



UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF INSPECTOR GENERAL

April 16, 2007

Control Number
ED-OIG/A19G0001

James Manning
Acting Assistant Secretary
Office of Postsecondary Education
U.S. Department of Education
1990 K Street, N.W.
Washington, DC 20006

Dear Mr. Manning:

This **Final Audit Report**, (Control Number ED-OIG/A19G0001) presents the results of our *Audit of the Discretionary Grant Award Process in the Office of Postsecondary Education* (OPE). The objectives of our audit were to (1) evaluate the effectiveness of OPE's grant award process, and (2) determine if Fiscal Year (FY) 2005 awards were made to appropriately qualified entities. We found OPE had generally established an effective award process and made awards to qualified entities within the programs reviewed.

BACKGROUND

The Assistant Secretary for Postsecondary Education serves as the principal adviser to the Secretary on matters related to postsecondary education. OPE directs, coordinates, and recommends policies for programs that are designed to:

- Provide financial assistance to eligible students enrolled in postsecondary educational institutions.
- Improve postsecondary educational facilities and programs through the provision of financial support to eligible institutions.
- Recruit and prepare disadvantaged students for the successful completion of postsecondary educational programs.
- Promote the domestic study of foreign languages and international affairs and support international educational research and exchange activities.

OPE administers over 40 grant programs that address critical needs and support its mission of increasing access to quality postsecondary education. This includes several discretionary grant programs. Funding decisions under discretionary grant programs are based largely on the results

of the application review process. Prospective program participants submit applications in response to guidelines published in Federal Register announcements. Subject experts, who must apply to be “field readers” and receive a stipend for their service, are used to score these applications based on OPE established criteria. OPE officials rank scores from the application review process, prepare a funding slate,¹ and once senior management approves the slate, make awards to those recommended institutions that scored the highest in the application review process.

OPE’s Budget and Fiscal Analysis Unit is responsible for grants management. This includes providing technical assistance and guidance regarding grants management and procedures and ensuring adherence to policies; monitoring scheduling of grant activities; advising the Assistant Secretary, Deputy Assistant Secretaries, and program officers on the technical aspects of and requirements for processing notices of closing dates and application review packages; and coordinating grant slates for committing grants and ensuring compliance with all requirements.

Oversight of individual grant programs is further divided among several OPE offices. Our audit focused on those programs managed by the Institutional Development and Undergraduate Education Programs (IDUES) office. IDUES administers several discretionary grant programs, including the Title IIIA, Strengthening Institutions Program (SI), designed to help higher education institutions that serve a large proportion of disadvantaged students improve their academic programs and administrative capabilities. Funding is focused on institutions that enroll large proportions of minority and financially disadvantaged students with low per-student expenditures. IDUES also administers the Title V, Developing Hispanic-Serving Institutions Program (HSI), which assists eligible Hispanic-serving institutions of higher education expand their capacity to serve Hispanic and low-income students.

AUDIT RESULTS

Except as noted below, we found OPE had generally established an effective award process and made awards to qualified entities within the programs reviewed. We noted that OPE staff did not ensure grantees complied with Office of Management and Budget (OMB) Circular A-133 audit requirements. As a result, OPE lacks assurance that grantees are in compliance with reporting requirements, and are appropriately managing Federal funds.

In its response to the draft audit report, OPE concurred with the finding and its associated recommendation. OPE indicated that corrective actions to enhance the Department’s existing award process are in development. The complete text of the response is included as an Attachment to this report.

¹ A list of recommended recipients of discretionary grant funds, ranked in order by score.

FINDING – OPE Staff Did Not Ensure Grantees Complied With OMB Circular A-133 Audit Requirements

OPE staff did not review grantee compliance with audit requirements in OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. OPE staff did not consistently perform this review for the HSI and SI noncompeting continuation (NCC) awards in our review. We could not find documentation to support this review in the grant files for 57 of the 59 (97 percent) NCC awards in our sample.

The Department of Education’s (Department) *OCFO* [Office of Chief Financial Officer]-04: *Handbook for the Discretionary Grant Process* (Handbook), issued March 31, 2003,² Section 5.11.8, “A-133 Audit Review Prior to Issuing NCC Award,” requires such a review prior to making continuation awards as follows:

1. Program staff must review the A-133 audit data available from the OCFO’s Post-Audit Group (PAG) and document the review in the grant file before issuing a continuation award to a grantee that expended \$300,000 or more in federal funds in the grantee’s previous fiscal year. This review is needed in order to determine whether the grantee has complied with the audit requirements of OMB Circular A-133. Compliance with the A-133 audit requirement means that an audit must have taken place and that a report was submitted to the Single Audit Clearinghouse. The audit data will indicate whether the grantee submitted an A-133 audit report (where required) and will provide information on whether the grantee’s audit report revealed any audit findings. Program staff may also access the audit database maintained by the Federal Audit Clearinghouse, generally referred to as the Single Audit Clearinghouse, in order to obtain relevant audit data.
2. If the review of the PAG audit data reveals that the grantee failed to comply with the A-133 requirement, program staff should contact PAG’s database administrator to discuss any issues and coordinate follow-up with the grantee. If the grantee’s audit report is missing, PAG will contact the grantee to inquire about the status of the missing audit report and to establish a deadline for the grantee to submit the report to the Single Audit Clearinghouse, along with data collection forms. The report is considered “submitted” when it meets Clearinghouse requirements and is designated as complete on the Clearinghouse’s Web site. If the grantee fails to submit the report by the established deadline and all efforts to get the grantee to submit the report have failed, PAG generally requests that the program staff not issue a continuation grant. Program staff must consult with OGC [Office of General Counsel] before taking any final actions based on audit information. All actions taken by the program staff to bring the grantee in compliance with the A-133 requirement must be documented and included in the official grant file.

² The Handbook was revised on February 24, 2006, however this version was outside our scope period. We noted the revised Handbook contained similar requirements for A-133 audit review prior to issuance of a NCC award.

3. If the review of the audit data reveals that the grantee's audit report had findings, program staff should check the grant file to determine whether it includes a copy of a Program Determination Letter transmitted by OCFO's PAG. If not, program staff should contact its Audit Liaison Officer (ALO) who, in turn, will contact PAG to obtain a copy. If the findings are serious enough, program staff may need to impose special conditions on the grant and/or provide additional monitoring and technical assistance to the grantee. . . .

The lack of review of A-133 audit data occurred because OPE officials did not consider this a required practice. We also noted there was confusion among OPE officials regarding how the single audit review process should work, who within the Department had responsibility for single audit review, and how to interpret the actual single audit data.

Without a formal review of single audit data, OPE lacks assurance that grantees are in compliance with reporting requirements, and are appropriately managing Federal funds. This increases the chance that an award will be made to an unqualified entity, as well as the potential risk to the Department of waste, fraud, and abuse. As part of our audit, we attempted to locate A-133 audit data through the Federal Audit Clearinghouse (FAC) Single Audit Database for the 58 unique institutions in our sample that received NCC awards. This process provided data for 35 of the 58 (60 percent) institutions.³ We were unable to locate A-133 audit data within the FAC Single Audit Database for the remaining 23 (40 percent) institutions in our sample. We noted 1 of the 35 (3 percent) institutions had a material weakness reported related to Department of Education programs. Based on this data and Handbook guidance, program staff may have made an NCC award to at least one entity that may have needed special conditions imposed and/or required additional monitoring and technical assistance.

In February 2006, the Government Accountability Office (GAO) issued a report entitled, *Discretionary Grants: Further Tightening of Education's Procedures for Making Awards Could Improve Transparency and Accountability*, GAO-06-268. GAO's report included a recommendation that the Department implement a policy to screen all applicants for competitive awards for compliance with audit requirements. In response to GAO's report, the Department agreed to implement a policy to screen all prospective grantees for compliance.

Recommendation:

We recommend the Acting Assistant Secretary for Postsecondary Education take action to:

- 1.1 Ensure staff are aware of and screen for compliance with audit requirements prior to making noncompeting continuation awards, as required by the Handbook.

OPE Response:

In its response to the draft audit report, OPE concurred with the finding and its associated recommendation. OPE stated that enhancements to the Department's award process are in

³ We specifically queried the FAC Single Audit Database by institution name for each of the 58 unique institutions in our related sample. The lack of query results would not necessarily indicate the related institutions did not comply with A-133 requirements.

development and are being implemented by the Office of the Chief Financial Officer. This includes making information readily available to verify a grantee's compliance with audit requirements. Further, OPE intends to train program staff once related process improvements are completed.

OTHER MATTERS

During our review we noted OPE staff did not consistently complete internal review documentation. This included both application prescreening and annual performance report (APR) review forms. We noted instances where these documents were not fully completed, not signed by program officials, or not included in official grant files.

Specifically, we could not locate prescreening forms in 17 of the 39 (44 percent) SI grant files reviewed. In addition, 13 of the 22 (59 percent) forms that were located did not have fully completed checklist sections regarding certifications and assurances that were to be reviewed. Finally, 3 of the 22 (14 percent) forms located in grant files were not signed.

We could not locate APR review forms in 5 of the 29 (17 percent) HSI continuation awards within the official grant file. In addition, copies of APR review forms retained in grant files were not always signed by program officers for the HSI continuation awards reviewed.

While we acknowledge there was no specific requirement for completion and inclusion of these forms within official file documentation, effectively doing so would provide an additional level of control over the application evaluation and grant award processes. We discussed this condition with OPE staff who acknowledged these issues and indicated that corrective action, to include training and clarification of responsibilities, would be undertaken. We suggest that the Acting Assistant Secretary for Postsecondary Education ensure that the planned corrective actions were completed.

OPE responded to the Other Matters presented, indicating that it will establish the requirement that program staff maintain prescreening and APR review forms in the official files. OPE noted that some staff have already received training to ensure the forms are properly completed.

OBJECTIVE, SCOPE, and METHODOLOGY

The objectives of our audit were to (1) evaluate the effectiveness of OPE's grant award process, and (2) determine if FY 2005 awards were made to appropriately qualified entities. To accomplish our objectives, we performed a review of internal control applicable to OPE's discretionary grants awarding process for selected programs. We reviewed Department policies

and procedures applicable to this process, and held discussions with OPE officials. Our audit was limited to grants awarded in the IDUES section of OPE – specifically we reviewed grants awarded under the HSI, SI, Historically Black Colleges and Universities (HBCU), and Tribally Controlled Colleges and Universities (TCCU) grant programs.

The scope of our review included new awards and continuation awards made during FY 2005. Under the HSI program, we reviewed a random sample of 9 of 46 new awards and 29 of 144 continuation awards, for a total of 38 of 190 awards. Under the SI program, we reviewed a random sample of 9 of 44 new awards and 30 of 183 continuation awards, for a total of 39 of 227 awards. The reviews of HSI and SI program grants included an evaluation of the grant files and related electronic data, as well as discussions with OPE staff. We also verified that all 97 FY 2005 awards under the HBCU program, and all 37 FY 2005 awards under the TCCU program were made to eligible recipients. We conducted a limited review of data from the FAC Single Audit Database for institutions within our sample that received NCC awards. Our review was limited to the data from institutions that were readily identifiable through the FAC query functionality.

To achieve our objectives, we relied on computer-processed data initially obtained from the Grants Policy and Oversight Staff (GPOS) to identify the universe of new and continuation discretionary grant awards made by OPE. We confirmed the accuracy and completeness of this data by comparing it to OPE provided information regarding the number and dollar value of discretionary grant awards made. While the GPOS and OPE data did not have 100 percent correlation within all programs, the discrepancies noted were immaterial given the total number and value of the awards. We further compared GPOS reported award values to source documentation for selected grants during our fieldwork, and found no material discrepancies. As such, we concluded the data was sufficiently reliable for the purpose of our audit. We did not assess the reliability of the FAC data, as this data was used primarily for informational purposes.

We conducted fieldwork at Department offices in Washington, DC, during the period of November 9, 2005 through March 9, 2006. We provided our audit results to OPE staff during an exit conference conducted on January 31, 2007. Our audit was performed in accordance with generally accepted government auditing standards appropriate to the scope of the review described above.

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). Department 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 finding and recommendation 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.

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

In accordance with the Freedom of Information Act (5 U.S.C. § 522), 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 provided to us during this review. Should you have any questions concerning this report, please call Michele Weaver-Dugan at (202) 245-6941. Please refer to the control number in all correspondence related to the report.

Sincerely,

Helen Lew /s/
Assistant Inspector General for Audit Services

cc: Dottie Kingsley, Audit Liaison Officer
Richard Rasa, Director, State and Local Advisory and Assistance Team, OIG



UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF POSTSECONDARY EDUCATION

MAR 28 2007

THE ASSISTANT SECRETARY

MEMORANDUM

DATE:

TO: Michele Weaver-Dugan, Director
Operations Internal Audit Team
U.S. Department of Education
Office of Inspector General
400 Maryland Avenue, SW
Washington, DC 20202-1510

FROM: James F. Manning
Delegated the Authority of the Assistant Secretary

SUBJECT: Comments on Draft Audit Report (Control Number ED-OIG/A19G0001)
*Audit of the Discretionary Grant Award Process in the Office of
Postsecondary Education (OPE)*

Thank you for the opportunity to comment on the Office of Inspector General's (OIG) Draft Audit Report evaluating the Office of Postsecondary Education's (OPE) discretionary grant award process. The audit objectives were to assess: (1) the effectiveness of OPE's grant award process, and (2) determine if fiscal year (FY) 2005 awards were made to qualified entities. The audit found OPE had generally established an effective award process and made fiscal year 2005 awards to qualified entities. While we are pleased with the results of the audit, OPE is committed to improving its monitoring and oversight functions and we appreciate the OIG's single recommendation and suggestion for additional action. Comments on each are provided below.

FINDING NO. 1 – OPE Staff Did Not Ensure Grantees Complied with OMB Circular A-133 Audit Requirements

RECOMMENDATION

The OIG recommends that the Assistant Secretary for Postsecondary Education take action to:

- 1.1 Ensure staff are aware of and screen for compliance with audit requirements prior to making noncompeting continuation (NCC) awards, as required by the *Handbook for the Discretionary Grant Process* (Handbook).

RESPONSE

We agree with this recommendation. The Department is already developing enhancements to its existing award process to address concerns raised by the Government Accountability Office (GAO) in the audit entitled *Discretionary Grants: Further Tightening of Education's Procedures for Making Awards Could Improve Transparency and Accountability* (GAO-06-268). These improvements are being implemented by the Office of the Chief Financial Officer (OCFO) and include making information readily available to verify compliance with audit requirements. Similar corrective actions will be implemented by the OCFO to strengthen the Department's procedures to determine discretionary grantee's compliance with audit requirements. When the improvements are completed, OPE along with the OCFO will train program staff in using the available audit compliance information to make NCC awards to eligible entities. The Department plans to strengthen its procedures by December 29, 2007.

OTHER MATTERS

The OIG also noted OPE staff did not consistently complete internal review documentation. This included both application prescreening and annual performance report (APR) review forms. While the report acknowledges that there was no specific requirement for completion and inclusion of these internal forms within official file documentation, the OIG spoke with OPE staff who acknowledged that effectively doing so would provide an additional level of control over the application evaluation and grant award processes. Further, OPE staff indicated that corrective action in the form of training and clarification of responsibilities would be undertaken.

SUGGESTION

The OIG suggests that the Acting Assistant Secretary for Postsecondary Education ensure that the planned corrective actions are completed.

RESPONSE

OPE agrees that the prescreening forms are internal forms and are not required to be performed or included in the official file documentation by the guidance in the Handbook. However, in response to this audit, OPE will establish the requirement that program staff maintain prescreening and APR review forms in the official files. Further, some staff have already received training to ensure that forms placed in the official files are properly completed.

Thank you for the opportunity to review and respond to this draft audit report. If you have any questions about our comments, please contact Dottie Kingsley, OPE Audit Liaison Official at (202) 502-7505 or dottie.kingsley@ed.gov.