



UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF THE INSPECTOR GENERAL

JUL 8 2004

CONTROL NUMBER
ED-OIG/A17-E0001

Jack Martin, Chief Financial Officer
Office of the Chief Financial Officer
United States Department of Education
Federal Building No. 6, Room 4E313
400 Maryland Avenue, SW
Washington, DC 20202

Dear Mr. Martin:

This **Final Audit Report** (Control Number ED-OIG/A17-E0001) presents the results of our audit to determine if Principal Offices (PO's) reconcile their accounting records to the United States Department of Education's (Department) Central Automated Processing System (EDCAPS) to ensure accuracy and completeness of information for the period October 2002 through February 2004.

AUDIT RESULTS

The objective of the audit was to determine if PO's reconcile their accounting records to EDCAPS to ensure accuracy and completeness of information. Reconciliation is a basic financial accounting control and its occurrence, frequency and timeliness helps ensure the accuracy and completeness of financial information. Our audit revealed that PO's are reconciling their accounting records of administrative expenditures to EDCAPS, however, improvements to the reconciliation process are needed. We found that PO's did not retain summary level documentation on a consistent basis to support reconciliations are being performed. In addition, PO's are not performing reconciliations at the same frequency. The Office of the Chief Financial Officer (OCFO) needs to effectively inform PO's of new EDCAPS reports that facilitate the reconciliation process. We have made recommendations to the Chief Financial Officer to improve the Department's reconciliation process and strengthen financial management.

OCFO responded to our draft report, concurring with the results and supporting the recommendations provided. OCFO also described specific corrective actions it intends to take to address the issues noted. The full text of OCFO's response is included as Attachment 2 to this audit report.

Improvements Needed for Reconciling Principal Office Administrative Expenditures to EDCAPS

OCFO has not provided PO's written policies and procedures for reconciling administrative expenditures to EDCAPS. As a result, each PO has established an ad hoc reconciliation process. We found that PO's did not retain summary level documentation on a consistent basis to support the occurrence, frequency, timeliness and overall accuracy and completeness of reconciliations. Several PO's disclosed that upon completion of reconciliation, reports generated and used are disposed of and not maintained.

Reconciliations should be performed at a frequency sufficient to detect and correct problems in the financial records in a timely manner. We found that the PO's are not performing reconciliations of administrative expenditures to EDCAPS on a consistent basis. Of the 16 PO's interviewed, 8 PO's reconcile monthly, 4 PO's reconcile at different times throughout the year, 2 PO's reconcile at time of obligation, 1 PO reconciles quarterly, and 1 PO reconciles at year-end only.

The PO's lack guidance from OCFO on reconciling their records to EDCAPS and are developing their own ad hoc procedures and practices. Without Department-wide policies, there is no assurance that reconciliations are being performed in an appropriate, timely, and consistent manner. As a result, the Department lacks a key control for ensuring data is accurate and complete, errors or irregularities are detected, differences are resolved quickly, and year-end reporting of administrative expenditures and unexpended obligations are accurate. At a minimum a policy should require reconciliations, establish frequency and timeliness, and address retention of records, supporting timely reconciliation.

OCFO has made report enhancements in EDCAPS that will assist the PO's with researching and monitoring expenditures at the object class level,¹ but it has not effectively communicated the availability of new reports to the PO's. After receiving requests for report enhancements in EDCAPS, OCFO created the EDCAPS Transaction History Report that includes expenditures at the object class level. Despite OCFO notifying PO's of this report via email in September 2003, it appears the PO's are not aware of the improved tools available for reconciling administrative expenditures to EDCAPS. The report was not mentioned by any of the 16 PO's interviewed, and 11 of the PO's specifically cited this type of report as one that would assist them with their reconciliation responsibilities.

The Department's *Administrative Communications System Departmental Directive OCFO:1-103*, January 13, 2004, Financial Management (Directive) defines financial management as the coordination of activities, systems and personnel concerned with the acquisition, allocation, control, oversight, effective utilization and disposition of Department-owned assets and budgetary resources. The Directive applies to all offices within the Department and other boards, commissions, and councils under the management/control of the Department and states that all Department employees are responsible for the prudent stewardship of funds entrusted to the Department. Among the specific responsibilities set forth in the Directive, the Chief Financial Officer (CFO) shall establish/implement control policies regarding/including the reconciliation of financial data; the Deputy CFO shall establish/implement management control

¹ An object class is a category in a classification system that presents obligations by the goods or services purchased.

policies regarding/including the reconciliation of financial data between PO program activity and Departmental systems; and Principal Officers shall ensure that program/operational financial data is reconciled to the Department's accounting system. The Directive is not prescriptive on reconciliation. The prior issuance of the Directive was silent on policies and procedures.

Recommendations:

To improve the Department's reconciliation process and strengthen financial management, we recommend that the CFO in coordination with the PO's Executive Officer:

- 1.1 Develop a written policy for reconciling PO's accounting records of administrative expenditures to EDCAPS that addresses the retention of summary level documentation and establishes a frequency sufficient to detect and correct problems in financial records.
- 1.2 Communicate the reporting enhancements in EDCAPS using various modes so PO's can make use of them in reconciling their records to EDCAPS.

OTHER MATTERS

During our audit, PO's indicated that EDCAPS does not report budgeted amounts at detail operational levels needed for them to fully track budget execution. According to OCFO, the Department controls and reports funds at the limitation level.² As a result, 14 of the 16 PO's interviewed maintain accounting records separate from EDCAPS on administrative expenditures and obligations at the object class level to track budget execution below the limitation level. PO's accounting records detail budgetary allotments and sub-allotments, actual expenditures, and remaining funds available, providing the PO's management with real-time data at the lowest operational levels upon request. Attachment 1 summarizes the various types of accounting records the 16 PO's interviewed maintain to reconcile administrative expenditures with EDCAPS. We suggest OCFO determine the feasibility of providing PO's with an integrated systematic solution for planning, executing, monitoring, and reconciling allotted funds at the object class level.

BACKGROUND

The Office of Management and Budget (OMB) regulates the distribution of budget authority to an agency through the apportionment process. Once OMB apportions funds to an agency, it is the agency's responsibility to control the use of those funds, and it is done so through the allotment process. In the Department, PO's are required to submit to Office of the Deputy Secretary (ODS)/Budget Service an operating plan detailing the approximate dates funds will be required, and allotments are issued in accordance with this plan.

EDCAPS, the Department's core financial system, was implemented in October 1997. EDCAPS is sponsored by the OCFO and consists of four major components:

² A limitation is a funding restriction that places a ceiling on obligation or spending authority.

- Contracts and Purchasing Support System (CPSS)
- Grant Administration and Payment System (GAPS)
- Financial Management Systems Software (FMSS)
- Travel Management System (TMS)

FMSS provides the functionality for general ledger and funds management, which includes budget formulation, budget execution, funds control, and all the related internal and external regulatory reports, including the financial statements as set forth by the Chief Financial Officer's Act of 1990, amended in 1994. FMSS also currently includes receipt management and payments management for administrative funds. In January 2002, the Department completed the implementation of Oracle Federal Financials as the financial management system to perform these functions. Currently, the Department is in the process of implementing Oracle Federal Financials 11i.

Management is responsible for establishing and maintaining internal controls. PO's Executive Officers (and equivalent officers) have the day-to-day responsibility for financial management and maintaining funds control for the programs and activities in their PO's. The responsibilities normally include: coordinating the financial management activities of their PO's, including the appropriate distribution of information and documents; determining the availability of allotments of funds for commitments and obligations; authorizing or recording commitments and obligations in appropriate financial systems; preparing operating plans for monitoring the budget and financial execution of programs and activities in their PO's; accepting goods and services; and reviewing (and certifying if necessary) financial documents and reports that show the status of funds allotted to their POs.

OBJECTIVE, SCOPE AND METHODOLOGY

The objective of the audit was to determine if PO's reconcile their accounting records to EDCAPS to ensure accuracy and completeness of information. To accomplish our objective, we gained an understanding of the controls in place at the Department over the reconciliation process. We reviewed applicable Department policies and procedures. We conducted interviews with 16 PO's (9 Program Offices, 1 Management Office and 6 Staff Offices) to determine the methods used to reconcile expenditures to EDCAPS. Additional interviews were held with OCFO/Grants Policy and Oversight Staff, ODS/Budget Service and the Office of Management (OM).

We selected three program offices and focused on reconciliations for the months of April and November 2003. In addition, we observed Office of Postsecondary Education (OPE) reconciliation operations and activities for February 2004. Our efforts did not focus on year-end reconciliations nor did we perform program office reconciliations. We judgmentally selected: one program office that did not maintain separate accounting records and therefore, did not reconcile outside of EDCAPS; one that used *The Ledger Tracker*-Access software package developed by a consultant in OM; and one that used a software package other than *The Ledger Tracker* (i.e. Excel or Access). The three program offices selected were: OPE; Office of Elementary and Secondary Education (OESE); and Office of Vocational and Adult Education (OVAE).

We relied, in part, on computer data generated from EDCAPS. We assessed the reliability of this data by comparing EDCAPS reports to accounting records maintained by PO's. Based on our preliminary assessment, we concluded that the data was sufficiently reliable for use in meeting the audit objective.

Our audit focused on the period October 2002, through February 2004. We performed our fieldwork at applicable Department PO's located in Washington, DC, from October 27, 2003, through March 1, 2004. We held an exit conference with Department officials on March 19, 2004. We performed our audit in accordance with generally accepted government auditing standards appropriate to the scope of review described above.

STATEMENT ON MANAGEMENT CONTROLS

As part of our review we gained an understanding of the management controls, policies and practices applicable to the Department's administration of reconciliations. Our review was performed to determine the level of control risk for determining the nature, extent, and timing of our substantive test to accomplish the audit objective.

For the purpose of this report, we gained an understanding of the Department's controls over the reconciliation process and classified the significant controls into the following categories:

- occurrence
- frequency
- timeliness, and
- accuracy and completeness of information.

Our assessment disclosed management control weaknesses that adversely affected the PO's reconciliation of administrative expenditures to EDCAPS. The weaknesses and their effects are fully discussed in the AUDIT RESULTS sections of this report.

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 proposed 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 findings and recommendations contained in this final audit report.

In accordance with the Inspector General Act of 1978, as amended, the Office of Inspector General (OIG) 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 OIG. 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 OIG are available to members of the press and general public to the extent information contained therein is not subject to exemptions in the Act.

We appreciate the cooperation given to us during this review. If you have any questions concerning this report, please contact Greg Spencer, Director, Financial Statements Internal Audit Team, at (202) 245-6015.

Sincerely,

A handwritten signature in black ink that reads "Helen Lew". The signature is written in a cursive, flowing style.

Helen Lew

Assistant Inspector General for Audit Services

Attachments

Types of Accounting Records Maintained by PO's

Principal Office	Excel	Access	The Ledger Tracker	Other	No Additional Records
OELA	X				
OIIA	X				
OSERS			X		
OESE			X		
OVAE		X			
OCR *	X	X			
IES	X				
OPE					X
OGC					X
OII	X				
OM				X	
OCIO				X	
OCFO		X			
OSDFS	X				
OLCA	X				
OS			X		
Total	7	3	3	2	2

*OCR uses a combination of two software.

OELA	Office of English Language Acquisition, Language Enhancement and Academic Achievement for Limited English Proficient Students
OIIA	Office of Intergovernmental and Interagency Affairs
OSERS	Office of Special Education and Rehabilitative Services
OESE	Office of Elementary and Secondary Education
OVAE	Office of Vocational and Adult Education
OCR	Office for Civil Rights
IES	Institute of Education Sciences
OPE	Office of Postsecondary Education
OGC	Office of the General Counsel
OII	Office of Innovation and Improvement
OM	Office of Management
OCIO	Office of the Chief Information Officer
OCFO	Office of the Chief Financial Officer
OSDFS	Office of Safe and Drug-Free Schools
OLCA	Office of Legislation and Congressional Affairs
OS	Office of the Secretary



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JUN 16 2004

Mr. Greg Spencer
Director, Financial Statements Internal Audit Team
United States Department of Education
Office of Inspector General
400 Maryland Avenue, SW, Room 4200 MES
Washington, DC 20202

Dear Mr. Spencer:

Thank you for providing this Draft Audit Report concerning "Improvements Needed for Reconciling Principal Office Administrative Expenditures to EDCAPS" (Control Number ED-OIG//A17-E0001). We sincerely appreciate your efforts associated with this study and the opportunity that your report provides to improve fiscal accountability across the Department.

We generally concur with your statements concerning the need for improvements in the processes used by individual Principal Offices (PO) to reconcile their financial records to the Department's official general ledger (GL) data.

In response to your specific recommendations, we offer the following:

Finding:

To improve the Department's reconciliation processes and strengthen financial management, we recommend that the CFO in coordination with the POs Executive Officers:

Recommendation:

- 1.1 Develop a written policy for reconciling POs accounting records of administrative expenditures to EDCAPS that addresses the retention of summary level documentation and establishes a frequency sufficient to detect and correct problems in financial records.

Response:

We concur with this recommendation and will establish high-level policy to support periodic reconciliation by the PO's to assure accountability of their expenditures and obligation balances as they relate to the official GL balances maintained within EDCAPS, and to support retention of supporting reconciliation documentation.

Recommendation:

- 1.2 Communicate the reporting enhancements in EDCAPS using various modes so POs can make use of them in reconciling their records to EDCAPS.

Response:

We concur that continued communications are vital and will provide additional communications specifically referencing the use of these reports, as well as information pertaining to the new reconciliation policy and procedures.

Enhancements have recently been made to three EDCAPS reports, which provide detail level expenditure and obligation information in support of reconciliation processes. Training on the EDCAPS "Document Summary Report," "Transaction History Report" and the "Status of Funds Report" is currently being provided and training materials have been made available on appropriate web sites for access by all EDCAPS users. In addition, frequent "Helpful Hints" email messages have been sent providing instruction for the use of these reconciliation reports.

Thank you again for providing this report and for your continued support. OCFO will take corrective action as quickly as possible.

Sincerely,


Jack Martin