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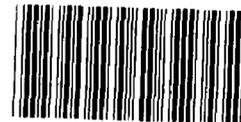
BY THE U.S. GENERAL ACCOUNTING OFFICE

# Report To The Secretary Of Education

## Second-Year Implementation Of The Federal Managers' Financial Integrity Act In The Department Of Education

GAO reviewed the Department of Education's and 22 other federal agencies' second-year progress in implementing the Federal Managers' Financial Integrity Act. The act was intended to help reduce fraud, waste, and abuse in federal government operations through annual assessments of internal controls and accounting systems.

The Department moved forward to implement the act during 1984, but progress has been slow. Significant internal control weaknesses remain to be corrected, and important internal control areas need to be effectively evaluated. The Department's accounting systems evaluations improved, but major systems continue to have serious deficiencies. GAO is making recommendations to improve evaluations of internal control and accounting systems and year-end reporting of the status of these systems to the President and the Congress.



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UNITED STATES GENERAL ACCOUNTING OFFICE

WASHINGTON, D.C. 20548

HUMAN RESOURCES  
DIVISION

B-216946

The Honorable William J. Bennett  
The Secretary of Education

Dear Mr. Secretary:

This report presents the results of our review of your Department's efforts to implement and comply with the Federal Managers' Financial Integrity Act of 1982. Our review was part of a GAO assessment of 23 federal agencies' efforts to implement the act during the second year.

As you know, 31 U.S.C. 720 requires the head of a federal agency to submit a written statement on actions taken on our recommendations to the House Committee on Government Operations and the Senate Committee on Governmental Affairs not later than 60 days after the date of the report. Under the law, the statement must also be submitted to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report.

We are sending copies of this report to the chairmen of the above-mentioned committees and other cognizant legislative committees. Copies are also being sent to the Director, Office of Management and Budget, and other interested parties.

Sincerely yours,

A handwritten signature in cursive script that reads "Richard L. Fogel".

Richard L. Fogel  
Director



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**EXECUTIVE SUMMARY**

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The Congress enacted the Federal Managers' Financial Integrity Act of 1982 to strengthen federal agencies' systems of internal control and accounting in response to continuing disclosures of waste, loss, unauthorized use, and misappropriation of funds or assets across a wide spectrum of government operations. To assess the implementation of the act, GAO reviewed the Department of Education's (ED's) and other departments' and agencies' progress in evaluating and improving these systems.

ED had a fiscal year 1984 appropriation of over \$15 billion for funding ED's principal missions. This included \$6.9 billion for fostering the elementary and secondary education needs of handicapped and disadvantaged children and \$6.7 billion for postsecondary education assistance to students attending college.

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**BACKGROUND**

The act requires that each executive agency annually evaluate its systems of internal control and accounting and report to the President and the Congress whether the systems comply with the Comptroller General's standards and provide reasonable assurance that the act's objectives have been met. The act further requires that the agencies report whether their accounting systems conform to the Comptroller General's principles, standards, and related requirements. Evaluations of internal control's adequacy are based on a comprehensive assessment of agency activities' vulnerability to fraud, waste, and abuse; detailed reviews of internal controls for activities found most vulnerable; and progress in correcting internal control weaknesses.

The Secretary of ED's 1984 year-end report said that ED's evaluations indicated its systems of internal control, taken as a whole, comply with the requirement to provide reasonable assurance that the act's objectives have been met. The Secretary reported separately that ED's evaluations showed that 15 of its 21 accounting systems conformed to the Comptroller General requirements and 6 did not.

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**EXECUTIVE SUMMARY**

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**RESULTS IN BRIEF**

Although ED's second-year implementation of the act identified some new internal control weaknesses and corrective actions are either planned or underway, GAO believes the Secretary does not yet have an adequate basis to state whether ED's system of internal controls, taken as a whole, provides reasonable assurance that the systems comply with the standards and objectives required by the act. Significant internal control weaknesses remain to be corrected, and important program areas have not been effectively evaluated.

ED's progress in evaluating accounting systems in 1984 has provided a better basis for reporting. However, GAO believes that the Secretary's statement on accounting systems would have been more meaningful if he had disclosed the significance of the systems not in conformance. These systems account for almost half the value of annual transactions processed in all ED accounting systems. (See chs. 2 and 7.)

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**PRINCIPAL FINDINGS**

Although ED has made improvements, significant internal control weaknesses affecting important ED missions remained to be corrected at the end of 1984. Among the weaknesses ED found were

**Internal Control Weaknesses Remain**

- insufficient internal controls to secure from unauthorized access and manipulation ED's system for allocating \$5 billion among states and localities primarily for elementary and secondary education students and
- serious flaws in the internal control environment for tracking the accuracy of claims and collections in ED's system for reimbursing state guarantee agencies over \$800 million for college student loan defaults. This system is undergoing a complete redesign. (See ch. 2.)

**Inadequate Assessment**

ED excluded important program areas from vulnerability assessment coverage and did not effectively focus its assessment of remaining areas on potential risk to fraud, waste, and abuse. Among activities excluded during 1983 and 1984 were ED collections of defaulted student loans and ED institutional certification and review of \$10 billion in student financial assistance funds. Without comprehensive coverage

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**EXECUTIVE SUMMARY**

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of all programs and a clear focus on program risks, ED cannot be certain that it has identified all material weaknesses. (See ch. 4.)

Inconsistent  
Evaluation  
Quality

Reviews performed on many major programs have been ineffective for determining the adequacy of internal controls. Limitations in scope, risk evaluation, testing, and corrective actions have occurred, and ED has not determined whether it will repeat such reviews or otherwise make a more complete evaluation of the programs' internal controls. Among these were reviews of all vocational and adult education activities funded at over \$800 million during fiscal year 1984 and several reviews of elementary and secondary education activities funded in excess of \$3 billion during fiscal year 1984.

Corrective  
Actions Not  
Ensured

Also, ED does not have a complete inventory of identified material internal control weaknesses or firm completion dates for correcting most weaknesses. Without a complete inventory and firm completion dates, there is little assurance that corrective actions will be taken. (See ch. 5.)

Automated  
Systems Not  
Evaluated

ED's program and administrative activities are integrated and depend on its automated systems. Because a methodology for assessing automated systems' internal controls has not been developed, an adequate evaluation of such controls was not accomplished. Without an effective evaluation of major automated systems, ED is not in a position to state whether its overall internal controls are adequate. (See ch. 6.)

Lack of  
Management  
Involvement

ED did not ensure effective implementation of internal control activities by its program offices as shown by the above conditions. This has resulted from a lack of central management control and involvement. (See ch. 3.)

Accounting  
System Problems  
Continue

ED's accounting systems continue to have serious deficiencies. Six of ED's largest systems do not conform with the Comptroller General's requirements. Deficient systems included the following.

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**EXECUTIVE SUMMARY**

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- ED's general ledger system covers all of its financial transactions. This system produces unreliable data for internal and external management reporting requirements.
- ED's payment system disbursed \$7.5 billion to grantees and contractors during fiscal year 1984. This system has experienced widespread errors and other difficulties. (See ch. 7.)

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**RECOMMENDATIONS**

GAO is making recommendations to improve evaluations of internal controls and accounting systems, which, if implemented, should give ED a more meaningful basis to state in its reports to the President and the Congress (1) whether ED's system of internal controls, taken as a whole, provides reasonable assurance that these systems comply with the act's standards and objectives and (2) the significance of its accounting systems not in conformance with the Comptroller General's principles, standards, and related requirements. (See pp. 13, 20, 32, 47, 55, and 64.)

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**AGENCY COMMENTS**

GAO provided a draft of this report to ED on July 8, 1985. In responding to the draft ED generally agreed to implement all of GAO's recommendations.

ED disagreed with GAO's conclusion that ED did not have an adequate basis to report it had reasonable assurance that its systems of internal control, taken as a whole, conform to the act's objectives. ED believes its systems are in place and it made sufficient progress to state it has reasonable assurance, even though material weaknesses exist. ED stated that the weaknesses were identified and reported by it and that corrective actions were either planned or underway. GAO believes that unless the agency's key accounting systems and internal controls over major programs and functions are adequately evaluated and tested, and until the material weaknesses in the systems are substantially corrected, the agency head does not have an adequate basis to conclude that he or she has reasonable assurance under the act. Evaluations and corrective actions may take several years to complete. An agency may be making good progress yet not have reached the point where reasonable assurance can be given. (See pp. 13 to 15.)

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ABBREVIATIONS

ADP            automatic data processing  
ED            Department of Education  
FMFIA        Federal Managers' Financial Integrity Act  
FMS           Financial Management Service  
GAO           General Accounting Office  
MIS           Management Improvement Service  
OIG           Office of Inspector General  
OMB           Office of Management and Budget



## CHAPTER 1

### INTRODUCTION

Responding to continuing disclosures of fraud, waste, and abuse across a wide spectrum of government operations, which were largely attributable to serious weaknesses in agencies' internal controls, the Congress in August 1982 enacted the Federal Managers' Financial Integrity Act (FMFIA), 31 U.S.C. 3512 (b) and (c). The law is designed to strengthen the existing requirement of the Accounting and Auditing Act of 1950 that executive agencies establish and maintain systems of accounting and internal control in order to provide effective control over, and accountability for, all funds, property, and other assets for which the agency is responsible (31 U.S.C. 3512 (a)(3)).

Effective implementation of FMFIA should enable the heads of federal departments and agencies to identify their major internal control and accounting problems and improve controls essential to the development of an effective management control system and a sound financial management structure for their agencies. To achieve these ends the act requires:

- Each agency to establish and maintain internal accounting and administrative controls in accordance with the standards prescribed by the Comptroller General, and which reasonably assure that: (1) obligations and costs comply with applicable law; (2) all funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriations; and (3) revenues and expenditures applicable to agency operations are recorded and properly accounted for.
- Each agency to evaluate and report annually to the President and the Congress on internal control systems. The report is to state whether agency systems of internal control comply with the objectives of internal controls set forth in the act and with the standards prescribed by the Comptroller General. The act also provides for agency reports to identify the material weaknesses involved and describe the plans for corrective action.
- Each agency to prepare a separate report to the President and the Congress on whether the agency's accounting systems conform to principles, standards, and related requirements prescribed by the Comptroller General.

--The Office of Management and Budget (OMB) to issue guidelines for each executive agency to use in evaluating its internal control systems. These guidelines were issued in December 1982.

--The Comptroller General to prescribe standards for federal agencies' internal control systems. The Comptroller General issued these standards covering both program and financial management in June 1983.

FMFIA requires that each executive agency use the guidelines established by OMB to evaluate and determine the compliance of its systems of internal control with standards prescribed by the Comptroller General. The OMB guidelines give agencies a basic systematic approach for assessing the vulnerability of program activities to fraud, waste, and abuse; reviewing internal controls; taking necessary corrective actions; and reporting on the condition of their internal controls.

During the first year, the Department of Education (ED) implemented the approach to FMFIA recommended by OMB. The act does not require the development of government-wide guidelines for accounting system conformance evaluations. ED developed its own guidelines and performed limited assessments of the conformance of its accounting systems to the Comptroller General's requirements. We reviewed and reported on ED's implementation of FMFIA during the first year.<sup>1</sup> ED is one of 23 agencies whose second-year efforts to implement the act were also reviewed by us.

#### EDUCATION'S SECOND-YEAR FMFIA ORGANIZATION

In its second year, ED continued implementing FMFIA using OMB guidance for internal control activities. ED retained the same organizational structure from the first year, but certain individuals changed position within ED's structure for FMFIA. Modifications were made to streamline ED's vulnerability assessments and system for tracking of internal control weaknesses (see chs. 4 and 5). ED used accounting system evaluation guidelines it developed in 1983, but expanded evaluations it conducted to all accounting systems in its inventory (see ch. 7). How ED organized to carry out internal control and accounting system evaluations is discussed below.

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<sup>1</sup>"First-Year Implementation of the Federal Managers' Financial Integrity Act in the Department of Education" (GAO/HRD-84-49, May 9, 1984).

### Internal controls evaluation

ED issued two internal control directives that define its organization and responsibilities for FMFIA--"Internal Control Systems," dated March 31, 1982, and revised November 15, 1982, and "Internal Control Reviews," dated March 28, 1983. The first directive assigns responsibilities and discusses, in general terms, procedures for developing, maintaining, reviewing, and improving the systems of internal control. The second directive provides detailed guidance to those responsible for performing internal control reviews.

The Deputy Under Secretary for Management was assigned overall responsibility for both the implementation and review of internal controls. An Internal Control Steering Committee composed of senior-level managers was established by the Secretary to develop policy guidelines for the program. The membership of this group generally provided for broad representation from ED program and administrative components.

ED's internal control systems directive assigned responsibility to the Director, Management Improvement Service (MIS), Office of Management, for directing the day-to-day internal control activities associated with implementing the act. The directive assigns primary responsibility to ED principal operating component heads for evaluating and reporting annually to the Secretary whether internal control systems within their organizations conform to FMFIA requirements. During 1984 MIS staff assumed responsibility for internal control quality evaluation, which was previously performed by a committee of senior-level managers reporting to the Deputy Under Secretary.

### Accounting systems evaluation

The Financial Management Service (FMS) within the Office of Management, was tasked with developing guidance for the accounting system assessments, monitoring the organizational units' performance of the assessments, and developing a consolidated report on the results of the assessments. FMS distributed guidelines for performing the assessments on September 26, 1983. The guidelines included the policies and procedures for assessing each system, as well as documentation and report preparation requirements. The guidelines on documentation state that the (1) methodology used must be fully described, (2) information gathered must be documented, and (3) conclusions reached must be supported.

In 1984, the staff of responsible program and administrative offices performed the first comprehensive evaluations of the 21 accounting systems included in ED's systems inventory. The evaluations included completion of (1) an accounting system data sheet summarizing key data on the system reviewed, (2) an analysis of key attributes for measuring systems' conformance with the Comptroller General's requirements, (3) adequate documentation of pertinent manuals and other materials affecting accounting system use, (4) a list of other external reviews and audits, and (5) a list of all material weaknesses developed in the evaluation. Following the program and administrative offices' evaluations, the FMS staff reviewed conformance of system outputs, structure, processes, and controls with required standards and objectives and tested the systems in operation.

#### Office of the Inspector General role

ED's internal control review directive designates responsibilities for the Office of the Inspector General (OIG), including reviewing ED's internal control review plan and performing the reviews to determine if ED's internal control evaluation activities adequately fulfill these responsibilities. In addition to those responsibilities, the OIG's Deputy Inspector General serves as an ex-officio member of the Internal Control Steering Committee.

During 1984, the OIG initiated a comprehensive audit of ED's implementation of internal control activities under FMFIA and conducted an in-depth review of one ED accounting system. Results of OIG reviews of internal controls and the accounting system have been provided to the Deputy Under Secretary for Management and ED's Steering Committee for FMFIA. The preliminary results were considered in preparing ED's year-end reports for 1984 to the President and the Congress on the Department's implementation of FMFIA.

#### OBJECTIVE, SCOPE, AND METHODOLOGY

The objective of our review was to evaluate ED's second-year progress in implementing FMFIA. In the review we assessed whether (1) improvements to systems of internal control and accounting were resulting and (2) ED's second annual assurance letters fairly characterized the Department's condition at year-end. Because our review focused primarily on evaluating the implementation of FMFIA, we did not attempt to independently assess the condition of ED's internal control systems or the extent to which ED's accounting systems conform with the Comptroller General's principles, standards, and related requirements. Audit work was performed in accordance with

generally accepted government auditing standards at ED headquarters in Washington, D.C., from May 1984 to May 1985 and at two of its regional offices in October and November 1984.

To obtain information on changes ED had made in its second-year implementation of FMFIA, we interviewed managers and staff from several components in ED headquarters and regional offices. Our work focused principally on ED components that had responsibilities for implementing FMFIA in 1984 and on components where FMFIA work from 1983 was incomplete or otherwise required continued efforts on corrective actions after 1983. ED's implementation of the act was centralized with the same guidelines used by each ED component. We obtained as many representative views on the FMFIA process as possible from the following major offices in ED:

- Office of Bilingual Education and Minority Language Affairs.
- Office for Civil Rights.
- Office of Education Research and Improvement.
- Office of Elementary and Secondary Education.
- Office of Postsecondary Education.
- Office of Special Education and Rehabilitative Services.
- Office of Vocational and Adult Education.

Funding for the above components accounted for over 95 percent of ED's fiscal year 1984 appropriation.

In addition, we focused our work on management and administrative services components in ED's Office of Management because of their involvement in (1) such functions as grants, contracts, payroll, accounting, and training and (2) the overall administration of ED's implementation of FMFIA. Components in our review included the Information Resources Management Service, FMS, and MIS (FMFIA oversight organization). We also evaluated changes in FMFIA implementation by ED's Office of Program and Budget Evaluation.

At ED's regional offices in New York and San Francisco, we focused our work on the adequacy of FMFIA coverage of student financial assistance, rehabilitation services, civil rights, and regional administrative functions. These regions administered a typical cross-section of the functions performed by ED's 10 regional offices.

We analyzed ED's overall vulnerability assessment report and reviewed 27 sampled vulnerability assessments performed by 6 program offices, 2 regional offices, and 3 administrative offices. The sampled 27 were selected to provide a broad cross-section of ED offices' assessment efforts and to focus on areas initially identified by assessors in the low-to-medium range of vulnerability. Over 90 percent, or 25 of our 27 sample assessments, were determined to be of low and medium vulnerability by ED's internal control staff in December 1984, as were about 90 percent of all vulnerability assessments. Our review of sampled assessments focused on whether implementation of ED's streamlined vulnerability assessment process yielded reasonable assessments of vulnerability. To evaluate vulnerability assessment's adequacy, we examined ED efforts to restructure and reduce activities subject to assessment, the capacity of ED's process to assess risk, and the quality of responses to sampled vulnerability assessments.

We also selected for evaluation 13 internal control reviews out of 80 performed by ED offices during 1983 and 1984. Eleven of the reviews were performed in 1984, and two were done in 1983. Internal control reviews from 1984 were selected to provide coverage of current work by ED program and administrative organizations. Two 1983 internal control reviews were selected to assess (1) major program evaluations performed in the first year and (2) potential need to remedy first-year reviews found out of conformance with ED guidance. First-year reviews were generally performed on programs showing the highest agency-wide vulnerability and dollar activity. To evaluate the quality of internal control reviews, we analyzed the scope of program activities covered, the effectiveness of evaluations in identifying risks, the extent of testing done to substantiate the usefulness of control techniques, and the adequacy of recommended corrective action in establishing needed control.

The internal control reviews and vulnerability assessments we sampled are not being used for statistical projection. However, we believe the sample results represent evidence of conditions in ED's implementation of FMFIA that should be corrected.

The scope of our review of ED's corrective actions and follow-up systems was limited to avoid duplicating OIG review efforts. We did analyze and discuss with program officials progress in implementing four selected corrective actions on major program weaknesses identified in ED's 1983 assurance letter and the process for assuring that reported actions on internal control weaknesses are accurate.

We examined the quality of evaluations for 11 accounting systems and discussed the assessments and the methodology used in conducting them with individuals evaluating the systems and FMS staff responsible for reviewing the evaluations. The 11 systems were selected to provide coverage of (1) both large and small systems, (2) several conditions of transaction testing performed, and (3) student financial assistance functions constituting high dollar activity at ED. The systems selected accounted for about 66 percent of the dollar volume and 29 percent of the number of transactions processed in 1984.

## CHAPTER 2

### STATUS OF INTERNAL CONTROLS AND ACCOUNTING

#### SYSTEMS NOT ADEQUATELY REPORTED

The Secretary of ED's year-end report to the President and the Congress for 1984 states that ED's systems of internal control, taken as a whole, comply with the requirement to provide reasonable assurance that these systems conform to FMFIA's objectives for preventing fraud, waste, and abuse. ED made progress in improving its systems of internal control during 1984, but reported that 17 material internal control weaknesses remained to be corrected from its 1983 and 1984 FMFIA evaluations. Although corrective actions were planned or underway, the significance of many remaining weaknesses and limitations in the scope and quality of evaluation efforts did not provide an adequate basis for ED to state that its internal control systems provided reasonable assurance that these systems conform to FMFIA's objectives for preventing fraud, waste, and abuse.

The Secretary reported separately to the President and the Congress the results of evaluations performed on ED's 21 accounting systems. The report stated that 15 systems conformed to the Comptroller General's requirements and 6 did not conform. ED's progress in evaluating accounting systems during 1984 provided a better basis for reporting, but full disclosure of the overall impact of nonconforming systems on the Department was not made. These systems account for about \$30 billion, or almost half the value of annual transactions processed in all ED accounting systems. The weaknesses remaining to be corrected in these systems are significant.

#### CONFORMANCE OF INTERNAL CONTROL SYSTEMS OVERSTATED

Although ED has initiated internal control improvements resulting from FMFIA implementation, further progress is needed in correcting material internal control weaknesses and evaluating internal controls before ED's system can afford adequate protection against fraud, waste, and abuse. Identified internal control weaknesses with the potential to significantly impair major ED program and administrative effectiveness remain to be corrected, and FMFIA processes and program coverage have not effectively addressed major internal control activities at ED.

Internal controls improved but significant weaknesses remain

ED's year-end report to the President and the Congress cites progress with several initiatives responding in full or in part to FMFIA internal control activities conducted during 1983 and 1984. ED reported, among other things, that the Office of Management completed improvement programs to

- increase use of treasury systems that eliminate financial float periods for ED fund recipients and other case management improvements at an estimated \$13.3 million savings,
- transfer ED administrative payments to a new automatic data processing (ADP) system with reduced processing time and error rates, and
- improve credit management practices accompanied by a reduction in payment defaults.

ED's Office of Postsecondary Education was reported to have improved its compliance monitoring program by creating a separate office to address some of its monitoring problems. The recovery of \$22 million from audits of student financial assistance activities was reported in 1984.

ED was appropriated \$15.4 billion in 1984. Funding of principal Department missions included \$6.9 billion for fostering the elementary and secondary education needs of handicapped and disadvantaged children, \$6.7 billion in postsecondary education assistance for students attending college, and \$1.8 billion for other federal education priorities. Effective internal controls governing the use of these funds can determine how well ED achieves its principal missions.

Reports of the Secretary and Deputy Undersecretary for Management identified 56 internal control weaknesses remaining to be corrected at the end of 1984--17 material and 39 lesser weaknesses. The 17 material weaknesses included 6 carried forward from ED's 1983 report. (See app. I.) Ten of the 17 weaknesses require long-term action and significantly impair internal controls over important ED missions. The following illustrate some of these weaknesses.

- A pervasive weakness reported was the Department's lack of procedures to effectively monitor compliance for over \$7 billion in fiscal year 1984 grants and contracts. ED has experienced financial losses due in part to

limitations in its ability to effectively oversee the activities of its grantees and contractors and has been developing a new directive for improving its grant monitoring process which was to be issued at the end of December 1984, according to its year-end report. As of May 1985, the draft directive was being reviewed in ED's Office of Management, and ED was continuing work on other guidelines for contract monitoring.

- The Office of Educational Research and Improvement statistically allocated an estimated \$5 billion in ED formula grant funds during 1984 among states and localities. The allocations were performed primarily for ED's Office of Elementary and Secondary Education using computer applications of legislative funding distribution formulas. A security system was not in place at the end of 1984 to limit unauthorized access to allocation data files, and staffing for the allocation function was insufficient, thus risking inappropriate distribution of grant funds.
- Under the Guaranteed Student Loan Program, ED reinsures state guarantee agencies that directly insure low interest loans by private lenders to college students. During 1984, there were in excess of \$800 million in student loan defaults that ED paid in reinsurance claims to state agencies which were required to pursue collection. ED found the internal control environment for tracking the accuracy of claims and collections in the reinsurance system to be seriously flawed, and the system was being completely redesigned.
- Postsecondary educational institutions received over \$100 million of ED grant funds during 1984 for developing improved curriculum and other institutional operating improvements. Inappropriate institutional development activities have been funded in past years because allowable cost criteria were not followed consistently. ED procedures defining allowable costs were under revision at the end of 1984.

ED's actions to resolve these and other significant weaknesses are important initiatives resulting from FMFIA. However, until improvements are in place to correct material weaknesses, ED is not in a position to state that its internal controls provide reasonable assurance that the FMFIA objectives have been satisfied. Also, the significance of internal control weaknesses to ED's operations was in many cases not apparent in ED's year-end report to the President and the Congress. (See app. I.) Information to understand the gravity of ED weaknesses

was often available in detailed internal control reviews or otherwise from discussions with knowledgeable ED officials. ED future year-end reports would be more meaningful if they identify the significance of its internal control weaknesses to ED operations as a whole.

Limitations in evaluation  
of internal controls

Six of ED's 17 unresolved material internal control weaknesses were inadequacies in implementing the FMFIA process. (See app. I.) These and other limitations we found detract from ED's statement that its systems of internal control conform to the act's requirements. Without complete and effective evaluation coverage of ED internal control systems, it is uncertain whether all weaknesses that materially affect the Department's missions are being identified and tracked for resolution. Conditions that detract from ED's 1984 internal control statement are

- evidence of an apparent lack of central management commitment to effective internal control implementation during 1984 (see ch. 3),
- weaknesses in the assessment of program and administrative vulnerability to fraud, waste, and abuse (see ch. 4),
- limitations in the quality or coverage of major internal control evaluations and implementation of corrective actions (see ch. 5), and
- lack of evaluation methodology for assessing ADP systems that control billions of dollars of ED resources (see ch. 6).

ED has identified the latter two as material weaknesses in its 1984 FMFIA letter and has planned or initiated some actions toward resolving them.

SIGNIFICANCE OF NONCONFORMING  
ACCOUNTING SYSTEMS NOT REPORTED

ED's accounting systems evaluations have improved since the first year under FMFIA, enabling ED to provide an opinion on whether its systems conformed with the Comptroller General's accounting principles, standards, and related requirements. ED's 1984 report to the President and the Congress states that 15 accounting systems conform and 6 do not. The report indicated ED accounting systems had some serious weaknesses, but that substantial progress has been made and plans are in place to correct noted deficiencies by the end of 1986.

The report does not convey the importance of the six nonconforming systems to ED's financial operations. About \$30 billion, or almost half the value of ED's 1984 transactions, was processed by the six systems reported as not being in conformance. The problems with five of these systems require major upgrades or conversion to new systems, as illustrated below.

--ED's general ledger system, which accounted for about \$18 billion in fiscal year 1984 transactions, was reported to have poor audit trails and unreliable data to meet internal and external management and reporting requirements.

--\$7.5 billion was disbursed in fiscal year 1984 to contractors and grantees through ED's payment system. This system was found to have widespread errors, cash management information not readily available, and needed improvement in interfacing with other ED systems and reporting capabilities. As a result, payments may be made prematurely, and unnecessary interest cost may be incurred by the government.

--About \$2.8 billion of transactions during 1984 were processed by ED's accounts receivable system, which produced inaccurate reports and had limited capabilities for aging over \$10 billion in receivables at the end of fiscal year 1984. As a result, ED is hampered in its attempts to solve its longstanding debt collection problems.

The deficiencies in ED's accounting systems involve most major aspects of ED's financial operations, including cash management, receivables, property, fund control, and central accounting.

#### CONCLUSIONS

ED needs to reconsider its approach for future year-end reporting of the condition of its internal control and accounting systems to the President and the Congress. Having completed most FMFIA requirements, of itself, does not necessarily provide an adequate basis for asserting that the internal control systems provide reasonable assurance that they comply with the act's requirements. ED needs to consider and report the significance of weaknesses remaining to be corrected, areas not effectively reviewed under FMFIA, and FMFIA processes to be remedied in preparing future year-end statements.

If ED implements our recommendations to correct problems noted in chapters 3 through 7 of this report and resolves its material internal control weaknesses, we believe ED will have a more meaningful basis for (1) concluding whether its internal control systems, taken as a whole, provide reasonable assurance that these systems comply with FMFIA objectives for preventing fraud, waste, and abuse and (2) reporting accounting systems' conformance with the Comptroller General's principles, standards, and related requirements.

RECOMMENDATION TO THE  
SECRETARY OF EDUCATION

We recommend that the Secretary include in future year-end FMFIA reports information disclosing the significance of internal control weaknesses to ED operations.

AGENCY COMMENTS

ED believes that our report does not adequately reflect the positive achievements of its internal control program. In ED's view, the report does not adequately describe the overall progress either in implementing FMFIA or in realizing improvements in systems of internal control. (See app. III.)

We disagree. This report contains a description of the principal internal control and accounting system accomplishments cited in ED's 1984 assurance letter to the President and the Congress and also identifies FMFIA process accomplishments, such as vulnerability assessment streamlining and automation of the system for tracking corrective actions on internal control weaknesses. (See pp. 2, 8, 9, 21, 42, 43, and 58.) The report also states that ED implemented its FMFIA program in accordance with OMB guidance. (See p. 2.)

ED also believes it had an adequate basis for stating, at the end of 1984, that its system of internal controls, taken as a whole, provides reasonable assurance that the system complies with the act. (See app. III, pp. 71 to 73 and 77.) ED stated that OMB guidance provided that (1) it was unrealistic to establish minimum evaluation criteria for agencies to achieve before providing reasonable assurance and (2) the sum and substance of all information available was to be considered, including assurances of agency officials, known internal control weaknesses, and OIG, GAO, and other evaluative work performed within the agency. ED stated further that its year-end report had used the format and language specifically provided by OMB, which allows agencies to conclude reasonable assurance while disclosing material weaknesses and lesser deficiencies. (See app. II for OMB format.)

The reporting format and language contained in OMB's December 1982 guidance for agencies' statements on internal control systems does not address the extent to which material weaknesses and unevaluated systems preclude agencies from reporting that their internal control systems, taken as a whole, comply with requirements of the act. In this regard, ED advised us that it believed neither the discovery of internal control deficiencies nor the occurrence of errors in the administrative process, in itself, precludes ED from reporting reasonable assurance. ED believed its internal control weaknesses were not of such magnitude as to preclude it from reporting reasonable assurance for its systems as a whole. ED stated that the criterion of reasonableness acknowledges that system errors or irregularities may occur but that efforts will be made to minimize their occurrence and to correct identified deficiencies in a timely, cost-effective manner.

We recognize that management judgment is involved in reaching a conclusion that the internal control systems, taken as a whole, provide reasonable assurance that the act's requirements have been met. In deciding whether their systems provide reasonable assurance, we believe agencies need to consider four factors collectively:

- The comprehensiveness and quality of the evaluation work performed.
- The significance of the weaknesses disclosed.
- The status of corrective actions.
- The extent to which accounting systems conform to the Comptroller General's requirements.

In our opinion, unless the agency's key accounting systems and internal controls over major programs and functions are adequately evaluated and tested, and until the material weaknesses in the systems are substantially corrected, the agency head does not have an adequate basis to conclude that he or she has reasonable assurance under the act. Evaluations and corrective actions needed to address the act's objectives may take several years to complete. In other words an agency may be making good progress toward that goal, yet not have progressed to the point where reasonable assurance can be provided.

In ED's case, we show in chapters 4 to 6 of this report that many systems have not been adequately evaluated. In chapter 4, we show that ED did not cover important program and administrative areas in assessing its vulnerability to fraud, waste, and abuse. In chapter 5, we show that ED's internal

control reviews performed on many major programs were not adequate to identify internal control weaknesses. In chapter 6, we point out that ED does not have a methodology for assessing ADP controls, and ED's programs and administrative activities are integrated with and dependent on its ADP systems.

We also demonstrate that many of the uncorrected material weaknesses reported by ED require long-term action to alleviate, and in the meantime they significantly impair internal controls over important ED missions. Under these circumstances, we cannot agree that ED had an adequate basis at the time of its 1984 annual statement to conclude that its internal control systems, taken as a whole, fully comply with the act's requirements. We also believe that ED needs to report the significance of uncorrected material weaknesses in its future year-end reports and have added a recommendation to this effect.

We recognize that ED reached its judgment in accordance with guidelines disseminated by OMB. In our report on first-year implementation of FMFIA (GAO/OCG-84-3), we recommended that OMB clarify and revise its guidance on what should be contained in the year-end reporting statement. We suggested an approach that would more fully disclose the overall status of controls and material weaknesses. That approach identified those functions and operations where (1) controls are adequate, (2) controls are not adequate, and (3) controls have not been sufficiently evaluated to know whether they are adequate. We believed such an approach would place the results of ED's evaluation of internal controls in better perspective and lead to more informative reporting. The House Committee on Government Operations, in its August 2, 1984, report on first-year implementation of the act, also recommended that OMB revise its guidance concerning annual reporting. The Committee suggested that it would be more practical for some agencies to report they "have reasonable assurance except . . ." and identify areas where they do not have assurance. OMB took no action on these recommendations. This issue will be discussed further in our overall report on second-year implementation of the act, which is to be issued later this year.

## CHAPTER 3

### STRENGTHENED CENTRAL MANAGEMENT NEEDED

The central management control of FMFIA activities at ED needs strengthening to obtain consistent implementation and commitment to established policies and procedures by ED program organizations. ED has delegated ultimate responsibility for FMFIA conformance to its program offices with advice and guidance provided by MIS. However, as a result of inadequate central control, ED has been unable to obtain effective and timely performance of FMFIA functions by certain of its program offices. ED reported six unresolved FMFIA process weaknesses at the end of 1984. Actions by ED's steering committee and program organizations during 1984 raise doubts about whether all ED managers and employees have maintained and demonstrated a supportive attitude toward the evaluation of internal controls.

### RESPONSIBILITY FOR ENSURING EFFECTIVE FMFIA IMPLEMENTATION

The Secretary of ED is ultimately responsible for the Department's performance toward meeting the GAO standards for internal control systems. The designated senior official for FMFIA at ED is the Deputy Undersecretary for Management, who is responsible for coordinating the agency-wide effort of evaluating, improving, and reporting on internal control systems. This responsibility includes providing assurance to the Secretary that those processes were conducted in a thorough and conscientious manner. From February through October 1984, ED's Comptroller acted in this position until the appointment of a new Deputy Undersecretary for Management was made.

To provide for internal control program activities meeting GAO standards, the Secretary initially established an Internal Control Steering Committee, a peer group representing all ED principal offices, as well as the Secretary. During 1983 the Deputy Undersecretary for Management acted as chairman of the steering committee. However, in February 1984 the chairmanship was passed to ED's Administrator for Management Services. In August 1984, the steering committee assumed responsibility for accounting systems work under FMFIA.

The steering committee reports to the senior internal control official and is responsible for providing policy and guidance to the Office of Management for implementing the program within the Department. Under ED directives, the Office of Management's role is to design ED's FMFIA process; develop a plan; provide procedures, training, and technical assistance; and monitor the program activities. The responsibility for

ensuring that ED policies and procedures for implementing FMFIA are accomplished in an effective and timely manner is delegated in ED directives to the heads of ED program and administrative offices.

SUPPORTIVE ATTITUDE NEEDED FOR  
IMPROVED INTERNAL CONTROLS

ED's steering committee has taken the position that the Office of Management will not prescribe how the principal offices will operate FMFIA activities. During 1984 ED experienced difficulty in controlling FMFIA implementation by its program organizations, and the issue of need for central enforcement responsibility was raised before the steering committee. Although the steering committee minutes contained views supporting the need for the addition of central enforcement controls, ED directives were not modified.

During the first 6 months of 1984, the steering committee did not perform at a level necessary to effectively monitor ongoing internal control activities of ED program offices to ensure successful completion of FMFIA requirements. ED's principal internal control official did not actively attend steering committee meetings during 1984. Participation reached a low point in May and July 1984 meetings, when 5 or fewer of the 10 members attended. At the July 1984 meeting the chairman commented that attendance had been poor, and thereafter attendance improved.

During 1984, the steering committee discontinued reporting the progress of FMFIA implementation to the Secretary of ED. The lack of participation in steering committee functions during the first half of 1984 and the lack of progress reporting resulted in many problems with FMFIA implementation not surfacing until late in the year.

At an August 16, 1984, steering committee meeting, a representative of the Office of Management pointed out that some principal offices were not involved in FMFIA activities to the degree necessary to ensure that the Secretary would be able to provide the President and the Congress with the information required by FMFIA. Internal control reviews were being deferred, and certain ED program organizations were not producing effective internal control reviews. The representative recommended that the steering committee, as the Secretary's representatives, expand its role to include enforcement and that a subcommittee be established to consider, among other things,

--the appropriateness of the committee expanding its role to include this responsibility or the assumption of the responsibility by another function or official in the Department and

--enforcement actions that may be needed in response to the June 1984 report prepared by ED's Internal Control Review Task Force on the quality of 1983 ED-FMFIA efforts.<sup>1</sup> (See p. 34.)

In an August 17, 1984, memorandum, the Acting Deputy Undersecretary for Management advised the chairman of the steering committee that he was clarifying the committee's role. He stated that:

"This is to confirm our previous conversations regarding the responsibilities of the Internal Control Steering Committee.

"The [committee] should provide oversight and direction for both FMFIA Section II responsibilities (internal control reviews and vulnerability assessments) and Section IV responsibilities (accounting system reviews). MIS is the primary staff for Section II activities and FMS is the primary staff for Section IV activities. The [committee] should exercise the same role in both aspects of the FMFIA."

Following this exchange ED directives were not changed, and there was no further action on the recommendations proposed before the steering committee. MIS increased monitoring of internal control review performance toward the year-end and continued to provide advice and guidance it deemed appropriate. Certain ED program organizations were unable to complete effective internal control reviews of major programs and other FMFIA functions involving assessment of the Department's vulnerability to fraud, waste, and abuse and tracking of internal control corrective actions were not effective (see chs. 4, 5, and 6). ED's year-end FMFIA report cites six material weaknesses that significantly undercut the benefits expected from the FMFIA process (see app. I). Following are some of the weaknesses illustrating the need for strengthened central management.

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<sup>1</sup>Actions recommended by the task force included an evaluation of MIS internal control staff performance, establishing responsibility for ensuring quality of internal control reviews, and development of a process to determine which reviews are inadequate and should be redone.

--The Office of Bilingual Education and Minority Language Affairs needs to improve internal control reviews to be consistent with requirements of FMFIA. This office postponed performing reviews scheduled for 1983 until late 1984 and was unable to complete any reviews acceptable to MIS before the Secretary signed the 1984 annual report on FMFIA implementation. No other material weaknesses were reported for this office, although financial weaknesses were occurring in fiscal and program controls.

In 1984 this office negotiated \$4.7 million in grant awards with 32 schools before it was discovered that there were insufficient funds to make the awards (the Secretary ultimately made the awards in fiscal year 1985). Also, questions were raised internally in ED regarding the departure of this office from normal departmental procedures in making competitive grant awards. Grant awards proposed by the office, including those relating to the training of teachers of bilingual students, have been stopped by the Department in light of these questions. (See p. 37.)

--In July 1984 the Office of Postsecondary Education completed two internal control reviews of its Pell Grant disbursement system. The two reviews were over 500 pages long and cited no material deficiencies in the Pell Grant Program, which received a \$3 billion appropriation in fiscal year 1984. Notwithstanding that, in January 1984, GAO advised ED of numerous Pell Grant Program abuses by proprietary schools (generally for-profit trade schools). Among other things GAO suggested ED consider establishing student eligibility criteria that could eliminate financial incentives for schools to recruit and turn over low potential students and reduce drop-out rates, draining federal program resources. Criteria for proprietary school admissions are usually set by accrediting organizations that are made up of trade school representatives. In our August 1984 report (HRD-84-17) the ED Assistant Secretary for Postsecondary Education advised us that he felt admission standard setting was not an appropriate federal role.

In the absence of a central FMFIA system during 1984 for tracking all reported internal control weaknesses, MIS had requested program offices to report any unresolved weaknesses found by GAO or the OIG. However, the proprietary school issue was not addressed in the internal control review or in the offices' year-end FMFIA report to the Secretary.

## CONCLUSIONS

ED's steering committee did not resolve the question of Department responsibility for obtaining program offices' conformance with FMFIA operating requirements. As a result, difficulty was experienced in controlling the quality and timeliness of internal control reviews and in assuring the quality of other FMFIA processes. In view of the lack of effective internal control evaluations by ED's principal offices during 1984, we believe authority for obtaining conformance with FMFIA requirements should be centralized in ED's steering committee or at another appropriate level in ED.

## RECOMMENDATION TO THE SECRETARY OF EDUCATION

We recommend that the Secretary establish responsibility within its steering committee or elsewhere in ED for obtaining program offices' conformance with FMFIA operating guidelines and time frames.

## AGENCY COMMENTS

ED agreed with our recommendation and is planning actions, which, if effectively implemented, should resolve future problems.

ED stated that it generally agreed that its compliance activities could be more effectively managed if authority were centralized and more clearly assigned. They stated that the compliance issue is expected to be addressed by the Department's steering committee, which has been upgraded and reconstituted. The chairmanship was elevated one level to the position of the Deputy Under Secretary for Management.

## CHAPTER 4

### PROGRAM AND ADMINISTRATIVE VULNERABILITY

#### NOT EFFECTIVELY ASSESSED

During 1984, ED did not cover important program and administrative areas in assessing the Department's vulnerability to fraud, waste, and abuse and did not effectively focus the assessments it performed on risk. Without comprehensive coverage of all ED programs and a clear focus on risks, it is uncertain whether ED's year-end FMFIA report has identified all material weaknesses in internal controls. ED streamlined vulnerability assessments in an effort to reduce the time burden on assessors and to facilitate data analysis. The methodology used and ways it has been applied can obscure high-risk programs and raises a question as to whether the 55 areas selected for internal control evaluation in 1985 and 1986 are the most vulnerable in the Department. These areas combined use less than 1 percent of ED's appropriation.

#### ED ACTIVITIES NOT SUBJECT TO RISK EVALUATION

ED experienced difficulty in restructuring and reducing its inventory of 661 program and administrative activities subject to vulnerability assessment and other FMFIA requirements. Although restructuring was begun in January 1984, MIS did not establish a new Department-wide inventory of 502 activities until the end of November 1984. MIS efforts, in early 1984, focused on establishing which activities would be subjected to vulnerability assessments based on modifications proposed by program and administrative offices.

With pressures of time to establish areas needing vulnerability assessment, 77 headquarters activities were either deleted from coverage by ED program offices without explanation to MIS staff or otherwise inappropriately excluded. Also, one program organization disproportionately expanded regional coverage from 10 to 172 activities when inventory reduction was a principal restructuring objective. Other essential regional functions for student financial assistance, rehabilitation services, administrative, and other activities were deleted without formal consideration by ED's steering committee. Based on ED first-year vulnerability assessments, 42 regional activities were to be subjected to internal control reviews. However, these planned reviews were later deleted from ED's action agenda.

To ensure a comprehensive evaluation of internal control systems' vulnerability, in 1982 ED originally subdivided its operations into organizational components with 661 program and administrative functions--409 headquarters and 252 regional activities. In January 1984, MIS notified ED program offices to restructure this inventory by adding new inventory items, deleting items no longer part of the workload, and aggregating small or similar functions into one area for assessment. Activities subject to internal control review in 1983 and 1984 were to be included separately in the inventory and were identified as not needing vulnerability assessments in 1984.

At the end of August 1984, when vulnerability assessments for 433 qualifying activities identified in this process were essentially complete, MIS submitted lists of assessable activities to each program organization, summarizing proposed restructuring changes and requesting a review for accuracy. In October 1984, while this review was in progress, the Secretary of ED responded to the Chairman of the House Government Operations Committee on ED's report on the first-year implementation of FMFIA (H. Rept. 98-937, Aug. 2, 1984), indicating that ED was completing internal control reviews and vulnerability assessments based on a revised comprehensive inventory comprising 525 activities, including regional components. MIS officials were unable to provide us with a list to support this inventory, and 2 months later, at the end of November 1984, they settled on a comprehensive structure of 502 activities. Limitations we found in ED's completed inventory are discussed below.

#### Inadequate coverage of regional functions

ED has deleted almost all regional office activities from vulnerability assessment without providing for appropriate coverage through other measures during 1984. Only regional functions of the Office for Civil Rights and the OIG were assessed for vulnerability during 1984, leaving a void for regional student financial assistance, rehabilitation services, and regional administrative functions. ED regions employ over 1,500 staff, or about one-third of about 4,600 ED employees in 1984. Most regional employees work in areas that were not covered by vulnerability assessments in 1984.

ED's Office of Postsecondary Education has restored certain regional functions to its inventory in 1985 and is planning to assess their vulnerability. Additional unit restructuring by the Office for Civil Rights and other programs is needed to provide balanced coverage of regional functions. Table 4.1 compares the 1982 and 1984 regional structures used to assess vulnerability to fraud, waste, and abuse.

Table 4.1

Analysis of ED Changes in Regional  
FMFIA Activity Structure

<u>1982 regional inventory</u> (list of areas common to each of ED's 10 regions)	Number of assessment areas in <u>1982</u>	<u>1984 revised inventory</u> (list of areas common to each of ED's 10 regions)	Number of assessment areas in <u>1984</u>
<u>Secretary Regional Representative</u> Congressional Intergovernmental & interagency Public affairs Inter-office Educational services & dissemination	50	<u>Coverage deleted</u>	0
<u>Student Financial Assistance Activities</u> Claims (3 regions only) Collections (3 regions only) Certification and program review Training and dissemination	26	<u>Coverage deleted</u>	0
<u>Rehabilitation Service Functions</u> State formula grants Randolph-Sheppard Act activities Client assistance Migratory workers (8 regions only) Training	48	<u>Coverage deleted</u>	0
<u>Common Regional Administrative Items</u> Travel order/vouchers Personnel actions Time and attendance records Internal policy & procedures Individual performance evaluation Acquisition & use of supplies Acquisition & use of equipment S&E budget formulation & execution Audit resolution & follow-up ADP systems (8 regions only)	98	<u>Coverage deleted</u>	0
<u>Office of Inspector General</u> Audit Investigation	20	<u>Coverage unchanged</u> Audit Investigation	20
<u>Office for Civil Rights</u> (Functional activities of this office not evaluated separately in 1982)	10	<u>Coverage expanded</u>  <u>Program review and management support</u> Complaint intake processing Coordinate annual operating plan Compliance action monitoring Management and administrative  <u>Postsecondary Education</u> Complaint investigation Complaint review Enforcement actions Technical assistance Monitoring remedial action  <u>Elementary and Secondary Education</u> Complaint investigation Complaint review Enforcement actions Technical assistance Monitoring remedial action  <u>Civil Rights Attorney Staff</u> Legal advice on investigations and reviews Counsel in legal proceedings Advising regional directors and others	172
<u>Total areas assessed</u>	<u>252</u>		<u>192</u>

ED's 1982 vulnerability assessments found many regional activities highly vulnerable to fraud, waste, and abuse. Although 42 regional activities were selected for internal control review in 1983, plans were dropped on the premise that coverage could be provided later if compatible headquarters functions were subjected to internal control reviews. ED officials did not formalize their rationale for limiting regional involvement in FMFIA in steering committee minutes or to our knowledge in other documents, but have advised us that this action was taken to reduce the need for headquarters travel and to alleviate some of the administrative burden for internal control reviews. During 1984, the use of regional input into headquarters internal control reviews was limited to teleconference calls to selected regions for two rehabilitation service functions. Examples of regional activities excluded from vulnerability assessment coverage in 1984 are discussed below.

--The Federal Insured Student Loan Program and the National Direct Student Loan Program have experienced a significant number of loan defaults. Financial or educational institutions participating in these programs referred over \$1.4 billion in defaulted loans to ED for collection efforts by the end of 1984. ED had about 250 staff members at three regional offices to administer collection of a portion of these loans, and ED has used two private collection agencies to seek recovery of the remainder.

A representative of the Office of Student Financial Assistance stated that the office did not perform vulnerability assessments of the collection activities during 1984 because the OIG had reviewed them. OIG work focusing on ED collection activities did not include ED supervision of private collection agencies that administer about 75 percent of the \$1.4 billion loan portfolio and included several other limitations appropriate to the scope of work they performed. Internal control weaknesses identified by the OIG review were being resolved in 1984. However, other areas excluded from OIG's review scope should have been assessed for vulnerability.

--ED's student financial assistance functions for institutional certification and program review have not been subjected to vulnerability assessment during 1984. The last function provided over 1,300 on-site evaluations of institutions to assure proper stewardship of \$10 billion in federal funds under ED's student financial assistance programs. Regional vulnerability assessments

in 1982 found several of these activities highly vulnerable but they have not since been subject to internal control review or vulnerability assessment for 1984.

In early 1985 the Office of Postsecondary Education reinstated these functions in its inventory, and vulnerability assessments are planned in 1985.

In late 1983, ED's Office for Civil Rights came under closer scrutiny for not meeting time frames of a federal court order for processing civil rights complaints involving educational institutions. The office's principal internal control representative advised us that the office expanded its assessment structure in 1984 in an effort to more closely represent its missions and functions. (See table 4.1.) The enlargement of the Civil Rights regional structure from 10 assessments in 1982 to 172 in 1984 resulted in a situation where one program expending about 3 percent of ED's budget accounted for almost half of 433 vulnerability assessments performed in 1984 for the whole Department.

In revising its structure, the office identified 17 subfunctions of Civil Rights activities performed at each of ED's 10 regional offices. Many of these subfunctions were not performed continuously by one or more staff and were too narrowly defined for consideration as separate activities subject to internal control reviews. As of June 1985, ED had not established 1985 internal control review plans for the Office of Civil Rights although such plans were established for all other offices early in 1985. At the conclusion of our work, the office was considering aggregating the functions it had assessed for this purpose.

#### Headquarters program and administrative functions not covered

In evaluating ED's November 1984 inventory of 502 activities for assessment, we found that 23 additional headquarters activities should have been assessed, and the rationale supporting 54 other headquarters inventory deletions was not provided to MIS. The individual in MIS responsible for overseeing the inventory restructuring advised us that time pressure to begin vulnerability assessments in early 1984 prevented him from assuring that (1) all changes to the structure were supported by documentation, (2) reasons were given for all deletions, and (3) the rationale for deletions was reasonable. He said that some changes were made on the basis of telephone calls, and some documentation that was received may have been misfiled. Examples of activities that should have

been included in ED's inventory for vulnerability assessment during 1984 are discussed below.

- The Office of Vocational and Adult Education had a fiscal year 1984 appropriation of \$838.5 million. The office did not identify any of its functions to be subject to vulnerability assessment in 1984 because internal control reviews had been performed covering all office activities in 1983. However, these reviews were found substantially deficient in evaluation, testing, and corrective actions by ED's task force for internal control reviews. ED's November 1984 inventory reinstates activities for the office, and MIS has listed these activities for vulnerability assessment in 1985 but has no plans to repeat or upgrade previous internal control reviews.
- The Office of Program and Budget Evaluation subdivided its activities into seven assessment areas in the first year under FMFIA but eliminated six of these areas from its 1984 structure. The one area retained--apportionment, allotment, and allowance control--excludes many functions from the full range of this office's responsibility for administering and overseeing ED's \$15 billion fiscal year 1984 budget.

Three areas dropped--program budget formulation, coordination and control of department evaluations, and evaluation conduct--were eliminated because they were not found vulnerable to fraud and abuse in 1982. (Waste was not mentioned.) Another unit, outlay estimating and reporting, was eliminated because it was strictly a function to forecast anticipated events and had no effect on the flow of actual cash disbursement. The reduction of this entire office to one area of assessment is inconsistent with other ED offices that have established appropriate areas for assessment covering all programs or functions they perform. The fact that one year's assessment does not show an area to be highly vulnerable to fraud and abuse does not justify (1) removal of that area from future assessment when vulnerability can change or (2) lack of consideration of operating conditions that could be wasteful.

VULNERABILITY ASSESSMENTS  
COULD BETTER FOCUS ON RISK

ED needs to modify its vulnerability assessments to better focus on risk and to use information developed in the assessments to correct internal control weaknesses. Overall views on program vulnerability are not being obtained from

assessors, several questions in ED's assessment document need to better address potential risks, and findings in external reports and evaluations are not being considered in making assessments.

ED streamlined vulnerability assessments in 1984 to reduce the time burden on staff completing and analyzing the assessments. A multiple choice questionnaire was developed, and response data from 25 questions were automated to facilitate Department-wide analysis. Vulnerability assessments were performed on 433 ED activities, 61 of which were found to have high vulnerability; 297, medium vulnerability; and 75, low vulnerability. The results of the vulnerability assessment process were used in conjunction with management judgment to select 55 activities that are planned to receive internal control reviews in 1985 and 1986. Total funding for the 55 activities selected for internal control review based on ED vulnerability assessments was about 3 percent of ED's \$15.4 billion 1984 appropriation, and almost half of the 55 activities were not found highly vulnerable on a Department-wide basis.

#### Adequacy of ED data collection instrument

Vulnerability data collection instruments are the foundation for assessing an activity's susceptibility to fraud, waste, and abuse. In 1982, ED used three vulnerability data collection instruments, which it consolidated in 1984 into one questionnaire and a basic data sheet to reduce the time burden on assessors and simplify data collection. The redesigned instrument provided for gathering information through 25 multiple choice questions, but was lacking in certain elements for determining program risks.

ED's vulnerability assessment process in 1982 called for assessors to weight the value of such scored questions, thus permitting the assessor to elevate the importance of any one response in determining overall vulnerability. In simplifying its vulnerability assessment process in 1984, ED eliminated weighting but provided no method for assessors to state their view of the overall program vulnerability.

Without an assessor's overall statement, ED loses an important value judgment obtained from a day-to-day observation of program functions. In some cases, a high vulnerability response to one or two questions in the assessment can dictate overall program vulnerability. This information can be lost when averaged with the remainder of responses to the other 23 questions. Without an overall opinion of vulnerability by the assessor (usually a program staff member), management may not have the best information to act on determining which of its programs are most in need of internal control reviews. Several

assessors we interviewed did not think their assessment reflected vulnerability for the programs they assessed. To illustrate:

--The Office of Education Research and Improvement has allocated about \$5 billion in ED formula grants during fiscal year 1984 among states and localities. ED's assessment document, when completed, showed this activity to be of moderate vulnerability, and it was not initially selected for internal control review. High vulnerability responses to three questions evidencing ADP security concerns were obscured when averaged with low to moderate vulnerability responses given for the other 22 questions in ED's 1984 assessment document. The office volunteered to perform an internal control review of this activity and found that the ADP data base for this system was not secure from unauthorized personnel access. This finding is 1 of 17 material internal control weaknesses included in the Secretary's annual report to the President and the Congress (see app. I).

Nine of the 25 questions in ED's vulnerability assessment document were subject to misinterpretation and/or did not effectively focus on program risk. This occurred where questions in the assessment document evoked responses too general to establish potential risk or where terminology was confusing. Also, only 1 of the 25 multiple choice questions asked for a value judgment on the effectiveness of existing internal control safeguards, and wording for this question caused confusion among assessors. Examples illustrating these conditions follow:

--An assessor's opinion on the assumed effectiveness of existing internal controls was obtained in one question ranking program controls as (1) highly effective, (2) moderately effective, (3) effective, (4) less than effective, or (5) no existing controls. Assessors were confused by the ranking of "moderately effective" over "effective" and thought the two were reversed in significance. Also, use of one multiple choice question provides little insight into specific internal control strengths, limitations, and potential risks necessary for an effective assessment of safeguards.

--Another question obtained an assessor's view of the cost-effectiveness of existing internal controls through multiple choice responses that equated high vulnerability with controls considered too costly for the benefits derived and low vulnerability with controls that were

considered cost-effective. The results of this question do not achieve the objective of identifying increased risks.

--Assessors were asked to identify the percentage use of ADP. Increased risk was equated with increased ADP use for operating and reporting data. Increased ADP use can normally improve program operations if implementation is effective. Hence, to better focus on risk, the question should be rated based on the quality of ADP output experienced as a function of the level of program dependence on that output. The issue of ADP systems' vulnerability is discussed in greater depth in chapter 6.

#### Quality assurance and training measures needed

ED did not establish Department-wide procedures for ensuring the quality of vulnerability assessments but delegated responsibility to its programming organizations. The organizations in our review had not established formal procedures for implementing that responsibility. None of the individuals performing the 27 assessments in our sample received feedback from supervisors, internal control contacts, or MIS regarding the quality of their assessment. Vulnerability assessments we sampled (1) did not generally consider the impact of external evaluations and (2) were completed in most cases in 2 hours or less. Almost one-third of those performing the 27 assessments told us they had not received ED training.

Prior audit reports completed by the OIG and GAO and internal evaluations and congressional reports should be evaluated during vulnerability assessments to determine whether program or administrative functions had previously been subject to losses due to waste, fraud, or misappropriation and to identify problems still outstanding. External reports were generally not considered during the vulnerability assessments in our sample. Of the 27 vulnerability assessments we sampled, 15 had external reports. Nine of these did not use the reports in evaluating programs' exposure to risk. Three of the nine were reported by assessors as not having any external reports. Assessors for the nine advised us that they relied primarily on institutional knowledge to help judge a programs' susceptibility to waste, loss, or mismanagement. The following illustrates the lack of adequate use of outside evaluations in the vulnerability assessment we sampled.

--On April 12, 1984, an ED assessor completed his vulnerability assessment of the College Construction Loan Program. This program is intended to alleviate severe

housing shortages on college campuses. The assessment found the program in the middle range of vulnerability with highly effective internal controls. As a result, the unit was not selected for internal control review in 1985. On May 15, 1984, the Subcommittee on Intergovernmental Relations and Human Resources, House Committee on Government Operations held hearings on this program with officials of ED's Office of Postsecondary Education and the OIG. The hearing brought out that the program was experiencing a \$163 million default rate, which had more than doubled during the preceding 7-year period.

Also, the hearing covered a number of issued OIG reports on the program with unresolved internal control weaknesses, including the need for (1) continuing ED evaluation of institutional eligibility to identify eligibility changes and (2) ED attorney presence at loan closings to protect ED interests. The vulnerability assessment report indicated that the OIG was reviewing the program but did not identify any issued reports or any outstanding corrective action from the reports. There was no record of supervisory review of this assessment by appropriate program managers.

ED's training for performing vulnerability assessments lasts one-half day, and the Office of Personnel Management offers a full-day course for federal employees that will be performing these assessments. According to assessors' time estimates, vulnerability assessments in our sample took from 30 minutes to 12 hours to complete, with most taking 2 hours or less.

Of ED's staff performing the 27 vulnerability assessments in our sample, 8 had not received appropriate training. Most of those receiving training said that it was effective in making them familiar with ED guidelines for FMFIA and OMB instructions. However, 21 of the assessors said they did not consider GAO standards of internal control in completing vulnerability assessments. Although copies of the standards were available to those participating in ED vulnerability training, little time was available to address the standards in depth during the training.

#### Need to act on internal control weaknesses disclosed in assessments

In our report on ED's 1983 FMFIA activities, we found that ED had not developed corrective action plans and monitoring procedures for weaknesses identified in the vulnerability

assessment process. In responding to our report, ED agreed to act on these matters. Evidence in our first review disclosed that 84 headquarters units responded to ED's questions on "assumed effectiveness of internal controls" that there were "no existing controls" or existing controls were "less than fully effective." In addition, 12 headquarters units indicated that they had outstanding audit findings for more than 2 years, and 100 headquarters units indicated that their financial reports were inaccurate. ED did not act to implement the proposals for corrective action included in our report and so stated in its 1984 annual FMFIA report without explanation.

Vulnerability assessments are intended to aid in making a preliminary judgment regarding the existence and adequacy of internal control over the specific programs and administrative functions subject to the guidelines. If specific controls are perceived to be inadequate, continued waste or abuse is possible if corrective action is not taken immediately. Such actions should be brought to the attention of the appropriate agency official as soon as possible in order that corrective actions can be taken promptly.

A major weakness cited in ED's 1984 annual FMFIA report pertained to the lack of security of the data base for ED's statistical allocation of program funds to states and localities. (See p. 28.) According to staff performing the vulnerability assessment, this weakness was disclosed at the time the vulnerability assessment was performed. Had ED established a system to act on internal control weaknesses disclosed by vulnerability assessments and begun tracking them, an internal control review might have been avoided and action started earlier to correct this weakness.

## CONCLUSIONS

ED's restructuring of activities assessed for vulnerability was not effectively controlled. Some activities were deleted without explanation to MIS, other important headquarters activities were inappropriately excluded, one office unnecessarily expanded regional program coverage, and key regional functions of other offices were eliminated. ED's vulnerability assessments can obscure high-risk programs, and several questions in ED's vulnerability assessment document should be clarified to avoid misinterpretation or to better focus on risk. Activities selected based on vulnerability assessments to receive internal control reviews in 1985 represent a minor part of ED's budget and many were not among those rated as highly vulnerable. Without vulnerability assessments that clearly focus on potential risks and adequate

coverage of all Department activities, ED cannot be certain that its year-end report on internal controls has identified all material weaknesses.

RECOMMENDATIONS TO THE  
SECRETARY OF EDUCATION

We recommend that the Secretary

- establish a focal point for implementing FMFIA internal control activities in each ED regional office and establish a regional assessment structure more representative of the functions carried out in ED regions,
- eliminate vulnerability assessment coverage gaps in ED headquarters,
- modify vulnerability assessments to obtain overall views of assessors on program risk,
- clarify vulnerability assessment questions subject to misinterpretation and provide better focus on risk issues,
- reinforce supervisory review requirements for vulnerability assessments and require that all relevant external reports and evaluations are appropriately considered, and
- instruct programming organizations to act on internal control weaknesses when initially disclosed by vulnerability assessments.

AGENCY COMMENTS

ED agreed to take action to incorporate our recommendations as part of its 1986 cycle of vulnerability assessments, but disagreed with our conclusion that program and administrative vulnerability was not effectively assessed during 1984. ED stated that it was acting to remedy some of the deficiencies we had identified, indicating that

- the vulnerability assessment questionnaire and instructions are being revised,
- internal control training is scheduled to be conducted in each of the 10 regional offices in 1985,

--the requirement to make corrective actions based on the vulnerability assessment data is included in ED's draft vulnerability assessment directive, and

--guidance and instructions for analyzing the vulnerability assessment data to identify and document internal control weaknesses and corrective actions have been provided to the ED components.

Our concern with the success of ED's 1984 vulnerability assessment process stemmed from the absence of vulnerability assessments of many important ED functions, such as ED collections of \$1.4 billion in defaulted student loans and ED institutional certification and review of \$10 billion in student financial assistance funds. Also of concern is the need for a better focus of ED's vulnerability assessment methodology to identify programs and areas at greatest risk. The actions ED has started and plans to undertake during its 1986 vulnerability assessment cycle should provide a more effective basis for assessing vulnerability of departmental activities in the future. The success of these efforts will also depend on establishing a viable structure of areas to assess that effectively covers all program and administrative functions of the Department.

ED made other comments of a technical nature, which are shown on page 74. Our response to these comments is provided on page 79.

## CHAPTER 5

### INTERNAL CONTROL EVALUATION QUALITY AND CORRECTIVE ACTIONS NOT ENSURED

Internal control reviews performed on many major programs during ED's first 2 years under FMFIA were not adequate to identify control weaknesses, and ED has not determined whether it will repeat or otherwise upgrade these reviews. Also, ED does not have a comprehensive inventory of material internal control weaknesses or firm completion targets for correcting many of these weaknesses. Resolving these matters would give the Secretary a more meaningful basis for stating whether ED's system of internal controls, taken as a whole, provides reasonable assurance that the system conforms to objectives of FMFIA for preventing fraud, waste, and abuse.

#### INADEQUACIES IN QUALITY OF INTERNAL CONTROL EVALUATIONS

Obtaining quality internal control reviews from all program and administrative organizations in ED has not been achieved during ED's first 2 years under FMFIA. Most ED program organizations are developing the skills necessary to produce quality evaluations; some have limited the scope of review coverage to focus efforts for obtaining quality results from areas reviewed; others have not yet developed necessary skills to obtain effective internal control reviews. Lack of attention by ED's steering committee to program offices' progress in early 1984 and limitations in ED's training program contributed to the internal control review quality problems experienced.

We evaluated 13 internal control reviews performed by four ED program offices and ED's Office of Management. Eleven of the reviews were done in 1984 and two in 1983. We found that 7 were limited in scope, 8 were limited in quality of evaluations made, 11 did not effectively test control techniques, and 8 contained limited corrective actions. Of the 13 internal control reviews, 2 from ED's Office of Bilingual Education and Minority Language Affairs were not considered complete by MIS and were continued into 1985 to rectify deficiencies. Table 5.1 provides details of our assessment of the 13 selected reviews.

Table 5.1

GAO Assessment of  
Selected Internal Control Reviews

<u>Principal office and review areas</u>	<u>Significant limitations<sup>a</sup></u>			
	<u>Program areas excluded from review</u>	<u>Evaluation of internal controls<sup>b</sup></u>	<u>Insufficient testing of controls</u>	<u>Corrective actions<sup>c</sup></u>
<u>Office of Bilingual Education and Minority Language Affairs</u>				
o Bilingual Vocational Training		X	X	X
o Refugee and Cuban/Haitian Assistance	X	X	X	X
<u>Office of Educational Research and Improvement</u>				
o Education Labs and Centers <sup>d</sup>	X	X	X	X
o Strengthening Research and Library Resources			X	
o Statistical Allocation of Funds			X	
<u>Office of Elementary and Secondary Education</u>				
o Neglected and Delinquent Program		X	X	X
o General Aid to Virgin Islands	X	X	X	X
o Reading Is Fundamental		X	X	X
<u>Office of Management</u>				
o Travel Management				
o Acquisition Approval Process	X		X	X
<u>Office of Postsecondary Education</u>				
o Guaranteed Student Loan: Federal Reinsurance	X	X	X	
o Guaranteed Student Loan: Interest Subsidy	X	X	X	
o National Direct Student Loan: Capital Contributions <sup>d</sup>	X	—	—	X
Total	7	8	11	8

<sup>a</sup>Where documentation was not available, we discussed reviewers rationale and analyzed actions taken as the basis for our quality assessment.

<sup>b</sup>Evaluation of internal controls was judged as significantly limited where major elements of OMB requirements for performing an internal control review were not performed, major risks were not considered, or other substantive limitations occurred in the evaluation of internal control techniques.

<sup>c</sup>Corrective action was judged significantly limited where needed control techniques were not identified for control objectives identified in the review and where program areas were excluded from review.

<sup>d</sup>The noted reviews were performed in 1983, and all other reviews were done in 1984.

Quality problems addressed  
too late for resolution

Problems with 1984 internal control reviews were not recognized by ED's steering committee early in the year, and completion of many reviews was deferred to the year-end. MIS was unable to establish review completion dates for three of six offices performing reviews, and those with targeted completions overran dates on the average from 2 to 7 months. This compressed the time available to MIS to assist program offices in resolving quality problems.

ED's steering committee began to address the problems of inadequate internal control reviews in August 1984 (see p. 17). However, at the end of 1984, three program offices<sup>1</sup> provided assurance letters to the Secretary based on reviews that were not considered adequate by MIS. The following examples illustrate the limitations of internal control reviews that we assessed.

--The Refugee Assistance and Cuban-Haitian entrant programs in the Office of Bilingual Education and Minority Language Affairs were subjected to an internal control review in 1984. During fiscal year 1984, over \$21 million in federal funds were used through an interagency agreement with the Department of Health and Human Services to provide transitional education to refugee children in these programs. The internal control review of these programs was begun in early July 1983 but was not completed to the satisfaction of MIS before the Secretary of ED signed the 1984 year-end FMFIA report to the President and the Congress in December 1984. Our evaluation of this review showed that major events were omitted from review, significant risks were not considered for evaluation, and corrective actions were not clearly established.

Program functions that were not considered in the review include (1) verification of eligibility statistics furnished state and other recipients to qualify for funds and (2) monitoring of disbursements to ensure conformance with enabling legislation. MIS is working with the Office of Bilingual Education and Minority Language Affairs to improve its internal control reviews in 1985.

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<sup>1</sup>The Office of Bilingual Education and Minority Language Affairs, the Office of Elementary and Secondary Education, and the Office of Special Education and Rehabilitation Services.

--The Bilingual Vocational Education Training Program provided about \$4 million in competitive grants to educational institutions for adult occupational training of those with limited English-speaking ability and for other related purposes. Substantial difficulties were experienced in the development of the internal control review covering this program and, as with the preceding example, MIS has been assisting the office in finalizing an acceptable review.

The original internal control review completed in July 1984 raised concerns with the lack of written policy governing undocumented office actions and indirectly questioned the integrity of the grant reviews. The review pointed out that rules and regulations for making a selection among grant applicants approved by panels of qualified office staff limited the office director's discretion to fund applicants in other than rank order determined by the selection panel. The review recommended that an appropriate official be designated to assure that any changes in the findings or membership of the selection panel conform with established office requirements. Certain of these key issues were excluded from the internal control review furnished by the office director to ED's Deputy Undersecretary for Management in December 1984. While the review was being finalized, questions were raised internally in ED regarding the office's departure from normal departmental procedures in making competitive grant awards. Grant awards proposed by the office, including those relating to the training of teachers of bilingual students, were stopped by the Department in light of these questions.

--The Office of Elementary and Secondary Education received a fiscal year 1984 appropriation of \$32.6 million for its program to make formula grants to states for neglected and delinquent children. The internal control review performed for this program identified control areas and event cycles for the program, but was lacking in depth of evaluations performed on these areas and in the level of testing performed. Corrective actions focused in part on the need to finalize regulations that had been under development to accommodate legislative and program changes.

The evaluator performing this review expressed concern that 8 hours of ED training was inadequate preparation and indicated that she had consulted with a staff member who performed a comparable internal control review in the preceding year of basic formula grants to local education

agencies for disadvantaged children. Much of the language describing the event cycles and existing control techniques was the same in both internal control review documents.

### Quality questioned by the OIG and MIS

Both the OIG and MIS evaluated the quality of ED internal control reviews performed in 1984 and found significant weaknesses in performing and documenting the reviews. The OIG found that at least half of the 30 reviews it evaluated did not address most of the elements in ED-FMFIA requirements for performing internal control reviews. The OIG also found that three of the six performing organizations did not demonstrate acceptable progress in addressing FMFIA requirements.

Contributing to the problems of ensuring quality, the OIG reported that ED's review scheduling process had been ineffective and that 26 internal control reviews were submitted after the October 15, 1984, target date set by MIS for finalizing the reviews to be considered in ED's year-end report. The OIG reported that the Office of Bilingual Education and Minority Language Affairs experienced the most difficulty in meeting time and quality requirements. Of nine scheduled internal control reviews for 1984, six draft reviews submitted in July 1984 were found by MIS to have numerous material deficiencies. Although MIS offered to assist in revising the reviews, the deficiencies remained to be resolved at the end of 1984. Five reviews were ultimately submitted as final by the office on December 13, 1984, and four were not completed at all. Because the office's assurance letter to the Secretary was submitted before any reviews were finalized, the OIG did not evaluate reviews of this office.

The OIG also found 7 of the 11 internal control reviews performed by the Office of Elementary and Secondary Education were not in substantial compliance with FMFIA requirements. The OIG reported that the seven internal control reviews contained the same general language, an inadequate description of evaluation and testing of controls, and a lack of supporting documentation. The OIG concluded that the superficial quality of these reviews contributed to that office's failure to identify any material internal control weaknesses in its year-end FMFIA report to the Secretary. Five of the reviews contained no weaknesses, while the other two identified a few limited weaknesses. One of these weaknesses was characterized as a lesser deficiency in ED's year-end report on this office's activities. MIS staff reviewed the seven reports in draft form and advised the office that they were deficient, but the reviews were finalized without change.

The OIG found three reviews by the Office of Special Education and Rehabilitation Services to be performed in a superficial manner. Two of three internal control reviews were found virtually identical throughout, including the stated weaknesses and corrective action. Sections of all three 1984 reviews by the office were found by the OIG to be similar to an earlier review performed by the office in 1983.

The OIG concluded that weaknesses in internal control review performance reported during 1983 were continuing into 1984. The OIG stated that despite training provided by MIS, there still appears to be a lack of a clear understanding by review team members and other involved staff of the requirements for scheduling, performing, and reporting on reviews.

REVIEW DEFICIENCIES SHOULD BE  
CORRECTED AND TRAINING IMPROVED

During 1984, ED's steering committee considered initiating actions to repeat or upgrade inadequate internal control reviews of major ED programs and improve training programs to better prepare ED evaluators. Little progress was made on these initiatives. As an alternative to repeating internal control reviews in 1985, ED plans to perform vulnerability assessments using the previously discussed multiple choice questionnaire. The Secretary reported, as a material weakness to be resolved in 1985, ED's inability to ensure that review team members receive internal control review training. ED needs to make other improvements to reinforce the material presented in its internal control training program.

Plans for correcting inadequate  
reviews not implemented

ED's steering committee has not determined whether it will repeat or otherwise improve internal control reviews that are performed inadequately. Recommendations to this effect have been made to ED's steering committee by the OIG and ED's Internal Control Task Force, but ED's internal control review agenda for 1985 with two exceptions makes no provision for this. Upgrading reviews done poorly in 1983 is critical since first-year reviews covered ED's largest programs and those found to exhibit higher vulnerability to fraud, waste, and abuse. Among these were reviews of all vocational and adult education activities funded at over \$800 million during fiscal year 1984, and several reviews of elementary and secondary education activities funded in excess \$3 billion during fiscal year 1984.

ED's Internal Control Evaluation Task Force reported in June 1984 on the results of its evaluation of 45 internal

control reviews performed in 1983. The review disclosed substantial weaknesses in the evaluation of internal control objectives and techniques and testing of techniques for almost half of the 45 reviews evaluated. Documentation and the quality of corrective actions recommended were also a problem. Among other things, the task force recommended that the steering committee develop a quality review process to be used in the future to determine whether an internal control review was inadequate and should be repeated.

In August 1984, the OIG recommended that the steering committee consider repeating internal control reviews done inadequately, but no action was taken on the recommendation. In December 1984 MIS presented its proposed internal control review action agenda for 1985 to the steering committee, and a motion was made and carried to add inadequate internal control reviews performed in 1983 to the list. However, these plans were not finalized, and at the conclusion of our review in May 1985, MIS was planning instead to perform vulnerability assessments covering selected internal control areas inadequately reviewed in 1983. Reassessing vulnerability of these programs will not change limitations in review scope and the quality of evaluation work originally performed on major program areas.

The following are examples of limitations in ED's first-year reviews that need to be redone or otherwise upgraded.

--The Office of Postsecondary Education, with the assistance of the OIG, completed an internal control review of Federal Capital Contributions made under the National Direct Student Loan Program in October 1983. The purpose of this activity is the establishment and maintenance of revolving loan funds, with federal capital at institutions of higher education (about \$5 billion appropriated through fiscal year 1984). The office responsible for performing this review obtained the concurrence of MIS to limit the scope of work to functions of the division responsible for processing applications for funding and certain other operational aspects of the program. The remaining areas of control affecting the program were to be reviewed in 1984.

The operating functions reviewed for the program in 1983 were accomplished substantially in conformance with FMFIA requirements. However, certain significant control activities were excluded from the review scope and have not been planned for coverage in either 1984 or 1985. These include the ED organizations responsible for (1) controlling the certification of educational institutions qualified to receive capital contributions, (2) auditing

conformance of qualified institutions with ED requirements, and (3) developing regulations governing operation of the capital contribution activities. Important program risks are associated with these functions.

The internal control review report contained a statement that because all identified events related to the capital contribution activities have not been addressed, the review cannot be considered complete. The report stated further that the vulnerability assessment that served as the basis for conducting this review cites regional office involvement in the administration of this program as contributing to its high vulnerability. These regional activities relate to responsibilities for certification of participating institutions and program review.

--In October 1983, ED's Office of Educational Research and Improvement completed an internal control review covering activities of educational laboratories and centers funded by ED. ED provided about \$30 million in noncompetitive grant funds to 17 labs and centers in 1984, and this activity was one of the Department's most highly vulnerable activities. Previous disclosures in an OIG report of gross mismanagement and abuse by one grant recipient contributed to this rating.

The review of this activity received a very low rating from ED's Internal Control Evaluation Task Force. Principal weaknesses reported in the review related to grant monitoring weaknesses and the lack of ED control experienced under the discretionary grant making process. The latter problem is being resolved through conversion to a competitive selection process. However, little has been accomplished in improving the monitoring of grant spending, and the activity received a high vulnerability rating again in 1984. The office is repeating the internal control review of this activity during 1985.

Internal control review training  
should be expanded

In our May 1984 report on ED's first-year FMFIA implementation, we found that all staff performing internal control reviews had not been required to attend training on how to perform and document such reviews. We were advised by ED that appropriate steps would be taken to resolve these matters.

Of the 68 team members performing reviews in 1984, only 27 attended internal control review training. The Secretary of ED's FMFIA report for 1984 cited as a material weakness that ED had not established a system to ensure that evaluators receive training.

Evaluators for reviews in our sample who received ED training all advised us that they felt inadequately prepared to perform the reviews they were tasked with. The most common concern expressed was the need for some exposure to practical applications of the skills being taught. Some evaluators with primary responsibility for doing reviews sought help from evaluators who had performed prior year's reviews to gain needed insight. As a result, some prior year's work was replicated in current year reviews.

The ED Internal Control Evaluation Task Force report on performance of 1983 internal control reviews also reported that ED's first-year training had not effectively prepared evaluators and recommended that training be developed to improve skills in evaluating internal control objectives and techniques and in testing techniques. Use of case studies and examples comparing exemplary and poor approaches to evaluation and testing was recommended to provide opportunities to apply the concepts learned. These recommendations were not incorporated into the 1984 training program.

#### TRACKING CORRECTIVE ACTIONS NEEDS IMPROVEMENT

Although ED has implemented an automated system for tracking corrective actions, the system needs refinement. Procedures have not been established (1) defining what constitutes completed corrective action for reporting purposes or (2) providing for monitoring the adequacy of actions reported as completed. Also, a system has not been devised for evaluating, tracking, and reporting corrective actions on GAO and OIG recommendations as part of the FMFIA process. Meaningful completion dates are needed to effectively track corrective action progress.

#### Guidance needed for reporting corrective actions as completed

ED's internal control directive provides for the Office of Management to monitor corrective actions taken by ED program offices on weaknesses found in the internal control review process but does not define when an action is considered complete. In this environment several ED program offices erroneously reported that they had completed actions on 1983 internal control weaknesses based on having established plans

for resolving weaknesses or when implementation was partially underway. These errors were corrected in ED's annual FMFIA report based on preliminary findings of the OIG. However, ED will need to establish criteria for program offices defining what constitutes completed corrective action and procedures for monitoring reported completions to ensure accurate tracking and reporting in the future.

ED management should consider internal control review recommendations on a timely basis, establish target dates for correction, and carry out corrective actions as soon as possible. In November 1984, MIS reported that corrective action on 43 of 66 internal control weaknesses from its 1983 assurance letter were completed based on reports from ED program offices. The OIG reviewed the adequacy of support for completed corrective actions and found that only 23 were complete, 10 were still in progress, and 10 others were either combined for action with other weaknesses yet to be resolved or were no longer applicable because of program changes. MIS tests of its own information confirmed these conditions.

Recommendations of GAO, OIG, and others  
not integrated in follow-up system

Early in 1984, MIS began developing a system to manage the internal control process and track implementation of internal control findings and recommendations from a variety of sources, including internal control reviews, GAO and OIG audits, the President's Private Sector Study on Cost Control, and other departmental studies. MIS was not satisfied that the results of this effort would be adequate for its 1984 FMFIA report and asked program and administrative offices to report any outstanding recommendations of GAO, the OIG, and others in their assurance letters to the Secretary. Reporting under this requirement was sporadic, with the result that many outstanding weaknesses were not considered in preparing the Secretary's annual FMFIA report.

The OIG evaluated MIS records and found that three of five program organizations did not identify unresolved weaknesses from GAO or OIG audits in their assurance letter. We found there were six GAO reports with 12 outstanding weaknesses relating to ED activities at the end of fiscal year 1984. Ten of these weaknesses were in activities of the Office of Postsecondary Education, which identified seven in its FMFIA letter to the Secretary of ED. Two other weaknesses related to activities of the Office of Bilingual Education and Minority Language Affairs, which were not recognized in that office's FMFIA letter to the Secretary. The following are examples of unresolved weaknesses we had reported earlier that were left out of the Secretary's FMFIA year-end report.

--In March 1983, we reported (HRD-83-27) to the Chairman of the Senate Labor and Human Resources Committee that recent criminal investigations had disclosed illegal practices in connection with postsecondary schools recruiting foreign students and foreign students illegally obtaining federally supported financial aid. During our review, a nationwide investigation of foreign student fraud was undertaken by ED, the Justice Department, the Immigration and Naturalization Service, and the Postal Service. We recommended that, if the project disclosed widespread problems, the Secretary of ED should require all students applying for student aid to demonstrate citizenship or residency (birth certificate or resident alien card) to the institution granting the loan. As of April 1985, the nationwide investigation was incomplete, and ED was awaiting results before implementing our recommendation. This potential weakness was not addressed in the Office of Postsecondary Education's FMFIA report to the Secretary and thus was not considered in preparing the Secretary's report to the President and the Congress.

--In August 1984, we reported to the Chairman of the Subcommittee on Postsecondary Education, House Committee on Education and Labor, that many proprietary schools--generally private, for-profit vocational schools--were not complying with ED Pell Grant requirements and had

- Admitted unqualified students who had a greater tendency than other students to drop out before completing training.
- Allowed students to remain in school who did not meet academic progress standards.
- Misrepresented themselves to prospective students.
- Made numerous errors in computing and disbursing Pell Grant awards and refunds.

These schools received \$278 million in ED funds during the latest school year (1980-81) for which data were available at the start of our review.

We made recommendations to strengthen ED control requirements over student admissions and improve monitoring to better assure that schools comply with program requirements. In responding to our report ED concurred in the latter recommendation but stated it believed that control over student admissions was better

left to the discretion of the institutions and accrediting agencies. The recommended actions were not reported by the Office of Postsecondary Education and thus were not considered in preparing the Secretary's year-end FMFIA report.

Target dates not set for completing corrective actions

ED's 1983 year-end report on FMFIA identified eight material weaknesses in program and administrative activities remaining to be corrected. ED established final completion dates for resolving two weaknesses, but progress has not been up to expectation and dates have been extended from 1984 to 1985. ED did not establish final completion dates for the other six weaknesses but set targets for interim actions, such as establishing a task force or drafting regulations. In its 1984 report, ED identified five new material program-related weaknesses, six weaknesses in administration of the FMFIA process, and six weaknesses that remained from 1983. Final completion dates have not been established for correcting many weaknesses in the 1984 report.

Because ED is not establishing final completion dates for resolving weaknesses in many areas of importance to departmental operations, it does not have an adequate basis for tracking corrective action progress. Many of the weaknesses still outstanding are of sufficient importance that lack of resolution contradicts assurances given in the Secretary's 1984 report that internal control systems conform to requirements of FMFIA. The following are examples of weaknesses reported by the Secretary in 1983 and again in 1984 which illustrate the lack of firm dates for ultimate completion of corrective actions.

EXAMPLE 1 - Department-wide lack of written procedures

The lack of written procedures for performing routine administrative and program processes within the Department constitutes a material weakness.

1983 Reported completion objectives

The Office of Management will develop and propose for adoption a Department-wide policy establishing criteria and guidelines for written procedures for certain types of operating activities in the Department. The target date for presentation of the proposed policy is June 30, 1984. An Office of Management task force will be established to review the specific procedures manuals now extant and initiate updates as necessary.

### 1984 Reported completion objectives

The Office of Management has established a task force on procedures to develop recommendations to ensure that written procedures are prepared for departmental activities and that such procedures are periodically reviewed and updated. The task force will submit its recommendations to the Deputy Undersecretary for Management by April 30, 1985.

### EXAMPLE 2 - Backlog of audit appeals

The backlog of audit appeals administered by the Department's Education Appeals Board is too large and therefore constitutes a material weakness.

### 1983 Reported completion objectives

An internal control review will be conducted jointly by the Office of Management and Deputy Undersecretary for Intergovernmental and Interagency Affairs with participation by the OIG in calendar year 1984. Weaknesses identified in that review will be addressed by the Deputy Undersecretary for Intergovernmental and Interagency Affairs.

### 1984 Reported completion objectives

The Education Appeals Board is involved in a management improvement initiative with support and oversight by the Administrative Review Task Force. The task force will develop a caseload management system that will eliminate the current backlog and will ensure that practices and procedures are in place to permit efficient and proper case management in the future. The task force will complete its work by August 1985. (No date was set for eliminating the appeals backlog.)

### CONCLUSIONS

ED needs to improve its internal control review training program, upgrade the quality of reviews completed inadequately, and establish a system for tracking internal control corrective actions that includes all material weaknesses and establishes effective completion dates. Without incorporating known material weaknesses in year-end reporting and improving internal control review quality, ED did not have an adequate basis for reporting whether its system of internal controls, taken as a whole, provided reasonable assurance that the system conforms to FMFIA objectives for preventing fraud, waste, and abuse.

Future training emphasis should be placed on improving the evaluation of controls, performing adequate testing, developing meaningful corrective actions, and assuring that the internal control review scope is adequate. Practical training examples in each of those areas, as well as demonstration of proper and improper methods of performing internal control reviews, would be of benefit.

ED has not acted to correct inadequate internal control reviews performed during its first-year efforts. Because first-year reviews were done on larger ED programs of the highest vulnerability, correcting these reviews should receive priority in 1985. Performing limited vulnerability assessments of these areas during 1985 will not substitute for the need to correct weaknesses identified during the first-year evaluations and could tend to obscure the conditions needing to be addressed because of weaknesses in the vulnerability assessment document discussed in chapter 4. Future year-end reports by the ED Secretary should not provide reasonable assurance that internal controls conform to FMFIA until inadequate reviews have been repeated or otherwise upgraded.

Improvements are needed in tracking corrective actions to assure that actions reported as corrected are accomplished and that GAO and OIG recommendations are considered in assessing overall agency actions for year-end reporting. ED needs to implement a comprehensive tracking system for this purpose. ED also needs to establish meaningful target dates for final resolution of internal control weaknesses.

#### RECOMMENDATIONS TO THE SECRETARY OF EDUCATION

We recommend that the Secretary:

- Establish criteria for determining which completed internal control reviews should be repeated or upgraded and require program organizations to give priority to completing those reviews.
- Establish internal control review quality assurance procedures to ensure limitations in scope, evaluation of control objectives and techniques, testing, and recommended corrective actions are resolved before the results are used as the basis for ED's annual FMFIA report to the President and the Congress.
- Expand internal control review training to improve program staff performance in determining review scope, evaluation of control objectives and techniques, testing,

and corrective action. Case studies contrasting specific examples of effective and ineffective performance in these areas would be beneficial.

- Implement a tracking system that incorporates findings of GAO, OIG, and outside evaluations into the process leading to preparation of ED's year-end FMFIA report.
- Provide for ongoing testing of internal control weaknesses reported as corrected in ED's tracking system.
- Establish meaningful target dates for correcting all material weaknesses based on the time when final actions resolving the weaknesses are expected to occur.

#### AGENCY COMMENTS

ED generally agreed to implement our recommendations but had not formulated its approach for doing so at the time of its August 1985 reply.

ED stated that a better method for ensuring complete reporting is needed and that they were investigating options. They stated that actions were taken to validate corrective actions in 1984 (see p. 43) and that they plan to enhance this activity during 1985. ED stated that the quality of some of its internal control reviews needed to be upgraded and that the Office of Management was working closely with the principal components to accomplish this.

## CHAPTER 6

### ADP EVALUATION INSUFFICIENT TO

#### IDENTIFY WEAKNESSES

ED's year-end FMFIA report to the President and the Congress cited as a material weakness that ED does not have a methodology for assessing ADP controls. The lack of an ADP methodology and the potential for significant ADP control weaknesses going undetected did not provide an adequate basis for ED to report whether its system of internal controls, taken as a whole, provides reasonable assurance that the system complied with FMFIA's objectives for preventing fraud, waste, and abuse. In the absence of an adequate evaluation of ADP internal controls,<sup>1</sup> we do not believe that ED is in a position to state that its overall system of internal controls is adequate. ED's program and administrative activities are integrated with and dependent on its ADP systems.

#### IMPORTANCE OF ADP

ED's primary missions are carried out through its \$15 billion appropriation covering elementary and secondary education activities for the handicapped and disadvantaged and postsecondary financial assistance for college students. The success of these missions relies heavily on the effective daily functioning of ED's ADP systems, as illustrated below.

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<sup>1</sup>ADP internal controls can be divided into two major categories: general controls and application controls. General controls are those that apply to the overall management of an agency's ADP function. General ADP controls have a direct effect on the quality of service rendered to ADP users and cover the processing of all ADP application systems. These controls, which affect most ADP hardware and application software systems, include (1) organizational controls for the ADP unit; (2) system design, development, and modification controls; (3) data center management controls; (4) data center security controls; (5) system software controls; and (6) hardware controls.

Application controls are those that are unique to each software application system. Application controls are intended to assure the quality of data origination, input, processing, and output.

- The \$6.7 billion postsecondary education student financial assistance program relies on ADP support for processing about 10 million loan and grant applications annually. This includes eligibility determination processing, funds disbursements, and collection activities on defaulted loans.
- The \$6.9 billion program for grants and other assistance to states and localities for elementary, secondary, and special education relies on ADP for formula grant distribution, eligibility and entitlement data control, and funds disbursement.

ED has many other ADP systems that control significant administrative and accounting matters, including \$18 billion of fiscal year 1984 transactions in its Financial Management information system and its accounts receivable system with \$10 billion in outstanding loans at the end of fiscal year 1984.

#### ADP CONTROLS NOT ADEQUATELY ASSESSED

ED has begun taking steps to develop a methodology for assessing controls over its ADP systems in response to findings in our May 1984 report on ED's implementation of FMFIA. Because this effort was not organized until November 1984, ED's 1984 assessments of ADP controls lacked sufficient guidance and therefore were inadequate. Without specific guidance, comprehensive coverage of major ADP systems was not provided, risks associated with use of ADP during vulnerability assessments were not addressed, and ADP general and application controls were not fully assessed during internal control reviews.

#### Major ADP systems not assessed

ED's major ADP systems are multiuser systems that share information or are linked to other ADP systems. During 1984, ED did not provide for a comprehensive coverage of ADP systems with multiuser and linking characteristics. For example, ED's Guaranteed Student Loan system is used by several ED units involved with Guaranteed Student Loan Program processing. Computer tapes from the system are shared with other ADP systems. Two 1984 internal control reviews of Guaranteed Student Loan Program activities documented ADP use for loan subsidy and claims processing. However, a complete assessment was not provided of controls internal to the ADP system and over its links with other systems.

Similarly, other internal control reviews of units that use ED's grants management system, which is used Department-wide for processing grant program applications and awards, did not assess controls in the application system, but instead considered only those controls affecting the units' data input to the system. The internal control review reports indicate that since the system was used Department-wide, the user assumed no responsibility for assessing controls over the full system.

ED has other systems with several users and information sharing arrangements. An internal report on selected ADP systems prepared by an ADP contractor indicated that the 13 major ADP systems the contractor reviewed each served multiple users and shared information with other ADP systems. ED must assure adequate coverage of its major ADP systems before it can provide reasonable assurance that the ADP internal controls are adequate to prevent fraud, waste, and abuse. To facilitate the evaluation of major ADP systems, agencies could separately identify these systems for comprehensive evaluation of their functions.

Vulnerability assessments did not focus on ADP internal controls

During 1984, ED conducted vulnerability assessments covering various program operations and administrative activities, including its departmental ADP management units. However, ADP general and application controls were not effectively assessed. Vulnerability assessments required managers only to identify ADP systems used by their units and judge the amount of ADP use. The managers, however, were not required to address specific strengths, exposures, or the existence of appropriate controls over ADP users necessary to assess vulnerability to fraud, waste, and abuse. The director of ED's internal control staff explained that the 1984 vulnerability assessment question on ADP was directed only at identifying ADP as a potential problem area in the assessable units' general control environment.

We examined 12 vulnerability assessments conducted during 1984 that indicated use of ADP. On four of these, some ADP controls were informally considered by managers in responding to the questionnaire. ADP controls, however, were not considered at all on the remaining eight assessments because the managers were not required to consider specific controls.

Two of the four vulnerability assessments were of ED's computer facilities and considered ADP general controls involving computer security. Although the facilities managers did not identify and evaluate ADP general controls, they said

they informally considered existing controls in preparing the vulnerability assessments. According to the managers, security of the facility and access to data are a daily concern with them. Both managers told us about known problems with the facilities that they had not documented on the vulnerability assessments. For example, one of the managers told us about a lack of procedures on access to his facility, and the other told us that the facility he manages has too many security administrators. The vulnerability assessment questionnaire required only that they indicate the existence of such problems, but not document them.

ADP controls on the other two vulnerability assessments also were not formally evaluated. However, the managers told us that since the units had computer terminals, they were aware of the controls over access to the computer and considered these controls in responding to the vulnerability assessment questionnaire.

#### Assessment of ADP controls during internal control reviews was limited

During 1984 ED conducted 35 internal control reviews, of which 18 involved ADP. We analyzed 7 of these 18 and reviewed the reports for the remaining 11 ADP-related internal control reviews. We also examined the internal control review conducted during 1983 of the National Direct Student Loan Program. Our analysis showed that ED's evaluation of ADP was limited with the result that ADP internal control weaknesses may have been overlooked.

Two internal control reviews of portions of ED's Guaranteed Student Loan Program did not include testing of ADP controls. One review of the program's claims processing and collections on defaulted loans documented how ADP was used, but did not identify and test the ADP controls. Also, the review was incomplete in that it did not include the ED unit that (1) performs follow-up reviews of state guarantee agencies' compliance with program regulations and (2) validates the agencies' claims and collections on defaulted loans.

The second review, concerning the program's interest subsidies and special allowance payments, documented the use of ADP in processing payments made to participating lenders, but did not test the ADP controls in operation. Instead, reliance was placed on testing done by the ADP system contractor during development of the system. The review also was incomplete in that it did not include the activities of another ED unit that (1) performs follow-up reviews on lenders to assure compliance with program regulations and (2) analyzes the lender's billings for the interest and special allowance payments.

The Guaranteed Student Loan ADP system is being redesigned, which was recommended in a prior GAO report.<sup>2</sup> The system redesign is expected to make claims and collection processing more efficient and accurate and resolve control weaknesses.

Four other internal control reviews reported using ADP. However, the review teams did not evaluate and test the ADP controls because the ADP application systems were considered the responsibility of either a contractor or another unit within ED.

The last of the seven internal control reviews we looked at was of ED's management of ADP acquisitions for compliance with federal ADP regulations and ED's ADP budget. The ED review team documented and evaluated events occurring within the unit that reviews the requested ADP acquisitions, but they did not follow the requests back to the requesting units to determine if required documents were in fact maintained there. During fiscal year 1984, ED processed 425 acquisition requests involving \$48 million of ADP acquisitions. The review team tested only six of those requests for procedural compliance.

The 11 other 1984 reports also showed limited consideration of ADP controls.

--ADP use was indicated in the analysis of the general control environment in four reports, but was not further considered in the documentation of events and evaluation and testing of control techniques.

--ADP use was considered in the documentation of events with some consideration of ADP control techniques in seven reports.

The 1983 internal control review of the National Direct Student Loan Program also showed limited consideration of ADP controls. The program uses ADP for processing institutions' applications for funding and producing fiscal reports. The internal control review report indicated that since the ADP system used was part of a Department-wide contract, requirements to improve controls could not be imposed on the program's operations unit.

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<sup>2</sup>"The Guaranteed Student Loan Information System Needs a Thorough Redesign to Account for the Expenditure of Billions," (HRD-81-139, Sept. 24, 1981).

IMPLEMENTATION OF ADP  
EVALUATION METHODOLOGY DELAYED

ED has begun to develop a methodology for assessing ADP controls in response to our first-year report on FMFIA. However, this effort was not organized until November 1984, too late to improve its assessments of ADP controls during ED's 1984 FMFIA activities. As a result, major ADP systems were not subjected to a comprehensive FMFIA evaluation in 1984. ED's new methodology will need to provide for making effective use of ADP security reviews to fulfill FMFIA requirements.

In August 1984 the acting director of ED's MIS prepared a memorandum to the director of ED's Information Resources Management Service to initiate a joint effort to address the problems raised by our first-year report. ED's Information Resources Management Service director responded to MIS in September 1984 and suggested that instead of beginning with the work steps set forth by MIS, the two services develop an agenda that meets the needs of both units. A project team composed of the above-mentioned groups and the OIG issued its charter in mid-November 1984 and identified the following project objectives in December 1984.

- Drafting definitions of ADP general and application controls.
- Assigning responsibility and providing necessary support for conducting ADP evaluations.
- Providing guidelines for ADP evaluations required for FMFIA and ADP security reviews.
- Providing quality assurance standards and procedures for ADP evaluations.
- Revising training curriculum and materials to implement guidelines and quality standards.

ED officials have made progress in completing work on these objectives during 1985. (See app. III, p. 75.)

Separate reviews to certify the security of federal automated information systems are performed by ED at least every 3 years. These reviews, when properly conducted, may satisfy a part of FMFIA evaluation requirements. In 1983, ED completed its first series of security certification reviews covering ED's 62 larger and more visible systems. However, these reviews were limited in scope and depth of coverage. ED was improving

security review processes during 1984 and did not require managers to use 1983 review results to complement 1984 FMFIA activities.

#### CONCLUSIONS

The limitations in ED's assessment of ADP systems' vulnerability and reviews of ADP internal controls did not provide an adequate basis for ED to state in its 1984 year-end report that its system of internal controls, taken as a whole, provided reasonable assurance that the system complied with FMFIA objectives for preventing fraud, waste, and abuse. Without an effective evaluation of ADP system vulnerability or internal control reviews that adequately address all risks associated with ADP use, significant ADP weaknesses may not have been detected.

ED has begun to develop a methodology for evaluating ADP and expects to apply the emerging methodology during 1985 FMFIA activities. Plans in 1986 should include comprehensive evaluations of major ADP systems in ED, effective integration of ADP security reviews into FMFIA evaluation coverage, and development of sound guidance that ED program managers can rely on to judge the adequacy of ADP internal controls for their programs. Completing these actions will give ED a better basis for determining whether its internal control system as a whole is adequate to prevent fraud, waste, and abuse.

#### RECOMMENDATION TO THE SECRETARY OF EDUCATION

We recommend that the Secretary complete separate internal control evaluations of its major ADP systems to establish a more meaningful basis for future reporting on the adequacy of ADP internal control systems.

#### AGENCY COMMENTS

ED agreed to implement our recommendation. ED stated that it will conduct internal control evaluations of its ADP systems in 1986 and that it had (1) developed criteria for assessing ADP general and application controls, (2) incorporated the criteria into its internal control review directive, and (3) proposed a pilot project to evaluate the criteria and methodology for assessing the cross-cutting aspects of ADP systems.

## CHAPTER 7

### ACCOUNTING SYSTEMS IMPROVED BUT

#### MAJOR PROBLEMS REMAIN

ED's accounting systems continue to have serious deficiencies. The Secretary reported that six systems that account for about \$30 billion, or almost half the value of annual transactions processed in all ED's accounting systems, do not conform to the Comptroller General's accounting principles, standards, and related requirements.<sup>1</sup> The Secretary also reported that 15 additional accounting systems reasonably conformed but that 13 of these required corrective actions.

ED is attempting to address its problems, some of which are longstanding. A number of corrective actions were completed in 1984, with longer range plans made to resolve most of the agency's major weaknesses, and several system redesign or major enhancement projects are underway.

ED made considerable progress in evaluating its accounting systems during 1984, but it has not yet completed testing all of its systems. ED's evaluation program can be further strengthened by (1) expanding its testing of transactions, (2) enhancing its monitoring of corrective actions, and (3) giving its managers additional guidance. Also, the Secretary's year-end reporting to the President and the Congress would have been more meaningful if he had disclosed the significance of those systems not in conformance. Although not specifically required by the act, such reporting would give the reader a perspective on the significance of nonconforming systems, which accounted for a major part of ED's transactions and activities.

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<sup>1</sup>The GAO Policy and Procedures Manual for Guidance of Federal Agencies contains the principles, standards, and related requirements to be observed by federal agencies. Specifically, title 2 prescribes the overall accounting principles and standards, while titles 4, 5, 6, and 7 specify requirements governing claims; transportation; pay, leave, and allowance; and fiscal procedures, respectively. Also, agency accounting systems must include internal controls that conform with the Comptroller General's internal control standards and related requirements, such as the Treasury Financial Manual and OMB Circulars.

## STATUS OF ACCOUNTING SYSTEMS

Roughly 46 percent of the dollar volume and 35 percent of ED's 1984 transactions were processed by the six systems reported by the agency as not being in conformance. The problems are serious, as five of these systems require major upgrades or conversion to new systems in order to bring them into conformance. For example:

- ED's financial management information system is its general ledger system, which accounted for about \$18 billion and handled about 800,000 transactions in fiscal year 1984. Among the problems reported for this system were that it has poor audit trails and that its data are unreliable and inadequate to meet internal and external management and reporting requirements.
- Through ED's payment system in fiscal year 1984, \$7.5 billion was disbursed to contractors and grantees. Among the 19 weaknesses disclosed for this system were that the data base has widespread errors and that cash management information is not readily available. Also, interface with other ED systems and reporting capabilities needs improvement. As a result, payments may be made prematurely, and the government may incur unnecessary interest cost.
- About \$2.8 billion of receivables transactions during 1984 were processed by a system which contained inaccurate information and did not produce accurate reports. The receivable system also had limited capabilities for aging receivables, which amounted to \$10.6 billion at the end of fiscal year 1984. As a result, ED is hampered in its attempts to solve its longstanding debt collection problems and collect billions of dollars of delinquent debt by the lack of good accounting information on its receivables.
- Accounting for other assets also needs improvement, such as government-owned property held by contractors and grantees, which was reported as being maintained by a system that does not assure the inclusion of all such property. This could result in a potential loss to the government of property that is in the hands of others.

Thirteen additional systems require some type of short-term corrective action. For example, the payroll system needs controls over some retirement records, and another system that involves student loans needs to be revised to estimate uncollectible debts.

## CORRECTIVE ACTIONS TAKEN

To date, ED's efforts under the act have resulted in improved accounting systems, but the agency has a long way to go to solve its longstanding problems. ED has taken or is implementing actions to correct the deficiencies disclosed in its 21 accounting systems. A number of problems reported in 1983 have been corrected, and ED developed and began implementing longer range plans to improve its systems. Also, to help assure it gets the job done, ED has instituted a computerized system to track the progress of corrective actions.

### Short-term actions completed

ED reported that it has corrected 13 problems identified in its 1983 report. While we did not independently assess these measures, ED believes that completed efforts have resolved identified weaknesses and improved accounting systems.

For example, in 1983 ED reported that its major payment system frequently broke down, causing delays in providing information to users. ED overcame these problems in 1984 with system improvements that have resulted in rapid retrieval of data and in less "down time."

ED also reported in 1983 that it had a problem updating its general ledger and responding to user inquiries in less than 5 days. It implemented an automated updating procedure, and inquiries are now answered within a few seconds.

### Long-term redesigns and enhancements

While ED strengthened its systems in 1984, many of its accounting problems are so serious as to require system replacement, redesign, or substantial enhancement. More time is necessary for implementing these projects, which involve the commitment of substantial resources. While extensive improvement efforts were planned before systems were evaluated, FMFIA provided the impetus for implementation.

ED has budgeted nearly \$14 million for fiscal years 1984 through 1986 for general system enhancements ranging from minor design changes to complete system replacement. For example, ED plans to spend over \$4.5 million to improve its general ledger system and plans to install a new automated system at an estimated cost of \$1.5 million to replace the payment system. ED has also budgeted over \$1.1 million to replace the present automated system for the Guaranteed Student Loan Reinsurance Program in order to produce more management reports, account for cost more effectively, and produce more useful data.

REFINEMENTS OF SYSTEM  
EVALUATIONS AND MONITORING NEEDED

In our report on ED's 1983 implementation of FMFIA, we suggested that ED expand its inventory of accounting systems, provide for testing as part of the assessment program, and insure that all system evaluators received training. We found during 1984 that ED had addressed all of our suggestions and made a concerted effort to strengthen its accounting system evaluations. While not yet testing all its systems, ED made considerable progress in this area in 1984. ED could further build on improvements since 1983 by

- continuing and expanding testing in systems not undergoing replacement or substantial enhancement,
- obtaining and reporting to management, through an existing monitoring system, additional data on implementation of corrective actions, and
- insuring that system evaluators receive adequate guidance on applying the Comptroller General's accounting principles, standards, and related requirements to system evaluations.

Evaluation program strengthened

To insure that evaluations covered all major accounting systems, ED expanded its inventory of accounting systems, identifying seven additional systems in 1984. We believe the agency has now identified all its accounting systems.

In addition to developing a more comprehensive inventory, ED used a questionnaire to evaluate its 21 systems. ED used its comprehensive questionnaire effectively in that it identified a number of material problems and provided a good basis for logically selecting the systems for which testing was performed. Other improvements over the 1983 approach included training for more evaluators, additional quality assurance, and system testing.

ED identified 92 accounting system problems in 1984. For example, the 1984 evaluations disclosed 19 weaknesses in the payment system--problems present in the system but not identified and reported in 1983.

The most important progress in 1984 was that ED began testing its systems in operation, which identified additional system weaknesses. Testing disclosed, for example, \$43 million of unidentified transactions in the general ledger, as well as \$5 million in unrecorded personal property.

Review by the OIG also identified deficiencies. For example, the OIG noted seven material weaknesses in the Impact Aid System and identified about \$100 million not yet disbursed from appropriations as early as 1975. The Impact Aid System was one of the six systems ED reported as not in conformance with the Comptroller General's requirements.

Testing should be expanded

ED conducted transaction testing in 10 of its accounting systems. These tests consisted of interviewing system personnel, observing system operations, and tracing source data through accounting systems to ascertain whether they were properly recorded and reported.

Tests were made of a few transactions in each of several systems, including the general ledger, a major payment system, and several systems related to student loan and grant programs. Altogether testing covered systems where \$34.1 billion in transactions were processed, about 52 percent of the \$65.1 billion in transactions handled by all ED's accounting systems in fiscal year 1984. (ED did not test the adequacy of controls over automated data processing in 1984--see ch. 6.)

ED needs to continue this effort. As noted earlier, ED plans major changes in some systems. While the value of testing is limited when accounting systems are undergoing replacement or major overhaul, nine systems not tested in 1984 are slated for short-term adjustments or no change at all.

In this regard testing should be conducted on all critical areas of the system, and may include

- interviewing persons who operate the system,
- observing operating procedures,
- examining system documentation,
- applying procedures to live transactions and comparing results,
- direct testing of computer-based systems by use of simulated transactions, and
- reviewing error reports and evaluating error follow-up procedures.

Tests should be designed to disclose whether valid transactions are processed properly, and whether the system rejects invalid transactions. The tests should cover the entire transaction, from initial authorization through processing, posting to the accounts, and reporting. Accordingly, manual as well as automated operations should be included. In developing test plans, consideration should be given to the results of any prior system testing.

These testing criteria have been adopted by OMB and included in appendix H of its publication, "Guidelines for Evaluating Financial Management/Accounting Systems" (May 20, 1985). In determining the tests that would be appropriate for any system, it is important to keep in mind that, in most cases, using transaction testing as the key, more than one of the above techniques are needed to test all important aspects of an accounting system.

Such things as how a system records obligations and disbursements against appropriations, calculates payments, determines overpayments for recoupment, and interfaces with the general ledger should be tested by ED where appropriate. The benefit of such testing is illustrated by the OIG review of the Impact Aid System.

Additional monitoring system  
information could enhance timely  
and effective correction actions

To help monitor its system improvements, ED developed an automated system to track corrective actions. The system generates reports to management indicating by accounting system what problems were noted and what corrective actions were planned. In addition, it reports target dates and comments on progress. While the system provides meaningful data, we believe it can be enhanced.

First, the system would be improved if it contained information on short-term corrective actions considered. While short-term measures are proposed for 14 systems, 5 other systems, reported out of conformance, are slated for long-range replacement or major overhaul. Short-term actions should be considered to remedy accounting system problems until long-term projects are implemented, and in our view it would strengthen the monitoring system if managers were made aware as to whether such actions were found to be feasible and cost effective.

For example, many of the cash management problems associated with the payment system are not expected to be corrected until early 1986. The manager of this system told us that as a result some short-term actions have been taken, such

as manually reconciling cash balances with recipients and developing cash management data. The corrective action monitoring system, however, is not geared to capture this type of information or report whether short-term solutions were even considered.

Second, monitoring reports would be improved if they included the original target completion date as well as the current milestone. This would provide management information on any slippage. System evaluators told us target dates have slipped for the general ledger, grant accounting, and payroll systems. Further, in comparing data from the 1983 accounting system evaluations and the September 1984 monitoring report, we noted that milestones had slipped in the collections and campus based systems as well. Missed milestones in these systems involved corrective actions on 14 weaknesses identified in 1983. Changes in target dates ranged from 1 to 15 months, with 11 changes of 7 months or more.

Third, the system should include information on accounting system improvements resulting from completed corrective actions. This information would serve as a measurement of the act's effectiveness and support for reporting accounting system improvements.

#### Managers need additional guidance

One final area ED needs to build on in the future is guidance and training. Brief training sessions provided by ED in 1983 and 1984 may not have given evaluators a good understanding of applicable Comptroller General requirements and how to apply them in evaluating systems. Six of the 10 managers we spoke with were not accountants, although they conducted 1984 system evaluations. The need to give evaluators a firm grasp of how to conduct system reviews is particularly important as the Department moves to greater testing of its systems' conformance.

Evaluators using the standardized questionnaire received 1 hour or less of training. One manager said the training session lasted about half an hour, consisting of a "walk through" of ED's evaluation instructions. These guidelines are nearly 100 pages long and contain technical material closely paralleling the Comptroller General's accounting principles, standards, and related requirements.

Managers of 10 systems had difficulty either interpreting the language of some questions or ascertaining whether certain questions were applicable. For example, one manager claimed no background in accounting and said he had experienced difficulty understanding the questions in the guidelines. Another

evaluator noted that many items on the assessment questionnaire were vague and said the questions appeared overly technical and difficult for a layperson to understand. Others felt that many questions hindered understanding because of accounting jargon.

#### NEED FOR MORE MEANINGFUL REPORTING OF ACCOUNTING SYSTEMS' CONDITIONS

ED's reporting has evolved since 1983, when it gave no opinion on whether its systems conformed with the Comptroller General's accounting principles, standards, and related requirements. ED's 1984 report to the President and the Congress states whether or not each of its 21 accounting systems conforms.

While ED was forthright in disclosing its problems, the report would be more meaningful if it included the significance of systems judged out of conformance and the seriousness of related accounting system weaknesses. While this is not specifically required by the act, it could be easily done and would give the reader a perspective of what nonconformance means. The report does not convey that a substantial portion of the number and dollar volume of ED's 1984 transactions were processed by the six accounting systems considered out of conformance. As noted previously, these systems handled considerable sums and included the general ledger with \$18 billion in transactions, a payment system with \$7.5 billion in transactions, the \$2.8 billion accounts receivable system, and three smaller systems. Also, the deficiencies involve most major aspects of ED's financial operations, including cash management, receivables, property, fund control, and central accounting.

#### CONCLUSIONS

Although we believe that the Secretary's year-end report to the President and the Congress would have been made more meaningful if it had disclosed the significance of accounting systems not in conformance with the Comptroller General's principles, standards, and related requirements, the report was a forthright disclosure of the status of individual accounting systems' weaknesses. We agree with the Secretary's overall conclusions that ED's accounting systems have some "serious deficiencies." ED showed considerable improvement in evaluating its accounting systems and identified significant weaknesses. Short-term corrective actions have been taken to solve some of the problems reported in 1983. Longer range enhancements are underway to address the major accounting system problems facing the agency.

ED, nonetheless, has opportunities to progress further in improving accounting systems. Sustained effort will be needed to insure that ED successfully implements long-range improvements and thus brings its accounting systems into conformance with the Comptroller General's requirements.

#### RECOMMENDATIONS TO THE SECRETARY OF EDUCATION

We recommend that the Secretary direct ED program and administrative offices to

- expand testing to all accounting systems not undergoing substantial modifications and include the use of hypothetical transactions in testing;
- include information in corrective action monitoring reports on short-term measures considered, original target dates, and completed accounting system improvements;
- give accounting system managers additional guidance, through training and questionnaire clarification, on applying the Comptroller General's accounting principles, standards, and related requirements in evaluating its systems; and
- report the significance of accounting systems out of conformance with the Comptroller General's requirements and the seriousness of weaknesses in these systems.

#### AGENCY COMMENTS

ED agreed to implement our recommendations and stated its commitment to a sustained effort to bring its accounting systems in conformance with the Comptroller General's requirements.

ED stated that it prepared a 3-year plan which emphasizes the objective of improving the testing phase of the review process. ED expects to begin testing transactions in 1985, using the testing techniques we recommended. ED stated further that several short-term corrective actions have already been undertaken and that, in the future, system managers will be asked to list short-term corrective actions and milestones under long-term solutions wherever possible. ED also stated that it believes that the training provided to system managers was adequate for them to complete 1984 reviews, but that there is still room for improvement. They indicated that additional guidance was given to system managers and reviewers for the 1985 reviews; training was improved by providing a training session

that presented more background information and guidance on conducting the FMFIA section 4 reviews; and a new questionnaire was developed which covered additional areas that were not covered in 1984.

ED indicated that it could see the importance of identifying the significance of the nonconforming accounting systems in its year-end report. ED said that in the context of an agency-wide analysis, such comments would make the FMFIA section 4 report more informative and that it intended to incorporate this recommendation in its 1985 FMFIA report.

MATERIAL INTERNAL CONTROL AND ACCOUNTING  
SYSTEM WEAKNESSES REPORTED BY THE  
DEPARTMENT OF EDUCATION  
AS REQUIRING CORRECTIVE ACTION

INTERNAL CONTROL WEAKNESSES

DEPARTMENT-WIDE

Outstanding from 1983

- There is a lack of written procedures throughout the Department for performing routine administrative and program processes.
- There is a pervasive weakness throughout the Department with regard to grant and contract compliance monitoring.

Identified in 1984

- The printing and audiovisual production system in the Department does not provide reasonable assurances that satisfactory controls are in place to prevent waste and mismanagement.
- A study on the conduct of the internal control review process in the Department was conducted by the Internal Control Steering Committee during calendar year 1984. It was found that many of the internal control reviews were not acceptable and in fact did not properly follow the internal control review process as prescribed by OMB Circular A-123.
- The Department does not have a plan to take corrective actions on weaknesses identified in the vulnerability assessments.
- The Department does not have a mechanism to ensure that appropriate staff receive internal control review training.
- The Department does not have a specific methodology for considering ADP general and application controls.

- The regional internal control activities in 1984 in some cases were not extensive.
- Controls for the following accounting systems within the Department do not provide reasonable assurances that the systems will classify, summarize, and report receivables and payments in a timely and accurate manner:
  - o Accounts Receivable System
  - o Grants Payments System
  - o Impact Aid System
  - o General Ledger System

#### PROGRAM-SPECIFIC

##### Outstanding from 1983

- Because of a congressionally mandated set-aside for labs and centers, the National Institute of Education continues to have little control over the allocations of those funds.
- The backlog of audit appeals administered by the Department's Education Appeals Board is too large and therefore constitutes a material weakness.
- In the Office of Management, accounting system controls, including the Accounts Receivable System and the ED Payments System, do not provide reasonable assurance that the systems will classify, summarize, and report receivables and payments in a timely and accurate manner.
- In the Office of Postsecondary Education, unallowable activities have been funded in prior years because provisions of the allowable cost paper have not been applied consistently.

##### Identified in 1984

- Although the Office of Bilingual Education and Minority Language Affairs has demonstrated progress in implementing OMB Circular A-123, there still needs to be improvements made in its internal control reviews to make them consistent with Department directives and standards.
- In the Office of Educational Research and Improvement, more employees are becoming involved with the allocations of funds, which increases the risk of unwanted and unauthorized modifications to data. At present, there is no security of the data base system now in operation.

- In the Office of Management, management controls for the processing of EEO formal complaints do not provide reasonable assurance that such complaints will be processed in a timely manner.
- In the Office of Postsecondary Education, the Guaranteed Student Loan claims and collection data system, which handles reinsured loans for the reinsurance claims and collections program, is incapable of processing defaults on repurchased loan and payment reconciliations. Because of an inability to track funds owed to ED by guarantee agencies other than collections from borrowers, accurate reporting of financial data is impossible.

WEAKNESSES IN ACCOUNTING SYSTEMS  
NOT CONFORMING TO THE STANDARDS  
OF THE COMPTROLLER GENERAL

- The Payment System had 19 weaknesses, including numerous errors in the data base and cash management information was not readily available.
- The Financial Management Information System had 14 weaknesses, including poor audit trails and data that are unreliable and inadequate to meet internal and external requirements.
- The Accounts Receivable System had five weaknesses, including a limited ability to age delinquencies in certain program areas and required reports were not being produced.
- The Guaranteed (State) Agency Reinsurance System had five weaknesses, including an inoperable ADP system for collections and a lack of uniformity in the collection and recording of data from guarantee agencies.
- The Impact Aid Payment System had seven weaknesses, including the failure to make allowance for uncollectible debts, \$90 million of lapsed funds remaining available for obligation after the 1984 fiscal year end closing, and \$24 million obligations overstatement.
- The Property Inventory System of contractor/grantee-held equipment does not provide assurance that all such property will be included.

OMB DECEMBER 1982

FMFIA GUIDANCE TO AGENCIES

PRESENTING SAMPLE INTERNAL CONTROL STATEMENT

(AND REPORT, IF APPLICABLE)

Dear Mr. President:

An evaluation of the system of internal accounting and administrative control of (name of agency) in effect during the year ended (date) was performed in accordance with Guidelines for the Evaluation and Improvement of and Reporting on Internal Control Systems in the Federal Government, issued by the Director of the Office of Management and Budget, in consultation with the Comptroller General, as required by the Federal Managers' Financial Integrity Act of 1982, and accordingly included an evaluation of whether the system of internal accounting and administrative control (name of agency) was in compliance with the standards prescribed by the Comptroller General.

The objectives of the system of internal accounting and administrative control of the (name of agency) are to provide reasonable assurance that:

- Obligations and costs are in compliance with applicable law;
- Funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation; and
- Revenues and expenditures applicable to agency operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the assets.

The concept of reasonable assurance recognizes that the cost of internal control should not exceed the benefits expected to be derived therefrom, and that the benefits consist of reductions in the risks of failing to achieve the stated objectives. Estimates and judgments are required to assess the expected benefits and related costs of control procedures. Furthermore, errors or irregularities may occur and not be detected because of inherent limitations in any system of internal accounting and

administrative control, including those limitations resulting from resource constraints, Congressional restrictions, and other factors. Finally, projection of any evaluation of the system to future periods is subject to the risk that procedures may be inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

The results of the evaluation described in the first paragraph, assurances given by appropriate (name of agency) officials, and other information provided indicate that the system of internal accounting and administrative control of (name of agency) in effect during the year ended (date), taken as a whole, complies with the requirement to provide reasonable assurance that the above-mentioned objectives were achieved within the limits described in the preceding paragraph. The evaluation, however, did disclose the following material weaknesses:<sup>2/</sup>

(LIST OF MATERIAL WEAKNESSES)<sup>1/</sup>

Attachment A to this statement contains the (name of agency) plans and schedules for correcting such weakness,<sup>2/</sup> and the status of actions taken to correct weaknesses identified in prior years' reports.<sup>3/</sup>

(SIGNATURE)

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<sup>1/</sup>If material weaknesses in systems subject to these guidelines are found, this sample constitutes the statement and report required by the Act. If material weaknesses are not found, this sample, as adjusted, constitutes the statement required by the Act.

<sup>2/</sup>If there are no material weaknesses, this sentence should be deleted, and there would be no list or portion of Attachment A containing plans and schedules for correcting such weaknesses.

<sup>3/</sup>If there were no actions taken during the past year to correct weaknesses, or no identified weaknesses for which corrective actions remain to be taken, this phrase would be deleted.



UNITED STATES DEPARTMENT OF EDUCATION  
OFFICE OF THE DEPUTY UNDER SECRETARY FOR MANAGEMENT

THE DEPUTY UNDER SECRETARY

AUG 14 1985

Mr. Richard L. Fogel  
Director, Human Resources Division  
United States General Accounting Office  
Washington, D.C. 20548

Dear Mr. Fogel:

Secretary Bennett has asked me to respond to your letter of July 8, 1985, and the accompanying GAO proposed report to the Congress: "Second-Year Implementation of the Federal Managers' Financial Integrity Act in the Department of Education."

We have reviewed the draft report and believe that it does not adequately reflect the positive achievements of ED's Internal Control Program. The stated objective of the GAO review was "to evaluate ED's second year progress in implementing FMFIA" and to assess whether "improvements to systems of internal control and accounting were resulting . . . ." In our view, GAO did not adequately describe ED's overall progress either in implementing the FMFIA or in realizing improvements in systems of internal control.

The GAO report focuses on a number of deficiencies which were already known to us. Through the combination of our internal control evaluation process and ongoing self-assessment, we had identified most of these deficiencies, were in the process of correcting them or had developed corrective action plans, and had reported them in our assurance letters.

We strongly disagree with GAO's contention that "the Secretary does not yet have an adequate basis to state whether ED's system of internal controls taken as a whole provide (sic) reasonable assurance that the system conforms to the objectives of the Act." We believe that the Secretary's statement of reasonable assurance is consistent with the spirit and intent of the Act and with OMB's guidance to agencies for making such a determination. Attached to a memorandum to the Heads of Executive Departments and Agencies, dated October 15, 1984, the Deputy Director of OMB provided a summary of GAO's expectations in regard to the second-year implementation of the FMFIA. Included in this summary was the following statement which has bearing on the matter of reasonable assurance:

[The expectations] reflect GAO's view that the problems that gave rise to this legislation will not be solved overnight, and therefore we cannot realistically expect full implementation this year. On the other hand, these expectations also reflect our view that it is reasonable for agencies, as a basis for their second year reporting, to begin to demonstrate that effective systems are in place and working, or that significant, cost beneficial improvements in internal controls and accounting systems are being made as a result of this legislation.

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The GAO expectations should be used as "benchmarks" against which to measure agency progress at the end of the second year. The expectations should not be viewed as hard and fast performance; they should be used, along with the progress and problems encountered during the first year, to judge the "reasonableness" of agency progress. Thus, an agency whose performance fails to meet these benchmarks may still be judged to be "reasonable" based on that agency's first year problems or other extenuating circumstances.

In subsequent correspondence with GAO (two letters dated December 19, 1984, and February 10, 1985), OMB reaffirmed and elaborated on this position. In the December 19 letter, Mr. John J. Lordan, Deputy Associate Director for Financial Management, stated:

We have not established, nor do we believe it realistic to establish, minimum evaluation criteria for agencies to achieve before they can provide a reasonable assurance statement. Actually agency management is expected to consider more than the results of the internal control evaluation process required by the Act in determining whether there is reasonable assurance that the objectives of internal control are being achieved for the agency as a whole. The other factors to be considered consist of the assurances given by agency officials and other available information, including the known internal control weaknesses and the affect (sic) of the IG, GAO, and other evaluative work performed within the agency. Thus, the sum and substance of all information available to management is to be considered in making the reasonable assurance determination for use in the year-end internal control statement.

Furthermore, ED's assurance letter used the format and language provided in the OMB guidelines. The OMB format allows agencies to conclude reasonable assurance and, at the same time, disclose material weaknesses and lesser deficiencies.

We believe that neither the discovery of internal control deficiencies nor the occurrence of errors in the administrative process, in itself, precludes ED from reporting reasonable assurance. The criterion of reasonableness acknowledges that system errors or irregularities may occur but that efforts will be made to minimize their occurrence and to correct identified deficiencies in a timely and cost effective manner.

ED carried out its FMFIA responsibilities over the past years in a manner which provided a sufficient basis for providing reasonable assurance. The comprehensive evaluation and review process which ED undertook provided a suitable indication of the status of our internal control systems and formed a firm basis for concluding that those systems meet the requirements of the Act

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and the criteria for reasonable levels of assurance. In addition to requiring letters of assurance from ED Principal Officers, ED's Internal Control Steering Committee provided oversight guidance and participated in the decision-making process in preparing the Secretary's letter of assurance.

We recognize that some improvements in the operation of our Internal Control Program are needed to correct administrative problems, and we appreciate GAO's guidance in this area. However, the problems are not so great as to suggest that the Secretary could not assert reasonable assurance for ED's system of internal control. The basic structure of the Department's program is in place and is sound. All components of the seven-step evaluation process prescribed by OMB have been established and are functioning. We will continue to strive for further system enhancements and improved annual results.

GAO categorized their findings into five major deficiencies in the Department's internal control evaluation process. Our comments are organized in the same sequence.

I. GAO RECOMMENDATION:

**STRENGTHENED CENTRAL MANAGEMENT NEEDED:** ED should establish central responsibility for obtaining program offices' conformance with FPMIA guidelines and time frames.

ED RESPONSE:

ED generally agrees that our compliance activities could be more effectively managed if authority were centralized and more clearly assigned. The compliance issue is expected to be addressed by the Department's Steering Committee which has been upgraded, reconstituted, and renamed the Internal Control and Productivity Improvement Steering Committee, which reflects its expanded scope to include responsibility for activities related to OMB Circular A-76. The chairmanship was elevated one level to the position of the Deputy Under Secretary for Management.

II. GAO RECOMMENDATION:

**PROGRAM AND ADMINISTRATIVE VULNERABILITY NOT EFFECTIVELY ASSESSED:** ED should: (1) implement internal control activities and establish an appropriate assessment structure in the Regional Offices; (2) make improvements in the vulnerability assessment (VA) process by: eliminating coverage gaps, obtaining overall views of assessors on program risk, clarifying questions subject to misinterpretation, requiring supervisory review of VAs, requiring consideration of all external reports and evaluations, acting on weaknesses disclosed in VAs.

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ED RESPONSE:

ED disagrees with GAO's statement that vulnerability was not effectively assessed. Training was provided to the assessors and MIS provided assistance in clarifying questions. While process errors did occur, we believe that our overall vulnerability assessment process was effective and that segmentation and vulnerability assessments were conducted in compliance with applicable guidelines and standards. As part of our planning for the 1986 biennial cycle for vulnerability assessments, we will conduct a self-assessment and use its results, as well as GAO and OIG information, to make further improvements.

ED will take action to incorporate GAO's recommended improvements. We are taking action now to remedy some of the deficiencies identified, for example: (1) The VA questionnaire and instructions are currently being revised; (2) internal control training is scheduled to be conducted in each of the ten regional offices in August and September of this year; (3) the requirement to make corrective actions based on the VA data is included in our draft Vulnerability Assessment Directive, dated February 22, 1985; and (4) guidance and instructions for analyzing the VA data to identify and document internal control weaknesses and corrective actions have been provided to the ED components.

With regard to the segmentation problems mentioned:

See comment 1,  
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1. GAO did not seem to consider the iterative aspects of segmentation, which may account for the apparent disparity in the number of assessable units reported in August and in December. The 1984 segmentation was designed to provide an audit trail back to the original 1982 inventory. Segmentation was the initial part of ED's analytic process culminating with a review by the Steering Committee. Changes were made by the ED components and the Management Improvement Service throughout the process as discrepancies were identified. At the end of the process, the Principal Officers were asked to certify that the final inventory was accurate at that point in time.
2. Whether the segmentation in the Office for Civil Rights (OCR) was excessive, as GAO suggests, and whether its ultimate impact skewed the VA data is not entirely clear. A similar situation will occur, however, in other offices' inventories when their assessable units are expanded by a multiple of ten. Guidance from GAO in resolving this dilemma would be greatly appreciated.

See comment 2,  
p. 79

At this time, we do not think the size of the OCR inventory adversely affected our final internal control review agenda. Our planning and analytical scheme anticipated similar eventualities and we instituted measures which we hoped would overcome such occurrences. The method we used for determining priority categories for ICRs took into account

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both the Department-wide and individual POC data. We found that in most cases there was little variation in the categorization of the units; when variation did occur, we designated the larger grouping of units as Category I. The Department's 1984 Vulnerability Assessment Report provides a fuller discussion on the analysis of the data.

**III. GAO RECOMMENDATION:**

**INTERNAL CONTROL EVALUATION QUALITY AND CORRECTIVE ACTIONS NOT ENSURED:** ED should improve ICR training, upgrade the quality of ICRs completed inadequately, and establish a system for tracking corrective actions.

**ED RESPONSE:**

ED has an automated system for tracking corrective actions identified through the internal control evaluation process. The POCs were instructed to report corrective actions from GAO and IG reports for tracking through that system. We recognize that a better method for ensuring complete reporting is needed and are investigating options. Action was taken to validate corrective actions in 1984, and this activity will be enhanced in 1985.

ED concurs with GAO that the quality of some of the ICRs needs to be upgraded, and the Office of Management is working closely with the principal components to accomplish this. While the ICR reports were inadequate in some respects, many of them did disclose weaknesses and propose corrective actions.

**IV. GAO RECOMMENDATION:**

**ADP EVALUATION INSUFFICIENT TO IDENTIFY WEAKNESSES:** ED should complete separate internal control evaluations of its major ADP systems.

**ED RESPONSE:**

ED will conduct internal control evaluations of its ADP systems in 1986. This problem was reported as a material weakness in the 1984 FMFIA assurance letter, and progress has been made in correcting it: (1) criteria have been developed for assessing ADP general and application controls; (2) the criteria have been incorporated into the Internal Control Review Directive, and (3) a pilot project has been proposed to evaluate the criteria and methodology for assessing the crosscutting aspects of ADP systems.

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V. GAO RECOMMENDATION:

**ACCOUNTING SYSTEMS IMPROVED BUT MAJOR PROBLEMS REMAIN:** ED should: (1) expand testing of systems and transactions; (2) enhance its monitoring of corrective actions; (3) provide managers with additional guidance; and (4) report significance of non-conforming accounting systems.

ED RESPONSE:

ED is committed to the sustained effort, which GAO recommends, to ensure that improvements are made to bring its accounting systems into conformance with the Comptroller General's prescribed principles, standards, and related requirements. We have already reviewed our own performance in conducting the 1984 reviews and have planned or implemented corrective measures for improvements:

1. In February 1985, ED prepared a three-year plan, as required by OMB, in which each financial management/accounting system will receive a full review once during each three-year period. The plan emphasizes the objective of improving the testing phase of the review process. ED expects to begin testing transactions in August 1985, using the testing techniques recommended by GAO. Each system will be tested as part of the review process.
2. In several cases, short-term corrective actions have already been recorded, e.g., certain corrective actions have been completed in EDPMS as a preliminary step to the implementation of the Education Department Payment Management System. We have the capability to record in monitoring reports short-term corrective actions for specific problems by entering separate records as sub-activities under long-term corrective actions. In the future, system managers will be asked to list short-term corrective actions and milestones under long-term solutions wherever possible.

Currently, whenever a system manager changes the target completion date, the prior and the current target dates along with an explanation for the change must be recorded. (The prior target date may not necessarily be the original target date if more than one change in target dates has occurred.) In the future, the original target completion date will also be tracked.

Information is already maintained in the data base to identify corrective actions which are completed along with the dates completed. Completed corrective actions are uniquely coded in the data base, and reports on completed corrective actions can be and are being produced.

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3. ED believes that the training provided to system managers was adequate for them to complete the reviews. The objective of the training was not to emphasize extensive accounting, but to familiarize reviewers with requirements of the Act and with procedures for completing the questionnaire.

ED believes that the information and guidance to reviewers were sufficient and that the reviews met and/or surpassed the objectives and requirements of the Act. We recognize, however, that there is still room for improvement. Additional guidance has been given to system managers and reviewers for the 1985 reviews. In early June, training was improved by providing a training session which presented more background information and guidance on conducting the FMPIA Section 4 reviews.

A new questionnaire which covered additional sections of the GAO Titles which were not covered in 1984, namely, Titles 2 (revised), 4, and 7, was prepared. The questions are more specific and therefore less confusing. The questionnaire was divided into eleven sections and only those sections which applied to a given system were distributed to that system manager. This selective distribution reduced the paperwork which each system manager had to review.

4. ED did not comment on the significance of accounting systems out of conformance with the Comptroller General's requirements in its report because such comment is not required by the Act. However, ED did carefully consider the significance of each accounting system throughout the FMPIA process, including the extent of testing to be performed to determine whether the system(s) conformed. In reviewing this GAO recommendation, we can see the significance of more extensive comments on the non-conforming accounting systems. In the context of an agency-wide analysis, such comments would make the FMPIA Section 4 report more informative. Therefore, we intend to incorporate this recommendation in our 1985 FMPIA report.

In summary, we continue to believe that ED had an adequate basis for stating reasonable assurance. Our internal control evaluation process was conducted in a prudent and conscientious manner in accordance with the requirements of the FMPIA, GAO standards, and OMB guidelines. The weaknesses were not of such magnitude as to preclude ED from stating reasonable assurance for its systems as a whole. Our Internal Control Program showed improvement in 1984. For the first time, we completed the internal control evaluation cycle; all segments of the seven-step process were performed in one year. We are confident that the accomplishments of the past two years, when weighed against the shortcomings, show a significant gain in agency accountability.

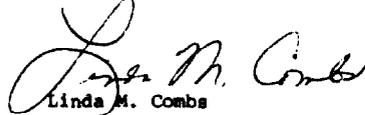
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In reaching conclusions on the effectiveness of our program, it appears that GAO did not consider the dynamic aspects in implementing an agency-wide system of the type required by A-123. In the institutionalization of the program, constant adjustments are required to accommodate new and changing circumstances.

See comment 3,  
p. 79

There is one aspect of the FMFIA evaluation and oversight process that we feel requires your attention. On numerous occasions, ED components have commented that internal control monitoring and oversight is unnecessarily duplicative and burdensome. When the ED internal control staff, OIG, and GAO are each requesting the same information, for separate purposes, we are not being productive or efficient. Each entity has distinct, separate responsibilities which must be performed under the FMFIA process. A better method is needed, however, for coordinating our activities so that each agency can accomplish its mission with integrity without imposing undue burden on the program managers.

Sincerely,



Linda M. Combs  
Deputy Under Secretary  
for Management

The following are GAO's comments on the Department of Education's letter dated August 14, 1985.

GAO COMMENTS

1. The principal objective of segmentation is to ensure that an agency's inventory of assessable units provides comprehensive coverage of the agency's functions as the basis for assessing vulnerability. Aspects of the process we discussed on pages 21 to 26 are not iterative and could, in our view, have been resolved before vulnerability assessments were performed in the March to August 1984 time frame.
2. The expansion of assessable units within ED regions can be accomplished effectively if ED returns to a structure similar to that used in its 1982 inventory along major program or functional lines. The Office of Civil Rights in 1984 segmented regional functions into units along subfunctional lines unlike other organizations in ED.
3. We agree that additional coordination of activities necessary for FMFIA oversight by ED's internal control staff and for OIG and GAO reviews could be beneficial. GAO and ED's OIG coordinated their respective review efforts during 1984, each limiting the scope of work where appropriate coverage was being provided by the other (see pp. 7 and 39). As ED's internal control staff enforcement responsibilities increase with strengthened FMFIA central management and other changes responsive to our recommendations, the need for GAO and OIG involvement should decrease, thus lessening the oversight burden on program managers by GAO and the OIG.

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