



UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF INSPECTOR GENERAL

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Thomas Skelly
Acting Chief Financial Officer
Office of the Chief Financial Officer
U.S. Department of Education
400 Maryland Avenue, SW
Washington, DC 20002

Dear Mr. Skelly:

This **Final Audit Report**, entitled *Audit of the Department's Process to Resolve Lapsed Funds*, presents the results of our audit. The objective of our audit was to evaluate the effectiveness of the process used by the Department of Education (Department) to resolve lapsed funds. Our audit included an evaluation of the Department's process for reviewing grantee requests for late liquidation of funds and its process to notify grant recipients of award balances about to become unavailable.

BACKGROUND

Federal grant funds have a limited life in which to be used by grant recipients. Funding recipients under the Department's state-administered programs must obligate funds during the fiscal year (FY) for which the funds were appropriated or during the succeeding FY. This additional year of fund availability is called the "Tydings period."

Many state-administered programs are also "forward-funded," whereby Congress makes the funds available for obligation on July 1 before the start of the FY, instead of at the start of the FY on October 1. As a result, under most of the Department's state-administered programs, after adding the extra 3 months at the beginning of the grant and the 12-month Tydings period at the end of the grant, recipients have 27 months to obligate their grant funds. Funds not obligated by the end of the Tydings period lapse and must be returned to the Federal government. [See Attachment 1]

Under Department regulations, a grantee must liquidate (or make final payment on) all obligations incurred under an award not later than 90 days after the end of the Tydings period. The Department may extend this deadline at the request of the grantee. If the liquidation deadline is extended, the grantee is then allowed to access the funds through the Department's

Grants Administration and Payment System (GAPS). However, 5 years after the deadline for the obligation of the funds at the Federal level, any remaining funds are cancelled.¹ These funds revert to the Federal Treasury and are no longer available to the grantee.

In August 2004, the Office of Inspector General (OIG) issued an audit report entitled *Monitoring Grant Award Lapsed Funds* (ED-OIG/A04D0015). The report concluded the Department's procedures and controls were adequate for monitoring grant award balances, identifying funds for which the Tydings period was about to lapse, re-opening closed grant balances to allow grantees to use obligated fund balances, and monitoring the restoration of grant balances and other adjustments in GAPS. However, the report noted that the Department did not have procedures to notify recipients when award balances were about to become unavailable. It identified this process as a good business practice and the Department agreed to its need.

Subsequently, on August 12, 2004, the Department's Deputy Secretary issued a memorandum to senior Department officials entitled *Monitoring Grant Financial Data in the Grants Administration and Payment System*. The memorandum identified processes intended to minimize the amount of grant funding that would be returned to the Federal government. This included a requirement for program staff to contact applicable grant recipients to inform them of balances that could become unavailable at least 90 days prior to the end of the obligation period.

The Department has also issued memoranda to Chief State School Officers (CSSOs) regarding late liquidation requests for state-administered programs. In January 2005, the Department issued a memorandum entitled *Extension of Liquidation Periods for Grantees Under State-Administered Programs*.² The Department determined that, after carefully reviewing the late liquidation requests it received in prior years, further guidance in this area would be helpful. Attached to the memorandum was the Department's related policy that established both general standards for the evaluation of late liquidation requests by Department officials and a basic process for handling these requests. It also established principles to be applied during the consideration of late liquidation requests and placed the burden of demonstrating the timeliness of obligations and allowability of costs on the grant recipient. The Department informed the CSSOs that the guidance was consistent with longstanding Department principles on the handling of funding requests that help ensure good fiscal practices and proper accountability. It was also noted that in general a request was more likely to be approved if submitted closer to the expiration of the original liquidation period. The Department's expectation was that the additional guidance and assistance would help states submit more appropriate requests for late liquidation and help the Department expedite the review of such requests.

¹ 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 cancelled and thereafter shall not be available for obligation or expenditure for any purpose. 31 U.S.C. 1552(a)

² The Department's policy dated January 28, 2005, was superseded by a policy dated June 5, 2007, effective October 1, 2007. The only substantive change to the prior policy concerned timeframes for submission of requests. The revised policy limited the amount of time a grantee had to submit a late liquidation request to 18 months after the end of the obligation period, except under extraordinary circumstances.

As shown below, the Department's efforts to limit the overall amount of cancelled funding have generally been successful.

Table 1 - Cancelled Funding by FY

Date Funds Cancelled	Available Funding	Closing Balance	Percentage of Available Funding To Be Cancelled
October 1, 2008	\$57.1B	\$219.7M	0.38%
October 1, 2007	\$43.7B	\$286.4M	0.66%
October 1, 2006	\$39.5B	\$285.9M	0.72%

AUDIT RESULTS

Our audit found that improvements could be made in the Department's process to resolve lapsed funds. Specifically, improvements are needed in the overall management of late liquidation requests submitted by grant recipients, as well as the process to notify grant recipients of award balances about to become unavailable. We noted Principal Offices (POs) were following inconsistent processes for reviewing and approving late liquidation requests, approving requests that did not meet policy guidance, and not retaining sufficient documentation to support decisions made. We also noted POs were not contacting grantees with grant balances as required or properly documenting contacts.

As a result, accountability over the late liquidation request process is weakened, the risk that requests are being approved for inappropriate costs is increased, and the grantees' trust in the Department's late liquidation process could be diminished. Without receiving notification from program staff of grant balances that may lapse from availability, states and their subrecipients may not use all of their resources in a timely manner to address the many immediate needs of students. As several state-administered programs have received a significant amount of funding under the American Recovery and Reinvestment Act of 2009, it is imperative that the Department addresses weaknesses identified in this report to help ensure the effectiveness of grantee financial management practices.

OCFO provided a response to the draft report noting its commitment to continuous improvement and planned actions addressing each finding. The comments are summarized at the end of each finding. The complete text of OCFO's response is included as Attachment 3 to this report.

FINDING NO. 1 – Improvements Are Needed in the Overall Management of Late Liquidation Requests Submitted by Grant Recipients

Improvements are needed in the overall management of late liquidation requests submitted by grant recipients. Because of weaknesses in the Department's controls and policies relating to grantee late liquidation requests:

- POs followed inconsistent processes for reviewing and approving requests;
- POs approved late liquidation requests that did not meet policy guidance;
- Sufficient documentation was not always retained to support process outcomes;
- Grantees were not always provided with adequate details regarding decisions to disapprove late liquidation requests; and
- POs could not provide timely and complete information relating to the late liquidation request process.

As a result, the Department does not have assurance that the documentation required, processes followed, and decisions reached in response to late liquidation requests were consistent and appropriate. Accountability over the late liquidation process is weakened and the grantees' trust in the process could be diminished.

Issue 1a- Principal Offices Followed Inconsistent Processes for Reviewing and Approving Late Liquidation Requests

We found processes to review and document late liquidation requests varied among the Department's POs. During our review of the process followed in each of the six POs, we noted one PO used a checklist that included each of the general principles to be applied by Department staff during the review of late liquidation requests, as established in a related Department policy memorandum dated January 28, 2005.³ The checklist also included approval signatures for both the Program Officer and Program Director. Documentation provided by another PO reflected a process that relied solely on electronic correspondence, including the grantee's initial request, supporting rationale, and the Department's subsequent decision. The PO indicated that as long as the grantee provided a reasonable justification for the request and assurance of allowability, it approved the request. Documentation from a third PO revealed a process that included clearance sheets through the Assistant Deputy Secretary (ADS) level and resulted in formal written correspondence to the grantee, signed by the ADS, that conveyed the Department's determination.

In addition, we noted confusion over the process for requests submitted by high-risk grantees. Specifically, data from two POs identified late liquidation requests for four awards from a "high-risk" grantee as approved. The POs indicated that the related approvals involved coordination with the Department's Management Improvement Team (MIT), and that they believed requests from high-risk grantees were expected to go through the MIT. A MIT representative stated that while the MIT may assist in gathering information pertinent to requests from high-risk grantees, the determination rests with the POs, as the MIT has no authority to make decisions on late

³ See page 6 for the specific principles to be applied.

liquidation requests. However, as part of his response, the MIT representative provided a list of awards to the grantee that were approved for late liquidation. We noted a “blanket request” for multiple programs was submitted by the high-risk grantee directly to a member of the MIT instead of to the affected POs. The resulting approval of the request was provided to the grantee from the MIT.

The Government Accountability Office (GAO) *Standards for Internal Control in the Federal Government*, dated November 1999, states

Internal control is a major part of managing an organization. It comprises the plans, methods, and procedures used to meet missions, goals, and objectives and, in doing so, supports performance-based management. Internal control also serves as the first line of defense in safeguarding assets and preventing and detecting errors and fraud. In short, internal control, which is synonymous with management control, helps government program managers achieve desired results through effective stewardship of public resources.

A good internal control environment requires that the agency’s organizational structure clearly define key areas of authority and responsibility and establish appropriate lines of reporting.

The Department did not have procedures in place that established key roles, responsibilities, and operational process requirements. This included the level of supporting documentation required from the grantee, individuals involved in the review and approval of grantee requests, to include any special procedures to be followed for high-risk grantees, and method for grantee notification of the Department’s decision.

The Department does not have assurance that documentation required, processes followed, and decisions reached in response to late liquidation requests were consistent or that PO staff clearly understand the requirements. There is an increased possibility that similar requests could be approved by one PO but denied by another.

Issue 1b- Approved Phase I and Phase II Late Liquidation Requests⁴ Did Not Always Satisfy Policy Requirements

The processes followed by the Department's POs resulted in approval of Phase I and Phase II late liquidation requests that did not satisfy policy requirements. Specifically we found:

- Twenty-three of 28 approved Phase I requests (82 percent) reviewed did not satisfy one or more of the principles established in the Department's late liquidation policy.
 - Twenty-one requests did not clearly demonstrate that Federal funds were only used for obligations incurred during the grant period for allowable activities;
 - One request was to move Federal funds between programs;
 - One request was to move obligations from State/Local accounts to Federal accounts; and
 - Ten requests did not have an appropriately signed attestation that included the required language.
- Three of 13 approved Phase II requests (23 percent) reviewed did not include an appropriately signed attestation that included the required language.

The Department Memorandum (Memorandum) *Extension of Liquidation Periods for Grantees Under State-Administered Programs*, dated January 28, 2005, states

In considering whether to approve late liquidation requests, Department officials will apply the following principles.

1. In all circumstances, Federal funds may be used only for obligations that were incurred during the grant period (including the Tydings period) and only for allowable costs under the relevant program. With respect to any late liquidation request, the grantee has the burden of demonstrating the timeliness of the obligations and the allowability of costs....
2. The Department generally will not approve late liquidation requests or related accounting adjustments that move Federal funds between programs or subgrantees.
3. The Department generally will not approve late liquidation requests or related accounting adjustments that move obligations or expenditures from State or local accounts to Federal programs

⁴ Phase I and Phase II are Department terminologies used to distinguish the applicability of criteria under the policy memorandum *Extension of Liquidation Periods for Grantees Under State-Administered Programs*, dated January 28, 2005. Under this memorandum, Phase I requests were made up to 12 months after the end of the Tydings period with disposition authority residing in the PO. Phase II requests were made after that point with disposition authority residing in the Office of the Chief Financial Officer (OCFO). These distinctions were superseded in June 2007 by a policy change dated June 5, 2007, and effective October 1, 2007, which indicated that grantees may submit requests for late liquidations to the appropriate PO up to 18 months after the end of the obligation period. However, after the 18-month period expires, the Department would not grant late liquidation requests, except under extraordinary circumstances or in cases involving lengthy construction contracts.

4. Liquidation requests generally must be consistent with the underlying accounting system of the grantee for the period in question....
5. ...the Department will consider the past performance of the grantee, including whether the grantee is on high-risk status and whether the grantee has fulfilled its responsibilities under the Single Audit Act on a timely basis.
6. The Department will consider requests for late liquidation and related accounting adjustments not specifically addressed by these principles on a case-by-case basis.

The Memorandum also states

...the grantee must submit an attestation signed by a high-ranking, authorized official as to the accuracy of the information and representations that form the basis for the request, including, at a minimum, an attestation that under the proposed late liquidation and/or accounting adjustments, Federal funds would only be used for obligations incurred within the periods of availability of those funds and for allowable purposes. For requests made more than 12 months after the end of the Tydings period, that authorized official must be the Chief State School Officer or the state's Chief Financial Officer (or comparable officials, in the case of grantees that are not State educational agencies).

Approval of late liquidation requests that did not meet policy requirements likely occurred because staff were not familiar with all of the principles to be applied when reviewing late liquidation requests. As noted previously, only one of the POs reviewed used a checklist to assist in ensuring that each of the principles was considered prior to approval. In addition, the Department policy did not clearly establish the level of supporting documentation to be submitted by the grantees to demonstrate the appropriateness of obligations. This is because the policy indicated both that the grantee:

- ...has the burden of demonstrating the timeliness of the obligations and the allowability of the costs; and
- must submit... an attestation that under the proposed late liquidation and/or accounting adjustments, Federal funds would only be used for obligations incurred within the periods of availability of those funds and for allowable purposes.

We found late liquidation requests were frequently approved based primarily on the attestation of the grantee.

During our review of Phase II requests, we found emails written by Department staff that indicated grantees were not consistently submitting the proper documentation with their late liquidation requests. One email stated that although the grantee believed it provided more than adequate documentation, requests are regularly provided with minimal documentation, with little

explanation as to why the state or district could not comply with the time period available for obligation and liquidation of funds.

Uncertainty over requirements for approval of liquidation requests increases the risk that requests are being approved for inappropriate costs. This risk remains under the June 2007 policy revision, as it did not alter the principles or provide further guidance in their application.

Issue 1c- Documentation Supporting Phase I and Phase II Late Liquidation Requests Was Not Always Adequate

POs did not always ensure that documentation supporting late liquidation requests was obtained or retained. Specifically, we noted inadequate documentation associated with 4 of 33 (12 percent) Phase I requests, 12 of 33 (36 percent) Phase II requests, and 4 of 4 (100 percent) requests from a high-risk grantee.

With respect to Phase I and Phase II requests, the Department could not locate a file relating to one late liquidation request and provided files that did not document the grantee's late liquidation request was made prior to its approval or that did not specifically include documentation to support the consideration of past performance, as required.

With respect to requests from the high-risk grantee, the applicable POs did not retain adequate documentation supporting the late liquidation requests or the related outcomes. In response to OIG's request for supporting documentation, one PO contacted the grantee, who indicated these requests were part of a "blanket request" submitted to the Department's MIT to extend liquidation periods for multiple awards. A second PO also indicated that the requests from the high-risk grantee came through the MIT. However, the MIT stated the four awards were not part of the blanket request referenced and suggested we contact the POs to determine whether they have any documentation for these requests and the resulting approvals.

GAO Standards for Internal Control in the Federal Government states

Control activities occur at all levels and functions of the entity. They include a wide range of diverse activities such as approvals, authorizations, verifications, reconciliations, performance reviews, maintenance of security, and the creation and maintenance of related records which provide evidence of execution of these activities as well as appropriate documentation.

Internal control and all transactions and other significant events need to be clearly documented, and the documentation should be readily available for examination. The documentation should appear in management directives, administrative policies, or operating manuals and may be in paper or electronic form. All documentation and records should be properly managed and maintained.

The lack of adequate documentation occurred because the Department's policy did not establish minimum file maintenance requirements, a point of accountability for file maintenance within the POs, or outline any special requirements for late liquidation requests from high-risk grantees.

The Department does not have assurance that late liquidation requests were appropriately approved or denied.

Issue 1d- The Department Did Not Always Provide Grantees With Sufficient Explanation for Denial of Late Liquidation Requests

During our review of the Phase II late liquidation requests and supporting documentation, we found OCFO did not always provide grantees with a specific reason explaining why a request was denied. Specifically, 15 of 20 Phase II requests (75 percent) reviewed that were denied by OCFO did not include specific reasons for disapproval.

In most cases, a standardized letter was provided to the grantee describing the last communication OCFO had with the grantee and the need to obligate funds in a timely and efficient manner. The letter also provided a general comment stating that after carefully reviewing the request, in consultation with program managers, other Department officials and staff, including the Office of the General Counsel, OCFO concluded that the request “does not provide clear documentation justifying approval.” The letter often continued to state that the grantee’s submission “failed to provide clear and unambiguous documentation that the funds were not drawn down and transactions giving rise to the obligations occurred before the relevant grant performance period had ended.”

For 3 of the 20 Phase II requests (15 percent), we could not determine whether a specific reason was provided to the grantee because letters from the Department disapproving the requests were not included in documentation provided.

GAO Standards for Internal Control in the Federal Government states

Effective communications should occur in a broad sense with information flowing down, across, and up the organization. In addition [sic] to internal communications, management should ensure there are adequate means of communicating with, and obtaining information from, external stakeholders that may have a significant impact on the agency achieving its goals.

Department policy did not identify processes for grantee notification of outcomes regarding late liquidation requests.

Although we noted the Department’s correspondence offered technical assistance to help grantees submit more appropriate requests for late liquidation, providing specific details regarding the reason for denial could further assist grantees in developing requests that meet the Department’s principles and reduce the Department’s time and effort in subsequent reviews of requests.

Issue 1e- Principal Offices Could Not Provide Timely and Complete Information Relating To the Late Liquidation Request Process

During the course of our audit, the Department could not provide timely and complete information relating to the late liquidation request process. We encountered initial delays in obtaining information that identified officials responsible for monitoring selected programs for lapsed funds and for the receipt and disposition of Phase I late liquidation requests. One month after our original request, OIG subsequently developed its own listing using the Department's programmatic websites and contacted identified staff to confirm they were the individuals with responsibility in these areas.

The Department also could not provide timely and complete data regarding late liquidation requests received and related outcomes. The Department's initial response to our data request did not include Phase I requests handled at the PO level. In response to further inquiry, OCFO indicated they would obtain this information from the POs. However, OIG ultimately followed up directly with POs and received responses that indicated that data on late liquidation request activities was not always readily available. As examples, one PO informed OIG that it was finalizing related documentation, and a second PO indicated it did not have the ability to provide the monetary value associated with its late liquidation requests.

In addition, OIG made multiple attempts to obtain a complete listing of Phase II requests from OCFO. The listing that was ultimately submitted to OIG by OCFO was noted as being incomplete because of information that was still outstanding from various POs. Data that was subsequently provided required revision to remove awards involving three states and two territories. OCFO explained that the data provided included requests that did not require a Phase II disposition procedure as well as requests not applicable to the fiscal years under review.

GAO Standards for Internal Control in the Federal Government states

Internal control and all transactions and other significant events need to be clearly documented, and the documentation should be readily available for examination. The documentation should appear in management directives, administrative policies, or operating manuals and may be in paper or electronic form. All documentation and records should be properly managed and maintained.

The Department lacked internal policy that clearly established responsibilities for maintenance and retention of documentation and data regarding Phase I and II late liquidation requests and a central management official or organization.

Accountability over the late liquidation process is subsequently weakened.

Recommendations

We recommend the Chief Financial Officer:

- 1.1 Develop and implement internal policy to ensure consistency in receipt, processing, decision making, and outcome related correspondence processes for late liquidation requests across the Department.⁵ At a minimum, this policy should:
 - a. Identify key roles and responsibilities of individuals to be involved in the late liquidation review process within applicable POs.
 - b. Establish clear documentation requirements to support grantee late liquidation requests.
 - c. Create appropriate file maintenance requirements within the Department and establish related points of accountability for file maintenance within applicable POs.
 - d. Document any unique procedures required in the decision making process for late liquidation requests submitted by high-risk grantees.
 - e. Create a standardized process for communication to grantees regarding outcomes of late liquidation requests, to include specific explanations for denial where applicable.
 - f. Establish a process to create and maintain accurate summary-level data regarding late liquidation requests and outcomes. The process should result in data at the PO level that is also periodically summarized into Department-wide data.
- 1.2 Develop and implement a training program to reinforce the requirements of the internal late liquidation policy to applicable Department staff once the policy is developed.

OCFO Comments

OCFO stated the Department had taken actions to improve the late liquidation process in response to a previous OIG audit report and that significant improvement has been made as measured by the percentage of available funding to be cancelled. OCFO further stated that in January 2009 a Departmental Directive was drafted that will address concerns regarding the management of late liquidation requests.

⁵ In December 2008, the Department shared a draft directive with OIG entitled *Late Liquidations of State-Administered Formula Grants*. The directive was prepared to provide further internal guidance to POs regarding the late liquidation process, to help ensure the fair and uniform disposition of requests across principal offices, and maximize the consistency of documentation needed to support requests. This draft directive was noted to be a step in the right direction as it addressed areas of weakness noted in this report.

FINDING NO. 2 – Fiscal Monitoring Guidelines Were Not Always Followed

Program staff did not always fulfill their responsibilities to monitor grant financial data in GAPS. Overall, program staff did not contact grantees with account balances that were about to become unavailable for obligation at least 90 days prior to the end of the grant period.

We judgmentally selected and reviewed 29 of the FY 2005 grant awards identified by the Department as having available balances. Through discussion and file review, we found just 1 of the 29 files (3 percent) contained documentation of contact with the grantee at least 90 days prior to the end of the grant period. In response to related discussion and follow-up, POs provided related correspondence for 12 of 29 (41 percent) grants. However, we noted the contact was from 3 to 82 days prior to the end of the grant period and was documented outside of the grant file.

A Department memorandum, *Monitoring Grant Financial Data in the Grants Administration and Payment System*, dated August 12, 2004, provides financial monitoring policies for formula grants. Attachment II of the memorandum includes a section on requirements for ongoing financial monitoring activities. It states

3. At least ninety days prior to the end of the grant period, program staff should contact grantees that have grant accounts that show balances that are about to become unavailable for obligation. Program staff should inform the grantee of the balance remaining in the account that should be obligated before the end of the grant period and document any such contacts in the official grant file.

Officials from various programs within the Department outlined different reasons for noncompliance, including not being aware of the Department policy cited above. Other reasons cited are as follows:

- One program officer stated they did not send reminders to states throughout the year because they believed states were aware of the procedures and information is included in the award announcement.
- Several program officers acknowledged they did not effectively document relevant communication. This included instances where documentation was not placed in grant files because of staff turnover and reassignments and other instances where blanket emails and telephone contacts were not documented in grantee files.
- Several program officers described a process that included a standard reminder distributed in June of each year informing all grantees that funds would no longer be available for obligation after September 30. This correspondence did not provide balances that were about to become unavailable. In some instances, these programs also contacted individual grantees; however, this occurred less than 90 days prior to the end of the grant period.

- Several program officers described a process that included correspondence sent to grantees reminding them of the annual memo from the Department's Chief Financial Officer to CSSOs regarding the timely obligation and liquidation of funds and informing them of where related attachments identifying specific balances could be obtained. In some instances, documentation of individual contact with grantees was provided; however, this contact generally occurred less than 90 days prior to the end of the grant period.

In addition, we noted the policy memorandum referenced above was not readily available to Department staff. Efforts to locate the policy on the Department's intranet were unsuccessful. Through related discussion, a Department official within one of the reviewed POs provided the memorandum along with an explanation that it was distributed electronically to Assistant Secretaries and Executive Officers who were to share it with program staff.

Without receiving notification from program staff of grant balances that may lapse from availability, states and their subrecipients may not use all of their resources in a timely manner to address the many immediate needs of students. In addition, those funds not obligated for allowable costs will become unavailable for further obligation and eventually revert to the Treasury.

Recommendations

We recommend the Chief Financial Officer:

- 2.1 Ensure POs are aware of and comply with the requirements in the Department memorandum dated August 12, 2004. This includes posting the memorandum on the Department's intranet for accessibility.

OCFO Comments

OCFO stated the Department will consider more formal guidelines to promote consistency across the Department, and will explore an appropriate and cost effective mechanism to communicate these guidelines to Department staff.

OBJECTIVES, SCOPE, AND METHODOLOGY

The objective of our audit was to evaluate the effectiveness of the process used by the Department to resolve lapsed funds. To accomplish our objective, we gained an understanding of internal control applicable to processes relating to late liquidation requests and grant recipient notification of award balances about to become unavailable. We performed our work in six POs, including OCFO, the Office of English Language Acquisition (OELA); the Office of Elementary and Secondary Education (OESE); the Office of Special Education and Rehabilitative Services (OSERS); the Office of Vocational and Adult Education (OVAE); and the Office of Safe and Drug Free Schools (OSDFS).

We reviewed applicable laws and regulations, policies and procedures, and GAO *Standards for Internal Control in the Federal Government*. We reviewed prior OIG audit reports with content relevant to the Department's management of lapsed funds. In each PO reviewed, we conducted interviews with officials responsible for processing late liquidation requests and monitoring grant award balances. We also reviewed and evaluated documentation maintained by the Department to support its review and decision-making relevant to late liquidation requests and its process to notify grant recipients of award balances about to become unavailable. Additional information on the scope and methodology applicable to each of these areas is presented below.

Late Liquidation Requests

To select individual late liquidation requests for review, we relied on Department-provided data identifying requests received subsequent to the issuance of its January 28, 2005, policy memorandum through June 27, 2007. Data relating to Phase I requests was provided directly by each of the seven POs⁶ that award state-administered grants, while data relating to Phase II requests was provided by OCFO. There were no other data sources readily available to independently corroborate the completeness of this data. However, the data was deemed sufficiently reliable for the purpose of this audit and adequately supports resulting conclusions and recommendations.

As shown below, the Department's data identified a total of 278 Phase I requests and 77 Phase II requests received from January 28, 2005, through June 27, 2007.

⁶ Two of the seven POs reported that no late liquidation requests were received during the time period noted.

Table 2 - Phase I Requests Received from January 28, 2005, through June 27, 2007

Principal Office	Phase I Requests	Approved Phase I Requests	Denied Phase I Requests	Dollar Value ⁷
OELA	10	10	0	N/A
OESE	201	201	0	\$40.0M
OSDFS	13	8	5	\$2.1M
OSERS	38	38	0	\$5.0M
OVAE	16	16	0	\$1.3M
Total	278	273	5	\$48.4M

We judgmentally selected a sample of 33 Phase I late liquidation requests for review (12 percent). This included 28 approved requests (10 percent), consisting of a random sample of 10 percent of the requests from each PO. We also reviewed each of the five denied requests (100 percent).

Table 3 - Phase II Requests Received from January 28, 2005, through June 27, 2007

Principal Office	Phase II Requests	Approved Phase II Requests	Denied Phase II Requests	Dollar Value
OESE	54	12	42	\$15.6M
OSDFS	11	3	8	\$2.0M
OSERS	8	7	1	\$5.1M
OVAE	4	1	3	\$4M
Total	77	23	54	\$23.1M

We judgmentally selected a sample of 33 Phase II late liquidation requests for review (43 percent). This consisted of 13 approved requests (57 percent), including all 11 relating to OVAE, OSERS, and OSDFS programs. For OESE programs, we selected 2 of the approved requests (16 percent) based on the highest dollar value. The sample also included 20 denied requests (37 percent), including all 12 relating to OVAE, OSERS, and OSDFS programs. For OESE programs, we selected 8 of the disapproved requests (19 percent). Seven states had denied requests relating to OESE programs. We selected one request from each state based on the highest dollar value. We selected an additional request from one state because of the large number of requests submitted by the state that were denied.

We obtained and reviewed documentation supporting the selected Phase I and II late liquidation requests submitted by the grant recipients. We also obtained and reviewed documentation from the Department relating to the review and subsequent outcome of the late liquidation requests. The focus of our work was to determine whether the Department's review and approval processes were effective and consistent with applicable guidance.

⁷ The Department's data included dollar amounts associated with 245 of the 278 Phase I requests. OELA did not provide dollar values for any of its 10 identified requests. OVAE did not provide dollar values for 5 of its 16 identified requests. OSERS did not provide dollar values for 18 of its 38 identified requests.

Notification to Grant Recipients of Award Balances About to Become Unavailable

To select individual awards for review, we relied on data from GAPS relating to state-administered programs awarded in FYs 2003-2005 and related historical reports showing large unexpended balances a few months prior to the end of the applicable Tydings period. Because of problems with the completeness of GAPS reports identified in a prior OIG audit,⁸ we sought to independently recreate the results of the historical *Large Unexpended Balance Detail Reports* relating to FY 2003 awards. We were unable to completely duplicate or replicate the results. However, we determined the data generally agreed and concluded that it was sufficiently reliable for use in the assessment of our related audit objectives.

We used GAPS data to identify the number and value of state-administered programs and judgmentally limited our selection to awards from the top three POs in each year in terms of dollars awarded. This methodology led us to select OESE, OSERS, and OVAE for review.

Table 4 - State-Administered Program Awards

FY	Number of State-Administered Program Awards	Value of State-Administered Program Awards	Percentage of State-Administered Program Value Through OESE, OSERS, and OVAE
2003	7,256	\$14.5B	93%
2004	7,104	\$19.0B	94%
2005	7,425	\$19.8B	94%

We proceeded to select the three highest dollar-value programs within OESE, OSERS, and OVAE for FYs 2003, 2004, and 2005 to include in our review. This process resulted in the selection of 10 programs overall: 4 from OESE; 3 from OSERS; and 3 from OVAE.⁹ We subsequently summarized historical GAPS *Large Unexpended Balance Detail Reports* to identify recipients that were included in these reports for all 3 years in any of the 10 selected programs. We planned to judgmentally select 3 grantees from each of the 10 programs, based on the largest unexpended balances as identified on the historical *Large Unexpended Balance Detail Report* applicable to FY 2005 awards. However, one program had only two recipients included in the report. As a result, our sample included 29 grants with a value of \$2.4 billion awarded and \$839 million unexpended.

We reviewed grant files and conducted interviews with appropriate Department officials to determine whether the Department's program offices had contacted recipients at least 90 days prior to the end of the grant period to inform them of award balances about to become unavailable and documented the contact information in the grantee's file.

⁸ A19F0025, *Controls Over Excessive Cash Drawdowns by Grantees*.

⁹ The two highest dollar value programs were consistent in each FY for OESE. The third highest dollar value program was the same in 2004 and 2005, but different in 2003. Therefore, a total of four OESE programs were selected. The three highest dollar value programs were consistent in each FY for OSERS and OVAE. Therefore, three programs were selected from both OSERS and OVAE.

We conducted fieldwork at Department offices in Washington, D.C., from June 2007 through April 2009. We provided our audit results to OCFO staff during an exit conference conducted on April 9, 2009. 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 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.

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. §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 Michele Weaver-Dugan at (202) 245-6941.

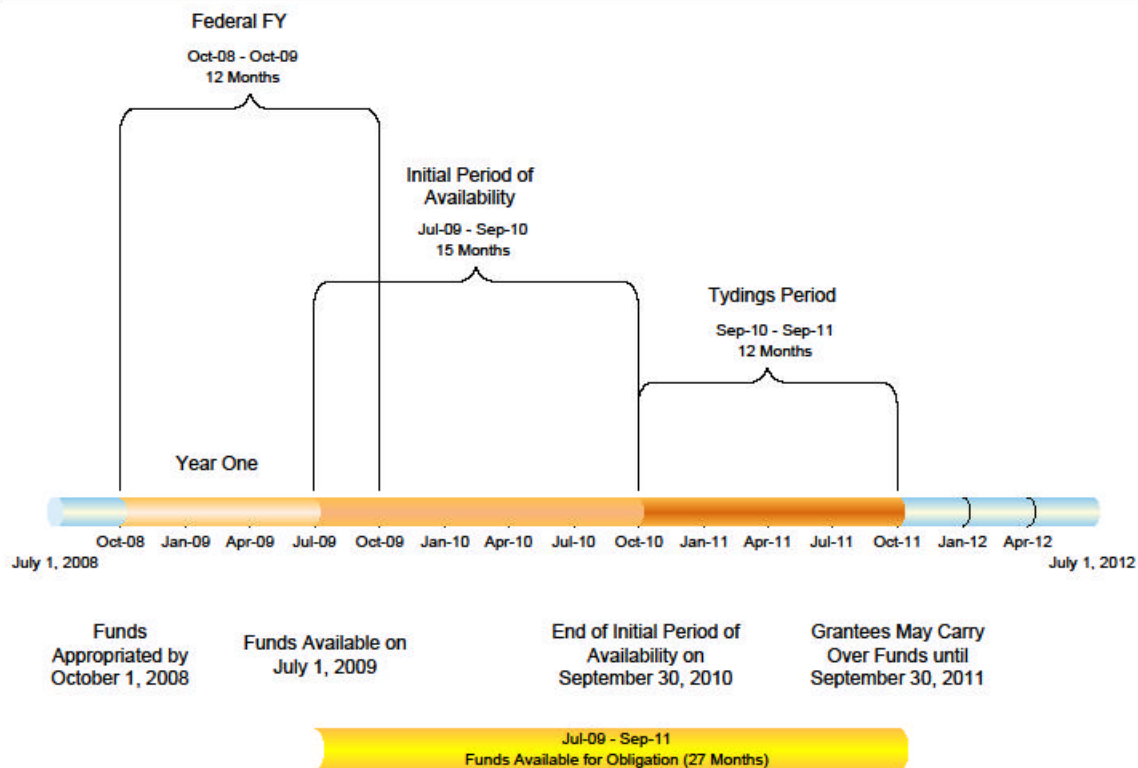
Sincerely,

Keith West /s/
Assistant Inspector General for Audit

cc: Danny Harris, Acting Deputy Chief Financial Officer, OCFO
Michael Gordon, Audit Liaison Officer, OCFO
Richard Rasa, Director, State and Local Advisory and Assistance Team, OIG

Attachments

Availability of Federal Education Funds



Acronyms/Abbreviations Used in this Report

ADS	Assistant Deputy Secretary
CAP	Corrective Action Plan
CSSO	Chief State School Officer
Department	U.S. Department of Education
FY	Fiscal Year
GAO	Government Accountability Office
GAPS	Grants Administration and Payment System
MIT	Management Improvement Team
OCFO	Office of the Chief Financial Officer
OELA	Office of English Language Acquisition
OESE	Office of Elementary and Secondary Education
OIG	Office of Inspector General
OSDFS	Office of Safe and Drug Free Schools
OSERS	Office of Special Education and Rehabilitative Services
OVAE	Office of Vocational and Adult Education
PO	Principal Office



UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF THE CHIEF FINANCIAL OFFICER

July 16, 2009

MEMORANDUM

To: Keith West
Assistant Inspector General for Audit

From: Thomas P. Skelly
Delegated to perform functions of Chief Financial Officer

Subject: Draft Audit Report: *Audit of the Department's Process to Resolve Lapsed Funds*
ED-OIG/A19H0010

Background

We are in receipt of the draft audit report entitled *Audit of the Department's Process to Resolve Lapsed Funds*. This audit included an evaluation of the Department's process for reviewing grantee requests for late liquidation of funds and the process to notify grant recipients of award balances soon to become unavailable. Thank you for the opportunity to review the draft report.

Following the OIG's August 2004 audit report, *Monitoring Grant Award Lapsed Funds*, the Department took expeditious actions to reform the late liquidation process. The OIG recognized that the Department's efforts to limit the overall amount of cancelled funding have been successful. The percentage of available funding to be cancelled was less than one percent for FY 2006 and FY 2007, and declined further for FY 2008 to less than one-half of one percent. Specifically, the report indicates the percentage of available funding to be cancelled was 0.72% for FY 2006, 0.66% for FY 2007, and 0.38% for FY 2008. Nevertheless, the OIG found that further improvements could be made to the Department's process to resolve lapsed funds.

Specific Areas of Concern

The audit resulted in two findings. The OIG found that 1) improvements are needed in the overall management of late liquidation requests submitted by grant recipients, and 2) fiscal monitoring guidelines were not always followed.

Late liquidation requests: As you are aware, a Departmental Directive: *Late Liquidations of State-Administered Formula Grants* was drafted in January 2009. We believe the OIG's concern regarding the management of late liquidation requests will be addressed in this Directive.

Fiscal monitoring guidelines: The Department will consider more formal guidelines to promote consistency across the Department, and will explore an appropriate and cost effective mechanism to communicate these guidelines to Department staff.

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Conclusion

The Department of Education is committed to financial management excellence, and has consistently produced accurate and timely information that is used by management to inform decision making and drive results in key areas of operation. The Department has taken actions to improve the late liquidation process and significant improvement has been made as measured by the percentage of available funding to be cancelled. However, the Department also is committed to continuous improvement, and will work to address the OIG's concerns in a cost effective manner.