
Office of Higher Education Programs Needs To Improve its Oversight of Parts A and B Of the Title III Program

FINAL AUDIT REPORT



**Control Number ED-OIG/A04-90013
December 2000**

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U.S. Department of Education and
Office of Inspector General in
Atlanta, Georgia

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UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF INSPECTOR GENERAL

THE INSPECTOR GENERAL

December 27, 2000

MEMORANDUM

TO: A. Lee Fritschler
Assistant Secretary for Postsecondary Education

FROM: Lorraine Lewis /S/

SUBJECT: FINAL AUDIT REPORT
Office of Higher Education Programs Needs to Improve Its Oversight of Parts A and B of the Title III Program
Control Number ED-OIG/A04-90013

Attached is our subject final audit report that covers the results of our review of Office of Higher Education Programs oversight of Parts A and B of the Title III Program. We received your comments concurring with the findings and recommendations in our draft report.

Please provide the Post Audit Group, Financial Improvement, Receivables and Post Audit Operations, Office of Chief Financial Officer and the Office of Inspector General, Audit Services with quarterly status reports on promised corrective actions until all such actions have been completed or continued follow-up is unnecessary.

In accordance with the Freedom of Information Act (Public Law 90-23), reports issued by the Office of Inspector General are available, if requested, to members of the press and general public to the extent information contained therein is not subject to exemptions in the Act. Copies of this audit report have been provided to the offices shown on the distribution list enclosed in the report.

If you have any questions, please contact Carol Lynch, Regional Inspector General for Audit, at (404) 562-6462.

Attachment

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EXECUTIVE SUMMARY

We performed an audit of Parts A and B of the Title III program at the U. S. Department of Education's (ED) Office of Higher Education Programs (HEP) in Washington, D.C. The objectives of our audit were (1) to evaluate whether Parts A and B of the Title III program were being monitored in an efficient and effective manner and (2) to determine whether adequate and effective enforcement action was being taken to resolve problems and issues of grantees that participate in Parts A and B of the Title III program.

Our audit disclosed that HEP needs a systematic approach to effectively and efficiently monitor institutions receiving grants under Title III of the Higher Education Act of 1965 (hereafter referred to as "Title III grantees"). Also, HEP needs to develop a systematic approach for resolving and enforcing compliance and program performance issues that arise with grantees.

Systematic Monitoring Approach Needed

HEP is responsible for providing technical assistance to grantees and monitoring them for compliance and program performance. HEP needs a systematic approach to carry out its responsibilities effectively and efficiently. Without a systematic approach for monitoring, federal funds may not be appropriately monitored and protected.

In recent years, HEP has decreased its technical assistance and compliance monitoring on-site at Title III institutions and has not used a systematic approach to carry out these activities. Factors cited by HEP staff for the lack of technical assistance and compliance monitoring include reduction in staff and travel funds, assumption of additional Grants Officer duties by Program Officers for all HEP's grant programs, and changes in work priorities. HEP staff advised ED's Office of Inspector General (OIG) auditors that conducting grant competitions and awarding grant funds are the priorities of Title III staff.

During our audit, we were advised that HEP was implementing a peer review process that includes the use of faculty experienced in grant administration to conduct performance evaluations at grantee institutions. This process did not include monitoring for compliance with laws and regulations. Therefore, developing a systematic monitoring approach would complement the peer review process and help improve Title III grantee performance. Further, coordination is needed with other ED components that have oversight and enforcement responsibilities such as Student Financial Assistance (SFA), Office of the Chief Financial Officer (OCFO) and others. Sharing information and coordinating monitoring activities among ED components will help ED achieve Goals 3 and 4 in its Strategic Plan.

We recommend that HEP develop and implement a technical assistance, compliance, and program performance monitoring system that includes:

- Collecting, analyzing and managing information about Title III grantees available in HEP and other ED components.
- Using information collected to develop and implement a risk model for identifying Title III grantees that need technical assistance or may be placing federal funds at risk.

- Developing and following a formal technical assistance and monitoring plan based on information derived from the risk model.
- Utilizing the expertise and abilities of the staff in HEP's service area for Program Monitoring and Information Technology (PMIT) to help accomplish HEP's technical assistance and monitoring responsibilities.
- Developing and following a uniform monitoring guide.
- Developing written policies and procedures for providing technical assistance to grantees and monitoring them.
- Implementing the peer review process.
- Sharing and coordinating monitoring plans and activities with other ED components.

Systematic Resolution and Enforcement Approach Needed

HEP is responsible for resolving and enforcing compliance and program performance issues when they occur. However, during our audit, we identified that HEP lacked formal written policies and procedures for resolving enforcement issues. HEP needs a systematic approach to take action and use its existing enforcement authority when needed.

We identified compliance and performance issues such as grantees who were unable to account for the use of grant funds and who spent grant funds for unallowable purposes. HEP knew about some of the Title III issues, but it did not take resolution actions to correct them. We also determined that HEP was unaware of other Title III grantee findings and liabilities. Until HEP develops a systematic approach for managing and resolving compliance and program performance issues, federal funds may be at risk and grant objectives may remain unmet.

To ensure that corrective actions are taken and funds are recovered when appropriate, we recommend that HEP establish and implement a tracking and resolution system that includes:

- Obtaining and tracking non-federal audit reports and audit resolution data maintained by SFA and the OCFO.
- Using its Audit Liaison Officer (ALO) to provide assistance to the OCFO in resolving findings and liabilities identified by non-federal audit reports and ED reviews.
- Developing and following written policies and procedures for resolving and enforcing compliance and program performance issues when they occur.
- Using existing enforcement authority cited in 34 CFR 74.62 when appropriate. This authority includes temporarily withholding cash payments pending correction of the deficiency, disallowing all or part of the cost of the activity or action not in compliance, wholly or partly suspending or terminating the current award or withholding further awards for the project or program.
- Following up on audit resolution actions to help ensure that findings and liabilities are properly resolved.

Auditee's Response and Auditor Comments

On November 17, 2000, we received comments from HEP officials. The comments show concurrence with the findings and recommendations in our draft report. The comments, in their entirety, are included as Attachment 3. The Office of Inspector General finds the draft report responses satisfactory to begin addressing our recommendations. We have modified recommendation 2.5 to acknowledge that the Institutional Development and Undergraduate Education Service (IDUES) does not have the authority to enforce or resolve audit resolutions of OCFO or SFA.

AUDIT RESULTS

FINDING NO. 1 - Systematic Monitoring Approach Needed

HEP is responsible for providing technical assistance to grantees and monitoring them for compliance and program performance. However, HEP needs a systematic approach to effectively and efficiently monitor Title III grantees for compliance and program performance. Without a systematic approach for monitoring, federal funds may not be appropriately monitored and protected.

Factors Affecting HEP's Ability to Provide Technical Assistance and Monitoring

Two service areas within HEP are responsible for technical assistance and monitoring - IDUES and PMIT.

IDUES

IDUES is responsible for the grant administration processes of the Title III program, including providing technical assistance to grantees and monitoring them for compliance and program performance. Certain factors resulted in IDUES decreasing its technical assistance and compliance monitoring on-site at Title III institutions. IDUES is responsible for administering other programs such as Byrd Scholarships, Minority Teacher Recruitment and Minority Science Improvement. In recent years, IDUES assumed additional Grants Officer duties for all its grant programs. Further, IDUES lacked formal written policies and procedures for the grant administration processes which include providing technical assistance to grantees and monitoring them for compliance. HEP staff advised ED's OIG auditors that conducting grant competitions and awarding grant funds were and remain the priorities of Title III staff.

PMIT

PMIT is responsible for (1) providing logistical support for HEP grant competitions and maintenance of a database of grant application readers, (2) providing information technology support for Higher Education program offices, and (3) monitoring HEP grant recipients. PMIT provides technical assistance to IDUES and other HEP service areas in training sessions and to Title III and other program grantees at workshops.

Although PMIT has overall responsibility for monitoring Higher Education programs, it has not conducted technical assistance or compliance monitoring on-site at Title III institutions since 1995. PMIT has changed its focus from monitoring for program compliance by individual grantees to reviewing for grantee performance. Consequently, PMIT has not placed an emphasis on reviewing Title III institutions for compliance. PMIT still performs compliance monitoring when requested by IDUES. However, a HEP official advised us that IDUES has not requested assistance in the past.

Other factors affecting HEP's ability to monitor and provide technical assistance included loss of staff through retirement, buy-outs and transfers, inexperienced new staff, a decrease in full-time equivalent staff, an addition of five new programs, an increase in grant administration responsibilities and reduced travel funds. Also, there was no process for sharing information about grantees within HEP or with other ED components. We noted that both SFA and the OCFO have information HEP needs to effectively monitor Title III grantees.

For these reasons, HEP has not provided adequate technical assistance to Title III grantees or performed adequate compliance monitoring of them. HEP needs to implement a systematic approach for performing these responsibilities. This approach will allow HEP to perform its duties more efficiently, institutions will accomplish more with their federal funds, and the Title III program will be managed more effectively.

HEP Needs to Obtain Information Available from Other ED Components

HEP can use existing information that is available in other ED components to identify institutions that may need technical assistance or monitoring. Case Management and Oversight in SFA maintains non-federal audit reports for institutions participating in the student financial assistance programs, which would include Title III grantees.

We obtained and reviewed non-federal audit reports and/or other SFA data for 45 judgmentally selected Title III grantees. Our review of the data identified many instances of non-compliance with ED's regulations, many repeat findings and some large liabilities that may still be outstanding (see Attachment 1). We identified the following issues in these reports indicating that Title III funds are at risk for misuse:

- Accounting weaknesses.
- Accreditation.
- Administrative capability.
- Cash flow/cash management or ED's requirement for a Letter of Credit.
- Internal control weaknesses.
- Payroll distribution.
- No opinion or an adverse opinion on financial statements.
- Financial stability/going concern.
- Unallowable grant costs/Title III costs exceed award.
- Questioned costs/misuse of funds.
- The reimbursement method of payment¹.
- Title IV liabilities.
- Repayment agreement with ED (Title III or Title IV).
- Repeat findings/prior findings unresolved.
- Possible excess Title III cash.

Although the Title III program is not a major program for coverage in all grantee non-Federal audits, HEP should have a process for obtaining and reviewing the audit reports. Findings in

¹ Under the reimbursement method of payment an institution must first make disbursements to students prior to the Secretary's providing Title IV HEA program funds.

these reports, related to other ED programs, could also indicate that Title III grant funds are at risk for misuse.

Case Management and Oversight conducts compliance monitoring of the HEA Title IV Student Financial Assistance Programs at institutions that may participate in Title IV, Title III and other Higher Education programs. Title IV program reviews identify issues such as poor accounting systems, other internal control weaknesses and lack of financial stability and administrative capability. While these reviews cover only Title IV, issues reported in these reviews could be used to identify grantees needing Title III technical assistance or compliance monitoring.

HEP needs to work with other ED components to establish a system to consistently exchange information related to Title III grantees. Once information is collected, HEP needs to organize, manage and share the information to administer Title III and other Higher Education programs more efficiently.

A benefit HEP can derive from information known by other ED components is the ability to identify institutions that may need technical assistance or monitoring more than others. Based on the nature and severity or repetitiveness of issues that occur, HEP can decide which institutions need the most help.

HEP Needs a Systematic Approach to Monitoring

An effective Title III oversight approach includes collecting, analyzing and managing information to identify grantees most in need of technical assistance and where federal funds are at greatest risk for misuse. With such a system, HEP could then develop annual technical assistance and monitoring plans that would direct its limited resources toward those grantees.

HEP should use the expertise and abilities of the PMIT staff in developing an efficient and effective monitoring system. PMIT staff could prepare a uniform monitoring guide, provide training to HEP staff and develop written policies and procedures for providing technical assistance and monitoring. Procedures need to include standards for documenting the work done and the results, requirements for written monitoring reports detailing the conditions noted, corrective action plans agreed to by grantees and follow-up plans or actions by HEP to ensure corrective actions are taken. PMIT staff could also coordinate HEP monitoring activities, as well as lead combined reviews at grantees where risk factors are identified that impact more than one program.

These activities would not only benefit the Title III program, but could also be applied throughout HEP to benefit other programs as well. These activities would also assist inexperienced IDUES staff and help assure continuity when there is staff turnover.

Finally, HEP needs to review the previous ED OIG audit report entitled *Process Enhancements in the HEA, Title III, Institutional Aid Program Would Increase Program Efficiency, Despite Limited Resources* (ED-OIG/A04-60001, dated March 1996) that included recommendations for improving certain grant administration processes, as well as grantee monitoring. HEP needs to implement recommendations still outstanding from that report.

New Monitoring Initiatives

During our audit, we were advised that HEP was developing a peer review process that included the use of university faculty personnel to conduct performance evaluations at grantee institutions. HEP planned to complete development of the peer review process first and then conduct the first reviews. The Graduate Assistance in Areas of National Need was the first program to be reviewed using the peer review process. The Title III and TRIO² programs were the next programs to be included in the peer review process. These reviews do not include compliance monitoring.

PMIT was also developing a Title III monitoring and technical assistance site visit guide and a Title III monitoring plan. PMIT was planning to train Title III staff on how to conduct technical assistance and compliance monitoring site visits. PMIT was also implementing an executive information system. The system is designed to tie other database systems together in order to manage information about programs. Every Program Officer should have access to this system.

Coordination of Oversight Among ED Components Needed

Effective monitoring of the ED's programs should include sharing information and coordinating monitoring activities among the ED components with oversight and enforcement responsibilities. HEP needs to coordinate the information and monitoring activities in all its service areas and with the peer review process. PMIT could take the lead in ensuring this coordination. Further, coordination is needed with other ED components that have oversight and enforcement responsibilities including SFA, OCFO and others. Sharing information and coordinating monitoring activities among ED components will help ED achieve Goals 3 and 4 in its Strategic Plan.³

² Federal Trio Programs include: Upward Bound, Talent Search, Student Support Services, Educational Opportunity Centers, and Ronald E. McNair Postbaccalaureate Achievement Programs

³ Goal 3 is entitled "Ensure access to postsecondary education and lifelong learning." Goal 4 is entitled "Make ED a high-performance organization by focusing on results, service quality, and customer satisfaction."

RECOMMENDATIONS

Targeted technical assistance and compliance monitoring site visits could help assure that Title III funds are protected and grantees correct systemic problems. Therefore, we recommend that the Assistant Secretary for Postsecondary Education require HEP to develop and implement a technical assistance, compliance and program performance monitoring system that includes:

- 1.1. Collecting, analyzing and managing information about Title III grantees available in HEP and other ED components.
- 1.2. Using information collected to develop and implement a risk model for identifying Title III grantees who need technical assistance or may be placing federal funds at risk.
- 1.3. Developing and following a formal technical assistance and monitoring plan based on information derived from the risk model.
- 1.4. Utilizing the expertise and abilities of the PMIT staff to help accomplish HEP's technical assistance and monitoring responsibilities.
- 1.5. Developing and following a uniform monitoring guide.
- 1.6. Developing written policies and procedures for providing technical assistance to grantees and monitoring them.
- 1.7. Implementing the peer review process.
- 1.8. Sharing and coordinating monitoring plans and activities with other ED components.

We also recommend that the Assistant Secretary for Postsecondary Education require HEP to:

- 1.9. Implement outstanding recommendations for grantee monitoring previously made by the OIG. (Refer to ED OIG audit report entitled *Process Enhancements in the HEA, Title III, Institutional Aid Program Would Increase Program Efficiency, Despite Limited Resources* ED-OIG/A04-60001, dated March 1996)
- 1.10. Reassess other grant administration processes to determine whether other recommendations from the prior ED OIG audit report need to be implemented.
- 1.11. Ensure that HEP staff has the necessary knowledge, skills and training needed to accomplish oversight responsibilities efficiently and effectively.
- 1.12. Determine whether additional resources are necessary to accomplish its oversight responsibilities.

Auditee's Response and Auditor Comments

We reviewed the comments from the Director of IDUES provided in the Executive Summary. The comments show concurrence with the findings and recommendations in our draft report. The Office of Inspector General finds the draft report responses satisfactory to begin addressing our recommendations.

FINDING NO. 2 – Systematic Resolution and Enforcement Approach Needed

HEP is responsible for resolving and enforcing compliance and program performance issues when they occur. However, HEP lacked formal written policies and procedures for resolving enforcement issues. HEP needs a systematic approach for taking action and using its existing enforcement authority when appropriate.

Factors Affecting HEP's Ability to Resolve and Take Enforcement Actions on Non-Compliance Issues

HEP is responsible for resolving and taking enforcement actions on compliance and program performance issues when they occur. In our review of non-federal audit reports and other SFA data, we identified issues that were unknown to HEP. In our review of IDUES' grantee files, we also identified issues that were known to HEP. However, HEP did not use its existing enforcement authority to take appropriate actions.

Certain factors made it difficult for HEP to resolve and take enforcement actions on Title III non-compliance issues. The Title III Office did not have a tracking system to alert the Title III staff about the receipt and status of an institution's non-federal audit reports. HEP did not consistently receive data from the OCFO about audit resolution actions because the role of HEP's Audit Liaison Officer (ALO) was not functioning. When asked, HEP's assigned ALO was unaware of his responsibilities as an ALO. The ALO also said that he had not attended any ALO meetings regarding audit resolution matters. Furthermore, HEP lacked formal written policies and procedures for resolving and taking enforcement actions on compliance and program performance issues when they occurred.

HEP can accomplish more if it makes some operational changes in the way it addresses resolution and enforcement of non-compliance issues.

HEP Needs to Obtain Information Available from Other ED Components and Utilize Its ALO to Help Resolve Non-Compliance Issues

HEP can use existing information available in other ED components to assist in resolution and enforcement efforts. As previously reported, SFA maintains non-federal audit reports for institutions participating in the student financial assistance programs, which would include Title III grantees. HEP needs to obtain and track non-federal audit reports of Title III grantees and determine if they have been submitted. During our audit period, we were unable to determine if audit reports were submitted by all grantees in our sample. HEP could accomplish this task by using its ALO as a tracking agent to determine whether Title III grantees are complying with audit requirements.

As previously reported, OCFO files contain information related to the resolution of non-federal audits that contain Title III findings. While the OCFO is responsible for resolving non-federal audits, HEP should take an active role in determining whether findings identified by non-federal audits are properly resolved. HEP could accomplish this task by using its ALO as a tracking agent to ensure that findings are properly addressed and do not remain outstanding.

According to ED's Audit Resolution System Departmental Directive dated July 11, 1983, the ALO is responsible for acting as the central control point for all audit reports, audit resolution data and audit clearance documents relating to the Principal Action Official's (PAO's) area of responsibility. The ALO is also responsible for maintaining proper tracking of the resolution process, establishing the PAO's official audit files and logs, and maintaining records necessary for the timely and accurate monitoring of resolution activity. Utilizing the ALO in the audit resolution process would improve HEP's ability to resolve non-compliance issues.

OIG Review of Non-Federal Audit Reports and/or Other SFA Data

We obtained and reviewed non-federal audit reports and/or other SFA data for 45 Title III grantees. The data identified many instances of non-compliance with Title III and other ED regulations. Many had repeat findings⁴ and 16 had liabilities that may still be outstanding (see Attachment 2). For example, our review of audit reports and other pertinent SFA data disclosed the following:

- One grantee had reportable conditions that had a direct bearing on its ability to manage federal programs. The conditions included a lack of supporting documentation for grant costs, accounting and internal control weaknesses, inadequate retention and maintenance of records, repeat findings, and possible misappropriation of funds. The grantee was also on the reimbursement of payment. The auditor stated that persistent internal control weaknesses signal the possibility that federal funds and interests are not being protected and are at risk. This grantee was awarded \$7,128,884 and \$10,442,145 in Part B Title III funds for an undergraduate grant and a graduate grant, respectively, for fiscal years 1994 through 1998.
- Another grantee had findings that included fiscal accountability of Title III funds (improper transfers of \$13,257 from Title IV to Title III), unallowable grant activity costs (improper transfer of \$5,913 from Title III to Title IV resulting in questioned Title III costs of \$5,913), and additional issues that resulted in significant Title IV liabilities. This grantee was awarded \$1,616,613 in Part A Title III funds for fiscal years 1994 through 1998.
- Another grantee had findings that included significant internal control and accounting weaknesses, and lack of administrative capability, fiscal accountability and financial stability. The grantee was also on the reimbursement method of payment, owed ED \$13 million of SFA liabilities (prior audit issue), and had a 1997 settlement agreement with ED for \$907,904. The auditor stated that this grantee was not adequately administering two SFA programs (FFEL and Federal Pell Grant) which had combined expenditures of over \$41.5 million. The auditor also stated that the grantee's continued participation in SFA programs may be at risk due to the material weakness in the control environment and other unresolved compliance issues. This grantee was awarded \$11,135,943 in Part B Title III funds for fiscal years 1994 through 1998. Due to the material weakness in the control environment, Title III funds may also be at risk for misuse.

⁴ Twenty-three (52 percent) of the 44 grantees' audit reports we reviewed had repeat findings.

HEP Needs to Use Information in a Systematic Approach for Resolution and Enforcement

HEP needs to develop and follow written policies and procedures for resolving and taking enforcement actions on compliance and program performance issues when they occur. These policies and procedures should include requirements for written responses, corrective action plans from grantees and follow-up actions by HEP.

OIG Review of IDUES' Grantee Files

We reviewed official grant files in IDUES for 15 Title III grantees and noted eight instances where HEP did not use its authority to take appropriate enforcement actions when grantees failed to comply with various laws and regulations. For example:

- During an IDUES site visit, the President of a grantee college expressed concern that the college's \$772,788 in Title III funds were spent for "purposes not intended." In addition, the site visit identified where the college had an unstable financial condition and did not make financial records and personnel data available for review during the site visit. HEP required the grantee to provide specific documentation on the \$772,788 and to develop accounting and fiscal procedures. There was no evidence in the file that the grantee responded to the site visit report or that the issues were ever resolved. The grantee was also awarded a grant for the next year based on the Program Officer's certification that substantial progress was being made. However, we noted that there was no evidence in the files that the grantee was making substantial progress. This grantee was awarded \$3,075,012 in Part B Title III funds for fiscal years 1994 through 1998.
- A grantee's non-federal audit report for fiscal year 1994 identified significant internal control issues which could affect the grantee's ability to report, process and summarize financial data. It did not appear that IDUES took immediate action to determine the impact that this finding had on the grantee's Title III activities.

Furthermore, Program Officers responsible for approving the school's initial and continuing grant applications did not question two grant objectives that were unallowable, but instead recommended the objectives be funded. However, when one of the same Program Officers conducted a site visit, the activities were then identified as unallowable.

In addition, during the site visit, the Program Officer was also unable to determine whether several other grant objectives were being accomplished. However, the Title III Office did not question the grant expenditures or follow-up to verify if corrective actions were taken and the funding of the grant was continued. This grantee was on the reimbursement method of payment and was awarded \$6,442,335 for fiscal years 1994 through 1998.

In addition, the IDUES files for the two grantees above contained no information regarding the required results/reports of the mandatory Title III annual external evaluation of the grantee, Title IV program reviews, HEP/PMIT reviews or other outside entity reviews.

- The Title III Office conducted a grantee site visit October 31-November 2, 1994, which covered the 1994-95 grant award of \$500,000. The site visit report contained three findings regarding fiscal operations: (1) accounting and fiscal procedures needed to be developed, (2) time and effort records needed to be reviewed to reflect the immediate supervisor's certification, and (3) Title III funds of \$220,902 (adjusted to \$193,292) were spent on an unallowable grant activity (dormitory renovation). HEP files contained correspondence from the grantee and IDUES about the above concerns. However, we noted these files did not indicate whether the Title III Program Officer followed up on the unallowable activity or whether the grantee either repaid the \$193,292 to ED or funded an allowable activity. This grantee was on the reimbursement method of payment and was awarded \$3,565,609 for fiscal years 1994 through 1998.

In the example above, the IDUES files contained no documentation of external Title III evaluations or PMIT reviews and limited information regarding non-Federal audit reports and Title IV program reviews.

HEP did not use its existing authority to ensure that corrective actions were taken and liabilities were collected. This enforcement authority is cited in 34 CFR 74.62 and specifies the actions available to HEP. These actions include temporarily withholding cash payments pending correction of the deficiency, disallowing all or part of the cost of the activity or action not in compliance, wholly or partly suspending or terminating the current award or withholding further awards for the project or program. In addition, other remedies may be legally available. For example, HEP could contact the Office of the General Counsel (OGC) to determine if fines can be assessed or other actions taken against Title III grantees who either do not submit audit reports or submit late audit reports.

Title III Grant Funds Remain at Risk

Based on our review of grantee files and interviews of HEP staff, we concluded that there were no consequences if grantees do not comply with the program regulations regarding use of funds, implementation of programs, submitting non-federal audits and other requirements.

Until HEP takes a systematic approach to manage and deal with compliance and program performance issues, federal funds remain at risk for misuse and grant objectives may remain unmet.

RECOMMENDATIONS

We recommend that the Assistant Secretary for Postsecondary Education require HEP to develop and implement an effective system for resolving Title III grantee non-compliance issues, including taking appropriate enforcement actions that include:

- 2.1. Obtaining and tracking non-federal audit reports and audit resolution data maintained by SFA and the OCFO.
- 2.2. Using its ALO to provide assistance to the OCFO in resolving findings and liabilities identified by non-federal audit reports and ED reviews.

- 2.3. Developing and following written policies and procedures for resolving and enforcing compliance and program performance issues when they occur.
- 2.4. Using existing enforcement authority cited in 34 CFR 74.62 when appropriate.
- 2.5. Following-up on audit resolution actions with OCFO and SFA to help ensure findings and liabilities are properly resolved.

Auditee's Response and Auditor Comments

We reviewed the comments from the Director of IDUES provided in the Executive Summary. The comments show concurrence with the findings and recommendations in our draft report. We have modified recommendation 2.5 to acknowledge that IDUES does not have the authority to enforce or resolve audit resolutions of OCFO or SFA. The Office of Inspector General finds the draft report responses satisfactory to begin addressing our recommendations.

BACKGROUND

The Title III Institutional Aid Program is intended to equalize educational opportunity for disadvantaged students by assisting eligible colleges and universities. Eligible institutions include Historically Black Colleges and Universities (HBCUs), Historically Black Graduate Institutions and other institutions with limited financial resources that serve a high percentage of students receiving need-based federal financial assistance.

The Strengthening Institutions Program (Part A) assists eligible institutions of higher education to become self-sufficient by providing funds to improve and strengthen their academic quality, institutional management, and fiscal stability. One-year planning grants and five-year development grants are awarded. Funds may be used for faculty development, funds and administrative management, development and improvement of academic programs, and joint use of facilities and student services.

Grants to Hispanic-Serving Institutions under the Strengthening Institutions Program (Part A) assist eligible Hispanic-Serving Institutions of higher education to expand their capacity to serve hispanic and low-income students. Five-year development grants are awarded. Funds may be used for scientific or laboratory equipment for educational purposes, the renovation of instructional facilities, faculty development, funds and administrative management, development and improvement of academic programs, acquisition of equipment to strengthen funds management and academic program, joint use of facilities, academic tutoring, counseling programs, and student support services.

The Strengthening HBCUs Program (Part B) provides financial assistance to establish or strengthen the physical plants, financial management, and academic resources and endowments of undergraduate HBCUs. Funds may be used for the: (1) purchase, rental or lease of scientific or laboratory equipment for educational purposes-- instructional and research; (2) construction, maintenance, and renovation of instructional facilities; (3) faculty development and exchanges; (4) academic instruction in disciplines where blacks are underrepresented; (5) purchase of educational material; (6) student services; (7) funds and administrative management and acquisition of equipment for use in strengthening management; and (8) joint use of facilities. Support is also provided to 16 graduate HBCUs that are making a substantial contribution to the legal, medical, dental, veterinary, or other graduate education opportunities of African-Americans.

UNIVERSE DATA

<i>Type of Grantees</i>	<i>Number of Grantees</i>	<i>FY 1994</i>	<i>FY 1995</i>	<i>FY 1996</i>	<i>FY 1997</i>	<i>FY 1998</i>	<i>TOTAL AWARDS</i>
Regular (Part A)	499	\$ 86,257,376	\$ 88,349,325	\$ 79,753,722	\$ 55,448,302	\$ 55,450,000	\$ 365,258,725
HSIs (Part A)	37	0	0	11,932,600	10,800,000	10,800,000	33,532,600
HBCUs (Part B)	101	98,208,000	100,860,000	108,990,000	108,989,926	107,990,000	525,037,926
Undergraduate HBCUs (Part B)	16	11,501,000	15,858,998	19,606,000	20,106,000	19,606,000	86,677,998
Graduate							
Total Grantees	653	\$ 195,966,376	\$ 205,068,323	\$ 220,282,322	\$ 195,344,228	\$ 193,846,000	\$1,010,507,249

OBJECTIVES, SCOPE AND METHODOLOGY

The objectives of our audit were to (1) evaluate whether Parts A and B of the Title III program are being monitored in an efficient and effective manner and (2) determine whether adequate and effective enforcement action is being taken to resolve problems and issues of grantees that participate in Parts A and B of the Title III program. Our audit covered the period October 1, 1993 through September 30, 1998. To accomplish the audit objectives, we

- reviewed applicable federal laws and regulations,
- reviewed a recent ED OIG Title III Audit Report (ED-OIG/A04-60001),
- interviewed staff in OGC,
- interviewed officials in HEP, IDUES and PMIT,
- obtained and analyzed IDUES and PMIT data pertinent to their policies and procedures for monitoring Title III grantees and using authorized enforcement actions to resolve grantees' problems and issues,
- reviewed official grant and program files for selected grantees,
- interviewed staff in SFA,
- interviewed staff in the OCFO,
- reviewed and analyzed audit reports and other documentation provided by SFA staff for 45 judgmentally selected Title III grantees,
- reviewed documentation provided by OCFO staff, and
- reviewed and analyzed selected audit reports and other SFA data.

Our fieldwork was performed February 8, 1999 through June 18, 1999, primarily at the HEP office in Washington, D.C. An exit conference was held on October 29, 1999. On February 2, 2000, we briefed the incoming Assistant Secretary for Postsecondary Education on the results of our audit. We also discussed monitoring issues, including the results of our audit, at a meeting with HEP staff and managers, in April. Our audit was performed in accordance with government auditing standards appropriate to the scope of the audit described above.

STATEMENT ON MANAGEMENT CONTROLS

As part of our audit, we assessed ED's controls over monitoring and use of enforcement actions to resolve problems and issues of grantees that participate in Parts A and B of the Title III program.

Because of the limited nature of our audit, the overall system of management controls was not reviewed and we cannot express an overall opinion on the controls. However, we identified weaknesses in HEP's monitoring of Title III grantees and in HEPs resolving and enforcing compliance and program performance issues when they occur. These weaknesses are discussed in further detail in the AUDIT RESULTS section of this report.

Attachment 1

ISSUES	TOTAL BY YEAR				
	<i>FY 1994</i>	<i>FY 1995</i>	<i>FY 1996</i>	<i>FY 1997</i>	<i>FY 1998**</i>
Accounting Weaknesses	11	16	11	9	1
Accreditation	1	2	2	0	0
Administrative Capability	2	5	7	3	0
Cash Flow/Cash Mgmt. Or ED's Requirement for a Letter of Credit	6	6	6	5	0
Internal Control Weaknesses	17	23	16	13	4
Payroll Distribution	2	0	2	2	0
No Opinion or Adverse Opinion On Financial Statements	2	2	2	1	0
Financial Stability/Going Concern	3	4	5	4	0
Unallowable Grant Costs/Title III Costs Exceed Award	2	2	2	1	0
Questioned Costs/Misuse of Funds	4	7	3	3	0
Reimbursement Method of Payment*					
Title IV Liabilities	2	7	6	6	0
Repayment Agreement with ED (Title III or Title IV)	0	1	2	2	1
Repeat Findings/Prior Findings Unresolved	7	17	14	10	0
Possible Excess Title III Cash	5	6	6	1	0

* Seventeen of the 47 grantees in our sample either have been or are on ED's reimbursement of payment.

** Incomplete data for Fiscal Year 1998.

ATTACHMENT 2 - POTENTIAL TITLE III LIABILITIES

\$1,737,223 of potential Title III liabilities identified during our review of 15 IDUES' grantee files.

\$2,093,411 of potential Title III liabilities identified during our review of 45 grantees' non-federal audit reports and/or other SFA data.

\$3,830,634 - Total potential Title III liabilities identified during our audit.

ATTACHMENT 3 – AUDITEE RESPONSE




UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF POSTSECONDARY EDUCATION

October 5, 2000

MEMORANDUM

To: Carol Lynch
Regional Inspector General for Audit

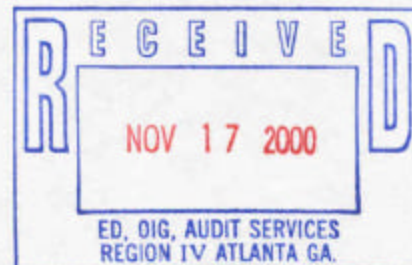
From: Dr. A. Lee Fritschler
Assistant Secretary for Postsecondary Education 

Subject: Draft Audit Report
Office of Higher Education Programs Needs To Improve Its Oversight of Parts A and B of the Title III Program - Control Number ED-OIG/A04-90013

Attached is a copy of the subject draft audit report with edited comments from Dr. Margarita Benitez, the Director of Institutional Development and Undergraduate Education Service. The Institutional Development and Undergraduate Service concurs with the Office of Inspector General findings and recommendations. We are continuing our efforts to meet the goals of past audits related to Title III by collaborating with other ED Offices and requesting the necessary resources to achieve our corrective action plans. I look forward to your final report.

If you have any questions, please contact Dr. Margarita Benitez at (202) 502-7794.

Attachment



400 MARYLAND AVE., S.W. WASHINGTON, D.C. 20202-1510

Our mission is to ensure equal access to education and to promote educational excellence throughout the Nation.

The Institutional Development and Undergraduate Education Service (IDUES) concurs with the Office of Inspector General findings and recommendations. The two main goals of our “ Urgent Action Plan to Resolve Findings of the Inspector General with regard to IDUES” [March 9, 2000] are:

- To resolve the current lack of substantial and systematic information gathering, analysis, and evaluation about: program achievements; customer service; and grantee, program, and IDUES compliance with GPRA and other legislative requirements.
- To build staff capacity in order to increase IDUES responsiveness and service to institutions.

This Action Plan has been endorsed by the Deputy Assistant Secretary for Higher Education Programs, as well as by the Assistant Secretary for Postsecondary Education.

A continuing priority for IDUES Director is to address the findings of IG audits related to Title III and, by extension, to Title V programs, by collaborating with other ED offices, and requesting the necessary resources to achieve our corrective action plans.

IDUES Response To Finding No. 1 - Systematic Monitoring Approach Needed

We concur with this finding. The following corrective actions are planned or being implemented:

- 1.1 IDUES has been working closely with the Program Monitoring and Information Technology Service Area (PMIT) to develop and implement an electronic information collection model for all of HEP, with IDUES as its pilot site and model for office-wide deployment. The information collection model, HEP Information and Communication System, will constitute a national knowledge-base resulting from the collection, analyses, reporting, and exchange and dissemination of information related to Title III and Title V project performance, program outcomes and impact on grantee institutions. This will be an outstanding monitoring tool. A complete business case to substantiate the request for funding for this project was developed by PMIT and submitted to the Department’s Information Technology Review Board [ITIRB] in July 2000. A decision is expected by October 2000. Once funds are allocated for HEP Info we expect implementation will be completed within 12 months. The HEP Info “business case,” and the corresponding IDUES Action Plan are attached for your review.
- 1.2 Discussions are underway between PMIT and IDUES officials to develop a risk model to identify grantees that may be placing federal funds at risk or be in urgent need of technical assistance. At present, IDUES is being assisted by PMIT regional representatives [ARs] in monitoring Title V and Title III institutions. IDUES is working closely with PMIT to develop blueprints for collaborative monitoring efforts. PMIT monitoring staff have conducted more than 10 monitoring visits since May 1, 2000 of Title V and Title III institutions. A Title III and Title V risk model will be developed in collaboration with other ED Offices and Divisions within OPE; we expect the risk model to be available following implementation of HEPInfo.
- 1.3 Over the course of this year, PMIT staff developed a training guide to monitoring and site visits in preparation for a 2-day workshop on Grant Monitoring held in June 2000 for IDUES program officers. This monitoring workshop will be repeated in November 2000 for new IDUES staff and other HEP officers. Besides sharing the guide with IDUES staff,

PMIT staff are revising and broadening it to increase its usefulness throughout OPE. Grants Policy and Oversight [GPOS] has expressed interest in making these materials available in an even wider scale to ED program officers. IDUES will continue to work with PMIT to develop and follow a formal technical assistance and monitoring plan, based on progress made toward the development of a risk model.

- 1.4 IDUES management is working in collaboration with PMIT to meet technical assistance and monitoring responsibilities. As a follow up to the June training workshop, ARs have begun to link up with IDUES program officers assigned to their same states, in order to share information about grantee institutions, and determine the feasibility of making site visits.
- 1.5 A uniform monitoring guide is expected to be completed during the fourth quarter of fiscal year (FY) 2001.
- 1.6 PMIT and IDUES staff are collaborating to produce policy guidance on technical assistance and monitoring.
- 1.7 PMIT developed a peer review model for the GAANN program, and conducted initial training sessions, but sufficient resources were not available for full implementation. PMIT is evaluating the feasibility of using a similar model in order to broaden its capacity to visit more projects. Again, the ability to accomplish this is always limited by the amount of available resources. We see this as a capacity building as a preventive action, to reduce at an early stage the chance for mismanagement of federal funds.
- 1.8 IDUES is looking to coordinate monitoring plans and activities with other ED components. In addition to PMIT, we have begun conversations with SFA/PPI officials through the Quality of Education Collaboration Task Force, and we intend to share with GPOS the documents we produce. However, we have a concern about taking on more than we can handle appropriately, which is explained in our response to Finding 2.
- 1.9 Attached is the most recent Corrective Action Plan for ED-OIG/A04-60001 and IDUES' March 9, 2000 memorandum addressing the urgent need to resolve all findings of past IG audits.
- 1.10 IDUES has begun to address and implement recommendations from the prior ED OIG audit reports. IDUES must continue to assess its internal administrative processes to meet ED performance goals and program mission objectives. IDUES was successful during FY2000 in obtaining a portion of the necessary funds to evaluate IDUES administrative grant processes. \$325,000 of the estimated \$1.3 million was allocated to IDUES in FY2000 to address the findings of the four previous IG audits that pertain to the Title III program.
- 1.11 IDUES is using the services of *[a contractor]* to address work load issues and develop "Individual Development Plans" for IDUES staff. IDUES will use *[contractor]* data to pinpoint the training needs and capabilities of IDUES staff to perform successfully.

1.12 IDUES agrees with the findings of this audit that existing personnel levels are not appropriate to carry out the additional Grant Officer duties for all IDUES programs. At present, IDUES has increased its workforce through personnel on MAP assignments [4], reassignments [1], and staff recruited through the Outstanding Scholars Program [1, with more to come]. We intend to request that the MAP staff be allowed to stay at IDUES permanently. IDUES has set in motion a concerted effort to address and resolve oversight responsibilities. IDUES March 9, 2000 memorandum, attached to this document, the HEPInfo business case, and budget planning documents are reflective of our call for additional resources.

IDUES Response To Finding No. 2 – Systematic Resolution and Enforcement Approach Needed
We concur with this finding. The following corrective actions are planned or being implemented:

- 2.1 IDUES is willing to initiate a dialogue with SFA and OCFO with a view toward Program Specialist obtaining a copy of audit reports and audit resolution data for their respective grantees. However, IDUES does not have the authority to resolve finding on the behalf of OCFO or OSFA, nor do we have at present the capacity to track and monitor audit resolution.
- 2.2 We have no objection to asking our ALO to assist OCFO in these matters.
- 2.3 We will request the guidance and assistance of the following offices: the Immediate Office of the Deputy Assistant Secretary for Higher Education Programs; GPOS; and PMIT.
- 2.4 The EDGAR enforcement authority for non compliance will be utilized as appropriate.
- 2.5 IDUES does not have the authority to enforce or resolve audit resolutions of OCFO or OSFA but IDUES will collaborate with OCFO and OSFA as needed.

FINAL
REPORT DISRIBUTION LIST
Control Number ED-OIG/A04-90013

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