



UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF INSPECTOR GENERAL

AUDIT SERVICES

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Ann Whalen
Delegated to Perform Functions and Duties of the Assistant Secretary
Office of Elementary and Secondary Education
U.S. Department of Education
400 Maryland Avenue, S.W.
Washington, DC 20202-4300

Dear Ms. Whalen:

This **Final Audit Report**, titled *Audit of the Followup Process for External Audits in the Office of Elementary and Secondary Education*, 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 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 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 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.

AUDIT RESULTS

We found that the Office of Elementary and Secondary Education's (OESE) audit followup process was not always effective. Specifically, we found that OESE did not close audits timely and did not adequately maintain documentation of audit followup activities. Between October 1, 2008 and September 30, 2013, OESE closed 86 external OIG audits.¹ Of the 86 closed audits, 59 (69 percent) were closed more than 2 years after resolution and 34 (40 percent) were closed more than 5 years after resolution. The total of the monetary recommendations associated with the 86 audits was \$587,490,310.

¹ Four of these audits were officially closed in AARTS after September 30, 2013. However, close out memorandums were issued for these audits prior to September 30, 2013.

Further, we found that OESE did not always adequately maintain documentation of audit followup activities. This included not maintaining supporting documentation of corrective actions in the official audit file as well as not maintaining documentation that supported that requested corrective actions were actually taken prior to audit closure. We reviewed audit followup activities for a nonstatistical sample of 14 external OIG audits of OESE programs. For these 14 audits, OESE determined that 81 recommendations required corrective actions, to include \$10,208,164 in monetary corrective actions. We found that OESE files did not adequately maintain documentation for 68 out of 81 recommendations (84 percent), to include monetary corrective actions totaling \$7,967,097.

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, OESE 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.

In its response to the draft audit report, OESE agreed with the recommendations. OESE noted that it took audit resolution and followup seriously and has addressed it proactively in recent years by centralizing all of OESE's audit work under one unit, by hiring and devoting staff solely to this function, and by developing Standard Operating Procedures (SOPs) to perform the work. OESE stated it appeared that the audit report did not accurately reflect its progress in the area of audit followup and closure, expressing concerns regarding the way data were presented and conclusions were reached.

OESE's comments are summarized at the end of the finding. We did not make any changes to the audit finding or the related recommendations as a result of OESE's comments. The full text of OESE's response is included as Attachment 3 to this report.

FINDING NO. 1 – The Office of Elementary and Secondary Education's Audit Followup Process Was Not Always Effective

We found that improvements are needed in OESE's audit followup process. Specifically, we found that OESE 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 OESE closed 86 audits during this time period. Of the 86 closed audits, 59 (69 percent) were closed more than 2 years after resolution and 34 (40 percent) were closed more than 5 years after resolution. The total of the monetary recommendations associated with the 86 audits was \$587,490,310 as depicted in Table 1.

Table 1. Count and Percentage² of OESE 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>
Greater than 72 months	9	10%	\$8,877,895	2%
61 to 72 months	25	29%	\$193,843,790	33%
49 to 60 months	7	8%	\$14,107,246	2%
37 to 48 months	9	10%	\$0	0%
25 to 36 months	9	10%	\$4,064,796	1%
13 to 24 months	13	15%	\$115,617,698	20%
Less than 13 months	14	16%	\$250,978,885	43%
Total	86		\$587,490,310	

Documentation of Audit Followup Activities

We found that OESE did not always adequately maintain documentation of audit followup activities. This included not maintaining supporting documentation of corrective actions in the official audit file as well as not maintaining documentation that supported that requested corrective actions were actually taken prior to audit closure. We reviewed audit followup activities for a nonstatistical sample of 14 of the 86 audits noted above.³ For these 14 audits, OESE determined that 81 recommendations required corrective actions, to include \$10,208,164 in monetary corrective actions. We found that OESE files did not adequately maintain documentation for 68 out of 81 recommendations (84 percent), to include monetary corrective actions totaling \$7,967,097. OESE was subsequently able to provide documentation that supported completion of corrective actions for 5 of these recommendations. OESE was ultimately unable to provide support that corrective actions were taken for the remaining 63 recommendations, to include monetary corrective actions totaling \$7,967,097.⁴

Of the 63 recommendations for which OESE did not adequately maintain documentation, we found that 40 (63 percent) were attributable to audits associated with entities that have been designated by the Department as either high-risk or active engagement⁵ grantees-- specifically the Puerto Rico Department of Education (PRDE) and Virgin Islands Department of Education (VIDE).

² Percentages do not add to 100 due to rounding.

³ We selected all audits with monetary recommendations totaling \$5 million or greater. In addition, we selected an audit from a grantee designated by the Department as high-risk that had significant monetary findings albeit less than the threshold noted.

⁴ This amount includes \$6.6 million from the audit *Wyandanch Union Free School District's ESEA Title I, Part A and Title II Non-Salary Expenditures* (ED-OIG/A02E0031), dated December 14, 2005.

⁵ Active engagement grantees are States/Territories that the Department's Risk Management Service (RMS) Management Improvement Team is currently working with on risk management projects.

ACN A02-D0014: *PRDE's Title 1 Expenditures for the Period July 1, 2002 to December 31, 2002*, issued March 30, 2004

ACN A02-B0012: *PRDE Did Not Administer Properly Title 1 Contracts with National School Services of Puerto Rico for the 1999/2000 and 2000/2001 School Years*, issued September 28, 2001

We found that 25 of the 63 recommendations (40 percent) noted above for which corrective actions were required but that OESE did not adequately maintain documentation for were attributable to these PRDE audits. The resolution of these audits was covered by the terms of a Compliance Agreement, entered into by the Department, Puerto Rico and PRDE on October 25, 2004 (2004 Agreement). The 2004 Agreement was meant to address systematic improvements that were needed in PRDE's management of Department grants to ensure compliance with Federal program and fiscal management requirements applicable to those grants. Subsequently, on December 17, 2007, the Department entered into a Memorandum of Agreement (MOA) with Puerto Rico and PRDE that governed the implementation, review, and oversight of activities conducted by Puerto Rico and PRDE in compliance with, and in followup to, certain terms and conditions of the 2004 Agreement, to include specific action steps that needed to be taken. On that date, the Department also entered into a new three-year Compliance Agreement with Puerto Rico and PRDE (2007 Agreement), because the Department determined that PRDE needed more time to completely address several programmatic issues requiring corrective actions.

In a determination letter issued to PRDE, dated July 16, 2009, RMS concluded that Puerto Rico and PRDE had substantially satisfied requirements in the 2004 Agreement and had substantially completed the action steps under the MOA in the areas of grants management, payroll, and procurement, but that further work remained to be performed on certain action steps under the MOA. We followed up with both OESE and RMS to obtain the specific documentation that supported the completion of corrective actions/actions steps related to the selected PRDE audits. Neither OESE nor RMS could identify documentation that provided evidence that the applicable actions were taken.

ACN A02-C0012: *The Virgin Islands Department of Education Did Not Effectively Manage Its Federal Education Funds*, issued September 30, 2003

We found that 15 of the 63 recommendations (24 percent) noted above for which corrective actions were required but that OESE did not adequately maintain documentation for were attributable to the VIDE audit. The resolution of this audit was covered by the terms of a Compliance Agreement (Agreement) the Department entered into with the VIDE in 2002. The Agreement required that VIDE implement a "credible financial system" in order to provide accurate accounting of Federal funds. According to RMS, in 2005 the Department determined that VIDE was unable to complete the corrective action, placed special conditions on the grantee, and stopped Federal funding to VIDE. Since VIDE was unable to implement the financial system, the Department imposed special conditions on VIDE, to include the procurement of a third-party fiduciary that would manage Federal grant funds. This would allow VIDE to continue to receive Federal funds while continuing the process of implementing a credible financial system and making other systemic improvements. On August 25, 2006, VIDE awarded

a contract to provide the third-party fiduciary responsibilities over VIDE's financial system. A second contract was awarded on June 24, 2010, and is still in place.

Our initial review of OESE's audit file determined that adequate supporting documentation was not available to support completion of corrective actions. Upon our request for additional information, OESE directed us to RMS noting that RMS was significantly involved in the audit followup activities. RMS subsequently stated that the third-party fiduciary contract, the special conditions placed on the grantee, and the results of single audits conducted in 2008 and 2013 provided support of corrective actions taken and provided related documentation for our review. Based upon our review of RMS' documentation, we determined the following:

- The third-party fiduciary contract provides evidence that a contract was awarded. However the contract itself does not provide evidence that the contractor was adequately carrying out the terms of the contract and related responsibilities under the Department's special conditions or that VIDE was continuing work on implementation of a credible financial system.
- The 2008 single audit for the VIDE was issued in September 2010, nearly 6 months after the audit was closed in AARTS, and therefore could not have provided evidence that corrective actions had been taken at the time of audit closure. Further, we found that the report contained evidence to show that issues remained with the financial system, further indicating that VIDE had not completed required corrective actions with regard to implementation of a credible financial system.
- The 2013 single audit report was issued on July 30, 2014, over 4 years after the audit was closed, and therefore could not have provided evidence that corrective actions had been taken at the time of audit closure.

ACN A09-D0018: *Charter Schools' Access to Title I and IDEA, Part B Funds in the State of California*, issued March 29, 2004

We determined that 12 of the 63 recommendations (19 percent) for which inadequate documentation was maintained were attributable to the audit, *Charter Schools' Access to Title I and IDEA, Part B Funds in the State of California*. OESE issued the program determination letter (PDL) to the California Department of Education (CDE) on March 24, 2006. CDE provided a response to the Department dated October 6, 2006, addressing corrective actions taken or corrective actions planned in response to the actions required by the PDL. In some cases no supporting documentation was provided as proof that actions were implemented. In other cases, while CDE referenced attachments as support of actions taken, this documentation was not maintained in the audit file. For those recommendations for which CDE identified future corrective actions to be taken, we found no evidence that OESE followed up to determine whether these corrective actions were actually taken. When asked for additional support, OESE noted that they believed that the 2010 Student Achievement and School Accountability (SASA) monitoring report addressed some of the required corrective actions. We subsequently reviewed the 2010 SASA monitoring report and 2009-2010 monitoring plan. We were unable to identify specific information that would support that required corrective actions were taken.

ACN A02-E0031: Wyandanch Union Free School District's ESEA Title I, Part A and Title II Non-Salary Expenditures, issued September 14, 2005

We determined that 7 of the 63 recommendations (11 percent) for which inadequate documentation was maintained were attributable to the audit, *Wyandanch Union Free School District's ESEA Title I, Part A and Title II Non-Salary Expenditures*. OESE issued the PDL to the New York State Department of Education (NYSED) on September 30, 2006. The PDL required the NYSED to review, through an audit or other appropriate means, supporting documentation to determine that Wyandanch's \$6.6 million in Title I and II expenditures for the audit period was allowable under those programs and resolve any findings of unallowable costs in accordance with State audit resolution procedures including, as appropriate, repayment of misspent Title I and Title II funds to ED. We found no evidence that OESE followed up with the NYSED to determine that an audit or other appropriate action was taken to determine whether the expenditures were allowable. We also found no evidence in the audit file that OESE followed up with NYSED to determine that required actions were taken for the remaining six recommendations. The Program Officer noted that she provided the audit team with all of the documentation that was maintained for the audit.

ACN A09-G0020: Arizona Department of Education's Oversight of the ESEA, Title I, Part A Comparability of Services Requirement, issued March 26, 2007

We determined that 3 of the 63 recommendations (5 percent) for which inadequate documentation was maintained were attributable to the audit, *Arizona Department of Education's Oversight of the ESEA, Title I, Part A Comparability of Services Requirement*. OESE issued the PDL to the Arizona Department of Education (ADE) on October 3, 2007. ADE provided a written response to the PDL on November 30, 2007. ADE's response included a discussion of corrective actions taken as well as hyperlinks to supporting documentation for two of the three recommendations. OESE maintained ADE's response in hard copy but did not maintain hard copies of the supporting documentation found at the noted hyperlinks. When asked for the supporting documentation, OESE subsequently provided links to information maintained on ADE's website. However the links were to information that was dated after the date of audit closure. Because the supporting documentation post-dated the audit's closure, we were unable to confirm whether the required corrective actions were actually taken before the audit was closed.

In addition, the corrective action for one of the recommendations required ADE to review the comparability⁶ for four local education agencies (LEAs). ADE noted that it had determined the comparability for three of the four LEAs, but that it was still waiting on a review of the fourth LEA's final worksheets. ADE noted that if it was unable to determine comparability, the applicable amount of Title I funds would be returned to OESE. We found no evidence that OESE followed up with ADE to determine whether funds were required to be returned. This LEA received approximately \$1.4 million in Title I funds.

⁶ Section 1120A(c)(1) of the Elementary and Secondary Education Act stipulates that an LEA may receive Title I, Part A funds only if it uses state and local funds to provide services in Title I schools that, taken as a whole, are at least comparable to the services provided in schools not receiving Title I funds. If the LEA serves all of its schools with Title I funds, the LEA must use state and local funds to provide services that, taken as a whole, are substantially comparable in each Title I school.

ACN A05-G0033: Illinois State Board of Education's Compliance with the Title I, Part A, Comparability of Services Requirement, issued June 7, 2007

We determined that 1 of the 63 recommendations (2 percent) for which inadequate documentation was maintained were attributable to the audit, *Illinois State Board of Education's Compliance with the Title I, Part A, Comparability of Services Requirement*. OESE issued the PDL to the Illinois State Board of Education (ISBE) on July 9, 2010. We noted that OESE entered into a Settlement Agreement (Agreement) with ISBE on July 7, 2011. The Agreement pertained to the recovery of funds sought in the PDL. However the PDL also included non-monetary corrective actions. Specifically, ISBE was required to provide evidence that it included information in its Title I instructions regarding comparability and ensure that LEAs with charter schools received training and technical assistance on the instructions. We found evidence that the instructions were developed, but there was no documentation to support that the training and technical assistance was provided.

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 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 AOs to establish an official file folder 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. Each official file should also contain documented evaluations or conclusions of the principal office that support the adequacy of the corrective actions taken by the auditee, if not included in the PDL and/or occurring after the PDL is issued.

Reasons for Ineffective Audit Followup Process

According to the Audit Team Lead for OESE, as of 2009 there was a backlog of audits that had not been closed. At that time, individuals from suboffices within OESE that oversaw the auditees were responsible for resolving and closing audits. These activities were not the individuals’ primary responsibilities and as such did not appear to be a priority. Due to the backlog, in 2010 OESE created a team within its Management Support Unit whose sole purpose was to resolve and close OESE-assigned audits. We noted that median timeliness of audit closure has generally improved over the last few years but still needs continued focus, as depicted in Table 2.

Table 2. Median⁷ Days Between Resolution and Closure for OESE Audits by Fiscal Year (FY)

FY	Number of Closed Audits	Median Number of Days Between Audit Resolution and Closure
2009	6	523
2010	17	1233
2011	2	852
2012	34	2080
2013	27	620
2014	13	368
2015	16	784

During the exit conference, OESE noted that in some audits OESE may be assigned as the lead office for followup and closure but other principal offices are assigned responsibility for following up on and closing specific findings/recommendations within the audits. OESE may complete work on its assigned findings, but it does not have the authority to require timeframes within which other principal offices must complete work on theirs. OESE noted that there is a disconnect in the process as the lead office is given responsibility for something that it does not have complete control over.

Since the start of our audit, 24 of the 115 audits noted as closed in Table 2 have been deleted from AARTS due to retention policies. Based upon our review of the remaining 91 audits in AARTS we found that 28 (31 percent) had multiple principal offices assigned to the audit with OESE being either the primary or lead office.

With regard to the high-risk/active engagement grantees, the Department’s AARTS designated OESE as the primary office for the resolution and followup of the selected PRDE and VIDE audits. However, it appears that the Department’s RMS conducted all of the related followup activities. Specifically, RMS completed the Audit Clearance Document (ACD) for the selected audits, which is the responsibility of the primary office, conducted site visits, and maintained

⁷ We used the median to reduce the potential impact of extreme values.

quarterly performance reports. However RMS stated that OESE was responsible for making the final determination of whether corrective actions were taken prior to closing the audits. According to OESE, it did not have access to the RMS files and therefore could not ensure appropriate supporting documentation was maintained to support completion of corrective actions. OESE further acknowledged that there was a disconnect in the followup and closure process in that while RMS conducted the majority of the followup activities, OESE was responsible for closing the audits.

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 documentation to show requested corrective actions were completed, to include any changes to required corrective actions after PDL issuance, OESE 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 Assistant Secretary for OESE:

- 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 are following up with auditees until all appropriate corrective actions have been taken and that audits are being closed timely.
- 1.3 For audits involving other principal offices where OESE has been designated as the primary office for resolution and followup, coordinate with the Department's audit followup official as necessary to ensure principal office responsiveness and facilitate timely closure.
- 1.4 Ensure that followup and closure activities are coordinated with RMS for high-risk and active engagement grantees and that applicable supporting documentation is maintained in the official audit file.

OESE Comments

In its response to the draft audit report, OESE agreed with the recommendations but did not believe the audit report accurately reflected OESE's progress in this area. Specifically, OESE noted that the timeliness data were skewed by a number of audits that were subject to administrative processes beyond OESE's control, including the Department's Cooperative Audit Resolution Oversight Initiative (CAROI), hearings and appeals, and/or repayment plans. OESE stated that it believed the auditors should have excluded all audits subject to these constraints from their calculations and tables to accurately reflect audits OESE had direct control over

closing within 1 year, which OESE believes would be a better reflection of its ability to close audits timely.

OESE also expressed a concern that the report did not account for corrective actions requiring extended periods of time for full implementation which result in significant delays in audit closure. OESE noted that its team has made efforts to work with grantees during resolution to develop more efficient corrective action strategies and has begun to identify other avenues for addressing outstanding issues including program monitoring and special conditions. However, OESE noted that because of the complexities of some OIG audit findings, the corrective actions stemming from these findings cannot be completed in a single year. OESE believes that, in these instances, obtaining sufficient and complete corrective action is as important as satisfying audit closure timeliness.

OESE further expressed concerns that the audit report did not accurately capture progress its team made in audit closure timeliness. Specifically, OESE stated that the data contained in Table 2 did not reflect the differences in the timeliness of audits resolved before and after the inception of the new OESE team. Instead, it captured only the ages of the audits closed during any given FY. OESE stated that, as a result, the data in the report serves only to highlight that numerous older audits continued to need closure even after the creation of its new team. OESE proposed a different methodology for capturing the OESE team's performance since its inception by tracking the median days between resolution and closure of audits resolved in a given FY. OESE acknowledged that this method would exclude audits that have yet to be closed.

OESE stated that, in the past, it needed to improve the post-resolution follow-up and closure process for OIG audits but noted that it has already made significant improvements in this area. OESE noted that many of its existing process improvements directly responded to the recommendations in the report. For recommendation 1.1, OESE's Audit Resolution SOP's address audit file maintenance, including documentation of pre- and post-PDL corrective actions. For recommendations 1.2, 1.3, and 1.4, OESE developed a "Corrective Action Tracker" in 2013 to monitor and track progress of post-PDL corrective action and audit closure, including both A-133 and OIG audits and those subject to appeal and/or repayment. In FY 2015, OESE revised its SOPs to facilitate the placement of special conditions if grantees fail to provide corrective action in a timely manner.

OIG Response

We appreciate the efforts OESE has taken to improve the timeliness of audit followup and closure. Our review included those audits where OESE was identified in AARTS as the lead or primary office, which is the office responsible for ensuring corrective actions are taken and for requesting and obtaining approval for audit closure. The audit is considered closed when OESE ensures that all corrective actions, including funds repaid or settlement made, have been implemented. Under the Department's Handbook the primary/lead office is responsible for timely audit followup and closure regardless of whether or not an audit is subject to one of the conditions noted by OESE. OMB Circular A-50 also does not make any special accommodations for such conditions. As such, OESE is still responsible for ensuring timely audit followup even when the conditions noted exist. Additionally, while OESE stated that the data presented in the report were skewed by these constraints, it did not provide any examples of audits in the universe the OIG reviewed that were subject to these circumstances in order to

support its claims. Based upon our review of information contained in AARTS, we found no information indicating that any of the audits in our universe were subject to the CAROI process or were appealed. We did find that 11 of the audits were subject to a repayment plan. However, repayment was made less than 3 months after the plans were signed and therefore would not have delayed timely closure.

With regard to audits with corrective actions requiring extended periods of time to implement, we agree that obtaining sufficient and complete corrective action is as important as satisfying timely audit closure. We also agree with OESE's statement that, as a result of the complexities of some audit findings, the corrective actions stemming from those findings cannot be completed in a single year. In our report, we specifically noted audits that required more than 2 years from the issuance of the PDL to close. While OMB A-50 does not specify firm timeframes in this area, it does require corrective actions to be taken "promptly." We believe 2 years to be a reasonable measure of promptness for the purposes of this audit and that audits requiring more than that period of time to close due to complexities of corrective actions should be an exception rather than the norm. We note that OESE's own SOPs state that corrective actions should require no more than 12 months from the issuance of the PDL to complete.

With regard to closure timeliness since inception of OESE's new team, we do not agree that OESE's proposed methodology would be a more effective method of evaluating whether it was making progress in the timely closure of audits. While we found that it provides a more favorable picture of OESE's performance in closing audits as noted in Table 3 below, the median values using this methodology are not accurate or valid as they exclude resolved audits which were not yet closed for four of the seven fiscal years we reviewed. Additionally, audits that were resolved but were not closed in the same FY could be "overlooked" as they would not be included in statistics reported for more current FYs since those audits would not be tracked in subsequent years. The proposed methodology could lead to the program office ensuring that less complex audits are closed timely in order to provide favorable results, while more complex audits could be left open indefinitely and have no impact on the median time to closure in a given FY. For example, when comparing data presented for FY 2012 under each methodology, the older audits closed in a given FY, regardless of resolution date, resulted in days to closure 5 times greater (Table 2) than looking only at the number of audits resolved and closed during the same FY (Table 3). The methodology used by OIG in presenting the results in Table 2 already shows that OESE is generally doing a better job of following up and closing audits while also highlighting the impact of audits remaining unclosed for an extended period of time. It is important that OESE ensures that all audits, regardless of age, are closed timely.

Table 3. Median Days Between Resolution and Closure for OESE Audits by FY- OESE Proposed Methodology

FY	Total Audits Resolved	Number of Audits Closed	Median Days for Closure	Number of Audits Not Closed	Percentage of Resolved Audits Excluded from Median
2009	8	8	1,228	0	0%
2010	1	1	1,017	0	0%
2011	7	7	620	0	0%
2012	19	18	406	1	5%
2013	22	19	344	3	14%
2014	8	5	49	3	38%
2015	1	0	No data	1	100%

We did not make any changes to the audit finding or the related recommendations as a result of OESE’s comments.

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 OESE’s followup and closure processes for external OIG audits. We reviewed applicable laws and regulations and Department and OESE 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 OESE staff responsible for following up and closing corrective actions for the audits selected. We reviewed documentation provided by OESE staff to support the corrective actions taken for the recommendations included in our review as identified in the PDL.

The scope of our audit included OIG audits of programs at external entities with monetary or nonmonetary findings that were assigned to OESE for resolution and followup and 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 86 closed audits in the universe. We selected a nonstatistical sample of 14 audits for our review. The 14 audits consisted of all audits that had monetary findings of \$5 million or more and an audit from a grantee designated by the Department as high-risk that had significant monetary findings albeit less than the threshold noted. We excluded any internal and non-sustained recommendations included in these audits from our

review. Overall, the 14 audits in our review included a total of 81 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 also obtained a listing from AARTS of audits closed by OESE between October 1, 2013 and June 11, 2015, subsequent to our audit scope period. We conducted a limited analysis of these audits to determine the timeliness of audits closed during this more current time period.⁸

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 30, 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 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.

⁸ See page 9 for the results of this review.

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
ACD	Audit Clearance Document
ADE	Arizona Department of Education
ALO	Audit Liaison Officer
AO	Action Official
ATS	Audit Tracking System
CAP	Corrective Action Plan
CAROI	Cooperative Audit Resolution Oversight Initiative
CDE	California Department of Education
Department	U.S. Department of Education
FY	Fiscal Year
Handbook	Handbook for the Post Audit Process
ISBE	Illinois State Board of Education
LEA	Local Education Agency
MOA	Memorandum of Agreement
NYSED	New York State Department of Education
OCFO	Office of the Chief Financial Officer
OESE	Office of Elementary and Secondary Education
OIG	Office of Inspector General
OMB	Office of Management and Budget
PDL	Program Determination Letter
PRDE	Puerto Rico Department of Education

RMS	Risk Management Service
SASA	Student Achievement and School Accountability
SOP	Standard Operating Procedures
VIDE	Virgin Islands Department of Education

OESE Audits Included in This Review

Audit Control Number	Audit Report Title
A02G0002	Audit of New York State Education Department's Reading First Program
A06E0008	Audit of the Title I Funds Administered by the Orleans Parish School Board
A09J0004	Colorado Department of Education's Use of Federal Funds for State Employee Personnel Costs
A09D0018	Charter Schools' Access to Title I and IDEA, Part B Funds in the State of California
A09G0020	Arizona Department of Education's Oversight of the ESEA, Title I, Part A Comparability of Services Requirement
A02D0014	Puerto Rico Department of Education's Title I Expenditures for the Period, July 1, 2002 to December 31, 2002
A02E0031	Wyandanch Union Free School District's Elementary and Secondary Education Act Title I, Part A and Title II Non-Salary Expenditures
A05G0033	Illinois State Board of Education's Compliance with the Title I, Part A, Comparability of Services Requirement
A06G0009	Audit of the Hurricane Education Recovery Act, Temporary Emergency Impact Aid for Displaced Students Requirements at the Texas Education Agency and Applicable Local Education Agencies
A02B0012	Puerto Rico Department of Education Did Not Administer Properly Title I Contracts with National School Services of Puerto Rico for the 1999/2000 and 2000/2001 School Years
A01A0004	Puerto Rico Department of Education Did Not Administer Properly a \$9,700,000 Contract with National School Services of Puerto Rico
A06G0010	Louisiana Department of Education's Compliance with Hurricane Education Recovery Act, Temporary Emergency Impact Aid for Displaced Students Requirements
A04G0015	Audit of Georgia Department of Education's Emergency Impact Aid Program Controls and Compliance
A02C0012	The Virgin Islands Department of Education Did Not Effectively Manage Its Federal Education Funds

OESE Response to Draft Report



UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF ELEMENTARY AND SECONDARY EDUCATION

WASHINGTON, D.C. 20202

THE ASSISTANT SECRETARY

OCT 21 2015

Patrick J. Howard
Assistant Inspector General for Audit
U.S. Department of Education
Office of Inspector General
400 Maryland Avenue, S.W.
Washington, D.C. 20202-1500

Dear Mr. Howard:

Thank you for the opportunity to respond to the Draft Audit Report entitled "Audit of the Follow-up Process for External Audits in the Office of Elementary and Secondary Education." As you may know, audit resolution and follow-up is an area of work that OESE takes seriously and which it has addressed proactively in recent years by centralizing all of OESE's audit work in the Management and Support Unit, hiring and devoting new staff solely to this function (OESE audit team), and developing Standard Operating Procedures (SOPs) to perform the work. Unfortunately, it does not appear that the audit report accurately reflects OESE's progress in this area. This is partly because the audit sample was so dated that it reflected work that was done under prior constraints and partly because the auditors' methodology did not capture OESE's progress on audit closures since OESE hired its new audit staff. Our concerns regarding the way the auditors presented the data and the conclusions they reached are described in more detail below.

Our first concern is that the timeliness data is skewed by the number of audits that were subject to the Department's Cooperative Audit Resolution Oversight Initiative (CAROI), subject to an appeal to the Office of Hearings and Appeals, and/or subject to a repayment plan. All of these administrative processes directly impact the ability to close an audit (i.e., an audit cannot be closed until the CAROI process is complete, the Office of Hearings and Appeals has issued a final decision on an appeal, and/or the grantee has submitted the last payment under a repayment plan) and all of the processes are beyond OESE's control. As a result, the auditors should have excluded audits that were subject to any of these processes from their calculations and tables to accurately reflect how many audits OESE had direct control over closing within one year. This would have been a more accurate measure of the office's ability to close audits in a timely manner.

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The Department of Education's mission is to promote student achievement and preparation for global competitiveness by fostering educational excellence and ensuring equal access.

The second concern with the report is that it does not account for the fact that some corrective actions require extended periods of time for full implementation, resulting in significant delays in audit closure. The OESE audit team has made efforts to work with grantees to develop more efficient corrective action strategies during audit resolution and has begun to identify other avenues for addressing outstanding issues (e.g., program monitoring, special conditions, etc.). However, because of the complexities of some OIG audit findings, the corrective actions stemming from these findings cannot be completed in a single year. OESE believes that, in these instances, obtaining sufficient and complete corrective action is as important as satisfying audit closure timelines.

Third, the report does not accurately capture the progress the OESE audit team has made in the timeliness of audit closures. Based on the data presented in Table 2, the auditors concluded that the "median timeliness of audit closure has generally improved over the last few years but still needs continued focus." Audit Report, p. 9. However, this data does not reflect the differences in the timeliness audit closure resolved before and after the inception of the audit team. Instead, it is solely a factor of the ages of the audits closed during any given year. Rather than examining the median number of days of audits *closed* within a given fiscal year, a more effective method of evaluating whether OESE was making progress in the timely closure of audits would be to track the median number of days between resolution and closure of audits *resolved* in a given fiscal year. While this measure would exclude audits that have yet to be closed, the measure could be supplemented by a count of the audits still needing closure in each year. As presented in the report, the data does not capture the progress OESE has made in improving audit closure timeliness but only serves to highlight that numerous older audits continued to need closure even after the creation of the audit team.

OESE acknowledges that, in the past, it needed to improve the post-resolution follow-up and closure process for OIG audits. However, OESE has already made significant improvements in this area. The best example of this progress is the current status of OESE's OIG audit closures. OESE now has eight OIG audits that have been resolved but not yet closed. Of these eight audits, five are involved in processes beyond OESE's control -- four are either on appeal or subject to a repayment agreement and one is ready for closure but cannot be closed because another principal office still needs to issue a Program Determination Letter for its findings. Of the three other outstanding audits, two have corrective action requirements that will take longer than a year to complete because of the complexity of the issues in the findings and one audit closure we inherited from the Implementation and Support Unit (ISU) when it was consolidated into OESE and should be closed by the end of 2015.

As described below, many of OESE's existing process improvements directly respond to the recommendations in the audit report.

With regard to recommendation 1.1, OESE's Audit Resolution SOPs require audit resolution specialists to maintain audit files in a standardized electronic format (both for electronic and hard copy files), including documentation of pre- and post-PDL corrective actions (if any is required). This helps ensure that audit files are easily transferred to new

staff when there is turnover and addresses a significant part of the problem that OESE previously experienced with file documentation.

With regard to recommendations 1.2, 1.3, and 1.4, in 2013, OESE developed a "Corrective Action Tracker" to monitor and track progress of post-PDL corrective action and audit closures. The tracker includes both A-133 and OIG audits and is discussed at weekly audit team meetings. This process enables the OESE Audit Team Lead to ensure that audit resolution staff who are assigned audits for closure follow-up consistently with auditees, other POCs, and/or RMS until the corrective action is complete. OIG audits that are subject to appeal and/or repayment agreements are also tracked through the OESE Corrective Action Tracker, allowing the OESE audit team to ensure that corrective action is taken to the greatest extent possible while the audits are on appeal. Previously, because appeals and repayment agreements can take years to complete, the need to take final steps to close these audits could go unnoticed for extended periods of time, particularly if staff transitions had occurred. Now, with tracking, OESE will remain aware of the need for eventual closure of these audits. Furthermore, in FY 2015, OESE revised its SOPs to facilitate the placement of special conditions if grantees fail to provide required corrective action in a timely manner. This change provides OESE with a new enforcement tool to ensure that grantees complete corrective actions in a timely manner and should help facilitate timely audit closure.

I appreciate the time your office spent in gathering and analyzing information on this topic. I hope the information and suggestions we provided are helpful in finalizing your report. If you have any questions or comments, please contact Alex Sweeney at (202) 260-2032 or Alexandra.Sweeney@ed.gov.

Sincerely,



Ann Whalen
Delegated the Authority to Perform the
Functions and Duties of the Assistant
Secretary