
Audit of the Implementation of the District of Columbia College Access Act of 1999

FINAL AUDIT REPORT



CONTROL NUMBER ED-OIG/A03-B0003

AUGUST 2001

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U.S. Department of Education
Office of Inspector General
Philadelphia, Pennsylvania

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AUDIT OF THE IMPLEMENTATION OF THE DISTRICT OF COLUMBIA COLLEGE ACCESS ACT OF 1999

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EXECUTIVE SUMMARY

The objective of our audit was to determine if adequate controls, pertaining to the grant award program created by the District of Columbia College Access Act of 1999 (the Act), were in place to protect the federal interest. Specifically, we assessed the management controls pertaining to student eligibility, institution eligibility, grant award refunds, cash management, and administrative expenses.

Except for the weaknesses described below, the District of Columbia Tuition Assistance Grant Program Office (the Program Office) had in place adequate management controls over the student eligibility, institution eligibility, and grant award refund processes as of December 31, 2000. Our review disclosed the following management control weaknesses that have a negative impact on the federal interest:

The District of Columbia Office of Finance and Treasury (the Finance Office) draws the annual federal appropriation for the program in one lump-sum payment, regardless of the program's actual and immediate cash outlays. Furthermore, the Finance Office invests the funds received for the program, with investment earnings credited to the District of Columbia (DC) government.

The Finance Office drew down approximately \$23.7 million of federal payments in excess of the program's cash disbursements for the period January 1, 2000, through June 30, 2001. As a result, the U.S. Treasury incurred approximately \$1,179,000 of interest costs, due to the issuance of U.S. Treasury securities to fund the program. While this cash management practice does not violate the Act, the DC Appropriations Acts for fiscal years 2000 and 2001, or the Cash Management Improvement Act of 1990 and implementing regulations, it does not protect the federal interest.

The Program Office's fiscal year 2001 budget may have exceeded the Act's administrative expense limit by \$476,637, because the DC government carried over the previous year's unexpended and unobligated administrative expense budget balances to the subsequent fiscal year's administrative expense budget. The fiscal year 2001 administrative expense budget of \$1,664,019 includes \$1,190,000 (budgeted at approximately seven percent of the amount appropriated in fiscal year 2001) and a carryover of \$474,019 from fiscal year 2000. The Act contains a specific restriction that not more than seven percent of the funds made available for the program in a fiscal year may be used to pay the administrative expenses of the program for the fiscal year.

We noted minor issues involving internal controls and other operational matters that require corrective action on the part of the program's management. The issues requiring corrective action include the use of the DC Public Schools' student roster to verify applicants' domiciles, the processing of grant award refunds, and the approval of administrative expenses.

We recommend that the Mayor and DC Chief Financial Officer:

- ❑ Implement cash management policies for the program, requiring that future transfers of funds from the U.S. Treasury be limited to the minimum amounts needed and be timed to be in accordance with the program's actual, immediate cash needs.
- ❑ Establish a separate restricted account for the program's current fund balances, with any earnings generated by the funds held in the account to be used for tuition assistance grant awards.
- ❑ Request a Comptroller General opinion to determine if the Act permits DC's current practices with respect to administrative expense budgets at the end of a fiscal year, and request Congressional clarification, through legislative amendments, of the Act's language concerning administrative expenses.

A draft of this audit report was provided to the Mayor and DC Chief Financial Officer. In their response, the DC Chief Financial Officer did not concur with the two major issues raised in the report and the respective recommendations. In addition, the Mayor did not concur with all the issues raised in the "Other Matters" section of the report, although the Mayor did agree with the respective recommendations. Copies of the responses received from the Mayor and DC Chief Financial Officer are included as attachments to this report.

AUDIT RESULTS

This report presents issues identified during our audit of the District of Columbia Tuition Assistance Grant Program (the program). The objective of our audit was to determine if adequate controls, pertaining to the grant award program created by the District of Columbia College Access Act of 1999 (the Act), were in place to protect the federal interest. Specifically, we assessed the management controls pertaining to student eligibility, institution eligibility, grant award refunds, cash management, and administrative expenses.

Except for the weaknesses described below, the District of Columbia Tuition Assistance Grant Program Office (the Program Office) had in place adequate management controls over the student eligibility, institution eligibility, and grant award refund processes as of December 31, 2000. Our review disclosed the following management control weaknesses that have a negative impact on the federal interest:

- ❑ Cash management practices do not minimize the time elapsing between the transfer of funds from the U.S. Treasury and the disbursement of funds for the program.
- ❑ Budget practices may have resulted in the Program Office's fiscal year 2001 budget exceeding the Act's administrative expense limit.

Issue No. 1 – Cash management practices do not minimize the time elapsing between the transfer of funds from the U.S. Treasury and the disbursement of funds for the program.

The District of Columbia Office of Finance and Treasury's (the Finance Office's) cash management of the federal payments for the program does not protect the federal interest. The Finance Office draws the annual federal appropriation for the program in one lump-sum payment, regardless of the program's actual and immediate cash outlays. The federal payments for the program are accounted for in the District of Columbia (DC) government's unrestricted general fund. The Finance Office invests the federal payments received for the program through their cash management pool. The resulting investment earnings are classified as general revenue for the DC government.

The Act, the DC Appropriations Acts for fiscal years 2000 (P.L. 106-113) and 2001 (P.L. 106-522), and the Cash Management Improvement Act of 1990 (P.L. 101-453) and implementing regulations do not prohibit the Finance Office from receiving the annual appropriation in one lump-sum payment. The program is also not subject to the Office of Management and Budget's apportionment process. The funds provided for the program are appropriated as no-year funds, thus remaining available until expended.

Generally, the Cash Management Improvement Act and implementing regulations require states (including DC) to minimize the time elapsing between the transfer of funds from the U.S. Treasury and the disbursement of funds by a state. The Cash Management Improvement Act and implementing regulations also generally prohibit states from earning and retaining the interest earned on federal funds. 31 CFR § 205.12. However, the implementing regulations of the Cash Management Improvement Act apply to programs listed in the Catalog of Federal Domestic Assistance. 31 CFR § 205.2(a). The program is not contained in the Catalog of Federal Domestic Assistance. Nonetheless, the underlying rationale for the cash management practices required by the Cash Management Improvement Act and implementing regulations should apply in this circumstance, because they represent sound cash management practices that protect the federal interest. Specifically, 31 CFR § 205.20(a), *Cash advances*, states:

Cash advances to a State shall be limited to the minimum amounts needed and shall be timed to be in accord only with the actual, immediate cash requirements of the State in carrying out a program or project. The timing and amount of cash advances shall be as close as is administratively feasible to the actual cash outlay by the State for direct program costs and the proportionate share of any allowable indirect costs.

Based upon information provided by the DC Office of Finance and Resource Management (DC OFRM), during the period January 1, 2000, through June 30, 2001, the Finance Office drew down approximately \$33.9 million in federal payments for the program and disbursed approximately \$10.2 million for grant awards and administrative expenses. On June 30, 2001, DC government had on hand \$23.7 million of federal payments in excess of the program's cash outlays (see Table 1).

Table 1: Federal Payments and Cash Outlays for the Program For the period January 1, 2000, through June 30, 2001	
Federal Payments (Fiscal Years 2000 and 2001)	\$33,898,000
Less: Grant Awards	(\$8,528,111)
Less: Administrative Expenses	(\$1,637,171)
Federal Payments in Excess of the Program's Cash Outlays	\$23,732,718

The Finance Office's cash management practices resulted in the U.S. Treasury incurring approximately \$1,179,000 of interest costs, due to the issuance of U.S. Treasury securities to fund the program, for the period January 1, 2000, through June 30, 2001.¹

¹ We estimated interest charges by calculating the average monthly balance of the program's cumulative net receipts and expenditures as reported by DC OFRM, including the imputed cumulative interest charges. In calculating the interest charges, we used 5.77 percent for the period January 1, 2000, through September 30, 2000, which is the U.S. Treasury's Cash Management Improvement Act Interest Rate for States with a FY 2000 of 10/1/99 – 9/30/00. For the period October 1, 2000, through June 30, 2001, we used 4.99 percent, which is the average yield of 13-week U.S. Treasury Bills auctioned during the period.

We expect this condition to continue, because after completion of the second fiscal year of the program on September 30, 2001, we estimate that the DC government may have as much as \$23 million in unexpended funds on hand and invested, with the President's budget containing an additional \$17 million for the program in fiscal year 2002.

RECOMMENDATIONS:

We recommend that the Mayor and DC Chief Financial Officer:

- 1.1 Implement cash management policies for the program, requiring that future transfers of funds from the U.S. Treasury be limited to the minimum amounts needed and be timed to be in accordance with the program's actual, immediate cash needs.
- 1.2 Establish a separate restricted account for the program's current fund balances, with any earnings generated by the funds held in the account to be used for tuition assistance grant awards.

DC Government's Comments:

The DC government acknowledges that the Finance Office draws the annual appropriation in one lump-sum payment and that interest earned on the funds is credited to DC's general fund. However, the DC government does not believe that the practice should be cited as an issue. The DC government notes that the funds for the program are provided through a federal payment, similar to the appropriations and funding methods of other DC agencies, and that the interest earned on the funds are properly accounted for in their general fund. The DC government notes that the DC Appropriations Acts for 2000 and 2001 and the Cash Management Improvement Act of 1990 and implementing regulations do not prohibit the DC government from receiving the annual appropriation in one lump-sum payment.

OIG's Response:

We do not agree with the DC government's response to this issue. We acknowledge that the DC Appropriations Acts for 2000 and 2001 and the Cash Management Improvement Act of 1990 and implementing regulations do not prohibit the Finance Officer from receiving the annual appropriation in one lump-sum payment. However, as noted above, during the period of our audit, the Finance Office's cash management practices resulted in the federal government incurring approximately \$1,179,000 in interest costs. Because of the resulting costs to the federal government, Congress should work with the DC government to address this issue and the respective recommendations made in this report.

Issue No. 2 - Budget practices may have resulted in the fiscal year 2001 administrative expense budget exceeding the Act's administrative expense limit.

The Program Office's fiscal year 2001 budget for administrative expenses may have exceeded the Act's administrative expense limit by \$476,637, because the DC government carried over the previous fiscal year's unexpended and unobligated administrative expense budget balances to the subsequent fiscal year's administrative expense budget.

The Act and the DC Appropriations Acts for fiscal years 2000 and 2001 contain the general provision that the funds appropriated shall remain available until expended. However, the Act contains the specific restriction that not more than seven percent of the "funds made available" for the grant program "for a fiscal year" may be used to pay the administrative expenses of the program for "the fiscal year."² In our view, funds should only be carried over to subsequent fiscal years for tuition assistance grants, because the Act's administrative expense limitation applies to each fiscal year by the terms of the Act.

The Program Office's fiscal year 2001 budget for administrative expenses is \$1,664,019, or approximately 9.8 percent of the fiscal year 2001 appropriation amount. This budget amount includes approximately \$1,190,000 for fiscal year 2001 administrative expenses (budgeted at approximately seven percent of the amount appropriated of \$16,962,600) and a \$474,019 carryover from fiscal year 2000 uncommitted administrative expense budget balances (see Table 2).

Carrying over unexpended and unobligated administrative expense budget balances in this manner reduces the amounts available in subsequent years for tuition assistance grants.

Table 2: Administrative Expense Budget Fiscal Year 2001	
Net Appropriation Amount	\$16,962,600
Administrative Expense Limit at 7 Percent	\$1,187,382
Administrative Expense Budget (Including Carryover)	\$1,664,019
Administrative Expense Budget as Percent of Appropriation Amount	9.8%
Administrative Expense Budget in Excess of 7 Percent Limit	\$476,637

² Section 6(b) of the Act states, "The Mayor of the District of Columbia may not use more than 7 percent of the funds made available for a program under section 3 or 5 [the tuition grant programs for public and private institutions of higher education, respectively] for a fiscal year to pay the administrative expenses of a program under section 3 or 5 for the fiscal year."

Based upon information provided by DC OFRM, as of June 30, 2001, the Program Office had incurred approximately \$997,222 of administrative expenses in fiscal year 2001. The program can incur approximately \$190,000 of additional fiscal year 2001 administrative expenses before exceeding the Act's administrative expense limitation. We expect the Program Office will likely exceed the Act's administrative expense limitation by September 30, 2001, fiscal year end 2001, because as of June 30, 2001, the program's fiscal year 2001 administrative expenses have averaged \$330,000 per quarter.

RECOMMENDATIONS:

We recommend that the Mayor and DC Chief Financial Officer:

- 2.1 Request a Comptroller General opinion to determine if the Act permits DC's current practices with respect to administrative expense budget balances at the end of a fiscal year.
- 2.2 Request Congressional clarification, through legislative amendments, of Section 6(b) of the Act.

DC Government's Comments:

The DC government does not concur with our conclusion that the fiscal year 2001 administrative expense budget may have exceeded the Act's administrative expense limitation. The DC government believes that we incorrectly defined "funds made available for a program...for a fiscal year" [Section 6(b)] as those funds provided in a current fiscal year's federal appropriation. The DC government believes that because the funds "shall remain available until expended" [Sections 3(i) and 5(f)], the "funds made available for a program" includes the sum of the current fiscal year's federal appropriation plus the balance of funds remaining from prior fiscal years. For fiscal year 2001, the DC government calculates the funds made available for the program to be \$33,300,000. This amount includes \$17,000,000 from the fiscal year 2001 federal appropriation and \$16,300,000 remaining available from the fiscal year 2000 federal appropriation. The DC government calculates the program's allowable administrative expense budget for fiscal year 2001 at \$2,331,000, or seven percent of \$33,300,000. The DC government believes that the program's administrative expenses in fiscal year 2001 will not exceed this amount.

OIG's Response:

We do not agree that the DC government's stated interpretation of the Act is reasonable, because it results in the double counting of "funds made available" in more than one fiscal year. We wish to note that the position stated by the DC government in its comments is not consistent with the budget practices that were described to us, and confirmed during our fieldwork and contained in the report's discussion on this issue, i.e.,

that the DC government carries forward unexpended and unobligated administrative expense budget balances at fiscal year end.

By calculating the administrative expense limitation based upon the sum of the current fiscal year’s federal appropriation plus the balance of funds remaining from prior fiscal years, the DC government is double counting those funds that are carried over to subsequent fiscal years - once in the fiscal year the funds are appropriated and again in subsequent fiscal years if the funds are carried over (see Table 3).

Table 3: Calculation of Administrative Expense Limitations on Funds Appropriated in Fiscal Year 2000		
Funds Appropriated in Fiscal Year 2000	\$17,000,000	
Fiscal Year 2000 Administrative Expense Limitation at 7 Percent		\$1,190,000
Funds Carried Over from Fiscal Year 2000	\$16,300,000	
Fiscal Year 2001 Administrative Expense Limitation at 7 Percent (Based on the Funds Carried Over)		\$1,141,000
Cumulative Administrative Expense Limitation		\$2,331,000
Cumulative Administrative Expense Limitation as a Percent of Original Fiscal Year 2000 Appropriation		13.7%

If funds are carried over in more than one fiscal year, the DC government’s methodology may result in multiple countings of funds in several fiscal years’ calculations of the administrative expense limitation. We do not believe that this is what Congress intended when it promulgated the administrative expense limitation in the Act’s Section 6(b) on “funds made available...for a fiscal year.” Congress should work with the DC government to address this issue and the respective recommendations made in this report.

OTHER MATTERS

We noted minor issues involving internal controls and other operational matters that require corrective action on the part of the program’s management. The issues are intended to improve internal controls or result in operating efficiencies.

A draft of this audit report was provided to the Mayor and DC Chief Financial Officer. In his response, the Mayor did not concur with all the issues raised in this section of the report, although the Mayor did agree with the respective recommendations.

USE OF DISTRICT OF COLUMBIA PUBLIC SCHOOLS' STUDENT ROSTER

The Program Office utilized a DC Public Schools (DCPS) student roster to verify applicants' DC domicile. The student roster lists students' names, social security numbers, addresses, and grade levels. The documentation required by DCPS to verify a student's DC residency is similar to that required by the Program Office. However, the DCPS residency requirement is for only a two-month time period prior to the start of enrollment for the school year, while the Act requires eligible students to be domiciled in DC for the twelve consecutive months prior to the start of their freshman year of college. Use of the DCPS student roster as sole documentation to verify an applicant's domicile may result in grant awards made on behalf of individuals not domiciled in DC for the full twelve months prior to the start of their freshman year of college.

We requested the Program Office to verify the domicile of eight applicants who were determined to be eligible for the program through the use of the DCPS student roster. It was able to obtain sufficient documentation to support the eligibility of the eight students. The Program Office expressed interest in continuing to use the DCPS student roster. Although the results of the review of the eight selected applicants were positive, we continue to have concerns regarding the use of the DCPS student roster.

If the Program Office continues to utilize the DCPS student roster to verify applicants' domicile, the Program Office should:

- ❑ Ensure the applicants appear in the DCPS student roster for the preceding school year (i.e., the applicants' senior year of high school) and require applicants to submit supporting documentation to verify their current domicile.
- ❑ Require applicants to submit sufficient documentation to verify their past and present domiciles, if the DCPS student roster or grant program application indicate a change of address.
- ❑ Establish policies and regulations to incorporate the use of the DCPS student roster in verifying an applicant's domicile.

PROCESSING OF GRANT AWARD REFUND TRANSACTIONS

We reviewed 11 grant award refund checks, totaling \$16,640, issued by institutions to the program. The DC OFRM deposited five of the 11 checks without the knowledge of the Program Office. As a result, the refund amounts were not credited to the respective students' accounts. If a grant award refund is not credited to a student's account, the student may be denied a subsequent grant award, because the Program Office's records erroneously indicate the student had received the maximum annual or lifetime limit for grant awards.

We discussed this issue with officials from the program and DC OFRM. The DC OFRM official agreed to provide the Program Office copies of any grant award refund checks and related information received prior to depositing the checks. The Program Office has

credited three of the students' accounts, and intends to research and resolve the remaining two refund checks.

The Program Office should establish a policy to periodically reconcile all grant award refund checks deposited by the DC OFRM to refunds credited to students' accounts by the Program Office.

APPROVAL OF PROGRAM OFFICE EXPENSES

We reviewed 61 randomly selected expense transactions totaling \$143,772, and found that four of the transactions, totaling \$2,243.90, were erroneously charged to the program. The four transactions were for supplies intended for other offices, and were ordered and approved by the Executive Office of the Mayor (EOM) Support Services. In July 2001, DC OFRM initiated journal entries to correctly charge the four expense transactions to the offices that received the office supplies. Based upon conversations with officials from the program and DC OFRM, the purchase of supplies and services may be initiated and approved by the program's Director or the EOM Chief of Support Services.

The Program Office should develop procedures to review, in a timely manner, all invoices for supplies and services approved by the EOM Support Services that will be, or have been, charged to the program.

SUBSEQUENT EVENT

After the completion of our work, subsequent events occurred that might have an impact on the program's control environment. In fiscal year 2002, the services performed by the Program Office will be transferred from the Executive Office of the Mayor to the DC State Education Office. The program will be incorporated into the State Education Office's Postsecondary Financial Assistance Programs. The DC OFRM and the Finance Office will continue to provide accounting and financial management services for the program. In addition, amendments to the Act were proposed in bill H.R. 1499 titled *The District of Columbia College Access Act Technical Corrections Act of 2001*. Under H.R. 1499, individuals who graduated from high school prior to 1998 and individuals who enroll in a college or university more than three years after graduating from high school will be eligible to participate in the program.

BACKGROUND

The purpose of the District of Columbia College Access Act of 1999 (P.L. 106-98) is to establish a program that enables college-bound residents of the District of Columbia to have greater choices among institutions of higher education. To accomplish this purpose, the Act created a tuition assistance grant program for eligible students and provided

financial assistance to the University of the District of Columbia. Specifically, in relevant parts:

- ❑ Section 3 of the Act provides grant awards for eligible public colleges and universities that enroll eligible students to pay the difference between the tuition and fees charged for in-state students and the tuition and fees charged for out-of-state students. Eligible students may have paid on their behalf up to \$10,000 per award year, with a cumulative total of \$50,000.
- ❑ Section 4 of the Act provides financial assistance to the University of the District of Columbia.
- ❑ Section 5 of the Act provides grant awards to eligible private, non-profit colleges and universities within the DC metropolitan area and private historically Black colleges and universities located in Maryland and Virginia that enroll eligible students to pay the cost of tuition and fees. Eligible students may have paid on their behalf up to \$2,500 per award year, with a cumulative total of \$12,500.

During the period of our review, to be eligible for the tuition grant programs, students must (1) be domiciled in DC for not less than twelve consecutive months preceding the commencement of their freshman year at an institution of higher education, (2) received a secondary school diploma on or after January 1, 1998, (3) begin their undergraduate course of study within three years of receiving a secondary school diploma, (4) be enrolled on at least a half-time basis in a degree or certificate program, (4) be maintaining satisfactory academic progress, and (5) have not completed their first undergraduate baccalaureate course of study.

The Mayor of the District of Columbia, through the Program Office, administers the program in consultation with the Secretary of the U.S. Department of Education. The program's first grant awards were issued for the fall 2000 semester. For the year ending December 31, 2000, the Program Office reviewed approximately 3,373 applications to determine applicants' eligibility status, and made approximately 1,565 grant awards totaling approximately \$3.9 million.

AUDIT OBJECTIVE, SCOPE AND METHODOLOGY

The objective of our audit was to determine if adequate controls, pertaining to the grant award programs created by the Act, were in place to protect the federal interest. In general, our audit covered the administration of the program during the period January 1, 2000, through December 31, 2000. We expanded our review of the program's cash management and administrative expense budget practices to cover the period January 1, 2000, through June 30, 2001, and our review of grant award refunds covered the period January 1, 2000, through March 30, 2001. The scope of the review covered the tuition grant program, established under Sections 3 and 5 of the Act, for students attending

public colleges and universities nationwide, private, non-profit colleges and universities within the DC metropolitan area, and private historically Black colleges and universities located in Maryland and Virginia.

To accomplish our objective, we reviewed the Program Office's and the DC OFRM's written policies and procedures, applicant files, and accounting records; and interviewed staff and officials from the Program Office, Finance Office, and DC OFRM.

We randomly selected 50 applicants and reviewed the Program Office's files for documentation of the applicants' eligibility status, grant awards calculation and payment, and the eligibility of the institutions attended. The Program Office determined 35 applicants to be eligible for the program and 13 to be ineligible. One application submitted was found to be incomplete, and one applicant applied for the incorrect academic year. From our sample, 26 eligible applicants received grant awards during the period of our review. We reviewed the Program Office's files for 14 judgmentally selected applicants whose phone numbers or postal ZIP codes did not reflect a DC domicile.

We conducted site visits to Montgomery College, in Rockville, MD, and Howard University, in Washington, DC, on April 18 and 19, 2001, respectively. Montgomery College was selected because it is a public college within the DC metropolitan area. Howard University was selected because it is a private, non-profit university within the DC metropolitan area. Both institutions have in attendance a relatively large number of students who received the grant awards for the fall 2000 semester. At each institution we reviewed the institution's pertinent policies and procedures, reviewed student files for 15 randomly selected grant recipients, and interviewed officials responsible for administering the program's grants at the institution.

We reviewed the Program Office's documents and Congressional reports pertaining to the decision to expand the program to include public colleges and universities outside of Maryland and Virginia in accordance with Section 3(c)(1) of the Act.

We reviewed the Program Office's and DC OFRM's grant award refund practices.

We reviewed administrative expenses to determine if they were properly approved and related to the program. We randomly selected 61 expense transactions contained in the accounts payable ledgers with invoices dated between January 1, 2000, and December 31, 2000. We also reviewed three expense transactions selected because no vendor name was specified in the ledger. In addition, we reviewed judgmentally selected transactions not contained in the accounts payable ledger. The judgmentally selected transactions included personnel costs for two payroll periods and four intra-district transfers for accounting, telecommunication, and janitorial services and occupancy costs.

We reviewed the Program Office's administrative expense budgets for fiscal years 2000 and 2001, and compared the fiscal year 2000 and 2001 administrative expense budgets to DC OFRM expenditure reports for the period January 1, 2000, through June 30, 2001.

We reviewed the Finance Office's cash management practices and analyzed the receipt and disbursement of funds for the program during the period January 1, 2000, through June 30, 2001.

To achieve our objective, we relied upon computer-processed data contained in the Program Office's applicant and award databases and the DC OFRM's System of Accounting and Reporting. We assessed the reliability of this data including relevant general and application controls and found them to be adequate. We also conducted sufficient tests of the data. Based upon these tests and assessments, we concluded the data used was sufficiently reliable to be used for the assignment's objective.

We conducted the on-site fieldwork at the Program Office in Washington, DC during the period March 7, 2001, through May 10, 2001. We held an exit conference with DC government officials on August 1, 2001. We conducted the audit in accordance with government auditing standards appropriate to the scope described above.

STATEMENT OF MANAGEMENT CONTROLS

We studied and evaluated the management control structure of the program in effect during the period January 1, 2000, through December 31, 2000. For purposes of this review, we assessed and classified the significant management control structure into the following categories:

- Student eligibility.
- Institution eligibility.
- Grant award refunds.
- Cash management.
- Administrative expenses.

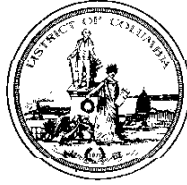
The management of the Program Office is responsible for establishing and maintaining a management control structure. In fulfilling this responsibility, estimates and judgements by management are required to assess the expected benefits and related costs of control procedures. The objectives of the system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that the transactions are executed in accordance with management's authorization and recorded properly, so as to permit effective and efficient operations.

Because of inherent limitations in any management control structure, errors or irregularities may occur and not be detected. Projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions.

Our assessment disclosed the following conditions in the management control structure of the program in effect as of December 31, 2000. In our opinion, these conditions result in more than a relatively low risk that errors, irregularities and other inefficiencies may occur resulting in inefficient and/or ineffective performance.

- Cash management practices do not minimize the time elapsing between the transfer of funds from the U.S. Treasury and the disbursement of funds for the program.
- Budget practices may have resulted in the fiscal year 2001 administrative expense budget exceeding the Act's administrative expense limit.

These weaknesses and their effects are fully discussed in the Audit Results section of this report.



RECEIVED AUG 21 2001

ANTHONY A. WILLIAMS
MAYOR

August 14, 2001

Mr. Bernard Tadley
Regional Inspector General for Audit
U.S. Department of Education – OIG
Wanamaker Building
100 Penn Square East
Room 502
Philadelphia, PA 19107

Dear Mr. Tadley:

I have reviewed your office's August 3, 2001 **Draft Audit Report on the Implementation of the District of Columbia College Access Act of 1999**. We in the District of Columbia are very pleased with your findings that the District of Columbia Tuition Assistance Grant Program Office has in place adequate management controls over the student eligibility, institution eligibility, and grant award refund processes. When this law was passed in November of 1999, few believed that the District could manage the Program at all, much less successfully implement it in just nine months. We met that challenge and I am glad that your report recognizes that we met it well.

In your report you present two Audit Result Issues as well as a series of minor issues involving internal controls and other operational matters that require corrective action on the part of the Tuition Assistance Grant office. Because the Office of the Chief Financial Officer is more involved with the two Audit Result Issues, I would like to refer you Dr. Natwar Ghandi's letter that accompanies this one. This letter is primarily in response to the minor issues you raise in the report, in the section entitled "Other Matters."

The following is our response to your findings in the "Other Matters" section.

Use of District of Columbia Public Schools' Student Roster

We do not concur with the issue. We believe that because the District of Columbia Public School System (DCPS) requires proof of residency for a two-month time period prior to enrollment in the senior year, that is more than enough time to meet the statutory requirement of being

domiciled in the District for at least twelve consecutive months prior to the start of the freshman year of college. In order to become part of the DCPS roster, students must show that they have lived in the District since at least August of the year *prior* to their enrollment in college, i.e., the August immediately before his or her enrollment in DCPS for the senior year. This would, even in the most extreme cases, give every DCPS student at least one year of residency in the District before receipt of a Tuition Assistance Grant in his or her first year of college. We use the DCPS roster from the start of the academic year. Any student who moved to the District in the middle of his or her senior year would not appear on the DCPS roster that we use for Grant eligibility verification. Not being on the roster, the student would have to provide the same level of documentation that students at private and other non-DCPS schools provide to us.

Nonetheless, we agree with your recommendations and have implemented them. 1). We now require all DCPS students to submit supporting documentation to verify their current domicile. 2). Students on the DCPS roster whose home address is different from the address appearing on the roster must provide us with the same level of documentation that students at private and other non-DCPS schools provide to us.

Processing of Grant Award Refund Transactions

We concur with the issue and the recommendation. We now have a policy of reconciling quarterly with the District Office of Finance and Revenue Management.

Approval of Program Office Expenses

We concur with the issue and the recommendations. We now have a policy of regularly reviewing all invoices for supplies and services approved by the Executive Office of the Mayor Support Services.

Please do not hesitate to contact us if you need to discuss this response or Dr. Ghandi's response. Please call Laurent Ross, the Director of the D.C. Tuition Assistance Grant Program if you have any questions. He can be reached at (202) 727-2814.

Sincerely,



Anthony A. Williams
Mayor of the District of Columbia

AAW/lr

cc: Patrick Howard, Advisory and Assistance for Student Financial Assistance Programs

Government of The District Of Columbia
Office of the Chief Financial Officer



Natwar M. Gandhi
Chief Financial Officer

August 17, 2001

Mr. Bernard Tadley
Regional Inspector General for Audit
U.S. Department of Education – OIG
The Wanamaker Building
100 Penn Square East, Room 502
Philadelphia, PA 19107

SUBJECT: RESPONSE TO DRAFT AUDIT REPORT (“Report”)
Audit of the Implementation of the District of Columbia College
Access Act of 1999, Control Number ED-OIG/A03-B0003

Dear Mr. Tadley:

Thank you for giving us the opportunity to respond to the above-referenced Report. We have reviewed the report and we indicate below our comments on Issue No. 1 and Issue No. 2, together with the associated recommendations on these items. The Office of the Mayor, in a separate response, will address the “minor issues involving internal controls” identified in your report under “Other Matters.”

Issue No. 1 – Cash management practices do not minimize the time elapsing between the transfer of funds from the U.S. Treasury and the disbursement of fund for the program.

The Tuition Assistance Program office concurs that the Office of Finance and Treasury draws the annual federal appropriation for the Tuition Assistance Grants Program in one lump-sum payment; however, the Office of the Chief Financial Officer (“OCFO”) disagrees that the practice should be cited as an Issue.

According to the Fiscal Year 2000 Appropriations Act for the District of Columbia, the U.S. Congress appropriated federal funds in the following manner:

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“For a Federal payment to the District of Columbia for a program to be administered by the Mayor for District of Columbia resident tuition support, subject to the enactment of authorizing legislation for such program by Congress, \$17,000,000, to remain available until expended” (P.L. 106-113, 113 Stat. 1501, November 29, 1999 (the “2000 Act”) (Emphasis added)).

In addition, the Fiscal Year 2001 Appropriations Act for the District of Columbia appropriated federal funds in the following manner:

“For a Federal payment to the District of Columbia for a nationwide program to be administered by the Mayor for District of Columbia resident tuition support, \$17,000,000, to remain available until expended” (P.L. 106-522, 114 Stat. 2440, November 22, 2000 (the “2001 Act”) (Emphasis added)).

The language used in the Act, “For a Federal payment to the District of Columbia”, denotes a direct lump-sum payment to the District that is consistent with appropriations and funding made available to other District agencies, such as, the Metropolitan Police Department and the D.C. Fire Department.

Accordingly, it follows that interest earned by the funds would be accounted for in the District’s General Fund. Furthermore, the Appropriations Acts for fiscal years 2000 and 2001, and the Cash Management Improvement Act of 1990 (P.L. 101-453) and implementing regulations, do not prohibit the Office of Finance and Treasury in any way from receiving the annual appropriation as one lump-sum payment as a direct payment to the District.

The Cash Management Improvement Act applies to those federally funded programs listed in the Catalog of Federal Domestic Assistance, 31 CFR §205.2(a). The District of Columbia Tuition Assistance Grant is not listed in the Catalog of Federal Domestic Assistance, and therefore is not be subject to the Catalog’s requirements.

The Draft Audit Report from the Office of the Inspector General states that adequate management controls are in place over student eligibility, institution eligibility, and grant award processes. Fiscal year 2000 represented a start-up year for the Tuition Assistance Grant Program, and as the program progresses, spending of the funds is expected to increase significantly.

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Issue No. 2 – Budget practices may have resulted in the fiscal year 2001 administrative expense budget exceeding the Act’s administrative expense limit.

The OCFO does not concur with your conclusion that administrative expenses for FY 2001 exceeded the District of Columbia College Access Act’s administrative expense limit.

The District of Columbia College Access Act of 1999 (Pub. L. 106-98) (the “Act”) and the Appropriations Acts for fiscal years 2000 and 2001 provide the legislative guidance on this issue.

First, the District of Columbia College Access Act of 1999 states:

“(i) AUTHORIZATION OF APPROPRIATIONS. – There are authorized to be appropriated to the District of Columbia to carry out this section \$12,000,000 for fiscal year 2000 and such sums as may be necessary for each of the five succeeding fiscal years. Such funds shall remain available until expended.” (Pub. L. 106-98, Sec. 3) (Emphasis added).

In addition, the Act states:

“(f) AUTHORIZATION OF APPROPRIATIONS. – There are authorized to be appropriated to the District of Columbia to carry out this section \$5,000,000 for fiscal year 2000 and such sums as may be necessary for each of the five succeeding fiscal years. Such funds shall remain available until expended.” (Pub. L. 106-98, Sec. 5) (Emphasis added).

Finally, the Act states:

The Mayor of the District of Columbia may not use more than 7 percent of the funds made available for a program under section 3 or 5 for a fiscal year to pay the administrative expenses of a program under section 3 or 5 for the fiscal year. (Pub. L. 106-98, Sec. 6(b)) (Emphasis added).

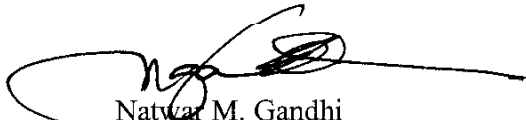
Your conclusion incorrectly relies upon defining "funds made available for a program...for a fiscal year " as those funds provided in a current fiscal year's federal contribution to the program. As shown above, the Act clearly indicates in both sections 3(i) and 5(f) that the funds made available to the program "shall remain available until expended." Consequently, in each successive fiscal year, the "funds made available for a program" would include the sum of the current fiscal year's federal contribution plus the balance of any unexpended funds from prior fiscal years.

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In this case, the funds made available for the Tuition Assistance Grant Program for fiscal year 2001, as defined by sections 3(i) and 5(f) of the Act, equaled \$33,300,000. This includes the current fiscal year's federal contribution of \$17,000,000 (the 2001 Act) plus the amount remaining available to the program until expended of \$16,300,000 (the 2000 Act). At the current rate of expenditure, the Tuition Assistance Grant Program's administrative expenses will not exceed its fiscal year 2001 allowable budget of \$2,331,000, or 7 percent of \$33,300,000.

Should you have any questions on our response or need additional information, please do not hesitate to contact Barbara Jumper at 202-727-9491.

Sincerely,



Natwar M. Gandhi
Chief Financial Officer

cc: Patrick Howard
Director
Advisory and Assistance for Student Financial
Assistance Programs
U.S. Department of Education
330 C Street, SW, Room 4200
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