



UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF INSPECTOR GENERAL

THE INSPECTOR GENERAL

JUL 19 2001

MEMORANDUM

TO: Grover J. Whitehurst
Assistant Secretary
Office of Educational Research and Improvement

FROM: Lorraine Lewis *Lorraine Lewis*

SUBJECT: FINAL REPORT: *Review of the Discretionary Grant Disbursement Process Within the U.S. Department of Education Office of Educational Research and Improvement*
(Audit Control Number: ED-OIG/S17-B0014)

Attached is a copy of the final report referenced above. We received comments from the Office of Educational Research and Improvement concurring with the recommendations in the draft report and have included them as Attachment I of the final report.

You have been designated as the action official responsible for the resolution of the recommendations in this report. Please provide the Post Audit Group Supervisor - Financial Improvement and Post Audit Operations, Office of the Chief Financial Officer within sixty (60) days of issuance of this report with a Corrective Action Plan that builds on the action you outline in your comments. Then provide the Post Audit Group Supervisor with quarterly status reports on 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 the report have been provided to the offices shown on the distribution list.

We appreciate the cooperation given us and Ernst & Young, LLP, during the review. Should you have any questions concerning the report, please contact Mr. Todd Givens, Director, Financial Statements Internal Audit, at (202) 205-7945.

Attachment

Distribution List:

Margo Anderson, Office of Educational Research and Improvement
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To the Inspector General
U.S. Department of Education

This report presents the results of our review of the discretionary grant disbursement process within the U.S. Department of Education's (Department) Office of Educational Research and Improvement (OERI). This review is part of a larger review of disbursement processes within the Department that was conducted by Ernst & Young, LLP (E&Y) at the request of the Office of Inspector General. The results of work will be provided to the Secretary.

OBJECTIVES, SCOPE, AND METHODOLOGY

The objectives of the review were to determine the processes by which payments can be made by the Department and to assess the controls over the payments in those processes to determine if the controls are operating effectively.

To accomplish the review objectives, we obtained a detailed understanding of the discretionary grant program, the Grant Administration and Payment System (GAPS), and the control environment surrounding the discretionary grant disbursement process by attending presentations given by Department officials and conducting interviews with key Department personnel. We also reviewed policy and procedure manuals and Web site information relating to the discretionary grant program and GAPS. In addition, we reviewed audit reports and other products issued by the Department's Office of Inspector General, the U.S. General Accounting Office (GAO), and independent auditors. Walk-throughs of the discretionary grant disbursement process were then conducted to validate our understanding of the control environment, control objectives, and control techniques. A limited number of discretionary grant transactions were selected and tested to validate the disbursement process and to identify areas where internal controls could potentially be improved. Interviews and limited transaction testing were conducted between October 17, 2000, and March 30, 2001.

The work within OERI was limited to the discretionary grant disbursement process. An attachment provides a business map detailing the process for discretionary grant disbursements.

We conducted our work according to the American Institute of Certified Public Accountants Professional Standards for consulting services. These standards require the development of findings, conclusions, and recommendations determined by the objectives of the engagement. In conducting our work, we also compared the control environment to known industry established best practices appropriate to the scope of review described above. On April 5, 2001, the results of this review were discussed with members of your staff.

INTERNAL CONTROLS

Management is responsible for establishing and maintaining internal controls. In fulfilling this responsibility, estimates and judgements by management are required to assess the expected benefits and related costs of internal control policies and procedures. The objectives of internal control are to provide management with reasonable, but not absolute, assurance that: assets are

safeguarded against loss from unauthorized use or disposition; transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in conformity with accounting principles generally accepted in the United States; and data that support reported performance measures are properly recorded and accounted for to permit preparation of reliable and complete performance information. Because of inherent limitations in any internal control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of internal control to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

The Federal Managers' Financial Integrity Act of 1982 requires GAO to issue standards for internal control in the government. Office of Management and Budget (OMB) Circular A-123, Management Accountability and Control, revised June 21, 1995, provides the specific requirements for assessing and reporting on controls.

Recently, other laws have prompted renewed focus on internal control. The Government Performance and Results Act of 1993 requires agencies to clarify their missions, set strategic and annual performance goals, and measure and report performance toward those goals. Internal control plays a significant role in helping managers achieve those goals. Also, the Chief Financial Officers Act of 1990 calls for financial management systems to comply with internal control standards, and the Federal Financial Management Improvement Act of 1996 identifies internal control as an integral part of improving financial management systems.

Rapid advances in information technology have highlighted the need for updated internal control guidance related to modern computer systems. The management of human capital has gained recognition as a significant part of internal control. Furthermore, the private sector has updated its internal control guidance with the issuance of Internal Control - Integrated Framework, published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Consequently, in November 1999 GAO updated the standards for use in the government that provides the overall framework for establishing and maintaining internal control and for identifying and addressing major performance and management challenges and areas at greatest risk of fraud, waste, abuse, and mismanagement.¹ The standards are effective beginning with fiscal year 2000 and the Federal Managers Financial Integrity Act reports covering that year.

Effective internal control helps in managing change to cope with shifting environments and evolving demands and priorities. As programs change and as agencies strive to improve operational processes and implement new technological developments, management must continually assess and evaluate its internal control to assure that the control activities being used are effective and updated when necessary.

BACKGROUND

OERI is responsible for conducting and supporting education-related research activities; monitoring the state of education through the collection and analysis of statistical data;

¹*Standards for Internal Control in the Federal Government*, U.S. General Accounting Office (GAO/AIMD-00-21.3.1, November 1999).

promoting the use and application of research and development to improve instructional practices in the classroom; and disseminating these findings to the state and local education agencies. Grants are awarded to support education related research activities. Fiscal year 2000 OERI appropriations totaled approximately \$591 million.

Within the Department's Principal Offices, the program offices and discretionary grant teams administer the Department's discretionary grant programs. The grant teams publish the program announcements, coordinate the review of applications, make funding recommendations, and award grants to successful applicants. The grant teams are supported in the activities by the Grants Policy and Oversight Staff (GPOS), a component within the Office of the Chief Financial Officer (OCFO), that is responsible for developing overall discretionary grants policy for the Department and overseeing the discretionary grant process.

The Department's procedures in conducting and documenting the process for awarding discretionary grants are detailed in the Administrative Communications Systems Directive C:GPA:1-102, dated June 24, 1992, titled *Discretionary Grant Planning, Review, and Award Procedures*. Departmental procedures for monitoring discretionary grants are detailed in the Administrative Communications System Directive C:GPA: 1-101, dated March 24, 1994, titled *Monitoring Discretionary Grants and Cooperative Agreements*.

The Department publishes an application notice in the Federal Register to inform potential applicants of each discretionary grant competition. The application notice invites applications for one or more competitions, gives basic program and funding information on each competition, and informs potential applicants when and where they may obtain applications. Program offices publish an application notice for each individual program. Prior to the application notice being published in the Federal Register the following sign-offs must be evident in writing or by e-mail: Program Attorney, Executive Secretariat, GPOS, the program office's budget policy staff, and any other principal office with a mutual interest in the grant competition. Discretionary grant awards are funded on the basis of a competitive process. This review process gives the Department discretion to determine which applications best address the program requirements and, therefore, are most worthy of funding. The Principal Office conducting the grant competition develops an application technical review plan that describes the competitive procedures to be used during the grant competition.

Upon receipt, applications are date stamped, critical application information is entered in GAPS, and a unique seven part project request award number is assigned. Once all applications for a specific competition have been entered in GAPS, a log sheet is generated. Applications are then reviewed for legislative and regulatory requirements established for the program. Depending on the complexity of the grant competition and total number of applications received, an eligibility checklist may be used to record the eligibility screening. The eligibility checklist is used on a case-by-case basis. The application is also reviewed for adherence with the requirements contained in the Federal Register announcement. A panel review is convened and the panel scoring results are entered in GAPS where each application is scored and ranked. A funding slate is generated that summarizes the results of the competition. Upon approval of the funding slate, funds are committed in GAPS. A interface then occurs with the Financial Management Support System (FMSS) so that the dollars are marked and not obligated elsewhere in the

Department. Once funds have been committed, the program staff print the grant award document. The warrant holder reviews all files and certifications, posts the obligation to FMSS, and signs the grant award document. The program office reconciles the program's budget by comparing the total amount committed and obligated in GAPS to the amount in FMSS. After a five-day congressional notification period, the program staff mail the signed award document. The grant recipient may drawdown funds after the grant is obligated but not until the start date of the budget period occurs.

During the life of a discretionary grant, the grant recipient, in accordance with the Education Department General Administrative Regulations (EDGAR), is required to obtain an independent audit of the grant and its expenditures. In some instances, the Department may conduct its own audit of the discretionary grant. Ninety days after the discretionary grant period, the grant recipient is required to submit to the OCFO a final report on the results of the audit. OCFO notifies the program office if any adverse findings are contained in the audit report. Program offices are responsible for monitoring and following up on outstanding audit reports from grant recipients.

RESULTS

Based on the results of the review, we have identified areas where enhanced controls and needed operational changes, if properly implemented, will reduce the risk of erroneous payments in the discretionary grant disbursement process.

Our review of this process disclosed that:

- No formal guidance exists for approving the technical review plan. Draft policies and procedures exist for approving a technical review plan. Although reviews and approvals of the technical review plan are evidenced in writing on the plan, no line of approval is evident. By issuing internal policy and procedures for approving technical review plans, employees are aware of job responsibilities and can function efficiently and effectively in fulfilling the mission and goals of the Department. In addition, current internal policies and procedures can be used as a tool in training new employees in the event of employee turnover.
- No formal guidance exists for requiring eligibility checklists to be used consistently in the screening process. Draft policies and procedures exist for ensuring that eligibility checklists are used consistently in the screening process. Eligibility screening checklists are used on a case-by-case basis depending on the complexity of the eligibility requirements. By issuing internal policy and procedures for the use of eligibility screening checklists, the grant competition would be documented in an open manner. Employees would be better informed of job responsibilities in order to efficiently and effectively fulfill the mission and goals of the Department. In addition, current internal policies and procedures can be used as training tool for new employees in the event of employee turnover.

- No formal guidance exists to require that the same policies and procedures are being used to monitor the receipt of audit reports from grant recipients. Draft policies and procedures exist for monitoring the receipt of audit reports from grant recipients. As a result, the process for monitoring the receipt of audit reports from grant recipients is not uniformly applied to ensure that program goals and objectives are met.
- No policies and procedures exist for the reconciliation of GAPS to FMSS on a regular basis, documentation of the reconciliation review and approval process, and for the reporting and escalation of open and unreconciled items. Formal reconciliations would help ensure that the amount of funding that goes to the grant recipient is accurate.

RECOMMENDATIONS

We recommend that the Assistant Secretary for Educational Research and Improvement:

1. Finalize and issue internal procedures for approving technical review plans, eligibility screening, and monitoring receipt of audit reports from grant recipients. Ensure that the internal procedures are aligned with Departmental directives.
2. Develop and issue internal procedures for performing reconciliations of funds committed and obligated in GAPS to the amount in FMSS. Ensure that the internal procedures are aligned with Departmental directives.

DEPARTMENT'S RESPONSE

The Department agreed with the overall content of the report and concurred with the recommendations. The response describes actions already taken or currently underway. These actions are responsive to the concerns expressed in the report, and a full corrective action plan will be developed by OERI, pursuant to follow up and resolution practices of the Department. The Department's response is included in this report as Attachment I.

This report is intended solely for the information and use of the management of the Department, OMB, Congress and the Department's OIG, and is not intended to be and should not be used by anyone other than these specified parties.

Attachments


Ernst + Young LLP

April 5, 2001
Washington, D.C.

MEMORANDUMUNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF THE ASSISTANT SECRETARY
FOR EDUCATIONAL RESEARCH AND IMPROVEMENT

MAY 29 2001

TO: Lorraine Lewis
Office of Inspector General

FROM: Sue Betka 
Deputy Assistant Secretary

SUBJECT: DRAFT REPORT: Review of the Discretionary Grant Disbursement
Process Within the U.S. Department of Education Office of Educational
Research and Improvement
(Audit Control Number: ED-OIG/S17-B0014)

Thank you for the opportunity to review the above-referenced report. We agree that there should be established policies and procedures for several steps in the grants process for which no formal policies and procedures currently exist and for the reconciliation of funds.

With regard to implementing these recommendations, you may know there is a grants advisory team in the Department that includes representation from all principal program offices and most staff offices (including the Office of Inspector General). This team is finalizing a new grants policy directive that will update the existing guidance and provide for new internal controls and other improvements to the grants process for all Department discretionary grant programs. The internal controls that OERI has implemented informally and that are tied to your report recommendations will be formalized in the directive. Therefore, it should not be necessary for us to develop separate policies and procedures specifically for OERI. We understand that the draft directive will go into departmental clearance during the first week in June.

If you have any questions on our response, please contact Tom Brown at 219-2007.