



UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF INSPECTOR GENERAL

400 MARYLAND AVENUE, S.W.
WASHINGTON, DC 20202-1500



October 16, 2006

FINAL MANAGEMENT INFORMATION REPORT
State and Local No. 07-01

To: Morgan Brown
Assistant Deputy Secretary
Office of Innovation and Improvement

From: Helen Lew /s/
Assistant Inspector General for Audit Services

Subject: Controls Over Excessive Cash Draws by Grantees
Control Number ED-OIG/X19F0025

The purpose of this **Final Management Information Report** is to provide the Office of Innovation and Improvement (OII) with information that may be beneficial in future oversight of excessive cash drawdowns made by grantees. This review was part of an overall audit to determine whether the Department's controls identify and prevent excessive cash drawdowns by grantees. The results of this review in OII will be included in the overall audit report to the Office of the Chief Financial Officer (OCFO).

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.

BACKGROUND

Within the Department of Education (Department), Principal Offices (POs) are responsible for monitoring the fiscal activities of grant award recipients. The Grants Administration and Payment System (GAPS) is to be used as the primary tool for fiscal oversight.

On a monthly basis, OCFO's Grants Policy and Oversight Staff (GPOS) generates an Excessive Drawdown Report to identify those grantees that have drawn a large proportion of federal funds

in any of the first three quarters of the grant's current budget period.¹ GPOS transmits this report to each PO and requests staff to determine whether excessive drawdowns have been made, to assist the grantee in resolving problems with excess cash balances, and provide GPOS with a response for each drawdown on the report within a two to three-week timeframe.

OBSERVATIONS AND SUGGESTIONS

We found OII did not always effectively respond to and resolve individual drawdowns on the Excessive Drawdown Reports. During Fiscal Year (FY) 2005, OII was responsible for resolving 236 of the 495 potentially excessive drawdowns on the reports. We found that OII did not provide responses to GPOS for 85 of the drawdowns (36 percent). We also found resolution of 2 of the 29 draws sampled (7 percent) was not supported in the official grant files as required, and in one case, the grantee did not return identified excess funds.

The Department's *Handbook for the Discretionary Grants Policy* (Handbook), dated March 31, 2003,² Section 6.4.5, subparagraph 9, states, "Program staff must document all monitoring activity in each grantee's official file." *Grants Policy Bulletin #27: Monitoring Discretionary Grants for Excessive Drawdowns* (Bulletin), dated May 24, 2001, and in effect during FY 2005,³ states,

Program staff are responsible for maintaining written documentation in the official grant files of all discussions held with grantees regarding excess cash balances and actions the grantee will take to correct excess cash balances. Program staff are responsible for ensuring that excess cash balances are resolved by the grantee within two weeks after being notified.

The bulletin further states,

In cases where large drawdowns are consistent with planned activity, program staff are responsible for documenting the official grant file accordingly and ensuring that program managers are informed that drawdown amounts are appropriate.

¹ The thresholds for excessive drawdown activity are as follows: more than 50% of the obligated funds for that budget period have been drawn by the end of the first quarter, more than 80% of the obligated funds for that budget period have been drawn by the end of the second quarter, and/or 100% of the obligated funds for that budget period have been drawn by the end of the third quarter.

² The scope of our review was FY 2005 activity. The Department updated and reissued the Handbook on February 24, 2006. This requirement is also present in the updated Handbook, Section 5.3.8, subparagraph 13.

³ The Bulletin was rescinded with the update of the Handbook in February 2006. These requirements are also included in the updated Handbook, Section 5.3.8, subparagraphs 6, 7, and 13.

In its transmittal of the Excessive Drawdown Reports to the POs each month, GPOS requests the POs to provide responses for each grantee listed on the report, to include the following:

1. Indicate how the drawdown is consistent with approved project activities and approved budget.
2. If Program Staff determine that an excessive drawdown has occurred, indicate the date the grantee was contacted and notified of Department policy.
3. Indicate the date the grantee resolved the cash management problem.
4. Indicate if funds were (1) returned to ED or (2) the grantee made an on-line adjustment . . .

GPOS also includes in the transmittal a specific deadline for the POs' responses.

Responses Were Not Provided in a Timely Manner for All Reported Excessive Drawdowns

During FY 2005, GPOS provided OII with eight Excessive Drawdown Reports containing 236 potentially excessive drawdowns for resolution. We reviewed the responses OII provided to GPOS, and found OII did not provide any responses for the listed drawdowns on three of the eight exception reports. These three reports contained 75 individual excessive draws. In addition, we found that OII did not provide responses for an additional 10 potentially excessive draws on reports to which it did respond. In total, OII did not provide timely responses for 85 of the 236 excessive drawdowns the PO was responsible for researching (36 percent) by the deadline established by GPOS. While OII stated that it provided responses to these drawdowns in subsequent reports, Department policy as cited above requires POs to resolve potentially excessive drawdowns within two weeks of being notified.

GPOS stated that OII did not respond to two of the three Excessive Drawdown Reports due to staffing changes with the person in charge of resolving the listed excessive drawdowns. OII did not provide GPOS with an explanation as to why the drawdowns on the remaining Excessive Drawdown Report were not resolved.

In response to our observations, OII provided the following response:

Due to the heavy grant workload last summer, attributed to the excessive number of earmarks we received in FY 2005, OII did not respond to several excessive drawdown reports. However, it was our understanding that when a POC [Principal Office Component] does not respond to a specific report, GPOS rolls the entries into the subsequent or the next month's report. Thus, we believed that our response to the Excessive Drawdown Reports sent to us in August and November provided responses to the 75 individual excessive draws contained on the three reports referenced in OIG's Observations document. In addition, OII notified GPOS by phone that they were unable to respond to certain of the monthly reports but would include the missing responses in the subsequent report(s).

Resolution of Excessive Drawdowns Was Not Supported

We reviewed a sample of 29 potentially excessive drawdowns to which OII provided a response. We obtained and reviewed the official grant files to determine whether OII staff documented the resolution of these draws as required. We identified two drawdowns (7 percent) for which resolution of the drawdowns was not supported by the grant files, as follows:

- One grantee drew down 58 percent of the budget within the first quarter. In fact, the grantee's first drawdown 15 days into the grant period represented 21 percent of the total grant amount. Over 43 percent of the grant amount was drawn in just over one month of the grant period. OII's response to GPOS was that project activity included the purchase of equipment in the first quarter. However, the budget justification stated the project focuses on curriculum and instructional development, and the largest percentage of the budget is for personnel expenditures. The budget for equipment purchases totaled less than 19 percent of the grant funds, so this information does not support OII's response to GPOS. The grant file did not document any contacts with the grantee on the excessive drawdown.
- The other grantee drew 100 percent of the grant amount by the end of the second quarter. Documentation in the grant file dated in August 2005 stated that the grantee would return the excess cash. However, the funds were never returned. The grant ended in December 2005.

We referred our results to OII and noted that staff did not provide additional information for the first drawdown. We also noted that prior to our review, OII was not aware that funds from the second drawdown had not been returned to the Department. OII did not provide a response to these issues.

By not timely researching each drawdown on the Excessive Drawdown Report, OII does not have assurance that grantees are financially compliant with Department policies and regulations and are not making drawdowns in excess of their immediate cash needs. Without appropriate documentation, program staff cannot ensure grantees have been contacted regarding excess cash balances and actions are being taken by the grantees to correct these balances and funds are returned, if applicable.

OIG Suggestions

We suggest that the Acting Assistant Deputy Secretary for the Office of Innovation and Improvement require program staff ensure that all grants appearing on the Excessive Drawdown Report are researched, excess cash balances are resolved, and the official grant file is documented accordingly, as required. We further suggest that OII implement procedures to ensure timely responses on Excessive Drawdown Report are provided to GPOS.

In its response to the draft report, OII restated its position that while it did not respond each month, it did research and respond to each grant listed on the reports. OII stated its

understanding that when a PO does not respond to a specific report, GPOS combines those entries with any new listings in the next month's report. OII stated,

While we did not respond to each "monthly" report, we believed we did effectively research and respond to each recorded excessive cash draw, based on our understanding of GPOS's policy to roll unresolved entries to subsequent reports.

OII also recommended that GPOS clarify its policy. However, as cited above, GPOS' policy is clear that POs are to resolve potentially excessive drawdowns within two weeks of being notified. Notices sent by GPOS provide a date by which responses are to be provided. OIG does not believe that GPOS's policy in this area needs to be clarified.

No changes were made to our suggestions as a result of OII's comments. We did make minor clarifications to our observations to state that OII did not provide "timely" responses for the 85 drawdowns cited. OII's response is provided in full as an attachment to this report.

PURPOSE AND METHODOLOGY

The purpose of this project was to provide information to the Office of Innovation and Improvement on specific issues that were identified during our audit of *Controls Over Excessive Cash Draws by Grantees* and offer suggestions for enhancing the OII's monitoring of potential excessive drawdowns. To achieve our purpose, we reviewed applicable laws and regulations, and Department policies and procedures. We conducted interviews with GPOS regarding Department policy and procedures, and OII staff regarding procedures for researching and resolving excessive drawdowns. We reviewed OII's responses to the monthly Excessive Drawdown Reports provided by GPOS during FY 2005. In addition, we also reviewed documentation in official grant files and otherwise provided by OII staff to support the resolution of 29 selected excessive drawdowns that were reported on the FY 2005 Excessive Drawdown Reports and for which OII provided a response to GPOS. We randomly selected 30 draws from these reports and judgmentally selected 17 draws with responses that required additional followup. We judgmentally excluded 18 draws that did not have a resolution provided by OII. As a result, our sample consisted of 29 excessive drawdowns.

We provided Department officials with the information that would be presented in this Management Information Report on July 20, 2006 and revised the report, as appropriate, to reflect their comments. Our review was performed in accordance with generally accepted government auditing standards appropriate to the scope described above.

Attachment

cc: Liza Araujo-Rouse, OII Audit Liaison

Attachment

Ms. Nancy Brown
Acting Director, Operations Internal
Audit Team
Office of Inspector General
400 Maryland Avenue, SW
Washington, DC 20202

Dear Ms. Brown:

Thank you for the opportunity to respond to the draft Management Information Report on audit number ED-OIG/X19F0025, the Department's Controls Over Excessive Cash Draws. The subject matter of the report relates to OII's oversight of excessive cash drawdowns made by grantees. OII was given the opportunity to comment on OIG's preliminary observations document before the draft Management Information Report was formalized. Our specific comments are included in your draft. Thus, I have no further comments at this time other than to reiterate our position.

The report stated, "OII did not always effectively respond to and resolve individual drawdowns on the Excessive Drawdown Reports." OII researched and responded to each grant listed on an excessive drawdown report, but due to the workload associated with processing and awarding an enormous number of earmarks in FY 2005, we did not respond each month. It is our understanding that when a POC does not respond to a specific monthly report, GPOS combines those entries with any new listings in the next month's report. Our response to the August and November Excessive Drawdown Reports provided responses to the 75 individual excessive draws contained on the three reports as referenced in OIG's Observations document. While we did not respond to each "monthly" report, we believed we did effectively research and respond to each recorded excessive cash draw, based on our understanding of GPOS's policy to roll unresolved entries to subsequent reports.

In response to your suggestions, OII would like to recommend that GPOS modify or clarify its policy to roll over unresolved entries appearing on the Excessive Drawdown Reports to subsequent monthly reports. If POCs are going to be accountable for their response to "monthly" reports rather than a justification for each entry, then unresolved entries should not be rolled over to the next month's report. Instead, GPOS should provide the POC with a list, by month, of those grants that have no justification for excessive draws. If this policy had existed, it would be clear that OII responded to each entry referenced in the management report.

OII is committed to effectively resolving and documenting all excessive cash draws by grantees. To this end, we will review with all staff GPOS's policies for monitoring discretionary grants for excessive drawdowns. In addition, we will review and modify, as appropriate, our procedures for responding in a timely manner. Thank you for undertaking a thorough analysis of the controls over excessive cash draws and for the constructive suggestions you have provided to the Department.

Sincerely,

Morgan Brown