Testimony of Inspector General Kathleen S. Tighe
U.S. Department of Education Office of Inspector General
Before the
Committee on Education and the Workforce
Subcommittee on Higher Education and Workforce Training and
Subcommittee on Early Childhood, Elementary, and Secondary Education
U.S. House of Representatives
September 10, 2014

Chairwoman Foxx, Chairman Rokita, Ranking Member Hinojosa, Ranking Member Loebsack, and members of the Subcommittees, I am pleased to be here today to discuss audit resolution and timeliness of actions by the U.S. Department of Education (Department) to address recommendations made by the Office of Inspector General (OIG). I want to thank the Subcommittees for holding this hearing and highlighting an issue that is such a vital part of good government.

As you know, the mission of the OIG is to promote effectiveness, efficiency, and integrity in Federal programs and operations. We do this by conducting independent audits, inspections, investigations, and other reviews. When we identify problems or weaknesses, we make recommendations on actions the Department should take to correct those weaknesses or fix those problems. Each year, we make hundreds of recommendations to the Department that when implemented, can result in improvements in program efficiency and effectiveness, help to prevent fraud, and save taxpayer dollars. The primary benefit from our work is realized through the timely and effective implementation of our recommendations. Our recommendations, when implemented, have led to actions by the Department to put in place protections to prevent fraud and abuse, protect student interests, improve oversight and monitoring, and recoup taxpayer

dollars. Unimplemented recommendations hamper the Department's ability to increase program and operational efficiency and prevent waste. Unimplemented recommendations can be the result of ineffective audit resolution and followup processes, which includes the Department's activities in response to formal recommendations in OIG audits, inspections, and other reports.[1] Since 2002, we have issued 6 audit reports that identified weaknesses in the Department's audit resolution and followup processes. Recent efforts by the Department appear to have led to improvements in its processes, but work remains to be done, particularly regarding audits of recipients of Federal education funds.

As requested, today I will share with you background information on the Department's audit resolution and followup processes, the findings of our work in this area, the current status of the Department's audit resolution efforts, and the challenges that remain.

Background on the Department's Audit Resolution and Followup Processes

The Office of Management and Budget (OMB) Circular A-50, "Audit Followup," provides the policies and procedures for use by executive agencies when considering audit reports, such as those the OIG issues. It requires agencies to establish systems to ensure the prompt and proper resolution and implementation of audit recommendations and provides that agency heads are responsible for designating a top management official to oversee audit followup, including resolution and corrective actions. At the Department, the Chief Financial Officer is the

[1] The Department is also responsible for resolving recommendations in other products related to Department programs and operations, including those issued by the Government Accountability Office and by non-Federal auditors (such as independent public accountants and State auditors).

designated Audit Followup Official and is charged with the timely resolution of audit reports and ensuring that appropriate corrective actions have been taken on agreed-upon audit recommendations. Circular A-50 requires agencies to resolve audits within 6 months of issuance. It also requires the OIG to review and generally agree with the Department's proposed corrective action on recommendations made in an audit report before the audit can be considered resolved.

The audit resolution process begins with the issuance of a final audit report. There are generally two types of audits—internal and external. *Internal audits* identify deficiencies and recommend improvements in Department operations and programs to ensure that the Department is using Federal education funds and managing Department programs effectively and efficiently and accomplishing program goals. *External audits* are of external entities that receive funding from the Department, such as State educational agencies (SEAs), local educational agencies (LEAs), 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 monetary, which recommend that the entity return funds to the Department, or nonmonetary, which recommend that the entity improve operations or internal controls.

The next step in the process is audit resolution. An internal audit is generally considered *resolved* when the Department prepares a corrective action plan and the OIG agrees that the plan will adequately address each recommendation. An external audit is considered resolved when the Department issues a program determination letter to the external entity that the OIG similarly

agrees will adequately address the audit recommendations. Upon resolution, the Department is responsible for ensuring that the corrective actions are actually implemented. When the corrective actions for a recommendation have been implemented, the recommendation is considered *completed*. An audit is considered *closed* when the Department ensures that all corrective actions have been implemented, including funds repaid or settlement made. While there is an OMB timeliness requirement for audit resolution, there is no requirement for when a corrective action must be completed or closed.

As required by the Inspector General Act of 1978, as amended, the OIG provides information in its Semiannual Reports to Congress on audit reports issued, audit reports that are not yet resolved, and audit reports that have been resolved but for which corrective actions have not been implemented for at least a year after issuance of the final audit report.

Findings From Recent OIG Work

Since 2002, we have issued 6 audit reports on the Department's audit resolution and followup processes, most recently in 2012. These reports have noted longstanding challenges in these areas, including:

- Ineffective internal controls over audit resolution and followup, such as the failure to ensure compliance with OMB Circular A-50.
- A lack of staff to conduct resolution activities, training so that staff had sufficient knowledge to effectively conduct resolution activity, organizational priority placed on audit resolution activities, and overall accountability.

- Untimely resolution of audits, particularly external audits, that has (1) impacted the potential recovery of funds due to the statute of limitations[2] applicable to monetary recommendations made in audits of entities (such as SEAs and LEAs) and (2) delayed corrective actions by auditees.

In response to the findings of our 2012 review of external audit resolution activities, the Department proposed a series of actions to be implemented over the short term to address many of the specific recommendations in the report. At that time, the Department established a cross-agency team to review the audit resolution process. Members of this team agreed its first critical business task would be to resolve all overdue OIG external audits. In early 2013, the Department stated it was on track to resolve the audits by May 31, 2013; however, it did not meet that deadline. As of August 2014, 10 OIG external audits issued since 2010 remain unresolved. According to Department managers and its official publications, the timely resolution of external audits remains a high priority and the cross agency team has been working with program offices to develop process solutions. Regarding internal audits, the Department has established a process to resolve these audits in 3 months instead of the 6 month OMB requirement. For those audits not resolved in 3 months, the Department is considering options for ways for the Office of the Chief Financial Officer to become directly involved in efforts to facilitate resolution. Currently, only one internal audit recommendation remains unresolved.

[2] The General Education Provisions Act (GEPA) establishes a statute of limitations applicable to the Department's recovery of funds from program recipients, including SEA and LEA recipients. The Department cannot seek recovery of funds that were spent more than 5 years before an auditee receives a program determination letter. To recover funds, the Department also must establish that a grant recipient's violation caused harm to the Federal interest. Examples of Federal interest include serving eligible beneficiaries, providing authorized services, and complying with expenditure requirements. GEPA does not apply to programs authorized under the Higher Education Act of 1965.

Current Status and Challenges

Information from the Department's tracking system,[3] as of August 2014, indicates the following regarding OIG reports issued between January 1, 2010, through December 31, 2013:

Internal Audits

- The OIG issued 66 internal audit reports, which contained a total of 527 recommendations.
  - 454 of the 527 recommendations have been resolved and implemented.
  - 72 recommendations have been resolved, but not yet implemented.
  - As noted above, 1 recommendation remains unresolved.
- 12.2 percent of the resolved recommendations were not resolved within OMB's 6-month deadline.
  - These recommendations were overdue for resolution by an average of 400 days.
- For reports issued in 2010, only 63 percent of OIG audit recommendations were resolved timely, but in each calendar year since 2010, 93 percent, or more, of OIG recommendations have been resolved timely.

The Department has made progress in its efforts to more timely resolve recommendations made in internal audit reports; however, challenges remain, particularly in the area of repeat findings, which are far too common in our information technology (IT) security

[3] The Department tracks audit resolution and the implementation of corrective actions related to OIG products in its Audit Accountability and Resolution Tracking System (AARTS). AARTS includes recommendation-level detail for all internal audits where the Department is directly responsible for implementing corrective action. The system includes less detailed information on the status of individual recommendations made in external audits.

work and in our financial statement audit work. Repeat findings are deficiencies that have been identified in previous work but that remain unaddressed or ineffectively addressed, and thus are again identified as findings in subsequent work. The following are examples of some of recent repeat findings:

- The FY 2013 Federal Information Security Management Act review found that 7 of the 11 security control areas we reviewed—configuration management, identity and access management, incident response and reporting, risk management, security training, remote access management, and contingency planning—contained repeat or modified repeat findings from OIG and contractor reports issued during the prior 3 years.

- The FY 2013 audits of the Department's and the Federal Student Aid office's (FSA) financial statements by OIG's independent financial auditors found significant repeat deficiencies relating to financial reporting processes and controls surrounding FSA's loan servicing systems. Moreover, in its 2013 financial statement audit, OIG's contract auditors strongly stated that Department and FSA management need to mitigate persistent IT control deficiencies. This is important as IT permeates all aspects of programs and services coordinated through the Department. Effective monitoring and oversight of its IT systems, IT contractors, and safeguarding its information and information systems are essential to preserving the ability of the Department to perform its mission and meet its responsibilities.

External Audits

- 10 of 49 external audit reports issued (20 percent) between 2010 and 2013 remain unresolved.
  - Of the 39 resolved audits, 13 (33 percent) have been fully implemented.
- 95 percent of the audits resolved had not been resolved within OMB's 6-month deadline.
  - These audits were overdue for resolution by an average of 439 days and included questioned costs of $59 million and unsupported costs of $124 million.
- In each calendar year between 2010 and 2014, 80 to 100 percent of OIG external audit reports issued were not resolved timely.

Although it has made progress, timeliness still remains a challenge to the Department in its ability to resolve OIG external audits. This is an area of particular concern to my office, as the untimely resolution of external audits impacts the potential recovery of funds, creates delays in the development and implementation of corrective actions by auditees that are intended to correct noted weaknesses in program management, and may have a negative impact on the achievement of the Department's mission and the anticipated results of individual programs. Delays also send the wrong message to program participants about the Department's tolerance for noncompliance and misuse of program funds. This is why we have regularly reviewed the Department's audit resolution and followup processes; as stated previously, we have conducted 6 audits on this subject since 2002, and we have a seventh

audit presently underway. We are currently evaluating the effectiveness of the Department's processes to ensure that external auditees are taking corrective actions to address weaknesses identified in OIG reports. We expect to issue the results of our findings later this year.

Conclusion

Audit resolution and followup are very important issues to the OIG, as the results of our work can serve as a tool for Department management in its daily operations, long-term strategic planning, and overall risk management. Our work, however, is effective only if the Department implements corrective actions in a timely manner to address identified deficiencies or weaknesses. We see that the Department is taking steps to improve its audit resolution and followup processes, and there are signs of improvement in the timeliness of audit resolution. However, work still remains. Through our current audit and ongoing activities, we will continue to closely monitor and report on the Department's progress to address audit recommendations.

Once again, I want to thank you for highlighting the issue of audit resolution and helping make it a priority for the Department. This concludes my written statement. I am happy to answer any of your questions.