Audit of Drawdown Controls in Grant Administration and Payment System

FINAL AUDIT REPORT

Control Number ED-OIG/A03-80010
September 2000

UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF INSPECTOR GENERAL

THE INSPECTOR GENERAL

MEMORANDUM

TO   :   Thomas P. Skelly
            Acting Chief Financial Officer

SEP 13 2000

FROM: Lorraine Lewis *Lorraine Lewis*

SUBJECT :   FINAL AUDIT REPORT
            *Audit of Drawdown Controls in Grant Administration and Payment
            System (ED-OIG A03-80010)*

Attached is our subject final report entitled *Audit of Drawdown Controls in Grant
Administration and Payment System.* The report presents the finding and
recommendations resulting from our audit of the drawdown controls within the U.S.
Department of Education's (ED) Grant Administration and Payment System.

Please provide us with your final response to each open recommendation within 60 days
of the date of this report indicating what corrective actions you have taken or plan, and
related milestones.

In accordance with Office of Management and Budget Circular A-50, we will keep this
audit report on the OIG list of unresolved audits until all open issues have been resolved.
Any reports unresolved after 180 days from date of issuance will be shown as overdue in
the OIG's Semiannual Report to Congress.

Please provide the Supervisor, Post Audit Group, Financial Improvement, Receivables
and Post Audit Operations, Office of Chief Financial Officer and the Office of Inspector
General, Audit Services with semiannual 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.

We appreciate the cooperation given us during the review. Should you have any
questions concerning this report, please call Bernard Tadley at (215) 656-6279.

Attachment

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

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NOTICE

Statements that management practices need improvements, as well as other conclusions and recommendations in this report represent the opinions of the Office of Inspector General. Determination of corrective action to be taken will be made by the appropriate Department of Education officials.

In accordance with Freedom of Information Act (5 U.S.C. §522), 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.

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EXECUTIVE SUMMARY

We performed an audit of the drawdown controls within the U.S. Department of Education (ED) grant delivery system. Currently, ED uses the Grant Administration and Payment System (GAPS) to provide funds to grant recipients. The Office of the Chief Financial Officer (OCFO) is responsible for maintaining and enhancing GAPS operations, while the principal offices within ED are responsible for administering grant projects. As a result of our work, we found the potential for abuse of the grant delivery system and recommend that the OCFO implement additional controls to identify excessive drawdown activity.

ED Should Implement Additional Controls to Detect Improper Transactions

ED should enhance the controls in GAPS to detect or limit excessive grant drawdown activity by recipients. During our review, we identified five cases where ED grant recipients exhibited questionable drawdown patterns. In four of the cases, the financial histories showed grant funds were drawn down heavily at the beginning of the grant period. Three of these instances were investigated resulting in the conviction of grant recipient personnel for misusing $234,000 of ED funds. In the other instance, the recipient drew down the balance of the award within the first four months of the grant year and ceased operations approximately four months later. As a result, ED incurred an additional expense of $42,000 to resume project services to the community. All five cases occurred prior to the implementation of GAPS on May 11, 1998.

Drawdown controls would enhance the project officer's ability to provide quality project oversight. Several project officers interviewed were not able to actively monitor each grant recipient on a continuing basis due to their high caseload volume. Project officers also informed us that they typically are technical (or programmatic) specialists and may not have the appropriate background to effectively monitor the financial aspects of their grant projects. However, program offices are placing a greater emphasis on the financial management responsibilities of their grant projects, such as monitoring recipient cash drawdown patterns for excess cash and comparing project objectives obtained to the resources expended. Implementation of additional grant drawdown controls would assist the program offices in meeting their objective to monitor their grant programs in a more comprehensive manner.

Control Design Parameters

Upon analysis of the four cases mentioned above, we noted that ED could have used system edit checks (e.g., reasonableness tests) to detect and limit excessive grant drawdown transactions. Based on our analysis of past patterns of abuse, we believe system edit controls established to detect grant recipient withdrawal of 50 percent, 80 percent and 100 percent of the awarded funds before the end of the first, second and third quarters, respectively, are reasonable.

Program officials have different views on the type of controls that should be implemented based on the level of risk presented by the type of entity they oversee. Program officials overseeing grant recipients they believe to be at risk thought controls should be designed to prevent receipt of project funds until the questionable drawdown request could be reviewed. Program officials overseeing grant recipients they believe to be a lower risk thought controls should be designed to detect questionable drawdown requests, while permitting the drawdown process to proceed. *Program officials also cited several additional operational needs that should be considered in the* design of drawdown controls.

Recommendations

We recommend the Chief Financial Officer work in cooperation with the principal offices to:

- Implement additional controls to detect and limit excessive grant drawdown transactions; and
- Ensure grant project officers are provided with the guidance necessary to establish the proper control level and to properly resolve transactions identified by the drawdown controls in an expeditious manner.

Office of Chief Financial Officer's Response

A draft of this report was provided to the OCFO for their review and comment. In their response, the OCFO generally concurred with the finding and related recommendations. A copy of the OCFO's response to the draft is included as an Exhibit to this report.

BACKGROUND

Each year, the U.S. Department of Education (ED) provides financial assistance in the form of grants to eligible recipients to address the educational program objectives established by enabling legislation and resulting regulatory requirements. To administer the grants, ED has established specific organizational units, referred to as "principal offices," by program areas. Within ED, the six principal offices that administer grants are as follows:

- Office of Bilingual Education and Minority Languages Affairs (OBEMLA);
- Office of Educational Research and Improvement (OERI);
- Office of Elementary and Secondary Education (OESE);
- Office of Postsecondary Education (OPE);
- Office of Special Education and Rehabilitative Services (OSERS); and
- Office of Vocational and Adult Education (OVAE).

Within the principal offices, program offices carry out grant administrative activities on a daily basis.

The Office of the Chief Financial Officer (OCFO) is responsible for maintaining financial and program data for ED. Effective May 11, 1998, the OCFO implemented the Education Central Automated Processing System (EDCAPS) Grant Administration and Payment System (GAPS) to manage all grant activities from initial recipient contact, through grant processing and disbursement, to grant closeout. GAPS replaced two legacy systems, the Grants and Contracts Management System (GCMS) and the Education Payments Management System (EPMS). Unlike EPMS, GAPS maintains grantee drawdown data by award.

Under the Department's general administrative regulations, grantees are only authorized to drawdown grant funds for immediate cash needs (generally determined to be no longer than a three-day period). Most grantees do not have a justifiable basis for a heavy drawdown pattern within the first quarter of the grant award year. Early grantee drawdown activity has become a concern because ED's Office of the Inspector General (OIG) Investigation Services (IS) has noted similarities in cases involving the embezzlement of ED grant funds. In these cases, grantees prematurely drew down excessive grant fund amounts during the first quarter of the grant award year.

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AUDIT RESULTS

Based on our review results, the Department should implement additional controls to identify excessive drawdown activity by grant recipients. In addition to providing ED program officials with timely notification about possible improper use of project resources, the controls, if properly designed, will assist project officers in their efforts to provide quality project oversight.

ED Should Implement Additional Controls to Detect Improper Transactions

During our review, we identified five cases where ED grant recipients exhibited questionable drawdown patterns. All five cases occurred prior to the implementation of GAPS on May 11, 1998. In four of the cases, the financial histories showed grant funds were drawn down heavily at the beginning of the grant period. In the other case, we could not assess the recipient's drawdown pattern because ED's legacy grant disbursement system (EPMS) did not track these transactions by grant.[1]

Investigations by the OIG and another federal agency identified three cases where grant recipient personnel stole $234,000 of ED grant funds. Each of these three cases resulted in the conviction of grant recipient personnel.

ED also incurred additional expenses to reestablish one grant project after the recipient drew down the balance of the award within the first four months of the grant year and ceased operations approximately four months later. The Department spent an additional $42,000 to restore project services to the community. This cost was in addition to the time and effort expended by Department personnel to resolve problems created by the grantee's mismanagement of the project. Timely identification of questionable drawdown activity would provide project officers an opportunity to mitigate the negative effect that the misuse of grant funds has on the delivery of program services.

GAPS does not contain sufficient controls to limit or detect excessive drawdown activity. We reviewed system design documents and found that no such controls were built into GAPS.

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[1] We were unable to perform a query of EPMS to identify additional cases of premature drawdown activity because of the "pooling" method used to account for grant funds. Under the "pooling" method, ED tracked drawdown transactions by recipient only, not by individual grant projects.

OMB Circular A-123, as revised, requires agencies to develop and implement cost-effective management controls. Management controls are the organization, policies, and procedures that agencies use to reasonably ensure programs and resources are protected from fraud, waste and mismanagement.

Project Officer Workloads

Project officers told us that they could not actively monitor each grant recipient on a continuing basis because of heavy case workloads. Many project officers routinely administer 30, 40 or more grants on a continuing basis. Two project officers interviewed handled more than 50 grants each. One project officer stated that due to her workload, she was only able to access GAPS periodically to review the drawdown activity for approximately ten grant recipients considered to present the most risk to the Department. The other project officer planned to access GAPS for this purpose in the future, but was unable to do so prior to the time of our interview.

According to project officers interviewed, the majority of their time is spent evaluating new proposals and providing technical assistance to grant recipients. They devote only a small portion of their time to monitoring activities of grant recipients. Project officers also informed us that they typically are technical (or program) specialists and may not have the appropriate background to effectively monitor the financial transactions of grant recipients. As a result, project officers were uncertain how often they should access GAPS to review grant recipient financial activities and what to look for when they did.

Recently, program offices have been placing a greater focus on the financial management aspects of their grant projects and are searching for new methods to monitor their projects in a more comprehensive manner. As one program official stated, project officers currently do not have an easy method of monitoring the financial status of each grant recipient in relation to the progress made towards achieving the project's objective. Another program official thought project officers would welcome any controls in this area to assist them in fulfilling their oversight responsibilities.

Control Design Parameters

In the four cases of questionable drawdown activity mentioned above, we noted that system edit checks set at reasonable threshold (or trigger) percentages during the course of the award period could have brought these transactions to the attention of Department officials in a timely manner. Based on our analysis, we believe system controls established to detect grant recipient withdrawals of 50 percent of the grant award before the end of the first quarter, 80 percent of the grant award before the end of the second quarter and 100 percent of the grant award before the end of the third quarter are reasonable trigger levels. In each case, we noted that the grant recipient met at least two of these trigger percentages. Project officers interviewed did not raise

any objections or concerns about these trigger levels as long as the controls were flexible enough to avoid impeding program operations.

Program offices deal with different types of entities that present varying levels of risk to the Department's grant projects. Program officials presented different views on how the controls should be designed based on the type of entities they monitored. We interviewed two ED management officials responsible for managing program office operations and four individual project officers responsible for directly administering grant projects. These individuals shared their opinions relative to the cash management practices of the recipients in their grant programs.

Project officers indicated that their experience with grant projects awarded to certain entities, such as small non-profit institutions, represent a higher level of risk to the Department. These entities tend to have fewer controls surrounding the use of project funds. Project officers with at risk grantees thought any drawdown control implemented should be preventive in nature. A preventive control would cause ED to stop processing a recipient's payment request until the project officer could review the transaction. One project officer commented that she wanted to have the opportunity to obtain justification for the drawdown from the grant recipient before the transaction was completed.

ED management officials indicated that their experience with grant projects awarded to other entities, such as colleges, universities, school districts, and local governmental entities, represent a lower level of risk to the Department. These entities tend to be larger in size and have more controls surrounding the use of project funds. Project officers with lower risk grantees thought any drawdown control implemented should be detective in nature. A detective control would notify the project officer when a recipient submitted a questionable payment request, but would not stop or interfere with processing the request. One program official with lower risk grant recipients was in favor of having detective drawdown controls because they would most likely encourage more detailed discussions with grant recipients concerning the funding needs of the project.

Several additional operational needs should be considered in the design of system controls. First, program officials wanted to have the ability to turnoff the controls at the time of grant award when project spending needs dictate that a significant portion of the funds awarded are required at the beginning of the grant period. Second, program officials wanted to have the ability to turnoff the controls at any time during the grant period to facilitate funding changes. Finally, program officials wanted to have the ability to remove preventive controls easily when a grant recipient is able to justify the need for the drawdown transaction.

The ED officials interviewed also expressed concern about the project officer's ability to monitor the financial activities of their grant projects. The officials believed more guidance, training and

The OCFO Actions to Assist Project Officers

In response to project officer concerns, the OCFO has developed new training courses designed to instruct project officers on numerous GAPS functions and capabilities. In one course conducted recently, the OCFO GAPS trainers encouraged project officers to access GAPS throughout the life of the grant to monitor the financial activities of their recipients. The course presented project officers with sample exercises of different scenarios requiring follow-up action to determine whether recipients were using project funds appropriately. However, the training provided to project officers will need to be expanded to include guidance on the resolution of transactions identified by the proposed drawdown controls, as stated in the following "Recommendations" section.

RECOMMENDATIONS

We recommend the Chief Financial Officer work in cooperation with the principal offices to:

1.1   Implement additional controls to detect and limit excessive drawdown transactions by grant recipients on a timely basis. The design of these controls should satisfy the operational needs of the program offices to provide the most efficient and effective oversight of project operations.

1.2   Provide project officers with guidance on establishing the appropriate control level (detective or preventive) for recipients in their program(s) once drawdown controls are implemented. The guidance should also provide project officers with the necessary training and resources to properly resolve the identified transactions in an expeditious manner.

The OCFO's Comments:

In commenting on the draft report, the OCFO states:

> The OCFO has met with your staff on several occasions to discuss the recommendations contained in this report. Agreement was reached in the last meeting to create an exception report as an additional tool for Program Offices to use to monitor the financial aspects of grants.

The OCFO discusses further the exception report:

> ...the OCFO would suggest that another report be developed focusing on drawdown activity using the controls outlined in the OIG report. This would be an exception report that would only include grant awards that satisfy the criteria. Based on the results of that report, the Program Office staff could use the existing payment controls in GAPS to further monitor the payment request activity. Once the report becomes available, the OCFO will work closely with the Program Offices to identify a central point of contact for each office to ensure there is a comfort level with utilizing the report. Monitoring guidance will also be developed and provided to the Program Office that clearly outlines the monitoring process.

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This suggestion would add minimal additional burden on the Program Office staff, but improve the monitoring of recipient drawdown patterns. The report and guidance could be in place by the end of November.

OIG Response:

We generally agree with the response that has been provided by the OCFO and will provide any needed assistance in the development of the exception report. This new report should assist Program Offices in identifying in timely fashion grant recipients that may be making excessive drawdown transactions.

OBJECTIVE, SCOPE & METHODOLOGY

Our audit objective was to assess whether the Department should implement additional controls to mitigate the negative effect of improper grant drawdown activity. Accordingly, we focused on determining whether additional controls over recipient access to grant funds were needed and identifying the control characteristics that would enhance program office operations. We did not assess any other controls in the grant delivery system.

To accomplish our objective, we interviewed Department officials responsible for managing the grant delivery system and administering grant funds. We also reviewed investigative case results and analyzed the Department's drawdown histories for the grant recipients investigated. We analyzed data from the Department's database of EDPMS records for informational purposes only. Accordingly, we did not verify the accuracy and completeness of the system data.

We conducted our fieldwork at the OCFO, OERI, OPE, OSERS and OVAE offices in Washington, DC intermittently from August 26, 1998 through March 23, 1999. We performed subsequent audit procedures between June 1 and October 18, 1999. We also met with OCFO officials several times in July and August 2000. Our audit was conducted in accordance with generally accepted government auditing standards.

STATEMENT ON MANAGEMENT CONTROLS

As part of our review, we assessed the system of management controls, policies, procedures and practices applicable to recipient access to grant funds. We performed our assessment to determine the level of control risk for determining the nature, timing and extent of our substantive tests to accomplish the audit objectives. For purposes of this report, we limited our review to the assessment of significant controls over recipient access to grant funds.

Because of inherent limitations, a study and evaluation made for the limited purposes described above would not necessarily disclose all significant weaknesses in the management controls. We did not become aware of any significant weaknesses during the course of our audit other than the absence of reasonableness tests over drawdowns within GAPS that is described in the AUDIT RESULTS section of this report.

UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF THE CHIEF FINANCIAL OFFICER

AUG 11 2000

Memorandum

TO: Lorraine Lewis
           Inspector General

FROM: Thomas P. Skelly
           Acting Chief Financial Officer

SUBJECT: Draft Audit Report, "Audit of Drawdown Controls in Grant
           Administration and Payment System" (CAN ED-OIG/A03-80010)

Attached are the Office of the Chief Financial Officer (OCFO) comments on the subject
draft audit report. Our comments focus on the Audit Results and Recommendations.

OCFO has met with your staff on several occasions to discuss the recommendations
contained in this report. Agreement was reached in the last meeting to create an
exception report as an additional tool for Program Offices to use to monitor the financial
aspects of grants. The comments attached to this memorandum reflect that agreement.

If you have any questions, please call Mark Carney or me on (202) 401-0085.

Attachment

400 MARYLAND AVE., S.W. WASHINGTON, D.C. 20202-4300   Exhibit
www.ed.gov

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

Grant Draw-down Controls

We have reviewed the draft audit report entitled, "Audit of Drawdown Controls in Grant Administration and Payment System (GAPS)" and have the following comments:

The OIG identified five cases during their review where ED recipients exhibited questionable drawdown patterns. The document does not state the number of recipients that were reviewed, but ED has over 14,000 recipients currently requesting funds through GAPS. It appears that the percentage of recipients that have exhibited questionable drawdown patterns is very low.

As part of this review, the OIG interviewed several Program Offices that administer grants. The responsibility to monitor the programmatic and financial status of the grant rests with the Program Office. It is stated that project officers do not feel they have adequate time given their workload to utilize the information that is available to them in GAPS.

GAPS can build in additional controls, but these controls would require the Program Office staff to regularly log on to GAPS and review if any grants have hit the suggested controls and then determine what the next step should be. This would create an even greater burden on the Program Office staff and require more time be dedicated to making use of the data that is already available in GAPS.

GAPS recently made a new report available that can be generated by grant program that displays the total drawdowns for each grant within the grant program. This report takes only a couple minutes to run and should serve as a very useful tool in monitoring drawdown activity.

Rather than adding additional controls, OCFO would suggest that another report be developed focusing on drawdown activity using the controls outlined in the OIG report. This would be an exception report that would only include grant awards that satisfy the criteria. Based on the results of that report, the Program Office staff could use the existing payment controls in GAPS to further monitor the payment request activity. Once the report becomes available, OCFO will work closely with the Program Offices to identify a central point of contact for each office to ensure there is a comfort level with utilizing the report. Monitoring guidance will also be developed and provided to the Program Office that clearly outlines the monitoring process.

This suggestion would add minimal additional burden on the Program Office staff, but improve the monitoring of recipient drawdown patterns. The report and guidance could be in place by the end of November.

DISTRIBUTION LIST

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OFFICE CODE: 03

AUDIT TYPE: 2nd 4

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STATEGIC GOAL #: 02 (1,2,3)

PROJ MGR#: 202-205-9145

Proj Name: Counting effort Parent Entity + others - w/P C-10-2 ZI

AWPI

PROGRAM OFFICE:

TITLE: Review of Grantee Draw Down Controls   **STATE:** DC

AUDIT SCOPE:

PERIOD AUDITED: FROM 10/1/97 TO 9/30/98

ENTITY CODE #: 11

DIRECT TIME (Y/N): Y   **JOB STATUS CODE:** 02   **DATE NEEDED BY:**

PLANNED START DATE: 7/31/98

TOTAL

AUDIT PLAN BUDGET: (STAFF DAYS)

FY	1ST YR	INITIAL SURVEY	AFTER SURVEY	REVISED

CFDA CODE:

LEAD AUDITOR: Emp#: ____ Name: ____

FINAL REPORT (Check One)

ALTERNATIVE PRODUCT	Code = 5
NO REPORT	Code = 0
ISSUED W/FINDING	Code = 1
ISSUED W/O FINDING	Code = 2
REPORT CANCELED	Code = 4

	Planned Date	Actual Date
1. Assignment Start		7/13/98
2. Planning Conf.		7/15/98
3. Entrance Conf.	8/26/98	8/26/98
4. Survey Complete	10/15/98	3/22/99
5. Team Complete	4/20/98	7/13/99
6. Draft Report	12/3/98	2/22/2000
7. Comments Rec'd	9/30/99	9/1/00
8. Final Report		9/13/00

PREPARER'S SIGNATURE: ____   **DATE:** 8/5

Approved By:

(1 of 6)

AWP.F