



UNITED STATES DEPARTMENT OF EDUCATION

THE DEPUTY SECRETARY

June 26, 2000

Elaine Kaplan
The Special Counsel
Office of the Special Counsel
1730 M Street, NW, Suite 300
Washington, DC 20036

Subject: OSC File No. DI-99-862

Dear Ms. Kaplan:

Secretary Richard Riley has delegated to me the authority to respond to your letter dated February 23, 2000. The letter raises a number of issues brought to your attention by Mr. John Gard, an Education Department employee who works in the Office of the Chief Financial Officer.

We have thoroughly reviewed the information and assertions detailed in your letter and accompanying material. While we take quite seriously any concerns related to the financial management of the Department of Education, we have determined that all of the issues discussed in your letter have been the subject of close examination within the Department as a result of concerns raised earlier in other contexts. Accordingly, these concerns have either been resolved or procedures have been put in place to address those concerns.

I have attached a detailed response to your inquiry, along with all available referenced documents. If you need further clarification or additional information, please feel free to contact Mark Carney, Deputy Chief Financial Officer at (202) 401-3892.

Sincerely,

A handwritten signature in black ink, appearing to read "Frank S. Holleman III".

Frank S. Holleman III

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UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF THE CHIEF FINANCIAL OFFICER

DATE: June 26, 2000

TO: Frank Holleman, Deputy Secretary

FROM: Thomas Skelly, Acting CFO *Thomas P. Skelly*

SUBJECT: Office of Special Counsel File No. DI-99—862
Response to their letter dated February 23, 2000

DIGEST

This investigative report was prepared in response to a letter from the Office of Special Counsel (OSC) requesting that Secretary Riley or his designee investigate allegations made through its whistleblower disclosure channel and report back. The allegations concerned activities and functions which fall under the purview of the Department's Office of the Chief Financial Officer (OCFO).

As a consequence, six allegation items described in the OSC letter were thoroughly and carefully investigated. The evidence presented in the detailed sections of this report show that the issues raised by these allegations are widely known within the OCFO and have been extensively documented independent of the OSC letter. Moreover, the Education Department has committed appropriate resources to correct conditions that could undermine the public's trust in its financial operations and will continue to do so. Included with the report is an extensive set of appendices which detail actions the Department has taken to mitigate internal control and system security weaknesses.

Specifically, the allegations closely align with concerns raised by the Inspector General since the implementation of the Grants Administration and Payment System (GAPS), the grantee payment arm of the Department's financial management system, in late 1997. In fact, our Office of Inspector General (OIG), in their Final Audit Report GAPS Security dated September 30, 1998, listed forty-six recommendations for corrective action. As of April 2000, the OCFO has implemented all of the Inspector General recommendations, the last of which was completed in early April (See Appendix L). Additional materials prepared by the General Accounting Office and our independent financial statement auditor address financial statement audits and Departmental accounting practices.

This investigation has compiled extensive documentation that demonstrated that the OCFO worked continuously in a genuine team effort with our Office of Inspector General to resolve problems and concerns. On March 2, 1998, the OIG issued a Readiness Assessment, (Appendix T) and stated the following: "Generally, we have been impressed by the level of technical skill of the EDCAPS team. ...testing is proceeding according to schedule and no significant problems were observed [that] were not being addressed by systems staff."

Because the OCFO was aware by March 1998 that there were various issues still to be addressed, the actual start up date for GAPS was postponed until May of that year. The CFO's office conscientiously responded to all concerns and complaints concerning GAPS, although some had greater merit than others. Simultaneously, however, the OCFO had been working to remedy these same issues as they had previously been pointed out by the OIG.

In order to clarify our response, we have divided the issues raised in the OSC letter into three (3) categories under which we address the allegations. The 3 categories are internal controls, system security/audit trail, and data conversion. We have completed an outline type format for each of the six allegation items. (See list of required items for ED's response in Appendix U). The appendices at the end of the report contain all available referenced documents.

Should you need clarification or further information, please feel free to contact Mark Carney, Deputy CFO at (202) 401-3892.

Chronology of Events

Date	Event	Reference Category Number
February 22-28, 1998	OIG Fieldwork for GAPS Readiness Review OIG Review Report No. S11-80008-01	App. T Digest
March 2, 1998	Assessment of Implementation Readiness for GAPS Results: testing is proceeding according to schedule and no significant problems were observed which were not being addressed by systems staff	App. T
May 28, 1998	Action Memorandum SYS-98-01 – EDCAPS Security Issues Memo discussed two issues: (1) GAPS User IDs and passwords are being shared among OCFO staff and (2) there are security concerns over the GAPS password file	App. F #3, #4, #5
June 12, 1998	Alert Memorandum – Management Alert Concerning GAPS Institution-level Reconciliation IG reported that institutions they had contacted had not yet reconciled their grant award accounts. IG recommended OCFO staff give attention to assuring that institutions have reconciled grant award accounts before making drawdown requests through GAPS.	App. M #1
June 15, 1998	Reply to Action Memorandum SYS-98-01 Addresses concerns of sharing GAPS user IDs and passwords and the security of the GAPS password file. Unique user IDs and passwords were issued to OCFO team members. There is no GAPS password file, passwords are maintained as an Oracle security function separate from the GAPS database.	App. G #3, #4, #5
June 26, 1998	Action Memorandum SYS-98-03 – Serious Security Exposure Over GAPS User Ids and Passwords Memo reports that IG re-performed original test of the password table and found a security exposure over the GAPS password table.	App. H #3, #4, #5
June 29, 1998	Reply to Audit Action Memorandum SYS-98-03 Concurs with findings in Action Memorandum SYS-98-03. Outlines eight actions OCFO staff took to address the security exposure.	App. I #3, #4, #5

Chronology of Events

Date	Event	Reference Category Number
September 18, 1998	<p>Action Memorandum SYS-98-08 — Security Screening Violations Related to OCF/CIO GAPS Staff and Contractors</p> <p>Memo outlines that contractor and ED personnel have been given access to GAPS without documentation on file which reflects a proper security screening.</p>	App. J #5
September 30, 1998	<p>Audit Report – Review of GAPS Security (ACN: 11-80013)</p> <p>Improvements to GAPS security can be made in the areas of security access control, security option settings, audit trails controls, cash management, security administration, ensuring accountability, and appropriate segregation of developers from security and application functions. Attached Corrective Action Plan for the Period Ended March 14, 2000.</p>	App. A Digest #5, #6
October 1, 1998	<p>Response to Action Memorandum SYS-98-07</p> <p>Memo discuss that OCFO/CIO and OIG are working together to review and address the findings of the security review contractor.</p>	App. D #3, #5, #6
October 1, 1998	<p>Response to Action Memorandum SYS-98-08</p> <p>OCF/CIO Executive Office instructed to immediately begin processing the appropriate security screening for employees and contractors. Also, Financial Systems Operations group asked to work with OIG to quickly define appropriate security classifications for each individual.</p>	App. K #5
November 30, 1998	<p>Response to 9/30/98 Final Audit Report, and Inspector General Memorandum SYS-98-07</p> <p>Memo provides a brief summary: the three immediate issues identified in SYS-98-07 and included in the Audit Report have been resolved and corrective action has been taken; EDCAPS Team has organized the issues into three separate areas of responsibility; resolution to be reached on all of the remaining high and moderate risk issues by March 31, 1999.</p>	App. L Digest #5

Chronology of Events

Date	Event	Reference Category Number
December 9, 1998	<p>Action Memorandum SYS-99-01 – Continued Concern About Reconciliation of Payee Records to GAPS Memo outlines recommendations to improve the completeness of information available on the status of reconciliation of GAPS payees.</p>	App. N #1
January 25, 1999	<p>Response to Action Memorandum SYS-99-01 Memo offers clarification to reconciliation issues and addresses intended actions concerning specific recommendations of Action Memorandum SYS-99-01.</p>	App. O #1
January 28, 1999	<p>Survey Review of the GAPS Reconciliation Process Action Memorandum FIN-99-01 Goal was to survey OCF/CIO's controls over the GAPS reconciliation process to determine potential risks and possible improvements. OIG recommends that ED: develop reasonable documentation requirements for adjustments; perform and document a consistent review of the adjustments made by PwC to the Oracle database; prepare and adopt written policies and procedures for the reconciliation process.</p>	App. P #1
March 5, 1999	<p>Response to Action Memo FIN-99-01 OCF/CIO reports that each of the OIG recommendations has been implemented.</p>	App. Q #1
February 23, 2000	<p>OSC File No. DI-99-0862 Letter from U.S. Office of Special Counsel, requesting information regarding Mr. Gard's allegations.</p>	App. U Digest
April 7, 2000	<p>Corrective Action Plan All 46 items from OIG Memorandum ACN: 11-80013 dated 9/30/98 are closed.</p>	App. L Digest #5

Chronology of Events

Date	Event	Reference Category Number
May 3, 2000	GAO Draft Report, Review of the U.S. Department of Education's Grantback Account. GAO reviews use of suspense account to adjust grant award balances and general ledger account balances. No violations of law are found nor fraud.	App. W #4
May 8, 2000	Status of Financial Statement Audits: 1995 – 1999 Internal OCFO document outlining the status of financial statement audits.	App. V #2
As of June 8, 2000	ED's Plan to accomplish GAO requirements regarding Grantback Account as of June 8, 2000. Although review has not been formally transmitted, Education is taking proactive steps to implement GAO recommendations.	App. X #4

CATEGORY: Internal Controls

Summary of Information

Item 1. Paragraph 2, page 1. Allegation that the system, known as the Grants Administration and Payment System (GAPS), "has caused the agency to ... adjust the cash accountability of an account without any legal basis for the adjustment, and to file reports containing amounts not supported by the system."

Description of the Conduct of the Investigation

1. Review of existing documentation, including IG memoranda and reports (Appendices M, N, O, P, Q).
2. Interviews with employees who were involved with the conversion from the Department's old disbursement system to its new disbursement system.

Summary of Any Evidence Obtained from the Investigation

The item investigated has been well documented and addressed previously by the Education Department. Specifically, the Office of Inspector General exchanged a series of letters with the Chief Financial Officer which detail issues and the actions taken by the Education Department to resolve them (See Appendices M-Q).

Interviews were conducted with those employees involved with the transition from the old disbursement management system (EDPMS) to the new one (GAPS). Interviewees described in detail the conversion issues that referred to in this allegation as adjusting the "cash accountability of an account." GAPS, the Department's new system did not track grants awards that an institution had in the aggregate, but rather by individual grant awards. GAPS did not maintain an accounting line to track this number as it had in the old system. Therefore, management decided to charge this balance against the existing (pooled) award balance in order to convert records in the old system to the new system. All recipients were informed in a detailed letter that explained how the Department was converting their grant award balances and the rationale for the change. In addition, all recipients were given a toll-free Hotline number to call if they had any questions or concerns. Having more than 16,000 active grantees at the time of conversion made this a lengthy process that only now is coming to conclusion. (See Appendices M-Q)

In response to the charge that the Department (ED) filed reports with amounts not supported by the system, it should be noted a large number of manual calculations were required to reconcile accounts and subaccounts. Thus, in certain instances the numbers on ED's financial statements were not the same as the numbers in the accounting system. However, these amounts were not considered material in the Fiscal Year 1997 Financial Statement Audit. Indeed, the Department received an unqualified opinion that year. The Department is making progress in reducing its use of manual adjustments and continues to improve its supporting documentation.

A Listing of Any Violation or Apparent Violation of Any Law, Rule or Regulation

Based on the evidence obtained, the Department does not believe these activities violate any law, rule or regulation.

Description of Any Action Taken or Planned as a Result of the Investigation

The items listed below were initiated independently of the disclosure investigation and report ordered by the Special Counsel. However, the Department has included them in this section to assure the Special Counsel that it has and will continue to commit appropriate resources to correct conditions that challenge internal controls.

- ◆ A reconciliation effort is currently ongoing between GAPS and the Financial Management Software System (ED's present financial management system – FMSS). This process began May 11, 2000, and is comprised of 3 phases. The plan is to reconcile grantees' accounts all the way back to the implementation of GAPS in May 1998. Phase I, synchronizing summary transactions in GAPS and summary postings in FMSS, is well underway. Phase 2 will identify and correct general ledger account balance errors, and Phase 3 will determine if the old financial system data used for the GAPS conversion was out of balance with FMSS, and if so, rectify the errors. If any differences are identified, ED will work closely with the appropriate U.S. Treasury Department authorities to insure that correcting adjustments are properly executed and recorded.

- ◆ A new core financial management system (FMS) implementation began October 1, 1999, to address ED's historical problems with producing auditable financial statements, and to accurately reflect account balances for all the subaccounts that fall under each of 200 appropriations. However, the OCFO projects full implementation of the new FMS by the close of FY 2001.

CATEGORY: Internal Controls

Summary of Information

Item 2. Paragraph 3, page 1. Allegation that due to serious flaws in GAPS, ED's financial statements to be deemed inauditable for FY 1998.

Description of the Conduct of the Investigation

1. Review of GAO Report (Appendix B).
2. Review of Financial Audit ACN17-70002 and response (Appendix R).
3. Review of Financial Audit ACN17-80006 and response (Appendix S).

Summary of Any Evidence Obtained from the Investigation

The item investigated has been well documented elsewhere. Specifically, the General Accounting Office and the Office of Inspector General have issued detailed reports which discuss problems and challenges the Department faces in preparing unqualified Financial Statements (See Appendices B, R, and S).

GAPS is merely the payment vehicle in a larger financial management system known as the Education Centralized Automated Processing System (EDCAPS). The conversion from one payment system to another was not the cause of ED's difficulty in producing auditable statements for FY 1998. ED is responsible for more than 200 individual appropriations and more than 150 discretionary grant programs, in addition to a large student loan portfolio. Unfortunately the general ledger system in use for FY 1998 was unable to easily produce properly formatted financial statements and supporting documentation for audit. This meant that the Department could not adequately perform the necessary account reconciliations, and filed statements with amounts not fully supported by the accounting system. Since that time (the end of FY 1998), ED has worked to improve the processes and procedures surrounding the production of financial statements. As a result, its FY1999 statements were audited and received qualified opinions on four of five statements.

ED's Financial Statement Audits, issued by the Office of Inspector General as far back as FY 1995, also have discussed weaknesses in ED's financial statements. For example, Audit Number ACN 17-70002 relating to the FY 1997 financial statements, outlined 37 areas of concern (Appendix R). OCFO has satisfactorily addressed all but five of the items. For FY 1998, within ACN 17-80006 (Appendix S) 28 recommendations were made, and OCFO has resolved all but three of these items. (OCFO is currently correcting the recommendations from the OIG for the FY 1999 Financial Statements.) In summary, 139 items have been recommended for corrective action since FY 1995; 36 remain unresolved. (Appendix V) In response to the allegation that the new system did not contain proper internal and external security controls, audit trails or accounting functions, we note that the annual fiscal year reports described above from the OIG addressed all of these issues. In sum, the problems contained in this allegation already were known to the OCFO, and the correction process has been ongoing.

ED's FY 1999 financial statements were improved over FY 1998; only one of the core statements received a disclaimer, which means the auditors could not express an opinion on that one financial statement. This one disclaimer was due to our inability to support account balances.

Listing of any Violation or Apparent Violation of any Law, Rule or Regulation

Audits of financial statements for FY 1998 and 1999, showed a failure to comply with parts of the Chief Financial Officers Act, (CFO Act), certain provisions of the Federal Financial Management Improvement Act (FFMIA) and the Credit Reform Act. ED's independent auditors reported the noncompliance as follows:

1. For FY 1999, the auditors found that ED was again not in compliance with FFMIA because it lacked adequate, integrated financial management systems, reports, and oversight to prepare timely and accurate financial statements. ED was among twenty-one CFO Act agencies whose financial systems did not comply with the requirements of FFMIA.
2. ED had neither fully implemented a capital planning and investment process, nor performed an assessment of the information resource management knowledge and skills of agency personnel, including a plan to correct identified deficiencies, as required by the Clinger-Cohen Act of 1996.
3. ED did not transfer its excess funds related to FFELP to Treasury as required by the Credit Reform Act of 1990.

Description of any Action Taken or Planned as a Result of the Investigation

The actions listed below were initiated independent of the disclosure investigation and report ordered by the Special Counsel. However, the Department has included them in this section to assure the Special Counsel that it has and will continue to commit appropriate resources to correct conditions that challenge internal controls.

- ◆ ED has purchased and implemented reconciliation software to perform monthly cash reconciliations with Treasury, and is implementing a new core financial management system that will become fully operational in October 2002.
- ◆ ED is implementing a capital planning and investment management process that is expected to be in place by the end of FY 2000. During FY 2000, in conjunction with FY 2002 budget formulation, the Investment Review Board is reviewing 18 significant Information Technology projects as part of the selection process. ED surveyed personnel regarding information resources management skills and prepared a plan for providing appropriate skills training. Currently staff is attending focused management training and generally offered computer-based skills training.
- ◆ ED analyzed its liquidating fund balances and returned \$1.8 billion to the Department of Treasury in February which put it into compliance with the Credit Reform Act. ED will review the account again in July 2000. The Department is committed to never missing the deadline to return funds from this account again.

CATEGORY: System Security

Summary of Information

Item 3. Paragraph 2, page 1. Allegation that “GAPS caused the agency to make payments to unknown or identified organizations...” (Refer also to discussion in Item 6.)

Description of the Conduct of the Investigation

1. Review of documentation, including emails and correspondence (Appendices C, D, E, F, G, H, I).
2. Interviews with employees who were involved with the conversion from the Department’s old disbursement system to its new disbursement system.

Summary of any Evidence Obtained from the Investigation

The item investigated has been well documented elsewhere and addressed previously by the Education Department. Specifically, the Office of Inspector General exchanged a series of letters with the Chief Financial Officer which detail issues and the actions taken by the Education Department to resolve them (See Appendices C, D, F, G, H, I).

ED uses a DUNS number as the primary identifier for grantees in GAPS. A DUNS number is a unique identifier provided by Dun & Bradstreet (D&B) to organizations with business licenses. Prior to GAPS, either an Entity Identification Number (EIN) or a Taxpayer Identification Number (TIN) was used. When conversion to GAPS was scheduled for May 1998, 340 grantees had not provided their DUNS number to ED. Thus, a strategy had to be developed to ensure that these grantees would not be cut off from their funding. Consequently, a temporary identification number was assigned to these grantees, as well as “Stop Pay” status on their funds. The “stop pay” scenario was instituted to force the grantee to contact the GAPS Hotline to obtain assistance. Once the grantee called, the Hotline staff obtained the DUNS number, which allowed the normal drawdown process to proceed. Once the actual DUNS number of a grantee was obtained, the temporary ID number was eliminated, and the grantee could proceed to draw funds.

Listing of any Violation or Apparent Violation of any Law, Rule, or Regulation

Based on the evidence obtained, the Department does not believe these activities violated any law, rule or regulation.

Description of any Action Taken or Planned as a Result of the Investigation

Temporary ID numbers were only used during the conversion time frame when GAPS was being implemented. Management's decision to not use Temporary ID numbers after the conversion was made independent of the disclosure investigation and report ordered by the Special Counsel.

CATEGORY: System Security/Audit Trail and Data Conversion

Summary of Information

Item 4. Page 2, paragraph 1. Allegation that some journal vouchers used to convert cash-on-hand balances from the old payment system to GAPS were improper, and possibly illegal. The journal vouchers were manual accounting entries made to the general ledger to adjust the cash accountability of an account.

Description of the Conduct of the Investigation

1. Memoranda between OIG and OCF/CIO (Appendices F-I).
2. GAO Review: Department of Education's Grantback Account (Appendix W).
3. Interviews with employees who were involved with the conversion from the Department's old disbursement system to its new disbursement system.

Summary of any Evidence Obtained from the Investigation

The item investigated has been well documented elsewhere and has been addressed previously by the Education Department or is being addressed at this time. Specifically, the Office of Inspector General exchanged a series of letters with the Chief Financial Officer which detail issues and the actions taken by the Education Department to resolve them (See Appendices F-I) and the GAO Reviewed the Department's Grantback Account (See Appendix W).

One of the many challenges of the conversion from the old financial management system (EDPMS) to GAPS was that GAPS did not have a line to match to the "cash-on-hand" line in EDPMS. Therefore, this cash-on-hand amount had to be "adjusted" in order to allow conversion to the new system.

A large number of accounts had this type of balance because grant amounts were combined into a cash account referred to as the "grantback account." The OCFO employed the strategy of charging the amount against existing awards before the conversion to GAPS, thus allowing the appropriate reconciling adjustments. A journal voucher, the TC 650 journal voucher, was the vehicle used to make these adjustments.

Before any amount was authorized for adjustment, certain criteria had to be met: generally, dollar amount thresholds for drawdowns had to be \$100,000 or less; a thorough research process to ensure that the balance had consistently been reported had to be completed; and there had to be documentation that the funds had actually been received.

A letter explaining this procedure was sent to grant recipients. (Appendix E) They were encouraged to contact our Hotline if they had any questions or concerns regarding the procedure.

Listing of any violation or apparent violation of any law, rule or regulation

The General Accounting Office reviewed ED's use of journal vouchers to correct the grantback account but found no violations of the law, nor instances of fraud. GAO did find that ED could not provide assurances that it was in compliance with statutory restrictions regarding the use of funds (purpose, period of availability, and amount). (See Appendix W)

Description of any action taken or planned as a result of the investigation

The actions listed below were initiated independent of the disclosure investigation and report ordered by the Special Counsel. However, the Department has included them in this section to assure the Special Counsel that it is committing appropriate resources to correct conditions that challenge System Security, System Audit Trails, and Clean Data Conversions.

Based on a GAO review of the Grantback Deposit Fund, a plan to further improve accounting for grants tasks was developed by the Treasury Financial Management Service and the Department of Education. It is attached as Appendix X and will be implemented by September, 2000. Plan highlights include:

- ◆ 1) Reconciling the grantback account balance that was transferred in March 2000 to a suspense account. Staff is currently at work completing the GAPS reconciliation project; 2) The Department has implemented adequate controls over its recipient reconciliations and Fund Balance with Treasury reconciliations; and 3) ED plans to return to Treasury the remaining funds related to the adjustment activity that were transferred in March 2000 to a suspense account, including a re-evaluation of the October 1997 and January 2000 reviews.
- ◆ ED is revamping its policies and procedures regarding documentation and records, in particular transactions and other significant events related to grant activity.

- ◆ ED is reviewing its policies and procedures for performing GAPS recipient reconciliations. This includes requirements for supervisory review and approval of GAPS adjustments, review of single audit results prior to making adjustments, and obtaining summary level documentation from the recipients supporting the validity of the requested adjustments.
- ◆ Preparing detailed policies and procedures requiring supervisory review and approval of ED's monthly reports of outlays sent to Treasury. (See Appendix W, pp. 40-42.)

CATEGORY: System Security

Summary of Information

Item 5. Page 2, paragraphs 2 and 3. Allegation that "there was a lack of controls over User IDs and passwords...[that] these lack of controls over User IDs and passwords rendered the system vulnerable to fraud and left it without an audit trail." Allegation that Hotline staff were releasing User IDs and passwords over the phone ...and that management released one common User ID and password to employees and contractors in response to a system deficiency that prevented over 500 recipient accounts from drawing funds, with the result that every employee would be able to alter critical information in the system without being identified.

Description of the conduct of the investigation

1. Review of OIG memoranda and reports on GAPS security (Appendices A, F, G, H, I, J, K, L).
2. Interviews with employees who were involved with the conversion from the Department's old disbursement system to its new disbursement system.

Summary of any evidence obtained from the investigation

The item investigated has been well documented elsewhere and has been addressed previously by the Education Department. Specifically, the Office of Inspector General exchanged a series of letters with the Chief Financial Officer which detail issues and the actions taken by the Education Department to resolve them (See Appendices A, F, G, H, I, J, K, L).

As part of the GAPS implementation, ED had to design a process to provide new User IDs and passwords to its 20,000 grant recipients. A list of temporary User IDs and passwords was system generated, but each recipient was required to have a current ID and password in order to receive the new temporary IDs. A file was provided to ED by EDPMS with the entire list of old user IDs and Personal Identification Numbers (PINs). A copy of this list was given to each person who staffed the GAPS Hotline. Callers had

to provide several pieces of identifying information in order to obtain the temporary ID and password.

The incident in which a user ID and password were released by management refers to a Hotline employee, who in an attempt to help her customers, emailed her user ID and password to all the ED hotline staff. As soon as the Implementation Team Lead received the message, the password was immediately changed, and the employee was counseled regarding this breach of security. An all-hands EDCAPS Team meeting was convened the following day by then CFO Donald Rappaport, in which he described what had happened, and why this type of thing could not be allowed to recur.

The reason a number of recipients could not draw funds temporarily was a temporary system memory problem regarding numbers of possible generated passwords. This so-called system deficiency was simply the result of two types of PIN numbers being generated, and certain numbers of passwords and IDs sitting in suspense waiting to be assigned—the system reached capacity and was unable to generate additional logons. ED remedied the situation as quickly as possible.

Listing of any violation or apparent violation of any law, rule, or regulation

The OIG concluded that this breach constituted a violation of guidance issued by the Office of Management and Budget in OMB Circular A-130.

Description of any action taken or planned as a result of the investigation

The actions listed below were initiated independent of the disclosure investigation and report ordered by the Special Counsel. However, the Department has included them in this section to assure the Special Counsel that it has and will continue to commit appropriate resources to correct conditions that challenge System Security.

- ◆ The immediate problem was corrected the same day it occurred.
- ◆ The three remaining concerns, which required immediate action, as identified in Action Memorandum SYS-98-07, were corrected. (Appendices C, D, L)

CATEGORY: Data Conversion

Summary of Information

Item 6. Page 2, paragraph 4. Allegation that GAPS contained a substantial number of incorrectly mapped accounts that management failed to track during system conversion.

Description of the conduct of the investigation

1. Review of OIG documentation (see Appendices C and D).

2. Interviews with employees who were involved with the conversion from the Department's old disbursement system to its new disbursement system.

Summary of any evidence obtained from the investigation

The item investigated has been well documented elsewhere and addressed previously by the Education Department. Specifically, the Office of Inspector General exchanged a series of letters with the Chief Financial Officer which detail issues and the actions taken by the Education Department to resolve them (See Appendices A and D). The management actions described were required to convert to the new system, GAPS, and prevented the problem stated in the allegation from occurring.

The accounts referred to in the allegation are grantee bank accounts in which drawdowns of grant funds were electronically transmitted. As described previously in Item 3, approximately 75% of grant recipients already had DUNS numbers previously assigned by Dun & Bradstreet (D&B). Thus, ED made the decision to use the DUNS numbers of its grant recipients as identifiers in GAPS. As described in Item 3, ED worked collaboratively with D&B to obtain the necessary identifier for the remaining 5,000 recipients. Nevertheless, 340 recipients still had not been assigned a DUNS number at the time of the conversion to GAPS. ED established internal controls to manage the drawdown of funds by these 340 recipients by instituting a "stop pay" scenario in GAPS that would require that the payee contact ED in order to complete the drawdown. (Refer to Item 3.) When the recipient contacted ED, the OCFO was able to obtain the DUNS number assignment for the grantee, thus allowing the drawdown process in GAPS to be completed in the normal manner.

Listing of any violation or apparent violation of any law, rule or regulation

As stated earlier in Item 3, based on the evidence obtained, the Department does not believe these activities violated any law, rule or regulation.

Description of any action taken or planned as a result of the investigation

New grantees must provide their DUNS numbers upon award of their grants. This policy was initiated independent of the disclosure investigation and report ordered by the Special Counsel.

Office of Special Counsel
File No. DI-99-862

List of Appendices

- A: Final Audit Report: Review of GAPS Security (ACN: A1180013)
- B: GAO Testimony: Financial Management: Education Faces Challenges in Achieving Financial Management Reform
- C: Action Memorandum SYS-98-07
- D: October 1, 1998 Response to Action Memorandum SYS-98-07
- E: Copy of Recipient Letter – GAPS Reconciliation Statement
- F: Action Memorandum SYS-98-01
- G: Response to Action Memorandum SYS-98-01
- H: Audit Action Memorandum SYS-98-03
- I: Response to Audit Action Memorandum SYS-98-03
- J: Action Memorandum SYS-98-08
- K: Response to Action Memorandum SYS-98-08
- L: Response to Final Audit Report: Review of GAPS Security (ACN: A1180013)
- M: Alert Memorandum dated June 12, 1998 – Management Alert Concerning GAPS Institution-level Reconciliation Process
- N: Action Memorandum SYS-99-01
- O: Response to Action Memorandum SYS-99-01
- P: Action Memorandum FIN-99-01
- Q: Response to Action Memorandum FIN-99-01
- R: Memorandum: Corrective Action Plan for ACN 17-70002
- S: Memorandum: Resolution of ACN 17-80006
- T: Memorandum from James Cornell re: Assessment of Implementation Readiness for the Grant Administration and Payment System (GAPS) OIG Review Report No. S11-80008-01 Reporting Status as of February 28, 1998
- U: Letter from U.S. Office of Special Counsel dated February 23, 2000
- V: Summary of Analysis on Status Reports provided by ED to the ED OIG on 5/8/00 For FY 1995, FY 1996, FY 1997, FY 1998 and FY 1999 Financial Statement Audits
- W: GAO Draft Report, Review of the U.S. Department of Education's Grantback Account dated May 3, 2000
- X: ED's Plan to accomplish GAO requirements regarding Grantback Account as of June 8, 2000