UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF INSPECTOR GENERAL

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ED-OIG/A19-E0004

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Deborah A. Price
Deputy Under Secretary
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Dear Mr. Simon and Ms. Price:

This **Final Audit Report,** (Control Number ED-OIG/A19-E0004), presents the results of our audit of the audit followup process for external audits in the Office of Elementary and Secondary Education (OESE) and the Office of Safe and Drug-Free Schools (OSDFS). 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. A summary report will be provided to the Chief Financial Officer, the Department of Education (Department) audit followup official, upon completion of the audits in individual principal offices.

BACKGROUND

Office of Management and Budget (OMB) Circular A-50, entitled "Audit Followup," provides the requirements for establishing systems to assure prompt and proper resolution and implementation of audit recommendations. The Circular states,

> Audit followup is an integral part of good management, and is a shared responsibility of agency management officials and auditors. Corrective action taken by management on resolved findings and recommendations is essential to

> improving the effectiveness and efficiency of Government operations. Each agency shall establish systems to assure the prompt and proper resolution and implementation of audit recommendations. These systems shall provide for a complete record of action taken on both monetary and non-monetary findings and recommendations.

The Department has established a Post Audit User Guide (PAUG) to provide policy and procedures for the audit resolution and followup process. This guide provides that, "Each Assistant Secretary (or equivalent office head) with cooperative audit resolution or related responsibilities must ensure that the overall cooperative audit resolution process operates efficiently and consistently." As an Action Official (AO), the Assistant Secretary's responsibilities 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.

Our review included OIG external audits of programs that were originally part of OESE. Staff in OESE were originally responsible for resolution and followup of these audits. However, effective December 16, 2002, OSDFS was established as a separate principal office within the Department. OSDFS is now responsible for resolving any further corrective actions on two of the four audits reviewed.

AUDIT RESULTS

We found that improvements were needed in the OESE audit followup process. OESE did not adequately follow up and maintain documentation of corrective actions for two recommendations in one audit of OESE programs. This occurred because OESE staff believed the auditee would address corrective actions in accordance with resolution documents and did not always obtain documentation to support the completion of corrective actions. As a result, OESE did not always have assurance that corrective actions had been implemented. We also noted that corrective actions were still ongoing for one OSDFS audit, and that this audit should be reopened in the Audit Accountability and Resolution Tracking System (AARTS) to accurately reflect its status.

OESE responded to our draft report and generally concurred with the finding and recommendations. OSDFS responded to our draft, and did not agree with the suggestion presented in the OTHER MATTER section of this report. The full text of the OESE and OSDFS responses are included as Attachments 2 and 3 to this audit report.

Finding 1 OESE Corrective Action Followup and Documentation Needs Improvement

We found that improvements were needed in the OESE audit followup process. OESE did not adequately follow up and maintain documentation of corrective actions for two recommendations in one audit of OESE programs. Overall, OESE files did not contain documentation to support completion of corrective actions for 2 of the 19 recommendations (11 percent) included in our review.

Specifically, we found supporting documentation was not maintained to support completion of corrective actions for the following recommendations:

Audit Control Number (ACN) A02-A0001: "New York City Board of Education's Oversight of Title 1, Part A, Improving Basic Programs Operated by Local Educational Agencies Services to Private School Children," issued March 28, 2001.

> Recommendation 1.1: Require the New York State Department of Education, in partnership with the NYCBOE [New York City Board of Education], to include a review of a sample of program expenditures for services to private school students as a part of the monitoring process for "decentral" Title I programs.

The Department concurred with the audit finding and recommendation and also acknowledged in the Program Determination Letter (PDL), dated September 28, 2001, that to ensure effective fiscal control and accountability, "NYCBOE must review annually a sample of non-personnel expenditures in its 'decentral' Title I program, particularly in light of the severity of past violations." However, we noted the Department did not obtain documentation from NYCBOE to provide assurance that a sample review of non-personnel expenditures was conducted.

> Recommendation 2.1: Require the New York State Department of Education to ensure that the NYCBOE repays the remaining $3,320 in improper expenditures to the appropriate funding source.

The Department partially sustained this audit finding and stated in the PDL that the planned corrective action for $1,990 of questioned costs to be rebooked to NYCBOE's tax levy funds was acceptable. As explained in NYCBOE correspondence, this planned action would involve reversing the expense to Title 1 funds and charging "...general money received from the city." OESE staff did not obtain documentation to provide assurance that the expenditure was rebooked to tax levy funds.

Audit Followup Requirements

OMB Circular A-50, "Audit Followup," Section 5, states:

> Audit followup is an integral part of good management, and is a shared responsibility of agency management officials and auditors. Corrective action taken by management on resolved findings and recommendations is essential to improving the effectiveness and

> efficiency of Government operations. Each agency shall establish systems to assure the prompt resolution and implementation of audit recommendations. These systems shall provide for a complete record of action taken on both monetary and non-monetary findings and recommendations.

The Department's Post Audit User Guide (Draft Version as of January 2, 2001, in effect during our audit scope), Section III, Chapter 5, Part B, states:

> Primary responsibility for following up on nonmonetary determinations rests with AOs, who must have systems in place to ensure that recommended corrective actions are implemented by auditees. The OCFO [Office of the Chief Financial Officer] has responsibility for verifying that AOs have systems in place to followup on corrective actions and ensuring overall effectiveness of ED's [Department of Education's] audit resolution followup system.

Part B of the guide further states, "Accurate records must be kept of all audit followup activities including all correspondence, documentation and analysis of documentation."

Subsequent to the resolution of the audits we reviewed, the Department established additional guidelines that expand upon the documentation requirements for audit resolution files. The Department's "Guidelines for Establishing File Folders and Maintaining Documentation For External Audits," were effective as of September 1, 2002, and state that audit resolution files should contain "...All documentation pertaining to audit follow-up activities, e.g., documentation from the auditee substantiating the corrective action taken…." The guidelines are provided as Attachment 1 to this report.

OESE staff stated that once an auditee addresses the PDL and provides a response, they consider the findings and recommendations closed. OESE staff also mentioned that they believe the auditee will address the corrective actions in accordance with the response provided.

Without appropriate documentation and followup of corrective actions, OESE does not have assurance that NYCBOE implemented the corrective actions required by the Department in the PDL.

Recommendations

We recommend that the Assistant Secretary for the Office of Elementary and Secondary Education ensure that, for future audits:

1. Followup is pursued to obtain assurance that corrective actions have been implemented by the auditees; and
2. Adequate documentation is maintained to support the completion of all corrective actions, in accordance with OMB requirements and the Department's external audit documentation and file guidelines.

OESE Response: OESE generally agreed with our finding. In response to the two areas where documentation was not maintained, OESE stated:

> Please note that it is our standard practice before each monitoring visit to review an auditee's corrective actions to appropriately assess their proper implementation during our on-site monitoring visits. We will make a note to the file of the follow up monitoring activity in the future.

In its response, OESE also stated they support program offices working together to develop clearer policies on follow up processes. OESE stated that it believed a component of this clarification should be the focus of limited resources on the most significant findings and their corresponding corrective actions in an appropriate priority order.

OIG Response: We reviewed the OESE response and determined that no changes to the report were required.

OTHER MATTER

Corrective Actions Are Still Underway for One OSDFS Audit

At the time of our review, the OSDFS was actively working to ensure corrective actions were completed for an audit reported as closed. Although the separate reporting of audits as resolved or closed was limited under the Department's prior tracking system, the current system does allow audits to be separately reported as resolved or closed. Specifically, we found for ACN A03-A0008, "Colorado State and Local Agencies' Compliance with the Gun Free Schools Act of 1994," corrective actions to address one recommendation are still underway. This audit was closed in the prior tracking system as of March 31, 2001.

OCFO staff are implementing enhancements to AARTS that will allow a change in the status of an audit after it is closed. If corrective actions for this audit are still ongoing once these enhancements are complete, we suggest OSDFS reopen this audit in AARTS to correctly reflect the status as resolved, but not closed. Until the enhancements are completed, OSDFS should keep OCFO apprised of the status of corrective actions for this audit so that the audit may be appropriately reported as resolved, but with corrective action still in process, in Department management reports and in the *Semiannual Report to Congress*.

OSDFS Response: OSDFS did not agree with the suggestion. In its response, OSDFS stated:

> We believe that we have taken appropriate action in pursuing the full implementation of Colorado's corrective actions, and we will continue to work with CDE on its implementation of the GFSA provisions. We do not believe that the audit report itself should remain open simply because of our ongoing technical assistance with Colorado.

> After the issuance of the March 31, 2001 program determination letter to the Colorado Department of Education (CDE), CDE provided its response, in a letter dated June 27, 2001, outlining the corrective action steps it would take to fully comply with the Gun-Free Schools Act (GFSA). As a result of their corrective action response, the audit report (ACN: A03-A0008) was closed in ED's Automated Audit Resolution and Tracking System (AARTS).

OIG Response: We noted that the Program Determination Letter for ACN A03-A0008 stated the following:

> The CDE must continue its corrective action to: (1) require a minimum of one year expulsion from school for those students who have been determined to have brought a firearm to school; and (2) specifically allow the chief administering officer of each LEA to modify such expulsion requirement for a student on a case-by-case basis. The Assistant Secretary will continue to provide technical assistance to the CDE in this process.
>
> Within 90 days of the date of this letter, and at three (3) month intervals thereafter, CDE must report on its progress in implementing its corrective action plan.

We found that although CDE was informing the Department of progress in completing corrective actions, the corrective actions had not been completed. We noted that over three years had passed since the issuance of the audit report in September 2000 at the time of our review. We believe that audits should not be reported as closed in the current tracking system when corrective actions have not been completed. No changes were made to the report based on OSDFS' response.

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 action. To accomplish our objective, we reviewed applicable laws and regulations, and Department policies and procedures. We conducted interviews with OESE and OSDFS program staff responsible for resolving and following up on corrective actions for the audits selected. We also reviewed documentation provided by OESE and OSDFS staff to support the corrective actions taken for the recommendations included in our review.

The scope of our audit included OIG audits of OESE programs at external entities issued during the period October 1, 1997, through September 30, 2002. The audits in the scope were reported by the Department's audit resolution system as having been "closed" on or prior to September 30, 2002. A total of 12 OESE audits, representing 50 recommendations, met these criteria.

To select OESE audits to review, we evaluated the status of the recommendations and the corrective actions required by the Department. We judgmentally selected both OESE audits that had monetary findings, and two additional OESE audits in a high-impact program. These latter

two audits involved a program that later became part of the newly formed OSDFS. The 4 audits reviewed represented 19 recommendations and were as follows:

- ACN A02-A0001, "New York City Board of Education's Oversight of Title 1, Part A, Improving Basic Programs Operated by Local Educational Agencies Services to Private School Children," issued March 28, 2001,

- ACN A05-B0005, "The Chicago Public Schools' Administration of Title 1, Part A, Funds for Providing Services to Private School Children," issued March 29, 2002,

- ACN A03-A0008, "Colorado State and Local Agencies' Compliance with the Gun Free Schools Act of 1994," issued September 13, 2000, and

- ACN A06-A0006, "New Mexico State and Local Education Agencies' Compliance with the Gun-Free Schools Act of 1994," issued September 28, 2000.

We relied on computer-processed data initially obtained from the OIG's Audit Tracking System to identify OIG audits issued during the scope period. We reconciled this data to the Department's Common Audit Resolution System (CARS), and to audits reported in the *Semiannual Reports to Congress* to ensure that we had captured all audits issued during the period. We also reviewed copies of the audit reports to determine that the audits met the scope period under review. We confirmed data in the audit reports to data in the Department's AARTS, which replaced CARS in July 2003. Based on these tests and assessments, we determined that the computer-processed data was reliable for meeting our audit objective.

We conducted fieldwork at Department offices in Washington, DC, during the period November 2003 through April 2004. We held an exit conference with OESE and OSDFS staff on April 14, 2004. Our audit was performed in accordance with government auditing standards appropriate to the scope of the review described above.

STATEMENT ON MANAGEMENT CONTROLS

As part of our review, we assessed the system of management controls, policies, procedures, and practices applicable to the audit followup process for OIG external audits of OESE and OSDFS programs. Our assessment was performed to review the level of control risk and determine the nature, extent, and timing of our substantive tests to accomplish the audit objective.

Because of inherent limitations, a study and evaluation made for the limited purpose described above would not necessarily disclose all material weaknesses in the management controls. However, our assessment disclosed management control weaknesses that adversely affected OESE's ability to ensure corrective actions were taken by external entities in response to audits of OESE programs. These weaknesses and their effects are fully discussed in the AUDIT RESULTS section of this report.

ADMINISTRATIVE MATTERS

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

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

Statements that managerial practices need improvements, as well as other conclusions and recommendations in this report represent the opinions of the Office of the Inspector General. Determinations of corrective action to be taken will be made by the appropriate Department of Education officials.

In accordance with the Freedom of Information Act (5 U.S.C. § 552), reports issued by the Office of Inspector General are available to members of the press and general public to the extent information contained therein is not subject to exemptions in the Act.

We appreciate the cooperation provided to us during this review. Should you have any questions concerning this report, please call Michele Weaver-Dugan at (202) 245-6941. Please refer to the control number in all correspondence related to the report.

Sincerely,

Helen Lew /s/
Assistant Inspector General for Audit Services

Attachments

Guidelines for Establishing File Folders & Maintaining Documentation For External Audits (Effective September 1, 2002)

The following procedures are set forth as *guidelines* for establishing file folders and maintaining accurate and complete documentation on all actions taken to resolve findings of external audits of ED programs.

1. An official audit resolution file folder should be established for each audit report.

2. Each file folder should contain, at a minimum, the following documents:

    - The Federal Audit Clearinghouse's audit cover sheet titled "Audit Description Data"
    - Copy of the CARS generated "Summary of Findings Requiring Resolution"
    - Copy of the audit report or pages of the audit report that provide relevant information to the resolution of the audit findings, including the findings, the auditee's corrective action plan or response to the findings, the section on the status of prior year findings, and the ED portion of the Schedule of Expenditures of Federal Awards
    - A listing of the triage decisions for each audit finding
    - Documentation of all correspondence and communication with the auditee, the auditor, and other appropriate individuals, including corrective action plans and necessary work papers
    - Copy of the PDL
    - Copy of the Audit Clearance Document (ACD)
    - All documentation pertaining to audit follow-up activities, e.g., documentation from the auditee substantiating the corrective action taken, results of any monitoring visits, relevant information from the next year's audit that reports whether appropriate corrective action was taken on a prior year finding.
    - Documented evaluations or conclusions of the [Principal Office (PO)] 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

3. Each official file folder should also contain, as appropriate, the following documents:

    - Documented evidence of technical assistance provided
    - [Office of General Counsel (OGC)] and ED-OIG comments
    - ED-OIG concurrence/non-concurrence of PDLs for all audits issued by ED-OIG or in which the audit has questioned costs of $500,000 or more
    - In the event an Administrative Stay has been requested and approved, all documents pertaining to the request for an Administrative Stay, e.g., the request and approval memoranda
    - In the event an auditee requests a grantback, all documentation pertaining to the grantback

Attachment 2

UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF ELEMENTARY AND SECONDARY EDUCATION

JUL 14 2004

MEMORANDUM

TO: Michele Weaver-Dugan, Director
Operations Internal Audit Team

FROM: Jeanette J. Lim
Deputy Assistant Secretary

SUBJECT: Comments on OIG Draft Audit of OESE and OSDFS
Follow-up on Corrective Actions (ACN: ED-OIG/A19-E0004)

Thank you for the opportunity to comment on this draft audit report that addresses follow up processes for external OIG audits. OESE recognizes the importance of following up on corrective actions and has established practices that reflect their importance. Further, the OIG review concluded that 17 of the19 findings were handled properly and that only two raised concerns, one of which was in an OESE program. Specifically OIG found that supporting documentation was not maintained. Please note that it is our standard practice before each monitoring visit to review an auditee's corrective actions to appropriately assess their proper implementation during our on-site monitoring visits. We will make a note to the file of the follow up monitoring activity in the future.

We note that discussion at the exit conference raised other related matters regarding follow up steps on corrective actions. We support the Office of General Counsel's suggestion that program offices such as OESE, OCFO, OGC and OIG work together to develop clearer policies on follow up processes. We believe a component of this clarification should be how to focus limited resources on the most significant findings and their corresponding corrective actions in an appropriate priority order.

If you require any additional input for your final report, please contact my office. Again, thank you for the opportunity to comment.

Attachment 3

MEMORANDUM

UNITED STATES DEPARTMENT OF EDUCATION

WASHINGTON, D.C. 20202-_____

Date: June 30, 2004

To: Helen Lew
Assistant Inspector General For Audit

From: Deborah A. Price
Deputy Under Secretary
Office of Safe and Drug-Free Schools (OSDFS)

Subject: Draft Audit Report
Audit Follow-up Process – External Audits
Audit Control Number: ED-OIG/A19-E0004

Thank you for the opportunity to comment on the subject draft audit report. We have reviewed the above-referenced draft report and, although no response is required for the "Other Matter", we would like to provide this response as clarification of the steps we took to resolve and close this matter.

After the issuance of the March 31, 2001 program determination letter to the Colorado Department of Education (CDE), CDE provided its response, in a letter dated June 27, 2001, outlining the corrective action steps it would take to fully comply with the Gun-Free Schools Act (GFSA). As a result of their corrective action response, the audit report (ACN: A03-A0008) was closed in ED's Automated Audit Resolution and Tracking System (AARTS).

As indicated in the program determination letter, ongoing technical assistance would be provided to CDE in the process of implementing the required corrective actions. Since the close of the audit report, we have provided technical assistance to CDE as steps have been taken to fully implement the corrective actions. In addition, CDE has kept us informed of its progress through the submission of 90-day reports. We have also consulted OGC and OIG regarding CDE's progress throughout the implementation process.

We believe that we have taken appropriate action in pursuing the full implementation of Colorado's corrective actions, and we will continue to work with CDE on its implementation of the GFSA provisions. We do not believe that the audit report itself should remain open simply because of our ongoing technical assistance with Colorado.