



UNITED STATES DEPARTMENT OF EDUCATION  
OFFICE OF INSPECTOR GENERAL

AUDIT SERVICES

June 17, 2015

**Control Number**  
**ED-OIG/A19P0001**

James W. Runcie  
Chief Operating Officer  
Federal Student Aid  
U.S. Department of Education  
830 First Street, N.E.  
Washington, DC 20202

Dear Mr. Runcie:

This **Final Audit Report**, titled *Audit of the Followup Process for External Audits in Federal Student Aid*, presents the results of our audit. This audit was part of a review of the audit followup process for Office of Inspector General (OIG) external audits being performed in several principal offices. The objective of the audit was to evaluate the effectiveness of the Department of Education's (Department) process to ensure that external auditees implement corrective actions as a result of OIG audits. A summary report will be provided to the Chief Financial Officer, the Department's audit followup official, upon completion of the audits in individual principal offices.

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## BACKGROUND

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Office of Management and Budget (OMB) Circular A-50, "Audit Followup," provides the requirements for establishing systems to assure prompt and proper resolution and implementation of audit recommendations. The Circular provides that audit followup is an integral part of good management, a shared responsibility of agency management officials and auditors, and management's corrective action on resolved findings and recommendations is essential to improving the Government's effectiveness and efficiency. Agencies are responsible for establishing systems that provide a complete record of actions taken on findings and recommendations to assure that audit recommendations are promptly and properly resolved.

The Department established the "Handbook for the Post Audit Process" (OCFO-01), dated June 22, 2007 (Handbook), to provide policies and procedures for the resolution and followup of audits of Department programs, activities, and functions. The audit resolution process begins with the issuance of a final audit report. External audits are of external entities that receive funding from the Department, such as State educational agencies, local educational agencies, institutions of higher education, contractors, and nonprofit organizations. External OIG audit reports generally include recommendations for Department management to require

the external entity to take corrective action. These recommendations may be either monetary, which recommend that the entity return funds to the Department, or nonmonetary, which recommend that the entity improve operations or internal controls.

An external audit is considered resolved when the Department issues a program determination letter to the external entity that is agreed to by the OIG. Upon resolution, the Department is responsible for followup to ensure that corrective actions are actually taken. An audit is considered closed when the Department ensures that all corrective actions have been implemented including funds repaid or settlement made.

The Handbook provides that Assistant Secretaries (or equivalent office head<sup>1</sup>) with cooperative audit resolution or related responsibilities must ensure that the overall cooperative audit resolution process operates efficiently and consistently. An Assistant Secretary may delegate in writing part or all of the cooperative audit resolution responsibilities to an Action Official(s) (AO) within the Assistant Secretary's organization.

The Handbook notes specific responsibilities of the Assistant Secretaries or designated AOs that include:

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

The Handbook specifies that accurate records must be kept of all audit followup activities, including all correspondence, documentation and analysis of documentation. The Department's Audit Accountability and Resolution Tracking System (AARTS) is a web-based application designed to assist Department management with audit followup and closure.

Within Federal Student Aid (FSA), the Program Compliance group is responsible for the resolution and followup of external OIG audits. Specifically, Program Compliance's School Eligibility Service Group is responsible for audits related to the oversight of schools that participate in the Title IV student financial assistance programs, and the Financial Institution Oversight Service Group is responsible for audits related to the oversight of guaranty agencies, lenders, and servicers participating in Federal student loan programs.

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<sup>1</sup> In FSA, the equivalent office head is the Chief Operating Officer.

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## AUDIT RESULTS

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We found that FSA's audit followup process was not always effective. Specifically, we found that FSA did not close audits timely and did not adequately maintain documentation of audit followup activities. Between October 1, 2008 and September 30, 2013, we noted that while FSA had resolved a total of 36 external OIG audit reports during this time period, only 1 audit had been closed. As of March 2014, the start of our audit fieldwork, we noted that 25 of these 36 audits (69 percent) had been in resolved status for more than 2 years; 9 of the 25 audits (36 percent) had been in resolved status for over 4 years. The total of the monetary recommendations associated with the 36 resolved audits was \$1,307,921,789.

Further, we found that FSA did not adequately maintain and was not always able to provide documentation that showed requested corrective actions were completed or were being monitored for completion. We reviewed audit followup activities for a judgmental sample of 10 out of the 36 external OIG audits of FSA programs in our review. Of the 10 audits in our sample, 1 had been closed prior to our audit; 6 were closed subsequent to the start of our audit fieldwork. For these 7 audits, FSA determined that 26 recommendations required corrective actions, to include \$20.1 million in monetary corrective actions. FSA was initially unable to provide documentation to support the completion of corrective actions for 21 out of the 26 recommendations (81 percent) for which corrective actions were required. FSA subsequently provided documentation that supported completion of corrective actions for 12 of these recommendations. FSA was ultimately unable to provide support that corrective action was taken for the remaining 9 recommendations (43 percent), to include \$503,927 in monetary corrective actions. Additionally, for two of the three audits that were not yet closed, we were not provided with documentation to support that any followup activities were taking place since the audits were resolved. Resolution dates for these audits were August 2010 and March 2011.

Based upon the above, we determined that FSA did not sufficiently implement the corrective actions it reported taking in response to the recommendations made in our prior audit of FSA's external audit followup process.<sup>2</sup>

Not ensuring that corrective actions are taken as quickly as possible allows identified deficiencies to continue to exist. By not obtaining or maintaining appropriate documentation to show requested corrective actions were completed, FSA did not have assurance that identified deficiencies were corrected. As such, the risk remains that related programs are not effectively managed and funds are not being used as intended.

FSA stated that it disagreed in part with the finding but agreed with the recommendations and noted significant actions that it has taken or plans to undertake to address them. FSA disagreed that it did not have an effective audit followup process, noting that it was able to close a significant number of audits within the last few months because staff had conducted the necessary followup and obtained documentation of completion of corrective actions and repayment of liabilities.

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<sup>2</sup> "Audit Followup Process for External Audits in Federal Student Aid," ED-OIG/A19E0002, September 16, 2004.

FSA’s comments and our response to those comments are summarized at the end of the finding. FSA also provided one technical comment that we considered and addressed, as appropriate, in the body of the report. The full text of FSA’s response is included as Attachment 3 to this report.

**FINDING NO. 1 – Federal Student Aid’s Audit Followup Process Was Not Always Effective**

We found that improvements are needed in FSA’s audit followup process. Specifically, we found that FSA did not close audits timely and did not adequately maintain documentation of audit followup activities.

*Timeliness of Audit Closure*

We reviewed the Department’s AARTS data to determine the number of external OIG audits that were closed between October 1, 2008 and September 30, 2013. We noted that while FSA had resolved a total of 36 external OIG audit reports during this time period, only 1 audit had been closed. As of March 2014, the start of our fieldwork, we noted that 25 of these 36 audits (69 percent) had been in resolved status for more than 2 years; 9 of the 25 audits (36 percent) had been in resolved status for over 4 years. The total of the monetary recommendations associated with the 36 resolved audits was \$1,307,921,789 as depicted in Table 1.

**Table 1. Count and Percentage of FSA Resolved Audits by Number of Elapsed Years as of March 19, 2014**

<u>Elapsed Years</u>	<u>Number of Audits</u>	<u>Percentage of Audits</u>	<u>Total of Monetary Recommendations</u>	<u>Percentage of Monetary Recommendations</u>
More than 4 years	9	25%	\$11,753,526	1%
3 to 4 years	8	22%	\$13,200,247	1%
2 to 3 years	8	22%	\$38,359,599	3%
1 to 2 years	4	11%	\$26,067,548	2%
Less than 1 year	7	19%	\$1,218,540,869	93% <sup>3</sup>
<b>Total</b>	<b>36</b>		<b>\$1,307,921,789</b>	

As of January 7, 2015, 9 of the 36 audits noted above are now listed as closed in AARTS, including 6 of the 9 resolved audits (67 percent) that we selected for further review as part of this audit. FSA stated that 2 additional audits have been submitted to the Office of the Chief Financial Officer (OCFO) for closure review and approval.

<sup>3</sup> The audit *Special Allowance Payments to Nelnet for Loans Funded by Tax-Exempt Obligations* (ED-OIG/A07F0017) represents \$1,160,000,000 (95 percent) of the \$1,218,540,869 total for audits that had an elapsed time of under a year.

*Documentation of Audit Followup Activities*

FSA did not adequately maintain and was not always able to provide documentation that showed requested corrective actions were completed or were being monitored for completion. We reviewed audit followup activities for 10 external OIG audits of FSA programs. Of the 10 audits in our sample, 1 had been closed prior to our audit; 6 were closed subsequent to the start of our audit fieldwork. For these 7 audits, FSA determined that 26 recommendations required corrective actions, to include \$20.1 million in monetary corrective actions. FSA was initially unable to provide documentation to support the completion of corrective actions for 21 out of 26 recommendations (81 percent) for which corrective actions were required. FSA subsequently provided documentation that supported completion of corrective actions for 5 of these recommendations. FSA also noted that one of the audits was closed based on the terms of a settlement agreement with the auditee. We found that the agreement addressed only the required actions for the monetary recommendations contained in the Final Audit Determination Letter (FAD); it did not address the seven nonmonetary recommendations in the OIG audit report for which corrective action was required. The agreement noted that it constituted a complete and final resolution of all findings and matters covered in the FAD and audit report. There was no exception in the agreement for followup on nonmonetary corrective actions once the settlement agreement was signed. The settlement agreement officially closed the FAD and the audit report.

FSA was ultimately unable to provide support that corrective actions were taken for the remaining 9 recommendations, to include \$503,927 in monetary corrective actions. Additionally, for two of the three audits that were not yet closed, FSA was not able to provide documentation to support that any followup activities were taking place since the audits were resolved. Resolution dates for these audits were August 2010 and March 2011.

OMB Circular A-50, "Audit Followup," states that 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 nonmonetary findings and recommendations. It further states that corrective action is essential to improving the effectiveness and efficiency of Government operations and should proceed as rapidly as possible.

The Department's "Audit Resolution and Followup" (OCFO 1-106), dated January 29, 2013, states that principal offices are subject to OMB A-50 and are responsible for conducting audit followup responsibilities for external audits, including monitoring, ensuring implementation of corrective actions, and requesting audit closure.

The Department's Handbook, Section III, Chapter 5, Part B, places primary responsibility for following up on nonmonetary determinations with AOs, who must have systems in place to ensure that recommended corrective actions are implemented by auditees. Primary responsibility for following up on monetary determinations rests with OCFO but with assistance from AOs. The AO is responsible for maintaining an effective system that is documented with written procedures for following up on all corrective actions. The system must include procedures for ensuring that auditees respond to requests for documentation used to determine whether appropriate corrective action has been taken, analyzing documentation received from auditees to determine whether corrective action has been taken, and following up with auditees until all appropriate corrective action has been taken.

Further, the Handbook requires that an official file folder be established for each audit report that contains accurate records of all audit followup activities including all correspondence, documentation from the auditee substantiating the corrective action taken, results of monitoring visits, and relevant information from the next year's audit that reports whether appropriate corrective action was taken on a prior year finding.

### Reasons for Ineffective Audit Followup Process

#### *Audit Closure*

In a meeting in May 2014, the start of our fieldwork in FSA, FSA officials stated that over half of the 36 audits we identified above in March 2014 had since been closed. FSA's audit liaison officer (ALO) for external audits noted that many of the audits were initially reported as closed on the date of issuance of the FAD, stating that AARTS did not initially have a way to distinguish between the resolution and closure stages. She stated that as a result of an enhancement to AARTS that allowed for a clearer distinction between these stages, audits that had previously been recorded as closed were automatically reset to resolved status. She noted that the audit log in AARTS would show the date the audit was originally closed and added that she re-closed these audits in AARTS more than a month ago. We subsequently reviewed the audit log in AARTS for each of the 36 audits and noted that only one had been previously recorded as closed in AARTS and reset to resolved status.

Additionally, in a prior OIG audit performed of the Department's external audit followup process,<sup>4</sup> we noted that when AARTS was implemented in July 2003 it had the ability to distinguish between resolved and closed stages of an audit, unlike the prior audit tracking system, and that the AARTS user guide clearly defined what was meant by "closed" status. We did recommend that the OCFO develop clearer guidance on the status of audits that were under appeal, in collection, or awaiting reevaluation to ensure they were properly reflected as resolved and not closed. OCFO subsequently met with the ALOs from the Department's principal offices and identified 13 audits meeting these criteria that were in "closed" status that needed to be switched back to "resolved" status. The status of these audits was changed by the AARTS contractor on July 31, 2007. We noted that none of the 36 FSA audit reports noted above appear to have been subject to the July 2007 change.

During the exit conference, FSA Program Compliance officials stated the issue of timeliness was likely more related to administrative weaknesses in the closure process, rather than a lack of timeliness in the auditee taking corrective action and FSA verifying that corrective action was taken. Specifically, FSA stated that many of the selected audits were closed in terms of FSA verifying that all corrective actions have been taken by the entity. However, FSA acknowledged there were weaknesses in its process in terms of documenting and officially closing these audits in AARTS.

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<sup>4</sup> "Audit of the Department of Education's Followup Process for External Audits," ED-OIG/A19D0007, March 31, 2005.

### *Maintenance of Documentation*

During initial meetings with FSA Program Compliance officials, we were told that FSA used its Electronic Records Management System (ERM) to maintain audit followup and closure documentation. The ALO for external audits stated that once a FAD has been issued, the audit report, FAD, and Audit Clearance Document are scanned into ERM. All related followup and closure documentation is also scanned into ERM. Our review of ERM for documentation maintained for the 10 audits included in our sample revealed that this was not the case. We noted that the audit report and FAD were only maintained in ERM for three of the audits. We found no other related documentation for any of the 10 audits, to include the audits that were closed prior to the start of or during our audit. For the audit closed prior to our audit, the ALO stated that the audit closure documentation was at her desk and was not yet in ERM, even though the audit had been closed in AARTS in October 2010, almost 4 years before our May 2014 meeting with FSA. For the more recently closed audits, the Director of FSA's Financial Institution Oversight Service Group told us that she maintains applicable documentation on a local shared drive and not in ERM. We learned that additional documentation related to the auditees overseen by FSA's School Eligibility Service Group is maintained by the assigned regional case team in FSA's Postsecondary Education Participants System.

We further noted that ERM did not allow for documentation related to specific audits to be easily identified. While we were able to find documentation related to specific entities, there was no way to identify documents related to a specific audit of that entity. The number of documents associated with the 10 auditees included in our review ranged from 1 to 178, with an average of 65 documents. We noted that a field in ERM that would allow for the input of an associated audit control number for a document was largely left blank or not used by FSA. When asked how we could locate applicable audit followup documents, the ALO for external audits indicated she was able to locate documents related to audit followup and closure of external OIG audits in the ERM because she is familiar with the electronic files. However, during the ALO's walkthrough of the ERM with the audit team, we noted that she had considerable difficulty finding applicable documents.

### *Policies and Procedures*

We also noted that FSA did not follow the Department's related audit followup policies and procedures, its own internal policies and procedures were inadequate, and there appeared to be a general lack of understanding of requirements. FSA Program Compliance officials claimed that related Department policies did not apply to their office, stating the belief that the policies only applied to General Education Provisions Act (GEPA) audits. They also stated that since FSA uses an electronic records management system for maintaining documentation, the file documentation requirements noted in the Department's policy do not work. We would note that the Department's policies state that while the enforcement provisions of GEPA do not apply to audits of FSA programs, these audits are still fully subject to OMB A-50 and the Department's process for complying with audit tracking and resolution in accordance with OMB A-50, which is implemented by the Department's Handbook and AARTS. During the exit conference, FSA acknowledged that they are required to follow the Department's policies and procedures for audit followup and closure.

Our review of FSA's internal policies and procedures, dated August 8, 2008 and revised on November 7, 2013, noted that the procedures only addressed audit resolution and not audit followup activities, to include maintenance of audit followup documentation. When asked whether followup activities were conducted, an FSA official asked what we meant by followup activities. FSA subsequently stated that they were working on updating their procedures. We requested a draft copy of the procedures and were told they were undergoing review and were not able to be provided to us. During the exit conference, FSA stated that they put a hold on developing the draft procedures until they had a better understanding of the weaknesses in the audit followup and closure process as identified by this audit.

#### *Prior Audit Corrective Actions*

Based on the above, we have determined that FSA did not sufficiently implement the corrective actions it reported taking in response to the recommendations made in our prior audit of FSA's audit followup process.<sup>5</sup> In response to the prior audit, FSA specifically stated that in July 2004 it had implemented procedures for OIG audits that required FSA audit resolution staff to obtain and maintain adequate documentation to support the completion of corrective actions in accordance with the Department's external audit documentation and file requirements. It also stated it had implemented procedures as of September 2004 for establishing audit resolution files, in compliance with guidance established by OMB and the Department. As part of our current audit, we requested support for the corrective actions taken in response to the prior audit report. FSA provided the policies and procedures noted above in response to the inquiry, however we noted they did not address the specific weaknesses noted in the audit followup activities, to include maintenance of audit followup documentation.

Additionally, our prior audit report noted that FSA was relying on single audit reports<sup>6</sup> that did not adequately address and provide assurance that corrective actions were completed. In its response to the prior audit, FSA stated that as of April 9, 2004, it was no longer using single audits for this purpose. FSA stated it had developed and implemented new procedures that required audit resolution staff to request documentation directly from the auditee to support that corrective actions have been completed. However, in recent discussions with the ALO for external audits, we were informed that FSA is still relying on single audits to determine whether corrective actions were implemented. For the one audit we reviewed that was closed prior to the start of our audit, the single audit was provided as supporting documentation for implementation of the corrective actions. While the single audit did specifically mention the OIG audit report, it did not specifically address whether required funds were returned to the lender and therefore did not provide appropriate support of completion of corrective actions.

As stated in the Department's Handbook, "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 followup on corrective actions." Not ensuring that corrective actions are taken as quickly as possible allows identified deficiencies to continue to exist. By not obtaining or maintaining appropriate

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<sup>5</sup> See footnote 2 on page 3.

<sup>6</sup> Single audits require comprehensive testing of compliance and internal controls over federal programs for entities expending annual federal assistance equal to or in excess of \$500,000 (\$750,000 for fiscal years beginning on or after December 26, 2014). These audits may be performed by an independent public accountant selected by the entity.



documentation to show requested corrective actions were completed, FSA did not have assurance that identified deficiencies were corrected. As such, the risk remains that related programs are not effectively managed and funds are not being used as intended.

### **Recommendations**

We recommend that the Chief Operating Officer for FSA:

- 1.1 Ensure that staff obtain and maintain adequate documentation to support completion of corrective actions and audit followup activities, in accordance with the Department's external audit documentation and file requirements.
- 1.2 Ensure that staff establish an official file for each audit report that contains accurate records of all related followup activities, in compliance with guidance established by OMB and the Department.
- 1.3 Ensure that staff are following up with auditees until all appropriate corrective actions have been taken and that audits are being closed timely.
- 1.4 Update internal procedures to specifically identify required audit followup and closure activities, to include procedures for followup with auditees on corrective action status, maintenance of appropriate supporting documentation of corrective action implementation, ensuring that OIG audit areas and related corrective actions are reviewed and commented on in subsequent single or compliance audit reports if these reports are used by FSA staff to gain assurance that corrective actions were completed, and ensuring that settlement agreements adequately address all actions that need to be taken by an auditee to address noted deficiencies.
- 1.5 Provide training for all FSA staff involved in audit followup activities. Ensure training includes a review of OMB and Department requirements, individual responsibilities, and differences between audit resolution and followup.

### **FSA Comments**

FSA stated that it disagreed in part with the finding but agreed with the recommendations and noted significant actions that it has taken or plans to undertake to address these recommendations. FSA disagreed that it did not have an effective audit followup process, noting that it was able to close a significant number of audits in the last few months because staff had conducted the necessary followup and obtained documentation of completion of corrective actions and repayment of liabilities. FSA stated that as a result of our audit it has restructured its followup process for external audits and that the restructuring will ensure that staff obtain, maintain, and submit documentation to support completion of corrective actions and audit followup activities. FSA also plans to provide training for all staff involved in audit followup activities that will include a review of applicable OMB and Department requirements, individual responsibilities, and use of FSA's document management system. Lastly, FSA stated that it will update its internal procedures to specifically identify required audit followup and closure activities as identified in the related recommendation.

## OIG Response

We acknowledge the efforts FSA has taken since the start of our audit to close outstanding audits. However we do not agree that the action of closing an audit alone provides evidence of an effective audit followup process. As noted in the finding, we found that FSA was unable to provide support that corrective actions were taken for 9 of the 26 recommendations (35 percent) requiring corrective action even though the audits containing these recommendations had been closed subsequent to the start of our audit fieldwork.

After considering FSA's comments, we have not made any changes to the finding or related recommendations.

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## OBJECTIVE, SCOPE, AND METHODOLOGY

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The objective of our audit was to evaluate the effectiveness of the Department's process to ensure that external auditees implement corrective actions as a result of OIG audits. To accomplish our objective, we gained an understanding of the Department's and FSA's followup and closure processes for external OIG audits. We reviewed applicable laws and regulations and Department and FSA policies and procedures including OMB Circular A-50, the Department's *Handbook for the Post Audit Process*, and FSA's *Compliance Audit Procedures*. We also reviewed prior OIG audit reports relevant to our audit objective. We conducted interviews with FSA staff responsible for following up and closing corrective actions for the audits selected. We reviewed documentation provided by FSA staff to support the corrective actions taken for the recommendations included in our review as identified in the FAD.

The scope of our audit included OIG audits of FSA programs at external entities with monetary or nonmonetary findings that were reported by the Department's AARTS and the OIG's Audit Tracking System (ATS) as closed during the period October 1, 2008 to September 30, 2013. Because there was only one audit identified as closed during this period, we expanded our scope to also include audits resolved during the period October 1, 2008 to September 30, 2013 but not closed.

Overall, we identified a total of 1 closed FSA audit and 36 resolved FSA audits in the universe. In addition to the one closed audit, we judgmentally selected a sample of nine resolved audits for our review. The nine audits consisted of all audits with monetary findings of \$5 million or more. We excluded any internal and non-sustained recommendations included in these audits from our review. Overall, the 10 audits in our review included a total of 68 recommendations. A complete listing of the selected audits is included as Attachment 2 to this report. Because there is no assurance that the judgmental sample used in this audit is representative of the respective universe, the results should not be projected over the unsampled audits.

We relied on computer-processed data obtained from the Department's AARTS and OIG's ATS to identify OIG external audits resolved and closed during the scope period. We reconciled the data in these two systems to ensure that we captured all audits resolved and closed during this

period. Based on this assessment, we determined that the computer-processed data were sufficiently reliable for the purpose of this audit.

We conducted fieldwork at Department offices in Washington, DC, during the period February 2014 through November 2014. We provided our audit results to Department officials during an exit conference conducted on November 20, 2014.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

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## ADMINISTRATIVE MATTERS

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

In accordance with the Inspector General Act of 1978, as amended, the OIG is required to report to Congress twice a year on the audits that remain unresolved after 6 months from the date of issuance.

In accordance with the Freedom of Information Act (5 U.S.C. § 552), reports issued by the OIG 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 given us during this review. If you have any questions, please call Michele Weaver-Dugan at (202) 245-6941.

Sincerely,

Patrick J. Howard /s/  
Assistant Inspector General for Audit

**Acronyms/Abbreviations/Short Forms Used in this Report**

AARTS	Audit Accountability and Resolution Tracking System
ALO	Audit Liaison Officer
AO	Action Official
ATS	Audit Tracking System
CAP	Corrective Action Plan
Department	U.S. Department of Education
ERM	Electronic Records Management System
FAD	Final Audit Determination Letter
FSA	Federal Student Aid
GEPA	General Education Provisions Act
Handbook	Handbook for the Post Audit Process
OCFO	Office of the Chief Financial Officer
OMB	Office of Management and Budget
OIG	Office of Inspector General

## FSA Audits Included in This Review

Audit Control Number	Audit Report Title
A07F0017	Special Allowance Payments to Nelnet for Loans Funded by Tax-Exempt Obligations
A02H0008	Touro College's Title IV, Higher Education Act Programs, Institutional and Program Eligibility
A05I0011	Special Allowance Payments to the Kentucky Higher Education Student Loan Corporation for Loans Made or Acquired with the Proceeds of Tax-Exempt Obligations
A05E0017	Special Allowance Payments to New Mexico Educational Assistance Foundation for Loans Funded by Tax-Exempt Obligations
A04B0019	Advanced Career Training Institute's Administration of the Title IV Higher Education Act Programs
A03G0014	Special Allowance Payments to the Pennsylvania Higher Education Assistance Agency for Loans Funded by Tax-Exempt Obligations
A09H0017	Fifth Third Bank's Eligible Lender Trustee Agreements Compliance with Lender Provisions of the Higher Education Act and Monitoring of Entities With Which It Has Agreements
A05C0014	Educational Credit Management Corporation's Administration of the Federal Family Education Loan Program Federal and Operating Funds
A03H0009	Star Technical Institute's Upper Darby School's Compliance with the 90 Percent Rule
A06H0010	Eagle Gate College's Administration of Title IV Student Financial Assistance Programs

**MEMORANDUM**

**DATE:** MAY 20 2015

**TO:** Ms. Michele Weaver-Dugan  
Director, Operations Internal Audit Team  
Office of Inspector General

**FROM:** James W. Runcie  
Chief Operating Officer



**SUBJECT:** Response to Draft Audit Report:  
Audit of the Followup Process for External Audits in Federal Student Aid  
Control No. ED-OIG/A19P0001

Thank you for the opportunity to comment on the Office of Inspector General's (OIG) draft audit report, *Audit of the Followup Process for External Audits in Federal Student Aid*, dated April 13, 2015. The objective of the audit was to evaluate the effectiveness of the Department of Education's (ED) process to ensure that external auditees implement corrective actions as a result of OIG audits.

As a result of the audit, Federal Student Aid's (FSA) Program Compliance (PC) office has restructured its followup process for external audits effective January 5, 2015. At that time, there were 29 resolved audits. Since then, PC has closed 23 of these audits, which is 79% of all resolved audits. In addition, FSA has submitted documentation to close an additional three audits. Note that, three other audits cannot be closed at this time as one has an 8-year promissory note that must be paid, one is under appeal to the Secretary's office, and one is under settlement discussions.

FSA's comments and responses to the one (1) finding and five (5) recommendations in OIG's draft audit report follows.

**FINDING NO. 1 — Federal Student Aid's Audit Followup Process Was Not Always Effective**

FSA disagrees in part with this finding. FSA's follow-up process was effective because staff had conducted the necessary follow-up and obtained documentation of completion of corrective actions and repayment of liabilities, as demonstrated by the closure of a significant number of audits in a short period of time as noted above. However, the



audits were not closed timely in the Audit Accountability and Resolution Tracking System (AARTS). With the restructured followup process for external audits, FSA will ensure that the audits are also closed timely in AARTS.

**RECOMMENDATION 1.1** — Ensure that staff obtain and maintain adequate documentation to support completion of corrective actions and audit followup activities, in accordance with the Department's external audit documentation and file requirements.

**RESPONSE:** Although FSA agrees with this recommendation, FSA was able to close a significant number of audits in a short period of time as noted above because staff had conducted the necessary followup and obtained documentation of completion of corrective actions and repayment of liabilities. However, the audits were not closed timely in AARTS. With the restructured followup process for external audits, FSA will ensure that staff obtain, maintain, and submit documentation to support completion of corrective actions and audit followup activities.

**RECOMMENDATION 1.2** — Ensure that staff establish an official file for each audit report that contains accurate records of all related followup activities, in compliance with guidance established by OMB and the Department.

**RESPONSE:** FSA agrees with this recommendation and will conduct training on PC's document management system to ensure that staff establish and maintain an official file for each audit report that contains accurate records of all related followup activities.

**RECOMMENDATION 1.3** — Ensure that staff are following up with auditees until all appropriate corrective actions have been taken and that audits are being closed timely.

**RESPONSE:** FSA agrees with this recommendation and we will conduct refresher training to ensure that staff followup with auditees until all appropriate corrective actions have been taken and that audits are being closed timely.

**RECOMMENDATION 1.4** — Update internal procedures to specifically identify required audit followup and closure activities, to include procedures for followup with auditees on corrective action status, maintenance of appropriate supporting documentation of corrective action implementation, ensuring that OIG audit areas and related corrective actions are reviewed and commented on in subsequent single or compliance audit reports if these reports are used by FSA staff to gain assurance that corrective actions were completed, and ensuring that settlement agreements adequately address all actions that need to be taken by an auditee to address noted deficiencies.

**RESPONSE:** FSA agrees with this recommendation and will update internal procedures to specifically identify required audit followup and closure activities, to include procedures for followup with auditees on corrective action status, maintenance of appropriate supporting documentation of corrective action implementation, ensuring that OIG audit areas and related corrective actions are reviewed and commented on in subsequent single or compliance audit reports if these reports are used to gain assurance

that corrective actions were completed, and ensuring that settlement agreements adequately address all actions that need to be taken by an auditee to address noted deficiencies.

**RECOMMENDATION 1.5** — Provide training for all FSA staff involved in audit followup activities. Ensure training includes a review of OMB and Department requirements, individual responsibilities, and differences between audit resolution and followup.

**RESPONSE:** FSA agrees with this recommendation and we will provide training for all FSA staff involved in audit followup activities. Training will include a review of OMB and ED requirements, individual responsibilities, and differences between audit resolution and followup.

Again, thank you for the opportunity to comment on the draft audit report. If you have questions about the response, please let us know.