



UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF INSPECTOR GENERAL

AUG 2 2004

TO: Jack Martin
Chief Financial Officer

FROM: Helen Lew *Helen Lew*
Assistant Inspector General for Audit

SUBJECT: **Final Audit Report**
Monitoring Grant Award Lapsed Funds
Control Number ED-OIG/A04-D0015

This final audit report presents the results of our review of the monitoring of grant award lapsed funds by the Office of the Chief Financial Officer (OCFO), the Office of Elementary and Secondary Education (OESE), the Office of Special Educational and Rehabilitative Services (OSERS), and the Office of Vocational and Adult Education (OVAE) during fiscal years (FY) 1998, 1999, and 2000. An electronic copy of this report has been provided to your Audit Liaison Officer. We received your comments concurring with the findings and recommendations in our draft report.

BACKGROUND

Congress adopted the Tydings Amendment as incorporated in the General Education Provisions Act. The amendment provided education agencies additional time to spend the Federal funds they receive. Based on the Tydings Amendment, the Education Department General Administrative Regulations (EDGAR) allows grantees to carryover for one additional year any Federal education funds that were not obligated in the period for which they were appropriated. For grants that are forward-funded, grantees can have up to 27 months to obligate appropriated funds beginning as early as July 1 of the Federal fiscal year. Unless an extension is approved, grantees must liquidate obligations within 90 days of the end of the funding period.

Appropriation law limits the amount of time that Federal funds are available to grantees to the 5th fiscal year after the period of availability. After the 5th year, the U.S. Treasury automatically withdraws funds from use. As a result of the Tydings Amendment and appropriation law, grantees have up to 24 or 27 months to obligate grant funds (depending on the program and timing of awards), and five years to use obligated funds for approved purposes (i.e., obligations incurred during the Tydings period).

For formula grants, the program offices are responsible for monitoring compliance with the Tydings Amendment. The GAPS Branch of OCFO handles the requests from the program offices to reopen GAPS after the end of the liquidation period. OCFO does not actively monitor

grantee adherence to statutory and regulatory requirements, but relies on the applicable program offices to monitor compliance with the Tydings Amendment. OESE and OSERS monitor grantee compliance with the Tydings Amendment for Title I, Part A of the Elementary and Secondary Education Act, as amended (Title I), and the Individuals with Disabilities Education Act (IDEA), Part B (Special Education), respectively. OVAE monitors grantee compliance for the Carl D. Perkins Vocational and Technological Education Act of 1998, as amended (Perkins III), and the Workforce Investment Act of 1998, as amended (WIA).

AUDIT RESULTS

We found that the Department's procedures and controls were adequate for monitoring grant award balances and identifying funds for which the Tydings Amendment timeframe was about to lapse, re-opening closed grants to allow grantees to use obligated fund balances, and monitoring the restoration of grant balances and other adjustments in GAPS. However, we found that the Department did not have procedures and controls for notifying grantees when grant award balances are about to become unavailable as a result of the funds not being obligated and used within the required timeframes. Although it is not a statutory requirement to notify grantees when grant award balances are about to become unavailable, it would be a good business practice for the Department to do so. OCFO officials agreed that controls are needed to notify grantees when grant award balances are about to become unavailable.

FINDING 1 – Grantees Were Not Notified When Formula Grant Funds Were About to Become Unavailable

Our review disclosed that the OCFO, OESE, OSERS, and OVAE did not have a mechanism to monitor and notify grantees of grant award balances that were about to become unavailable for program use as a result of not being obligated during the Tydings Amendment timeframe. Grant funds not obligated during the Tydings Amendment timeframe eventually revert to the U.S. Treasury. Although there is no requirement to notify grantees when grant award balances are about to become unavailable, it would be a good business practice to do so since grant funds revert to the U.S. Treasury when grantees do not obligate and use them within the required timeframes. We identified approximately \$156.6 million of Title I, Special Education, Perkins III, and WIA formula grant funds that were allocated to grantees during FY's 1998, 1999, and 2000 that will become unavailable as a result of not being obligated and used within the specified timeframes.

Under the "Tydings Amendment," §421(b) of the General Education Provisions Act (20 U.S.C. §1225(b)), any funds not obligated and expended during the period for which they were awarded become carryover funds and may be obligated and expended during the succeeding fiscal year. Any such carryover funds must be obligated and expended in accordance with the Federal statutory and regulatory provisions in effect during the period in which such funds are to be expended. In addition, if the Department determines that a State plan is substantially approvable on or before the date that the funds are first available for obligation by the Secretary, the State may begin to obligate funds as soon as the funds are first available for obligation by the Secretary (EDGAR §76.703 (e)(1) (2003)). For grants that are forward-funded,

grantees can have up to 27 months to obligate appropriated funds beginning as early as July 1 of the Federal fiscal year (EDGAR 76.703(b)(3)(ii)).

EDGAR §80.23(b) (2003), *Liquidation of obligations*, states that a grantee must liquidate all obligations incurred under the award not later than 90 days after the end of the funding period. This section also states that the Federal agency may extend this deadline at the request of the grantee. However, pursuant to 31 U.S.C. §1552(a), on September 30th of the 5th fiscal year after the period of availability for obligation of a fixed appropriation account ends, the account shall be closed and any remaining balance (whether obligated or unobligated) in the account shall be canceled and thereafter shall not be available for obligation or expenditure for any purpose.

We found that for FY's 1998 through 2000, approximately \$156.6 million in formula grant funds were shown in GAPS as still being available (\$87.6 million of Title I, \$56 million of Special Education, and \$13 million of Perkins III and WIA). Since the Tydings Amendment timeframe for the obligation of funds has lapsed, it is likely that these funds will become unavailable. Although these amounts are less than one percent of the funds allocated to these programs, they represent millions of dollars in program funds that could be better used to achieve the Department's educational goals. Table 1.1 below illustrates the amount of FY 1998, 1999, and 2000 formula grant funds that probably will not be used for their intended purposes.

Table 1.1 –Formula Grant Fund Balances Available To States Per GAPS

Grant Year	Title I Grantees	Special Education Grantees	Vocational and Adult Education Grantees	TOTAL
1998	\$ 6,658,123	\$ 8,695,456	\$ 4,289,156	\$ 19,642,735
1999	21,590,252	14,996,352	4,948,990	41,535,594
2000	59,330,734	32,351,164	3,786,399	95,486,297
TOTAL	\$ 87,579,109*	\$ 56,042,972*	\$ 13,024,545*	\$156,646,626

*Of the \$87.6 million reported as available balance for Title I programs, \$52.4 million related to Puerto Rico.¹ Of the \$56 million reported as available balance for Special Education programs, \$31 million related to Puerto Rico. Of the \$13 million reported as available balance for Perkins III and WIA programs, \$6 million related to Puerto Rico.

Millions of dollars have reverted to the U.S. Treasury because grant funds were not obligated during the approved grant award periods. These funds could have been put to better use in meeting educational goals. The amount of unavailable funds increased annually during FY's 1998 through 2000. Grant funds totaling over \$95 million could have been put to better use in FY 2000. By establishing procedures and controls to provide grantees with sufficient notification of funds that are subject to lapsing as a result of not being obligated within the Tydings Amendment timeframe, the Department could better ensure the use of educational funds.

¹ Problems with lapsed funds were recently noted in Puerto Rico, which is being reviewed and reported separately by the Office of Inspector General (OIG) New York Regional Office.

OIG Interim Audit Memorandum (State and Local No. 04-02, dated December 9, 2003) reported to OCFO the potential loss of grant funds for Puerto Rico. In response to the interim audit memorandum, the Chief Financial Officer stated that this was a serious matter since intended beneficiaries would be denied access to financial support in an economic environment where accountability for every dollar is paramount.

RECOMMENDATION

We recommend that the Chief Financial Officer, in conjunction with the Assistant Secretaries for OESE, OSERS, and OVAE:

1. Develop and implement procedures and controls to give advance warning to grantees of grant award balances that are about to become unavailable because the funds have not been obligated within the required timeframes.

OCFO RESPONSE

The OCFO written response to the draft report (attached) concurred with the recommendation. The response stated that the OCFO is drafting a memorandum for the Deputy Secretary's signature to the Department's Assistant Secretaries with grant-making authority that will:

- Require, at least 90 days prior to the end of the funding period (Tydings period), program staffs to contact grantees with grant accounts that show any balances that are about to become unavailable because the funds have not been obligated within the required timeframes. Program staff must document any such contacts in the official grant file.
- Require program staffs to review grantee financial data in GAPS at least quarterly, and to provide technical assistance, where appropriate, to assist the grantee in complying with effective cash management practice, particularly time drawdown of funds. All contacts must be documented in the official grant file.
- Require program staffs to use the GAPS Disbursement Report and the Award History Report as tools for fiscal monitoring.
- Require the timely close out of grants with performance periods that have expired.

The OCFO response also stated that on June 24, 2004, the Chief Financial Officer notified the Chief State School Officers of FY 2002 unexpended balances that will no longer be available for obligation after September 30, 2004, and to let them know that Department program officers will contact them regarding funds that may revert to Treasury on October 1, 2004.

The response stated that OCFO is committed to working with the Assistant Secretaries for OESE, OSERS, and OVAE to ensure that all grantees, particularly State Education Agencies, are made aware of and have the opportunity to take the appropriate action to obligate and use grant funds within required timeframes. OCFO will also explore methods for notifying grantees of potential lapsed funds that will fully utilize the GAPS system so as to minimize the amount of resources that would be expended by the various program offices in managing this task.

OIG COMMENTS

OCFO's planned corrective actions should provide advance warning to grantees of grant award balances that are about to become unavailable because the funds have not been obligated within the required timeframes.

OBJECTIVES, SCOPE, AND METHODOLOGY

Our initial objectives were to evaluate the adequacy of Departmental procedures and controls for (1) monitoring grant award balances and identifying funds for which the Tydings Amendment timeframe for the obligation of funds was about to lapse, (2) re-opening closed grants to allow grantees to use obligated fund balances, and (3) monitoring the restoration of grant balances and other adjustments in GAPS. During our review, we included a fourth objective (4) to determine whether Departmental procedures and controls were adequate to notify grantees when grant funds are about to become unavailable as a result of the funds not being obligated and used within the required timeframes.

We focused our review on OCFO and the largest formula grants program offices, OESE, OSERS, and OVAE. Audit coverage included the Title I, Special Education, and Perkins III/WIA formula grants for FY's 1998, 1999, and 2000.

To accomplish our objectives, we –

- (1) Reviewed Department procedures and controls for monitoring formula grant award balances, re-opening closed grants to allow grantees to obligate unused fund balances, and monitoring restoration of grant balances and GAPS data.
- (2) Reviewed Departmental procedures and controls regarding the notification of grantees of grant funds that are about to lapse.
- (3) Interviewed program officials to determine whether they were aware of the use of grant funds beyond the allowable Tydings Amendment timeframe and whether they had approved the use of grant funds beyond the timeframe.
- (4) Reviewed GAPS reports related to the formula grant programs of Title I, Special Education, and Perkins III/WIA to determine if grantees had drawn down funds beyond the allowable Tydings Amendment timeframe.
- (5) Requested a detailed award history report for each grantee that drew down beyond the Tydings Amendment timeframe to determine the amount of funds drawn down.
- (6) Reviewed GAPS reports related to the formula grant programs of Title I, Special Education, and Perkins III/WIA to determine the amount of grant funds about to lapse as a result of not being obligated during the Tydings timeframe.

- (7) Reviewed GAPS and U.S. Treasury reports to determine if there were a significant amount of unexpended grant funds.

We requested detailed information from OCFO regarding unexpended funds by program. OCFO officials informed us that the U.S. Treasury reports did not provide sub-program information like Title I and Special Education Grants to States, but only provided information at the major program level. The OCFO officials stated that the new Oracle reports provide information at the sub-program level; however, the information was only available for grant award year 2001 and afterwards. To determine the amount of unexpended funds for the Title I, Special Education, and Perkins III/WIA formula grants for FY's 1998 through 2000, we compared the reported available balances in GAPS to the total grant awards. We did not test the reliability of the GAPS data during this audit. Previous OIG audit work did not disclose any reportable matters regarding the reliability of GAPS data (e.g., U.S. Department of Education Financial Statement Audit).

Audit work was performed during the period September 2003 through January 2004. An exit conference was held with OCFO officials on March 25, 2004. This audit was performed in accordance with generally accepted government auditing standards appropriate to the scope of the review described above.

STATEMENT ON MANAGEMENT CONTROLS

As part of our review, we assessed the system of management controls, policies, and practices applicable to OCFO, OSES, OSERS, and OVAE monitoring of grantees' compliance with regulatory timeframes for the use of formula grant funds. For the purposes of this report, we assessed and classified significant controls into the following categories: Identification of funds for which the Tydings Amendment timeframe for the obligation of funds was about to lapse; re-opening closed grants to allow grantees to obligate unused fund balances; restoration of grant balances and other adjustments in GAPS; and notifying grantees when grant award balances are about to become unavailable as a result of the funds not being obligated and used within the required timeframes.

Due to inherent limitations, an evaluation made for the limited purpose described above would not necessarily disclose all material weaknesses in the management controls. Our overall assessment disclosed a management control weakness in notifying grantees when grant award balances are about to become unavailable as a result of the funds not being obligated and used within the required timeframes. This weakness is discussed in the *AUDIT RESULTS* section of this report.

ADMINISTRATIVE MATTERS

Corrective actions proposed (resolution phase) and implemented (closure phase) by your office will be monitored and tracked through the Department's Audit Accountability and Resolution Tracking System (AARTS). ED policy requires that you develop a final corrective action plan

(CAP) for our review in the automated system within 30 days of the issuance of this report. The CAP should set forth the specific action items, and targeted completion dates, necessary to implement final corrective actions on the findings and recommendations contained in this final audit report.

In accordance with the Inspector General Act of 1978, as amended, the Office of Inspector General is required to report to Congress twice a year on the audits that remain unresolved after six months from the date of issuance.

In accordance with the Freedom of Information Act (5 U.S.C. §552), reports issued by the Office of Inspector General are available to members of the press and general public to the extent information contained therein is not subject to exemptions in the Act.

We appreciate the cooperation given us during this review. If you have any questions, please call Regional Inspector General J. Wayne Bynum at 404-562-6477 or Assistant Regional Inspector General Mary Allen at 404-562-6465.

cc:

Raymond J. Simon, Assistant Secretary, Office of Elementary and Secondary Education
Susan Sclafani, Assistant Secretary, Office of Vocational and Adult Education
Troy Justesen, Acting Assistant Secretary, Office of Special Education and Rehabilitative Services

WRITTEN RESPONSE TO THE DRAFT REPORT



UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF THE CHIEF FINANCIAL OFFICER

THE CHIEF FINANCIAL OFFICER

JUL 12 2004

MEMORANDUM

TO : Helen Lew
Assistant Inspector General for Audit

FROM : Jack Martin *Jack Martin*

SUBJECT : Draft Audit Report
Monitoring Grant Award Lapsed Funds
Control Number ED-OIG/A04-D0015

I am pleased to have the opportunity to respond to the draft audit report entitled "Monitoring Grant Award Lapsed Funds". The Office of the Chief Financial Officer (OCFO) has no comment on the objectives, scope, methodology or findings in the report. We concur with the report's single recommendation that this office, in conjunction with the Assistant Secretaries for the Offices of Elementary and Secondary Education (OESE); Vocational and Adult Education (OVAE); and Special Education and Rehabilitative Services (OSERS), develop and implement procedures and controls to give advance warning to grantees of grant award balances that are about to become unavailable because the funds have not been obligated (by the grantees) within required timeframes.

In support of the recommendation, this office is drafting a memorandum for the Deputy Secretary's signature to the Department's Assistant Secretaries with grantmaking authority that will:

- 1.) Require, at least ninety (90) days prior to the end of the funding period (e.g., Tydings Period), program staffs to contact grantees with grant accounts that show any balances that are about to become unavailable because the funds have not been obligated within the required timeframes. Program staff must document any such contacts in the official grant file.
- 2.) Require program staffs to review grantee financial data in GAPS at least quarterly, and to provide technical assistance, where appropriate, to assist the grantee in complying with effective cash management practice, particularly timely drawdown of funds. All contacts must be documented in the official grant file.
- 3.) Require program staff to use the GAPS Disbursement Report and the Award History Report as tools for fiscal monitoring.
- 4.) Require the timely close out of grants with performance periods that have expired.

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

WRITTEN RESPONSE TO THE DRAFT REPORT

In addition to the memorandum that we are drafting for the Deputy Secretary's signature, on June 24, 2004, I issued to the Chief State School Officers a memorandum to notify them of Fiscal Year 2002 unexpended balances that will no longer be available for obligation after September 30, 2004 and to let them know that Department program officers will contact them regarding funds that may revert to Treasury on October 1, 2004.

OCFO is committed to working with the Assistant Secretaries for Elementary and Secondary Education; Vocational and Adult Education; and Special Education and Rehabilitative Services to ensure that all grantees, particularly SEAs, are made aware of and have the opportunity to take the appropriate action to obligate and use grant funds within required timeframes. In response to a request from the Acting Assistant Secretary, OSERS, OCFO will explore methods for notifying grantees of potential lapsed funds that will fully utilize the GAPS system so as to minimize the amount of resources that would have to be expended by the various program offices in managing this task. In commenting on the draft audit, the Acting Assistant Secretary, OSERS, also noted that, for the last several years, the Office of Special Education Programs has been getting monthly reports from GAPS that are used to routinely contact States to inform them of unexpended funds.

Our plans for the memorandum to be issued by the Deputy Secretary, my letter to Chief State School Officers, and efforts such as the OSERS example described above are examples of activities already underway in the Department that are responsive to the recommendation from this draft audit.

If you have any questions regarding this response, please feel free to contact Blanca Rodriguez at 202-245-6121.

cc: Raymond Simon, Assistant Secretary, OESE
Susan Sclafani, Assistant Secretary, OVAE
Troy Justesen, Ed.D., Acting Assistant Secretary, OSERS