



UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF INSPECTOR GENERAL

OPERATIONS INTERNAL AUDIT TEAM

November 15, 2006

FINAL MANAGEMENT INFORMATION REPORT
State and Local No. 07-02

To: James Manning
Acting Assistant Secretary
Office of Postsecondary Education

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

Subject: Controls Over Excessive Cash Drawdowns by Grantees
Control Number ED-OIG/X19G0010

The purpose of this **Final Management Information Report** is to provide the Office of Postsecondary Education (OPE) 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 OPE 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

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.

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 OPE did not always effectively respond to and resolve individual drawdowns on the Excessive Drawdown Reports. During Fiscal Year (FY) 2005, OPE was responsible for resolving 189 of the 495 potentially excessive drawdowns on the reports. We found that OPE did not provide responses to GPOS for 74 of the drawdowns (39 percent). We also found resolution of 6 of the 40 drawdowns sampled (15 percent) was not supported in the official grant files as required.² In addition, we noted OPE's e-Monitoring system did not contain information to support the resolution of 28 of the 33 drawdowns (85 percent) related to grants that were still accessible in e-Monitoring.

The Department's *Handbook for the Discretionary Grants Policy* (Handbook), dated March 31, 2003,³ 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 2005,⁴ 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.

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 We requested the grant files for 41 drawdowns included in our sample. However, one of the files was archived; therefore, we could not review the documentation. As a result, we reviewed the grant files for 40 drawdowns.

³ 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.

⁴ 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.

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 OPE with eight Excessive Drawdown Reports containing 189 potentially excessive drawdowns for resolution. We reviewed the responses OPE provided to GPOS, and found OPE did not provide any responses for the 12 drawdowns on one of the eight exception reports. In addition, we found that OPE did not provide responses for an additional 62 potentially excessive draws on reports to which it did respond. In total, OPE did not provide responses for 74 of the 189 excessive drawdowns the PO was responsible for researching by the deadline established by GPOS. However, OPE may have provided responses to these drawdowns in subsequent reports.

Resolution of Excessive Drawdowns Was Not Documented in OPE's e-Monitoring System

Since OPE staff stated e-Monitoring was used to document communication and grant monitoring, we evaluated whether information was documented in that system on OPE's review of the potentially excessive drawdowns. We found that 8 of the 41 drawdowns (20 percent) were related to grants that were no longer accessible in e-Monitoring because the grant periods were over and the grants had been closed. For the remaining 33 drawdowns, we found e-Monitoring did not contain documentation to support OPE's responses for 28 of the potentially excessive drawdowns (85 percent).

Resolution of Excessive Drawdowns Was Not Supported in Grant Files

We reviewed a sample of 40 potentially excessive drawdowns to which OPE provided a response. We obtained and reviewed the official grant files to determine whether OPE staff documented the resolution of these drawdowns as required. We identified six drawdowns (15 percent) for which resolution of the drawdowns was not supported by the grant files, including the following:

- One grantee drew down its remaining funds nine months before the grant was scheduled to end. OPE's response to GPOS was that the expenditure was on schedule. According to the budget narrative, funds were to be used for the personnel costs of an Information Technology manager and quarterly and semester-based activities to be performed throughout the grant period. As such, some activities had not yet been completed and personnel costs had not yet been expended at the time all funds were drawn. In response to the OIG referral, OPE stated the grantee had drawn down its funds prematurely, and in March 2006, instructed it to return the unexpended funds to the Department. However, the funds were never returned. The grant ended in July 2006.
- Another grantee drew down the total grant amount within the first six months of the three-year grant period. OPE's response to GPOS was that there were no issues with the

expenditures. In response to the OIG referral, OPE said this grantee incurred substantial equipment costs. However, the budget includes personnel, travel, and contractual costs, in addition to equipment, which accounted for only 22 percent of the budget for the three-year period. Furthermore, the timeline in the grant file showed three years with a relatively even distribution of funds for each year, but the first drawdown exceeded even the first year's budget.

By not timely researching each drawdown on the Excessive Drawdown Report, OPE 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. In addition, Federal funds may be at risk for being misused. 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 Secretary for the Office of Postsecondary Education 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 OPE implement procedures to ensure timely responses on Excessive Drawdown Report are provided to GPOS. Finally, we suggest OPE followup with the two grantees identified to ensure funds were not misspent.

In its response to the draft report, OPE concurred with our observations and suggestions. OPE stated it is implementing corrective actions to ensure that drawdowns listed on the Excessive Drawdown Reports are thoroughly researched, the results of this research are documented, and timely responses are submitted to OCFO. In addition, OPE stated it followed up with the two grantees to ensure that funds were not misspent and has instructed them to return with interest any funds that were drawn prematurely.

PURPOSE AND METHODOLOGY

The purpose of this project was to provide information to the Office of Postsecondary Education on specific issues that were identified during our audit of *Controls Over Excessive Cash Drawdowns by Grantees* and offer suggestions for enhancing the OPE'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 OPE staff regarding procedures for researching and resolving excessive drawdowns. We reviewed OPE's responses to the monthly Excessive Drawdown Reports provided by GPOS during FY 2005. In addition, we also reviewed documentation in e-Monitoring, official grant files, and otherwise provided by OPE staff to support the resolution of excessive drawdowns that were reported on the FY 2005 Excessive Drawdown Reports and for which OPE provided a response to GPOS. We randomly selected 30 draws from these reports and judgmentally selected 21 draws with responses that required

additional followup. We judgmentally excluded 11 draws that were duplicates, had an archived grant file, or did not have a resolution provided by OPE. As a result, our sample consisted of 40 excessive drawdowns.

We provided OPE officials with the information that would be presented in this Management Information Report on August 9, 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.

Should you have any questions, please contact Nancy Brown, Assistant Director, Operations Internal Audit Team, at (202) 245-6934.

Attachment

cc: Dottie Kingsley, OPE Audit Liaison



UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF POSTSECONDARY EDUCATION

THE ASSISTANT SECRETARY

MEMORANDUM

DATE: OCT 25 2006

TO: Nancy Brown
Acting Director
Operations Internal Audit Team
U.S. Department of Education
Office of Inspector General
400 Maryland Avenue, S.W.
Washington, DC 20202-1510

FROM: James F. Manning
Acting Assistant Secretary

SUBJECT: Controls Over Excessive Cash Drawdowns by Grantees
Control Number ED-OIG/X19-G0010

Thank you for the opportunity to comment on the U.S. Department of Education (Department), Office of Inspector General's (OIG's) draft management information report, "Controls Over Excessive Cash Drawdowns by Grantees" (ED-OIG/X19-G0010). This review was part of an overall audit to determine whether the Department's internal controls identify and prevent excessive cash drawdowns by grantees.

Your report identifies areas where the Office of Postsecondary Education (OPE) can improve its documentation of internal activities to ensure that program funds are administered in compliance with applicable requirements. Based on the information provided in this report, OPE is implementing corrective actions to ensure that the Office of the Chief Financial Officer (OCFO) reports of possible excessive cash drawdowns are thoroughly researched, the results of this research are documented, and timely responses are submitted to the OCFO. Specifically, OPE will now track the monthly OCFO reports electronically and will retain centrally copies of the documentation placed in each grantee folder as evidence that OPE has determined:

- Whether an excessive cash draw was actually made, and
- If so, the actions that OPE is taking to resolve the issue.

Additionally, OPE program staff have received written guidance reminding them of the internal process for handling excessive drawdown reports and the timeframe for responding to the OCFO.

Finally, your report suggests that OPE follow-up with two grantees (both receiving grants under the Fund for the Improvement of Postsecondary Education (FIPSE)) to ensure that funds were not misspent. In each case, the FIPSE program office did find that funds had been drawdown prematurely and has instructed the institution's finance office to: (1) send a monthly accounting of expenditures since the beginning of the grant performance period, and (2) return with interest (as determined under 34 CFR§74.22 (i) for non-governmental entities) any funds (except those used for equipment) that were drawdown prematurely. We will closely monitor and document the return of funds as detailed in OCFO's Handbook for the Discretionary Grant Process section on Fiscal Monitoring.

Thank you for providing OPE with the results of your review. Please contact Dottie Kingsley, OPE's Audit Liaison Official, at 202-502-7505 if you have any questions.