



UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF INSPECTOR GENERAL

AUDIT SERVICES

September 22, 2015

Control Number
ED-OIG/A19P0003

Michael K. Yudin
Assistant Secretary
Office of Special Education and Rehabilitative Services
U.S. Department of Education
400 Maryland Avenue, S.W.
Washington, DC 20202-4300

Dear Mr. Yudin:

This **Final Audit Report**, titled *Audit of the Followup Process for External Audits in the Office of Special Education and Rehabilitative Services*, 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.

BACKGROUND

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 internal and external audits of Department programs, activities, and functions. 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

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recommendations may be either monetary, which recommend that the entity return funds to the Department, or nonmonetary, which recommend that the entity improve operations, systems, or internal controls. The audit resolution process begins with the issuance of a final audit report.

An external audit is considered resolved when the Department issues a program determination letter (PDL) 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) 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 Department's Audit Accountability and Resolution Tracking System (AARTS) is a web-based application designed to assist Department management with audit followup and closure.

AUDIT RESULTS

We found that the Office of Special Education and Rehabilitative Services' (OSERS) audit followup process was not always effective. Specifically, we found that while OSERS adequately maintained documentation of audit followup activities for the audits included in our review, it did not close audits timely. Between October 1, 2008 and September 30, 2013, OSERS closed 14 external OIG audits. Of the 14 closed audits, 11 (79 percent) were closed more than 2 years after resolution, and 2 (14 percent) were closed more than 5 years after resolution. The total of the monetary recommendations associated with the 14 audits was \$356,490,506.

Not ensuring that corrective actions are taken as quickly as possible allows identified deficiencies to continue to exist. As such, the risk remains that related programs are not effectively managed and funds are not being used as intended.

In its response to the draft audit report, OSERS did not state whether it agreed or disagreed with the finding, but concurred with the recommendation. OSERS discussed changes it has made to its audit resolution process and actions planned by the Department to enhance AARTS to support the appropriate and timely closure of OIG audit findings. OSERS also suggested edits to provide additional context regarding the amount of questioned costs cited in footnote 1.

In response to OSERS’ comments we edited the applicable footnote. No other changes were made. OSERS’ comments and our response to those comments are summarized at the end of the finding. The full text of OSERS’ response is included as Attachment 3 to this report.

FINDING NO. 1 – The Office of Special Education and Rehabilitative Services’ Audit Followup Process Was Not Always Effective

We found that improvements are needed in OSERS’ audit followup process. Specifically, we found that while OSERS adequately maintained documentation of audit followup activities for the sample of three audits included in our review, it did not close audits timely. 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 OSERS closed 14 audits during this time period. Of the 14 closed audits, 11 (79 percent) were closed more than 2 years after resolution, and 2 audits (14 percent) were closed more than 5 years after resolution. The total of the monetary recommendations associated with the 14 audits was \$356,490,506¹ as depicted in Table 1.

Table 1. Count and Percentage² of OSERS Closed Audits by Elapsed Time Between Resolution and Closure

| <u>Elapsed Time</u> | <u>Number of Audits</u> | <u>Percentage of Audits</u> | <u>Total of Monetary Recommendations</u> | <u>Percentage of Monetary Recommendations</u> |
|----------------------------|-------------------------|-----------------------------|--|---|
| 73 to 84 months | 2 | 14% | \$6,058,889 | 2% |
| 61 to 72 months | 0 | 0% | \$0 | 0% |
| 49 to 60 months | 5 | 36% | \$6,602,145 | 2% |
| 37 to 48 months | 3 | 21% | \$328,000,000 | 92% |
| 25 to 36 months | 1 | 7% | \$0 | 0% |
| Less than 25 months | 3 | 21% | \$15,829,472 | 4% |
| Total | 14 | | \$356,490,506 | |

¹ The Department of Interior’s Bureau of Indian Affairs Administration of the Individuals with Disabilities Education Act (IDEA) Part B Funds (ED-OIG/A06F0019) represents \$328,000,000 (92 percent) of the \$356,490,506 total for the 14 audits. Of the \$328 million, \$111 million represents questioned costs of IDEA funds administered by OSERS, while the remaining \$217 million includes funds provided by the Department to the auditee that are not administered by OSERS.

² Percentages do not add to 100 due to rounding.

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.

OSERS officials stated that the staff that were assigned to the audits included in the table above are now either retired or working elsewhere. Therefore, the officials were unable to provide an explanation for why it took so long to close the majority of the audits.³

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. 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 Assistant Secretary for OSERS:

- 1.1 Ensure that audits are being closed timely once all appropriate corrective actions have been taken.

OSERS Comments

OSERS concurred with the recommendation and described actions it has taken to improve the timeliness of its audit resolution process as well as actions planned by the Department to leverage the use of AARTS to facilitate timely closure of OIG audits. OSERS noted it centralized its audit resolution function and established a comprehensive audit tracking system and as a result has improved its timeliness in resolving audits. Further, OSERS noted that the Department is in the process of exploring ways to facilitate timely closure of OIG audits through AARTS, including establishing a workgroup to determine the feasibility of enhancements to AARTS to support the appropriate and timely closure of OIG audit findings.

OSERS also suggested edits to footnote 1 so that readers can understand the basis for such a large and seemingly disproportionate amount of questioned costs cited in a previously issued OIG audit report that was included as part of this review.

³ As of June 19, 2015, OSERS had closed only one additional audit since the end of our audit scope period and had only one open audit. This one open audit had only recently been resolved. Therefore we were unable to perform a more recent analysis of closure timeliness to determine if any improvements had been made.

OIG Response

We appreciate the efforts noted by OSERS to improve the timeliness of audit resolution. However, our audit and related finding focused on the review of OSERS' process for audit followup and closure. As noted in the background section of this report, audit followup begins after an audit has been resolved and the Department has issued a PDL to the external entity. The Department is responsible for followup to ensure that corrective actions as specified in the PDL are actually taken. The audit is considered closed when the Department ensures that all corrective actions have been implemented including funds repaid or settlement made.

As a result of OSERS' comments, we did not make any changes to the audit finding or the related recommendation. We did edit the applicable footnote as suggested.

OBJECTIVE, SCOPE, AND METHODOLOGY

The objective of our audit was to evaluate the effectiveness of the Department's process to ensure that external auditees implement corrective actions as a result of OIG audits. To accomplish our objective, we gained an understanding of the Department's and OSERS's followup and closure processes for external OIG audits. We reviewed applicable laws and regulations and Department policies and procedures including OMB Circular A-50 and the Department's *Handbook for the Post Audit Process*, dated June 22, 2007. We also reviewed prior OIG audit reports relevant to our audit objective. We conducted interviews with OSERS staff responsible for following up and closing corrective actions for the audits selected. We reviewed documentation provided by OSERS staff to support the corrective actions taken for the recommendations in the audits included in our review as identified in the applicable PDLs.

The scope of our audit included OIG audits of OSERS 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.

Overall, we identified a total of 14 closed audits in the universe. We selected a nonstatistical sample of three audits for our review. The three audits consisted of all audits that had monetary findings of \$5 million or more. We excluded any internal and non-sustained recommendations included in these audits from our review. Overall, the three audits in our review included a total of 13 recommendations. A complete listing of the selected audits is included as Attachment 2 to this report. Because there is no assurance that the nonstatistical sample used in this audit is representative of the respective universe, the results should not be projected over the unsampled audits.

We subsequently obtained a listing from AARTS of audits closed or resolved between October 1, 2013 and June 19, 2015 and conducted a limited analysis of these audits to determine the timeliness of audits closed during this more current time period.⁴

⁴ See footnote 3 for additional information on the results of this review.

We relied on computer-processed data obtained from the Department's AARTS and OIG's ATS to identify OIG external audits closed during the scope period. We reconciled the data in these two systems to ensure that we captured all audits 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 June 2015. We provided our audit results to Department officials during an exit conference conducted on June 1, 2015.

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.

ADMINISTRATIVE MATTERS

Corrective actions proposed (resolution phase) and implemented (closure phase) by your office will be monitored and tracked through the Department's AARTS. Department policy requires that you develop a final corrective action plan (CAP) for our review in the automated system within 30 days of the issuance of this report. The CAP should set forth the specific action items, and targeted completion dates, necessary to implement final corrective actions on the finding and recommendation 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 |
| AO | Action Official |
| ATS | Audit Tracking System |
| CAP | Corrective Action Plan |
| Department | U.S. Department of Education |
| Handbook | Handbook for the Post Audit Process |
| IDEA | Individuals with Disabilities Education Act |
| OMB | Office of Management and Budget |
| OIG | Office of Inspector General |
| OSERS | Office of Special Education and Rehabilitative Services |
| PDL | Program Determination Letter |

OSERS Audits Included in This Review

| Audit Control Number | Audit Report Title |
|-----------------------------|---|
| A02B0014 | Puerto Rico Vocational Rehabilitation Administration |
| A02E0009 | Puerto Rico Department of Education's Special Education Program Services |
| A06F0019 | The Department of Interior's Bureau of Indian Affairs Administration of the Individuals with Disabilities Education Act (IDEA) Part B Funds |

UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF SPECIAL EDUCATION AND REHABILITATIVE SERVICES

THE ASSISTANT SECRETARY

AUG 3 1 2015

Ms. Michele Weaver-Dugan, Director
Operations Internal Audit Team
U.S. Department of Education
Office of Inspector General
400 Maryland Avenue, S.W.
Washington, DC 20202-1500

Dear Ms. Weaver-Dugan:

Thank you for providing the Office of Special Education and Rehabilitative Services (OSERS) the opportunity to review and comment on the Draft Audit Report: Audit of the Follow-up Process for External Audits in the Office of Special Education and Rehabilitative Services, Control Number ED-OIG/A19P0003, issued on August 5, 2015. We have reviewed the Draft Report and concur with the Office of Inspector General's (OIG) single recommendation to: "Ensure that audits are being closed timely once all appropriate corrective actions have been taken." We submit the following comments to clarify and to provide context to certain aspects of the Draft Report. We will discuss, in turn, audits handled by the Office of Special Education Programs (OSEP) and those handled by the Rehabilitation Services Administration (RSA).

We note that citing the amount of total monetary recommendations in the OSEP audit sample the OIG reviewed may not accurately reflect program responsibilities. The OIG found that the Bureau of Indian Education (BIE) did not adequately document the provision of special education and related services it provided with Individuals with Disabilities Education Act (IDEA) Part B funds. In its report, the OIG apparently questioned not only the amount of the BIE's IDEA Part B funds for which the BIE could not provide supporting documentation, but all Federal grant funds awarded to the BIE by the U.S. Department of Education (Department). Although we agreed with the auditors that the BIE had insufficient internal controls to ensure that funds were used for allowable purposes, we did not see direct evidence of inappropriate use of IDEA funds. The questioned costs in the BIE audit represent 92 percent of the total questioned costs for all 14 audits in the sample, as noted in Footnote 1 of the Draft Audit Report. We suggest that the OIG qualify the statement of questioned costs related to the BIE audit so that readers can understand the basis for questioning such a large and seemingly disproportionate amount in a Draft Report for OSERS. We recommend the insertion of the following in Footnote 1: "The large amount of funds questioned in this audit represents both the full amount of IDEA funds provided to the BIE (\$111 million) and the additional amount of Department funds provided to the BIE (\$217.3 million)." The OIG apparently questioned the total amount, not

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because of any direct evidence of unallowable use of the funds, but because of the BIE's inability to provide adequate documentation for a sample of the IDEA expenditures. The apparent assumption was that a lack of adequate internal controls called into question all Department funds provided to the BIE."

RSA has made substantial process improvements in handling audits which have resulted in improved and more timely audit resolutions. As of July 2008, RSA had a backlog of 113 unresolved audits, and new audits continued to arrive regularly. RSA recognized that the audit resolution function needed correction and took decisive action to improve it. RSA audits had been historically presented for resolution to ten (later reduced to five) Regional Offices. Audit A02B0014, of the Puerto Rico Vocational Rehabilitation Administration was conducted by the OIG and presented to the RSA Regional Office then responsible for Puerto Rico. It was not resolved in a timely manner due to the complexities of this particular audit and systemic management and financial problems in Puerto Rico.

RSA's Regional Offices were closed in a reorganization and the functions that had been delegated to those offices were assumed by Headquarters. RSA centralized the audit resolution function and established a comprehensive audit tracking system. RSA added an expert in audit resolution to the staff. RSA met with the Office of General Counsel (OGC) and OIG soon after the audit resolution specialist was on board to plan how best to work toward eliminating the backlog of unresolved audits. RSA, OGC, and OIG committed staff to focus on resolving these audits. The approach agreed upon was to simultaneously work to resolve the oldest audits while expediting the processing of the incoming work. The approach has been successful in our view.

Since July 2008, RSA has resolved 311 audits overall. As of August 13, 2015, RSA has 25 audits remaining to be resolved. Of those 25, only three are overdue. RSA resolved the most recent two OIG audits as follows: Audit A06K0001 – Louisiana ARRA was resolved one month late; and Audit A05J0011 – Indiana ARRA was resolved three months early. We believe these data indicate that the timeliness of overall RSA audit resolution has improved significantly. RSA will continue to endeavor to comply with the Draft Report's recommendation to close audits timely.

The Draft Report notes that the primary Departmental system for tracking and closing audits is the Audit Accountability and Resolution Tracking System (AARTS). OIG reviewed data from that system. The Department is presently exploring ways to facilitate timely closure of OIG audits through AARTS. A workgroup has been tasked with this activity and will be determining the feasibility of enhancements to AARTS to support the appropriate and timely closure of OIG

Page 3 – Ms. Weaver-Dugan

audit findings. A follow-on to AARTS would be expected to have improved functionality and a better user interface. Those qualities would be expected to facilitate the mechanics of audit tracking and resolution and thus improve the efficiency of the audit process.

We appreciate your consideration of our comments and we are available to answer any questions or provide further clarification regarding the above.

Sincerely,

A handwritten signature in blue ink, appearing to read 'Michael K. Yudin', with a long horizontal flourish extending to the right.

Michael K. Yudin