/2005	7	\$73,936,273
	Total External Audits			114	\$492,241,540

Office Acronyms:

FSA	Federal Student Aid
ICG	Indirect Cost Group, Office of the Chief Financial Officer
OCFO	Office of the Chief Financial Officer
OCIO	Office of the Chief Information Officer
OESE	Office of Elementary and Secondary Education
OII	Office of Innovation and Improvement
OSERS	Office of Special Education and Rehabilitation Services
PAG	Post Audit Group, OCFO
RMS	Risk Management Service

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