

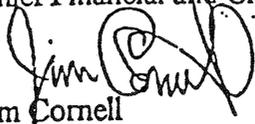
Review of GAPS Security/
ACN A11-80013

UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF INSPECTOR GENERAL

SEP 30 1998

MEMORANDUM

TO : Donald Rappaport
Chief Financial and Chief Information Officer

FROM : 
Jim Cornell
Area Manager
Washington Field Office

SUBJECT : Final Audit Report: Review of GAPS Security (ACN: A1180013)

This is our subject audit report covering the results of our security assessment of the Department's Grant Administration and Payment System (GAPS). The objective of the review was to evaluate the security posture of the GAPS automated payment processes, including the production environment and associated information technology considerations within the Department's communication infrastructure.

The assessment identified a number of technical or procedural security exposures which affect the overall security surrounding the GAPS production environment. They are directed to you for your action as either the Chief Financial Officer or the Chief Information Officer. To assist you in your determination of the relative significance of the review observations, we have categorized them as to high, moderate or low risk. Many of the exposures were discussed with the Office of Chief Financial Officer (OCFO) officials and Department of Education Central Automated Processing System (EDCAPS) contractor staff during the course of the review. Due to the sensitivity of the exposures and recommendations identified during the review, we are not including detailed information in this report. That information will be provided to you under separate cover.

Summary Findings

The review of GAPS security identified a number of opportunities for the enhancement of the overall security posture of the production application and its operational platform. Improvements can be made in the areas of security access control, security option settings, audit trail controls, cash management, security administration, ensuring accountability, and appropriate segregation of developers from security and application functions.

Security Option Settings. The router and computer systems used for the web server, and production GAPS database appeared to utilize an excessive number of default settings. Use of default settings without appropriate tailoring of the settings to the GAPS environment could allow

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individuals inadvertent unauthorized access to GAPS data and GAPS processes. In addition, other settings could be strengthened to make the security posture stronger.

Audit Trail Controls. During our review we noted several opportunities for the GAPS development team to enhance the use of audit trails and to limit the use of group user IDs. Audit trail controls are the primary detective controls used to evidence a series of events or transactions within an application. The use of group user IDs can significantly reduce the effectiveness of controls over user authentication and identification. Stronger audit-trail controls should be implemented to protect the integrity of the information processed through GAPS. In addition, the access level of individual user IDs should be consistent with business requirements due to the sensitive nature of the application.

Cash Management Controls. Our review found weaknesses in the procedures with regard to certification of the use of Federal funds drawn through GAPS. A combination of preventive and detective controls are necessary to ensure adequate cash management of Federal funds. The use of a robust electronic signature-based process or an interim manual signature procedure can provide the Department with increased grantee accountability for Federal funding requests.

Security Administration. Our review identified a significant number of users that had been assigned to more than one user group, which may have permitted excessive and/or incompatible access levels to GAPS functionality. Assignment of new user groups responsibilities should be documented in a thorough manner to substantiate the business need for the additional user group. In addition, more specific procedures should be introduced to ensure individual users do not belong to more than one user group, or if necessary, documented as to the business reason of why the user requires additional access and how this additional access will be monitored.

General Security. Opportunities are present to improve general security controls over the application and operational platform. For example, limiting of access to GAPS user documentation and processes to only those Internet users who are GAPS users; enforcement of mandatory password changes for GAPS user IDs; and automated techniques for ensuring external GAPS users are, in fact, the users they represent themselves to be for accessing GAPS, are the types of security improvements which can be made related to the GAPS application. In addition, our review also noted a significant number of ports within the communication infrastructure configured with modem devices, presenting "back door" opportunities into the Department's network environment, including GAPS. Uncontrolled use of modems within the Department's communication infrastructure limits the effectiveness of protection provided by its firewalls and routers.

Segregation of Duties. Our review identified several areas where controls can be strengthened to ensure adequate separation of duties within critical application functions. Super-users, developers, and managers are key individuals whose access should be limited to affect an appropriate segregation of duties which ensures compliance with OMB A-130, OMB A-127, and OMB A-123. Our review identified what appeared to be an inordinate number of super-user IDs and group IDs, given the nature of GAPS functionality. Though privileged user IDs of these types provide easy system access to troubleshooting the GAPS production environment, they also limit the ability for system managers to clearly identify and authenticate users with privileged access.

What We Recommend. We recommend that the OCFO take steps to improve the overall security posture of the GAPS application and related communication infrastructure by taking appropriate action on the specific recommendations related to the high and moderate risk observations included as an attachment to this report. Determination of the appropriate action should include consideration of the costs versus benefits, relative risk and any compensating controls impacting each audit observation. We also recommend that the low risk observations be given appropriate attention in the OCFO's overall security strategy.

Background

The Department is upgrading and streamlining its core management work processes. This effort is known as EDCAPS. EDCAPS comprises a suite of software packages, both off-the-shelf and custom developed. It consists of the Financial Management System Software (FMSS), the Contracts and Purchasing Support System (CPSS), GAPS, and the Recipient System (RS).

The GAPS production application is a client-server system that includes both custom developed and commercial-off-the-shelf (COTS) software. GAPS makes use of Saros products, Plexus Flo Ware (workflow system), Watermark (imaging), PowerBuilder (development), and Cognos Impromptu (reporting). The various software components in GAPS reside on servers and on client workstations located within the ED Network (EDNET). This review did not extend to reviewing the security posture of Powerbuilder, Saros, or Cognos Impromptu.

Objective, Scope, and Methodology

The objective of our audit was to evaluate the security posture of the GAPS automated payment processes. It did not include an assessment of other components of EDCAPS, specifically, FMSS, CPSS, and RS. The review addressed the primary GAPS application and associated servers; components that provide communication pathways; and servers providing auxiliary processing. We conducted our fieldwork from June 1998 through August 1998, in accordance with government auditing standards. The scope of the review consisted of an assessment of 1) Infrastructure (Communications) Security, 2) Computer Security, 3) Application Security, and 4) Operations Security. To identify security controls relevant to the GAPS application, we interviewed responsible officials and operational staff from the Department's EDCAPS-GAPS development team. We tested controls and security features by interrogating the communication infrastructure and production environment using proprietary script-utilities.

Statement on Management Controls

As part of our review, we assessed the system of management controls, policies, procedures, and practices applicable to the automated GAPS payment processes. Our assessment was performed to determine the security posture of GAPS. For the purpose of this report, we limited our review to the assessment of the significant controls over the automated grant payment functions. Because of inherent limitations, a study and evaluation made for the limited purpose described above would not necessarily disclose all material weaknesses in the controls. However, our assessment identified

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methods to improve the security posture of the GAPS application. We have recommended improvements to the controls by implementing stronger security controls (both preventive and detective). These weaknesses and their effects are fully described as an attachment to this report.

Auditee Comments

We provided the OCFO officials and the EDCAPS contractor staff with preliminary findings and recommendations based upon the results of our review at the end our fieldwork. They were in general agreement with the intent of the recommendations and plan to take appropriate corrective action to mitigate the exposures. In addition, they expressed a strong interest toward working closely with our review team to reach a mutually agreeable resolution to correcting the underlying exposures.

* * * *

Please provide us with your final response to each open high and moderate risk recommendation within 60 days of the date of this report indicating what corrective actions you have taken or plan, and related milestones. The low risk observations are included as other matters for your consideration, but do not require a response.

In accordance with Office of Management and Budget Circular A-50, we will keep this audit report on the OIG list of unresolved audits until all open high and moderate issues have been resolved. Any reports unresolved after 180 days from date of issuance will be shown as overdue in the OIG's Semiannual Report to Congress.

Please provide the Office of Chief Financial and Chief Information Officer / Financial Services Post Audit Group and the Office of Inspector General / Planning, Analysis and Management Services Staff with semiannual status reports on corrective actions until all such actions have been completed or continued follow-up is unnecessary.

In accordance with the Freedom of Information Act (Public Law 90-23), reports issued by the Office of Inspector General are available, if requested, to members of the press and the general public to the extent information contained therein is not subject to exemptions in the Act.

We appreciate the cooperation shown us by the EDCAPS project staff during this review. Should you have any questions concerning this review, please feel free to contact me on (202) 205-9538 or Brett Baker of my staff on (202) 205-9744.

cc: Paul Gilbreath

Corrective Action Plan

For the Period Ended: 14 March 2000

Audit Control Number
A1180013 "Review of GAPS Security"

Summary: The objective of the security assessment was to evaluate the security posture of the GAPS automated payment processes, including the production environment and associated information technology considerations within the Departments communication infrastructure.

Points of Contact		Report Dates	
Audit Liaison Officer: Ruth Ann Harrold		Draft Date:	
Telephone Number: 202-401-0853		Final Date: 6/7/99	
Location: 4E330 FB #6		Date of ACD:	
Responsible Managers: Tony Wood		Resolved Date:	
Telephone Numbers: 202-401-4615		Audit Manager:	
Locations: 4E202 FB #6			
Total Recommendations 45	Number Open 1		Number Closed

IG "CIO" Observations High and Medium

No	IG Observation	EDCAPS/CIO Response	Status	Owner	OIG Reply	Cat.
95	<p>There exists a sufficient number of modems within ED that are used for bulletin boards, remote network access, and personnel access to individual computers that present access to network components. Uncontrolled use of modems creates back doors into the Ed's infrastructure that negates the firewall. This creates the potential for compromise of ED sensitive information.</p>	<p>This is a known weakness of EDNET. A comprehensive remote access solution is currently in development that should allow for the reduction or elimination of non-network modems within the next year. Enterprise remote access solution is under development.</p>	<p>CIO will keep team updated on the progress. Need estimated date for completion. This item is closed. It will be tracked under ACN: 11-90018.</p>	CIO	<p>CIO need to demonstrate once complete. Item is closed to CAN 11-90018.</p>	M

COMPLETED

<p>35</p> <p>The router is not configured to have multiple fail-over source for booting the system. This can have an effect on the availability of the router and can cause denial of service.</p>		<p>The internet router is configured to boot from an alternate "image" in flash memory if the primary image is not available/corrupted. An additional failover source for booting would require the implementation of a TFTP server on the network, which would have the complete Inet router image available. Trivial FTP is a known security risk and this is not considered in the best interest of EDNET. This issue would introduce an unnecessary and additional security risk with minimum gain in internet router availability.</p>	<p>Received OIG confirmation. Complete.</p>	<p>CIO</p>	<p>1/11/99-Disagree, inside the Firewall there is no risk when applying proper control mechanisms to minimize the risk</p> <p>2/4/99 - COMPLETE</p>				<p>M</p>
<p>36</p> <p>The router is not configured to log (audit) events. This means that there is no audit trail to check for security related events/incidents.</p>		<p>1/14/99- CIO does not concur with the OIG assessment, the router is outside the firewall, not on the inside as stated in the OIG reply. Enabling TFTP under such circumstances poses a significant security risk which, in CIO's view, is unwise. Conventional security wisdom is that TFTP is a protocol that should be avoided if at all possible. Could OIG reassess their position based on this clarification?</p>	<p>Received OIG confirmation. Complete.</p>	<p>CIO</p>	<p>2/4/99 - COMPLETE</p>				<p>H</p>

37	Authentication to the router and to privilege commands is limited to group passwords providing minimum protection against unauthorized access.	the router itself. Auditing will be implemented if a capable server can be allocated. EZACS, an authentication software package, is available. This requires a machine with sufficient processor capacity and redundant storage to provide authentication and audit logging for all DoEd routers and primary servers. Single point authentication and audit logging can be implemented when a capable server is made available. This is an unfunded requirement at this point.	Received OIG confirmation. Complete.	CIO	2/2/99 - COMPLETE	H		
39	The router configuration of SNMP is not limited to network management workstations. Allowing any workstation with SNMP application to manage the router.	Agreed. SNMP access is now restricted to 165.224.x.x addresses (EDNet LAN). 1/14/99-CIO has narrowed the access and have limited SNMP packets to the NCC NetDirector servers at 165.224.6.30 and 165.224.6.31	Received OIG confirmation. Complete.	CIO	1/11/99-Disagree, should be restricted to only Network management workstations. 2/2/99 - COMPLETE	M		
56	The EDBLUE production system and the Firewall have an etc/passwd file that contains a number of users without an assigned specific shell. This forces the system to use the default shell that may allow users more privileges than authorized.	The Solaris operating system on the firewall has nine mandatory system service accounts, none of which can be set up to use a shell account. Therefore, we do not understand the nature of this concern. EDBLUE concerns will be answered under "EDCAPS UNIX/Oracle/Admin Observations"	Received OIG confirmation. Complete.	CIO	Verified on EDBLue awaiting review of Firewall. 2/2/99 - COMPLETE	M		
57	The Firewall system EEPROM security mode switch for a Sun UNIX system was not enabled. This could result in the compromise of the systems firewall.	The server is located in a secure room with a video monitoring. Under the circumstances, we believe the risk of losing the EEPROM password is much greater than the risk of unauthorized physical access.	OIG has reviewed CIO's alternate safeguards in place and have determined them to be adequate.	CIO	COMPLETE	M		

	<p>1/14/99-We do not concur with the enabling of EEPROM security. Based on practical experience it provides a great deal of inconvenience in return for a small improvement in security (EEPROM security can usually be bypassed) or a non-recoverable system failure (if not). We stand by our original statement and strongly advise against this procedure. Please re-assess the perceived benefit of EEPROM security given that this capability is not available on the 5,250 other workstations or servers in the Department of Education and creates and anomaly in how we manage systems. If OIG continues to desire this change we will enable EEPROM security against our better judgement.</p>	Complete.			M
<p>42 The router configuration does not prevent access to known TCP vulnerabilities such as finger, echo, etc. These TCP services are used by hackers to gain information about the system.</p>	<p>This router currently allows the following services: echo, daytime and telnet. Echo is required so we can ping the router. Daytime is required because several servers use this router to set their server clock. Telnet is required to log on to the router for maintenance.</p>	Received OIG confirmation. Complete.	CIO	OIG agrees with the resolution of this issue. 1/11/99 2/2/99 - COMPLETE	H
<p>43 The Router Passwords are not encrypted to prevent viewing of passwords during listing of the router configuration file. Viewing by unauthorized individuals could disclose the passwords.</p>	<p>Agreed. All passwords are now encrypted.</p>	Received OIG confirmation. Complete.	CIO	OIG agrees with the resolution of this issue. 1/11/99 2/2/99 - COMPLETE	H
<p>55 The Firewall system has a user account "Bill" without a password. Through this account the system could easily be compromised.</p>	<p>Agreed. This account has been removed.</p>	Received OIG confirmation. Complete.	CIO	OIG agrees with the resolution of this issue. 1/11/99	H

59	The Firewall system has a drive partition /dev/dsk/c013dos7 mounted on /testing that is near capacity. This could result in a system lockout.	This directory is part of a test directory tree. Files are regularly added and removed, and is currently almost empty.	Received OIG confirmation. Complete.	CIO	OIG agrees with the resolution of this issue.	H
63	The Firewall has numerous (28) TCP services that have known vulnerabilities.	Performing a scan for TCP services reveals that only port 53 responds ("SWIPE - IP with encryption") which is required to support the Checkpoint and SecureShell encryption functionality. Therefore, we do not believe that the Firewall is vulnerable through its network interface cards. Various TCP services do run on the server, but are only accessible either via SecureShell and the administrator account, we do not perceive this as an abnormal risk. Specific risks associated with specific services should be identified if this concern continues. 1/14/99-We do not understand OIGs intent or desires on this issue. If a scan of TCP ports is conducted, the only port seen is port 53, which is required for DNS data. The firewall config files do enable other standard TCP ports, which is required by the firewall application to enable routing of valid TCP/IP packets. These services are not otherwise viewable or exploitable, and to disable them would render the firewall application useless. We need clarification of what SPECIFIC changes or fixes OIG actually wants performed.	Received OIG confirmation. Complete.	CIO	TCP services that are being used should be identified. All others not used should be disable. COMPLETE - 2/2/99	H
94	The IP penetration testing identified hosts both outside	We would like to see a specific listing				

the firewall and inside the firewall that are configured with known TCP vulnerabilities such as, echo, gopher, etc. These TCP services are used by hackers to gain information about the system.

of services per server in order to respond to this issue with precision.

However, servers can be divided into three functional areas: Outside the firewall, the DMZ and EDNet (inside the firewall). OCIO's policy is that EDNet users are inherently trusted.

The Departments accessibility standards require the use of some services (such as gopher) that have known weaknesses, these risks are known and accepted as part of the Departments commitment of accessibility. Outside the Firewall this consists of servers in the 165.224.217.x segment, which includes the main WWW site, related application servers, and a backup SMTP/DNS server. Also included is a termserver and modems required to support various ED-sponsored organizations and clients.

DMZ

This segment (165.224.216.x) contains several web servers, to FTP servers, primary SMTP servers, and the inside-the-firewall DNS servers. All requests are filtered by the router and firewall.

EDNet

This is all other servers and devices with the LAN.

ACTION

Outside the Firewall

	<p>We have reviewed active TCP ports by server with OERI, the sponsor organization, and removed several unnecessary services. The following ports are open and available to the public, which are required for business purposes and/or to satisfy mandatory ED accessibility standards: 21 ftp, 22 ssh, 23 telnet, 25 smtp, 37 time, 53 dns, 70 gopher, 80 http, 109 pop2, 110 pop3, 111 sun rpc, 113 ident, 119 nntp, 120 erpcd, 123 ntp, 143 imap, 210 wais, 443 ssl, 512 exec, 513 login, 514 shell, 515 print spool.</p> <p>The following ports are active, but are not required. We can not find the processes which start these ports so that we can disable the related startup processes. We have a query into the OERI application vendor requesting guidance.</p> <p>662 unassigned, 712 unassigned, 729 ibm netview, 730 ibm netview, 734 unassigned, 739 unassigned, 742 net rcs.</p> <p><u>DMZ</u></p> <p>All servers are protected by the firewall, and only relevant services are accessible.</p> <p><u>EDNet</u></p> <p>We are working on services definition of the servers operating on EDNet. OCIO only controls connected.</p>
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OPEN
 IG "GAPS TEAM" Observations
 High and Medium

COMPLETED

No	IG Observation	EDCAPS Response	Status	Owner	OIG Reply	Cat.
1	<p>Payee guide can be downloaded without using a GAPS UserID and password allowing anyone with Internet access to gain information for potential attacks. This information should be limited to authorized GAPS users.</p>	<p>OCFO does not agree with moving the Payee Guide behind the log in screen of the test web site. OIG was asked to identify the information in the Payee Guide that they felt caused the security risk and OCFO we consider revising the language-1/12/99. Paul's Message - 2/11/1999 In a effort to cooperate, the GAPS team has implemented many of the OIG's security recommendations. The location of the GAPS user guide continues to be a problem.</p> <p>Your contractor has suggested that the guide be moved inside the log-on. Because it includes training materials and log-on guidance, we would like to keep it outside. We have offered to compromise by considering removal of the "high risk" content. I personally requested that your contractor provide specific cites to that data which if removed would satisfy your concern. At our last status meeting your contractor stated that the information had been forwarded to the team</p>	<p>Waiting on detailed clarification.</p>	<p>GAPS Team</p>	<p>2/9/99 - OIG thought that Paul had agreed to place the document behind the login screen. 2/24/99 - OIG provided document highlight areas of concern. CLOSED. Date not available.</p>	<p>H</p>

No	IG Observation	EDCAPS Response	Status	Owner	OIG Reply	Cat.
8	GAPS does not have accountability of personnel	<p>And they were awaiting our response. That statement was not true; we have not received this information. As a result this item remains open. Perhaps, they completely misunderstood the request.</p> <p>We would like your group to specify exactly what you would like removed from the user guide in order to leave it where it is and your rationale for those selections.</p> <p>Becky' Message 3/8/99 - As a follow-up to our meeting February 23, I need some additional information regarding the Payee Guide. For the sections you highlighted, Chapter 1 - Identification Numbers, Designating an Account Servicer, Receiving Education Funds, ACH, FEDWIRE, and Appendix C, D and E, I need to know your specific concern. Please specify if the entire section/chapter or a subset of the section/chapter, needs to be removed or reworded.</p> <p>As we stated in the meeting, OCFPO intent is to reword or remove portions of the Payee Guide that the OIG indicates presents a security concern. Our plans are to continue to provide access to the Payee Guide through the GAPS Website rather than behind the logon screen.</p>	CLOSED	GAPS	OIG agrees with the	H

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No	IG Observation	EDCAPS Response	Status	Owner	OIG Reply	Cat
44	The GAPS WEB Server NT audit configurations are not set to audit. There is no accountability of users' actions.	Refer to Response to IG Report Action Memorandum SYS-98-07 Need clarification from OIG. 2/28/99 - Functionality turned on 2/24/99. Demo Scheduled for 2/28/99.	Complete. Demonstrated to OIG on 2/28/99. Need OIG confirmation.	GAPS Team	OIG Responds 2/9/99 - The current audit configuration does not include the "auditing of failed user rights". The OIG recommends implementing the "auditing of failed user rights" to give the security officer evidence of users who are attempting to give themselves the ability to perform actions beyond their standard list of actions. An example would be; taking ownership of an object.	H
46	On the GAPS WEB Server the everyone group has READ, WRITE, EXECUTE, and DELETE (RWXD) access to the "C:\Winnt\Temp. Server the Everyone group has Read, Write, Execute, and Delete (RWXD)	The Everyone Group has been removed from the list of Local Groups in User Manager. However, we have determined that removing the	3/16/99 - The issue was further discussed and clarified with	GAPS Team	OIG responds 1/29/99 - It would seem there has been some commingling	M

No	IG Observation	FD CAPS Response	Status	Owner	OIG Reply	Cat.
48	<p>On the GAPS WEB Server the login settings are not configured to; lockout after bad logon attempts and delay before automatically reopening account after lockout. These prevention safeguards assist in protecting the system.</p>	<p>The login settings have been set to lockout after 5 attempts, the reset count for the attempts was set to 33 hours (2000 min), and the delay before reopening the account after lockout is set to Lockout Forever.</p>	<p>Complete. Demonstrated to OIG on 12/10/98. Need OIG confirmation. OIG Confirmation</p>	<p>GAPS Team</p>	<p>OIG agrees with the resolution of this issue. 1/11/99</p>	<p>M</p>

No	IG Observation	EDCAPS Response	Status	Owner	OIG Reply	Cat.
49	The GAPS WEB Server permits blank passwords and does not keep a password history. Lack of good password management controls increases the risk that the system may be compromised.	The GAPSWEB Server no longer permits blank passwords. Users' password now has to be at least 8 characters in length. A password history of 5 passwords is stored.	Complete. Demonstrated to OIG on 12/10/98. Need OIG confirmation. OIG Confirmation received - CLOSED	GAPS Team	OIG agrees with the resolution of this issue. 1/11/99	H
53	The Poledit.exe for the GAPS WEB is not configured to implement a security policy. SERVER is not configured to implement a security policy.	Need more specific requirements as to what type of security policies that are being referenced. What security issues are being safeguarded against via System policies? What specific POLEDIT.EXE actions are being recommended? EDCAPS reviewed response and has the following response on 1/27/99: We have received and read your response to item number 53 which relates to the use of the Windows Policy Editor. Your response provided a description of the Policy Editor, some version history and details on how to install it. We are familiar with the Policy Editor and the mechanics of its installation and setup. This is not the kind of information we are seeking. Rather, we are wondering what aspects of the GAPS web server's security do you feel must be addressed by the Policy Editor. What security problem	Closed.		OIG 2/10/99 - In a further review of the environment, the OIG finds that the use of the poledit.exe to set security defaults for multiple NT systems is not needed for this single system. The security settings that the poledit.exe sets are found in Registry' Keys. Our review has concluded that the Registry' Keys are in order and no further action is required.	

No	IG Observation	EDCAPS Response	Status	Owner	OIG Reply	Cat
54	<p>On the GAPS WEB Server the Group "Guests" should be deleted from the "logon locally" privilege list. Guest accounts have been disabled.</p>	<p>The Policy Editor is typically used to prevent local users (i.e., a user actually sitting at the keyboard) from accessing certain commands, making changes to desktop configurations (e.g., changing the wallpaper), etc. With the GAPS web server, all local users are occasional users (i.e., they only log on once in a while for short periods to do particular tasks) and their activities while on the server always relate to the administration or management of the server. Given that administrators are the only users, we do not see how implementing the types of restrictions available through the Policy Editor can enhance system security. If there is disagreement on this point, please advise what particular restrictions you want implemented through Policy Editor.</p>	<p>EDCAPS asked for clarification on their general response on 2/9/99. OIG sent new response on 2/10/99. 2/28/99 - 1" part complete - Removed local</p>	<p>GAPS Team</p>	<p>OIG 2/10/99 - We are not asking that the Guests group be deleted. We want the Guest group removed from the "logon locally" privilege list and no user accounts have "logon locally"</p>	<p>M</p>

No	IG Observation	EDCAPS Response	Status	Owner	OIG Reply	Cat
83	Changes to the recipient information and payment requests can be made in writing or over the telephone. Telephone requests require a valid DUNS #, a user ID, and a password be conveyed to the "hotline representative".	Refer to Response to IG Report Action Memorandum SYS-98-07. 2/28 - A change will be made to the GAPs Software. Changing password filed to a unique identifier field. And will collect unique identifier when calls are place and then validate in the database.	Received OIG confirmation. Complete	GAPs Team	2/28 - OIG agrees with this approach 1/18/00 COMPLETE	M
85	Development contractors have access to the production environment for GAPs allowing for modifications to	The development contractors do not implement software changes on the	Complete. Demonstrated to	GAPs Team	Disagree. While procedurally there	H

No	IG Observation	EDCAPS Response	Status	Owner	OIG Reply	Cat.
86	<p>The testing and development environments no longer are "representative" of the production environment due to size limitations. This causes production changes to be made with testing occurring in the production environment.</p>	<p>production environment, with the exception of the Web site. The contractor team is in the process of developing deployment instructions so that ED can deploy production Web site changes without contractor assistance. The development contractor provides builds to ED, which are then acceptance tested and, upon successfully passing acceptance test, is migrated by ED into the production environment.</p> <p>The GAPS contractors have production access to assist ED in specific, database- or data-specific problems. GAPS developers each have their own Oracle IDs. This allows for individual accountability. Refer to Response to IG Report Action Memorandum SYS-98-07.</p> <p>2/8/99 – GAPS has reduced the number of personnel to seven (7) who have access to production. 5 developers and 2 DBA's.</p>	<p>OIG: Need OIG confirmation. 3/19/99 - OIG confirmation received. COMPLETE</p>	<p>GAPS Team</p>	<p>should be no access to the development environment by the developers unless assisting ED personnel, the access remains open to the development environment. If "assistance" is required, access to the production environments should be turned on during the "assistance time" only, and turned off at all other times. Additionally, while assistance is "turned on", there should be some type of review mechanism in place to ensure that only the specific "assistance" was provided.</p> <p>Disagree. The Web server had changes made directly to it during the resolution of the NT security setting recommendations. The resulting changes had not</p>	<p>H</p>

No	IG Observation	EDCAPS Response	Status	Owner	OIG Reply	Cat.
		<p>before being delivered to the acceptance test environment. Only after passing acceptance test is a software change propagated into production.</p> <p>Further, the development and acceptance testing environments have production "snapshots" of data, thus providing sufficient volume to provide an adequate testing scenario. Testing does not occur in the production environment.</p>	CLOSED		<p>been previously tested prior to implementation on the server and resulted in denial of the services for a short period of time.</p>	

IG "OPERATIONAL" Observations
High and Medium

No	IG Observation	EDCAPS Response	Status	Owner	OIG Reply	Cat.
31	ACH and Fedwire processing requires a form 1199 with the signature of the requestor, of a "fiscal officer of the institution, and a member of bank personnel who verifies the routing number. However, these signatures and titles are not compared to previous documentation or listings of authorized to do business for listings to ensure authenticity.	TBD	TBD	Danny Harris	Open	M

COMPLETED

No	IG Observation	EDCAPS Response	Status	Owner	OIG Reply	Cat.
26	<p>Several of the roles may have potentially conflicting or sensitive accesses. (EDPMSUSR SP_EA_GETUIDANDPWD EXECUTE, GAPSADMIN BANK_ACCT_AUDIT_TRAIL UPDATE, GAPSAPUSER CERTIFY_OFFICER UPDATE, GAPSINQUIRE SP_AB_CONVERT DB EXECUTE, etc.) GAPSADMIN, GAPSAPUSER, and GAPSPAYUSR have access to the pending payment tables (rollup, payment records, and disbursement schedules).</p>	<p>EDPMSUSR needs execute privilege to SP_EA_GETUIDANDPWD. The GAPS software logs in as EDPMSUSR to run SP_EA_GETUIDANDPWD, which retrieves the user ID and password for first-time external users. EDPMSUSR's database privileges are limited to executing the SP_EA_GETUIDANDPWD stored procedure. Even if an unauthorized user were successful in logging into the database using EDPMSUSR, the unauthorized user would have to pass several arguments of the correct type and in the correct order to execute SP_EA_GETUIDANDPWD. Without describe privileges on the database, this would be a very time consuming exercise.</p> <p>GAPSADMIN and GAPSPAYUSR privilege to BANK_ACCT_AUDIT_TRAIL has been changed to remove Update privilege.</p> <p>GAPSAPUSR privileges has been changed to CERTIFY_OFFICER to remove Update privilege.</p> <p>GAPSINQUIRE does not have Execute privileges to SP_AB_DB_CONVERT. This stored</p>	Complete	Danny Harris	<p>OIG agrees with the resolution of this issue whereby the Payee Guide will be changed to reflect the existing environment.</p>	H

No	IG Observation	EDCAPS Response	Status	Owner	OIG Reply	Cat.
4	Financial Payments Group operates and maintains GAPS; reconciles funds; liaison between	<p>EDCAPS Response</p> <p>procedure was used temporarily several months ago to implement new functionality and has since been dropped.</p> <p>The GAPSADMIN role must have privileges to all GAPS tables, except for those that are system-controlled, in order for users assigned the role to perform their job effectively.</p> <p>The GAPSPAYUSER role allows users to process payment requests. Processing payment requests includes the ability to initiate, modify, delete, schedule, and certify payment requests. As such, GAPSPAYUSER needs all privileges to PAYMENT_REQ, ROLL_UP, and DISBURSE_SCHD. A new role can be defined if the scheduling and certifying activities needs to be separated from the creation of the payment request.</p> <p>7</p> <p>The GAPSPAYUSER role allows users to maintain bank account information. GAPSPAYUSER has all privileges to ROLL_UP and Select privilege to PAYMENT_REQ and DISBURSE_SCHD. GAPSPAYUSER would not be able to create and certify payment requests because they do not have sufficient privilege to PAYMENT_REQ and DISBURSE_SCHD.</p>	OIG reviewed new document and this item is	Danny Harris	OIG agrees with the resolution of this issue whereby the Payee Guide	H

No	IG Observation	EDCAPS Response	Status	Owner	OIG Reply	Cat.
	recipients and ED offices providing no segregation of duties between distribution and reconciliation.		closed.		will be changed to reflect the existing environment.	
5	The customer assistance/accountability unit (CA/AU), as a subdivision of FPQ, processes expenditure requests and handles customer expenditure issues providing no segregation of duties for these expenditure functions.	TBD	OIG reviewed new document and this item is closed.	Danny Harris	OIG agrees with the resolution of this issue whereby the Payee Guide will be changed to reflect the existing environment.	H
6	The Payment Management Service Reporting Unit (PMSRU) maintains payee accounts, maintains and updates recipient bank information, reconciles payments, corrects data, and makes Direct Loan payments to schools providing no segregation of duties between distribution and reconciliation.	TBD	OIG reviewed new document and this item is closed.	Danny Harris	OIG agrees with the resolution of this issue whereby the Payee Guide will be changed to reflect the existing environment.	H

IG "EDCAPS Unix/Oracle/Admin" Observations
High and Medium

No	IG Observation	EDCAPS Response	Status	Owner	OIG Reply	Cat.
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COMPLETED

No	IG Observation	EDCAPS Response	Status	Owner	OIG Reply	Cat.
13	Initial password for assigned GAPS user ID is not forced to be changed.	Password is forced every 90 days.	Complete. Need to demonstrate to OIG. 3/19/99 - OIG Confirmation received - COMPLETE	EDCAPS	OIG agrees with the resolution of this issue. 1/11/99	M
14	User ID and password for SAROS FileShare are documented.	Response provided 1/11/99. Change will be made in the software.	EDCAPS did find the problem. Will change documentation and password Demonstrated to OIG on 3/15. Need OIG confirmation 3/19/99 - OIG Confirmation received - COMPLETE	EDCAPS	Agreed. Once completed we need to demonstrate.	M
16	A Group ID for superuser abilities has been established labeled SUPERUSR. In addition, other group IDs had also been noted (ex. Test, etc.)	All group IDs have been disabled, except for GAPS_USER.	EDCAPS disabled all Group ID's for 30 days effective 1/26/99. This is pending the outcome of research - CLOSED	EDCAPS DBA	OIG is waiting on results from the disabling. Will review at next meeting.	H

No	IG Observation	EDCAPS Response	Status	Owner	OIG Reply	Cat.
17	The Oracle Audit Log function is not implemented, though the parameter setting is turned on.	The Oracle Audit Log function is not implemented to audit user actions, though the parameter setting is turned on. Oracle object audit logging will be activated for CREATE, DROP, and ALTER commands on tables, triggers, and stored procedures (Also DISABLE trigger). Audit trails for the specific GAPS tables have been implemented with triggers.	OIG spoke about including GRANT, REVOKE as well. DBA's will investigate further. 1-26 GRANT, REVOKE included. Complete	EDCAPS DBA	OIG agrees with the resolution of this issue based on the additional implementations discussed at the December 22, 1998 meeting.	H
18	The Oracle parameter file option dbline_encrypt_login Unauthorized users can obtain GAPS application passwords in cleartext. is set to FALSE	The DBLINE_ENCRYPT_LOGIN will be set to TRUE on the database server. We will investigate setting the ORA_ENCRYPT_LOGIN environment variable to TRUE on the client.	EDCAPS is researching based on OIG 1/11/99 response. EDCAPS is working with CIO to implement this change. The change is required at a Dept. configuration level.	EDCAPS DBA	OIG needs a demonstration when complete. Demonstration to OIG completed 18 January, 2000.	M
29	There is at least one individual user ID who has apparent excessive access which seem to present a segregation of duties issue. This ID is ERPRINDLE who is granted a Superuser GAPS ID and is responsible	Superuser rights have been revoked.	Closed. Need to demonstrate to OIG. 3/19/99 - OIG Confirmation received - COMPLETE	EDCAPS DBA	OIG agrees with the resolution of this issue. 1/11/99	H
56	The EDBLUE production system and the Firewall have an etc/passwd file that contains a number of users without an assigned specific shell. This forces the system to use the default shell that may allow users more privileges than authorized.	All users in /etc/passwd in the EDBLUE production system have been assigned a specific shell. The /etc/passwd file in the Firewall is managed by CIO.	3/19/99 - OIG Confirmation received - COMPLETE	CIO/EDCAPS	Verified on EDBLUE. Open on firewall. (CIO) COMPLETE	M

No	IG Observation	EDCAPS Response	Status	Owner	OIG Reply	Cat
58	EDBLUE production system and the Firewall contain files without user and group ownership. Without ownership files should be considered hostile.	If a file is loaded from tape or CDRom and the numeric userid does not match up with a numeric userid in the /etc/passwd file and/or the numeric groupid does not match up with the numeric groupid in the /etc/group file, the groupid and/or userid will be numeric when an "ls -l" command is issued. The numeric userid/groupid issue can also present itself if a userid and/or a groupid is deleted and files exist that were owned by that user and/or group.	EDCAPS is researching based on OIG 1/11/99 response. Demonstrated to OIG on 2/28/99. Need OIG confirmation 3/19/99 - OIG Confirmation received - COMPLETE	EDCAPS UNIX Admin	Waiting on EDCAPS review.	M
64	The Firewall /ETC/FTPUSERS file that will limit ftp access was not found.	This observation appears to be incorrect. The following was found on the BLUE server in response to the observation. The date of implementation indicates that this has been in place for some time: blue : /home/resposi > ls -l /etc/ftpusers -rwxr-xr-x 1 bin bin 10 Jul 24 1995 /etc/ftpusers*	EDCAPS is researching based on OIG 1/11/99 response. Demonstrated to OIG on 2/28/99. Need OIG Confirmation. 3/19/99 - OIG Confirmation received - COMPLETE	EDCAPS UNIX Admin	Waiting on EDCAPS Review.	M
65	The EDBLUE production system ETC/PASSWD file listing contained a number of Group IDs. User IDs and associated passwords are for identification and authentication of individual users that access the system and are not to be used to solely indicate primary	There are accounts on the system that are not of the form: <first initial><last initial><last name> The way to change this would be by	3/19/99 - OIG Confirmation received - COMPLETE	EDCAPS UNIX Admin	OIG agrees with the resolution of this issue. 1/11/99	M

United States General Accounting Office

GAO

Testimony

Before the Subcommittee on Oversight and Investigations,
Committee on Education and the Workforce, House of
Representatives

For Release on Delivery
Expected at
10:30 a.m.
Wednesday,
March 1, 2000

FINANCIAL MANAGEMENT

Education Faces Challenges in Achieving Financial Management Reform

Statement of Gloria L. Jarmon
Director, Health, Education, and Human Services
Accounting and Financial Management Issues
Accounting and Information Management Division



GAO

Accountability * Integrity * Reliability

Mr. Chairman and Members of the Subcommittee:

I am pleased to be here today to discuss (1) the Department of Education's fiscal year 1999 financial audit results¹ in the context of related work we have performed, (2) the relationship between the audit findings and the potential for waste, fraud, and abuse, and (3) the status of our ongoing study of the Department's grantback account.

The Department's financial statements are important to the federal government because Education is the primary agency responsible for overseeing the more than \$75 billion annual federal investment in support of educational programs for U.S. citizens and eligible noncitizens. The Department is also responsible for collecting about \$175 billion owed by students. In fiscal year 1999, more than 8.1 million students received over \$53 billion in federal student financial aid through programs administered by Education.

The Department's stewardship over these assets has been under question as the agency has experienced persistent financial management weaknesses. Beginning with its first agencywide audit effort in fiscal year 1995,² Education's auditors have each year reported largely the same serious internal control weaknesses, which have affected the Department's ability to provide financial information to decision makers both inside and outside the agency.

Background

Federal decision makers need reliable and timely financial management information to ensure adequate accountability, manage for results, and make timely and well-informed decisions. However, historically, such financial management information has not been available across the government. Agency IG reports, independent public accountants reports, and our own work have identified persistent limitations in the availability of quality financial data for decision making. Audits have shown that federal financial management is in serious disrepair, which results in incorrect financial information being provided to the Congress and the administration. Without reliable financial information, government leaders do not have the full facts necessary to make investments of scarce

¹Department of Education, *Fiscal Year 1999 Consolidated Financial Statements*, Ernst & Young LLP, February 2000.

²For fiscal year 1995, a year before the Government Management Reform Act (GMRA) requirements became effective, the Department's Inspector General (IG) hired a contractor to perform its first agencywide audit.

resources or direct programs. Creating a government that runs more efficiently and effectively has been a public concern for decades.

Over the past 10 years, dramatic changes have occurred in federal financial management in response to the most comprehensive management reform legislation of the past 40 years. The combination of reforms ushered in by (1) the Chief Financial Officers (CFO) Act of 1990, (2) the Government Management Reform Act of 1994, (3) the Federal Financial Management Improvement Act (FFMIA) of 1996, (4) the Government Performance and Results Act (GPRA) of 1993, and (5) the Clinger-Cohen Act of 1996 will, if successfully implemented, provide the necessary foundation to run an effective, results-oriented government. Efforts to continue to build the necessary fundamental foundation through lasting financial management reform are essential. Only by generating reliable and useful information can the government ensure adequate accountability to taxpayers, manage for results, and help decision makers make timely, well-informed judgments.

Education's fiscal year 1999 audit was conducted by Ernst & Young LLP, independent auditors contracted for by the Education Inspector General. We reviewed the independent auditors' draft reports and workpapers during the latter part of February 2000. We shared a draft of this statement with Education officials, who provided technical comments. We have incorporated their comments where appropriate. Our work was conducted in accordance with generally accepted government auditing standards.

Fiscal Year 1999 Audit Results

The Office of Management and Budget's (OMB) implementation guidance for audited financial statements requires the 24 CFO Act agencies to receive three reports from their auditors annually: (1) an opinion or report on the agencies' financial statements, (2) a report on the agencies' internal controls, and (3) a report on the agencies' compliance with laws and regulations. Last month, OMB reported that it expects 18 of the 24 CFO Act agencies to receive "clean" or unqualified opinions on their fiscal year 1999 financial statement audits due to OMB today, March 1. The Department of Education was not expected to receive such an opinion³ because of its financial management weaknesses.

As reported to you in December,³ the Department issued its fiscal year 1998 financial statements over 8 months late and was one of six CFO Act agencies that received disclaimers—meaning that the auditors were

³*Financial Management: Financial Management Weaknesses at the Department of Education* (GAO/T-AIMD-00-50, December 6, 1999).

unable to express an opinion—on their financial statements for that fiscal year.⁴ Pervasive weaknesses in the design and operation of Education's financial management systems, accounting procedures, documentation, recordkeeping, and internal controls, including computer security controls, prevented Education from reliably reporting on the results of its operations for fiscal year 1998.

Report on the Financial Statements

While Education's financial staff and its contractors have worked very hard over the past few months to prepare Education's fiscal year 1999 financial statements, and the auditors' opinion on the financial statements has improved over that of fiscal year 1998, serious internal control and financial management systems weaknesses continue to plague the agency. For fiscal year 1999, Education made significant efforts to work around these weaknesses and produce financial statements. These efforts enabled its auditors to issue qualified opinions⁵ on four of its five required financial statements and a disclaimer on the fifth statement. Its auditors' qualified opinion states that except for the effect of the matters to which the qualification relates, the financial statements present fairly, in all material respects, financial position, net costs, changes in net position, and budgetary resources in conformity with generally accepted accounting principles. The auditors stated the following reasons or matters for their qualification:

- The Department had significant systems weaknesses during fiscal year 1999 affecting its financial management systems. The new accounting system, implemented in fiscal year 1998, had several limitations, including an inability to perform a year-end closing process or produce automated consolidated financial statements. Through its efforts and those of its contractors, Education was able to partially compensate for, but did not correct, certain aspects of the material weaknesses in its financial reporting process. In addition, during fiscal year 1999, Education experienced significant turnover in financial management, which also contributed to the overall weakness in financial reporting.

⁴In addition to the 6 agencies that received disclaimers in fiscal year 1998, 4 agencies received qualified opinions, 2 agencies received mixed opinions, and 12 agencies received unqualified or "clean" opinions.

⁵Such an opinion is expressed when (1) there is a lack of sufficient competent evidential matter or there are restrictions on the scope of the audit that have led the auditor to conclude that he or she cannot express an unqualified opinion and he or she has concluded not to disclaim an opinion or (2) the auditor believes, on the basis of his or her audit, that the financial statements contain a departure from generally accepted accounting principles, the effect of which is material, and he or she has concluded not to express an adverse opinion.

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- Education was unable to provide adequate support for about \$800 million reported in the September 30, 1999, net position balance in its financial statements, and the auditors were unable to perform other audit procedures to satisfy themselves that this amount was correct.
 - Education processed many transactions from prior fiscal years as fiscal year 1999 transactions and manually adjusted its records in an effort to reflect the transactions in the proper period; however, the auditors could not determine if these adjustments for certain costs and obligations were correct.
 - The auditors were unable to determine whether beginning balances for accounts payable and related accruals were accurate.

In addition, as in the prior year, the auditors did not issue an opinion (referred to as a disclaimer of an opinion) on the Department's Statement of Financing. The Statement of Financing provides a reconciliation or "translation" from the budget to the financial statements. The statement is intended to help those who work with the budget to understand the financial statements and the cost information they provide. The auditors stated that the reason for this disclaimer was that the Department did not perform adequate reconciliations and present support for amounts on the Statement of Financing in a timely manner.

To the extent that Education was able to improve the opinion it received on its financial statements for fiscal year 1999, it was generally the result of (1) time-consuming manual procedures, (2) various automated tools to "work around" the system's inability to close the books and generate financial statements, and (3) significant reliance on external consultants to assist in the preparation of additional reconciliations and the financial statements. This approach does not produce the timely and reliable financial and performance information Education needs for decision making on an ongoing basis, which is the desired result of the CFO Act.

Report on Internal Controls

The Department also receives annually from its auditors a report on internal controls. This report is significant for highlighting the agency's internal control weaknesses that increase its risk of mismanagement that can sometimes result in waste, fraud, and abuse. In this report for fiscal

year 1999, the Department's auditors are expected to report four material⁶ internal control weaknesses—three from fiscal year 1998 and one additional one for fiscal year 1999—and that long-standing internal control weaknesses persist.

The specific material internal control weaknesses cited by the independent auditors for fiscal year 1999 were (1) weaknesses in the financial reporting process, (2) inadequate reconciliations of financial accounting records, and (3) inadequate controls over information systems. The independent auditors also identified a new material internal control weakness related to accounting for certain loan transactions. Summaries of the material internal control weaknesses follow:

- As in prior years, Education does not have adequate internal controls over its financial reporting process. Its general ledger system was not able to perform an automated year-end closing process and directly produce consolidated financial statements as would normally be expected from such systems. Because of these weaknesses, Education had to resort to a costly, labor-intensive, and time-consuming process involving manual and automated procedures to prepare financial statements for fiscal year 1999. In addition, Education had to rely heavily on contractor services to help perform reconciliations among the various sources used. In one instance, Education reported a balance of approximately \$7.5 billion for its cumulative results of operations. However, the majority of this amount, which pertains to the Federal Family Education Loan Program (FFELP), should have been reported as a payable to Treasury rather than as cumulative results of operations. As a result of the independent auditors' work, an adjustment was made to reclassify the \$7.5 billion to the proper account. When such errors occur and are not detected by the Department's controls, there are increased risks that the Department could retain funds inappropriately that should be returned to Treasury.
- Education again did not properly or promptly reconcile its financial accounting records during fiscal year 1999 and could not provide sufficient documentation to support some of its financial transactions. Weaknesses

⁶A material internal control weakness is a reportable condition that precludes the entity's internal controls from providing reasonable assurance that material misstatements in the financial statements or material noncompliance with applicable laws or regulations will be prevented or detected on a timely basis. In addition to these material internal control weaknesses, the independent auditors also reported four reportable conditions. Reportable conditions are matters coming to the auditors' attention that, in their judgment, should be communicated because they represent significant deficiencies in the design or operation of internal controls that could adversely affect the organization's ability to meet the objectives of reliable financial reporting and compliance with applicable laws and regulations.

in the Department's internal controls over the reconciliation process prevented timely detection and correction of errors in its underlying accounting records. In some instances, Education adjusted its general ledger to reflect the balance per the subsidiary records, without sufficiently researching the cause for differences. Also, as indicated in prior audits, Education has not been able to identify and resolve differences between its accounting records and cash transactions reported by the Treasury. For example, for fiscal year 1999, Education adjusted its Fund Balance with Treasury, due to a difference between its general ledger and the Treasury, by a net amount of about \$244 million. Reconciling agencies' accounting records with relevant Treasury records is required by Treasury policy and is analogous to individuals reconciling their checkbooks to monthly bank statements.

- During fiscal year 1999, Education did not properly account for its funds disbursed under FFELP. Specifically, it did not return about \$2.7 billion in net collections specific to its liquidating account to Treasury as required by the Credit Reform Act of 1990. The liquidating account is used to record transactions for loans originated prior to fiscal year 1992. Any unobligated balances in this account at fiscal year end are unavailable for obligations in subsequent fiscal years and must be transferred to the general fund. Further, Education did not sufficiently analyze the balances reflected on the financial statements to ensure that the FFELP balances agreed with relevant balances in the Department's budgetary accounts. The auditors stated that this situation resulted in an unexplained difference of about \$700 million between the FFELP Fund Balance with Treasury account and related budgetary accounts as of September 30, 1999. By not properly accounting for and analyzing its FFELP transactions as required by the Federal Credit Reform Act of 1990, Education cannot be assured that its financial or budgetary reports are accurate. Further, not returning the required amounts to Treasury—\$2.7 billion in this instance—raised the possibility that the Department might inappropriately use the collections.
- Education had information systems control deficiencies in
 - (1) implementing user management controls, such as procedures for requesting, authorizing, and revalidating access to computing resources,
 - (2) monitoring and reviewing access to sensitive computer resources,
 - (3) documenting the approach and methodology for the design and maintenance of its information technology architecture, and
 - (4) developing and testing a comprehensive disaster recovery plan to ensure the continuity of critical system operations in the event of disaster.The Department places significant reliance on its financial management systems to perform basic functions, such as making payments to grantees and maintaining budget controls. Consequently, continued weaknesses in

information systems controls increase the risk of unauthorized access or disruption in services and make Education's sensitive grant and loan data vulnerable to inadvertent or deliberate misuse, fraudulent use, improper disclosure, or destruction, which could occur without being detected.

Our work in this area has shown that other agencies have improved their financial audit report results but are also facing material internal control weaknesses. A number of other agencies have focused their efforts primarily on trying to develop short-term stop-gap measures designed to produce year-end balances rather than on the fundamental solutions that are needed to address the management challenges they face. As a result, these agencies continue to experience pervasive material weaknesses in the design and operation of their financial management and related operational systems, accounting procedures, documentation, recordkeeping, and internal controls, including computer security controls. Consequently, these agencies rely on costly, time-consuming ad hoc procedures to determine year-end balances. This approach does not produce the timely and reliable financial and performance information needed for decision making on an ongoing basis. This approach is also inherently incapable of addressing the underlying financial management and operational issues that adversely affect these agencies' ability to fulfill their missions.

Report on Compliance With Laws and Regulations

The third report that the auditors issue annually is a report on agency compliance with laws and regulations. Specifically, the Department's auditors reported that it was not in full compliance with three laws as noted below.

- For fiscal year 1999, the independent auditors found that Education 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. The Department was 1 of 21 CFO Act agencies whose financial systems did not comply with the requirements of FFMIA in fiscal year 1998. Because many agencies have significant financial management systems weaknesses, we are not expecting significant changes in these results in the fiscal year 1999 audits; however, it is imperative that these problems be resolved so that agencies can produce needed financial information on a day-to-day basis in a timely and accurate manner. FFMIA requires that agency financial management systems substantially comply with (1) federal financial management

systems requirements,⁷ (2) federal accounting standards, and (3) the *U.S. Government Standard General Ledger*⁸ at the transaction level. We are working with OMB and agencies to monitor their efforts to resolve these significant weaknesses.

- The Department 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. A key goal of the Clinger-Cohen Act is that agencies should have processes and information in place to help ensure that information technology (IT) projects are being implemented at acceptable costs and within reasonable and expected time frames and that they are contributing to tangible, observable improvements in mission performance. By not fully implementing the plans called for under the act, Education was not maximizing the value and assessing and managing the risks of its IT investments.
- The Department did not transfer its excess funds related to FFELP, specifically the \$2.7 billion of net collections previously mentioned, to Treasury as required by the Federal Credit Reform Act of 1990.

Potential for Fraud, Waste, and Abuse

Education continues to be plagued by serious internal control and system deficiencies that hinder its ability to achieve lasting financial management improvements. The internal control weaknesses discussed above and in more detail in the auditors' report need to be addressed to reduce the potential for waste, fraud, and abuse in the Department. Some of the vulnerabilities identified in the audit report include weaknesses in the financial reporting process, inadequate reconciliations of financial accounting records, information systems weaknesses, and property management weaknesses. Specific examples of vulnerabilities related to these weaknesses follow:

- The material internal control weakness related to financial reporting highlights the fact that managers do not receive accurate and timely financial information, such as information on disbursements made and amounts collected, that could be used to identify unusual activity and other anomalies.

⁷The financial management systems requirements have been developed by the Joint Financial Management Improvement Program, which is a joint and cooperative undertaking of the Department of the Treasury, OMB, GAO, and the Office of Personnel Management.

⁸The Standard General Ledger provides a standard chart of accounts and standardized transactions that agencies are to use in all their financial systems.

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- Some of the known duplicate payments mentioned by the auditors in their report on internal controls could have been identified earlier if proper reconciliations had been performed. The auditors stated that the Department has procedures in place that should detect duplicate payments and correct them within a reasonable time frame. We have not yet reviewed these procedures.
 - The auditors stated that because the Department has not developed formal policies and procedures to reconcile grant expenditures between its payments system and its general ledger system, there is increased risk that material errors or irregularities could occur and not be detected on a timely basis. This is significant because the volume of grant transactions is over \$30 billion per year.
 - The information systems weaknesses highlight some of the computer security vulnerabilities, such as the lack of an effective process to monitor security violations on all critical systems of the Department. Information systems control weaknesses increase the risk of unauthorized access or disruption in services and make Education's sensitive grant and loan data vulnerable to inadvertent or deliberate misuse, fraudulent use, improper disclosure, or destruction, which could occur without being detected. A report issued by the Department's Inspector General last week⁹ emphasizes the need for the Department to focus on addressing its computer security vulnerabilities. In addition, the White House recently recognized the importance of strengthening the nation's defenses against threats to public and private sector information systems that are critical to the country's economic and social welfare when it issued its *National Plan for Information Systems Protection*.¹⁰
 - The auditors reported that Education had not taken a complete, comprehensive physical inventory of property and equipment for at least the past 2 years. Comprehensive inventories improve accountability for safeguarding the government's assets, such as computer software and hardware, and establish accurate property records. Without such an inventory, property or equipment could be stolen or lost without detection or resources could be wasted by purchasing duplicate equipment already on hand.

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⁹Review of Security Posture, Policies and Plans (ED-OIG/A11-90013) February 2000.

¹⁰Defending America's Cyberspace: National Plan for Information Systems Protection: Version 1.0: An Invitation to a Dialogue, released January 7, 2000, the White House.

In addition, vulnerabilities in the Department's student financial assistance programs have led us since 1990 to designate this a high-risk¹¹ area for waste, fraud, abuse, and mismanagement. As we reported in our high-risk series update in January 1999, audits by GAO and the Department's IG have found instances in which students fraudulently obtained grants and loans. Also, the problems identified by the auditors in fiscal year 1999 related to the need to improve the accounting for FFELP raise additional concerns about the vulnerability of the funds associated with this program.

Review of the Grantback Account

The grantback account holds funds recovered from grant recipients following an audit determination that the recipients made an expenditure of funds that was not allowable or failed to account properly for the funds. A portion of these funds could be returned to the recipients if and when the problem that led to the return of the funds has been corrected. Any amounts not returned to the grant recipients should revert to Treasury. For the grantback account, which is part of Education's Fund Balance with Treasury, its auditors reported that Education cannot readily determine to which appropriations the excess funds belong. This same problem was reported in fiscal year 1998. The general ledger reports approximately \$314 million in Fund Balance with Treasury for the grantback account as of September 30, 1999. Subsequent to September 30, 1999, the Department returned approximately \$146 million to the Treasury. The auditors reported that Education is working with Treasury to determine the appropriate accounting for the remaining funds.

Mr. Chairman, at the Subcommittee's request, we have work ongoing on this issue. We are awaiting answers from Education to a number of key questions as well as documentation to support the transactions. The documentation provided to us thus far often did not adequately support the transactions in the account.

In summary, it is critical that Education rise to the challenges posed by its financial management weaknesses because its success in achieving all aspects of its strategic objectives depends in part upon reliable financial management information and effective internal controls. It is also important to recognize that several of the financial management issues that have been raised in reports emanating from reviews of Education's financial statements directly or indirectly affect Education's ability to meet

¹¹High Risk Series: An Update (GAO/HR-99-1, January 1999).

its obligations to its loan and grant recipients and responsibilities under law.

Mr. Chairman, this concludes my statement. I would be happy to answer any questions you or other Members of the Subcommittee may have.

Contact and Acknowledgements

For information about this statement, please contact Gloria Jarmon at (202) 512-4476 or at jarmong.aimd@gao.gov. Individuals making key contributions to this statement included Chinero Thomas, Cheryl Driscoll, Anh Dang, and Meg Mills.

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UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF INSPECTOR GENERAL

SEP 17 1998

ACTION MEMORANDUM SYS-98-07

TO : Donald Rappaport
Chief Financial and Chief Information Officer

FROM : John P. Higgins, Jr. *JPH*
Acting Inspector General

SUBJECT : GAPS Security Issues Requiring Immediate Action

We recently shared the detailed results of our first GAPS security review with your staff and are in the process of preparing our audit report. The report will identify numerous high risk issues requiring attention. However, in our opinion, the following issues developed during our work warrant immediate corrective action.

GAPS Audit Logs Need to be Activated - Presently there are no audit logs active within GAPS. Therefore, there is no record within the system of what changes are made, when they were made and who made them. Use of the audit log function is an imperative detective control used to ensure that unauthorized sensitive transactions can be detected and corrected. The absence of audit logs creates an environment where fraud could go undetected, and evidence could be unobtainable. Under generally accepted industry practice there should be several levels of audit logs operational. To correct this deficiency and facilitate post review of GAPS system changes, we recommend the following review observations be immediately addressed: 1) At the platform level, the GAPS Web Server NT audit configurations are not set to audit [Obs. #44]; 2) The Oracle audit log function has not been implemented for either the database level or the GAPS application-level [Obs. #17]; and 3) The router is not configured to log audit events [Obs. #36]. Detailed recommendations on each of these observations were previously provided to your staff.

Group IDs Need to be Eliminated - At least two group IDs are active within GAPS [Obs. #16]. One of the identified group IDs has superuser privileges. Given the financial nature of the application, accountability within GAPS must be set at the individual level. By their very nature, group IDs are shared by two or more people, and when used, lack user authentication. Therefore, if used to commit a crime, a shared ID may hinder the identification and successful prosecution of the perpetrator.

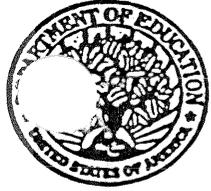
Recipient IDs and Passwords Should Not Be Shared With Hotline Personnel - Under current practices, ED and contractor hotline personnel are requesting and obtaining user IDs and passwords to make recipient account corrections [Obs. #83]. Conveyance of user IDs and passwords represents

1 compromise of security controls. As in the instances above, shared passwords prevent a proper audit trail and individual accountability. Hotline personnel could end up with access to many user accounts.

In our opinion, the above security issues require immediate attention. Each of them represent a significant compromise to the integrity of the controls within the GAPS system and a violation of guidance issued by the Office of Management and Budget (OMB). OMB Circulars A-123, A-127 and A-130 provide direction to Federal agencies on how financial applications should be developed, implemented and maintained. Essentially these Circulars establish that development of financial applications should include effective internal controls, proper System Development Life Cycle methodologies and maintenance of adequate audit trails, among other attributes.

Please respond within 10 days to notify us of the action taken to correct these deficiencies. If you would like to discuss these issues further, please call me directly.

cc: Steve Moore
Paul Gilbreath
Maureen Smith



UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF THE CHIEF FINANCIAL AND CHIEF INFORMATION OFFICER

THE CHIEF FINANCIAL AND CHIEF INFORMATION OFFICER

OCT - 1 1998

MEMORANDUM

TO: John Higgins, Jr.
Acting Inspector General

FROM: 
Donald Rappaport

SUBJECT: Response to Action Memorandum SYS-98-07

The purpose of this memorandum is to respond, as requested, to your Action Memorandum SYS-98-07, GAPS Security Issues Requiring Immediate Action, dated September 17, 1998. We appreciate the important information provided by the GAPS Security Review.

As you know, our offices were already working together to review the findings of your security review contractor. In response to your memorandum we have taken immediate action on the issues identified. In addition, we have formed a work group comprised of both OCFO and OIG staff. Their objective is to develop a comprehensive work plan which, when completed, will provide a cost effective solution to all of the system security issues identified during the review.

I am sure you will agree that there are a number of satisfactory methods to achieve appropriate levels of system security and am confident that our current security administration provides a reasonable level of control and protection. By working together I believe our offices can coordinate agreement on these issues and requirements, eventually working in synchronization within the normal life cycle.

I will keep you posted on our progress. If you require any additional information, please feel free to contact me at 401-0085 or Paul Gilbreath at 401-1589.



U.S. Department of Education - EDCAPS GAPS- Reconciliation Statement

DUNS Number: 878647932

Mississippi State Technical Co
CEO
10915 HARDIN VLY RD BOX 22990
KNOXVILLE, TN 37933

Dear Recipient:

Attached is a Reconciliation Statement generated from the Department of Education Grants Administration and Payment System (GAPS) by award for your entity as of the conversion date. This information was converted from award and payment information in the Department of Education Payment Management System (EDPMS). The data elements converted from EDPMS to GAPS include: PR/Award Number, Net Authorization, and Net Draw. The Available Balance was calculated by subtracting the Net Draw from the Net Authorization. The attached Reconciliation Statement provides the initial information converted and be adjusted by your entity on-line or by calling the Department's hotline.

During conversion, the total cash drawn from your entity's EDPMS account was allocated to the grant awards in GAPS as Cumulative Net Draws. The Cumulative Net Draws should reconcile to the actual expenditures for the specific grant awards consistent with your entity's internal accounting records.

If this is not the case, Cumulative Net Draws should be adjusted on-line to reflect actual expenditures by using the Adjust Draw down Amounts functionality in GAPS or calling the hotline. Whenever a Draw down adjustment is made in GAPS, the net result of the adjustment must be equal to zero. For example, if the draw downs for one grant award are increased by \$100, the draw downs for one or more grant awards must be decreased by \$100.

With the implementation of GAPS, recipient reporting using 272s and other forms has been replaced. Instead, recipients will report by ensuring the information contained in the GAPS system, relative to draw downs by award, is consistent with actual expenditure data.

Information in GAPS is maintained by award number. Draw downs should be determined based on the anticipated expenditures to be made for a three day or regulatory period. Draw downs should be adjusted periodically to reflect actual expenditures by award. Recipients are responsible for maintaining accurate information in GAPS. This information will replace the past practice of reporting actual expenditures manually to the Department on a periodic basis.

There may be a difference in the net authorization amount and net draw amount between EDPMS and GAPS due to the GAPS grant award closeout process. If your entity determines there is a discrepancy with the grant award authorization, contact the program office which issued the grant award. If there is a discrepancy in the Draw down amount or available balance, you should contact the GAPS Hotline at 1-888-336-8930.



UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF INSPECTOR GENERAL

MAY 28 1998

ACTION MEMORANDUM SYS-98-01

TO : Donald Rappaport
Chief Financial and Chief Information Officer

FROM : *Steven A. McNamara*
Steven A. McNamara
Acting Deputy Inspector General

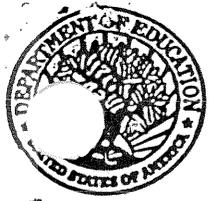
SUBJECT : EDCAPS Security Issues

Thank you for providing us with the opportunity to meet with you on May 26 concerning EDCAPS security issues. As discussed in the meeting, we have a reasonable basis to believe that GAPS user IDs and passwords are being shared among OCFO staff and that there may be security concerns over the GAPS password file. You agreed that these issues, if valid, would be significant and that you would follow-up with your staff to ascertain their status.

Specifically, we have become aware of at least one instance of a user ID and password with significant access privileges being provided to a group of OCFO staff members. As you are aware, sharing of user IDs eliminates accountability and creates a considerable security exposure. To mitigate this exposure, we recommend that GAPS force password changes on all OCFO user ID accounts and that staff be instructed not to share user IDs and passwords. At a minimum, security staff should assess compliance by monitoring system accesses for concurrent logon. A stronger control would be to not allow user IDs with significant system access concurrent logon capability.

In addition, we have learned that the GAPS password file may be accessible to individuals that do not need access. Access to the password file should be restricted to a limited number of individuals. We recommend that security staff ensure that the GAPS password is adequately restricted and that modifications are monitored through an audit trail capability.

Please provide us with a written response of the results of your review and any actions taken at your earliest convenience. As we agreed, we will continue to work with you and your staff to alert you to any potential exposures to help assure the security of EDCAPS. We will meet again next week after our security contractor comes on board to collaborate on the design of a vigorous security evaluation and to discuss the status of the aforementioned issues. If you have any questions or concerns, please feel free to contact me on 205-8200.



UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF THE CHIEF FINANCIAL AND CHIEF INFORMATION OFFICER

THE CHIEF FINANCIAL AND CHIEF INFORMATION OFFICER

Memorandum

TO : Steve A. McNamara
Acting Deputy Inspector General

FROM : 
Donald Rappaport
Chief Financial and Chief Information Officer

SUBJECT : Action Memorandum SYS-98-01

JUN 15 1998

Thank you for the opportunity to address the issues identified in the referenced Action Memorandum. We have conducted a thorough review of the issues your office raised. The following describes our findings and the actions taken:

The first issue concerns the sharing of GAPS/EDCAPS user-ids/passwords. Our review uncovered that a small group of six employees within the Payments Support Group were sharing a single employee's user-id/password. This team is responsible for, among other things, the maintenance of payee and grantee information, including demographic and banking information. As a result of the data conversion and GAPS start-up, this team was under intense pressure to respond quickly to customer needs. During the data conversion for GAPS, we encountered an unexpected user-id limitation. The Payments Support Group, through a series of miscommunications, mistook this limitation as requiring them to function with only one user-id/password which they shared across the team. This team has specifically separated responsibility for banking information maintenance, and as such, they have limited access privileges. Specifically, they have no access to payment or award functions.

This issue has been resolved by removing the shared user-id/password and issuing unique ones to each user on this team. We believe that their separation of duties and their GAPS access privileges represent sound business practices and are as they should be. Furthermore, we will investigate the feasibility of limiting concurrent logon.

The second issue addressed the accessibility of the "GAPS password file." In fact, there is no GAPS password file, and user passwords are not accessible to any GAPS user. Only specific users can modify their password. User passwords cannot be seen by anyone, not even the owner. Passwords are maintained as an Oracle security function separate from the GAPS database, and there are no GAPS applications that can access passwords. The cause of this misunderstanding is most probably related to the data conversion files. For conversion purposes, we brought the old EIN/PIN over to GAPS

SAW
6/16/98

(roughly the same as the user-id/password) for our customer's first entry into the system. On initial entry, using the old EIN/PIN, the system gives the user their new user-id and allows them to set their password. For those customers that cannot, or will not, go online using the web site, the customer support hotline payment team acts as their user. The team requires caller identification confirmation, and the system records both the customer user-id/password and the user's user-id/password. Another customer service function that may have raised this issue involves helping customers find their DUNS#, EIN, or award documents. Because this data is not sensitive, most customer service users have access to it.

Please note, as a related action item to the GAPS password file issue, we had previously tasked the GAPS development contractor to modify the GAPS sign-on process to require customers to change any passwords issued by the Department. We expect to deploy this modification soon.

I hope this information adequately clarifies the issues identified in your memorandum. Thank you for your support and cooperation with the GAPS/EDCAPS Project. If you require additional information, the entire EDCAPS team is at your disposal. Should issues like these arise in the future, I encourage your office to contact Paul Gilbreath (the EDCAPS Project Director) at 401-0085.



UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF INSPECTOR GENERAL

JUN 26 1998

AUDIT ACTION MEMORANDUM SYS-98-03

TO : Donald Rappaport
Chief Financial and Chief Information Officer

FROM : John P. Higgins, Jr. *JPH*
Acting Inspector General

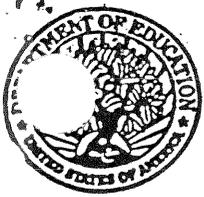
SUBJECT : Serious Security Exposure Over GAPS User IDs and Passwords

The purpose of this audit action memorandum is to inform you that the exposure over GAPS user IDs and passwords that we reported to you in Action Memorandum SYS-98-01, dated May 28, 1998, still exists. Your June 15, 1998 response indicated several reasons why there was not an exposure and that no further action would be taken. However, we reformed our original test of the password table earlier today and found that the same exposure still remains. This is a serious matter and compromises security over the entire GAPS application, including the payment processes. Due to the seriousness of this issue, we recommend immediately taking the corrective actions as provided in the attachment to this memorandum.

The security exposure surrounding the GAPS password table coupled with the state of grantee account reconciliation, seriously compromises the integrity over the Department's \$33 billion grant payment process. The compromise could also result of loss of control over the entire system. For example, an individual could compromise the password file and initiate and redirect fraudulent payment transactions. Although we believe that this security issue is significant, we have not identified any specific payment abuses.

We recommend that you take immediate action to mitigate the identified exposure. Due to the significance of the issue, please provide us with a written response of the results of any actions taken by COB Monday, June 29, 1998. If you have any questions, please contact Steven A. McNamara, Acting Deputy Inspector General on 205-8200.

cc: Marshall Smith (without attachment)
Paul Gilbreath



UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF THE CHIEF FINANCIAL AND CHIEF INFORMATION OFFICER

THE CHIEF FINANCIAL AND CHIEF INFORMATION OFFICER

JUN 29 1998

MEMORANDUM

TO: John P. Higgins, Jr.
Acting Inspector General

FROM: Donald Rappaport *Don Rappaport for*

SUBJECT: Audit Action Memorandum SYS-98-03

The purpose of this memorandum is to respond, as requested, to the Office of Inspector General Audit Action Memorandum SYS-98-03 dated June 26, 1998. We appreciate the important information provided by the audit team and contained in the Memorandum. This detailed information identified specifically the "files" and the exposure previously referenced but not specified in SYS-98-01.

We concur with the findings of the Office of Inspector General. However, we are confident the integrity of the payment process was not compromised. Furthermore, we also believe that implementing the changes described below will minimize the risk of compromising future payments.

Nevertheless, we agree that this condition is a serious security weakness and we have implemented the following plan of action.

Today, before GAPS went online, we took the following actions:

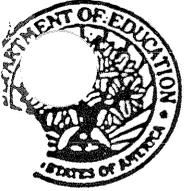
1. Removed all passwords from the GAPS data base table. Passwords are encrypted and maintained in ORACLE as indicated in the response to SYS-98-01
2. Expired and reissued "IDs" and passwords for all internal users with update access to banking information
3. Captured and are in the process of verifying all previous banking information changes to hard copy request documents submitted by the payee
4. Reset all user access authority using ORACLE data base roles
5. Removed COGNOS administrator version from the EDNET J: drive

Prior to bringing the system up on Monday July 6, 1998 we will:

6. Implement a one-time procedure that requires all users to change their password
7. Implement a permanent procedure that requires first time users to change their password issued by the Department. (We are in the process of issuing new "IDs" and passwords to external users.)
8. Reestablish the GAPS configuration baseline and the interaction with the EDNET configuration.

We will continue to keep the Office of Inspector General apprised of our progress. We will also notify you immediately if there are any additional issues or necessary actions. If you would like to assign any of your staff to monitor this effort or you would like any additional information please contact Paul Gilbreath at 401-1589.

cc: Marshall Smith
Paul Gilbreath



UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF INSPECTOR GENERAL

SEP 18 1998

ACTION MEMORANDUM SYS-98-08

TO : Donald Rappaport
Chief Financial and Chief Information Officer

FROM : *Steven A. McNamara*
John P. Higgins, Jr.
Acting Inspector General

SUBJECT : Security Screening of OCF/CIO GAPS Staff and Contractors

Our ongoing security review of the Grants Administrative Payments System (GAPS) has identified what appears to be a serious security policy violation which requires your immediate attention. We have identified at least 22 contractor and 24 ED OCF/CIO personnel that have been given access to GAPS without documentation on file which reflects a proper security screening (see Attachment 1). Proper screening of individuals with IT responsibilities is critical to the protection and control of the Department's information resources. We recommend that you take immediate steps to assure that all personnel performing high and moderate risk functions are properly screened and granted the appropriate security clearance before they are provided any future access to GAPS.

We initially raised concerns to you regarding the screening of contract personnel in a memorandum from the Assistant Inspector General for Audit dated December 4, 1997 (see Attachment 2). In a response dated January 29, 1998, you pointed out the following:

"Your [Our OIG] memorandum states that 'Contracts do not specify that screening is required for certain contract personnel.' As noted, this is intentional and consistent with ED policy developed in coordination with the OIG. Contracts do not require low-risk contractor personnel to be screened if the contractor self-certifies. However, according to ED clause number 307-13, all high-risk personnel must be screened."

Section VIII of Handbook # 11 of the Department's Information Technology Security Manual addresses the risk levels, classifying them as high risk, moderate risk, and low risk. In defining high risk, the handbook states that such positions may include:

"relatively high-risk assignments associated with or indirectly involving the accounting, disbursement, or authorization for disbursement from systems of (1) dollar amounts of \$10 million per year or greater, or (2) lesser amounts if the activities of the individual are not subject to technical review by higher authority to insure the integrity of the systems."

The handbook goes on to note that moderate risk positions may involve "accounting, disbursement or authorization for disbursement from systems of dollar amounts less than \$10 million per year."

The contractor and OCF/CIO personnel identified on the attached list are, in our opinion, all high risk personnel. Most are members of the GAPAYHOT (GAPS hotline) user group. In this capacity, they have the ability to place and remove payment flags on recipient accounts, and can make drawdown adjustments directly to recipient accounts. Available records for these personnel do not reflect clearance above the low risk level.

We recently asked your staff to provide us with the current status of 22 contractor employees. They informed us that nine of the 22 were no longer working at ED, but still had access privileges. Subsequent to our inquiry, we were assured that the user privileges for the nine would be terminated. The OCF/CIO employees listed have diverse functional responsibilities within GAPS, including security, hotline and database administration (superuser).

Given the security vulnerabilities identified during our first security review of GAPS (see Action Memorandum #98-07, dated September 17, 1998 and the detailed results previously provided to your staff), this apparent breakdown in the control structure, could further increase the level of risk that the Department faces with GAPS.

Please respond within 10 days to notify us of whatever action you have taken or plan to take to correct these deficiencies. If you would like to discuss the contents of this memorandum further, please call me directly on 205-5439.

Attachments

cc: Steve Moore
Paul Gilbreath
Maureen Smith

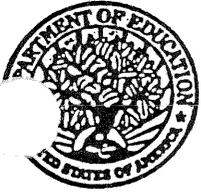
GAPS USERS WITHOUT PROPER SECURITY CLEARANCES

GROUP-CD	POC CODE	LAST NAME	FIRST NAME	LAST UPDATE
GAPAYHOT	OCFO	Hawkins	Audrey	1C 12/31/90
	OCFO	Masciana	Sharon	2C 8/22/90
	OCFO	Robison	Gregory	NACI 12/29/89
	OCFO	Rudman	Peter	
	OCFO	Staplefotte	Claudia	NACI 7/10/75
	OCFO	Straus	Girard	
PHMNTCTRL	OCFO	Byrd	Bernice	1C 4/15/94
	OCFO	Cobb	Venita	NACI 12/18/76
	OCFO	Jackson	Shirley	2C 5/26/82
SECURE	OCFO	Craven	Angela	1C 2/12/90
	OCFO	Hawkins	Pamela	
	OCFO	Lowe	Evelyn	1C 5/1/90
	OCFO	Rattler	Jamila	
	OCFO	Sowell	Felicia	
SU	OCFO	Briscoe	Michelle	NACI 1984

GAPS USERS FOR WHICH SECURITY RECORDS COULD NOT BE LOCATED

GROUP-CD	POC CODE	LAST NAME	FIRST NAME	LAST UPDATE
GAPAYHOT	OCFO	Broussard	Oscar	
	OCFO	Ford	Tallis	
	OCFO	McPherson	Kalinansa	
	OCFO	Odunzami	Yemi	
	OCFO	Telli	Abiola	
	OCFO	Walsh	Richard	
	OCFO	Todd	Teresa	
ACCTSREC	OCFO	Todd	Teresa	
SECURE-	OCFO	Bigley	Teanna	
SU	OCFO	Harding	Rebecca	
CONTRACTORS		Coleman	Artavon	
		Deshmukh	Ajit	
		Oladeimde	Bolaji	
		Taylor	Ben	
		Acton	Craig	
		Picadal	Chelo	
		Sullinger	Clare	
		Walker	Dyrral	
		Alcanites	Eleanor	
		Lonergan	Erin	
		Perry	Greg	
		Sales	Jeanienne	
		Mahmood	Khalid	
		Seputveda	Luis	
		Idun	Michael	
		Butt	Rizwan	
		Stone	Richard	
		Bennyhoff	Scott	
		Canales	Teresa	
		Muir	Tanya	
		Estrina	Luba	
		Foster	Jerome	

Note: Employees with only a 1C, 2C or NACI clearance fall short of the requirement for a moderate level clearance (5C) and a high risk clearance (6C).



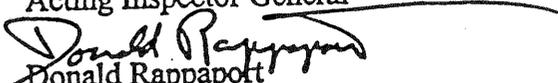
UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF THE CHIEF FINANCIAL AND CHIEF INFORMATION OFFICER

THE CHIEF FINANCIAL AND CHIEF INFORMATION OFFICER

OCT - 1 1998

MEMORANDUM

TO: John Higgins, Jr.
Acting Inspector General

FROM: 
Donald Rappaport

SUBJECT: Response to Action Memorandum SYS-98-08

The purpose of this memorandum is to respond, as requested, to your Action Memorandum SYS-98-07, Security Screening of OCF/CIO GAPS Staff and Contractors, dated September 18, 1998. Thank you for bringing this situation to my attention.

I have instructed the OCF/CIO Executive Office to immediately begin processing the appropriate security screening for employees and contractors. Additionally, I have asked the Financial Systems Operations Group to work with your office in order to quickly define the appropriate classifications for each affected individual.

I will keep you apprised of our progress. If you require any additional information, please feel free to contact me at 401-0085 or Paul Gilbreath at 401-1589.


 UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF THE CHIEF FINANCIAL OFFICER

THE CHIEF FINANCIAL OFFICER

NOV 30 1998

Memorandum

To: Jim Cornell
Area Manager
Washington Field Office

From: Don Rappaport *Paul Belmont for*

Subject: Final Audit Report: Review of GAPS Security (ACN: A1180013)

This memorandum is in response to the referenced Final Audit Report dated September 30, 1998, and the related Inspector General Memorandum, SYS-98-07.

As you know, our offices are working together to review the findings of your security review contractor. We have taken immediate action on many of the issues identified in the Audit Report and related memorandum. In addition, we have continued the efforts of the work group comprised of both OCFO and OIG staff. Their objective is to develop a comprehensive action plan that will provide a cost effective and manageable solution to all of the system security issues identified during the review. This effort has the highest priority within the systems group, and the full support of my office. The following provides a brief summary of the current status:

- The three immediate issues identified in SYS-98-07, and included in the Audit Report, have been resolved and corrective action has been taken. You should have a detailed description of the action taken. In addition, many more of the software specific issues have been addressed and await confirmation by your office.
- Because many of the items identified in the Audit Report are not directly related to GAPS software security, the EDCAPS Team has organized the issues into three separate areas of responsibility: GAPS software, platform infrastructure, and policy/procedure.
- It is my objective, with the cooperation of your Office and your contractor, to reach resolution on all of the remaining high and moderate risk issues by March 31, 1999 and to have no unresolved or overdue audit issues.

I hope by working together our offices can coordinate agreement on these issues and requirements. Eventually, working in synchronization with the normal life cycle, we will be able to provide improved customer service and security control. I will keep you posted on our progress and provide periodic updates by way of the work group. If you require any additional information, please feel free to contact me at 401-0085.

Corrective Action Plan

For the Period Ended: 14 March 2000

Audit Control Number
A1180013 "Review of GAPS Security"

Summary: The objective of the security assessment was to evaluate the security posture of the GAPS automated payment processes, including the production environment and associated information technology considerations within the Departments communication infrastructure.

Points of Contact		Report Dates	
Audit Liaison Officer: Ruth Ann Harrold		Draft Date:	
Telephone Number:	202-401-0853	Final Date:	6/7/99
Location:	4E330 FB #6	Date of ACD:	
Responsible Managers:	Tony Wood	Resolved Date:	
Telephone Numbers:	202-401-4615	Audit Manager:	
Locations:	4E202 FB #6		
Total Recommendations	45	Number Open	1
		Number Closed	

IG "CIO" Observations
High and Medium

No	IG Observation	EDCAPS/CIO Response	Status	Owner	OIG Reply	Cat
95	<p>There exists a sufficient number of modems within ED that are used for bulletin boards, remote network access, and personnel access to individual computers that present access to network components. Uncontrolled use of modems creates back doors into the Ed's infrastructure that negates the firewall. This creates the potential for compromise of ED sensitive information.</p>	<p>This is a known weakness of EDNET. A comprehensive remote access solution is currently in development that should allow for the reduction or elimination of non-network modems within the next year. Enterprise remote access solution is under development.</p>	<p>CIO will keep team updated on the progress. Need estimated date for completion. This item is closed. It will be tracked under ACN: 11-90018.</p>	CIO	<p>CIO need to demonstrate once complete. Item is closed to CAN 11-90018.</p>	M

COMPLETED

<p>35</p> <p>The router is not configured to have multiple fail-over source for booting the system. This can have an effect on the availability of the router and can cause denial of service.</p>			<p>The internet router is configured to boot from an alternate "image" in flash memory if the primary image is not available/corrupted. An additional failover source for booting would require the implementation of a TFTP server on the network, which would have the complete INet router image available. Trival FTP is a known security risk and this is not considered in the best interest of EDNET. This issue would introduce an unnecessary and additional security risk with minimum gain in internet router availability.</p>	<p>Received OIG confirmation. Complete.</p>	<p>CIO</p>	<p>1/11/99-Disagree, inside the Firewall there is no risk when applying proper control mechanisms to minimize the risk.</p> <p>2/4/99 - COMPLETE</p>	<p>M</p>
<p>36</p> <p>The router is not configured to log (audit) events. This means that there is no audit trail to check for security related events/incidents.</p>		<p>1/14/99- CIO does not concur with the OIG assessment, the router is outside the firewall, not on the inside as stated in the OIG reply. Enabling TFTP under such circumstances poses a significant security risk which, in CIO's view, is unwise. Conventional security wisdom is that TFTP is a protocol that should be avoided if at all possible. Could OIG reassess their position based on this clarification?</p>	<p>Received OIG confirmation. Complete.</p>	<p>CIO</p>	<p>2/4/99 - COMPLETE</p>	<p>H</p>	

			the router itself. Auditing will be implemented if a capable server can be allocated.						
37	Authentication to the router and to privilege commands is limited to group passwords providing minimum protection against unauthorized access.		EZACS, an authentication software package, is available. This requires a machine with sufficient processor capacity and redundant storage to provide authentication and audit logging for all DoEd routers and primary servers. Single point authentication and audit logging can be implemented when a capable server is made available. This is an unfunded requirement at this point.	Received OIG confirmation. Complete.	CIO	2/2/99 - COMPLETE	H	*	
39	The router configuration of SNMP is not limited to network management workstations. Allowing any workstation with SNMP application to manage the router.		Agreed. SNMP access is now restricted to 165.224.x.x addresses (EDNet LAN). 1/14/99-CIO has narrowed the access and have limited SNMP packets to the NCC NetDirector servers at 165.224.6.30 and 165.224.6.31	Received OIG confirmation. Complete.	CIO	1/11/99-Disagree, should be restricted to only Network management workstations. 2/2/99 - COMPLETE	M		
56	The EDBLUE production system and the Firewall have an etc/passwd file that contains a number of users without an assigned specific shell. This forces the system to use the default shell that may allow users more privileges than authorized.		The Solaris operating system on the firewall has nine mandatory system service accounts, none of which can be set up to use a shell account. Therefore, we do not understand the nature of this concern. EDBLUE concerns will be answered under "EDCAPS UNIX/Oracle/Admin Observations"	Received OIG confirmation. Complete.	CIO	Verified on EDBLue awaiting review of Firewall. 2/2/99 - COMPLETE	M		
57	The Firewall system EEPROM security mode switch for a Sun UNIX system was not enabled. This could result in the compromise of the systems firewall.		The server is located in a secure room with a video monitoring. Under the circumstances, we believe the risk of losing the EEPROM password is much greater than the risk of unauthorized physical access.	OIG has reviewed CIO's alternate safeguards in place and have determined them to be adequate.	CIO	COMPLETE	M		

	<p>1/14/99- We do not concur with the enabling of EEPROM security. Based on practical experience it provides a great deal of inconvenience in return for a small improvement in security (EEPROM security can usually be bypassed) or a non-recoverable system failure (if not). We stand by our original statement and strongly advise against this procedure. Please re-assess the perceived benefit of EEPROM security given that this capability is not available on the 5,250 other workstations or servers in the Department of Education and creates and anomaly in how we manage systems. If OIG continues to desire this change we will enable EEPROM security against our better judgement.</p>	Complete.		
42	<p>The router configuration does not prevent access to known TCP vulnerabilities such as finger, echo, etc. These TCP services are used by hackers to gain information about the system.</p>	<p>This router currently allows the following services: echo, daytime and telnet. Echo is required so we can ping the router. Daytime is required because several servers use this router to set their server clock. Telnet is required to log on to the router for maintenance.</p>	<p>Received OIG confirmation. Complete.</p>	<p>OIG agrees with the resolution of this issue. 1/11/99 2/2/99 - COMPLETE</p>
43	<p>The Router Passwords are not encrypted to prevent viewing of passwords during listing of the router configuration file. Viewing by unauthorized individuals could disclose the passwords.</p>	<p>Agreed. All passwords are now encrypted.</p>	<p>Received OIG confirmation. Complete.</p>	<p>OIG agrees with the resolution of this issue. 1/11/99 2/2/99 - COMPLETE</p>
55	<p>The Firewall system has a user account "Bill" without a password. Through this account the system could easily be compromised.</p>	<p>Agreed. This account has been removed.</p>	<p>Received OIG confirmation. Complete.</p>	<p>OIG agrees with the resolution of this issue. 1/11/99</p>

59	The Firewall system has a drive partition /dev/dsk/c0t3dos7 mounted on /testing that is near capacity. This could result in a system lockout.	This directory is part of a test directory tree. Files are regularly added and removed, and is currently almost empty.	Received OIG confirmation. Complete.	CIO	OIG agrees with the resolution of this issue.	H
63	The Firewall has numerous (28) TCP services that have known vulnerabilities.	Performing a scan for TCP services reveals that only port 53 responds ("SWIPE - IP with encryption") which is required to support the Checkpoint and SecureShell encryption functionality. Therefore, we do not believe that the Firewall is vulnerable through its network interface cards. Various TCP services do run on the server, but are only accessible either via SecureShell and the administrator account, we do not perceive this as an abnormal risk. Specific risks associated with specific services should be identified if this concern continues.	Received OIG confirmation. Complete.	CIO	TCP services that are being used should be identified. All others not used should be disable. COMPLETE - 2/2/99	H
94	The IP penetration testing identified hosts both outside	1/14/99-We do not understand OIGs intent or desires on this issue. If a scan of TCP ports is conducted, the only port seen is port 53, which is required for DNS data. The firewall config files do enable other standard TCP ports, which is required by the firewall application to enable routing of valid TCP/IP packets. These services are not otherwise viewable or exploitable, and to disable them would render the firewall application useless. We need clarification of what SPECIFIC changes or fixes OIG actually wants performed.	We would like to see a specific listing			

the firewall and inside the firewall that are configured with known TCP vulnerabilities such as, echo, gopher, etc. These TCP services are used by hackers to gain information about the system.

of services per server in order to respond to this issue with precision. However, servers can be divided into three functional areas: Outside the firewall, the DMZ and EDNet (inside the firewall). OCIO's policy is that EDNet users are inherently trusted.

The Departments accessibility standards require the use of some services (such as gopher) that have known weaknesses, these risks are known and accepted as part of the Departments commitment of accessibility. Outside the Firewall

This consists of servers in the 165.224.217.x segment, which includes the main WYWV site, related application servers, and a backup SMTP/DNS server. Also included is a termserver and modems required to support various ED-sponsored organizations and clients.

DMZ

This segment (165.224.216.x) contains several web servers, to FTP servers, primary SMTP servers, and the inside-the-firewall DNS servers. All requests are filtered by the router and firewall.

EDNet

This is all other servers and devices with the LAN.

ACTION

Outside the Firewall

	<p>We have reviewed active TCP ports by server with OERI, the sponsor organization, and removed several unnecessary services. The following ports are open and available to the public, which are required for business purposes and/or to satisfy mandatory ED accessibility standards. 21 ftp, 22 ssh, 23 telnet, 25 smtp, 37 time, 53 dns, 70 gopher, 80 http, 109 pop2, 110 pop3, 111 sun rpc, 113 ident, 119 nntp, 120 erpcd, 123 ntp, 143 imap, 210 wais, 443 ssl, 512 exec, 513 login, 514 shell, 515 print spool.</p> <p>The following ports are active, but are not required. We can not find the processes which start these ports so that we can disable the related startup processes. We have a query into the OERI application vendor requesting guidance.</p> <p>662 unassigned, 712 unassigned, 729 ibm netview, 730 ibm netview, 734 unassigned, 739 unassigned, 742 net rcs.</p> <p><u>DMZ</u> All servers are protected by the firewall, and only relevant services are accessible.</p> <p><u>EDNet</u> We are working on services definition of the servers operating on EDNet. OCIO only controls connected.</p>
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OPEN
 IG "GAPS TEAM" Observations
 High and Medium

COMPLETED

No	IG Observation	EDCAPS Response	Status	Owner	OIG Reply	Cat.
1	<p>IG Observation Payee guide can be downloaded without using a GAPS UserID and password allowing anyone with Internet access to gain information for potential attacks. This information should be limited to authorized GAPS users.</p>	<p>EDCAPS Response OCFO does not agree with moving the Payee Guide behind the log in screen of the test web site. OIG was asked to identify the information in the Payee Guide that they felt caused the security risk and OCFO we consider revising the language-1/12/99. Paul's Message - 2/11/1999 In a effort to cooperate, the GAPS team has implemented many of the OIG's security recommendations. The location of the GAPS user guide continues to be a problem.</p>	<p>Status Waiting on detailed clarification.</p>	<p>Owner GAPS Team</p>	<p>OIG Reply 2/9/99 - OIG thought that Paul had agreed to place the document behind the login screen. 2/24/99 - OIG provided document highlight areas of concern. CLOSED. Date not available.</p>	<p>Cat. H</p>

No	IG Observation	EDCAPS Response	Status	Owner	OIG Reply	Cat
8	GAPS does not have accountability of personnel	<p>And they were awaiting our response. That statement was not true; we have not received this information. As a result this item remains open. Perhaps, they completely misunderstood the request.</p> <p>We would like your group to specify exactly what you would like removed from the user guide in order to leave it where it is and your rationale for those selections.</p> <p>Becky Message 3/8/99 - As a follow-up to our meeting February 23, I need some additional information regarding the Payee Guide. For the sections you highlighted, Chapter 1 - Identification Numbers, Designating an Account Servicer, Receiving Education Funds, ACH, FEDWIRE, and Appendix C, D and E, I need to know your specific concern. Please specify if the entire section/chapter or a subset of the section/chapter, needs to be removed or reworded.</p> <p>As we stated in the meeting, OCFO intent is to reword or remove portions of the Payee Guide that the OIG indicates presents a security concern. Our plans are to continue to provide access to the Payee Guide through the GAPS Website rather than behind the logon screen.</p>	CLOSED	GAPS	OIG agrees with the	H

No	IG Observation	EDCAPS Response	Status	Owner	OIG Reply	Cat.
44	<p>The GAPS WEB Server NT audit configurations are not set to audit. There is no accountability of users' actions.</p>	<p>Refer to Response to IG Report Action Memorandum SYS-98-07</p> <p>Need clarification from OIG.</p> <p>2/28/99 – Functionality turned on 2/24/99. Demo Scheduled for 2/28/99.</p>	<p>Complete.</p> <p>Demonstrated to OIG on 2/28/99.</p> <p>Need OIG confirmation.</p>	<p>GAPS Team</p>	<p>OIG Responds 2/9/99 - The current audit configuration does not include the "auditing of failed user rights". The OIG recommends implementing the "auditing of failed user rights" to give the security officer evidence of users who are attempting to give themselves the ability to perform actions beyond their standard list of actions. An example would be; taking ownership of an object.</p>	<p>H</p>
46	<p>On the GAPS WEB Server the everyone group has READ, WRITE, EXECUTE, and DELETE (RWXD) access to the "C:\Winnt\Temp. Server the Everyone group has Read, Write, Execute, and Delete (RWXD)</p>	<p>The Everyone Group has been removed from the list of Local Groups in User Manager. However, we have determined that removing the</p>	<p>3/16/99 – The issue was further discussed and clarified with</p>	<p>GAPS Team</p>	<p>OIG responds 1/29/99 – It would seem there has been some commingling</p>	<p>M</p>

No	IG Observation	EDCAPS Response	Status	Owner	OIG Reply	Cat
48	<p>On the GAPS WEB Server the login settings are not configured to; lockout after bad logon attempts and delay before automatically reopening account after lockout. These prevention safeguards assist in protecting the system.</p>	<p>The login settings have been set to lockout after 5 attempts, the reset count for the attempts was set to 33 hours (2000 min), and the delay before reopening the account after lockout is set to Lockout Forever.</p>	<p>Complete. Demonstrated to OIG on 12/10/98. Need OIG confirmation. OIG Confirmation</p>	<p>GAPS Team</p>	<p>OIG agrees with the resolution of this issue. 1/11/99</p>	<p>M</p>
	<p>IG Observation access to the "C:" drive, C:\WINNT\SYSTEM32, C:\WINNT\SYSTEM and C:\Temp directories providing everyone the ability to alter the systems.</p>	<p>EDCAPS Response Everyone group from the C:\Winnt directory causes the web site to stop functioning. As such, we are still studying the issue. In the interim we have changed the permissions for the Everyone group from Change (RXWD) to Read (RX) for C:\WINNT, C:\WINNT\System and C:\WINNT\System32.</p>	<p>Status OIG. The issue is Complete. Need OIG confirmation. 3/19/99 - OIG confirmation received. COMPLETE</p>	<p>Owner</p>	<p>OIG Reply of permissions between IIS and the "Everyone" group. The GAPS development team may want to consider whether separate permission sets should be established for what IIS is using so that the Everyone group can be properly removed. In addition, structuring of the NT paths/ locations and permissions sets associated with those paths should also be evaluated to ensure the structure allows for a proper permission set and segregation of NT from working applications to be applied.</p>	<p>Cat</p>

No	IG Observation	EDCAPS Response	Status	Owner	OIG Reply	Cat
49	The GAPS WEB Server permits blank passwords and does not keep a password history. Lack of good password management controls increases the risk that the system may be compromised.	The GAPSWEB Server no longer permits blank passwords. Users' password now has to be at least 8 characters in length. A password history of 5 passwords is stored.	Complete. Demonstrated to OIG on 12/10/98. Need OIG confirmation. OIG Confirmation received - CLOSED	GAPS Team	OIG agrees with the resolution of this issue. 1/11/99	H
53	The Poleedit.exe for the GAPS WEB is not configured to implement a security policy. SERVER is not configured to implement a security policy.	Need more specific requirements as to what type of security policies that are being referenced. What security issues are being safeguarded against via System policies? What specific POLEDIT.EXE actions are being recommended? EDCAPS reviewed response and has the following response on 1/27/99: We have received and read your response to item number 53 which relates to the use of the Windows Policy Editor. Your response provided a description of the Policy Editor, some version history and details on how to install it. We are familiar with the Policy Editor and the mechanics of its installation and setup. This is not the kind of information we are seeking. Rather, we are wondering what aspects of the GAPS web server's security do you feel must be addressed by the Policy Editor. What security problem	Closed.		OIG 2/10/99 - In a further review of the environment, the OIG finds that the use of the poleedit.exe to set security defaults for multiple NT systems is not needed for this single system. The security settings that the poleedit.exe sets are found in Registry/Keys. Our review has concluded that the Registry/Keys are in order and no further action is required.	

No	IG Observation	EDCAPS Response	Status	Owner	OIG Reply	Cat
54	<p>On the GAPS WEB Server the Group "Guests" should be deleted from the "logon locally" privilege list. Guest accounts have been disabled.</p>	<p>The Policy Editor is typically used to prevent local users (i.e., a user actually sitting at the keyboard) from accessing certain commands, making changes to desktop configurations (e.g., changing the wallpaper), etc. With the GAPS web server, all local users are occasional users (i.e., they only log on once in a while for short periods to do particular tasks) and their activities while on the server always relate to the administration or management of the server. Given that administrators are the only users, we do not see how implementing the types of restrictions available through the Policy Editor can enhance system security. If there is disagreement on this point, please advise what particular restrictions you want implemented through Policy Editor.</p>	<p>EDCAPS asked for clarification on their general response on 2/9/99. OIG sent new response on 2/10/99. 2/28/99 - 1" part complete - Removed local</p>	<p>GAPS Team</p>	<p>OIG 2/10/99 - We are not asking that the Guests group be deleted. We want the Guest group removed from the "logon locally" privilege list and no user accounts have "logon locally"</p>	<p>M</p>

No	IG Observation	EDCAPS Response	Status	Owner	OIG Reply	Cat
83	Changes to the recipient information and payment requests can be made in writing or over the telephone. Telephone requests require a valid DUNS #, a user ID, and a password be conveyed to the "hotline representative".	Refer to Response to IG Report Action Memorandum SYS-98-07. 2/28 - A change will be made to the GAPS Software. Changing password filed to a unique identifier field. And will collect unique identifier when calls are place and then validate in the database.	Received OIG confirmation. Complete	GAPS Team	2/28 - OIG agrees with this approach. 1/18/00 COMPLETE	M
85	Development contractors have access to the production environment for GAPS allowing for modifications to	The development contractors do not implement software changes on the	Complete. Demonstrated to	GAPS Team	Disagree. While procedurally there	H

EDCAPS Response

we made a final check of the recommendation list. Although we were comfortable with our initial response, which was that the Guest group couldn't be deleted per Microsoft, we thought it might be useful, in the spirit of the OIG request, to restrict these two accounts, which are in the Guest group. Although the server responded fine when we made the initial change, that was because the update was still in memory. When the update was written to disk, it crashed the site. Subsequent review has shown us that Microsoft requires that these two accounts must have local logon rights.

Status

login. Will demo on 2/28/99. 2nd part - EDCAPS will provide clarification on audit review procedures. 3/19/99 - OIG confirmation received. COMPLETE

OIG Reply

privileges. We take issue with the statement that Microsoft requires the IUSR_GAPSWEB user account and the IWAM_GAPSWEB user account to exist. Microsoft systems and applications do not require the two GAPS accounts to exist for the server to operate. This is a GAPS application issue. GAPS may need to have these accounts, but you will need to identify and demonstrate the safeguards that will monitor the use of these accounts.

No	IG Observation	EDCAPS Response	Status	Owner	OIG Reply	Cat
86	<p>The testing and development environments no longer are "representative" of the production environment due to size limitations. This causes production changes to be made with testing occurring in the production environment.</p>	<p>While data changes are made to the production system, software changes are never made directly into the production system without thorough testing. Software changes are first logged in the GAPS Test Problem Report database. Fixes are made in development and tested in both the development and testing environment</p>	<p>Complete. Demonstrated to OIG on 12/10/98. Need OIG confirmation. OIG confirmation received.</p>	<p>GAPS Team</p>	<p>Disagree. The Web server had changes made directly to it during the resolution of the NT security setting recommendations. The resulting changes had not</p>	<p>H</p>
		<p>production environment, with the exception of the Web site. The contractor team is in the process of developing deployment instructions so that ED can deploy production Web site changes without contractor assistance. The development contractor provides builds to ED, which are then acceptance tested and, upon successfully passing acceptance test, is migrated by ED into the production environment.</p> <p>The GAPS contractors have production access to assist ED in specific, database- or data-specific problems. GAPS developers each have their own Oracle IDs. This allows for individual accountability. Refer to Response to IG Report Action Memorandum SYS-98-07.</p> <p>2/8/99 – GAPS has reduced the number of personnel to seven (7) who have access to production. 5 developers and 2 DBA's.</p>			<p>should be no access to the development environment by the developers unless assisting ED personnel, the access remains open to the development environment. If "assistance" is required, access to the production environments should be turned on during the "assistance time" only, and turned off at all other times. Additionally, while assistance is "turned on", there should be some type of review mechanism in place to ensure that only the specific "assistance" was provided.</p>	

No	IG Observation	EDCAPS Response	Status	Owner	OIG Reply	Cat.
		<p>before being delivered to the acceptance test environment. Only after passing acceptance test is a software change propagated into production.</p> <p>Further, the development and acceptance testing environments have production "snapshots" of data, thus providing sufficient volume to provide an adequate testing scenario. Testing does not occur in the production environment.</p>	CLOSED		<p>been previously tested prior to implementation on the server and resulted in denial of the services for a short period of time.</p>	4

IG "OPERATIONAL" Observations
High and Medium

No	IG Observation	EDCAPS Response	Status	Owner	OIG Reply	Cat.
31	ACH and Fedwire processing requires a form 1199 with the signature of the requestor, of a "fiscal officer of the institution, and a member of bank personnel who verifies the routing number. However, these signatures and titles are not compared to previous documentation or listings of authorized to do business for listings to ensure authenticity.	TBD	TBD	Danny Harris	Open	M

COMPLETED

No	IG Observation	EDCAPS Response	Status	Owner	OIG Reply	Cat
26	<p>Several of the roles may have potentially conflicting or sensitive accesses. (EDPMSUSR SP_EA_GETUIDANDPWD EXECUTE, GAPSADMIN BANK_ACCT_AUDIT_TRAIL UPDATE, GAPSAPUSER CERTIFY_OFFICER UPDATE, GAPSINQUIRE SP_AB_CONVERT DB EXECUTE, etc.) GAPSADMIN, GAPSAPUSER, and GAPSPAYUSR have access to the pending payment tables (rollover, payment records, and disbursement schedules).</p>	<p>EDPMSUSR needs execute privilege to SP_EA_GETUIDANDPWD. The GAPS software logs in as EDPMSUSR to run SP_EA_GETUIDANDPWD, which retrieves the user ID and password for first-time external users. EDPMSUSR's database privileges are limited to executing the SP_EA_GETUIDANDPWD stored procedure. Even if an unauthorized user were successful in logging into the database using EDPMSUSR, the unauthorized user would have to pass several arguments of the correct type and in the correct order to execute SP_EA_GETUIDANDPWD. Without describe privileges on the database, this would be a very time consuming exercise. GAPSADMIN and GAPSPAYUSR privilege to BANK_ACCT_AUDIT_TRAIL has been changed to remove Update privilege. GAPSAPUSR privileges has been changed to CERTIFY_OFFICER to remove Update privilege. GAPSINQUIRE does not have Execute privileges to SP AB DB CONVERT. This stored</p>	Complete	Danny Harris	<p>OIG agrees with the resolution of this issue whereby the Payee Guide will be changed to reflect the existing environment.</p>	H

No	IG Observation	EDCAPS Response	Status	Owner	OIG Reply	Cat	
4	Financial Payments Group operates and maintains GAPs; reconciles funds; liaison between	<p>The procedure was used temporarily several months ago to implement new functionality and has since been dropped.</p> <p>The GAPSPADMIN role must have privileges to all GAPs tables, except for those that are system-controlled, in order for users assigned the role to perform their job effectively.</p> <p>The GAPSPAYUSER role allows users to process payment requests. Processing payment requests includes the ability to initiate, modify, delete, schedule, and certify payment requests. As such, GAPSPAYUSER needs all privileges to PAYMENT_REQ, ROLL_UP, and DISBURSE_SCHD. A new role can be defined if the scheduling and certifying activities needs to be separated from the creation of the payment request.</p> <p>7</p> <p>The GAPSPAYUSER role allows users to maintain bank account information. GAPSPAYUSER has all privileges to ROLL_UP and Select privilege to PAYMENT_REQ and DISBURSE_SCHD. GAPSPAYUSER would not be able to create and certify payment requests because they do not have sufficient privilege to PAYMENT_REQ and DISBURSE_SCHD.</p>	TBD	OIG reviewed new document and this item is	Danny Harris	OIG agrees with the resolution of this issue whereby the Payee Guide	H

No	IG Observation	EDCAPS Response	Status	Owner	OIG Reply	Cat
	IG Observation recipients and ED offices providing no segregation of duties between distribution and reconciliation.		closed.		OIG Reply will be changed to reflect the existing environment.	
5	The customer assistance/accountability unit (CA/AU), as a subdivision of FPG, processes expenditure requests and handles customer expenditure issues providing no segregation of duties for these expenditure functions.	TBD	OIG reviewed new document and this item is closed.	Danny Harris	OIG agrees with the resolution of this issue whereby the Payee Guide will be changed to reflect the existing environment.	H
6	The Payment Management Service Reporting Unit (PMSRU) maintains payee accounts, maintains and updates recipient bank information, reconciles payments, corrects data, and makes Direct Loan payments to schools providing no segregation of duties between distribution and reconciliation.	TBD	OIG reviewed new document and this item is closed.	Danny Harris	OIG agrees with the resolution of this issue whereby the Payee Guide will be changed to reflect the existing environment.	H

IG "EDCAPS Unix/Oracle/Admin" Observations
High and Medium

COMPLETED

No	IG Observation	EDCAPS Response	Status	Owner	OIG Reply	Cat
13	Initial password for assigned GAPS user ID is not forced to be changed.	Password is forced every 90 days.	Complete. Need to demonstrate to OIG. 3/19/99 - OIG Confirmation received - COMPLETE	EDCAPS	OIG agrees with the resolution of this issue. 1/11/99	M
14	User ID and password for SAROS FileShare are documented.	Response provided 1/11/99. Change will be made in the software.	EDCAPS did find the problem. Will change documentation and password demonstrated to OIG on 3/15. Need OIG confirmation 3/19/99 - OIG Confirmation received - COMPLETE	EDCAPS	Agreed. Once completed we need to demonstrate.	M
16	A Group ID for superuser abilities has been established labeled SUPERUSR. In addition, other group IDs had also been noted (ex. Test, etc.)	All group IDs have been disabled, except for GAPS_USER.	EDCAPS disabled all Group ID's for 30 days effective 1/26/99. This is pending the outcome of research - CLOSED	EDCAPS DBA	OIG is waiting on results from the disabling. Will review at next meeting.	H

No	IG Observation	EDCAPS Response	Status	Owner	OIG Reply	Cat.
17	IG Observation The Oracle Audit Log function is not implemented, though the parameter setting is turned on.	EDCAPS Response The Oracle Audit Log function is not implemented to audit user actions, though the parameter setting is turned on. Oracle object audit logging will be activated for CREATE, DROP, and ALTER commands on tables, triggers, and stored procedures (Also DISABLE trigger). Audit trails for the specific GAPS tables have been implemented with triggers.	OIG spoke about including GRANT, REVOKE as well. DBA's will investigate further. 1-26 GRANT, REVOKE included. Complete	EDCAPS DBA	OIG agrees with the resolution of this issue based on the additional implementations discussed at the December 22, 1998 meeting.	HP
18	The Oracle parameter file option dbline_encrypt_login Unauthorized users can obtain GAPS application passwords in cleartext: is set to FALSE	The DBLINE_ENCRYPT_LOGIN will be set to TRUE on the database server. We will investigate setting the ORA_ENCRYPT_LOGIN environment variable to TRUE on the client.	EDCAPS is researching based on OIG 1/11/99 response. EDCAPS is working with CIO to implement this change. The change is required at a Dept. configuration level.	EDCAPS DBA	OIG needs a demonstration when complete. Demonstration to OIG completed 18 January, 2000.	M
29	There is at least one individual user ID who has apparent excessive access which seem to present a segregation of duties issue. This ID is ERPRINDLE who is granted a Superuser GAPS ID and is responsible	Superuser rights have been revoked.	Closed. Need to demonstrate to OIG. 3/19/99 - OIG Confirmation received - COMPLETE	EDCAPS DBA	OIG agrees with the resolution of this issue. 1/11/99	H
56	The EDBLUE production system and the Firewall have an etc/passwd file that contains a number of users without an assigned specific shell. This forces the system to use the default shell that may allow users more privileges than authorized.	All users in /etc/passwd in the EDBLUE production system have been assigned a specific shell. The /etc/passwd file in the Firewall is managed by CIO.	3/19/99 - OIG Confirmation received - COMPLETE	CIO/EDCAPS	Verified on EDBLUE. Open on firewall. (CIO) COMPLETE	M

No	IG Observation	EDCAPS Response	Status	Owner	OIG Reply	Cat
58	EDBLUE production system and the Firewall contain files without user and group ownership. Without ownership files should be considered hostile.	If a file is loaded from tape or CDROM and the numeric userid does not match up with a numeric userid in the /etc/passwd file and/or the numeric groupid does not match up with the numeric groupid in the /etc/group file, the groupid and/or userid will be numeric when an "ls -l" command is issued. The numeric userid/groupid issue can also present itself if a userid and/or a groupid is deleted and files exist that were owned by that user and/or group.	EDCAPS is researching based on OIG 1/11/99 response. Demonstrated to OIG on 2/28/99. Need OIG confirmation 3/19/99 - OIG Confirmation received - COMPLETE	EDCAPS UNIX Admin	Waiting on EDCAPS review.	M*
64	The Firewall /ETC/FTPUSERS file that will limit ftp access was not found.	The perceived security issue is that if another userid and or group is created that recycles those numbers, the new user/group will get access to those file. This observation appears to be incorrect. The following was found on the BLUE server in response to the observation. The date of implementation indicates that this has been in place for some time: blue : /home/reesposi > ls -l /etc/ftpusers -rwxr-xr-x 1 bin bin 10 Jul 24 1995 /etc/ftpusers*	EDCAPS is researching based on OIG 1/11/99 response. Demonstrated to OIG on 2/28/99. Need OIG Confirmation. 3/19/99 - OIG Confirmation received - COMPLETE	EDCAPS UNIX Admin	Waiting on EDCAPS Review.	M
65	The EDBLUE production system ETC/PASSWD file listing contained a number of Group IDs. User IDs and associated passwords are for identification and authentication of individual users that access the system and are not to be used to solely indicate primary	There are accounts on the system that are not of the form: <first initial><last initial><last name> The way to change this would be by	3/19/99 - OIG Confirmation received - COMPLETE	EDCAPS UNIX Admin	OIG agrees with the resolution of this issue. 1/11/99	M

No	IG Observation	EDCAPS Response	Status	Owner	OIG Reply	Cat
	functions the user may perform.	the customer setting a new policy. Some of these accounts, however, cannot be changed: e.g., "oracle" as it is predetermined by the software vendor.				H
67	The EDBLUE production system user account of "Backup" has a uid of zero (0) giving this account all the superuser privileges of root.	The "backup" account has been retired.	Complete. Need to demonstrate to OIG. 3/19/99 - OIG Confirmation received - COMPLETE	EDCAPS UNIX Admin	OIG agrees with the resolution of this issue. 1/11/99	H
68	The EDBLUE production system Audit records could not be identified and the act of auditing is not being performed.	UNIX auditing is not currently turned on. This observation requires additional clarification on the specific auditing being recommended for the BLUE server. GAPS-specific auditing is being performed, but it does not employ UNIX auditing.	EDCAPS is researching based on OIG 1/11/99 response. EDCAPS is implementing UNIX auditing	EDCAPS UNIX Admin	OIG agrees with the resolution of this issue. 1/11/99	H
93	The Oracle Default Profile is set at unlimited access to all.	EDCAPS DBA's have found that this is an Oracle 8 feature	Same as 92	EDCAPS DBAs	OIG agrees with the resolution of this issue for the use of manual procedures until Oracle 8 is installed within one year as discussed at the December 22, 1998 meeting.	H

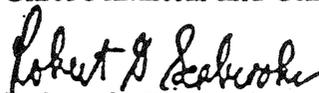


UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF INSPECTOR GENERAL

June 12, 1998

ALERT MEMORANDUM

TO : Donald Rappaport
Chief Financial and Chief Information Officer

FROM : 
Robert G. Seabrooks
Acting Assistant Inspector General for Audit

SUBJECT : Management Alert Concerning GAPS Institution-level Reconciliation Process

This memorandum is to alert you to significant problems that we have identified during our post-implementation review of the Grant and Administrative Payment System (GAPS). We found that virtually all of the institutions that we have contacted, all of whom had more than 50 active grant awards, had not yet reconciled their grant award accounts. We also found that most of the unreconciled institutions had drawn funds either through GAPS or with customer service representative assistance. Given the impending volume of new grant awards that will occur after July 1, 1998, we recommend that your staff give immediate attention to assuring that institutions have reconciled grant award accounts before making drawdown requests through GAPS.

Specifically, we found that 16 of the 17 institutions contacted had not yet reconciled their grant award accounts and that most were drawing funds. Although we have not completed our analysis, it would be reasonable to expect that this problem exists with the same frequency in the untested institutions. Since institutions are required to identify specific grant awards during the drawdown process, it is imperative that all accounts are properly reconciled to ensure proper accounting of Federal funds.

In addition, with annual audits in progress, institutions will likely be in non-compliance due to their grant accounts not being reconciled. For example, one SEA official mentioned to us the importance of reconciling soon since the State's year end is June 30, 1998 and its books would be audited at that time. Although the other entities did not specifically mention this as a concern, because most States have a fiscal year of June 30, 1998, it is likely to be a major problem.

We believe that the Department should take a proactive approach in this matter by informing institutions to reconcile their accounts before making additional drawdown requests, whether directly through the GAPS application or with customer service representative assistance. Reconciliation performed now by institutions will be much less resource intensive than if performed after the new

award activity that will occur after July 1, 1998. In addition, the Department needs to assure institutions that it is not unusual for their accounts to be out of balance, but that it will help them through the reconciliation resolution process.

We were also notified that some institutions were not able to draw funds. This information was provided to you earlier today by Jack Higgins, Inspector General. In addition, we have attached a list of concerns of the institutions that we have contacted to date. We are in the process of contacting institutions with less than 50 awards and will keep you informed of our results. If you have any questions or concerns, please feel free to contact me on 205-8200.

Attachment

cc: Paul Gilbreath
Maureen Smith

Attachment - Specific Concerns of SEAs and Universities

Below are the entities who specifically indicated that they need cash and had been unable to get it. Below each entity name is the DUNS number, the contact, and a telephone number.

(1) Montana State Office of Public Instruction (809588700)
Julia Dilly or Pam Boggs (406-444-4523 or 406-444-1961)
Needs cash. Currently using an interagency loan.

(2) New Jersey State Educational Agency (Problem with DUNS number.)
Ben Mallepalle (609-292-5791)
Needs cash. Not reconciled. Problem with DUNS number.

Below are the entities with other concerns.

(3) University of Wisconsin System Office (161202122)
Charles Hoffman (608-262-0253)
Not reconciled. Institution has \$1.3 million too much based on disbursement totals.

(4) Mississippi SEA (809399694)
Debra Giles (601-359-2115)
Not reconciled. Did not list all active grants.

(5) University of Kansas - Lawrence (007180078)
Larry Mark (785-864-3817)
Not reconciled. Waiting on DUNS # and PIN # for research foundation that the University has recently established.

(6) University of Pittsburgh (179261177)
Micheal Shriane (412-624-5730)
Not reconciled. (See attached fax from University)

(7) University of Oregon (948117312)
Kent Harden (541-346-5131)
Not reconciled.

(8) Illinois SEA (949988406)
Stuart Bentley (217-782-8214)
Not reconciled.

(9) South Carolina SEA (069313609)
Philip Willis (803-734-8846)
Not reconciled.

Oklahoma SEA (809929649)

La Anderson (405-521-3349)

Not reconciled. Needs permanent passwords.

(11) Tennessee SEA (879016251)

Carol Long (615-532-9477)

Not reconciled. Needs permanent passwords.

(12) University of Arizona (146195482)

Paul Sandoval (520-626-6434)

Not reconciled.

(13) University of Florida (946320066)

Sheelia Moudgil (352-392-0378)

Not reconciled. Grants with incorrect DUNS number.

(14) University of Kentucky (007400724)

Barry Honican (606-257-3662)

Not reconciled.

(15) Michigan SEA (805336641)

Richard Bellah (517-335-0532)

Not reconciled.

the following entities are reconciled or closed to reconciled, however, they are missing some passwords.

(16) Minnesota SEA (933561318)

Carol Carlson (612-296-6272)

Needs permanent passwords.

(17) University of South Carolina (859191801)

Tony Huggins (803-777-2081)

Needs rest of ids and passwords.

4/17

UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF INSPECTOR GENERAL



ACTION MEMORANDUM SYS 99-01

Date: December 9, 1998
To: Donald Rappaport
Chief Financial and Chief Information Officer
From: *Chelton T. Givens*
Chelton T. Givens
Area Manager
Subject: Continued Concern about Reconciliation of Payee Records to GAPS

This memorandum is to provide you with the results of our follow-up on the status of payee/GAPS reconciliation. Our follow-up found that although OCF/CIO has closed out the backlog of GAPS hotline calls on reconciliation, reconciliation itself continues to be a problem. If the GAPS records remain unreconciled, it is likely that errors will be recorded in new grant accounts.

For purposes of this memorandum, a payee is considered to be reconciled when there are no known unexplained differences between the payee's records and data maintained in GAPS by the Department.

Background

On July 9, 1998, in Action Memorandum SYS-98-04, we reported that payees, especially those with over 50 grants, were having difficulties reconciling their records to GAPS records. In an attachment to that memorandum, we noted that as of June 16, 1998, there were 440 unresolved calls related to reconciliation in TeamTrack (the system used by OCF/CIO to track calls to the GAPS hotline). Later in July, we reported on the results of on-site visits to GAPS users that were conducted in response to a request by the Deputy Secretary. Those results also indicated that payees with over 50 grants were having difficulties reconciling grant balances.

Since July, OCF/CIO established a conversion reconciliation team to address the backlog of calls on reconciliation. In some cases, members of the reconciliation team provided the entity with additional information such as a Payment Expenditure Statement. In other cases, members of the team sent the payee a letter requesting the entity to inform ED of

any necessary changes to drawdown amounts (adjustment letter). As of September 28, 1998, TeamTrack contained 18 open calls related to reconciliation.

OCF/CIO also established a team to proactively provide assistance to approximately 25 payees that were having the most difficulties. Currently, that team is providing assistance to approximately 16 payees. The other payees have indicated that they no longer require the additional assistance.

Scope of Review

Our objective was to determine the current status of payee/GAPS reconciliation. To conduct our review, we selected a non-random sample of 40 payees that had closed reconciliation calls in TeamTrack. Five of those 40 payees had over 50 grants with ED. Three of those five were state educational agencies (SEAs). We then called those payees to inquire if they were reconciled. We also called an additional 24 SEAs to inquire if they were reconciled. Our telephone calls were conducted between October 1 and 28, 1998. In addition, we interviewed staff of OCF/CIO and reviewed documents related to the hotline, GAPS and the reconciliation process.

Summary of payees called	SEAs	Other payees with over 50 grants	Payees with under 50 grants	Total
Payees with closed hotline calls	3	2	35	40
Additional SEAs	24	-	-	24
Total	27	2	35	64

We are currently conducting a survey of the controls over payee/GAPS reconciliation. The results of that survey will be reported separately.

Results in Brief

Results of calls to payees with closed hotline calls on reconciliation

Of the 40 payees that had closed hotline reconciliation calls, 17 indicated to us that they were not reconciled at the time of our phone call. All 5 of the payees with over 50 grants are included in the 17 payees that were not reconciled. As of 10/20/98, none of these 17 payees had open calls on TeamTrack. The reconciliation calls in TeamTrack had been closed by ED staff when information that would assist the payee in reconciling, such as a Payment Expenditure Statement or an adjustment letter, was sent to the payee.

In addition, another 6 of the 40 payees indicated to us that they were not reconciled but had submitted an adjustment to ED. We found the requested adjustments for these 6 payees on a list of approved adjustments provided to us by OCF/CIO. These payees were

unaware that the adjustment they had requested ED to make to their grant balances had been approved. Therefore, these 6 payees may be reconciled.

Some of the 17 payees indicated to us that they had the adjustment letter that was sent out by the reconciliation team but had not yet returned it. An employee at one university indicated to us that they had not returned the adjustment letter because the letter required approval by higher levels within the university.

Results of calls to the SEAs

In addition to the 3 SEAs selected from the payees with closed hotline reconciliation calls, we selected an additional 24 SEAs to determine their reconciliation status. Of those 24 SEAs, 17 indicated to us that they were not reconciled. Therefore of the 27 SEAs we contacted, 20 indicated to us that they were not reconciled. Among the reasons state officials mentioned for not having the reconciliation finished was not having system access to grants they needed to adjust and needing changes to authorization amounts. In addition, an employee at one SEA mentioned that with other duties they haven't had adequate time to reconcile.

Summary of reconciliation status of payees called

Summary of reconciliation status of payees called	SEAs	Other payees with over 50 grants	Payees with under 50 grants	Total
Reconciled	7	-	17	24
Possibly reconciled *	-	-	6	6
Not reconciled	20	2	12	34
Total	27	2	35	64

* These are the six payees that were unaware that ED had approved their requested adjustment.

Review of procedures related to adjustment letters sent by the reconciliation team

At the time of our review, OCF/CIO was not maintaining a log of the adjustment letters that had been sent out. We were told that approximately 1000 adjustment letters had been sent. We were given a folder containing letters that were returned to ED. That folder contained 165 letters.

We reviewed the adjustment letter and noted that the letter did not establish a specific date by which action was required.

Effect of GAPS records not being reconciled

One payee we spoke to informed us that the hotline instructed them to charge other grants when the grants they needed to charge did not have funds available. The longer payees go without reconciling old grants, the more likely it is that they will make erroneous entries to new grants.

Conclusion

Based on these results, we believe that reconciliation continues to be an unresolved issue. We believe that OCF/CIO needs to obtain more complete information on the status of reconciliation of GAPS payees. We also believe that payees may need additional information about ED's process for adjusting grant balances.

Recommendations

To obtain more complete information on the status of reconciliation of GAPS payees, we recommend that OCF/CIO:

- (1) Construct a log or database of reconciliation letters sent to payees, and identify and initiate follow-up on any letters that have not yet been returned.
- (2) Inform payees of the assistance available from ED for reconciliation.
- (3) Establish an end date for making adjustments to grant balances and inform payees of the date.

We also believe that the implementation of recommendation we had made earlier would provide OCF/CIO with more complete information on the status of reconciliation of GAPS payees.

- (4) Establish a team to deal solely with the largest payees. This team should obtain and maintain information on an individual payee basis for reconciliation and other difficulties the payee may be having.
- (5) Put the annual certification process in place.

Attached to this memorandum are two lists. The first list (attachment A) indicates entities with no outstanding calls to the GAPS hotline that have reported to us that they are not reconciled. The second list (attachment B) indicates entities that were unaware, at the time of our review, that ED had approved their requested adjustment. Attachment C contains other matters that we noted during our review.

tion Memorandum SYS 99-01
ember 9, 1998

If you have any questions or concerns, please feel free to contact me on 205-7945 or
Barbara J. Timm of my staff on 205-9741.

Attachment

CC: Marshall Smith
Jean Veta
Paul Gilbreath
Dan Harris

ATTACHMENT A

**List Of Entities Which Are Not Reconciled As Of OIG Telephone Call in Oct. 1998
 (Total of 34 entities of which 20 are SEAs)**

Entity	Caller Name	DUNS Number	Telephone
Arizona SEA	Ginger Hubacek	804746097	(602)542-4275
Bozeman Public Schools	R.J. Tvedt	184630440	(406)585-1500 ext. 1506
Breakwall Corp	Bob Eden	615241676	(440)843-2323
Brian Straton Business Institute	Mark Peck	083275362	(315)472-6603
Central Council of Tlingit Haida Indian	Rich Edenso	040184616	(907)463-7108
El Paso Community College	Carmen Wages	030160782	(915)831-6048
Evergreen State College	David Judd	069579977	(360)866-6000 ext. 6456
Illinois SEA	Stuart Bentley	949988406	(217) 782-8214
Iowa SEA	Mark Horan	808346555	(515) 281-3777
Iowa State Division of Vocational Rehabilitation Services	Ben Merial	841705270	(515)281-4093
Louisiana SEA	Willie Mae Varnell	805920998	(504)342-3799
Michigan SEA	Richard Bellah	805336641	(517) 335-0532
Mississippi SEA	Debra Giles	809399694	(601) 359-2115
Mississippi State University	Debbie Foster	075461814	(601)325-1921
Missouri Department of Mental Health	Joyce Hartley	073134579	(573)751-8506
Missouri SEA	Cindy Voss	093746923	(573) 751-8291
Montana SEA	Julia Dilly	809588700	(406) 444-4523
Montana State University- Bozeman	Leslie Schmidt	625447982	(406)994-2381
Morehouse College	Yolanda McColumn	075861773	(404)681-2800 ext. 3267
Nebraska SEA	Pam Boshart	808820054	(402) 471-0603
Nevada SEA	Robin Pawley	809887722	(702) 687-9179
New Jersey SEA	Ben Mallepalle	806417911	(609) 292-5791
North Dakota SEA	Artist Bergeson	803755057	(701) 328-2260
Pennsylvania SEA	David Moul	007782381	(717) 783-9079
Puerto Rico Department of Education	Leila Torres	006593644	(787)765-3311
Rochester Community and Technical College	Ruth Siefert	807196886	(507)285-7472
South Dakota SEA	Pat Kuchta	809791692	(605) 773-3248

Entity	Caller Name	DUNS Number	Telephone
Tennessee SEA	Carol Long	879016251	(615) 532-9477
Texas SEA	Edmond Frank	179260856	(512) 463-6323
University of Wisconsin Madison	Jim Erikson	161202122	(608)262-0036
Utah SEA	Sharon Stewart	029999372	(801)-538-7627
Vermont SEA	Katherine Flanagan	825393002	(802) 828-3156
Virginia SEA	Lawrence Morgan	809740129	(804) 225-2040
Wisconsin Department of Administration (SEA)	Christine Haried	619804537	(608) 266-2896

ATTACHMENT B

List Of Entities Unaware That ED Approved Adjustment As Of OIG Telephone Call in Oct 1998 (Total of six entities)

Entity	Caller Name	DUNS Number	Telephone
Vance Gransville Community College	Lisa Evans	075572248	(252)492-2061 ext.300
Virginia Community College	Lola Harris	074903626	(540)676-5484
The Delaware Dept of State Division of Libraries	Tom Dunlop	159210863	(302)739-4778 ext. 128
Lurleen B. Wallace State Junior College	Hilda Goodson	039570254	(334) 222-6591 ext. 2217
The College Board	David Dvorak	072805831	(212) 713-8252
Imperial Community College	Carlos Fletes	078745197	(760)355-6241

ATTACHMENT C

Other Matters

IDs and Passwords – During our review, we noted that information that was identified as “IDs and passwords” were included in TeamTracks. Such information should not be stored there since TeamTrack accounts do not require passwords. We were informed that the practice of recording IDs and passwords in TeamTracks had been discontinued.

- *System Access* – During our review, we inquired of the 24 SEAs about system access. Of the 24 SEAs, ten indicated that they were experiencing system access problems that ranged from timeliness of access to the system, timeliness of movement between screens and incidents of being “locked up.”



UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF THE CHIEF FINANCIAL OFFICER

THE CHIEF FINANCIAL OFFICER

MEMORANDUM

JAN 25 1999

TO: Chelton Givens

FROM: 
Donald Rappaport

SUBJECT: Response to OIG Action Memorandum SYS 99-01 Entitled "Continued Concern about Reconciliation of Payee Records to GAPS"

This memorandum is in response to the Action Memorandum dated December 9, 1998 which concludes that reconciliation continues to be an unresolved issue. The following response offers clarification to reconciliation issues, and addresses our intended actions concerning the five specific recommendations.

Clarification

The success of the Grant Administration and Payment System (GAPS) reconciliation effort is dependent upon the participation level of our grant recipients. None of our recipients have identified any discrepancies with GAPS data, but only with historical information from the legacy system. As historical data is reconciled and is no longer an issue, the reconciliation effort will certainly diminish. However, we are dependent upon our recipients to notify us when there is a discrepancy between our historical records and theirs. Because of this dependency, we will never be able to assure that all accounts are reconciled, and for practical purposes, we must anticipate that the reconciliation process will be ongoing.

To fully comprehend the reconciliation process, it is important to understand that disapproved adjustment requests always generated further contact with the respective payee. The reconciliation process continues until all misunderstandings are resolved. Much effort has been expended to assure that all reconciliation issues are accounted for and resolved as quickly as possible, and that no issue is put aside until the recipient is satisfied.

It was noted in the Action Memorandum that some of the State Education Agencies (SEA's) were not able to complete their reconciliation adjustment requests due to the inability to access "grants they needed to adjust and needing changes to authorization amounts". It is true that some old awards had logically been closed during the conversion from the legacy system; however, when such action was warranted and requested by the

recipient, these awards were quickly reopened so that appropriate adjustments could be made.

Response to Recommendations

To obtain more complete information on the status of reconciliation of GAPS payees, the Office of the Inspector General made the following recommendations:

1. Recommendation: Construct a log or database of reconciliation letters sent to payees, and identify and initiate follow-up on any letters that have not yet been returned.

Response: We concur with this recommendation. Although a system for maintaining reconciliation requests and subsequent adjustments already exists, the GAPS Payee Hotline team has initiated an improved logging system to better support the follow-up of reconciliation requests.

2. Recommendation: Inform payees of the assistance available from ED for reconciliation.

Response: We concur with this recommendation. A notice is being prepared for posting to the GAPS Home Page, and additional notice will be provided via the GAPS ListServe.

3. Recommendation: Establish an end date for making adjustments to grant balances and inform payees of the date.

Response: We concur with this recommendation. The notice being provided concerning the reconciliation effort will include a termination end date. However, the GAPS Payee Hot Line will continue to work with recipients to address these or any other concerns presented throughout the life cycle of the system.

4. Recommendation: Establish a team to deal solely with the largest payees. This team should obtain and maintain information on an individual payee basis for reconciliation and other difficulties the payee may be having.

Response: From the inception of the GAPS Payee Hotline, the Hotline team has taken a proactive approach to servicing all our customers. It was recognized in the beginning of the new system that a few large recipients would naturally require greater assistance than others. A special assistance team was assembled at that time to take aggressive action to assist these clients. Specific representatives from the team were assigned a limited number of accounts to contact on a periodic basis (some daily to begin with) to ask if there were any problems. When issues were identified, they were quickly resolved. This project has been tremendously successful and continues for our larger clients that have unique circumstances.

5. Recommendation: Put the annual certification process in place.

Response: We concur with this recommendation, and are currently working on the format and implementation of this report. We anticipate completion of this task within 6 to 9 months.

We appreciate the earnest interest and thought provided the Inspector General's office and look forward to jointly working on these issues in the future. We will provide your office with updates on these tasks and progress is made.



UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF INSPECTOR GENERAL

ACTION MEMORANDUM FIN-99-01

DATE : January 28, 1999

TO : Donald Rappaport
Chief Financial and Chief Information Officer

FROM : 
Chelton T. Givens
Area Manager

SUBJECT: Survey Review of the Grant Administration and Payment System (GAPS)
Reconciliation Process.

This memorandum provides you with the results of our survey review of the process for reconciling GAPS with recipient records. During our fieldwork, we noted instances where adequate management controls were not incorporated into the reconciliation process at OCF/CIO. Details of our specific findings and related recommendations are provided. We have also noted a significant ongoing finding from prior OIG work.

Background

GAPS was populated with the data from the legacy system EDPMS and deployed in May 1998. GAPS provides recipients, on a grant by grant basis, with the award amount, draw downs, adjustments, and the resulting available balance for each award (award - draw downs +/- adjustments = available balance). Under EDPMS, recipient requests for draw downs were pooled rather than identified to specific grants. For its internal records, ED allocated the draw downs to grants under an estimating procedure that was later adjusted to actual based upon what recipients reported to ED as actual expenditure activity under each grant. However, recipient reporting was not always timely or complete resulting in differences at the grant level between ED and recipient records. Those differences became readily apparent under GAPS because of the detail information it provides.

Some recipients require a simple reallocation of draw downs between grants, which they can perform using the adjustment capability of GAPS. However, after reallocating amounts, some recipients still have a remaining net adjustment that cannot be reallocated. This requires an adjustment to the recipient's total available balance, which the GAPS interface does not allow for

control purposes. ED accomplished the required adjustment by having their contractor, Pricewaterhouse Coopers (PWC), adjust the Oracle database without working through the GAPS interface. —

In May 1998, ED sent recipients a Reconciliation Statement Letter instructing them to contact the GAPS hotline if any discrepancies existed in the draw down amount or available balance of any of their grants. In July/August 1998, ED sent recipients a record of awards made, draw downs by award, and net available balance, as of June 30, 1998. ED requested that all recipients adjust (reallocate) draw downs indicated in GAPS to reflect actual expenditures with the objective of updating records in GAPS to agree with recipient records. OCF/CIO also sent reconciliation letters to approximately 470 recipients with known reconciliation problems logged through the GAPS hotline. The purpose of this third letter was to allow recipients with a remaining net adjustment that they could not reallocate to request OCF/CIO to adjust their draws. It was OCF/CIO's intent to perform a one-time adjustment, which would result in bringing the GAPS accounts into balance with the recipients' internal accounting records. Recipients returned approximately 165 reconciliation letters covering approximately 200 awards.

Scope

Our goal was to survey OCF/CIO's controls over the GAPS reconciliation process to determine potential risks and possible improvements in controls. We conducted fieldwork from October 13, 1998 to December 11, 1998. The period of activity we reviewed was from approximately May 1998 through the end of fieldwork. During our survey, we interviewed staff from OCF/CIO, Budget Service, OGC, and OCF/CIO contractors. We reviewed and analyzed the reconciliation letters file provided by the reconciliation team, documentation provided by Budget Service, data obtained from OCF/CIO contractors about adjustments made to the GAPS database, and reconciliations and other data provided by the OCF/CIO. We analyzed documentation to determine whether all the adjustments made to GAPS (according to PWC) were posted to FMSS. We also reviewed whether all draw down adjustments requested by recipients were correctly made to GAPS. Our work was a survey of controls and does not constitute an audit of internal controls. Thus, there may be other matters that would warrant management's attention, but which were not identified by our work.

Results

We believe OCF/CIO made a genuine effort to respond to recipient requests for reconciliation adjustments, by sending reconciliation letters to the hotline callers and developing a process for making the requested adjustments to the Oracle database. OCF/CIO solicited hotline calls when they sent conversion statements to all recipients in May 1998.

We also noted the following weaknesses in management controls surrounding the reconciliation process that we believe warrant your attention:

Requested Reconciliation Adjustments Have Not Been Validated. Recipients identify the required adjustments for all their grants and accumulate them into a net adjustment to one (or two) awards. OCF/CIO makes the net adjustments by adjusting draw downs for the grant award, which results in a change to the recipient's available balance (total award - draw downs = available balance). A request to decrease draw downs increases the recipient's available balance. According to reconciliation team personnel, when a reconciliation adjustment request is received, they determine the impact on the award, ensure the recipient understands the affect of the adjustment, and make some reasonability checks. However, the steps performed can not determine the validity of a requested adjustment. Only a detail review of recipient records could validate the requests. In addition, from informal discussions about GAPS with financial officers in the Education community, at least one expressed the view that ED has a "slush fund" for making adjustments to GAPS. The recipients' perceptions about the process and the lack of ED's ability to validate requests raises concerns about potential abuses by recipients, especially in the case of requests for decreases to draw downs.

Oversight of Adjustments to the Oracle Database Needs Improvement. OCF/CIO stated they only "sporadically" reviewed adjustments made to the Oracle database by PWC, the logic being if adjustments were not properly made the recipients would bring it to ED's attention. Although we did not detect significant adjustment errors by PWC, a regular review of accounting activity management should be a normal part of the control structure. Especially, in this case, where ED is relying on their contractor to make unusual adjustments outside the normal flow of accounting information and that also bypass the controls built into GAPS. Performance of the review should also be documented.

Written Policies and Procedures Covering the Reconciliation Process Need Improvement. The current written guidance for reconciliation includes only the very broadest steps in the overall process. They are not detailed enough to be effective, nor do they include guidance on many decision points that occur in the reconciliation process.

Recommendations

We recommend that ED:

1. *Develop reasonable documentation requirements for adjustments.* These should include dollar value as well as percentage of activity thresholds that must be met to require certain documentation. If recipients are arriving at these adjustment amounts based on a reasonable analysis of their accounting records, then we should be able to obtain some summary documentation. The requirement alone could at least generate communication about how they are deriving the amounts and provide ED some level of comfort as to their reasonableness. Also, OPE could be consulted to see what part, if any, program review teams could play in reviewing support for significant adjustment requests at entities they already plan to visit.

2. *Perform and Document a Consistent Review of the Adjustments Made by PWC to the Oracle Database.* The review should be performed on a regular and consistent basis. Not every entry necessarily has to be reviewed, although that could easily be accomplished by running the report PWC provided to us and electronically comparing it to the list of adjustments OCF/CIO requested they make. OCF/CIO should also consider reviewing on a sample basis the adjustments as they appear to recipients in GAPS. By considering each of these reviews together, a cost beneficial review mechanism could be developed to ensure only authorized adjustments are made to the correct recipient and award.
3. *Prepare and adopt written policies and procedures for the reconciliation process.* They should be at an appropriate level of detail covering the areas listed in our findings as well as for other key areas of vulnerability identified by management. This would enhance management controls and ensure consistency of application.

Issues Resolved During Fieldwork

During our analysis of the reconciliation letters file and the GAPS file provided by PWC, we noted the following:

- certain recipient requests for adjustments appeared to not be posted to GAPS,
- certain adjustments to GAPS appeared to be posted the opposite way from that requested in the reconciliation letter from the recipients,
- nine adjustments totaling \$266,490 were posted to GAPS but did not have a corresponding adjustment request from a recipient in the files provided us, and
- seven adjustments totaling \$169,405 appeared to be posted in error.

We provided our analysis and source data to OCF/CIO during the course of our fieldwork and are satisfied with the reconciliation team's response to addressing these issues and their explanation of any discrepancies between the draw down adjustments made to GAPS and the draw down adjustments requested.

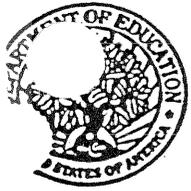
Significant Finding Also Noted in Prior OIG Work on GAPS

The reconciliation process is dependent upon the recipients' identifying the required adjustments to GAPS, therefore, neither OCF/CIO nor we could be certain of the numbers of recipients who were not reconciled or of the potential dollar amounts involved. This issue has been identified in prior OIG reviews of GAPS and is included as a high priority in OCF/CIO's summary of internal control issues. This serves to reiterate OIG's prior recommendations.

January 28, 1999

Please provide us with a written response by February 26, 1999, regarding your planned or completed actions to address our recommendations. We appreciate the cooperation shown us by OCF/CIO during this review. Should you have any questions concerning this survey, please feel free to contact me on (202) 205-7945 or Greg Spencer of my staff on (202) 260-3914.

cc: Jean Veta
Paul Gilbreath
Danny Harris



UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF THE CHIEF FINANCIAL OFFICER

THE CHIEF FINANCIAL OFFICER

MAR - 5 1999

Memorandum

To: Chelton T. Givens

From: 
Don Rappaport

Date: March 5, 1999

Subject: Action Memorandum FIN-99-01

As requested, this memorandum responds to your Action Memorandum FIN-99-01, Survey Review of the Grant Administration and Payment System (GAPS) Reconciliation Process, dated January 28, 1999. I appreciate your cooperation with the GAPS Team to improve the process as well as the accuracy of GAPS data.

As you know, the GAPS Team, within our Financial Systems Operation, was actively engaged in the pursuit of formal procedures to address these newly evolved customer service functions while you were conducting your review. I am please to inform you that each of your recommendations has been implemented. A continuous process improvement plan has also been developed to ensure that we provide the flexibility necessary to achieve our customer service level goals.

A brief description of how we have addressed each of the recommendations follows:

- Documentation Requirements for Adjustment. The Department reviews and researches each adjustment request to ensure proper documentation is provided by the recipient to support the adjustment.
- Manual Adjustment Authorization. The Department reviews all supporting documentation prior to authorizing each adjustment. Adjustments requiring direct GAPS database modification are only made by Education employees and are coordinated with the appropriate interfacing systems.
- Written Policies and Procedures. Documented policies and procedures are being developed that provide the necessary flexibility to deal with recipient adjustments on a case by case basis.

I encourage you to review our progress to-date and I will keep you posted on future developments. If you require additional information, please contact Paul Gilbreath, at 401-1589.



UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF INSPECTOR GENERAL

February 24, 2000

MEMORANDUM

TO : Chelton T. Givens
Area Manager

FROM : *Steven A. McNamara*
Steven A. McNamara
Assistant Inspector General
for Audit Services

SUBJECT: Corrective Action Plan for ACN 17-70002

Attached is a corrective action plan on corrective action(s) taken or planned by the action official. Please determine whether the corrective action described in the plan is appropriate and adequate, and whether, in your opinion, it will correct the problem(s) identified in the audit report or MIR. If not, you should communicate in writing to the appropriate program official(s) the reasons for your disagreement with the corrective action described in the plan and make every effort to resolve the issues in dispute.

Please complete the questionnaire attached and return a copy to me within 30 days from the above date. If there are any disputed issues, please attach copies of documents described in the questionnaire. A copy of this memo with all attachments should also be sent to the Office of the Chief Financial Officer, Post Audit Group.

If you have any questions, please call me on 205-9637. Thank you for your assistance.

Attachment

MAR 23 2000 Provided copies of CAP to: Nancy Cabral
and Gail Cornish

ACN 17-70002 (United States Department of Education - Annual Financial Statements, Fiscal Year 1997)

- Do you believe that the corrective action, as described in the corrective action plan, is appropriate and adequate, and, if implemented, should correct the problem(s) identified in the audit report or MIR?

Yes _____ No _____ *See attached summary*

If the answer is "No", attach a copy of your memorandum to the program official(s) indicating the reasons for your disagreement. Also attach copies of any correspondence received from program offices, telephone memos and/or notes from meetings which will assist us in understanding the basis for disagreement.

- If you agree with the corrective action(s) described in the attached and prior status reports/plans, have all corrective actions now been completed?

Yes _____ No

Note: Your answer to this question should be based solely on your evaluation of the contents of the corrective action plan/status report.

Chester J. Stevens 5-25-01
Area Managers Signature Date

If you have any questions please call Jan Venzla at 205-9153.

Issue Area #1:

Loan Estimates for Education's Loan Programs (Material Weakness)

Education Needs to Establish the Validity of the Its Principal Data Store to Provide a Basis for Preparing Reliable Loan Estimates in the Future and Needs to Establish Sufficient Controls to Detect Material Errors in Its Loan Estimates

- Recommendation #1: Cannot accept as closed for corrective action.
Corrective action does not address "re-estimates."
- Recommendation #2: Closed for corrective action.
- Recommendation #3: Closed for corrective action.
- Recommendation #4: Closed for corrective action.
- Recommendation #5: Closed for corrective action.
- Recommendation #6: Closed for corrective action.
- Recommendation #7: Closed for corrective action.
- Recommendation #8: Closed for corrective action.

Issue Area #2:

FFEL Program - Guaranty Agency Oversight (Material Weakness)

Education Needs to Complete Steps Underway for Improving Oversight of Guaranty Agencies (GAs)

- Recommendation #1: Corrective action continues.
- Recommendation #2: Cannot accept as closed for corrective action.
Principal and interest have not been addressed in the status of corrective action taken.
- Recommendation #3: Cannot accept as closed for corrective action.
OIG cannot determine from stated corrective action if the revisions to Forms 1130 and 1189 have been completed. Appears so though corrective action continues.
- Recommendation #4: Cannot accept as closed for corrective action.
Corrective action does not address "billings".
- Recommendation #5: Closed for corrective action. (Hugh Monaghan will provide data for actual QCR's conducted in FY 95, FY 96, FY 97, FY 98, FY 99, and planned in FY 000 by guaranty agencies and other entities. Data requested via e-mail on 3/15/00).

**Issue Area #3:
Fund Balances with Treasury (Material Weakness)**

Education's Methods for Reconciling Differences Between the Budget Clearing Account - Suspense Cash and Treasury Need Improvement

Recommendation #1: Closed for corrective action.

Recommendation #2: Closed for corrective action.

Recommendation #3: Cannot accept as closed for corrective action.

Corrective action needs to address that all correcting entries for FY 97 have been posted and that all future entries will be posted to the general ledger and Treasury.

**Issue Area #4:
Financial Reporting (Material Weakness)**

Improvements Are Needed to the Financial Reporting Process so That Education Can Meet GMRA Deadline

Recommendation #1: Closed for corrective action.

Recommendation #2: Corrective action continues.

Recommendation #3: Closed for corrective action.

Recommendation #4: Closed for corrective action.

Recommendation #5: Closed for corrective action.

Recommendation #6: Corrective action continues.

**Issue Area #5:
Performance Measures (Reportable Condition)**

Education Needs to Establish Controls Over the Analysis and Reporting of Performance Measures

Recommendation #1: Closed for corrective action.

Provide actual dates of completion for the two corrective actions listed.

Recommendation #2: Closed for corrective action.

Recommendation #3: Closed for corrective action.

Recommendation #4: Corrective action continues.

**Issue Area #6:
Student Financial Assistance Programs (Reportable Condition)**

Oversight and Analysis of Audits of Postsecondary Educational Institutions Need Improvement

- Recommendation #1: Closed for corrective action.
- Recommendation #2: Cannot accept as closed for corrective action.
Has the routine process for referrals been established and completed?
- Recommendation #3: Closed for corrective action.
- Recommendation #4: Closed for corrective action.
- Recommendation #5: Corrective action continues.
- Recommendation #6: Closed for corrective action.
- Recommendation #7: Corrective action continues.
- Recommendation #8: Corrective action continues.

**Issue Area #7:
Controls Over Automated Systems (Reportable Condition)**

Improvements are Required in Security Over Financial Systems and in Disaster Recovery Capabilities

- Recommendation #1: Closed for corrective action.
- Recommendation #2: Corrective action continues.
- Recommendation #3: Corrective action continues.

ACN 17-70002 (FY 1997)

Date Issued: 6/15/98

Date Resolved: 5/31/99

Status Report for the Period Ended: 12/31/99 (Received 2/24/00)

SUMMARY OF ANALYSIS ON STATUS REPORT FOR THE PERIOD ENDED 12/31/99

Issue Area	Corrective Action Continues	Closed for Corrective Action	Closed for Corrective Action if Modified	Corrective Action Does Not Address Recommendation
1	-0-	Rec. #2, Rec. #3, Rec. 4, Rec. #5, Rec. #6, Rec. #7, Rec. #8	-0-	Rec. #1
2	Rec. #1	Rec. #5	-0-	Rec. #2, Rec. #3, Rec. #4
3	-0-	Rec. #1, Rec. #2	-0-	Rec. #3
4	Rec. #6 Rec. #2	Rec. #1, Rec. #3, Rec. #4, Rec. #5	-0-	-0-
5	Rec. #4	Rec. #2, Rec. #3	Rec. #1	-0-
6	Rec. #5, Rec. #7, rec. #8	Rec. #1, Rec. #3, Rec. #4, Rec. #6	Rec. #2	-0-
7	Rec. #2, Rec. #3	Rec. #1	-0-	-0-
Total # of Rec's (37)	9	21	2	5



UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF INSPECTOR GENERAL

February 24, 2000

MEMORANDUM

TO : Chelton T. Givens
Area Manager

FROM : *Steven A. McNamara*
Steven A. McNamara,
Assistant Inspector General
for Audit Services

SUBJECT: Resolution of ACN 17-80006

Attached is the action official's response to the above referenced report. Please review the comments and determine if they are completely responsive to the report recommendations and whether the report may now be considered resolved. Also, determine whether, in your opinion, the corrective action taken or planned by the action official is appropriate and will correct the problems identified in the audit report or MIR. If there are any issues in dispute, you should communicate in writing to the appropriate program official(s) the reasons for your disagreement and make every effort to resolve the disputed issues.

Please complete the questionnaire attached and return a copy to me within 30 days from the above date. If there are any disputed issues, please attach copies of documents described in the questionnaire. A copy of this memo with all attachments should also be sent to the Office of the Chief Financial Officer, Post Audit Group.

If you have any questions, please call me on 205-9637. Thank you for your assistance.

Attachment

MAR 23 2000 Provided Copies to: Nancy Cabral and Gail Cornish

RESOLUTION:

-- Are the action official's comments completely responsive to the findings and recommendations in the audit report or MIR? Yes ___ No

-- Do the comments indicate the action official's agreement with all findings and recommendations? Yes ___ No

If the answer is "No", attach a copy of your memorandum to the program official(s) indicating the basis for your disagreement with the position taken by the program. Also, attach copies of any correspondence received from program officials, telephone memos and/or notes from meetings, which will assist us in understanding the basis for disagreement.

-- If the answer to both of the above questions is "Yes", may all findings and recommendations in the report now be considered resolved? Yes ___ No

see attached summary

If the answer to this question is "Yes", an audit clearance document (ACD) which properly reflects the action official's determination must be obtained from the program office and forwarded to the Audit Services Staff in order that the report may be removed from the OIG's list of unresolved audits and MIRs.

CORRECTIVE ACTION:

-- Do you agree that the corrective action, as described in the action official's comments, is appropriate and adequate, and, if implemented, should correct the problem(s) identified in the audit report or MIR? Yes ___ No ___

-- If you agree with the corrective action(s) described in the attached comments from the action officials, have all corrective actions now been completed? Yes ___ No ___

Note: Your answer to this question should be based solely on your evaluation of the contents of the action official's comments.

Clifton J. Stevens 3-20-00
Area Manager's Signature Date

If you have any questions please call Jan King on 205-9153

ACN 17-80006 (FY 1998)
Date Issued: 11/18/99
Date Resolved: Audit Unresolved
Status Report for the Period Ended: 12/10/99 (Received 2/24/00)

Issue Area #1:
Financial Reporting Needs to Be Strengthened (Material Weakness - Repeat Condition)

- Recommendation #1: Resolved - Corrective action continues.
Replace Maureen Harris as point of contact within OCFO with a new point of contact.
- Recommendation #2: Resolved - Closed for corrective action.
- Recommendation #3: Resolved - Corrective action continues.
- Recommendation #4: Resolved - Closed for corrective action.
Replace Maureen Harris as point of contact within OCFO with a new point of contact.
- Recommendation #5: Resolved - Closed for corrective action.
- Recommendation #6: Resolved - Closed for corrective action.
- Recommendation #7: Resolved - Closed for corrective action.
Replace Keith Cole as point of contact within OCFO with a new point of contact.

Issue Area #2:
Reconciliations Need to be Improved (Material Weakness - Repeat Condition)

- Recommendation #1: Resolved - Corrective action continues.
Replace Keith Cole as point of contact within OCFO with a new point of contact.
- Recommendation #2: Resolved - Corrective action continues.
Replace Keith Cole as point of contact within OCFO with a new point of contact.
- Recommendation #3: Resolved - Corrective action continues.
Replace Keith Cole as point of contact within OCFO with a new point of contact.

Issue Area #3:
Controls Surrounding Systems Need Enhancement (Material Weakness - Repeat Condition)

- Recommendation #1: Resolved - Corrective action continues.
- Recommendation #2: Resolved - Closed for corrective action.

ACN 17-80006 (FY 1998)
Date Issued: 11/18/99
Date Resolved: Audit Unresolved
Status Report for the Period Ended: 12/10/99 (Received 2/24/00)

- Recommendation #3: Resolved - Corrective action continues.
- Recommendation #4: Resolved - Corrective action continues.
Provide a planned or completed date for corrective action number two.
- Recommendation #5: Resolved - Corrective action continues.

Issue Area #4:
Documentation Supporting Liabilities/Obligations was Insufficient (Reportable Condition)

- Recommendation #1: Resolved - Corrective action continues.
- Recommendation #2: Resolved - Corrective action continues. (Same recommendation in FY 99).
- Recommendation #3: Resolved - Corrective action continues.
Replace Maureen Harris as point of contact within OCFO with a new point of contact.
- Recommendation #4: ??????????
Replace Maureen Harris as point of contact within OCFO with a new point of contact.

Issue Area #5:
Controls Surrounding the Monitoring of the Department's Programs Needs to be Strengthened (Reportable Condition - Repeat Condition)

- Recommendation #1: Resolved - Corrective action continues.
- Recommendation #2: Resolved - Corrective action continues.
- Recommendation #3: Unresolved
Is the thirty day notification quicker than the norm? What has changed?
- Recommendation #4: Resolved - Corrective action continues.
- Recommendation #5: Resolved - Closed for corrective action.
- Recommendation #6: Unresolved - Subject recommendation does not mirror recommendations in A06-7004 or A06-80001.
A06-70004 - Resolved by Region 6 on 8/31/99.
A06-80001 - Unresolved by Region 6. Sustainment of \$35 million in annual BUF is in question by SFAP.

Issue Area #6:
Insufficient Controls Surrounding Accounts Receivable/Cash Receipts (reportable Condition)

Recommendation #1: Resolved - Corrective action continues.
 Replace Keith Cole as point of contact within OCFO with a new point of contact.

Recommendation #2: Resolved - Corrective action continues.
 Replace Keith Cole as point of contact within OCFO with a new point of contact.

Issue Area #7:
The Department Needs to Establish Controls Over the Analysis and Reporting of Performance Measures Report (Reportable Condition - Repeat Condition)

Recommendation #1: Resolved - Corrective action continues.

SUMMARY OF ANALYSIS ON STATUS REPORT FOR THE PERIOD ENDED 12/10/99

Issue Area	Resolved/ Corrective Action Continues	Resolved/ Closed for Corrective Action	Resolved if Modified/ Corrective Action Continues	Resolved if Modified/ Closed for Corrective Action	Unresolved
1	Rec. #3	Rec. #2, Rec. #5, Rec. #6	Rec. #1	Rec. #4, Rec. #7	-0-
2	-0-	-0-	Rec. #1, Rec. #2, Rec. #3	-0-	-0-
3	Rec. #1, Rec. #3, Rec. #5	Rec. #2	Rec. #4	-0-	-0-
4	Rec. #1, Rec. #2	-0-	Rec. #3	-0-	Rec. #4
5	Rec. #1, Rec. #2, Rec. #4	Rec. #5	-0-	-0-	Rec. #3, Rec. #6
6	-0-	-0-	Rec. #1, Rec. #2	-0-	-0-
7	Rec. #1	-0-	-0-	-0-	-0-
Total # of Rec's (28)	10	5	8	2	3

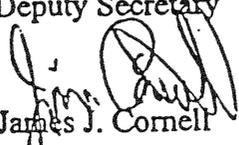
*Issue Area #4, Recommendation #4 - undetermined.

UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF INSPECTOR GENERAL

March 2, 1998

MEMORANDUM

TO : Marshall Smith
Deputy Secretary

FROM :  James J. Cornell
Area Manager
Washington Field Office

SUBJECT : Assessment of Implementation Readiness for the Grant Administration and Payment System (GAPS).

Attached for your review is the first in a series of implementation readiness assessments for the Grant Administration and Payment System (GAPS). The objectives of this review will be to provide the Department with an ongoing assessment of system implementation readiness of GAPS and the state of preparedness of the GAPS user community.

The results of our preliminary assessment show that testing is proceeding according to schedule and no significant problems were observed which were not being addressed by systems staff. In addition, increased outreach and training are needed to prepare ED's grantees for the conversion from PMS to GAPS to help reduce the risk of unforeseen grantee problems.

If you have any questions or concerns, please feel free to contact me on 205-9538 or Brett M. Baker of my staff on 205-9744.

cc: Donald Rappaport
Paul Gilbreath

GAPS Readiness Review
OIG Review Report No. SI1-80008-01
Reporting Status as of February 28, 1998

Objective:

The objective of our review is to provide an ongoing assessment of and input into : 1) the state of readiness of the GAPS system for implementation; and 2) the user community's state of preparedness for the implementation of GAPS.

Scope:

The week of February 22 - 28, 1998 was the first of our review. During this period, we:

- interviewed ED OCFO/CIO, Price Waterhouse, BTG, EDS , ED OPE, National Science Foundation and University of Massachusetts staff;
- monitored testing for Direct Loan, Pell and Campus Based program input files;
- reviewed selected test plans, test scripts, portions of the requirements traceability matrix, and a sample of the test problem resolution (TPR) database;
- reviewed system plans, capacity and access logs for Internet access; and
- surveyed a sample of state, university and small grantee agencies.

Results:

Generally, we have been impressed by the level of technical skill of the EDCAPS team. We have found that the testing of the functional requirements as specified in the design is going well. However, we are unsure if the design properly balances the tradeoffs of internal controls and user case of use. There also appears to be problems with the preparation for deployment in the field.

The results of our review for this initial review period are presented separately below as they pertain to system readiness and user preparedness. At the end of each section are recommendations to help reduce the risk of problems during the initial period of GAPS operation. Overarching recommendations are included at the end of the document.

System Readiness

Overall Conclusion: Testing is proceeding on schedule and no problems were observed which were not being addressed. Additional testing, a separate webserver for training and a staggered schedule for initial draws are recommended to reduce the risk of implementation problems.

Our observations during the week of February 22 -28, 1998 relate to two areas: GAPS System Testing and Web Access Vulnerability.

GAPS System Testing

The GAPS system testing progressed this week on schedule, keeping pace with the dates noted in the GAPS High Level Tasks and Milestones Plan dated February 23, 1998. We observed testing of the Direct Loan Origination (LO) input files, Pell input files and Campus Based (CB) program input files. The focus of the testing was on the functionality of the bridges from the source OPE systems and the processing of the data within GAPS. As of February 28, 1998, the LO, Pell and CB input files were each successfully processed through the bridge into GAPS.

While present in the testing room we did not identify any testing problems that were not being addressed. Among the problems noted during this review period that the test team was attempting to resolve were the following:

- During LO testing on February 27, 1998, we observed test staff trying to resolve 94 error records (out of approximately 200) that resulted because there was no link between DUNS number and document number. This was probably due to problems with a DUNS/document number translation table. The test staff had to use the valid DUNS number of another entity to clear the transactions.
- During CB testing on February 28, 1998, we were informed that there were still approximately 400 CB recipients without DUNS numbers. Given the ease of the process to get one assigned, it was felt that this situation could be resolved soon through improved communication with the institutions.
- On February 25, 1998, we observed that not all required functionality had been developed in the LO bridge. For example, the cents portion of a draw-down was going through the bridge into the GAPS and subsequently put into an error holding file. It was interesting that the dollar portion of the transaction still processed. The bridge should have stripped the cents portion of any draw-down transaction.
- Cash Control Authority (CAA) records did not exist in the native GAPS application for the LO transactions that we observed on February 23, 1998. We also observed

transactions received from LO for excess cash that had no corresponding payment transactions in GAPS. Both of these issues resulted from a miscommunication between LO and GAPS teams and not from incorrect processing.

- On February 25, 1998, we observed the LO test team attempting to resolve problems with the native GAPS application posting an excess cash refund transaction four times instead just once. It did this for more than one document.
- During LO testing on February 25, 1998, a system bug was identified in the native GAPS application that prevents the rollover for a new year for the CFDA 268K database (Direct Loan program).
- The LO test team encountered a problem on February 25, 1998 where the bridge transfer worked successfully when it should not have.
- Although problems were encountered during the Pell testing on February 26, 1998, the OPE representative present indicated that she was satisfied that with the resolution of the problems associated with native processing of the Pell data within GAPS. She added that the only remaining issues were with the data bridge (which was resolved for input data on February 28, 1998) and the need for further testing between GAPS Pell data and FMSS.

Overall, we were impressed with the depth of knowledge of the EDCAPS Project Director and the testing team. Based upon our review of the documentation that we received and our observations of the tests performed, we are of the opinion that adequate effort is being put into the testing of the applications. We are concerned, however, with the absence of plans for a stress test that will simulate full volume use of the GAPS system prior to it being put into production.

Web Access Vulnerability

We are of the opinion that grantees may be shut out of the system during the first week of GAPS operation, due to pent up demand for cash, a high interest in accessing the GAPS training site and user unfamiliarity with the new system and ED's new business process.

We informed the OCFO/CIO staff that mathematically there appears to be a problem with web access. In developing the webserver capacity need, the contractors estimated that GAPS should be able to handle approximately 2160 site hits in any given hour. This total is based on an average connect time of 10 minutes with the website and use of the current limit of 360 simultaneous open sessions on the webserver. We anticipate that the average connect time will be much higher during the initial week of implementation due to inexperience of the users and the number of grants that they will draw against. It would be more realistic to expect 30 minute connect times resulting in allowing only 720 hits in any given hour. Since there are approximately 15,000 entities that draw against GAPS, the Department may have a significant problem with users being shut out of the system during their first several attempts to log on for a cash draw or during subsequent peak usage periods. The demand to log onto the system for cash draws will be further

compounded by the demand for users accessing the GAPS training site during the initial period of operation, unless the training module is moved to a different webserver.

We also examined the ability of the Department's telecommunications lines to handle the anticipated web traffic on top of its current Internet usage. OCFO/CIO and BTG contractor staff indicated that their tests showed that web traffic on the Department's two T1 telecommunications lines reached approximately 70% capacity during peak. Since load testing of the GAPS server indicated an additional usage of 5% of available capacity, BTG felt comfortable that a combination of the two T1 lines would be able to accommodate any abnormally high traffic. BTG staff indicated that they are implementing load balancing between the two T1 lines to assure a relatively even distribution of load stress. We anticipate that this solution will be adequate for the short-term, but expect that the OCFO/CIO will need to take steps to control Departmental Internet usage to both protect available bandwidth and prevent employee abuse.

Recommendations:

1. To reduce the risk of unforeseen problems associated with exceeding system capacity, we recommend that OCFO/CIO staff stress test the GAPS system by simulating full volume usage and production level data. This test should include the expected peak internal usage with a concurrent assimilated high volume web access.

To mitigate the risk of grantees being shut out of the system during the first week of GAPS operation, we recommend that OCFO/CIO:

a) increase the webserver capacity available for grantee cash draws by moving the GAPS training module to a separate webserver;

b) develop a means to spread out the anticipated pent up demand for cash either by staggered cash draws for grantees during the first week of operation or phasing grantees in during the initial period of GAPS operation;

c) develop a revised Departmental Internet policy for consideration by ED's Information Technology Investment Review Board prohibiting use of self-refreshing Internet based screen savers such as Pointcast which reduce available telecommunications bandwidth;
and

d) purchase and install software to prevent Internet access to identified inappropriate sites, thereby eliminated clearly inappropriate use of available telecommunications bandwidth.

User Preparedness

Overall Conclusion: Some grantees may not be fully prepared for the conversion from PMS to GAPS; an expanded pilot would help reduce the risk of unforeseen grantee problems and ED customer service representatives need to be more readily accessible.

Our observations during the week of February 22 - 28, 1998 relate to three areas: Survey of GAPS User Agencies, GAPS Pilot Process and ED Customer Service Readiness.

Survey of GAPS User Agencies

We spoke with representatives from 69 grantee agencies. The 69 agencies were comprised 18 grantees each with over 50 grants (7 SEAs and 11 universities), 18 grantees selected from the grantees that report monthly and 33 grantees selected from the grantees that report quarterly. The 18 grantees that were selected from the files of monthly reports consisted of 3 other than SEA state agencies, 6 universities, 3 colleges, 3 trade schools, 2 local educational agencies, and one non-for profit. The 33 grantees selected from the quarterly reports received 1 to 5 grants and included colleges, non-profits, local educational agencies, Indian Councils and other governmental entities. Fourteen of the 33 had funding under \$300,000 and 6 had funding over \$1,000,000. Our sample of entities to be surveyed was chosen haphazardly, but was intended to obtain a cross-representation of grantees.

Generally, we found that the grantees surveyed were aware of the new GAPS system. However, some of larger grantees (over 50 grants) and close to two-thirds of the smaller grantees do not appear to be ready to use the new system on March 16. Nearly all of the larger grantees (over 50 grants) and 2/3 of the other entities surveyed expect to be on-line drawing cash through GAPS during its first week of operation. Approximately half of the smaller grantees surveyed expect to be drawing cash on-line during the first week. Among the specific observations noted during our survey are the following:

- Only one of the 7 SEAs assessed itself as not being ready for using GAPS on March 16. However, 3 of the SEAs had not yet had anyone trained on GAPS. One of these (NJ) claimed that it was not offered training. All seven plan to be on-line during the week of March 16. They estimated that they would need to be on-line between one and five times.
- Two of the 11 major universities assessed themselves as not being ready for using GAPS on March 16. However, only one had completed a training class. Seven answered "no" to the question, "Have you or has someone on your staff been trained?" All 11 planned to be on GAPS during the week of March 16. They estimated that they would need to be on line one to four times.

- Of the 18 grantees selected from the monthly reporters, one did assessed itself as not being ready to use GAPS. However, that on and five others had not yet completed training. Thirteen planned to be on the Internet during the week of March 16, 1998.
- The 33 grantees with 1 to 5 grants, we assessed that only 12 of the 33 would be ready for using GAPS on March 16. Eleven of the 33 had received but not read the manual and an additional three said they did not have any training materials on GAPS. Fourteen of the 33 plan to be on-line during the first week of GAPS operation, but five of these 14 do not appear to be ready to use GAPS.

During our interviews, we also were told:

- The NY Department of Social Services (NYDSS) did not know if they would be ready, although they had a representative attend training on the GAPS system. Their concern is that they currently have a reconciliation issue with the Department. The NYDSS has had four different account representatives in the last five months. They sent a letter with questions to ED, but have only received answers to the easy questions. NYDSS claims to have been informed by ED that after October 1, 1998 they can expect a lag in the receipt of their federal funds. This means that NY will have to use state funds to cover its payroll and other expenditures until it receives its federal funds.

One of the interviewees was a third party servicer. This entity stated that during the first week of operation, they would be on 200 or more times since the system was not build to accommodate third party servicers.

- One grantee had attached a letter regarding unresolved problems with their SF272 that stated that they (the grantee) had left numerous messages but had not spoken to anyone. We called the grantee and were told that the problem has since been resolved.

Based upon the results of our survey, we are of the opinion that some grantees may not be fully prepared for conversion. Grantees may not be taking fully advantage of the training opportunities available. A few grantees mentioned not having time to do the training. One grantee mentioned not having enough money to attend training. We believe that ED needs to be prepared to provide a high volume of assistance during the transition period, especially for the smaller grantees.

GAPS Pilot Process

On February 27, 1998, we spoke with a representative from one of the four pilot GAPS entities, the University of Massachusetts at Amherst (UMA). Observations from our discussion include the following:

- UMA likes the immediate transactions with GAPS and looks forward to reduced reconciliations since the draw and report are the same.

- UMA noted that the system did not accept negative figures within a draw. The negative figures were to adjust a prior draw. UMA reported this to the Department and were told that the Department would work on it.
- GAPS does not show cents, but instead rounds to the dollar. This causes additional reconciliation effort, since the University's system captures cents.
- With GAPS there is a lack of segregation of duties since all users have 100% access.
- UMA does not like the inability to download or upload information between their system and GAPS. The new National Science Foundation (NSF) system has this capacity. (Note for NSF the draw process is by grantee, while the reporting process is separate and is by grant. The reporting process is what can download and upload information. Whereas the ED system combines these two processes.)
- UMA also expressed concern that not all their grants are on the GAPS system. They reported one missing grant to ED but have since identified two more that they had not yet reported.
- The UMA Treasurer's staff did not have a GAPS manual and had a little problem with the web site information.
- The Information provided at the Fiscal Officers conference was very straight forward. However, UMA found that the system did not behave as expected, i.e.: the inability to make negative adjustments to drawdowns.

From our discussions with the one pilot participant and an NSF representative, and our review of the number and types of entities included in the pilot we have concluded that an expanded pilot would be very beneficial. The four entities included in the pilot did not include a cross-representation of the types of entities that will ultimately be using GAPS, and did not involve any of the institutions that have historically struggled with the cash management process. The NSF representative informed us that they piloted with 16 of their 2000 users and then ran their two systems parallel for a year while they phased in their grantees.

The UMA representative informed us that many of his observations were made in the past week, and that he is still formulating his opinions. This feedback indicates that a longer pilot process may also be warranted.

ED Customer Service Readiness

During the interviews with grantees, one interviewee noted that they had difficulty getting the customer assistance representatives on the phone.

As part of our effort to review ED grantee preparedness for GAPS, we performed a limited test of the accessibility of ED's eight customer service representatives listed in January 21, 1998 letter from the CFO notifying agencies of the pending conversion and who they should contact for help. On February 27, 1998 at 10:30 AM and 11:50 AM, we called each of the eight representatives.

- Three of the eight customer service representatives are currently on-detail and have a message on their voice mail to call another representative.
- Of the remaining five representatives:
 - During both attempts, two of them had full mail boxes. On February 25, 1998, one of these same representatives had a full mail box.
 - One representative had a message that they were out of the office.
 - We got the voice mail of the other two.

In summary, on February 27, 1998 of the 8 customer service representatives specified in the CFO's letter, six were unassessable. Although grantees also have the hotline available to them, it is reasonable for them to expect to get a person on the phone when they attempt to call their designated customer representative.

Recommendations:

To better prepare the grantee community for the GAPS implementation, the OCFO/CIO should:

1. coordinate a departmental effort to provide more proactive assistance to grantees to help prepare them for GAPS (Establishing cross-component study teams to identify steps to be taken prior to and after the conversion, to access and address grantee concerns, could help ease the transition);
2. develop a more expansive pilot of a more representative group of grantees to obtain a better perspective on the problems that grantees will experience after deployment;
3. obtain a formal report from the contractor on the pilot process; and
4. take steps to ensure that grantees don't reach a full mail box when calling their designated customer representative (During the transition period, all eight designated customer representatives should be available to grantees).

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Our efforts over the past week have also pointed to the need for a more structured decision process to assist the ODS in establishing the timing for when to put GAPS into production. In this regard we have two overarching recommendations.

Recommendations:

- 1) The OCFO/CIO should establish a small team to develop a set of comprehensive criteria for the Deputy Secretary identifying steps to be achieved prior to GAPS being put into production. The criteria should address details related to both system readiness and user preparedness, and include an analysis of risks expected to be present at the time of deployment.
- 2) The Deputy Secretary should take steps to achieve component buy-in on the criteria, communicate the need to all components for a concerted GAPS implementation effort and generate a sense of department-wide responsibility for its success.

In closing, the OIG will be continuing its review of the conversion from PMS to GAPS and will provide any additional findings and recommendation to the Deputy Secretary and the OCFO/CIO as they are developed.

U.S. OFFICE OF SPECIAL COUNSEL

1730 M Street, N.W., Suite 300
Washington, D.C. 20036-4505



The Special Counsel

February 23, 2000

2000 FEB 25 A 9 46

DEPT. OF EDUCATION
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The Honorable Richard W. Riley
Secretary
United States Department of Education
400 Maryland Avenue, S.W.
Room 7W301
Washington, D.C. 20202-1510

Re: OSC File No. DI- 99-0862

2000 FEB 29 P 12: 42
OCFO OCIO
EXECUTIVE OFFICE

Dear Mr. Secretary:

I am transmitting the following information for your attention pursuant to 5 U.S.C. § 1213(c). The information demonstrates a substantial likelihood that violations of law, rule, or regulation, gross mismanagement, a gross waste of funds and an abuse of authority have occurred at the Department of Education, Office of the Chief Financial and Chief Information Officer (OCF&CIO), Washington, D.C. We received this disclosure from John Gard, former Systems Accountant in the OCF&CIO at the Department of Education. Mr. Gard has consented to the release of his name.

Mr. Gard alleged that since 1997, the OCF&CIO has failed to maintain adequate controls over billions of dollars of Federal grant money, has been unable to account for grant monies, and has made improper disbursements to grant recipients. He alleged that a new financial management system, the training and planning for which was begun by the OCF&CIO in 1997, and which was implemented in 1998, does not contain proper internal and external security controls, audit trails, or accounting functions. As a result, the system, known as the Grant Administration and Payment System (GAPS), has caused the agency to make payments to unknown or unidentified organizations, 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.

Mr. Gard also alleged that despite his warnings about the serious flaws in the system, the agency recklessly proceeded with the implementation of the new system and failed to properly track data transmitted from the old system to the new. Mr. Gard informed this office that the agency's accounts were deemed un-auditable for fiscal year 1998. An independent audit requested by the agency's Office of Inspector General (OIG) found that weaknesses in the system's ability to perform a year-end closing process or produce automated consolidated financial statements prevented reconciliation of the accounts. In addition, the agency could not adequately perform reconciliations and could not provide sufficient documentation supporting

transactions. Mr. Gard asserts that had the agency heeded his warnings in 1997, these problems could have been avoided or minimized.

In 1997, Mr. Gard reported his initial concerns to his supervisor, Betty Hepak, Director, Financial Payment Group, and to the Office of General Counsel. He had identified irregularities in the TC650 Journal Vouchers that had been approved by the Customer Assistance and Accountability Unit. The journal vouchers adjust the cash accountability of an account. Mr. Gard's review indicated that some of the journal vouchers were improper, and possibly, illegal.

Throughout 1997 and into 1998, Mr. Gard participated in training in the new GAPS system and meetings concerning the conversion to GAPS. He repeatedly raised concerns about security issues, specifically the lack of controls over UserIDs and passwords, but was assured by agency officials that the system would be secure. In December 1997, he reported his concerns about the lack of payment security and a payment audit trail to agency officials and the OIG.

In May 1998, Mr. Gard became aware that serious security gaps existed in the system. For instance, he alleged that government employees and contractors assigned to a system Hotline (approximately 35 employees) were releasing recipient UserIDs and passwords over the phone; that management provided Hotline personnel with paper lists of the recipient UserIDs and passwords, and that copies of such confidential lists were found unsecured in the office; and that management released one common UserID 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. These lack of controls over UserIDs and passwords rendered the system vulnerable to fraud and left it without an audit trail.

Mr. Gard also alleged that the GAPS system contained a substantial number of incorrectly mapped accounts and that management failed to track accounts during system conversion. In May 1998, Mr. Gard identified additional irregularities when he was assigned to work on cash reconciliations and reports. Amounts that he entered on the reconciliations were supported by the accounting system. Some of the amounts Mr. Gard entered were changed by senior officials and/or the budget office, according to Mr. Gard. He believed that the changes were made in attempts to balance the agency's accounting records, which he believed to be out of balance by millions of dollars.

Copies of the documentation submitted by Mr. Gard in support of his allegations are enclosed.

The Special Counsel is authorized by law to receive information about alleged violations of any law, rule or regulation, or gross mismanagement, a gross waste of funds, an abuse of authority, or a substantial and specific danger to public health or safety in federal

The Special Counsel

The Honorable Richard W. Riley

Page 3

agencies. 5 U.S.C. §§ 1213(a) and (b). If I find that the information demonstrates a substantial likelihood that one of these conditions exists, I am then required to send that information to the appropriate agency head for investigation or report. 5 U.S.C. §§ 1213(c) and (g). Accordingly, I am referring this information to you for an investigation of the allegations described above and a report of your findings within 60 days of your receipt of this letter.

The report must be reviewed and signed by you personally. Should you decide to delegate authority to another official to review and sign the report, your delegation must be specifically stated. The requirements of the report are set forth at 5 U.S.C. § 1213(d), a summary of which is enclosed.

In the event that it is not possible to report on the matter within the 60-day time limit, as the statute requires, you may request in writing an extension of time not to exceed 60 days. Please be advised that an extension of time will not be granted automatically, but only upon a showing of good cause. Accordingly, in the written request for an extension of time, please state specifically the reasons the additional time is needed.

After making the determinations required by 5 U.S.C. § 1213(e)(2), copies of the report, along with any comments on the report from the person making the disclosure and any comments or recommendations by me will be sent to the President and the appropriate oversight committees in the Senate and the House of Representatives. 5 U.S.C. § 1213(e)(3). A copy of the report and any comments will be placed in a public file in accordance with 5 U.S.C. § 1219(a).

Please refer to our file number in any correspondence on this matter. If you should need further information, please contact Catherine A. McMullen, Chief, Disclosure Unit, (202) 653-6005. I am also available to you for any questions you may have.

Sincerely,



Elaine Kaplan

Enclosures

(d) Any report required under subsection (c) shall be reviewed and signed by the head of the agency and shall include—

(1) a summary of the information with respect to which the investigation was initiated;

(2) a description of the conduct of the investigation;

(3) a summary of any evidence obtained from the investigation;

(4) a listing of any violation or apparent violation of any law, rule, or regulation; and

(5) a description of any action taken or planned as a result of the investigation, such as—

(A) changes in agency rules, regulations, or practices;

(B) the restoration of any aggrieved employee;

(C) disciplinary action against any employee; and

(D) referral to the Attorney General of any evidence of a criminal violation.

Status of Financial Statement Audits: 1995 - 1999
 Prepared: May 8, 2000

	Resolved/ Corrective Action Continues	Resolved if Modified	Closed	Closed if Modified	Not Closed; Doesn't Address Recommendation	Cannot Accept as Closed for Corrective Action	Unresolved	TOTAL
1995	3	0	23	0	0	0	0	26
1996	3	0	16	0	0	5	0	24
1997	8	0	24	1	4	0	0	37
1998	9	8	8	0	0	0	3*	28
1999 *	0	0	0	0	0	0	24	24
TOTAL	23	8	71	1	4	5	27	139

* Status of Issue Area #4, Recommendation #4 undetermined.

Source: Internal OCFO/FIPAO document.
 Point of Contact: Phil Maestril, Director
 Financial Improvement and Post Audit Operations
 (202) 205-3511

GAO
Accounting and Information
Management Division

**Review of the U.S. Department of Education's
Grantback Account**

Briefing to the Subcommittee on Oversight and
Investigations, House Committee on Education
and the Workforce

May 3, 2000

DRAFT

GAO Contents

DRAFT

- Objectives
- Background
- Scope and Methodology
- Overview
- Financial Management Systems Deficiencies
- Inadequate Systems of Funds Control
- Manual Internal Control Weaknesses
- Actions Taken by Education to Address Grantback Account Issues
- Recommendations

GAO Objectives

DRAFT

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- You requested that we provide information on the
 - intended purpose of the U.S. Department of Education's (ED) grantback account;
 - annual grantback account balance since inception; and
 - grantback account balance as of 12/31/99.
 - You also requested that we evaluate
 - how the grantback account has been used since inception;
 - whether there is support for the transactions in the grantback account;
 - whether the transactions in the grantback account are valid; and
 - whether any federal laws have been violated by the existence and management of the grantback account.

GAO Background

DRAFT

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- Currently, ED has over 150 appropriation accounts to fund its grant programs and for fiscal year 1999 reported about \$30 billion in grant expenses.
 - Grant recipients meeting certain thresholds are required by law (31 U.S.C. Secs. 7501 - 7507 (Supp. IV 1998)) to have audits (referred to as Single Audits) which include tests of their compliance with program-specific requirements.
 - If audits identify certain noncompliance, recipients must return the grant funds to ED.
 - If the grant recipient meets certain conditions, including correcting the noncompliance, ED may return up to 75 percent of the amounts recovered (referred to as grantback payments).

GAO Background (cont'd)

DRAFT

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- ED established a deposit fund with Treasury in 1991 (referred to as the grantback account), with OMB approval, in order to retain availability of funds needed to make grantback payments.
 - Prior to May 1998, ED maintained the Education Payment Management System (EDPMS) under which grant recipients' requests for disbursements were pooled. In May 1998 ED converted from EDPMS to the Grant Administration and Payment System (GAPS) which tracked grant disbursements by specific grant awards.
 - ED conducted separate efforts under EDPMS and GAPS to reconcile its records of grant disbursements to those of the recipients.
-

GAO Background (cont'd)

DRAFT

- Agencies are required to maintain proprietary and budgetary accounts in their general ledgers. Proprietary accounts track assets and liabilities, whereas budgetary accounts track the status of budget authority. Proprietary accounts are self-balancing, as are budgetary accounts. In addition, there is a relationship between certain proprietary and budgetary accounts. For example, the sum of the proprietary accounts: Fund Balance with Treasury and Advances should equal the sum of the budgetary accounts Undelivered Orders, Accounts Payable, Funded Liabilities and Unobligated Balances.

GAO Scope and Methodology

DRAFT

- Held numerous interviews and discussions with staff in various ED offices and reviewed available information related to (1) ED's grant activity and use of the grantback account and (2) controls in place for the conversion from EDPMS to GAPS and the results of the conversion procedures.
- Conducted walkthroughs of the various types of transactions that were recorded in the grantback account.
- Reviewed the Fund Balance with Treasury reconciliations for the grantback account for FYs 1997, 1998 and 1999.

GAO Scope and Methodology (cont'd)

DRAFT

- Tested a nonstatistical sample of 92 actual grantback transactions from FY 1991 through FY 1999 and a statistical sample of 20 adjustment transactions from FY 1997 through FY 1999 to determine whether ED could provide adequate documentation to support the validity of these transactions.
- Reviewed various nonstatistically selected GAPS recipient reconciliation files and EDPMS “5 year cash on hand” recipient reconciliation files.
- Reviewed data files that contained the ending grant balances in EDPMS and the beginning grant balances in GAPS.
- Reviewed various relevant laws and regulations.

GAO Scope and Methodology (cont'd) **DRAFT**

- Reviewed and discussed with ED's OIG the workpapers related to the OIG's Action Memorandum FIN-99-01 (GAPS Survey Review) issued in January 1999.
- Reviewed the Single Audit Act guidance for recipients of ED grant program awards, and interviewed 10 nonstatistically selected states' auditors to understand the scope of their audit work under the Single Audit Act related to ED's grant programs.
- Performed our review in Washington, D.C., at the Department of Education between December 1999 and April 2000 in accordance with generally accepted government auditing standards.

GAO Overview

DRAFT

- We found that
 - Although the grantback account was established for grantback activities, ED also used it as a suspense account for activity related to grant reconciliation efforts;
 - ED could not provide adequate supporting documentation for certain activity in the grantback account;
 - Because of internal control weaknesses, including lack of adequate documentation, we could not determine the validity of certain activity in the grantback account; and

GAO Overview (cont'd)

PART

-
- ED did not maintain adequate detailed records for certain grantback account activity by the applicable fiscal year and appropriation, which is needed to have an adequate system of funds control and help protect against Anti-Deficiency Act violations.

- As a result of serious financial management systems deficiencies, inadequate systems of funds control, and manual internal control weaknesses that we and other auditors identified, there is increased risk of fraud, waste and mismanagement of grant funds, as well as increased risk of noncompliance with the requirements of the Anti-Deficiency Act.

Financial Management Systems
Deficiencies - Pooling Method

DRAFT

- The pooling method for disbursing grants contributed significantly to ED's problems with accounting for grant activity.
- ED inherited a grant accounting and disbursement system that processed grant drawdowns on a pooled basis. Under this system, recipients with multiple awards drew funds from their pool of grant funds without being required to match the drawdowns to specific awards as the drawdowns occurred.

Deficiencies - Pooling Method (cont'd)

- ED used a complex formula (called “the algorithm”) to allocate the drawdowns to awards. However, according to ED officials, the 1990 account closing law’s requirement to cancel appropriations (which for most accounts is five years after budget authority expires) significantly challenged the effective functioning of ED’s algorithm contributing to out of balance conditions in grant activity.
- ED relied on recipients’ reporting of actual expenditures for individual grant awards as its basis for charging disbursement transactions to the correct grant awards. However, untimely reporting by recipients contributed to inaccurate data in ED’s records and differences between ED’s records and those of the recipients.

GAO Financial Management Systems **DRAFT**
Deficiencies - General Computer Controls

- General computer control weaknesses exist in ED's information systems, including those that process grant activity.
- Since FY 1995, ED's independent financial statement auditors have reported weaknesses in ED's information systems controls, such as ineffective procedures for monitoring access to sensitive computer resources, and have made recommendations to ED to address such weaknesses.

GAO
Financial Management Systems Deficiencies -
General Computer Controls (cont'd)

- Also, we testified in March 2000 (Education Faces Challenges in Achieving Financial Management Reform, (GAO/T-AIMD-00-106, March 1, 2000) that continued weaknesses in information systems controls increase the risk of unauthorized access or disruption of services, and make ED's sensitive grant and loan data vulnerable to inadvertent or deliberate misuse, fraudulent use, improper disclosure, or destruction, which could occur without being detected.

GAO
Inadequate Systems of Funds Control -
Suspense Account

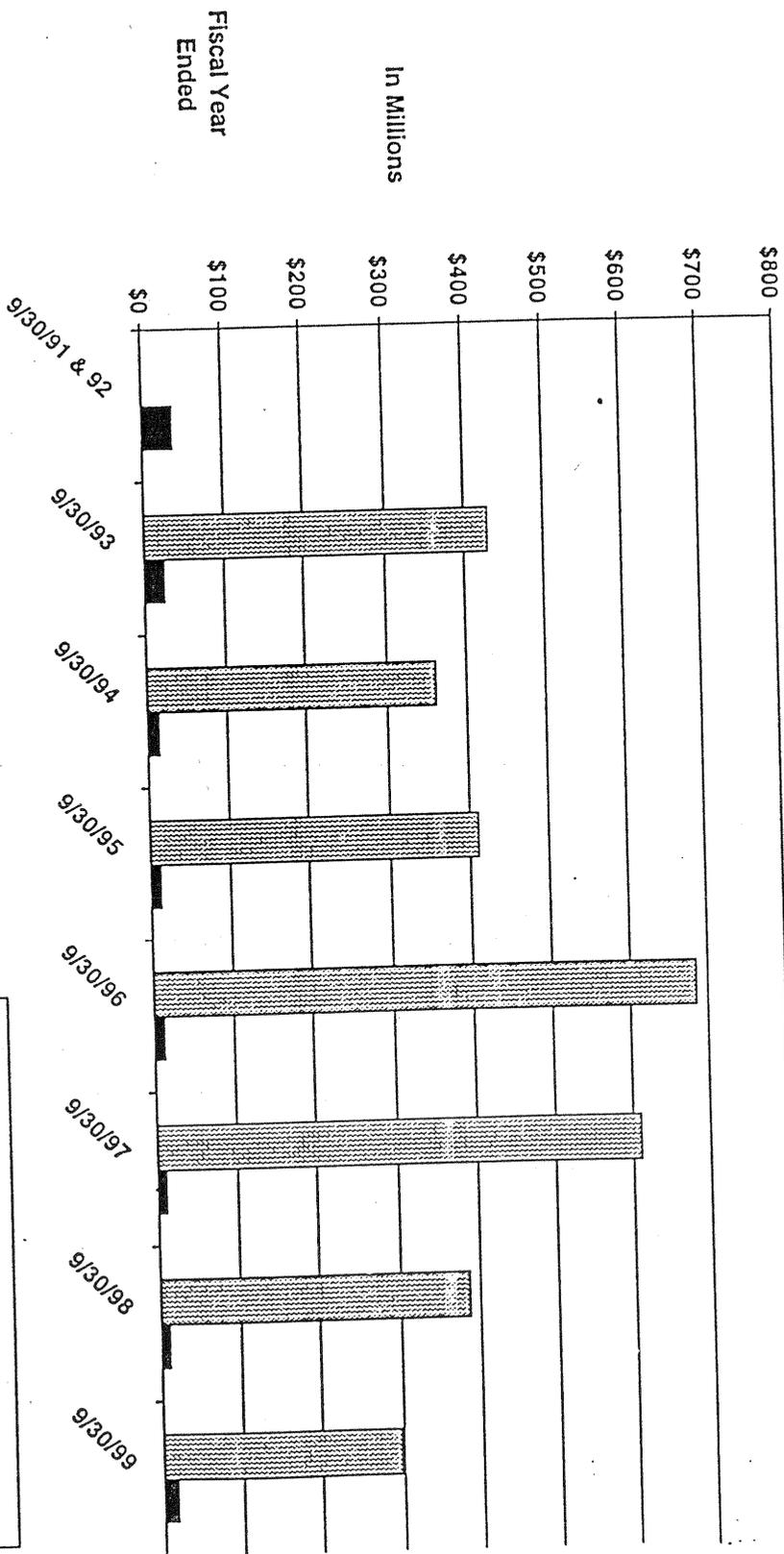
- Although the grantback account was established for grantback activities, ED also used it as a suspense account for activity related to grant reconciliation efforts.
- Various factors, such as untimely reporting by recipients and weaknesses in ED's accounting systems and controls, resulted in many differences between recipients' and ED's records.
- These problems also contributed to ED's internal proprietary and budgetary accounting records being out of balance.
- ED has undertaken several reconciliation efforts in attempting to correct its accounting records and resolve the differences between recipients' and ED's records.

GAO

Inadequate Systems of Funds Control - Suspense Account (cont'd)

- Also, ED has periodically decreased the grantback account (i.e., returned to Treasury) and increased Treasury's general fund account for the portion of the funds in the grantback account that it attributed to cancelled appropriations.
- The portion of the grantback account related to actual grantback activity averaged less than five percent of the total account balance in every year starting in FY 1993, which, based on ED records provided to us, was the first year that ED used the grantback account for adjustment activity.

GAO Inadequate Systems of Funds Control - Suspense Account Grantback Account Balances (cont'd)



Note: Balance at 12/31/99 was the same as at 9/30/99.
Source: Data provided by ED's Office of the Chief Financial Officer.

▨ Adjustments Balance
■ Grantback Balance

GAO

Inadequate Systems of Funds Control -
Suspense Account (cont'd)

DRAFT

-
- ED could not provide a listing of the grantees by name and amount that comprise the balance in the adjustment activity portion of the grantback account at September 30, 1999, because some activity was accounted for at the appropriation level, some was accounted for at the grant award level, and other activity was accounted for at the recipient level.
 - Table 1 below summarizes by fiscal year the reconciliation adjustments and certain funds returned to Treasury recorded in the grantback account.

GAO Inadequate Systems of Funds Control - Suspense Account (cont'd)

DRAFT

Table 1
Reconciliation Adjustments and Funds Returned to Treasury
Activity Recorded in the Grantback Account by Fiscal Year
(\$ in Millions)

Fiscal Year	Proprietary ¹	GAPS ²	Returned to Treasury ³	Fund Balance with Treasury	Other ⁴	Fiscal Year Ending Balance
1993	360				70	430
1994					-68	362
1995	46				2	410
1996	294				-19	685
1997			-147	30	41	609
1998				-166	-56	387
1999				-111	9	297
Total	700		12	-147	-247	297

Source: GAO analysis of ED's data.

¹ ED made net adjustments to its proprietary accounts to correct the out of balance conditions in its internal proprietary and budgetary accounting records mentioned previously. These adjustments are related to the EDPMS 5-year cash-on-hand reconciliations.
² This is a net amount comprised of \$20 million in adjustments to decrease the recipients' available grant balances and \$32 million in adjustments to increase the recipients' available grant balances. The adjustments were posted during fiscal years 1998 and 1999, and into fiscal year 2000; however, ED did not provide a detailed listing by date posted.
³ ED also returned \$146 million in January 2000. The amounts shown here as "Returned to Treasury" do not include actual grantback activity.
⁴ "Other" includes activity that we could not separately identify to the other categories because ED could not provide adequate supporting documentation.

GAO Inadequate Systems of Funds Control -
Suspense Account (cont'd) **DRAFT**

- ED's independent auditors reported for FYs 1999 and 1998 that ED was using the grantback account for adjustments related to reconciling differences of various appropriations that have accumulated since 1993, but ED could not readily determine to which appropriations certain amounts in the grantback account belong.

GAO
Inadequate Systems of Funds Control -
Detailed Records **DRAFT**

- ED did not maintain adequate detailed records for certain grantback account activity by the applicable fiscal year and appropriation, which is needed to have an adequate system of funds control and help protect against Anti-Deficiency Act violations.
- In the early to mid 1990s, ED conducted an EDPMS “5 year cash-on-hand” recipient reconciliation project that resulted in adjustments to ED’s records of recipients’ advance balances.
 - ED’s method of accounting for these reconciliation adjustments caused its records of proprietary and budgetary general ledger accounts to become out of balance.

- ED used the grantback account to record adjustments (called “sources and uses adjustments”) to bring its proprietary and budgetary accounts into balance. These adjustments generally resulted in increases to the grantback account’s fund balance.
- In the late 1990s, ED began its GAPS recipient reconciliation project that identified differences between ED’s and recipients’ records of drawdown balances.
 - For differences related to closed awards identified by the recipients, ED used the grantback account to make the adjustments requested by the recipients without knowing whether the amounts used directly related to the closed awards that had differences.

GAO Inadequate Systems of Funds Control - Fund Balances

DRAFT

- ED used the grantback account to (1) clear unreconciled differences in various grant appropriation fund balance accounts, and (2) adjust certain appropriation fund balances to ensure they did not become negative. A negative balance is an indicator of a potential Anti-Deficiency Act violation. Specifically, we found that
 - In 1998, ED recorded a \$166 million net adjustment as a reduction to the grantback account to make its records of Fund Balance with Treasury accounts for over 20 appropriations agree to Treasury's records. In essence, ED "plugged" its records to force them into agreement. In addition, ED did not provide any documentation to show a direct correlation between this reduction and the initial increases made to the grantback account (primarily the sources and uses adjustments discussed previously).

Inadequate Systems of Funds Control -
Fund Balances (cont'd)

DRAFT

- In 1999, ED made a \$111 million adjustment reducing the grantback account balance and increasing the balance of six appropriations to ensure that projected negative fund balances did not occur. However, ED did not provide any documentation to show a direct correlation between this reduction and the initial increases made to the grantback account.
- Also, we found that ED had recorded this \$111 million adjustment twice, and is currently showing the amounts needed to correct the duplicate posting as a reconciling item on the Fund Balance with Treasury reconciliation for the grantback account.

GAO
Inadequate Systems of Funds Control -
Fund Balances (cont'd) **DRAFT**

- Since FY 1995, ED's auditors have reported internal control weaknesses related to Fund Balance with Treasury reconciliations, including unexplained, unreconciled differences; improper and untimely reconciliations; and adjusting general ledger balances to agree to Treasury without adequately determining whether, in fact, ED's records may have been correct.

GAO
Inadequate Systems of Funds Control -
Cancelled Accounts **DRAFT**

- While ED reviewed the grantback account activity for amounts related to cancelled appropriation accounts, its analysis was not complete. Specifically, we found that
- ED reviewed three adjustments that increased the balance in the grantback account to identify the portion of the adjustments that were in cancelled status. ED decreased the grantback account (i.e., returned to Treasury) and increased Treasury's general fund account for the cancelled portion of the adjustments.
- The adjustments in FYs 1993 and 1995 totalled \$406 million (net), \$147 million of which ED returned in October 1997. The adjustment in FY 1996 was \$294 million (net), \$146 million of which ED returned in January 2000.

GAO
Inadequate Systems of Funds Control -
Cancelled Accounts (cont'd) **DRAFT**

- However, ED did not consider the effect of any account activity that occurred between the time the adjustments were made and when the reviews were performed.
- Also, when ED performed the second review, it did not consider balances remaining from the previous review to determine if any portion of these were in cancelled status and should be returned to Treasury.

GAO
Manual Internal Controls Weaknesses -
Supporting Documentation **DRAFT**

- ED could not provide documentation to support the validity of certain activity in the grantback account.
- The following factors contributed to ED's inability to provide supporting documentation:
 - When ED converted to a new accounting system in October 1997, it did not maintain complete, detailed records from the discontinued accounting system;
 - When ED moved in October 1998, about 200 boxes of accounting records were sent to offsite storage without being properly labeled to easily determine the contents; and

GAO
Manual Internal Control Weaknesses -
Supporting Documentation (cont'd) **DRAFT**

- Certain records relating to transactions selected for our testing, which ED stated were stored at another agency's offsite storage facility, were not provided by the end of our fieldwork despite ED's repeated requests to the agency to obtain the records.
- For FY 1996 and prior years, ED could not provide (1) general ledger printouts supporting the adjustment activity totaling \$685 million (net) recorded in the grantback account, and (2) documentation supporting the reconciliations of the grantback account's Fund Balance with Treasury.

GAO
Manual Internal Control Weaknesses -
Supporting Documentation (cont'd) **DRAFT**

- For 39 of the 92 actual grantback transactions we nonstatistically selected for testing (totalling in gross about \$47 million and \$128 million, respectively), ED could not locate or provide any documentation supporting the validity of the transactions, and could only partially support another 4 transactions (totalling about \$23 million).
- In addition, for 14 of the 92 selected transactions, ED asserted that the transactions, which totaled \$160,734, were recorded to reverse duplicate postings of grantback collections. However, ED could not locate evidence to support that a duplicate posting had in fact occurred.

GAO Manual Internal Control Weaknesses -
Supporting Documentation (cont'd) **DRAFT**

- ED could not provide adequate supporting documentation for 6 of the 20 adjustment transactions we statistically selected for testing.
- One of the 20 adjustment transactions was a valid grantback disbursement for \$48,195 which was misclassified as an adjustment. As such, ED's analysis of the true grantback activity which was performed to determine the amount to be returned to Treasury was incorrect.

GAO
Manual Internal Control Weaknesses -
Supporting Documentation (cont'd)

- ED could not provide documentation to support that the grant balances in EDPMS at the time of conversion in May 1998 agreed to the beginning grant balances in GAPS.
- ED could not provide documentation to support that the true grantback activity in PAS at the time of conversion in October 1997 was properly transferred to the new general ledger system.

GAO Manual Internal Control Weaknesses - Adherence to Policies and Procedures

- ED did not consistently adhere to certain of its policies and procedures relating to EDPMS “5 year cash-on-hand” grant reconciliations.
- ED’s policies and procedures required that recipients provide a certification by their independent certified public accountants (CPAs) that the recipient’s records of “cash-on-hand” balances were accurate when the adjustments requested by recipients exceeded \$25,000.
- According to an ED official, ED did not always enforce this policy for state recipients because ED relied on the Single Audits performed of states’ financial records.

GAO **DRAFT** Manual Internal Control Weaknesses - Adherence to Policies and Procedures (cont'd)

- We found that of the 6 EDPMS recipient reconciliation files we selected nonstatistically and reviewed, 3 state recipient reconciliation files exceeding the \$25,000 threshold described previously did not contain the required certifications or anything to indicate that the Single Audit results were reviewed.
- ED's policies and procedures require that manually prepared journal entries to adjust the general ledger be reviewed and approved by a supervisor. However, we found that one manually prepared journal entry for \$289,108 in our sample of 20 adjustment transactions was prepared by a contractor and did not include any evidence of supervisory review.

Manual Internal Control Weaknesses -
Adequacy of Policies and Procedures

- ED's recipient reconciliation policies and procedures are not adequate.
- In our review of ED's policies and procedures relating to GAPS recipient reconciliation adjustments we found that
 - There is no requirement for supervisory review and approval of adjustments requested by grant recipients.
 - There is no requirement that staff responsible for processing adjustments requested by grant recipients obtain applicable Single Audit Act reports and review the audit results, even though ED officials stated in a letter to us that ED believes the requested adjustments are valid because the recipients are subject to yearly audits (i.e., the Single Audits).

GAO Manual Internal Control Weaknesses - Adequacy of Policies and Procedures (cont'd)

- For 1 of the 3 recipients noted above for which the certifications were missing, the reconciliation file contained an internal memorandum indicating that the recipient had been cited by its Single Audit Act auditors for violations of cash management of federal funds. Yet, there was no evidence that this had been considered in ED's decision to approve the recipient's requested adjustment for \$2.4 million to effectively increase the recipient's balance available for drawdowns.

- ED sent letters to the recipients stating that the Single Audit Act auditors would be required to test (1) whether grant expenditures agreed with information in GAPS and (2) recipient reconciliation adjustments. However, the 10 states' auditors that we contacted told us that the GAPS adjustments are not targeted for testing because the Single Audit Act guidance related to ED's grant programs does not specifically require such testing.

GAO Manual Internal Control Weaknesses - *ED's*
Adequacy of Policies and Procedures (cont'd)

- Also, these auditors stated that it is not possible for these adjustments to be selected for testing from the recipients' records because the adjustments were made in ED's records.
- ED's policies and procedures for processing GAPS adjustments were not sufficiently detailed to ensure the validity of the adjustments requested by recipients.
- There was no requirement to obtain documentation from the recipients supporting the requested GAPS reconciliation adjustments, other than a letter signed by the recipient's CFO.

GAO
Manual Internal Control Weaknesses -
Adequacy of Policies and Procedures (cont'd)

- For FYs 1999 and 1998, ED's independent auditors reported that ED has not yet developed formal policies and procedures to reconcile the expenditure data between its disbursement system (GAPS) and its general ledger, and made recommendations to ED to address this weakness.
- We also found that ED does not require supervisory review and approval of monthly reports of outlays to Treasury.

GAO
Actions Taken by Education to Address
Grantback Account Issues

- In part to eliminate problems caused by the pooling method, ED implemented a new grant disbursement system in May 1998 called GAPS. Under GAPS, ED tracks grant disbursements by award instead of on a pooled basis. However, for FYs 1999 and 1998, ED's independent auditors reported various weaknesses related to GAPS, including unreconciled differences between GAPS and ED's general ledger, processing of duplicate payments, and lack of formal policies and procedures to reconcile expenditure data between GAPS and ED's general ledger.

- ED analyzed the portion of the grantback account balance at September 30, 1999, (approximately \$16.5 million) that represented actual grantback activity and, in March 2000, returned to Treasury about \$10 million.
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GAO

Actions Taken by Education to Address
Grantback Account Issues (cont'd)

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- After recently developing a plan to eliminate the adjustment activity portion of the grantback account, ED took the following key steps
 - In January 2000, decreased the grantback account (i.e., returned to Treasury) and increased Treasury's general fund account for \$146 million;
 - Contracted with Treasury in February 2000 for assistance in determining the appropriate accounting for the remaining funds in the grantback account; and
 - Transferred in March 2000 the adjustment activity balance from the grantback account to a deposit fund suspense account used for general purposes.

GAO
Actions Taken by Education to Address
Grantback Account Issues (cont'd)

- The plan also includes the following steps to be taken
 - Reconcile GAPS and ED's general ledger by June 2000; and
 - Return to Treasury the remaining balance in the grantback account.
- However, for the steps still to be taken, the descriptions are not detailed enough for the individuals carrying out the plan to know specifically what actions to take to meet management's objectives.
- Also, the plan does not address how or when ED will complete the GAPS reconciliation project and account for adjustments resulting from such reconciliations.

GAO Recommendations

DRAFT

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- In addition to the actions already taken or planned by ED, we recommend that the Secretary of Education direct the Acting Chief Financial Officer to develop and implement:
 - A formal, detailed plan to eliminate the portion of the grantback account balance that was transferred in March 2000 to a deposit fund suspense account, including steps describing how ED will
 - Complete the GAPS reconciliation project and account for adjustments resulting from such reconciliations;
 - Implement adequate controls over its recipient reconciliations and Fund Balance with Treasury reconciliations, requiring that ED maintain detailed records by the applicable fiscal year and appropriation for any unreconciled differences transferred to suspense accounts until such differences are resolved; and
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GAO Recommendations (cont'd)

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- Return to Treasury the remaining funds related to the adjustment activity that were transferred in March 2000 to a deposit fund suspense account, including a re-evaluation of the October 1997 and January 2000 reviews.
 - Detailed policies and procedures to properly manage and maintain documentation and records related to all transactions and other significant events related to grant activity, including a requirement to properly label boxes sent to offsite storage facilities so that they are readily available for examination.

GAO Recommendations (cont'd)

- Detailed policies and procedures for performing GAPS recipient reconciliations, including 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.
- Detailed policies and procedures requiring supervisory review and approval of ED's monthly reports of outlays sent to Treasury.

Plan to Respond to GAO Findings on the Pending Grant Back Account
As of June 8, 2000

Explanation:

The first section lists the issues for resolution and the rationale for determining the issue requires a resolution to correct cash management related audit issues.

The second section lists the tasks required to satisfy auditor issues, permanently eliminate the Adjustment CAN Y259902, and bring the Fund Balance with Treasury into agreement with the General Ledger.

The third section identifies specific actions that need to be accomplished to complete the tasks. Completing the actions will ensure interim and final completion dates are met.

The items marked "Y" indicate the action issue should be completed by June 30th, the date OCFO is committed to resolve the Adjustment CAN Y259902 to the satisfaction of GAO.

All action issues should be accomplished prior to the end of the fiscal year to facilitate the annual financial statement audit.

The suspense items do not have to be cleared before the final Net Position adjustment is processed; however, the items should be cleared to ensure sufficient funds are available to cover all budgetary obligations/expenditures.

2011/10/1

Recipient Adjustments

Issue for Resolution	Responsible	Action Issue #	Due Date	Rationale
<p>Develop a Plan to Request and Process Final Recipient Adjustments Related to migration to GAPS</p>	<p>OCFO Budget Program</p>	<p>RA1</p>	<p>June 10</p>	<p>Require Recipients to provide reconciliation and support documentation. The Department will then reconcile to Departmental records and determine validity of the request. Publish or re-publish notifications and enforce policy.</p>
<p>Initiate the required notifications to internal and external parties that the reconciliation phase of establishing correct balances in GAPS by grant/award over.</p>	<p>OCFO Budget Program</p>	<p>RA2</p>	<p>June 15</p>	<p>OCFO and Program Offices should establish a policy to handle recipient adjustments. The policy should require the recipient to provide a reconciliation and available support documentation to the Department. The Department will research and verify the information received, and either confirm or correct the recipient information. Based on the amount and % of the requested adjustment, the final adjustment should be reviewed and approved by the appropriate management level in OCFO with the appropriate approvals from the Program office, the Budget office, or both, depending on the approval thresholds established.</p>
<p>Develop detailed policies and procedures for processing GAPS reconciliation adjustments. A department wide policy is needed to inform all organization units affected of the correct process to expedite recipient requests. The policy will identify the responsibilities of each office and the approvals required to resolve the request.</p>	<p>OCFO Budget Program</p>	<p>RA3</p>	<p>July 31</p>	<p>The OCFO should obtain the support and active involvement of the Program office and Budget office to complete this review. This issue should be included in the Policy established for processed Recipient adjustments.</p>
<p>Recipient adjustments greater than a specified \$ or % threshold should initiate a review of the recipients compliance with the Single Audit Act prior to processing the adjustment.</p>	<p>OCFO Budget Program</p>	<p>RA4</p>	<p>July 31</p>	<p>Depending on the Department's ability to conduct scheduled audit sampling of grant/award amounts, the Department can obtain assurance that process and procedures and internal controls are sufficient and working as intended.</p>
<p>Policy and Procedures should include an established reconciliation procedure whereby selected grant awards are verified on a cyclical basis with the recipient to obtain a level of confidence that departmental records are accurate and current and agree to recipient records.</p>	<p>OCFO Program</p>	<p>RA5</p>	<p>July 31</p>	<p>Timely notification of grants/awards scheduled for close out will reduce the chance that funds will not be available to process a disbursement request in a timely and efficient manner.</p>
<p>Grant recipients should be notified when grants/awards are within 6 months of expiration to allow them sufficient time to submit final disbursement requests.</p>	<p>OCFO Budget Program</p>	<p>RA6</p>	<p>July 31</p>	<p>Timely notification of grants/awards scheduled for close out will reduce the chance that funds will not be available to process a disbursement request in a timely and efficient manner.</p>

Reconcile Budgetary Accounts

Issue for Resolution	Responsible	Action #	Due Date	Rationale
<p>Suspense and Deposit Fund accounts are used to temporarily record transactions until sufficient information is available to record a transaction to the correct and final account. Budgetary transactions/balances have been recorded to the Adjustment CAN in X6875.</p>	OCFO	BA1 SA5	June 15	<p>Budgetary Obligations should be recorded to accounts that have funds available for obligation. They do not belong in Deposit Fund and Suspense accounts. Budgetary transactions recorded in these accounts have to be researched, reversed out, and processed against the proper funding source to ensure there are no unfunded obligations recorded in the accounts. A supervisory accountant should review and approve the adjustment.</p>
<p>Suspense and Deposit Fund accounts are used to temporarily record transactions until sufficient information is available to record a transaction to the correct and final account. Budgetary transactions/balances have been recorded to Suspense accounts X6875 and F3875.</p>	OCFO	BA2	June 15	<p>Budgetary Obligations should be recorded to accounts that have funds available for obligation. They do not belong in Deposit Fund and Suspense accounts. Budgetary transactions recorded in these accounts have to be researched, reversed out, and processed against the proper funding source to ensure there are no unfunded obligations recorded in the accounts. A supervisory accountant should review and approve the adjustment.</p>
<p>Verify Budgetary Account Balances for unnatural and unusual balances</p>	OCFO Budget	BA3	June 15	<p>Budgetary accounts will be the basis to process the final adjustments to eliminate CAN Y259902 and should be accurate and agree to total appropriations/funding available</p>
<p>Review SF-133's and identify where adjustments were made to reconcile the report and do not agree to the GL. Research the difference and process a correction.</p>	OCFO Budget	BA4 GC6	June 15	<p>Budgetary accounts will be the basis to process the final adjustments to eliminate CAN Y259902 and should be accurate and agree to total appropriations/funding available. This analysis will assist OCFO identify incorrect budgetary account balances.</p>
<p>Review Reconciliations established in the new FACTS II reporting process. Identify funds that will not pass the FACTS II edits, research and correct to ensure the essential accounts pass the FACTS II edit.</p>	OCFO	BA5 GC7	June 30	<p>Budgetary accounts will be the basis to process the final adjustments to eliminate CAN Y259902 and should be accurate and agree to the total budgetary resources available. This review will assist OCFO identify errors in the budgetary accounts prior to the final Net Position adjustment.</p>

Cash Reconciliation

Issue for Resolution	Responsible	Action Issue #	Due Date	Rationale
Notify OMB to establish a new Deposit Fund account for monies held for periods in excess of one year and over \$1 million	OCFO Budget	CR1	June 5	Once OMB approves and notifies Treasury to establish the account, transfer and/or record the proper transactions to the account. Establish a procedure to reconcile and clear items in a timely manner.
Reconcile the Fund Balance w/Treasury GL balance to the Treasury reports	OCFO	CR2 GC3	June 30	Adjustments made to reconcile the GL and Fund balance reported by Treasury should be supported by sufficient documentation. Fund switches based on the CheckFree should be reviewed and approved by a supervisory accountant to ensure the proper adjustment is processed and pass audit review.
Reconcile Fund Balance with Treasury	OCFO	CR2 GC3	June 30	Research all transactions that were not cleared by the CheckFree matching process. Research/Process a correction to the GL or Treasury SF-224 to bring all accounts into balance including all knew timing differences.
The OCFO maintains Disbursements in Transit account to record the time required to transmit disbursement requests to the FRB. This account has to be current and include only disbursements awaiting confirmation.	OCFO	CR3 GC1	June 15	This account needs to be cleared prior to the final Net Position adjustment is recorded.

Suspense Accounts

Issue for Resolution	Responsible	Action Issue #	Due Date	Rationale
Establish and enforce a policy that all manual adjustments will be reviewed and approved by a supervisory accountant.	OCFO	SA1 PP1	June 10	Each manual adjustment should include a brief explanation of the reason for the adjustment. The specific accounts affected should be reviewed to ensure the required account relationships are maintained and signed off by a supervisory accountant.
The two suspense accounts F3875 and X6875 contain a starting balance transferred as a result of the implementation of a news grants system and new general ledger in FY 1998. The Department needs to determine whether it is feasible to obtain the detail information in PAS and PMS for reconciliation purposes.	OCFO	SA2 PP2 GC8	June 10	The OCFO needs to make a determination whether the account detail that comprise these starting balances can be provided to allow accountants to research and clear the unprocessed items that make up these starting balances. The decision will be based in part on the amount of the starting balance that cannot be reconciled because the detail is not available.
Establish the new Treasury account F3885 and transfer all unprocessed OPAC transactions to this account.	OCFO	SA3	June 10	Transactions should be recorded by date received and cleared from the account within 30 days. The agency initiating the OPAC should be notified within 5 days if the proper documentation is not received to clear the item from Suspense.
Establish a plan to clear OPAC transactions over 90 days from the account.	OCFO	SA4	June 10	Clear all unprocessed OPAC transaction over 90 days old. Group open items by source, notify the initiating agency and request support documentation. Review documentation and process. Charge back items that do not belong to the Department.
Suspense and Deposit Fund accounts are used to temporarily record transactions until sufficient information is available to record a transaction to the correct and final account. Budgetary transactions/balances have been recorded to the Adjustment CAN in X6875.	OCFO	SA5 BA1	June 10	Budgetary Obligations should be recorded to accounts that have funds available for obligation. They do not belong in Deposit Fund and Suspense accounts. Budgetary transactions recorded in these accounts have to be researched, reversed out, and processed against the proper funding source to ensure there are no unfunded obligations recorded in the accounts. A supervisory accountant should review and approve the adjustment.

<p>Suspense and Deposit Fund accounts are used to temporarily record transactions until sufficient information is available to record a transaction to the correct and final account. Budgetary transactions/balances have been recorded to X6875 and F3875.</p>	<p>OCFO</p>	<p>SA5</p>	<p>June 10</p>	<p>Budgetary Obligations should be recorded to accounts that have funds available for obligation. They do not belong in Deposit Fund and Suspense accounts. Budgetary transactions recorded in these accounts have to be researched, reversed out, and processed against the proper funding source to ensure there are no unfunded obligations recorded in the accounts. A supervisory accountant should review and approve the adjustment.</p>
<p>Suspense and Deposit Fund accounts are used to temporarily record transactions until sufficient information is available to record a transaction to the correct and final account. Suspense accounts X33875 and X6875, including the Adjustment CAN report balances to SGL accounts 3100, 5700, 5900, 990, and 3310.</p>	<p>OCFO</p>	<p>SA9 GC5</p>	<p>June 10</p>	<p>These two suspense accounts report an ending balance in equity accounts 3100 and 3310 and income accounts 5700, 5900, and 990 and are probably in error. These transactions should be researched, transferred out, and recorded to the correct fund. A supervisory accountant should review and approve the adjustment.</p>
<p>Account X6875 must be brought to a zero balance by June 30 and will be closed out by Treasury.</p>	<p>OCFO</p>	<p>SA6</p>	<p>June 15</p>	<p>Identify all unprocessed items held in the account; obtain the necessary documentation to process a final entry to clear the transaction. Transfer other items to the appropriate account.</p>
<p>Deposit Fund accounts and Suspense accounts record and report transactions that require additional information or a final decision is pending. Items should not be held over a pre-determined period of time. OCFO should establish and implement procedures for maintaining these accounts on a current basis.</p>	<p>OCFO</p>	<p>SA7</p>	<p>June 15</p>	<p>OCFO must establish the maximum time items remain unprocessed and communicate the time limits to staff that reconcile and clear the accounts. The account reconciliations should be reviewed and approved by a supervisory accountant each month. Action should be initiated on all items held longer than the time established by the OCFO.</p>
<p>Reconcile and clear all open items over 90 days remaining in suspense account F3875.</p>	<p>OCFO</p>	<p>SA8 PP4</p>	<p>June 30</p>	<p>Unprocessed items in this account include unidentified remittances from the public. The account should be reconciled monthly, all items cleared within 90 days, and reviewed and approved by a supervisory accountant.</p>
<p>Review all manual adjustments processed for a specific period; identify recurring transactions that can be processed with a DOC ID and SAE and add to account code structure.</p>	<p>OCFO</p>	<p>SA1</p>	<p>June 10</p>	<p>Reduce manual adjustments to the extent possible to reduce the chance that valid account relationships will be violated and result in errors in the accounting records.</p>

Grants Managements and Payment System (GAPS)

Issue for Resolution	Responsible	Action Issue #	Due Date	Rationale
<p>Reconcile the balances established in GAPS to the general ledger (unliquidated obligations and cash advances) by fund. GAPS is the subsidiary system for maintaining recipient grants/awards and recipient draw downs and should be reconciled to the GL monthly. This system has not been properly reconciled and preliminary information indicates the balances do not reconcile to the balances maintained in the general ledger.</p>	OCFO	GA1	June 30	<p>The GAPS system records recipient requests for cash draw downs against approved grants/awards. The GAPS system batches the disbursement request and transmits the requests several times each day to FRB for processing. The balances in GAPS support the balances in the GL and should be reconciled daily and monthly to ensure the balances agree.</p>
<p>GAPS should provide information on a daily basis that can be reconciled to the disbursements processed by Treasury to the disbursement batches submitted by GAPS and confirmed by Treasury</p>	OCFO	GA2	July 31	<p>The high volume of transactions processed via GAPS should be reconciled daily to ensure errors do not go undetected and/or delay the month end SF-224 report to Treasury.</p>
<p>GAPS should be expanded to provide the capability to provide both detail and summary level reports that comprise the balance of unliquidated obligations, cash advances completed, recipient adjustments completed and/or pending by office and fund and distributed to Program and Budget offices for their review.</p>	OCFO	GA3	August 31	<p>Additional reviews of grant/award detail will increase the opportunity to detect errors in the financial records and enable the Department to correct errors on an ongoing basis. Routine reviews and follow up will reduce the effort expended at year to facilitate the annual financial statement audit.</p>
<p>GAPS allows recipients to process adjustments between grants/funds. The Department, on an ongoing basis to ensure compliance with Budget laws and regulations, should review these recipient initiated adjustments.</p>	OCFO	GA4	August 31	<p>Recipient initiated adjustments between grants/funds should be reviewed by Departmental staff knowledgeable of the Program and Federal Budget law to ensure adjustments are proper.</p>

Final Grantback Adjustment CAN

Issue for Resolution	Responsible	Action Issue #	Due Date	Rationale
The OCFO maintains Disbursements in Transit account to record the time required to transmit disbursement requests to the FRB. This account has to be current and include only disbursements awaiting confirmation.	OCFO	GC1 CR3	June 15	This account needs to be cleared prior to the final Net Position adjustment is recorded.
When the final Net Position Adjustments have been approved and processed, determine whether the CAN Y259902 has a positive or negative balance and bring to zero.	OCFO	GC12	June 30	A positive balance will be returned to Treasury via the Miscellaneous Receipts account. A deficit will be reviewed to determine whether to process a reversal of funds previously returned to Treasury or absorbed in current year funding.
Process the final Net Position adjustments to ensure Budgetary Resources reconcile to the Fund Balance with Treasury. Review the final reconciliation process to ensure all known accounts are included in the final analysis.	OCFO	GC11	June 30	The final adjustments must be complete and correct to ensure the correct account relationships can be maintained on an ongoing basis.

Policy and Procedures

Issue for Resolution	Responsible	Action Issue #	Due Date	Rationale
Establish and enforce a policy that all manual adjustments will be reviewed and approved by a supervisory accountant.	OCFO	PP1 SA1	June 15	Each manual adjustment should include a brief explanation of the reason for the adjustment. The specific accounts affected should be reviewed to ensure the required account relationships are maintained and signed off by a supervisory accountant.
The two suspense accounts F3875 and X6875 contain a starting balance transferred as a result of the implementation of a news grants system and new general ledger in FY 1998. The Department needs to determine whether it is feasible to obtain the detail information in PAS and PMS for reconciliation purposes.	OCFO	PP2 SA2 GC8	June 15	The OCFO needs to make a determination whether the account detail that comprise these starting balances can be provided to allow accountants to research and clear the unprocessed items that comprise these starting balances. The decision will be based in part on the amount of the starting balance that cannot be reconciled because the detail is not available.
A supervisory accountant will review and approve all internal and external cash reconciliations and management reports for accuracy.	OCFO	PP3	June 15	A review process is necessary to ensure management is aware of potential departures from approved policy and will initiate the actions necessary to correct any problems.
Deposit Fund accounts and Suspense accounts record and report transactions that require additional information or a final decision is pending. Items should not be held over a pre-determined period of time. OCFO should establish and implement procedures for maintaining these accounts on a current basis.	OCFO	PP4 SA8	June 15	OCFO must establish the maximum time items should be held, communicate the time limits to staff that reconcile and clear the accounts. The account reconciliations should be reviewed and approved by a supervisory accountant each month. Action should be initiated on all items held longer than the time established by the OCFO.
Establish written policy and procedures regarding all aspects of the Cash Management process within the OCFO. The approved policy and procedure will be distributed to all individuals who work on cash. OCFO will conduct training classes to ensure everyone understands the approved processes.	OCFO	PP5	July 31	Written policy and procedures will ensure all who need to know the proper procedures, including new staff assigned to cash reconciliation/management tasks know the approved procedure and follow and enforce the established policy.
Develop detailed policy and procedures to properly manage and maintain documentation and records related to all transactions and other significant events related to grants.	OCFO	PP6	July 31	Develop procedures that will provide timely access to support documentation related to grant awards that have an undisbursed balance. The OCFO should retain documentation for all grants/awards closed out in the prior year for financial statement audit review.

<p>Develop and implement a plan to properly label boxes sent to offsite storage facilities so they are readily available.</p>	<p>OCFO</p>	<p>PP7</p>	<p>July 31</p>	<p>Grant award information must be available to support the annual financial statement audit(s) conducted by the Office of Inspector General. OCFO should maintain a current and update directory of all documentation located both off site and in FOB#6.</p>
<p>The detailed Cash Reconciliation and Cash Management policy and procedures established and enforced by the OCFO will require supervisory review and approval of the Department's monthly reports of outlays sent to Treasury.</p>	<p>OCFO</p>	<p>PP8</p>	<p>July 31</p>	<p>The approved policy and procedures include required reviews and approvals by OCFO managers to ensure they are aware of potential issues that may have a negative impact on their ability to obtain a favorable audit opinion.</p>

Recipient Adjustments

I #	Issue for Resolution	Responsible	R	q	Due Date	Tasks
A1	Develop a Plan to Request and Process Final Recipient Adjustments Related to migration to GAPS.	Mark Carney	Y		June 10	<ol style="list-style-type: none"> Obtain concurrence from Budget Office and Program Offices to issue final notification to recipients. Obtain concurrence with all other Departmental offices i.e. Legal Counsel to ensure notification agrees with Departmental regulations.
A2	Initiate the required notifications to internal and external parties that the reconciliation phase of establishing correct balances in GAPS by grant/award is over.	Mark Carney	Y		June 15	<ol style="list-style-type: none"> Initiate the required actions to get notifications published.
A3	Develop detailed policies and procedures for processing GAPS reconciliation adjustments. A Department wide policy is needed to inform all organization units affected of the correct process to expedite recipient requests. The policy will identify the responsibilities of each office and the approvals required to process the request.	Mark Carney	N		July 31	<ol style="list-style-type: none"> Interview various Departmental Offices to establish policy for recipients on the procedure to follow when they identify an error in GAPS information. Offices that should provide input include Budget, Programs, Legal Counsel, etc. Prepare a draft policy document for review within OCFO. Distribute approved draft to appropriate offices for review. Finalize draft and make guidance available to recipients
A4	Recipient adjustments greater than a specified \$ or % threshold should initiate a review of the recipients compliance with the Single Audit Act prior to processing the adjustment.	Mark Carney	N		July 31	<ol style="list-style-type: none"> Establish a policy to determine when the OCFO needs to determine if recipient complies with the Single Audit Act prior to approving adjustments to the recipient's records. Establish formal policy and notify all staff of requirement.
A5	Policy and Procedures should include an established reconciliation procedure whereby selected grant awards are verified on a cyclical basis with the recipient to obtain a level of confidence that Departmental records are accurate and current and agree to recipient records.	Mark Carney	N		July 31	<ol style="list-style-type: none"> The policy and procedure established should include a plan to obtain recipient verifications on a routine basis to ensure policy and procedure and internal controls are working as planned. Involve GAPS IT staff to determine if an electronic verification is feasible.

6	Grant recipients should be notified when grants/awards are within 6 months of expiration to allow them sufficient time to submit final disbursement requests.	Mark Carney	N	Jul 31	1. Early notification will reduce the number of adjustments to expired funds..
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Cash Reconciliation

R#	Issue for Resolution	Responsible	R	Due Date	Tasks
R1	Notify OMB to establish a new Deposit Fund account for monies held for periods in excess of one year and over \$1 million	Mark Carney	N	June 5	<ol style="list-style-type: none"> 1. Contact OMB specialist to inform them of the need for a new deposit fund account. 2. Prepare letter explaining the purpose and use of the account. 3. When OMB approves, notify Treasury to establish the new account in GOALS. 4. Establish new account in ieFARS and transfer/record the appropriate transactions to the account.
R2	Reconcile the Fund Balance with Treasury GL balance to the Treasury reports.	Mark Carney	Y	June 30	<ol style="list-style-type: none"> 1. Using CheckFree, match and clear items processed in GL to SF-224. 2. Identify items that cannot be matched. Research and prepare adjustment with support documentation. 3. Identify items that require a fund switch. Research source documentation and prepare adjustment. 4. Determine whether to reconcile FY 1998 data; either full or part. If the data and support documentation is not available, support decision with specific reasons why reconciliations cannot be performed. 5. Identify and research and clear all items recorded in the Statement of Differences per the SF-6652. 6. Reverse NP 9202 error. 7. Identify all timing differences to ascertain final differences in general ledger to SF-6654.
R3	The Disbursements in Transit account is used to record the time required to transmit disbursement requests to FRB. This account should be current and include only disbursements awaiting confirmation.	Mark Carney	Y	June 15	<ol style="list-style-type: none"> 1. Determine the number of days to clear disbursement requests submitted to Treasury. 2. Clear all items held beyond allowable period prior to final Net Position adjustment. 3. Establish procedures to identify items held one day beyond the allowable period. 4. Review process and determine whether the Disbursement in Transit account is necessary.

24	Establish the new Deposit Fund and Suspense Accounts required by Treasury effective June 30, 2000.	Mark Carney	Y	June 5	<ol style="list-style-type: none"> 1. Identify specific Deposit Fund and Suspense accounts to be established for the Department. 2. Notify OMB to assign new accounts. 3. Notify Treasury to establish new accounts in GOALS. 4. Establish new funds in ieFARS. 5. Transfer the appropriate items to the proper accounts. 6. Assign each Deposit Fund account to an accountant responsible to reconcile and clear items on a regular basis.
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Reconcile Budgetary Accounts

I #	Issue for Resolution	Responsible	R	Due Date	Tasks
A1	Suspense and Deposit Fund accounts are used to temporarily record transactions until sufficient information is available to record to the final account. Clear budgetary transactions from the Adjustment CAN Y259902 in fund 6875.	Mark Carney	Y	June 15	<ol style="list-style-type: none"> 1. Identify all transactions that comprise the balance in SGL 4000 series accounts. 2. Obtain the documentation to determine the correct appropriation. 3. Process an adjustment to reverse the entry from the adjustment CAN to the correct fund. 4. Verify that all SGL series 4000 accounts have a zero balance.
A2	Suspense and Deposit Fund accounts are used to temporarily record transactions until sufficient information is available to record to the final account Clear budgetary transactions from Suspense accounts X6875 and F3875.	Mark Carney	Y	June 15	<ol style="list-style-type: none"> 1. Identify all transactions that comprise the balance in SGL 4000 series accounts. 2. Obtain the documentation to determine the correct appropriation. 3. Process an adjustment to reverse the entry from the adjustment CAN to the correct fund. 4. Verify that all SGL series 4000 accounts have a zero balance.
A3	Verify Budgetary account balances that have an unnatural balance. Budgetary accounts will be the basis to support the final Net Position adjustment to close out the CAN Y259902.	Mark Carney	Y	June 15	<ol style="list-style-type: none"> 1. Review trial balances by fund to identify unnatural balances. 2. Review reports and analysis to identify accounts that have unnatural balances. 3. Research the entries causing the error and process a correction.
A4	Review the SF-133's and identify where adjustments were made to reconcile the report and do not agree to the GL.	Mark Carney	Y	June 15	<ol style="list-style-type: none"> 1. Identify which SF-133's were adjusted and do not agree to the balances reported in the GL. 2. Research the fund to determine which GL accounts may be in error. 3. Process a correction to correct the GL and ensure the proper account relationships are restored/maintained. 4. Budget office will review allotments and budgetary resources available to identify potential errors.
A5	Review reconciliations established in the new FACTS II reporting process. Identify funds that do not pass the FACTS II edits. Research and correct to ensure the essential accounts to support the Net Position adjustment are correct.	Mark Carney	Y	June 30	<ol style="list-style-type: none"> 1. Review Treasury guidance to identify the critical account relationships required to pass edits and be accepted by Treasury. 2. Develop a worksheet to test each ieFARS trial balance against the FACTS II edits. 3. Research all accounts that do not pass edits. Process a correction in the GL to restore accounts to establish the correct relationships. 4. Require Budget Office to approve final balances established.

Suspense Accounts

#	Issue for Resolution	Responsible	R	Due Date	Tasks
1	Establish and enforce a policy that all manual adjustments will be reviewed and approved by a supervisory accountant.	Mark Carney	N	June 10	<ol style="list-style-type: none"> 1. Review manual adjustments for a 3 month period. Determine which routine ongoing transactions should have a DOC ID and SAE developed to replace the manual adjustment. 2. Submit request for DOC ID/SAE 3. Issue policy to all OCFO staff informing them that effective June 1st all manual adjustments must be reviewed and approved by a supervisory accountant. 4. Enforce policy to ensure compliance.
2	Suspense accounts X6875 and F3875 contain entries that represent starting balances transferred as a result of implementation of GAPS and FMSS in FY 1998. The balance represents the total effect of transactions processed prior to FY 1998.	Mark Carney	Y	June 10	<ol style="list-style-type: none"> 1. Verify the line items reported as beginning balances are correct. 2. Determine the unreconciled balance remaining after all valid transactions have been offset against these balances. 3. Determine whether to obtain the detail data from the former database or write-off. 4. Excess cash should be returned to Treasury. 5. A deficit balance will have to be covered by current appropriations. 6. Initiate the required entries to clear the starting balances from these accounts.
3	Establish the new Treasury account F3885 and transfer all unprocessed OPAC transactions to this account.	Mark Carney	Y	June 10	<ol style="list-style-type: none"> 1. Notify Treasury to establish new account in GOALS. 2. Transfer all unprocessed OPAC transactions to this account for processing. 3. The transferred items should be accomplished by line item and maintain the original date recorded to the account.
4	Establish plan to clear OPAC transactions over 90 days from the account.	Mark Carney	N	June 10	<ol style="list-style-type: none"> 1. Establish a valid listing of all open items that comprise the balance in F3885. 2. Review the number and age of all transactions to determine the level of effort required to clear all items outstanding over 90 days. 3. Obtain support documentation and record to final fund. 4. Charge back all errors to the originating agency. 5. Group all transactions by source agency to prepare a written request asking for documentation never received by the Department. Establish the necessary contact to obtain support documentation. 6. When the document is received, analyze and process transactions.

5	Suspense and Deposit Fund accounts are used to temporarily record transactions until sufficient information is available to record a transaction to the correct and final account. Budgetary transactions/balances have been recorded to X6875 (including the Adjustment CAN) and F3875.	Mark Carney	Y	June 10	<ol style="list-style-type: none"> 1. Identify all transactions that comprise the balance in SGL 4000 series accounts. 2. Obtain the documentation to determine the correct appropriation. 3. Process an adjustment to reverse the entry from the adjustment CAN to the correct fund. 4. Verify that all SGL series 4000 accounts have a zero balance.
6	Account X6875 must be brought to a zero balance by June 30 and will be closed out by Treasury.	Mark Carney	Y	June 15	<ol style="list-style-type: none"> 1. Identify Recipient refunds temporarily recorded to this account and transferred out. Identify the new account to temporarily record refunds. 2. Research and clear old items from the account. 3. Eliminate the adjustment CAN 259902 prior to June 30th.
7	Deposit Fund accounts and Suspense accounts record and report transactions that require additional information. Items should be cleared in a timely manner.	Mark Carney	N	June 15	<ol style="list-style-type: none"> 1. Review the types of transactions recorded to the suspense and deposit fund accounts. 2. Determine the amount of time required to obtain the required information and documentation to process the transaction to the final account. 3. Establish a policy and inform the OCFO staff responsible for reconciling and clearing the account.
18	Reconcile and clear all open items over 90 days remaining in suspense account F3875.	Mark Carney	N	June 30	<ol style="list-style-type: none"> 1. Prepare a list of all open items remaining after OPAC transactions have been transferred to F3885 that comprise the ending balance. 2. Sort items by date recorded and research items to determine the correct fund the item should be charged/credited against. 3. Prepare and process the adjustment to clear the item. 4. Identify and total items where no documentation is available; analyze to determine how to clear. 5. Excess unidentified funds should be documented and returned to the Treasury Miscellaneous Receipt fund. A supervisory accountant should review and approve the final disposition of the item(s). 6. Shortages should be cleared by charging to the appropriate current year funds. A supervisory accountant should review and approve the final disposition of the item(s)

9	<p>Deposit and Suspense accounts are used to temporarily record transactions until sufficient information is available to record a transaction to the correct and final account. Account F3875 and X6875, including the Adjustment CAN Y259902 have transactions posted to SGL accounts 3100, 3310, 5700, 5900, and 5990.</p>	Mark Carney	Y	June 10	<ol style="list-style-type: none"> 1. Identify all transactions that comprise the balances in SGL 3000 (equity) and SGL 500 series (revenue) accounts. 2. Obtain the documentation to determine the correct appropriation. 3. Process an adjustment to reverse the entry from the suspense accounts affected. 4. Verify that all SGL series 3000 and 5000 accounts have a zero balance.
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Grants Management And Payment System (GAPS)

I #	Issue for Resolution	Responsible	R	Due Date	Tasks
A1	Reconcile the balances established in GAPS to the general ledger (unliquidated obligations and cash advances) by fund. GAPS is a subsidiary system to FMSS and should be reconciled monthly.	Mark Carney	Y	June 30	<ol style="list-style-type: none"> 1. Run a GAPS report by project by organization (equal to total fund) of the total authorizations and total cash advances by fund. 2. Reconcile the total authorizations and total advances/expenditures from GAPS to the total s reported in FMSS. Identify differences by fund. 3. Research and reconcile to determine the error; prepare an adjustment for GAPS or FMSS or both to bring the amounts in balance. 4. Determine the cause of the error(s) identified and develop a plan to correct deficiencies in system or processes or procedures.
A2	Develop a daily GAPS report that provides disbursement data by project by organization that can be reconciled to the Treasury disbursement confirmations.	Mark Carney	N	July 31	<ol style="list-style-type: none"> 1. Submit a request to the appropriate office that GAPS produce a daily report of all disbursement requests submitted to FRB Richmond for processing. The report should report disbursements by fund. 2. Compare the daily disbursement batches from the GAPS report to the Treasury disbursement confirmations. Identify differences and research to determine source of error. 3. Compare the GAPS disbursement batch information to the GAPS transactions posted to FMSS. Identify differences and research to determine source of error. 4. Process corrections to bring FMSS and GAPS into agreement.
A3	Develop monthly GAPS reports, both summary and detail that comprise the balance of unliquidated obligations, cash advances completed for the period, and recipient adjustments for distribution to Program and Budget and OCFO reconciliation purposes.	Mark Carney	N	August 31	<ol style="list-style-type: none"> 1. Submit a request to the appropriate office to have GAPS provide a report that provides information on GAPS activity by fund or in the format appropriate for Budget and Program staff to enable them to review and validate the information. 2. Request that Budget and Program offices communicate issues and/or potential errors in the information provided in the GAPS reports.

4	GAPS allows recipients to process adjustments between grants/funds. A monthly report detailing all GAPS adjustments should be available for review.	Mark Carney	N	August 31	<ol style="list-style-type: none"> 1. Submit a request to the appropriate office to have GAPS provide a report that provides information on recipient adjustments processed in GAPS and recorded in FMSS. 2. The report will be distributed to OCFO, Budget and Program office for their review. 3. Test GAPS adjustments to ensure the recipient initiated adjustments are properly recorded in FMSS. Research and resolve errors in the transmission of data from GAPS to FMSS.
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Final Grantback Adjustment CAN

#	Issue for Resolution	Responsible	Req	Due Date	Tasks
1	Reconcile and clear the Disbursements in process account to include only valid disbursements awaiting Treasury confirmation.	Mark Carney	Y	June 10	<ol style="list-style-type: none"> 1. Determine the number of days to clear disbursement requests submitted to Treasury. 2. Clear all items held beyond allowable period prior to final Net Position adjustment. 3. Establish procedures to identify items held one day beyond the allowable period. 4. Review process and determine whether the Disbursement in Transit account is necessary.
2	Process final recipient adjustments related to the migration from PMS to GAPS.	Mark Carney	Y	June 10	<ol style="list-style-type: none"> 1. Obtain concurrence from Budget Office and Program Offices to issue final notification to recipients. 2. Obtain concurrence with all other Departmental offices i.e. Legal Counsel to ensure notification agrees with Departmental regulations. 3. Initiate the required actions to get notifications published.
3	Reconcile the Fund Balance with Treasury GL balance to the Treasury balances reported on the SF-6654.	Mark Carney	Y	June 5	<ol style="list-style-type: none"> 1. Using CheckFree, match and clear items processed in GL to SF-224. 2. Clear all matched items by fund and schedule number. 3. Identify items that cannot be matched. Research and prepare adjustment with support documentation. 4. Identify items that require a fund switch. Research source documentation and prepare adjustment. 5. Determine whether to reconcile FY 1998 data; either full or part. Support decision with specific reasons why reconciliations cannot be performed. 6. Identify and research and clear all items recorded in the Statement of Differences per the SF-6652. 7. 8. Reverse NP 9202 error. 9. Identify all timing differences to ascertain final differences in general ledger to SF-6654.

C4	Suspense and Deposit fund accounts are used to temporarily record transactions. Budgetary transactions have to be removed from these accounts since they do not have a funding source available for obligation.	Mark Carney	Y	June 10	<ol style="list-style-type: none"> 1. Identify all transactions that comprise the balance in SGL 4000 series accounts. 2. Obtain the documentation to determine the correct appropriation. 3. Process an adjustment to reverse the entry from the adjustment CAN to the correct fund. 4. Verify that all SGL series 4000 accounts have a zero balance.
C5	Suspense and Deposit fund accounts are used to temporarily record transactions. Suspense accounts F3875 and X6875 have transactions recorded to SGL account 3000 and 5000 series.	Mark Carney	Y	June 10	<ol style="list-style-type: none"> 1. Identify all transactions that comprise the balances in SGL 3000 (equity) and SGL 5000 series (revenue) accounts. 2. Obtain the documentation to determine the correct appropriation. 3. Process an adjustment to reverse the entry from the suspense accounts affected. 4. Verify that all SGL series 3000 and 5000 accounts have a zero balance.
C6	Verify Budgetary account balances that have unnatural balances and SF-133's that reported balances different than FMSS balances.	Mark Carney	Y	June 15	<ol style="list-style-type: none"> 1. Identify which SF-133's were adjusted and do not agree to the balances reported in the GL. 2. Research the fund to determine which GL accounts may be in error. 3. Process a correction to correct the GL and ensure the proper account relationships are restored/maintained. 4. Budget office will review allotments and budgetary resources available to identify potential errors.
C7	Review reconciliations established in the new FACTS II reporting process. Identify funds/accounts that do not pass FACTS II edits.	Mark Carney	Y	June 20	<ol style="list-style-type: none"> 1. Review Treasury guidance to identify the critical account relationships required to pass edits and be accepted by Treasury. 2. Develop a worksheet to test each ieFARS trial balance against the FACTS II edits. 3. Research all accounts that do not pass edits. Process a correction in the GL to restore accounts to establish the correct relationships. 4. Require Budget Office to approve final balances established.
C8	Suspense accounts contain balances brought forward from PMS and PAS. The balances represent the total effect of transactions processed prior to FY 1998. A plan is needed to clear these starting balances.	Mark Carney	Y	June 10	<ol style="list-style-type: none"> 1. Verify the line items reported as beginning balances are correct. 2. Determine the unreconciled balance remaining after all valid transactions have been offset against these balances. 3. Determine whether to obtain the detail data from the former data -base or write-off. 4. Excess cash should be returned to Treasury. 5. A deficit balance will have to be covered by current appropriations. 6. Initiate the required entries to clear the starting balances from these accounts.

9	Establish the required new Deposit Fund accounts in FMSS and in GOALS to ensure transactions are properly recorded and reported.	Mark Carney	Y	June 10	<ol style="list-style-type: none"> 1. Identify specific Deposit Fund and Suspense accounts to be established for the Department. 2. Notify OMB to assign new accounts. 3. Notify Treasury to establish new accounts in GOALS. 4. Establish new funds in ieFARS. 5. Transfer the appropriate items to the proper accounts. 6. Assign each Deposit Fund account to an accountant responsible to reconcile and clear items on a regular basis.
C	Reconcile the balances established in GAPS to the general ledger (unliquidated obligations and cash advances) by fund. GAPS is a subsidiary system to FMSS and should be reconciled monthly.	Mark Carney	Y	June 10	<ol style="list-style-type: none"> 1. Run a GAPS report by project by organization (equal to total fund) of the total authorizations and total cash advances by fund. 2. Reconcile the total authorizations and total advances/expenditures from GAPS to the total s reported in FMSS. Identify differences by fund. 3. Research and reconcile to determine the error; prepare an adjustment for GAPS or FMSS or both to bring the amounts in balance. 4. Determine the cause of the error(s) identified and develop a plan to correct deficiencies in system or processes or procedures.
C	Process the final Net Position adjustments to ensure Budgetary Resources reconcile to the Fund Balance with Treasury.	Mark Carney	Y	June 30	<ol style="list-style-type: none"> 1. Complete the appropriate worksheet to calculate the final Net Positions adjustments required to bring the Fund Balance with Treasury to reconcile to the Budgetary accounts. 2. The Final Adjustments will be reviewed by OCFO management and approved for processing.
C	When the final Net Position adjustments have been approved and processed, determine whether the CAN Y259902 has a positive or negative balance and bring to zero.	Mark Carney	Y	June 30	<ol style="list-style-type: none"> 1. A positive balance will be returned to Treasury via the Miscellaneous Receipts account. 2. A deficit will be reviewed to determine whether to process a reversal of funds previously returned to Treasury or absorbed in current year funding.

Policy and Procedures

#	Issue for Resolution	Responsible	R	Due Date	Tasks
	Establish and enforce a policy that all manual adjustments will be reviewed and approved by a supervisory accountant.	Mark Carney	N	June 15	<ol style="list-style-type: none"> 1. Review manual adjustments for a 3-month period. Determine which routine ongoing transactions should have a DOC ID and SAE developed to replace the manual adjustment. 2. Submit request for DOC ID/SAE 3. Issue policy to all OCFO staff informing them that effective June 1st all manual adjustments must be reviewed and approved by a supervisory accountant. 4. Enforce policy to ensure compliance.
2	The two suspense accounts F3875 and X6875 contain a starting balance transferred as a result of the implementation of a new grants system and general ledger in FY 1998. Determine feasibility and establish a policy whether it is feasible to obtain the detail information for reconciliation purposes.	Mark Carney	Y	June 15	<ol style="list-style-type: none"> 1. Verify the line items reported as beginning balances are correct. 2. Determine the unreconciled balance remaining after all valid transactions have been offset against these balances. 3. Determine whether to obtain the detail data from the former database or write-off. 4. Excess cash should be returned to Treasury. 5. A deficit balance will have to be covered by current appropriations. 6. Initiate the required entries to clear the starting balances from these accounts.
3	A supervisory accountant will review and approve all internal and external reconciliations and management reports for accuracy.	Mark Carney	N	June 15	<ol style="list-style-type: none"> 1. All GL accounts will be assigned to an Accountant who will be responsible for reconciling the accounts assigned. Reconciliation will include identifying all items that comprise the account balance and clearing all items that do not belong in the account. 2. The accountant will complete the reconciliation on a monthly basis and submit the completed reconciliation to a supervisory accountant. 3. The supervisory accountant will review and approve the reconciliation. 4. All reports distributed by the OCFO will be reviewed by an accountant who has the knowledge to identify significant errors or information that is not reasonable prior to distribution.

	<p>Deposit Fund and Suspense accounts record and report transactions that require additional information. Items should not be held over a pre-determined period of time. OCFO should establish and implement procedures for maintaining these accounts on a current basis.</p>	<p>Mark Carney</p>	<p>N</p>	<p>June 15</p>	<ol style="list-style-type: none"> 1. The OCFO will issue a policy that all general ledger accounts established to temporarily record transactions be cleared within 30 days. 2. The maximum length of time an item should remain unprocessed is 90 days. 3. If the accountant is not able to clear an item within the prescribed time, the item will be referred to a supervisory accountant for assistance. 4. Every effort will be made to clear all temporary suspense accounts prior to the end of the fiscal year to facilitate the year-end audit. 5. Items remaining unprocessed at fiscal year end will be reviewed by a supervisory accountant who will verify the item belongs to the Department.
<p>5</p>	<p>Establish written policy and procedures regarding all aspects of the Cash Management process within the OCFO. The approved P&P will be distributed to all individuals who work on cash.</p>	<p>Mary Carney</p>	<p>N</p>	<p>July 31</p>	<ol style="list-style-type: none"> 1. The responsibility for writing various aspects of cash management have been assigned to individuals in the OCFO office. 2. The individuals assigned will complete a draft of the specific policy/procedure assigned to them and forward to their supervisor. 3. The supervisor will review and approve and forward to the appropriate management personnel for their review and approval. 4. The appropriate OCFO management official will review the policy/procedure for compliance with current Federal financial laws and regulations.
<p>6</p>	<p>Develop detailed policy and procedures to properly manage and maintain documentation and records related to all transactions and other significant events related to grants.</p>	<p>Mark Carney</p>	<p>N</p>	<p>July 31</p>	<ol style="list-style-type: none"> 1. An individual in OCFO will obtain current Federal financial laws and regulations regarding retention of documentation related to grants. 2. The relevant documentation obtained will be reviewed to ensure Departmental policy will be in compliance with current Federal government policies and regulations. 3. The OCFO will write a draft policy and procedure for the OCFO office. 4. The draft will be distributed for review within the OCFO. 3. The draft policy will be finalized and distributed to OCFO staff who are responsible for maintaining documentation related to grants.

<p>Develop and implement a plan to properly label boxes sent to offsite storage facilities so they are readily available.</p>	<p>Mark Carney</p>	<p>N</p>	<p>July 31</p>	<ol style="list-style-type: none"> 1. An individual in OCFO will obtain current Federal financial laws and regulations regarding the proper identification, labeling and storage of government financial records. 2. The relevant documentation obtained will be reviewed to ensure Departmental policy will be in compliance with current Federal government policies and regulations. 3. The OCFO will write a draft policy and procedures for the OCFO office. 4. The policy will be distributed for review and comments. 5. The draft will be finalized by the appropriate OCFO management official and disseminated to all staff responsible for storing and packing boxes. 6. A list will be maintained in the OCFO office of all boxes sent to storage, the scheduled retention periods, and location. 7. The OCFO will maintain current and prior year records on site to facilitate the annual financial statement audit.
<p>The detailed Cash Reconciliation and Cash Management policy and procedures established and enforced by the OCFO will require supervisory review and approval of the Department's monthly reports of outlays sent to Treasury.</p>	<p>Mark Carney</p>	<p>N</p>	<p>July 31</p>	<ol style="list-style-type: none"> 1. The approved Cash Reconciliation and Cash Management policy and procedures will include a statement that the final cash reports submitted to Treasury will be reviewed and approved by a supervisory accountant.

Recipient Adjustments

C = Indicates task is complete

Task #	Tasks	Responsible	C	R	Due Date	Validation Process
A1	<ol style="list-style-type: none"> 1. Obtain concurrence from Budget Office and Program Offices to issue final notification to recipients. 2. Obtain concurrence with all other Departmental offices i.e. Legal Counsel to ensure notification agrees with Departmental regulations. 	Mark Carney		Y	June 10	<ol style="list-style-type: none"> 1. Contact representatives from Budget and Program offices and obtain agreement on need to issue a final notification to recipients. Request concurrence in writing. 2. Obtain concurrence from Department Legal Office to issue notification to recipients. Request concurrence in writing.
A2	<ol style="list-style-type: none"> 1. Initiate the required actions to get notifications published. 	Mark Carney		Y	June 15	<ol style="list-style-type: none"> 1. Schedule meeting with appropriate office to initiate actions to complete publication in the Federal Register of deadline for accepting recipient adjustments.
A3	<ol style="list-style-type: none"> 1. Interview various Departmental Offices to establish policy for recipients on the procedure to follow when they identify an error in GAPS information. Offices that should provide input include Budget, Programs, Legal Counsel, etc. 2. Prepare a draft policy document for review within OCFO. 3. Distribute approved draft to appropriate offices for review. 4. Finalize draft and make guidance available to recipients 	Mark Carney		N	July 31	<ol style="list-style-type: none"> 1. OCFO establishes a contact for developing a policy for accepting and processing recipient adjustments. 2. The OCFO will schedule meetings with the required departmental offices to develop a process for recipient adjustments. 3. Draft a written policy on how recipient requests for adjustment should be handled. Policy should include required approvals and times each office has to process. 4. Disseminate to OCFO staff for review and concurrence. 5. Disseminate to other Departmental offices for review and concurrence. 6. Disseminate for final review; include the appropriate senior management and Legal Counsel. 7. Publish final policy, distribute throughout Department, and to OCFO staff to inform them of their roles in processing recipient adjustments.
A4	<ol style="list-style-type: none"> 1. Establish a policy to determine when the OCFO needs to determine if recipient complies with the Single Audit Act prior to approving adjustments to the recipient's records. 2. Establish formal policy and notify all staff of requirement. 	Mark Carney		N	July 31	<ol style="list-style-type: none"> 1. The final policy for recipient adjustments should include criteria to determine when the Department should verify recipient complies with the Single Audit Act. The verification should be included in the support documentation for the final adjustment in the financial and subsidiary systems. 2. Notify the office responsible to obtain the verification to ensure they know their responsibilities.

5	<ol style="list-style-type: none"> The policy and procedure established should include a plan to obtain recipient verifications on a routine basis to ensure policy and procedure and internal controls are working as planned. Involve GAPS IT staff to determine if an electronic verification is feasible. 	Mark Carney	N	July 31	<ol style="list-style-type: none"> The OCFO or Budget Office should maintain a file of all recipient adjustments both in process and completed for later audit review and verification. The support documentation should include a routing sheet that includes the required sign-offs and approvals. Schedule and conduct meeting with GAPS IT staff to determine to what extent the process can be automated. OCFO will maintain a file of all cyclical verifications completed for audit review.
6	<ol style="list-style-type: none"> Early notification will reduce the number of adjustments to expired funds. 	Mark Carney	N	Jul 31	<ol style="list-style-type: none"> Develop a policy and procedure to regularly inform grant recipients of funds scheduled to expire within 6 months. Schedule and conduct meeting with GAPS IT staff to determine to what extent the process can be automated. Conduct periodic checks to verify notifications are issued timely, either via mail or electronic notification.

Cash Reconciliation

C = Indicates task is complete

#	Tasks	Responsible	C	R	Due Date	Validation Process
1	<ol style="list-style-type: none"> Contact OMB specialist to inform them of the need for a new deposit fund account. Prepare letter explaining the purpose and use of the account. When OMB approves, notify Treasury to establish the new account in GOALS. Establish new account in ieFARS and transfer/record the appropriate transactions to the account. 	Mark Carney		N	June 5	<ol style="list-style-type: none"> Assign OCFO individual to monitor the process. OCFO will obtain and retain copy of letter sent to OMB. Contact Treasury FMS via telephone and letter of need to establish new deposit fund account in GOALS. Notify OCFO and IT staff to set up new deposit fund in ieFARS, GAPS, and other financial/non-financial systems that will initiate transactions to/from account. Assign OCFO staff to be responsible for reconciling the account. Issue a memorandum informing the appropriate departmental offices of the new account and disseminate policy and procedure for temporarily maintaining funds in the account.
2	<ol style="list-style-type: none"> Using CheckFree, match and clear items processed in GL to SF-224. Identify items that cannot be matched. Research and prepare adjustment with support documentation. Identify items that require a fund switch. Research source documentation and prepare adjustment. Determine whether to reconcile FY 1998 data; either full or part. If the data and support documentation is not available, support decision with specific reasons why reconciliations cannot be performed. Identify and research and clear all items recorded in the Statement of Differences per the SF-6652. Reverse NP 9202 error. Identify all timing differences to ascertain final differences in general ledger to SF-6654. 	Mark Carney		Y	June 30	<ol style="list-style-type: none"> Require a weekly report from OCFO staff responsible for completing the matching and processing of items in CheckFree. The report should include total amount to be cleared and total accomplished to date. Compile a list of items that cannot be matched. Assign list(s) to staff to research and prepare documentation to clear item. The staff will notify supervisors of items they cannot resolve. The supervisor will determine a final resolution and approve the final documentation for final processing. A supervisory accountant will review and approve all adjustments for processing. The OCFO will assign staff to write a memorandum for the record explaining why FY 1998 cash reconciliation cannot be accomplished. The memorandum should be maintained for audit review. Clear Statement of Difference per the SF-6652. Retain copies of monthly Treasury SF-6652 to verify items have been cleared. Obtain a computer report listing the NP9202 reversal and retain for audit review. Prepare a worksheet that details ending Treasury cash balances as of 6/30, adjust for timing difference and compare to general ledger Fund balance with Treasury to identify

3	<ol style="list-style-type: none"> Determine the number of days to clear disbursement requests submitted to Treasury. Clear all items held beyond allowable period prior to final Net Position adjustment. Establish procedures to identify items held one day beyond the allowable period. Review process and determine whether the Disbursement in Transit account is necessary. 	Mark Carney	Y	June 15	<p>differences.</p> <ol style="list-style-type: none"> Review current process for temporarily recording items in transit. Review to determine if the process is correct and results in a current balance in the Disbursements in Transit account. Initiate changes in policy and procedures for identified errors. Review DOC IDs to ensure transactions processed to account are correct and will ensure the balance is current and accurate. The accountant will provide a copy of the monthly reconciliation to their supervisor confirming the account is current and the ending balance is correct. The monthly reconciliations will be maintained in a file for audit review. The accountant will notify the supervisor for assistance in resolving items they cannot identify and resolve timely.
4	<ol style="list-style-type: none"> Identify specific Deposit Fund and Suspense accounts to be established for the Department. Notify OMB to assign new accounts. Notify Treasury to establish new accounts in GOALS. Establish new funds in ieFARS. Transfer the appropriate items to the proper accounts. Assign each Deposit Fund account to an accountant responsible to reconcile and clear items on a regular basis. 	Mark Carney	Y	June 5	<ol style="list-style-type: none"> Assign OCFO individual to monitor the process. OCFO will obtain and retain copy of letter sent to OMB. Contact Treasury FMS via telephone and letter of need to establish new deposit fund account in GOALS. Notify OCFO and IT staff to set up new deposit fund in ieFARS, GAPS, and other financial/non-financial systems that will initiate transactions to/from account. Assign OCFO staff to assume responsibility for reconciling the account and clearing items in a timely manner. Issue a memorandum informing the appropriate departmental offices of the new account and disseminate policy and procedure for temporarily maintaining funds in the account. Transfer the appropriate transactions to the account. To the extent possible, retain the original accounting information so that items can be aged and cleared on a timely basis.

Reconcile Budgetary Accounts

C = Indicates task is complete

I#	Tasks	Responsible	C	R	Due Date	Validation Process
A1	<ol style="list-style-type: none"> 1. Identify all transactions that comprise the balance in SGL 4000 series accounts. 2. Obtain the documentation to determine the correct appropriation. 3. Process an adjustment to reverse the entry from the adjustment CAN to the correct fund. 4. Verify that all SGL series 4000 accounts have a zero balance. 	Mark Carney	Y	q	June 15	<ol style="list-style-type: none"> 1. Review a current trial balance for all Deposit Fund and Suspense accounts. Identify all transactions processed to a series 4000 account. (i.e. F3875, X6875, X6191) 2. Research and process the budgetary transactions to the proper account. 3. Obtain a copy of the current trial balance for all deposit funds and suspense accounts to ensure the series 4000 accounts do not have a balance.
A2	<ol style="list-style-type: none"> 1. Identify all transactions that comprise the balance in SGL 4000 series accounts. 2. Obtain the documentation to determine the correct appropriation. 3. Process an adjustment to reverse the entry from the adjustment CAN to the correct fund. 4. Verify that all SGL series 4000 accounts have a zero balance. 	Mark Carney	Y	q	June 15	<ol style="list-style-type: none"> 1. Review a current trial balance for all Deposit Fund and Suspense accounts. Identify all transactions processed to a series 4000 account. (i.e. F3875, X6875, X6191) 2. Research and process the budgetary transactions to the proper account. 3. Obtain a copy of the current trial balance for all deposit funds and suspense accounts to ensure the series 4000 accounts do not have a balance.
BA3	<ol style="list-style-type: none"> 1. Review trial balances by fund to identify unnatural balances. 2. Review reports and analysis to identify accounts that have unnatural balances. 3. Research the entries causing the error and process a correction. 	Mark Carney	Y		June 15	<ol style="list-style-type: none"> 1. Review trial balances for all deposit fund and suspense accounts; identify account balances with an unnatural balance. 2. Research the transactions that caused the unnatural balance and process a correction to the FMSS. 3. Review an updated trial balance to review account balances to ensure all accounts with an unnatural balance have been corrected. 4. Review the transactions that caused the unnatural balance to determine if the DOC ID/SAE is incorrect. Correct the DOC ID/SAE to eliminate the source of the error. 5. Review final FMSS balances to the Budget Fund tables to ensure they are consistent.
BA4	<ol style="list-style-type: none"> 1. Identify which SF-133's were adjusted and do not agree to the balances 	Mark Carney	Y		June 15	<ol style="list-style-type: none"> 1. Identify the FY 1999 SF-133's and the latest FY 2000 SF-133's to determine which balances reported do not agree to the

<p>reported in the GL.</p> <ol style="list-style-type: none"> 2. Research the fund to determine which GL accounts may be in error. 3. Process a correction to correct the GL and ensure the proper account relationships are restored/maintained. 4. Budget office will review allotments and budgetary resources available to identify potential errors. 				<p>balances reported in FMSS.</p> <ol style="list-style-type: none"> 2. Research the cause for the difference and process the correction to ensure the account balances reported in FMSS are reported in the SF-133s. 3. Review all subsidiary records that support the FMSS account balances for budgetary accounts. Identify differences and research to bring the subsidiary records and FMSS into agreement. 4. The Budget Office and OCFO will verify all allotments reported in FMSS and any subsidiary systems to determine the correct amount. 5. The required adjustments will be processed to either FMSS or the subsidiary system to bring the balances into agreement.
<ol style="list-style-type: none"> 1. Review Treasury guidance to identify the critical account relationships required to pass edits and be accepted by Treasury. 2. Develop a worksheet to test each ieFARS trial balance against the FACTS II edits. 3. Research all accounts that do not pass edits. Process a correction in the GL to restore accounts to establish the correct relationships. 4. Require Budget Office to approve final balances established. 	<p>Mark Carney</p>	<p>Y</p>	<p>June 30</p>	<ol style="list-style-type: none"> 1. The FACTS II reports require a series of reconciliations be completed prior to submission to Treasury. These edits require the budgetary accounts and selected proprietary accounts related to the Fund Balance with Treasury show the proper relationships. 2. Develop an electronic worksheet that will duplicate the reconciliations/edits required for account balances to pass the FACTS II edits. Research reconciliations that do not pass the edits and process a correction in FMSS to ensure the budgetary and fund balance with Treasury pass the FACTS II edits. 3. A copy of the final edits that reflect FMSS balances will be retained for audit review.

Suspense Accounts

C = Indicates task is complete

#	Tasks	Responsible	C	R	Due Date	Validation Process
1	<ol style="list-style-type: none"> 1. Review manual adjustments for a 3 month period. Determine which routine ongoing transactions should have a DOC ID and SAE developed to replace the manual adjustment. 2. Submit request for DOC ID/SAE 3. Issue policy to all OCFO staff informing them that effective June 1st all manual adjustments must be reviewed and approved by a supervisory accountant. 4. Enforce policy to ensure compliance. 	Mark Carney		N	June 10	<ol style="list-style-type: none"> 1. Review manual adjustments processed for FY 2000 to identify routine transactions. Complete a request to have a new DOC ID/SAE established in FMSS to reduce the number of manual adjustments processed. 2. When the new DOC ID/SAEs have been established, notify the staff of the new DOC IDs and when they should be used. 3. Issue a policy to OCFO staff informing them that effective June 1st all manual adjustments must be reviewed and approved by a supervisory accountant. The supervisor's approval establishes the entry is required and correct. 4. Establish a process where all support documentation is maintained in a centralized location and available for auditor review. Establish a written policy within OCFO and inform OCFO staff the importance of creating and submitting the proper support documentation for all transactions recorded in FMSS.
2	<ol style="list-style-type: none"> 1. Verify the line items reported as beginning balances are correct. 2. Determine the unreconciled balance remaining after all valid transactions have been offset against these balances. 3. Determine whether to obtain the detail data from the former database or write-off. 4. Excess cash should be returned to Treasury. 5. A deficit balance will have to be covered by current appropriations. 6. Initiate the required entries to clear the starting balances from these accounts. 	Mark Carney		Y	June 10	<ol style="list-style-type: none"> 1. Reconcile the fund balances X6875 and F3875 reported in FMSS to the fund balances reported by Treasury. 2. Identify the specific line items in account X6875 and F3875 that represent the starting balances related to the conversion to the new core general ledger or the new disbursement system. 3. Review subsequent transactions to identify entries that will reduce or eliminate the starting balance. 4. Determine the final unreconciled starting balance. Complete a report to OCFO management informing them of the balance that cannot be reconciled without detail information from PAS or PMS. 5. Clear all transactions temporarily recorded to the account by obtaining the necessary documentation and processing a transaction to reverse the items from account X6875 and F3875 and recording to the proper fund. 6. Prepare and submit a report to OCFO informing them of the final unreconciled beginning balance, the actions taken to date to obtain the required documentation needed to identify

	<p>and clear the item, the reason why further research cannot be justified, and a recommendation to bring the balance to zero.</p> <p>7. Excess funds will be deposited to the Treasury miscellaneous account; a shortage will be either charged to a specific fund or included in the final sources and uses adjustment. The adjustment will bring the Fund balance with Treasury into agreement with the actual transactions temporarily recorded to the account prior to final processing.</p>				<p>1. Notify Treasury to establish the new OPAC suspense account in GOALS for the Department. The new account will be included in the monthly Treasury reports.</p> <p>2. Review all unprocessed OPAC transactions recorded in F3875 and X6875; transfer each OPAC item to the new account F3885. The transfer accomplished should maintain the original recordation date. The accounting information should include the OPAC number in GOALS for requesting the required support documentation from the initiating agency.</p> <p>3. The F3885 balance in FMSS and the balance reported by Treasury should be reconciled monthly and the final reports maintained in a separate folder by the accountant assigned the reconciliation task.</p>	
3	<p>1. Notify Treasury to establish new account in GOALS.</p> <p>2. Transfer all unprocessed OPAC transactions to this account for processing.</p> <p>3. The transferred items should be accomplished by line item and maintain the original date recorded to the account.</p>	Y	June 10	Mark Carney	<p>1. Establish a valid listing of all open items that comprise the balance in F3885.</p> <p>2. Review the number and age of all transactions to determine the level of effort required to clear all items outstanding over 90 days.</p> <p>3. Obtain support documentation and record to final fund.</p> <p>4. Charge back all errors to the originating agency.</p> <p>5. Group all transactions by source agency to prepare a written request asking for documentation never received by the Department. Establish the necessary contact to obtain support documentation.</p> <p>6. When the document is received, analyze and process transactions.</p>	
4	<p>1. Assign responsibility for reconciling and maintaining account F3885-Unprocessed OPAC transactions.</p> <p>2. The accountant responsible for reconciling the account will review the open items and establish a plan to clear all items older than 30 days. The accountant will maintain a log of all actions taken to clear the transaction from the account.</p> <p>3. A supervisory accountant will review all open items recorded prior to FY 2000 and determine whether to (1) obtain documentation from the initiating agency or (2) process based on processing methods established for similar transactions.</p> <p>4. A supervisory accountant will establish a plan and communicate the plan to the accountant on the process to be used to clear all items held over one year.</p> <p>5. Establish communication with the agencies that will have to provide support documentation for transactions over 1 year.</p> <p>6. The supervisory accountant and reconciliation accountant will establish a plan to clear all items over 30 days old prior</p>	N	June 10	Mark Carney		

A5	<ol style="list-style-type: none"> 1. Identify all transactions that comprise the balance in SGL 4000 series accounts. 2. Obtain the documentation to determine the correct appropriation. 3. Process an adjustment to reverse the entry from the adjustment CAN to the correct fund. 4. Verify that all SGL series 4000 accounts have a zero balance. 	Mark Carney	Y	June 10	<p>to the end of the fiscal year.</p> <p>7. Unidentified items that cannot be charged back to the originating agency will be charged to the appropriate Department fund.</p> <ol style="list-style-type: none"> 1. Review a current trial balance for all Deposit Fund and Suspense accounts. Identify all transactions processed to a series 4000 account. (i.e. F3875, X6875, X6191) 2. Research and process the budgetary transaction to the proper account. 3. Obtain a copy of the current trial balance for all deposit funds and suspense accounts to ensure the series 4000 accounts do not have a balance.
A6	<ol style="list-style-type: none"> 1. Identify Recipient refunds temporarily recorded to this account and transferred out. Identify the new account to temporarily record refunds. 2. Research and clear old items from the account. 3. Eliminate the adjustment CAN 259902 prior to June 30th. 	Mark Carney	Y	June 15	<ol style="list-style-type: none"> 1. Obtain a list of open items that reconcile to the FMSS balance and to the balance reported by Treasury. 2. Identify line items that represent the starting balance carried forward from the prior accounting system (PAS) and disbursement system (PMS). Identify subsequent entries processed to either offset or reduce the starting balance. 3. Determine the final unreconciled starting balance. Complete a report to OCFO management informing them of the balance that requires detail information from PAS or PMS. 4. Prepare and submit a report to OCFO informing them of the final unreconciled beginning balance, the actions taken to date to obtain the required documentation needed to identify and clear the balance, the reason why further research cannot be justified, and a recommendation to bring the balance to zero. 5. Identify recipient refunds that can be cleared pending additional information. Either obtain the required information to clear or transfer to the proper holding account. 6. Review the listing of open items held in the account and transfer transactions to the proper account. 7. Identify items that cannot be cleared do to age or lack of source documentation. A supervisory accountant will review and recommend a plan to initiate final disposition of the items. The recommendation will include the reason why the transaction(s) can be properly reconciled and

<p>actions taken to prevent a recurrence of the write-off. The supervisor will review and approve the final disposition plan.</p> <p>8. All transactions will be processed in both FMSS and the SF-224 to bring the account balance to zero. The final Treasury report and FMSS trial balance will show the Fund Balance with Treasury in account X6875 is zero.</p>			
<p>1. Review all Deposit Fund and Suspende accounts that record transactions in FMSS and reported on the monthly SF-224.</p> <p>2. Review the type of transactions recorded to the account, establish a reasonable holding period and include the approved holding period in the approved policy and procedures.</p> <p>3. Notify the appropriate OCFO staff to research and clear items held over the established holding period.</p> <p>4. The accountant responsible for reconciling the account each month will provide a copy of the final reconciliation to their supervisor for review and approval. The supervisor will recommend actions to clear old items from the account on a timely basis; timely reconciliation will ensure all funds are available to clear the item from the deposit fund or suspense account.</p>	June 15	N	<p>Mark Carney</p> <p>1. Review the types of transactions recorded to the suspense and deposit fund accounts.</p> <p>2. Determine the amount of time required to obtain the required information and documentation to process the transaction to the final account.</p> <p>3. Establish a policy and inform the OCFO staff responsible for reconciling and clearing the account.</p>
<p>1. Assign responsibility for reconciling and maintaining account F3885-Unprocessed OPAC transactions.</p> <p>2. The accountant responsible for reconciling the account will review the open items and establish a plan to clear all items older than 30 days. The accountant will maintain a log of all actions taken to clear the transaction from the account.</p> <p>3. A supervisory accountant will review all open items recorded prior to FY 2000 and determine whether to (1) obtain documentation from the initiating agency or (2) process based on processing methods established for similar transactions.</p> <p>4. The supervisory accountant will establish a plan and communicate the plan to the accountant on the process to be used to clear all items held over one year.</p> <p>5. Establish communication with the agencies that will have to provide support documentation for transactions over held over one year.</p> <p>6. The supervisory accountant and reconciliation accountant</p>	June 30	N	<p>Mark Carney</p> <p>1. Prepare a list of all open items remaining after OPAC transactions have been transferred to F3885 that comprise the ending balance.</p> <p>2. Sort items by date recorded and research items to determine the correct fund the item should be charged/credited against.</p> <p>3. Prepare and process the adjustment to clear the item.</p> <p>4. Identify and total items where no documentation is available; analyze to determine how to clear.</p> <p>5. Excess unidentified funds should be documented and returned to the Treasury Miscellaneous Receipt fund. A supervisory accountant should review and approve the final disposition of the item(s).</p>

<p>6. Shortages should be cleared by charging to the appropriate current year funds. A supervisory accountant should review and approve the final disposition of the item(s)</p>					<p>1. Identify all transactions that comprise the balances in SGL 3000 (equity) and SGL 500 series (revenue) accounts. 2. Obtain the documentation to determine the correct appropriation. 3. Process an adjustment to reverse the entry from the suspense accounts affected. 4. Verify that all SGL series 3000 and 5000 accounts have a zero balance.</p>
<p>7. Unidentified items that cannot be charged back to the originating agency will be charged to the appropriation DE fund.</p>	<p>1. Review a trial balance for all Deposit Fund and Suspense accounts. Identify all transactions processed to a series 3000 or 5000 account. (i.e. F3875, X6875, X6191) 2. Research and process the appropriate transaction to clear the balances from these accounts. 3. Obtain a copy of the current trial balance for all deposit funds and suspense accounts to ensure the series 3000 and 5000 accounts do not have a balance.</p>	<p>June 10</p>	<p>Y</p>	<p>Mark Carney</p>	

Grants Management And Payment System (GAPS)

C = Indicates task is complete

I	Tasks	Responsible	C	R	Due Date	Validation Process
1	<p>1. Run a GAPS report by project by organization (equal to total fund) of the total authorizations and total cash advances by fund.</p> <p>8. Reconcile the total authorizations and total advances/expenditures from GAPS to the total s reported in FMSS. Identify differences by fund.</p> <p>9. Research and reconcile to determine the error; prepare an adjustment for GAPS or FMSS or both to bring the amounts in balance.</p> <p>10. Determine the cause of the error(s) identified and develop a plan to correct deficiencies in system or processes or procedures.</p>	Mark Carney		Y	June 30	<p>1. GAPS should provide a cumulative report for all authorizations (obligations) and disbursements processed to date by fund (by project by organization). The GAPS information should be reconciled to the unliquidated obligations in FMSS.</p> <p>2. Differences by funds should be researched, and a correction processed in either GAPS or FMSS to bring the amounts into agreement. This will provide a valid starting point to begin daily and monthly comparisons of disbursements requests submitted to Treasury.</p> <p>3. Produce GAPS report daily and monthly to reconcile the cumulative unliquidated obligations in GAPS to FMSS.</p>
A3	<p>1. Submit a request to the appropriate office to have GAPS provide a report that provides information on GAPS activity by fund or in the format appropriate for Budget and Program staff to enable them to review and validate the information.</p> <p>2. Request that Budget and Program offices communicate issues and/or potential errors in the information provided in the GAPS reports.</p>	Mark Carney		N	August 31	<p>1. A GAPS report should be provided to the appropriate program and budget personnel providing the status of all recipient activity accomplished for the month.</p> <p>2. The program and budget staff will review the GAPS information and immediately notify OCFO of unusual or significant aberrations in the information. OCFO will research and determine the accuracy of the information. If an error has occurred, OCFO will initiate the required actions to correct the error. All follow-up and resolution will be documented and the documentation will be retained on file for audit review.</p>
A4	<p>1. Submit a request to the appropriate office to have GAPS provide a report that provides information on recipient adjustments processed in GAPS and recorded in FMSS.</p> <p>2. The report will be distributed to OCFO, Budget and Program office for their</p>	Mark Carney		N	August 31	<p>1. GAPS should produce a report that lists all recipient initiated adjustments in GAPS. The report will be disseminated to the appropriate program and budget staff for their review.</p> <p>2. Program and budget staff will alert OCFO of unusual adjustments; OCFO will research and resolve problems to ensure the data is accurate.</p>

	<p>review.</p> <p>3. Test GAPS adjustments to ensure the recipient initiated adjustments are properly recorded in FMSS. Research and resolve errors in the transmission of data from GAPS to FMSS.</p>	
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Final Grantback Adjustment CAN

C = Indicates task is complete

#	Tasks	Responsible	C	R q	Due Date	Validation Process
1	<ol style="list-style-type: none"> 1. Determine the number of days to clear disbursement requests submitted to Treasury. 2. Clear all items held beyond allowable period prior to final Net Position adjustment. 3. Establish procedures to identify items held one day beyond the allowable period. 4. Review process and determine whether the Disbursement in Transit account is necessary. 	Mark Carney		Y	June 10	<ol style="list-style-type: none"> 1. Review current process for temporarily recording items in transit. Review to determine if the process is correct and results in a current balance in the Disbursements in Transit account. 2. Initiate changes in policy and procedures for identified errors. 3. Provide to OCFO staff responsible for monitoring and reconciling the account written procedures to ensure the account is kept current and accurate. 4. The accountant will provide a copy of the monthly reconciliation to their supervisor confirming the account is current and the ending balance is correct. The monthly reconciliations will be maintained in a file for audit review. 5. The accountant will notify the supervisor for assistance in resolving items they cannot identify and resolve themselves.
2	<ol style="list-style-type: none"> 1. Obtain concurrence from Budget Office and Program Offices to issue final notification to recipients. 2. Obtain concurrence with all other Departmental offices i.e. Legal Counsel to ensure notification agrees with Departmental regulations. 3. Initiate the required actions to get notifications published. 	Mark Carney		Y	June 10	<ol style="list-style-type: none"> 1. Obtain written concurrence from the appropriate offices to notify recipients that adjustments related to maintaining grant awards by pool to individual grants will cease on an agreed upon date. 2. Publish notification. 3. Accept final recipient adjustment requests. OCFO will research all financial transactions processed by recipient pool to confirm the validity of the request. OCFO will notify the program and budget office of the required actions. The program and budget offices will provide written approval to OCFO to process the correction. 4. The OCFO will process the final correction and notify the recipient of the effective date and amount of the adjustment.
3	<ol style="list-style-type: none"> 1. Using CheckFree, match and clear items processed in GL to SF-224. 2. Clear all matched items by fund and schedule number. 3. Identify items that cannot be matched. Research and prepare adjustment with support documentation. 4. Identify items that require a fund switch. 	Mark Carney		Y	June 5	<ol style="list-style-type: none"> 1. Require a weekly report from OCFO staff responsible for completing the matching and processing of items in CheckFree. The report should include total amount to be cleared and total accomplished to date. 2. Compile a list of items that cannot be matched. Assign list(s) to staff who will research and prepare documentation to clear items. 3. The staff will notify supervisors of items they cannot resolve.

	<p>Research source documentation and prepare adjustment.</p> <ol style="list-style-type: none"> Determine whether to reconcile FY 1998 data; either full or part. Support decision with specific reasons why reconciliations cannot be performed. Identify and research and clear all items recorded in the Statement of Differences per the SF-6652. Reverse NP 9202 error. Identify all timing differences to ascertain final differences in general ledger to SF-6654. 				<p>The supervisor will determine a final resolution and prepare documentation for final processing.</p> <ol style="list-style-type: none"> A supervisory accountant will review and approve all adjustments for processing. The OCFO will assign staff to write a memorandum for the record explaining why FY 1998 cash reconciliation cannot be accomplished. The memorandum should be maintained for audit review. Clear Statement of Difference per the SF-6652. Retain copies of monthly Treasury SF-6652 to verify items have been cleared. Obtain a computer report listing the NP9202 reversal and retain for audit review. Prepare a worksheet that details ending Treasury cash balances as of 6/30, adjust for timing difference and compare to general ledger Fund balance with Treasury to identify final differences.
C4	<ol style="list-style-type: none"> Identify all transactions that comprise the balance in SGL 4000 series accounts. Obtain the documentation to determine the correct appropriation. Process an adjustment to reverse the entry from the adjustment CAN to the correct fund. Verify that all SGL series 4000 accounts have a zero balance. 	Mark Carney	Y	June 10	<ol style="list-style-type: none"> Review a trial balance for all Deposit Fund and Suspense accounts. Identify all transactions processed to a series 4000 account. (i.e. F3875, X6875, X6191) Research and process the budgetary transactions to the proper account. Obtain a copy of the current trial balance for all deposit funds and suspense accounts to ensure the series 4000 accounts do not have a balance.
C5	<ol style="list-style-type: none"> Identify all transactions that comprise the balances in SGL 3000 (equity) and SGL 5000 series (revenue) accounts. Obtain the documentation to determine the correct appropriation. Process an adjustment to reverse the entry from the suspense accounts affected. Verify that all SGL series 3000 and 5000 accounts have a zero balance. 	Mark Carney	Y	June 10	<ol style="list-style-type: none"> Review a trial balance for all Deposit Fund and Suspense accounts. Identify all transactions processed to a series 3000 or 5000 account. (i.e. F3875, X6875, X6191) Research and process the appropriate transaction to clear the balances from these accounts. Obtain a copy of the current trial balance for all deposit funds and suspense accounts to ensure the series 3000 and 5000 accounts do not have a balance.
C6	<ol style="list-style-type: none"> Identify which SF-133's were adjusted and do not agree to the balances reported in the GL. 	Mark Carney	Y	June 15	<ol style="list-style-type: none"> Identify the FY 1999 SF-133's and the latest FY 2000 SF-133's to determine which balances reported do not

<ol style="list-style-type: none"> 2. Research the fund to determine which GL accounts may be in error. 3. Process a correction to correct the GL and ensure the proper account relationships are restored/maintained. 4. Budget office will review allotments and budgetary resources available to identify potential errors. 				<ol style="list-style-type: none"> 2. Research the cause for the difference and process the correction to ensure the account balances reported in FMSS are reported in the SF-133s. 3. Review all subsidiary records that support the FMSS account balances for all budgetary accounts. Identify differences and research to bring the subsidiary records and FMSS into agreement. 4. The Budget Office and OCFO will verify all allotments reported in FMSS and any subsidiary systems to determine the correct amount. 5. The required adjustments will be processed to either FMSS or the subsidiary system to bring the balances into agreement.
<ol style="list-style-type: none"> 1. Review Treasury guidance to identify the critical account relationships required to pass edits and be accepted by Treasury. 2. Develop a worksheet to test each ieFARS trial balance against the FACTS II edits. 3. Research all accounts that do not pass edits. Process a correction in the GL to restore accounts to establish the correct relationships. 4. Require Budget Office to approve final balances established. 	<p>Y</p> <p>June 20</p>	<p>Y</p>	<p>Mark Carney</p>	<ol style="list-style-type: none"> 1. The FACTS II reports require a series of reconciliations be completed prior to submission to Treasury. These edits require the budgetary accounts and selected proprietary accounts related to the Fund Balance with Treasury show the proper relationships. 2. Develop an electronic worksheet that will duplicate the reconciliations/edits required for account balances to pass the FACTS II edits. Research reconciliations that do not pass the edits and process a correction in FMSS to ensure the budgetary and fund balance with Treasury pass the FACTS II edits. 3. A copy of the final edits that reflect FMSS balances will be retained for audit review.
<ol style="list-style-type: none"> 1. Verify the line items reported as beginning balances are correct. 2. Determine the unreconciled balance remaining after all valid transactions have been offset against these balances. 3. Determine whether to obtain the detail data from the former data base or write-off. 4. Excess cash should be returned to Treasury. 4. A deficit balance will have to be covered by current appropriations. 5. Initiate the required entries to clear the starting balances from these accounts. 	<p>Y</p> <p>June 10</p>	<p>Y</p>	<p>Mark Carney</p>	<ol style="list-style-type: none"> 1. Reconcile the fund balances X6875 and F3875 reported in FMSS to the fund balances reported by Treasury. 2. Identify the specific line items in account X6875 and F3875 that represent the starting balances related to the conversion to the new general ledger or the new disbursement system. 3. Review subsequent transactions to identify entries that will reduce or eliminate the starting balance. 4. Determine the final unreconciled starting balance. Complete a report to OCFO management informing them of the balance that cannot be reconciled without detail information from PAS or PMS. 5. Clear all transactions temporarily recorded to the account by obtaining the necessary documentation and processing a transaction to reverse the items from account X6875 and F3875 and recording to the proper fund.

					<p>6. Prepare and submit a report to OCFO informing them of the final unreconciled beginning balance, the actions taken to date to obtain the required documentation needed to identify and clear the item, the reason why further research cannot be justified, and a recommendation to bring the balance to zero.</p> <p>7. Excess funds will be deposited to the Treasury miscellaneous account; a shortage will be either charged to a specific fund or included in the final sources and uses adjustment. The adjustment will bring the Fund balance with Treasury into agreement with the actual transactions temporarily recorded to the account prior to final processing.</p>
9			Y	June 10	<p>1. Assign OCFO individual to monitor the process.</p> <p>2. OCFO will obtain and retain copy of letter sent to OMB.</p> <p>3. Contact Treasury FMS via telephone and letter of need to establish new deposit fund account in GOALS.</p> <p>4. Notify OCFO and IT staff to set up new deposit fund in ieFARS, GAPS, and other financial/non-financial systems that will initiate transactions to/from account.</p> <p>5. Assign OCFO staff to be responsible for reconciling the account.</p> <p>6. Issue a memorandum informing the appropriate departmental offices of the new account and disseminate policy and procedure for temporarily maintaining funds in the account.</p>
C			Y	June 10	<p>1. GAPS should provide a cumulative report for all authorizations (obligations) and disbursements processed to date by fund (by project by organization). The GAPS information should be reconciled to the unliquidated obligations in FMSS.</p> <p>2. Differences by fund should be researched, and a correction processed in either GAPS or FMSS to bring the amounts into agreement. This will provide a valid starting point to begin daily and monthly comparisons of disbursements requests submitted to Treasury.</p> <p>3. Produce GAPS report daily and monthly to reconcile the cumulative unliquidated obligations in GAPS to FMSS.</p>
C			Y	June 30	<p>1. The required reconciliations and final Net Position</p>

<p>calculate the final Net Positions adjustments required to bring the Fund Balance with Treasury to reconcile to the Budgetary accounts.</p> <p>2. The Final Adjustments will be reviewed by OCFO management and approved for processing.</p>	<p>Carney</p>			<p>adjustments will be completed to ensure the budgetary accounts and selected Fund Balance with Treasury accounts are correct and current.</p> <p>2. The Treasury Department contractors will review the Net Position adjustment worksheet to ensure the proper account relationships are accurate and reflect current Treasury guidelines.</p> <p>3. OCFO will calculate the final adjustments per the approved worksheets.</p> <p>4. The appropriate OCFO personnel will review and approve the final adjustments.</p> <p>5. Adjustments to the Fund Balance with Treasury will be processed against the Adjustment CAN Y259902.</p>
<p>1. A positive balance will be returned to Treasury via the Miscellaneous Receipts account.</p> <p>2. A deficit will be reviewed to determine whether to process a reversal of funds previously returned to Treasury or absorbed in current year funding.</p>	<p>Mark Carney</p>	<p>Y</p>	<p>June 30</p>	<p>1. The final adjustments will be reviewed monthly prior to the end of the fiscal year to ensure the final adjustments were correct. The Net Position Adjustment worksheet will be completed monthly to ensure the proper account relationships are maintained on an ongoing basis.</p> <p>2. The remaining balance in the Adjustment CAN Y259902 will be cleared from the SF-224 and FMSS. Excess funds will be deposited to the Treasury Miscellaneous Deposit Fund. A deficit position will be reviewed by OCFO and the Budget office and a determination made whether to fund from current sources or obtain additional funding.</p>

Policy and Procedures

C = Indicates task is complete

#	Tasks	Responsible	C	R q	Due Date	Validation Process
1	<ol style="list-style-type: none"> 1. Review manual adjustments for a 3-month period. Determine which routine ongoing transactions should have a DOC ID and SAE developed to replace the manual adjustment. 2. Submit request for DOC ID/SAE 3. Issue policy to all OCFO staff informing them that effective June 1st all manual adjustments must be reviewed and approved by a supervisory accountant. 4. Enforce policy to ensure compliance. 	Mark Carney		N	June 15	<ol style="list-style-type: none"> 1. Review manual adjustments processed for FY 2000 to identify routine transactions. 2. Complete a request to have a new DOC ID/SAEs established in FMSS to reduce the number of manual adjustments processed. 3. When the new DOC ID/SAEs have been established, notify the staff of the new DOC IDs and when they should be used. 5. Issue a policy to OCFO staff informing them that effective June 1st all manual adjustments must be reviewed and approved by a supervisory accountant. The supervisor's approval establishes the entry is required and correct. 6. Establish a process where all support documentation is maintained in a centralized location and available for auditor review. Establish a written policy within OCFO and inform OCFO staff of the importance of creating and submitting the proper support documentation for all transactions recorded in FMSS.
2	<ol style="list-style-type: none"> 1. Verify the line items reported as beginning balances are correct. 2. Determine the unreconciled balance remaining after all valid transactions have been offset against these balances. 3. Determine whether to obtain the detail data from the former database or write-off. 4. Excess cash should be returned to Treasury. 5. A deficit balance will have to be covered by current appropriations. 6. Initiate the required entries to clear the starting balances from these accounts. 	Mark Carney		Y	June 15	<ol style="list-style-type: none"> 1. Reconcile the fund balances X6875 and F3875 reported in FMSS to the fund balances reported by Treasury. 2. Identify the specific line items in account X6875 and F3875 that represent the starting balances related to the conversion to the new general ledger or the new disbursement system. 3. Review subsequent transactions to identify entries that will reduce or eliminate the starting balance. 4. Determine the final unreconciled starting balance. Complete a report to OCFO management informing them of the balance that cannot be reconciled without detail information from PAS or PMS. 5. Clear all transactions temporarily recorded to the account by obtaining the necessary documentation and processing a transaction to reverse the items from account X6875 and F3875 and recording to the proper fund. 7. Prepare and submit a report to OCFO informing them of the final unreconciled beginning balance, the actions taken to date to obtain the required documentation needed to identify and clear the item, the reason why further research cannot be justified, and a recommendation to bring the balance to zero. 8. Excess funds will be deposited to the Treasury miscellaneous account; a shortage will be either charged to a specific fund or

<p>included in the final Net Position adjustment. The adjustment will bring the Fund balance with Treasury into agreement with the actual transactions temporarily recorded to the account prior to final processing.</p>					<p>1. All general ledger accounts will be assigned to a OCFO staff who will be responsible for reconciling the account and clearing outstanding items and errors on a timely basis.</p> <p>2. Completed reconciliations will be reviewed and approved by a supervisory accountant. The supervisory accountant will provide direction on how to properly identify and correct errors.</p> <p>3. Reports, both manual and automated will be based on account balances maintained in the FMSS. Temporary differences will be brought to the attention of a supervisory accountant and resolved within 30 days.</p> <p>4. Establish a process where all support documentation is maintained in a centralized location and available for auditor review. Establish a written policy within OCFO and inform OCFO staff that importance of creating and submitting the proper support documentation for all transactions recorded in FMSS. Maintaining proper documentation will ensure all unusual or unnatural balances can be properly researched and resolved.</p>
<p>1. All GL accounts will be assigned to an Accountant who will be responsible for reconciling the accounts assigned. Reconciliation will include identifying all items that comprise the account balance and clearing all items that do not belong in the account.</p> <p>2. The accountant will complete the reconciliation on a monthly basis and submit the completed reconciliation to a supervisory accountant.</p> <p>3. The supervisory accountant will review and approve the reconciliation.</p> <p>4. All reports distributed by the OCFO will be reviewed by an accountant who has the knowledge to identify significant errors or information that is not reasonable prior to distribution.</p>	<p>June 15</p>	<p>N</p>	<p>Mark Carney</p>	<p>1. The OCFO will issue a policy that all general ledger accounts established to temporarily record transactions be cleared within 30 days.</p> <p>2. The maximum length of time an item should remain unprocessed is 90 days.</p> <p>3. If the accountant is not able to clear an item within the prescribed time, the item will be referred to a supervisory accountant for assistance.</p> <p>4. Every effort will be made to clear all temporary suspense accounts prior to the end of the fiscal year to facilitate the year-end audit.</p> <p>5. Items remaining unprocessed at fiscal</p>	
<p>1. Assign responsibility for reconciling and maintaining all deposit fund and suspense accounts in FMSS.</p> <p>2. The accountant responsible for reconciling the account will review the open items and establish a plan to clear all items older than 30 days. The accountant will maintain a log of all actions taken to clear the transaction from the account.</p> <p>3. A supervisory accountant will review all open items recorded prior to FY 2000 and determine whether to (1) obtain documentation from the initiating agency or (2) process based on processing methods established for similar transactions.</p> <p>4. The supervisory accountant will establish a plan and communicate the plan to the accountant on the process to be used to clear all items held over one year.</p> <p>5. Establish communication with the agencies that will have to provide support documentation for transactions over held over</p>	<p>June 15</p>	<p>N</p>	<p>Mark Carney</p>	<p>1. All general ledger accounts will be assigned to a OCFO staff who will be responsible for reconciling the account and clearing outstanding items and errors on a timely basis.</p> <p>2. Completed reconciliations will be reviewed and approved by a supervisory accountant. The supervisory accountant will provide direction on how to properly identify and correct errors.</p> <p>3. Reports, both manual and automated will be based on account balances maintained in the FMSS. Temporary differences will be brought to the attention of a supervisory accountant and resolved within 30 days.</p> <p>4. Establish a process where all support documentation is maintained in a centralized location and available for auditor review. Establish a written policy within OCFO and inform OCFO staff that importance of creating and submitting the proper support documentation for all transactions recorded in FMSS. Maintaining proper documentation will ensure all unusual or unnatural balances can be properly researched and resolved.</p>	

<p>year end will be reviewed by a supervisory accountant who will verify the item belongs to the Department.</p>	<p>1. The responsibility for writing various aspects of cash management have been assigned to individuals in the OCFO office.</p> <p>2. The individuals assigned will complete a draft of the specific policy/procedure assigned to them and forward to their supervisor.</p> <p>3. The supervisor will review and approve and forward to the appropriate management personnel for their review and approval.</p> <p>4. The appropriate OCFO management official will review the policy/procedure for compliance with current Federal financial laws and regulations.</p>	<p>Mary Carney</p>	<p>N</p>	<p>July 31</p>	<p>6. The supervisory accountant and reconciliation accountant will establish a plan to clear all items over 30 days old prior to the end of the fiscal year.</p> <p>7. Unidentified items that cannot be charged back to the originating agency will be charged to the appropriate DE fund.</p> <p>1. The OCFO organization has assigned to OCFO staff responsibility to document policy and procedures for specific tasks related to cash management.</p> <p>2. The OCFO staff will complete a draft of the policy and procedure assigned to them and forward to their supervisor for review and approval.</p> <p>3. OCFO will assign an outside reviewer to review the draft policy and procedure in their entirety to ensure the document is complete and supports compliance with current Federal financial laws and regulations promulgated by GAO, OMB, Treasury and FASAB.</p>	<p>one year.</p>
<p>1. An individual in OCFO will obtain current Federal financial laws and regulations regarding retention of documentation related to grants.</p> <p>2. The relevant documentation obtained will be reviewed to ensure Departmental policy will be in compliance with current Federal government policies and regulations.</p> <p>3. The OCFO will write a draft policy and procedure for the OCFO office.</p> <p>4. The draft will be distributed for review within the OCFO.</p> <p>4. The draft policy will be finalized and distributed to OCFO staff that is responsible for maintaining documentation related to grants.</p>	<p>Mark Carney</p>	<p>N</p>	<p>July 31</p>	<p>1. OCFO will review current policy and procedure related to the filing and retention of support documentation for financial transactions processed in the financial records related to grants.</p> <p>2. OCFO will obtain the official Federal laws and regulations for grant accounting to ensure Departmental and OCFO policy supports compliance with the retention of documentation to support grant transactions recorded.</p> <p>3. OCFO will draft a written policy and procedures for review by OCFO management prior to issuance.</p> <p>4. The final policy and procedure will be issued and disseminated to all staff who need to know and enforce the policy.</p>		

	<ol style="list-style-type: none"> 1. An individual in OCFO will obtain current Federal financial laws and regulations regarding the proper identification, labeling and storage of government financial records. 2. The relevant documentation obtained will be reviewed to ensure Departmental policy will be in compliance with current Federal government policies and regulations. 3. The OCFO will write a draft policy and procedures for the OCFO office. 4. The policy will be distributed for review and comments. 5. The draft will be finalized by the appropriate OCFO management official and disseminated to all staff responsible for storing and packing boxes. 6. A list will be maintained in the OCFO office of all boxes sent to storage, the scheduled retention periods, and location. 7. The OCFO will maintain current and prior year records on site to facilitate the annual financial statement audit. 	Mark Carney	N	July 31	<ol style="list-style-type: none"> 1. The individual assigned to complete the draft policy and procedures for the proper retention of financial documents will reference the appropriate Federal laws and regulations. A copy of the laws and regulations will maintain by OCFO. 2. A supervisory accountant will be responsible for ensuring the draft policy and procedures is correct, completed and can be enforced. 3. The final approved policy will be disseminated to all OCFO staff and training conducted to ensure the policy is enforced.
	<ol style="list-style-type: none"> 1. The approved Cash Reconciliation and Cash Management policy and procedures will include a statement that the final cash reports submitted to Treasury will be reviewed and approved by a supervisory accountant. 	Mark Carney	N	July 31	<ol style="list-style-type: none"> 1. OCFO Cash Management policy and procedures approved and distributed will include a requirement that all final internal and external reports related to Cash and the Fund Balance with Treasury will be approved by a supervisory accountant prior to issuance.



UNITED STATES DEPARTMENT OF EDUCATION

THE DEPUTY SECRETARY

November 14, 2000

Elaine Kaplan
The Special Counsel
U.S. Office of Special Counsel
1730 M Street, N.W. Suite 300
Washington, D.C. 20036-4505
Attn: Karen P. Gorman, Esq.

RECEIVED
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SPECIAL COUNSEL
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Re: OSC File No DI-99-0862

Dear Ms. Kaplan:

The Office of Special Counsel is authorized to “receive, review, and, where appropriate, forward to ... an agency head under section 1213 disclosures of violations of any law, rule, or regulation, or gross mismanagement, a gross waste of funds, and abuse of authority, ...” 5 U.S.C. § 1212(a)(3). Upon receipt of such disclosures of information, OSC determines whether there is a substantial likelihood that the information constitutes one or more of the above-described conditions, *See* 5 U.S.C. § 1213(b), and transmits that determination to the agency head involved for an investigation and response. 5 U.S.C. §§ 1213(c)(1)(A-B).

As you know, on February 23, 2000, the Special Counsel transmitted certain information to Secretary Riley pursuant to 5 U.S.C. § 1213(c). The accompanying letter (“OSC Letter”) indicated that there had been a number of allegations concerning the handling of the Department’s financial matters by the Office of the Chief Financial Officer (OCFO). Specifically, the Special Counsel’s letter indicated that the OCFO had failed to maintain adequate financial controls, had been unable to account for grant funds, and had made improper disbursements. This information contained allegations that the Department’s financial management system lacked proper internal and external security controls, audit trails, and accounting functions.

The Department responded to the Special Counsel on June 26, 2000 (“Response”), and specifically addressed issues of whether allegations constituted “violations of law, rule, or regulation.” However, OSC indicated that the Department’s letter did not state with particularity its conclusions regarding whether the allegations amounted to gross mismanagement, a gross waste of funds, or an abuse of authority. By letter dated November 3, 2000, OSC requested that the Department state its conclusions on these

remaining issues and we do so below.¹ As discussed, we conclude that no gross mismanagement, gross waste of funds, or abuse of authority occurred.

Gross Mismanagement

The primary allegations regarding the issue of “gross mismanagement” are that the “OCF&CIO has failed to maintain adequate controls over billions of dollars of Federal grant money, has been unable to account for grant monies, and has made improper disbursement to grant recipients.” *OSC Letter at 1*. Specifically, it is alleged that the Department has made payments to unknown or unidentified organizations, that adjustments were made to accounts with no legal basis, and that the agency filed financial reports that were not supported by the system. *Id.*

The Federal Circuit, and the Merit Systems Protection Board, have defined “gross mismanagement as ‘a management action or inaction that creates a substantial risk of significant adverse impact upon the agency's ability to accomplish its mission.’” *Pulcini v. Social Security Administration, Docket No. 00-3099, 2000 U.S. App. 13567 at 16-17 (Fed. Cir. 2000) (unpublished opinion); quoting Embree v. Department of the Treasury, 70 M.S.P.R. 79, 85 (1996)*. It does not include management decisions that are “merely debatable” and requires “more than de minimis wrongdoing or negligence.” *Id.* Nor does it “mean action or inaction which constitutes simple negligence or wrongdoing.” “There must be an element of blatancy.” *Pulcini v. Social Security Administration, 83 M.S.P.R. 685 (1999)*. Thus, there is a higher burden of proof because of the de minimis standard applied to allegations of gross mismanagement. *Id.*; see also *Smith v. Department of the Army, 80 M.S.P.R. 311, P8 (1998)*.

We conclude that the allegations do not rise to the level of gross mismanagement. Based on the standards articulated by the courts and the MSPB, it is clear that a finding of gross mismanagement must establish that the agency consciously refused to remedy known legal deficiencies or, at the very least, pursued a pattern of conscious disregard for the truth – turning a “blind eye” to a known problem of substantial proportions. The record in this case is very much to the contrary – the Department has been very active in recognizing and attempting to remedy financial accounting issues brought to its attention. As a threshold matter, the record shows that when the Department became aware of these problems, it undertook an active effort to remedy them. *Response, Digest at 3*.

The documents previously shared with OSC provide ample evidence that the Office of Inspector General (“OIG”) issued numerous audit reports and management reports raising concerns relating to the accuracy of the Department’s financial statements and also security concerns. *Response at Item 1 and Appendices cited therein*. In response,

¹ In addition, OSC requested a copy of the final General Accounting Office (“GAO”) Report on the Department’s Grantback Account issued in August, 2000. The draft of that report was provided as part of the Department’s June response. That report is provided as Exhibit 1 attached hereto. In addition, we are providing updates on the status of the action issues in Appendix V (Exhibit 2), and Appendix X (Exhibit 3).

the OCFO has undertaken to address these concerns and is continuing to take corrective action. In addition, as the exhibits provided with this response indicate, the Department has and is making significant progress in resolving these problems.

In August 2000, the General Accounting Office (“GAO”) issued its final report on the Grantback account transactions. *Ex. 1*. The report contained no finding or allegation of gross mismanagement. In its report, the GAO recognized that the problems with the Grantback account stemmed from the Department’s decision to “pool” its grant funds for recipients with multiple awards. *Ex. 1 at 10*. The GAO also recognized that the Department had instituted an algorithm method for allocating grantee drawdowns to account for the funds. The algorithm method worked until the account closing legislation was amended in 1990. After 1990, Department officials recognized the problems in accounting for the grant funds and attempted to correct the problems by relying on recipient reporting. While this method ultimately proved to be inadequate, the record clearly shows that Department officials were attempting to account for funds while continuing to provide funds to its grantees and thereby accomplish its mission.² As noted above, while the GAO report found an “increased risk of fraud, waste and mismanagement of grant funds and an increased risk of Anti-Deficiency Act violations” (*Ex. 1 at 2-3*), GAO did not make a finding that the Department had practiced gross mismanagement. Finally, on October 20, 2000, the Secretary provided a report to GAO, OMB, and Members of Congress on the progress the Department has made toward implementing GAO’s recommendations. *Ex. 3*. Thus, the Department concluded that the pooling method was not adequate and has adopted an improved method of accounting for payments. These facts do not constitute “gross mismanagement.”

Gross Waste of Funds

A gross waste of funds is defined as “a more than debatable expenditure that is significantly out of proportion to the benefit reasonably expected to accrue to the government.” *Embry, supra at 85*, See also *White v. Department of the Air Force*, 63 M.S.P.R. 90 at 97 n.6. *rev’d on other grounds, LaChance v. White*, 174 Fed. 3d. 1378 (Fed. Cir. 1999).

The allegations regarding the issue of gross waste of funds are that the Department’s Grants Administration and Payment System (“GAPS”) was recklessly implemented by the Department notwithstanding his warning that GAPS contained serious flaws. *OSC Letter at 1*. We have carefully examined the record and conclude that there was not a gross waste of funds.

GAPS was originally implemented in late 1997. *Response Digest at 1*. As with any new system implementation, problems emerged; the OIG raised these issues at various times

² Likewise, the Department’s responses to the issues raised regarding the identification of its grantees evidence corrective actions taken with an eye toward accomplishment of the Department’s mission to support education grant programs. For example, with respect to item 3, of the June 26 response the “Stop-Pay” action taken was in an effort to provide identification numbers for grantees after conversion to GAPS, thus allowing the grantees to draw down funds normally. *Response at 5*.

in 1998. *Response, Digest at 1, Item 1 Apps. A, C, D.* However, there is no evidence that the Department wasted funds implementing GAPS or that any expenditure was significantly out of proportion to the benefits received by the Department. To the contrary, in its final report on the Grantback account the GAO recognized that "GAPS provides Education with improved information capabilities." *Ex. 1 at 17.*

In addition, the Secretary praised GAPS in his progress report as being able to significantly reduce accounting and paperwork burdens on recipients, improve outlay reporting and enable the Department to do rapid cash reconciliation at the end of the year. GAPS also helps address GAO's concerns about Anti-Deficiency Act risks by eliminating accidental excess expenditures by recipients. *Ex. 3 at 1.* Thus, from the Secretary's comments, it is clear that GAPS will provide benefits to the Department's financial management capabilities. Accordingly, we conclude that no gross waste of funds occurred.

Abuse of Authority

In *D'Elia v. Department of the Treasury 60 MSPR 226 (1993)*, overruled on other grounds, *Thomas, 77 M.S.P.R. at 236 n.9*, the Board defined "abuse of authority" as "an arbitrary or capricious exercise of power by a Federal official or employee that adversely affects the rights of any person or that results in personal gain or advantage to himself or to preferred other persons." *Pulcini, supra.*

We cannot identify any specific allegations in the Special Counsel's letter that would raise an issue of whether a Federal official or employee exercised power in an arbitrary or capricious manner. Accordingly, we conclude that there was no abuse of authority arising from the allegations.

Conclusion

Based on the foregoing, we conclude that the allegations contained in the Special Counsel's letter do not constitute gross mismanagement, a gross waste of funds, or an abuse of authority.

Sincerely,



Frank S. Holleman III

Attachments

August 2000

FINANCIAL
MANAGEMENT

Review of Education's
Grantback Account



G A O

Accountability * Integrity * Reliability



United States General Accounting Office
Washington, D.C. 20548

Accounting and Information
Management Division

B-285684

August 18, 2000

The Honorable Pete Hoekstra
Chairman
The Honorable Charlie Norwood
Vice Chairman
Subcommittee on Oversight and Investigations
Committee on Education and the Workforce
House of Representatives

You requested that we review the Department of Education's grantback account. As you requested, this report includes general information on the intended purpose of the grantback account; the annual grantback account balance since inception; and the grantback account balance as of December 31, 1999. You also requested that we evaluate how the grantback account has been used since inception; whether there is support for the transactions in the grantback account; whether the transactions in the grantback account are valid; and whether any federal laws have been violated by the existence and management of the grantback account.

Education provides grants for various education programs, such as postsecondary, special education, and vocational programs, and has over 150 appropriation accounts to fund its grant programs, over 16,000 grant recipients, and for fiscal year 1999 reported about \$30 billion in grant expenses.¹ Grant recipients meeting certain thresholds² are required by law to have audits (referred to as Single Audits³) which include tests of their compliance with requirements that have a direct and material effect on a

¹Education, established on May 4, 1980, is responsible for administering and accounting for various education grant programs and other loan programs under its charge.

²The requirements apply to grant recipients who annually expend federal awards of \$300,000 or more (or received awards of \$100,000 or more prior to June 1997).

³OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* – Revised June 24, 1997, issued pursuant to the Single Audit Act of 1984, P.L. 98-502, and the Single Audit Act Amendments of 1996, P.L. 104-156, sets forth standards for obtaining consistency and uniformity among federal agencies for the audit of states, local governments, and nonprofit organizations expending federal awards.

major program.⁴ If the Single Audits or other audits (such as those that Education might perform itself) identify certain noncompliance, recipients must repay Education the amount related to the noncompliance. If the grant recipient meets certain conditions, including correcting the noncompliance, Education may return up to 75 percent of the amounts recovered in the form of grantback payments. Ultimately, any remaining funds would be returned to the Department of the Treasury. In 1991, Education established a deposit fund with the Treasury to retain availability of funds needed to make grantback payments and account for the grantback activity. This deposit fund is referred to as the grantback account.

To provide the information you requested and address your specific questions, we evaluated Education's financial management system and manual internal controls over grantback activity and related funds control, and reviewed the actions already taken and planned by Education to address grantback account issues that we and other auditors have identified. On May 3, 2000, we briefed your staff on the results of our work. This report summarizes the information provided at that briefing. The attached briefing slides provide the detail on the results of our work and the information provided at the briefing. (See appendix I.) Also, these matters were included in our May 24, 2000, testimony on Education's financial management problems.⁵

Results in Brief

As a result of financial management system deficiencies, inadequate systems of funds control, and manual internal control weaknesses that we and other auditors have identified and the manner in which the grantback account was used, there is increased risk of fraud, waste, and

⁴A major program is a federal program identified in accordance with risk-based criteria prescribed by the Office of Management and Budget. 31 U.S.C. 7501(a)(12)(Supp.IV 1998).

⁵*Financial Management: Education's Financial Management Problems Persist* (GAO/T-AIMD-00-180, May 24, 2000).

mismanagement of grant funds. In terms of funds control,⁶ these deficiencies increase the risk that Anti-Deficiency Act violations could occur and not be promptly identified and reported. Because of these deficiencies, we were unable to determine whether any Anti-Deficiency violations occurred. The deficiencies identified at Education relate to the following five areas.

- **Pooling method of accounting for grant drawdowns.** Education's pooling method of accounting for grant drawdowns used prior to May 1998 contributed to out of balance conditions and the need for significant grant reconciliation efforts involving hundreds of millions of dollars. Using the pooling method, grant recipients with multiple awards were not required to match drawdowns to specific awards as the funds were withdrawn from a pool of grant funds. In accounting for these transactions, Education first relied on a complex formula (called "the algorithm") to approximate the actual expenditures for the specific grant awards and allocate the drawdowns. However, according to Education officials, the algorithm did not properly calculate the drawdown allocations, and contributed to differences between Education's records of grant activity and those of the recipients. In addition to the problems associated with the original allocation, Education officials told us that untimely reporting by some recipients of actual expenditures for individual grant awards also contributed to inaccurate data in Education's records.

⁶Agencies are responsible for implementing a system of funds control to manage the funds appropriated as required by the Anti-Deficiency Act (31 U.S.C. 1541) and as implemented by OMB Circular A-34 (as revised October 19, 1999). According to GAO's *Policy and Procedures Manual for Guidance of Federal Agencies*, the term "funds control" refers to control over use and management of fund appropriations to help ensure that (1) funds are used only for authorized purposes, (2) they are economically and efficiently used, (3) obligations and expenditures do not exceed the amounts authorized and available, and (4) the obligation or disbursement of funds is not reserved or otherwise withheld without congressional knowledge and approval.

- **General computer controls.** We testified in March 2000,⁷ that continued weaknesses in general computer controls, over key Education financial management systems,⁸ increase the risk of unauthorized access or disruption of services, and make Education's sensitive grant and loan data vulnerable to inadvertent or deliberate misuse, fraudulent use, improper disclosure, or destruction, which could occur without being detected.
- **Extensive grant reconciliation efforts and funds control.** The grantback account balances between the fiscal year ended September 30, 1993, and December 31, 1999, ranged from a high of about \$698 million as of September 30, 1996, to a low of about \$314 million as of December 31, 1999. Although the grantback account was established to account for grantback activities, we found that about 95 percent of the activity in the account for fiscal years 1993 through 1999 was unrelated to such activities. Specifically, we found that Education (1) used the grantback account as a suspense account beginning in 1993⁹ for hundreds of millions of dollars of activity related to grant reconciliation efforts and (2) did not maintain adequate detailed records for certain grantback account activity by the applicable fiscal year and appropriation.¹⁰

⁷Education Faces Challenges in Achieving Financial Management Reform (GAO/T-AIMD-00-106, March 1, 2000).

⁸General computer controls are the structure, policies, and procedures that apply to an entity's overall computer operations and establish the environment in which application systems and controls operate. General computer controls include access controls, which are designed to limit or detect access to computer programs, data, equipment, and facilities to protect these resources from unauthorized modification, disclosure, loss or impairment.

⁹Suspense accounts are used by entities as temporary holding places for certain transactions until they can be cleared to the proper accounts. Sound financial management practices entail entities having appropriate controls over the suspense accounts including maintaining adequate detailed records of the transactions in the account, promptly investigating the transactions, and promptly transferring them to the proper accounts.

¹⁰Education's independent auditors similarly reported in fiscal years 1998 and 1999 that Education was using the account for adjustments related to reconciling differences of various appropriations that have accumulated since 1993, but Education could not readily determine to which appropriations the amounts in the grantback account belong. Detailed records are needed to have an adequate system of funds control and help protect against Anti-Deficiency Act violations.

In addition, Education used the grantback account to clear unreconciled differences in various grant appropriation fund balance accounts¹¹ and adjust certain appropriation fund balances to ensure that they did not become negative. For example, in 1999, Education made a \$111 million adjustment reducing the grantback account balance and increasing the balance of six appropriations to ensure that projected negative funds balances did not occur. A negative balance is an indicator of a potential violation of the Anti-Deficiency Act. For this adjustment activity, Education did not provide any documentation to show a direct correlation between the reductions to the grantback account for the adjustments and the initial increases made to the grantback account.

In October 1997 and January 2000, Education reviewed and analyzed the canceled grant appropriations accounts which resulted in \$293 million being returned to Treasury. However, Education's review and analysis was incomplete because it did not always consider adjustment activity that may have occurred between the time of the adjustment and the date of the review. Consequently, there is an increased risk that funds control deficiencies, including returning incorrect amounts to Treasury, could occur and not be promptly detected.

- **Inadequate supporting documentation for transactions.** We found that Education could not provide documentation to support the validity of certain activity in the grantback account.¹² For example, we found that for fiscal year 1996 and prior years, Education could not provide general ledger printouts supporting the adjustment activity totaling \$685 million recorded as net increases to the grantback account and documentation supporting the reconciliations of the grantback account's Fund Balance with Treasury. Also, we found that for 39 of the 92 actual grantback transactions we tested (with gross totals of about \$47 million and \$128 million, respectively), Education could not locate or provide any documentation supporting the validity of the

¹¹Education's auditors, in each year beginning with the fiscal year 1995 financial statement audit, have reported internal control weaknesses related to Fund Balance with Treasury reconciliations, including unexplained, unreconciled differences; improper and untimely reconciliations; and adjusting general ledger balances to agree to Treasury without adequately determining whether Education's or Treasury's records may have been correct.

¹²The Comptroller General's *Standards for Internal Control in the Federal Government* (GAO/AIMD-00-21.3.1) issued in November 1999 requires that all transactions and other significant events be clearly documented, the documentation be readily available for examination, and all documentation and records be properly managed and maintained.

transactions and could only partially support another 4 transactions (totaling about \$22.5 million). Further, Education could not provide documentation to support that the grant balances in the Education Payment Management System (EDPMS) at the time of conversion in May 1998 agreed with the beginning grant balances in its new Grant Administration and Payment System (GAPS), and that the true grantback activity in PAS at the time of conversion in October 1997 was properly transferred to the new general ledger system.¹³

- **Lack of adherence to and inadequacy of Education's policies and procedures.** Education did not consistently adhere to certain of its policies and procedures relating to obtaining (1) independent certifications of recipients' records in connection with its EDPMS grant recipient reconciliations and (2) supervisory approval of manually prepared journal entries. Also, in our review of Education's policies and procedures relating to GAPS recipient reconciliation adjustments, we found that such policies were not adequate to ensure the validity and accuracy of transactions.¹⁴ Specifically we found that, there are no requirements for (1) supervisory review and approval of requested recipient reconciliation adjustments, (2) staff who are responsible for processing adjustments requested by grant recipients to obtain and review applicable Single Audit Act reports, and (3) obtaining documentation from the recipients supporting the requested GAPS reconciliation adjustments, other than a letter signed by the recipient's Chief Financial Officer.

Education has taken or plans to take various actions to address the grantback account issues. For example, in part to eliminate problems caused by Education's pooling method, Education implemented GAPS to track grant disbursements by award instead of on a pooled basis. In addition, Education analyzed the portion of the grantback account balance at September 30, 1999, (approximately \$16.5 million) that represented actual grantback activity and, in March 2000, returned to Treasury about \$10 million.

¹³In accounting for its general ledger activity prior to fiscal year 1998, Education maintained the Primary Accounting System (PAS). On October 1, 1997, Education converted from PAS to the Financial Management Systems Software (FMSS).

¹⁴The Comptroller General's *Standards for Internal Control in the Federal Government* (GAO/AIMD-00-21.3.1) issued in November 1999 requires that internal control activities, including policies and procedures, be effective in helping ensure the validity of recorded transactions.

Further, Education has developed a plan and taken several key steps to eliminate the adjustment activity portion of the grantback account, such as returning additional funds to Treasury, contracting with Treasury for assistance in determining the appropriate accounting for the remaining funds in the grantback account, and transferring the adjustment activity balance to another account. The plan also stipulates that Education will reconcile GAPS and Education's general ledger by June 2000, and return to Treasury the remaining balance in the grantback account. However, the plan does not contain sufficient details and does not address when or how Education will complete these two actions. To assist Education management in addressing the matters we identified, this report contains four detailed recommendations. In commenting on a draft of this letter, Education indicated that it agreed with our recommendations and is implementing a detailed plan that addresses and corrects the matters we identified.

Scope and Methodology

To accomplish the objectives of the request, we performed the following procedures.

- Held numerous interviews and discussions with staff in Education's offices of the Chief Financial Officer, General Counsel, Inspector General (OIG), and the Budget Services Group to obtain an understanding of the (1) intended purpose and actual use of the grantback account, (2) information systems, and policies and procedures related to the activity recorded in the account, and (3) controls in place for the conversion from EDPMS to GAPS.
- Reviewed available information related to (1) Education's grant activity and use of the grantback account, including independent auditor reports (fiscal years 1995 through 1999), policy and procedure manuals and internal memorandums, and (2) controls in place for the conversion from EDPMS to GAPS and the results of the conversion procedures.
- Conducted walkthroughs of the various types of transactions that were recorded in the grantback account including actual grantback collections and disbursements, reconciliation adjustments, and return of funds to Treasury.
- Reviewed the Fund Balance with Treasury reconciliations for the grantback account for fiscal years 1997, 1998, and 1999.
- Tested a nonstatistical sample of 92 actual grantback transactions from a total of 477 transactions recorded in the account from fiscal years 1991 through 1999, to determine the validity of such transactions. Because there was an increased risk of invalid transactions related to

disbursements and credit adjustments, and there was a relatively small number of transactions, we selected all disbursements and credit adjustments. Because there was less risk of invalid transactions related to collections, we selected all collections greater than \$1 million. The results of this testing are not projectable to the transactions that were not tested.

- Selected a statistical sample of 38 adjustment transactions from a total of 187 transactions recorded in the account from fiscal years 1997 through 1999. We initially tested a sub-sample of 20 adjustments to determine whether Education could provide adequate documentation to support the validity of these transactions. Based on the test results on this sample, we did not expand our test to include the remaining 18 sample items.
- Reviewed GAPS recipient reconciliation files for (1) all adjustments to decrease drawdowns by more than \$1 million and (2) the largest adjustment to increase drawdowns.
- Reviewed EDPMS recipient reconciliation files for six recipients selected nonstatistically from the available files.
- Obtained and reviewed data files that contained the ending grant balances in EDPMS and the beginning grant balances in GAPS.
- Reviewed and discussed with Education's OIG the workpapers related to the OIG's Action Memorandum FIN-99-01 (GAPS Survey Review) issued in January 1999.
- Reviewed relevant laws and regulations, consisting of the Anti-Deficiency Act (31 U.S.C. 1341, 1342, 1349–1351, 1511–1519 (1994)), the account closing law (31 U.S.C. 1551-1558 (1994)), OMB Circular A-34 (revised October 19, 1999), the Treasury Financial Manual, and Section 459 of the General Education Provisions Act (20 U.S.C. 1234h).
- Reviewed the Single Audit Act guidance for recipients of Education grant program awards and interviewed 10 nonstatistically selected states' auditors to obtain an understanding of the scope of their audit work under the Single Audit Act related to Education's grant programs.

We performed our review in Washington, D.C., at the Department of Education from December 1999 through April 2000 in accordance with generally accepted government auditing standards. Prior to our May 3, 2000, briefing to the staff of the Subcommittee on the results of our work, we provided Education with copies of our detailed briefing slides, which contained recommendations to the Secretary of Education for review and comment. In a meeting with Education officials, we obtained their comments and incorporated them as appropriate. In addition, we requested comments on a draft of this report from the Secretary of Education.

Education's comments are discussed in the "Agency Comments and Our Evaluation" section of this report and included in appendix II.

Background

Agencies are required by OMB Circular No. A-127, *Financial Management Systems* (revised July 23, 1993) to maintain financial management systems encompassing automated and manual processes, procedures, and controls that process and record financial events effectively and efficiently, and provide complete, timely reliable and consistent information for decisionmakers and the public. As we testified in May 2000, Education's stewardship over its annual appropriations and the student loans for which it has collection responsibility has been under question as it has experienced persistent financial management weaknesses. Beginning with Education's first agencywide audit effort of its fiscal year 1995 financial statements, Education's auditors have each year reported largely the same serious internal control weaknesses, which have affected the department's ability to provide reliable financial information to decisionmakers both inside and outside the agency. One of these internal control weaknesses relates to Education not properly or promptly reconciling its financial accounting records and not being able to provide sufficient documentation to support some of its financial transactions. To prepare Education's fiscal year 1999 financial statements before the March 1, 2000, deadline, Education's financial staff and its contractors had to make significant efforts to work around the serious internal control and financial management systems weaknesses that continued to plague the agency.

In its report on Education's fiscal year 1998 financial statements, the auditor reported Education's use of the grantback account as an example of a reconciliation issue identified during the auditor's testing. In January 1999, Education's Office of Inspector General (OIG) issued a report¹⁵ on the results of its review of Education's process for reconciling the department's grant disbursement system with recipient records. The OIG reported weaknesses in management controls surrounding the reconciliation process and made recommendations for improvement.

¹⁵Survey Review of the Grant Administration and Payment System (GAPS) Reconciliation Process (Action Memorandum FIN-99-01, January 28, 1999).

Pooling Method of Accounting for Grant Drawdowns

Education's pooling method of accounting for grant drawdowns used prior to May 1998 contributed to out of balance conditions and the need for significant grant reconciliation efforts. Education used a grant accounting and disbursement system called the Education Payment Management System that it modified from the Department of Health, Education and Welfare's system when Education was established as a separate executive branch department in 1980. EDPMS allowed grant recipients with multiple awards to withdraw funds from a pool of grant funds without being required to match the drawdowns to specific awards as the drawdowns occurred. This method of withdrawing funds is referred to as the pooling method.

In accounting for these transactions, Education first relied on a complex formula called the algorithm to allocate the drawdowns between awards. This method was supposed to approximate the actual expenditures for the specific grant awards. However, according to Education officials, the algorithm did not work properly after implementation of the 1990 account closing law's requirement to cancel appropriations generally 5 years after budget authority expires.¹⁶ Specifically, Education officials told us that the algorithm did not properly calculate the drawdown allocations between awards and this contributed to differences between Education's records of grant activity and those of the recipients.

After the original allocation of drawdowns, Education relied on recipient reporting (monthly or quarterly, depending on the grant type and award amount) of actual expenditures for individual grant awards as its basis for adjusting the disbursement transactions to the correct grant awards. However, in addition to the problems associated with the original allocation, Education officials told us that untimely reporting by some recipients also contributed to inaccurate data in Education's records, resulting in differences between Education's records and those of the recipients.

General Computer Controls

Education places significant reliance on its financial management systems to perform basic functions, such as making grant payments and maintaining budget controls. We testified in March 2000, that continued weaknesses in general computer controls increase the risk of unauthorized

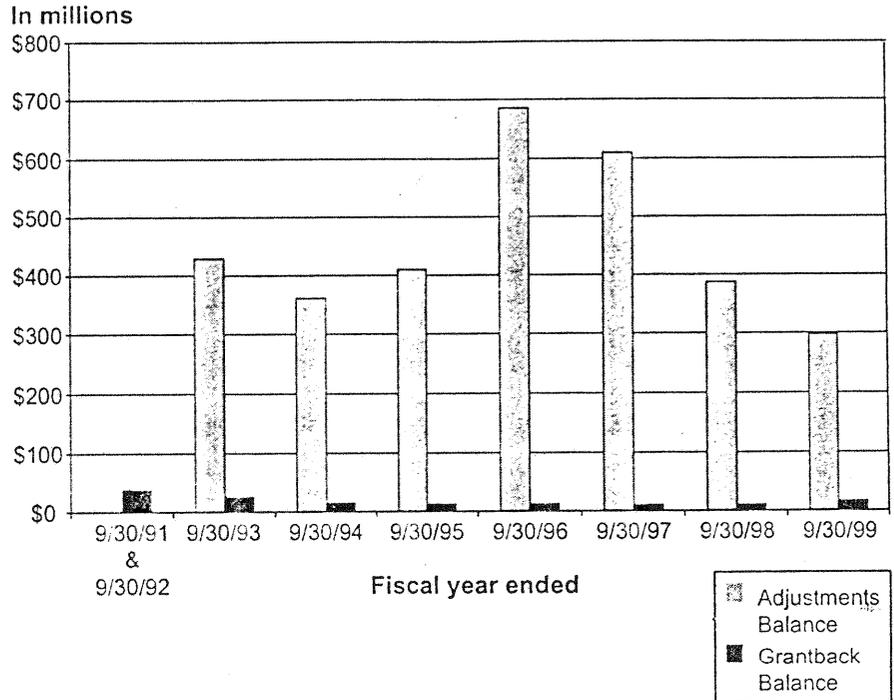
¹⁶31 U.S.C. 1552.

access or disruption of services and make Education's sensitive grant and loan data vulnerable to inadvertent or deliberate misuse, fraudulent use, improper disclosure, or destruction, which could occur without being detected. In every year, beginning with the fiscal year 1995 financial statement audit, Education's independent financial statement auditors have reported weaknesses in Education's information systems controls, such as ineffective procedures for monitoring access to sensitive computer resources, and have made recommendations to Education to address such weaknesses.

Extensive Grant Reconciliation Efforts and Funds Control

Although the grantback account was established to account for grantback activities, we found that about 95 percent of the activity in the account for fiscal years 1993 through 1999 was unrelated to such activities. Figure 1 shows the grantback account balances by fiscal year, beginning in 1991.

Figure 1: Grantback Account Balances



Source: Data provided by Education's Office of the Chief Financial Officer.

Note: Balance as of December 31, 1999, was the same as of September 30, 1999.

Specifically, we found that, beginning in 1993, Education used the grantback account as a suspense account for hundreds of millions of dollars of activity related to grant reconciliation efforts affecting its appropriations that fund grants. We also found that Education did not maintain adequate detailed records for certain grantback account activity by the applicable fiscal year and appropriation that would allow it to promptly investigate the activity and transfer it to the proper accounts.

Education's grant reconciliation efforts impacting the grantback account included reconciliations between (1) Education's and recipients' records of grant disbursements, (2) certain proprietary and budgetary general ledger

accounts maintained by Education for each appropriation,¹⁷ and (3) Treasury's and Education's records of Fund Balance with Treasury accounts.

Education also used the grantback account to (1) clear unreconciled differences in various grant appropriation fund balance accounts and (2) adjust certain appropriation fund balances to ensure that they did not become negative. For example, in 1999, Education made a \$111 million adjustment, reducing the grantback account balance and increasing the balance of six appropriations to ensure that projected negative funds balances did not occur. A negative balance is an indicator of a potential Anti-Deficiency Act violation. For this adjustment activity, Education did not provide any documentation to show a direct correlation between the reductions to the grantback account for the adjustments and the initial increases made to the grantback account. Such documentation is needed as part of a funds control system to ensure compliance with the Anti-Deficiency Act, which requires agencies to investigate possible overobligations or overexpenditures and to report to the President and the Congress if they determine an overobligation or overexpenditure occurred.

While Education reviewed the grantback account activity in October 1997 and January 2000 for amounts related to canceled appropriation accounts, its analysis was not complete. For example, Education's review focused on three adjustments totaling approximately \$700 million (net) that increased the grantback account but did not consider whether the adjustments would have been increased or decreased for activity that occurred between the time of the adjustment and the date of the review. As a result of these reviews, Education returned approximately \$293 million to Treasury. However, such deficiencies in Education's analysis increase the risk that funds control deficiencies, including returning incorrect amounts to Treasury, could occur and not be detected promptly.

¹⁷Education is required, as are all agencies, to maintain proprietary and budgetary accounts in its general ledger. Proprietary accounts track assets and liabilities, whereas budgetary accounts track the status of budget authority. Proprietary accounts are self-balancing, as are budgetary accounts. In addition, there is a relationship between certain proprietary and budgetary accounts. For example, the sum of the proprietary accounts Fund Balance with Treasury, Advances, and Accounts Payable should equal the sum of the budgetary accounts Undelivered Orders, Funded Liabilities, and Unobligated Balances.

Inadequate Supporting Documentation for Transactions

We found that Education could not provide documentation to support the validity of certain activity in the grantback account, in part because (1) according to Education officials, about 200 boxes of accounting records were sent to off-site storage without being properly labeled so as to easily determine the contents when Education moved in October 1998, (2) records relating to certain transactions selected for our testing, which Education stated were stored at another agency's off-site storage facility, were not provided by the end of our fieldwork despite repeated requests by Education to obtain the records, and (3) Education did not maintain complete, detailed records from the discontinued accounting system when it converted to its new accounting system in October 1997.

Specifically, we found that for fiscal year 1996 and prior years, Education could not provide (1) general ledger printouts supporting the adjustment activity totaling \$685 million recorded as net increases to the grantback account and (2) documentation supporting the reconciliations of the grantback account's Fund Balance with Treasury. Also, we found that for 39 of the 92 actual grantback transactions we nonstatistically selected for testing (totaling in gross about \$47 million and \$128 million, respectively), Education could not locate or provide any documentation supporting the validity of the transactions and could only partially support another 4 transactions (totaling about \$22.5 million). In addition, for 14 of the 92 selected transactions, Education asserted that the transactions, which totaled \$160,734, were recorded to reverse duplicate postings of grantback collections. However, Education could not locate evidence to support that a duplicate posting had in fact occurred.

Education also could not provide adequate documentation for 6 of the 20 adjustment transactions we statistically selected for testing. One of the 20 adjustment transactions was a valid grantback disbursement for \$48,195, which was misclassified as an adjustment. As such, Education's analysis of the actual grantback activity, which was performed to determine the amount to be returned to Treasury, was incorrect. Further, Education could not provide documentation to support that the grant balances in EDPMS at the time of conversion in May 1998 agreed to the beginning grant balances in GAPS, and that the true grantback activity in PAS at the time of conversion in October 1997 was properly transferred to the new general ledger system.

Lack of Adherence to and Inadequacy of Education's Policies and Procedures

Education did not consistently adhere to certain of its policies and procedures relating to obtaining (1) independent certifications of recipients' records in connection with its EDPMS grant recipient reconciliations and (2) supervisory approval of manually prepared journal entries. Also, in our review of Education's policies and procedures relating to GAPS recipient reconciliation adjustments, we found that such policies were not adequate to ensure the validity and accuracy of transactions. For example, there is no requirement for supervisory review and approval of requested recipient reconciliation adjustments. Also, there is no requirement that staff responsible for processing adjustments requested by grant recipients obtain applicable Single Audit Act reports and review the audit results even though Education officials stated in a letter to us that Education believes the requested adjustments are valid because the recipients are subject to yearly audits (i.e., Single Audits). Further, there is no requirement to obtain documentation from the recipients supporting the requested GAPS reconciliation adjustments, other than a letter signed by the recipient's Chief Financial Officer.

We also found that Education does not require supervisory review and approval of monthly reports of outlays (Statements of Transactions – Standard Form 224) that agencies prepare and send to Treasury. These reports include information about which appropriations were charged for the outlays. Such information should be reviewed by a supervisor to identify inadvertent or intentional errors, such as charging disbursements to the grantback account instead of to the correct appropriation.

Actions Already Taken or Planned

Education has taken or plans to take various actions to address the grantback account issues. In part to eliminate problems caused by Education's pooling method, Education implemented a new grant disbursement system in May 1998 called GAPS. Under GAPS, Education tracks grant disbursements by award instead of on a pooled basis. However, for fiscal years 1998 and 1999, as mentioned previously, Education's independent auditors reported various weaknesses related to GAPS, including unreconciled differences between GAPS and Education's general ledger, processing of duplicate payments, and lack of formal policies and procedures to reconcile expenditure data between GAPS and Education's general ledger. Also, Education analyzed the portion of the grantback account balance as of September 30, 1999, (approximately \$16.5 million) that represented actual grantback activity and, in March 2000, returned to Treasury about \$10 million.

Further, after recently developing a plan to eliminate the adjustment activity portion of the grantback account, Education took the following key steps.

- In January 2000, Education decreased the grantback account (i.e., returned to Treasury) and increased Treasury's general fund account for \$146 million;
- Education contracted with Treasury in February 2000 for assistance in determining the appropriate accounting for the remaining funds in the grantback account; and
- Education transferred in March 2000 the adjustment activity balance from the grantback account to a deposit fund suspense account used for general purposes.

The plan also stipulates that Education will reconcile GAPS and Education's general ledger by June 2000 and return to Treasury the remaining balance in the grantback account. However, for these steps, the plan is not detailed enough for the individuals carrying it out to know specifically what actions to take to meet management's objectives. Also, the plan does not address when or how Education will complete the GAPS reconciliation project and account for adjustments resulting from such reconciliations. In this regard, we made recommendations to Education in our briefing slides. Education officials reviewed a draft of the briefing slides and told us that they agreed with our recommendations.

Conclusion

The financial management systems deficiencies, inadequate systems of funds control, and manual internal control weaknesses we and other auditors identified increase the risk of fraud, waste, and mismanagement of grant funds, as well as increased risk of noncompliance with the requirements of the Anti-Deficiency Act. It will take a sustained, high-priority effort by Education's top management to ensure that these persistent and long-standing problems are fully resolved and do not continue under its new systems.

Recommendations

In addition to the actions already taken or planned by Education, we recommend that the Secretary of Education direct the Acting Chief Financial Officer to develop and implement:

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- A formal, detailed plan to eliminate the portion of the grantback account balance that was transferred in March 2000 to a deposit fund suspense account, including steps describing how Education will
 - complete the GAPS reconciliation project and account for adjustments resulting from such reconciliations;
 - implement adequate controls over its recipient reconciliations and Fund Balance with Treasury reconciliations, requiring that Education maintain detailed records by the applicable fiscal year and appropriation for any unreconciled differences transferred to suspense accounts until such differences are resolved; and
 - return to Treasury the remaining funds related to the adjustment activity that were transferred in March 2000 to a deposit fund suspense account, including a re-evaluation of the October 1997 and January 2000 reviews.
 - Detailed policies and procedures to properly manage and maintain documentation and records (both on-site and in off-site storage facilities) related to all transactions and other significant events related to grant activity, including sound funds control practices to ensure compliance with the Anti-Deficiency Act.
 - Detailed policies and procedures for performing GAPS recipient reconciliations, including requirements for
 - supervisory review and approval of GAPS adjustments,
 - review of applicable Single Audit results prior to making adjustments, and
 - obtaining summary level documentation from the recipients supporting the validity of the requested adjustments.
 - Detailed policies and procedures requiring supervisory review and approval of Education's monthly Statements of Transactions – Standard Form 224.

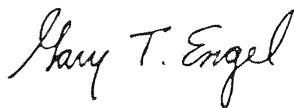
Agency Comments and Our Evaluation

In commenting on a draft of this report, Education agreed with our recommendations and stated that it is implementing a detailed plan it developed that addresses and corrects the deficiencies we noted in our report. Education also stated that our review was helpful in identifying areas where the department can improve its financial management practices. In addition, Education stated that it believes that it has sound funds control practices in place due to the implementation of GAPS, which maintains detailed transaction history data. We recognize that GAPS provides Education with improved information capabilities. In terms of funds control, however, the problems that we and other auditors have identified and the manner in which the grantback account was used,

increase the risk that Anti-Deficiency Act violations could occur and not be promptly identified and reported.

We are sending copies of this report and briefing slides to other interested Congressional parties, the Honorable Richard W. Riley, Secretary of Education; the Honorable Lorraine Lewis, Inspector General, Department of Education; and the Honorable Jacob J. Lew, Director of the Office of Management and Budget. We will make copies available to others upon request.

If you have any questions about this report or the briefing slides, please contact me at (202) 512-3406. Key contributors to this assignment were Christine Robertson, Bill Boutboul, James Douglas, and Suzanne Murphy.



Gary T. Engel
Associate Director
Governmentwide Accounting and
Financial Management Issues

Briefing to the Subcommittee on Oversight and Investigations, House Committee on Education and the Workforce

GAO Accounting and Information
Management Division

Review of the U.S. Department of Education's Grantback Account

Briefing to the Subcommittee on Oversight and
Investigations, House Committee on Education
and the Workforce

May 3, 2000

GAO Contents

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 - Background
 - Scope and Methodology
 - Overview
 - Financial Management Systems Deficiencies
 - Inadequate Systems of Funds Control
 - Manual Internal Control Weaknesses
 - Actions Taken by Education to Address Grantback Account Issues
 - Recommendations
 - Agency Comments

GAO Objectives

- You requested that we provide information on the
 - intended purpose of the U.S. Department of Education's (ED) grantback account;
 - annual grantback account balance since inception; and
 - grantback account balance as of 12/31/99.

- You also requested that we evaluate
 - how the grantback account has been used since inception;
 - whether there is support for the transactions in the grantback account;
 - whether the transactions in the grantback account are valid; and
 - whether any federal laws have been violated by the existence and management of the grantback account.

GAO Background

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- Currently, ED has over 150 appropriation accounts to fund its grant programs, over 16,000 grant recipients, and for fiscal year 1999 reported about \$30 billion in grant expenses.
 - Grant recipients meeting certain thresholds are required by law (31 U.S.C. Secs. 7501 - 7507 (Supp. IV 1998)) to have audits (referred to as Single Audits) which include tests of their compliance with program-specific requirements.
 - If audits identify certain noncompliance, recipients must repay ED the amount related to the noncompliance.
 - If the grant recipient meets certain conditions, including correcting the noncompliance, ED may return up to 75 percent of the amounts recovered (referred to as grantback payments).

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GAO Background (cont'd)

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- ED established a deposit fund with Treasury in 1991 (referred to as the grantback account), with OMB approval, in order to retain availability of funds needed to make grantback payments.
 - Prior to May 1998, ED maintained the Education Payment Management System (EDPMS) under which grant recipients' requests for disbursements were pooled. In May 1998 ED converted from EDPMS to the Grant Administration and Payment System (GAPS) which tracks grant disbursements by specific grant awards.
 - ED conducted separate efforts under EDPMS and GAPS to reconcile its records of grant disbursements to those of the recipients.

GAO Background (cont'd)

- Agencies are required to maintain proprietary and budgetary accounts in their general ledgers. Proprietary accounts track assets and liabilities, whereas budgetary accounts track the status of budget authority. Proprietary accounts are self-balancing, as are budgetary accounts. In addition, there is a relationship between certain proprietary and budgetary accounts. For example, the sum of the proprietary accounts: Fund Balance with Treasury, Advances and Accounts Payable should equal the sum of the budgetary accounts: Undelivered Orders, Funded Liabilities and Unobligated Balances.

GAO Scope and Methodology

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- Held numerous interviews and discussions with staff in various ED offices and reviewed available information related to (1) ED's grant activity and use of the grantback account and (2) controls in place for the conversion from EDPMS to GAPS and the results of the conversion procedures.
 - Conducted walkthroughs of the various types of transactions that were recorded in the grantback account.
 - Reviewed the Fund Balance with Treasury reconciliations for the grantback account for FYs 1997, 1998 and 1999.
 - Reviewed and discussed with ED's OIG the workpapers related to the OIG's Action Memorandum FIN-99-01 (GAPS Survey Review) issued in January 1999.
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GAO Scope and Methodology (cont'd)

- Tested a nonstatistical sample of 92 actual grantback transactions from FY 1991 through FY 1999 and a statistical sample of 20 adjustment transactions from FY 1997 through FY 1999 to determine whether ED could provide adequate documentation to support the validity of these transactions.
- Reviewed various nonstatistically selected GAPS recipient reconciliation files and EDPMS "5 year cash on hand" recipient reconciliation files.
- Reviewed data files that contained the ending grant balances in EDPMS and the beginning grant balances in GAPS.
- Reviewed various relevant laws and regulations.

GAO Scope and Methodology (cont'd)

- Reviewed the Single Audit Act guidance for recipients of ED grant program awards, and interviewed 10 nonstatistically selected states' auditors to understand the scope of their audit work under the Single Audit Act related to ED's grant programs.
- Requested comments on a draft of these briefing slides from ED. ED's comments are discussed on the "Agency Comments" slide.
- Performed our review in Washington, D.C., at ED between December 1999 and April 2000 in accordance with generally accepted government auditing standards.

GAO Overview

- We found that
 - Although the grantback account was established for grantback activities, ED also used it as a suspense account for activity related to grant reconciliation efforts;
 - ED could not provide adequate supporting documentation for certain activity in the grantback account;
 - Because of internal control weaknesses, including lack of adequate documentation, we could not determine the validity of certain activity in the grantback account; and

GAO Overview (cont'd)

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- ED did not maintain adequate detailed records for certain grantback account activity by the applicable fiscal year and appropriation, which is needed to have an adequate system of funds control and help protect against Anti-Deficiency Act violations.
 - As a result of financial management systems deficiencies, inadequate systems of funds control, and manual internal control weaknesses that we and other auditors identified, there is increased risk of fraud, waste and mismanagement of grant funds, as well as increased risk of noncompliance with the requirements of the Anti-Deficiency Act.

GAO Financial Management Systems Deficiencies - Pooling Method

- ED's pooling method for disbursing grants contributed significantly to its problems with accounting for grant activity.
 - ED inherited a grant accounting and disbursement system that processed grant drawdowns on a pooled basis. Under this system, recipients with multiple awards drew funds from their pool of grant funds without being required to match the drawdowns to specific awards as the drawdowns occurred.

GAO Financial Management Systems Deficiencies - Pooling Method (cont'd)

- ED used a complex formula (called "the algorithm") to allocate the drawdowns to awards. However, according to ED officials, the 1990 account closing law's requirement to cancel appropriations (which for most accounts is five years after budget authority expires) significantly challenged the effective functioning of ED's algorithm contributing to out of balance conditions in grant activity.
- ED relied on recipients' reporting of actual expenditures for individual grant awards as its basis for charging disbursement transactions to the correct grant awards. However, untimely reporting by some recipients contributed to inaccurate data in ED's records and differences between ED's records and those of the recipients.

GAO Financial Management Systems Deficiencies - General Computer Controls

- General computer control weaknesses exist in ED's information systems, including those that process grant activity.
 - Since FY 1995, ED's independent financial statement auditors have reported weaknesses in ED's information systems controls, such as ineffective procedures for monitoring access to sensitive computer resources, and have made recommendations to ED to address such weaknesses.

GAO Financial Management Systems Deficiencies - General Computer Controls (cont'd)

- Also, we testified in March 2000 (Education Faces Challenges in Achieving Financial Management Reform, (GAO/T-AIMD-00-106, March 1, 2000) that continued weaknesses in information systems controls increase the risk of unauthorized access or disruption of services, and make ED's sensitive grant and loan data vulnerable to inadvertent or deliberate misuse, fraudulent use, improper disclosure, or destruction, which could occur without being detected.

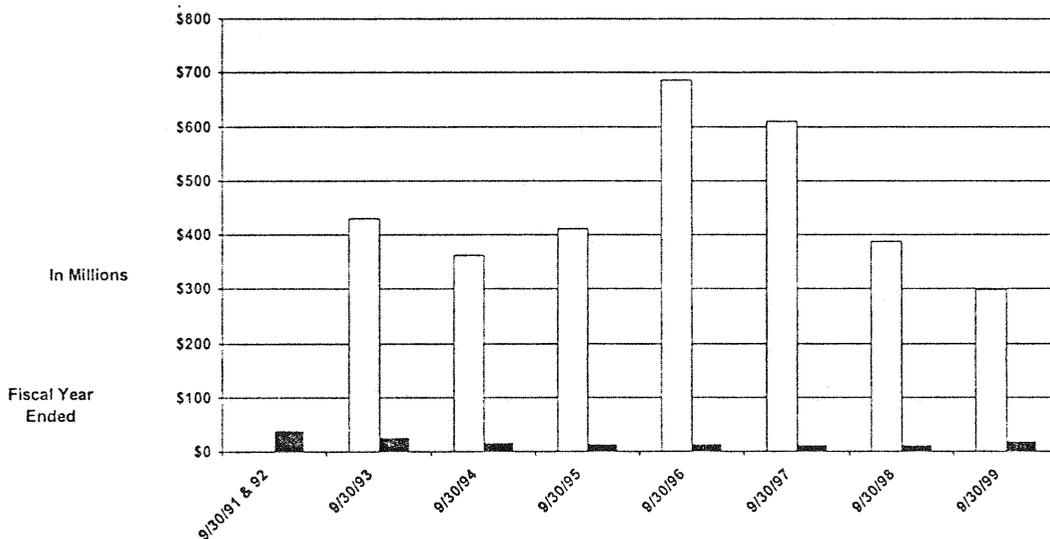
GAO Inadequate Systems of Funds Control - Suspense Account

- Although the grantback account was established for grantback activities, ED also used it as a suspense account for activity related to grant reconciliation efforts.
 - Various factors, such as untimely reporting by some recipients and weaknesses in ED's accounting systems and controls, resulted in many differences between recipients' and ED's records.
 - These problems also contributed to ED's internal proprietary and budgetary accounting records being out of balance.
 - ED has undertaken several reconciliation efforts in attempting to correct its accounting records and resolve the differences between recipients' and ED's records.
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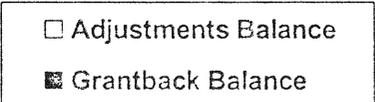
GAO Inadequate Systems of Funds Control - Suspense Account (cont'd)

- Also, ED has periodically decreased the grantback account (i.e., returned to Treasury) and increased Treasury's general fund account for the portion of the funds in the grantback account that it attributed to cancelled appropriations.
- The portion of the grantback account related to actual grantback activity averaged less than five percent of the total account balance in every year starting in FY 1993, which, based on ED records provided to us, was the first year that ED used the grantback account for adjustment activity.

GAO Inadequate Systems of Funds Control -
 Suspense Account Grantback Account Balances (cont'd)



Note: Balance at 12/31/99 was the same as at 9/30/99.
 Source: Data provided by ED's Office of
 the Chief Financial Officer.



GAO Inadequate Systems of Funds Control - Suspense Account (cont'd)

- ED could not provide a listing of the grantees by name and amount that comprise the balance in the adjustment activity portion of the grantback account at September 30, 1999, because some activity was accounted for at the appropriation level, some was accounted for at the grant award level, and other activity was accounted for at the recipient level.
- Table 1 below summarizes by fiscal year the reconciliation adjustments and certain funds returned to Treasury recorded in the grantback account.

GAO Inadequate Systems of Funds Control - Suspense Account (cont'd)

Table 1
 Reconciliation Adjustments and Funds Returned to Treasury
 Activity Recorded in the Grantback Account by Fiscal Year
 (\$ in Millions)

Fiscal Year	Proprietary ¹	GAPS ²	Returned to Treasury ³	Fund Balance with Treasury	Other ⁴	Fiscal Year Ending Balance
1993	360				70	430
1994					-68	362
1995	46				2	410
1996	294				-19	685
1997			-147	30	41	609
1998				-166	-56	387
1999		12		-111	9	297
Total	700	12	-147	-247	-21	297

Source: GAO analysis of ED's data.

¹ ED made net adjustments to its proprietary accounts to correct the out of balance conditions in its internal proprietary and budgetary accounting records mentioned previously. These adjustments are related primarily to the EDPMS "5-year cash-on-hand" reconciliations.

² This is a net amount comprised of \$20 million in adjustments to increase the recipients' available grant balances and \$32 million in adjustments to decrease the recipients' available grant balances. The adjustments were posted during fiscal years 1998 and 1999, and into fiscal year 2000; however, ED did not provide a detailed listing by date posted.

³ ED also returned \$146 million in January 2000. The amounts shown here as "Returned to Treasury" do not include actual grantback activity.

⁴ "Other" includes activity that we could not separately identify to the other categories because ED could not provide adequate supporting documentation.

GAO Inadequate Systems of Funds Control - Suspense Account (cont'd)

- ED's independent auditors reported for FYs 1999 and 1998 that ED was using the grantback account for adjustments related to reconciling differences of various appropriations that have accumulated since 1993, but ED could not readily determine to which appropriations certain amounts in the grantback account belong.

GAO Inadequate Systems of Funds Control - Detailed Records

- ED did not maintain adequate detailed records for certain grantback account activity by the applicable fiscal year and appropriation, which is needed to have an adequate system of funds control and help protect against Anti-Deficiency Act violations.
- In the early to mid 1990s, ED conducted an EDPMS “5 year cash-on-hand” recipient reconciliation project that resulted in adjustments to ED’s records of recipients’ advance balances.
 - ED’s method of accounting for these reconciliation adjustments caused its records of proprietary and budgetary general ledger accounts to become out of balance.

GAO Inadequate Systems Funds Control - Detailed Records (cont'd)

- ED used the grantback account to record adjustments (called "sources and uses adjustments") to bring its proprietary and budgetary accounts into balance. These adjustments generally resulted in increases to the grantback account's fund balance.
- In the late 1990s, ED began its GAPS recipient reconciliation project that identified differences between ED's and recipients' records of drawdown balances.
 - For differences related to closed awards identified by the recipients, ED used the grantback account to make the adjustments requested by the recipients without knowing whether the amounts used directly related to the closed awards that had differences.

GAO Inadequate Systems of Funds Control - Fund Balances

- ED used the grantback account to (1) clear unreconciled differences in various grant appropriation fund balance accounts, and (2) adjust certain appropriation fund balances to ensure they did not become negative. A negative balance is an indicator of a potential Anti-Deficiency Act violation. Specifically, we found that
 - In 1998, ED recorded a \$166 million net adjustment as a reduction to the grantback account. This adjustment included
 - A \$30 million net adjustment to adjust ED's records of Fund Balance with Treasury accounts for unreconciled differences relating to over 20 appropriations.

GAO Inadequate Systems of Funds Control - Fund Balances (cont'd)

- A \$136 million net adjustment that ED asserted was to correct an error made in a prior period. However, as of the end of our fieldwork, ED did not provide adequate documentation to support that an error had in fact occurred.
- In addition, ED did not provide any documentation to show a direct correlation between this reduction and the initial increases made to the grantback account (primarily the “sources and uses adjustments” discussed previously).
- In 1999, ED made a \$111 million adjustment reducing the grantback account balance and increasing the balance of six appropriations to ensure that projected negative fund balances did not occur. However, ED did not provide any documentation to show a direct correlation between this reduction and the initial increases made to the grantback account.

GAO Inadequate Systems of Funds Control - Fund Balances (cont'd)

- Also, we found that ED had recorded this \$111 million adjustment twice, and is currently showing the amounts needed to correct the duplicate posting as a reconciling item on the Fund Balance with Treasury reconciliation for the grantback account.

- Since FY 1995, ED's auditors have reported internal control weaknesses related to Fund Balance with Treasury reconciliations, including unexplained, unreconciled differences; improper and untimely reconciliations; and adjusting general ledger balances to agree to Treasury without adequately determining whether, in fact, ED's records may have been correct.

GAO Inadequate Systems of Funds Control - Cancelled Accounts

- While ED reviewed the grantback account activity for amounts related to cancelled appropriation accounts, its analysis was not complete. Specifically, we found that
 - ED reviewed three adjustments that increased the balance in the grantback account to identify the portion of the adjustments that were in cancelled status. ED decreased the grantback account (i.e., returned to Treasury) and increased Treasury's general fund account for the cancelled portion of the adjustments.
 - The adjustments in FYs 1993 and 1995 totalled \$406 million (net), \$147 million of which ED returned in October 1997. The adjustment in FY 1996 was \$294 million (net), \$146 million of which ED returned in January 2000.

GAO Inadequate Systems of Funds Control - Cancelled Accounts (cont'd)

- However, ED did not consider the effect of any account activity that occurred between the time the adjustments were made and when the reviews were performed.
- Also, when ED performed the second review, it did not consider balances remaining from the previous review to determine if any portion of these were in cancelled status and should be returned to Treasury.

GAO Manual Internal Controls Weaknesses - Supporting Documentation

- ED could not provide documentation to support the validity of certain activity in the grantback account.
- The following factors contributed to ED's inability to provide supporting documentation:
 - When ED converted to a new accounting system in October 1997, it did not maintain complete, detailed records from the discontinued accounting system;
 - When ED moved in October 1998, about 200 boxes of accounting records were sent to offsite storage without being properly labeled to easily determine the contents; and

GAO Manual Internal Control Weaknesses -
Supporting Documentation (cont'd)

- Certain records relating to transactions selected for our testing, which ED stated were stored at another agency's offsite storage facility, were not provided by the end of our fieldwork despite ED's repeated requests to the agency to obtain the records.
- For FY 1996 and prior years, ED could not provide (1) general ledger printouts supporting the adjustment activity totaling \$685 million recorded as net increases to the grantback account, and (2) documentation supporting the reconciliations of the grantback account's Fund Balance with Treasury.

GAO Manual Internal Control Weaknesses - Supporting Documentation (cont'd)

- Certain records relating to transactions selected for our testing, which ED stated were stored at another agency's offsite storage facility, were not provided by the end of our fieldwork despite ED's repeated requests to the agency to obtain the records.
- For FY 1996 and prior years, ED could not provide (1) general ledger printouts supporting the adjustment activity totaling \$685 million recorded as net increases to the grantback account, and (2) documentation supporting the reconciliations of the grantback account's Fund Balance with Treasury.

GAO Manual Internal Control Weaknesses - Supporting Documentation (cont'd)

- For 39 of the 92 actual grantback transactions we nonstatistically selected for testing (totalling in gross about \$47 million and \$128 million, respectively), ED could not locate or provide any documentation supporting the validity of the transactions, and could only partially support another 4 transactions (totalling about \$22.5 million).
- In addition, for 14 of the 92 selected transactions, ED asserted that the transactions, which totaled \$160,734, were recorded to reverse duplicate postings of grantback collections. However, ED could not locate evidence to support that a duplicate posting had in fact occurred.

GAO Manual Internal Control Weaknesses - Supporting Documentation (cont'd)

- ED could not provide adequate supporting documentation for 6 of the 20 adjustment transactions we statistically selected for testing.
- One of the 20 adjustment transactions was a valid grantback disbursement for \$48,195 which was misclassified as an adjustment. As such, ED's analysis of the true grantback activity which was performed to determine the amount to be returned to Treasury was incorrect.

GAO Manual Internal Control Weaknesses -
Supporting Documentation (cont'd)

- ED could not provide documentation to support that the grant balances in EDPMS at the time of conversion in May 1998 agreed to the beginning grant balances in GAPS.
- ED could not provide documentation to support that the true grantback activity in the Primary Accounting System (PAS) at the time of conversion in October 1997 was properly transferred to the new general ledger system.

GAO Manual Internal Control Weaknesses - Adherence to Policies and Procedures

- ED did not consistently adhere to certain of its policies and procedures relating to EDPMS “5 year cash-on-hand” grant recipient reconciliations.
 - ED’s polices and procedures required that recipients provide a certification by their independent certified public accountants (CPAs) that the recipient’s records of “cash-on-hand” balances were accurate when the adjustments requested by recipients exceeded \$25,000.
 - According to an ED official, ED did not always enforce this policy for state recipients because ED relied on the Single Audits performed of states’ financial records.

GAO Manual Internal Control Weaknesses - Adherence to Policies and Procedures (cont'd)

- We found that of the 6 EDPMS recipient reconciliation files we selected nonstatistically and reviewed, 3 state recipient reconciliation files exceeding the \$25,000 threshold described previously did not contain the required certifications or anything to indicate that the Single Audit results were reviewed.
- ED's policies and procedures require that manually prepared journal entries to adjust the general ledger be reviewed and approved by a supervisor. However, we found that one manually prepared journal entry for \$289,108 in our sample of 20 adjustment transactions was prepared by a contractor and did not include any evidence of supervisory review.

GAO Manual Internal Control Weaknesses - Adequacy of Policies and Procedures

- ED's recipient reconciliation policies and procedures are not adequate.
- In our review of ED's policies and procedures relating to GAPS recipient reconciliation adjustments we found that
 - There is no requirement for supervisory review and approval of adjustments requested by grant recipients.
 - There is no requirement that staff responsible for processing adjustments requested by grant recipients obtain applicable Single Audit Act reports and review the audit results, even though ED officials stated in a letter to us that ED believes the requested adjustments are valid because the recipients are subject to yearly audits (i.e., the Single Audits).

GAO Manual Internal Control Weaknesses - Adequacy of Policies and Procedures (cont'd)

- For 1 of the 3 recipients noted above for which the certifications were missing, the reconciliation file contained an internal memorandum indicating that the recipient had been cited by its Single Audit Act auditors for violations of cash management of federal funds. Yet, there was no evidence that this had been considered in ED's decision to approve the recipient's requested adjustment for \$2.4 million to effectively increase the recipient's balance available for drawdowns.
- ED sent letters to the recipients stating that the Single Audit Act auditors would be required to test (1) whether grant expenditures agreed with information in GAPS and (2) recipient reconciliation adjustments. However, the 10 states' auditors that we contacted told us that the GAPS adjustments are not targeted for testing because the Single Audit Act guidance related to ED's grant programs does not specifically require such testing.

GAO Manual Internal Control Weaknesses -
Adequacy of Policies and Procedures (cont'd)

- Also, these auditors stated that it is not possible for these adjustments to be selected for testing from the recipients' records because the adjustments were made in ED's records.
- ED's policies and procedures for processing GAPS adjustments were not sufficiently detailed to ensure the validity of the adjustments requested by recipients.
- There was no requirement to obtain documentation from the recipients supporting the requested GAPS reconciliation adjustments, other than a letter signed by the recipient's CFO.

GAO Manual Internal Control Weaknesses - Adequacy of Policies and Procedures (cont'd)

- For FYs 1999 and 1998, ED's independent auditors reported that ED has not yet developed formal policies and procedures to reconcile the expenditure data between its disbursement system (GAPS) and its general ledger, and made recommendations to ED to address this weakness.
- We also found that ED does not require supervisory review and approval of monthly reports of outlays to Treasury (Statements of Transactions - Standard Form 224).

GAO Actions Taken by Education to Address Grantback Account Issues

- In part to eliminate problems caused by the pooling method, ED implemented a new grant disbursement system in May 1998 called GAPS. Under GAPS, ED tracks grant disbursements by award instead of on a pooled basis. However, for FYs 1999 and 1998, ED's independent auditors reported various weaknesses related to GAPS, including unreconciled differences between GAPS and ED's general ledger, processing of duplicate payments, and lack of formal policies and procedures to reconcile expenditure data between GAPS and ED's general ledger.
- ED analyzed the portion of the grantback account balance at September 30, 1999, (approximately \$16.5 million) that represented actual grantback activity and, in March 2000, returned to Treasury about \$10 million.

GAO Actions Taken by Education to Address Grantback Account Issues (cont'd)

- After recently developing a plan to eliminate the adjustment activity portion of the grantback account, ED took the following key steps
 - In January 2000, decreased the grantback account (i.e., returned to Treasury) and increased Treasury's general fund account for \$146 million;
 - Contracted with Treasury in February 2000 for assistance in determining the appropriate accounting for the remaining funds in the grantback account; and
 - Transferred in March 2000 the adjustment activity balance from the grantback account to a deposit fund suspense account used for general purposes.

GAO Actions Taken by Education to Address
Grantback Account Issues (cont'd)

- The plan also includes the following steps to be taken
 - Reconcile GAPS and ED's general ledger by June 2000; and
 - Return to Treasury the remaining balance in the grantback account.
- However, for the steps still to be taken, the descriptions are not detailed enough for the individuals carrying out the plan to know specifically what actions to take to meet management's objectives.
- Also, the plan does not address when or how ED will complete the GAPS reconciliation project and account for adjustments resulting from such reconciliations.

GAO Recommendations

-
- In addition to the actions already taken or planned by ED, we recommend that the Secretary of Education direct the Acting Chief Financial Officer to develop and implement:
 - A formal, detailed plan to eliminate the portion of the grantback account balance that was transferred in March 2000 to a deposit fund suspense account, including steps describing how ED will
 - Complete the GAPS reconciliation project and account for adjustments resulting from such reconciliations;
 - Implement adequate controls over its recipient reconciliations and Fund Balance with Treasury reconciliations, requiring that ED maintain detailed records by the applicable fiscal year and appropriation for any unreconciled differences transferred to suspense accounts until such differences are resolved; and

GAO Recommendations (cont'd)

-
- Return to Treasury the remaining funds related to the adjustment activity that were transferred in March 2000 to a deposit fund suspense account, including a re-evaluation of the October 1997 and January 2000 reviews.
 - Detailed policies and procedures to properly manage and maintain documentation and records related to all transactions and other significant events related to grant activity, including a requirement to properly label boxes sent to offsite storage facilities so that they are readily available for examination.

GAO Recommendations (cont'd)

- Detailed policies and procedures for performing GAPS recipient reconciliations, including requirements for
 - Supervisory review and approval of GAPS adjustments;
 - Review of applicable Single Audit results prior to making adjustments; and
 - Obtaining summary level documentation from the recipients supporting the validity of the requested adjustments.
- Detailed policies and procedures requiring supervisory review and approval of ED's monthly Statements of Transactions - Standard Form 224.

GAO Agency Comments

- In commenting on these briefing slides, ED generally agreed with our recommendations. ED's staff provided some technical comments, which have been incorporated as appropriate.

Comments From the Department of Education



UNITED STATES DEPARTMENT OF EDUCATION

THE DEPUTY SECRETARY

July 19, 2000

Mr. Jeffrey C. Steinhoff
Assistant Comptroller General
General Accounting Office
Washington, DC 20548

Dear Mr. Steinhoff:

We appreciate the opportunity to review and comment on the General Accounting Office (GAO) draft report entitled, "Financial Management: Review of Education's Grantback Account" (GAO/AIMD-00-228).

The Department believes that it has sound fund control practices in place. Particularly for grant programs, fund controls have never been stronger. The implementation of our Grants Administration and Payments System (GAPS) in 1998, gave us the capability for the first time to maintain detailed transaction history data at the grant award level. Under GAPS precise fund management controls direct transactions to the correct appropriation, which greatly reduces the need to make manual accounting adjustments.

Through the implementation of GAPS and continuous internal process improvements, the concerns voiced in your review are currently being addressed. Specifically the approach we are taking:

1. Assures full compliance with the Anti-Deficiency Act, eliminating any concern that funds might be drawn in excess of those appropriated and apportioned for any program;
2. Improves agency ability to reconcile cash and outlays rapidly and correctly;
3. Significantly improves agency capability to report outlays to the Office of Management and Budget and Congress on an appropriation and program level, as they require;
4. Improves our agency's capability to monitor recipients and provide oversight for the programs delegated to us by Congress; and
5. Increases the partnership between the Department and its recipients through our efforts to provide full assistance to recipients in resolving financial and program problems.

We have developed and are implementing a detailed plan that addresses and corrects the deficiencies you noted in your report. Our general strategies to address the specific recommendations in your report are outlined below.

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Page 2 - Mr. Jeffrey C. Steinhoff

Recommendation 1

That the Secretary of Education direct the Acting Chief Financial Officer to develop and implement a formal, detailed plan to eliminate the portion of the grantback account balance that was transferred in March 2000 to a deposit fund suspense account, including steps describing how Education will:

- Complete the GAPS reconciliation project and account for adjustments resulting from such reconciliations;
- Implement adequate controls over its recipient reconciliations and Fund Balance with Treasury reconciliations, requiring that Education maintain detailed records by the applicable fiscal year and appropriation for any unreconciled differences transferred to suspense accounts until such differences are resolved; and
- Return to Treasury the remaining funds related to the adjustment activity that were transferred in March 2000 to a deposit fund suspense account, including a reevaluation of the October 1997 and January 2000 reviews.

Response

The Department, working with the Treasury Department Center for Applied Financial Management has developed a detailed plan to accomplish the above items and other recommendations made in your review. We are currently executing this plan. Our target date for completion is November 2000. The plan is enclosed for your information.

The Department has put a considerable amount of effort into eliminating the need for adjustment reconciliation funds. These funds have been reallocated to appropriation accounts from our suspense account, which we eliminated at the end of June. During the months of July and August, the Department will perform a post validation of the process used to reconcile appropriation balances and reallocate funds previously held in the suspense account.

Moreover, the Department is in the final stages of its GAPS reconciliation project. Staff have reviewed the accounting for adjustments resulting from the reconciliation to ensure that the adjustments are well documented and have been approved by supervisory-level personnel. The resources used for the reconciliation project have been refocused on reducing the remaining 3 percent variance between our general ledger and GAPS. The Department expects this variance to be further reduced or eliminated by August 31, 2000.

The monthly reconciliation of balances with Treasury has improved data quality and helped the Department address weaknesses identified by its auditors, the Inspector General, and the GAO. In August 1999, we acquired a software tool from a company called CheckFree, which is used by many banks to accomplish this task. The tool has helped to automate much of the labor intensive process and greatly enhanced our ability to reconcile on a timely basis. During fiscal year 2000, the Department has been able to automatically match over 90 percent of its monthly reconciliation items using this tool. Items that are not matched using the software are manually

Page 3 - Mr. Jeffrey C. Steinhoff

researched. The tool also helps the Department's accountants in researching items, as it maintains detailed records by fiscal year and appropriation for unmatched transactions recorded by Treasury and/or the Department.

Recommendation 2

That the Secretary of Education direct the Acting Chief Financial Officer to develop and implement detailed policies and procedures to properly manage and maintain documentation and records (both onsite and in offsite storage facilities) related to all transactions and other significant events related to grant activity, including sound fund control practices to ensure compliance with the Anti-Deficiency Act.

Response

As indicated above, the Department has sound fund control practices in place because of the move to GAPS, which maintains detailed transaction history data. Management of grants at the award level greatly reduces the need to make manual accounting adjustments because precise fund management controls direct transactions to the correct appropriation.

Moreover, problems associated with obtaining documentation mislabeled during the Department's move in 1998, and data from our old accounting system prior to conversion to our new system were atypical. The Department does not anticipate that these problems will recur.

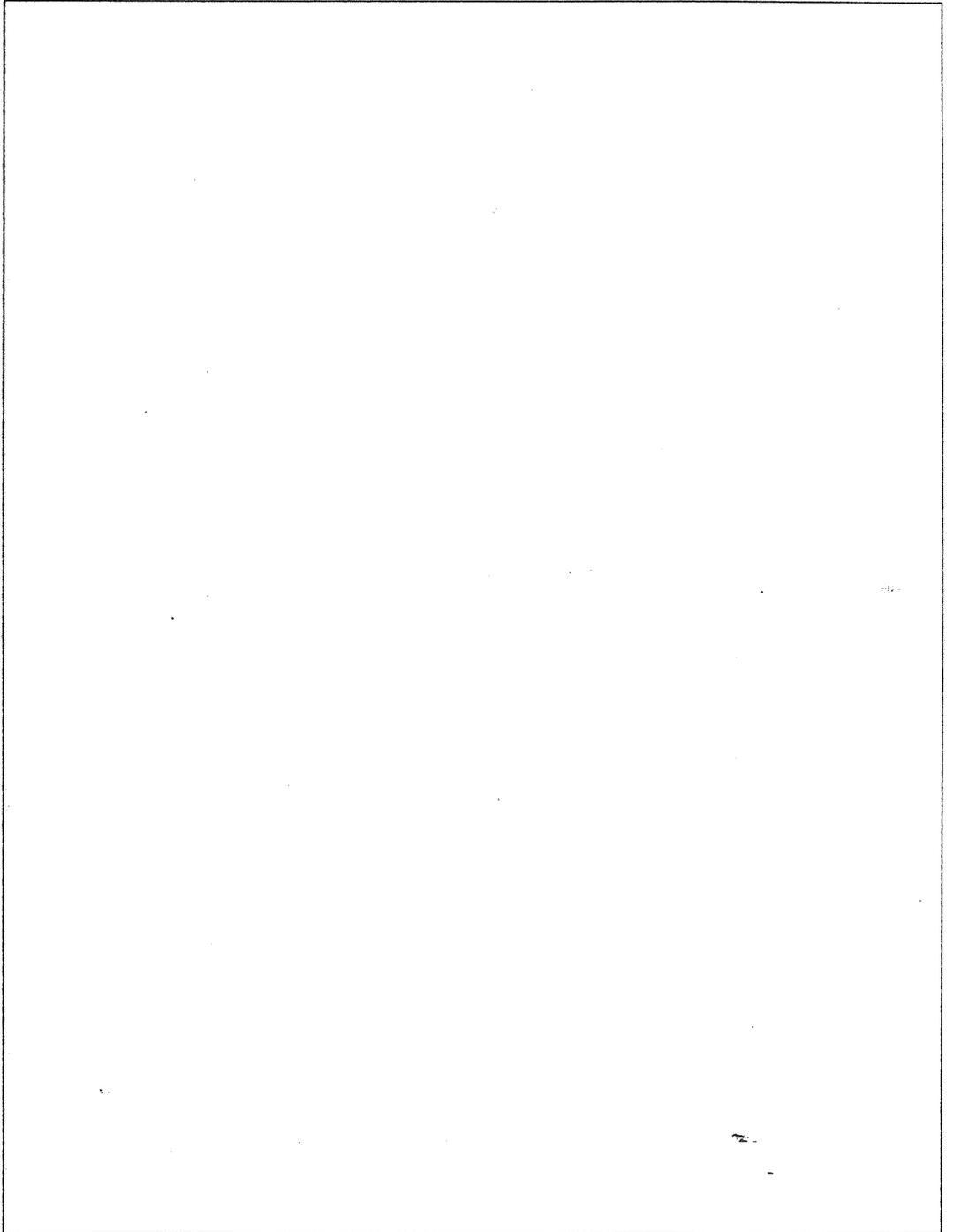
The Department's Office of the Chief Financial Officer has initiated a major undertaking to review and revise policies within the accounting operations area as needed. As appropriate, these revised procedures will stress the proper management and maintenance of documentation and records related to all transactions and other significant events related to that activity. We expect this effort to be completed by November 2000.

Recommendation 3

That the Secretary of Education direct the Acting Chief Financial Officer to develop and implement detailed policies and procedures for performing GAPS recipient reconciliations, including requirements for

- Supervisory review and approval of GAPS adjustments;
- Review of applicable Single Audit results prior to making adjustments; and
- Obtaining summary level documentation from the recipients supporting the validity of the requested adjustments.

Appendix II
Comments From the Department of
Education



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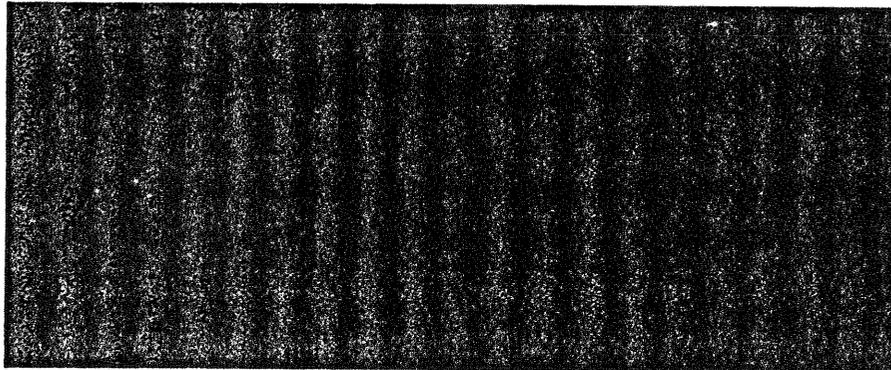
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Summary Status
Financial Statement Audit Recommendations
November 2, 2000

	Quantity of Recommendations
Total recommendations for financial statement audits (FY95-FY99)	139
Total recommendations closed by OIG	118
Recommendations remaining open	21
Recommendations submitted to OIG for closure	6
Recommendations remaining to be completed	15
Recommendations scheduled for completion in November	4
Recommendations scheduled for completion in December	10
Recommendation scheduled for completion in September 2001	1

Open Recommendations by Month
Financial Statement Audits
 November 2, 2000

September 2000

ACN- 17-60002 (FY96)

Issue #4- Oversight and Analysis of Audits in Postsecondary Educational Institutions Need Improvement (Reportable Condition)

- | | |
|--|--|
| 1. Rec. #6- <u>Repeat</u> - Revise the Program Review Guide, which is used by Education personnel, for schools participating in Student Financial Assistance programs to require testing that will directly validate direct loan disbursement information maintained in Education's records. | Per OIG 10-30
OIG reviewing
documentation and
talking to regional
offices. |
|--|--|

ACN- 17-70002 (FY97)

Issue #6- Oversight and Analysis of Audits of Postsecondary Educational Institutions Need Improvement

- | | |
|---|--|
| 2. Rec. #7- <u>Repeat</u> - Establish a process where program reviewers can confirm disbursement information maintained on the schools' books and records with information maintained by Education or its contractor. Revise the Program Review Guide, accordingly, to require testing during Direct Loan Program reviews, and in other appropriate cases, that will directly validate direct loan disbursement information reported to Education or its loan origination contractor. | Per OIG 10-30
OIG reviewing
documentation and
talking to regional
offices. |
|---|--|

ACN- 17-90019 (FY99)

Issue #4- Controls Surrounding Information Systems Need Enhancement (Material Weakness- Repeat Condition)

- | | |
|---|---|
| 3. Rec. #2- <u>Non-Repeat</u> - Develop and implement a comprehensive set of policies and procedures for system configuration and security violation monitoring for all critical computing platforms. | Action completed
9/30/00. Revised
CAP submitted to
OIG 11/2. |
|---|---|

October 2000

ACN- 17-80006 (FY98)

Issue #3- Controls Surrounding Information Systems Need Enhancement (Material Weakness- Repeat Condition)

4. Rec. #5- Non-Repeat- Define, document, and implement comprehensive policies and procedures for granting and controlling access to the computing resources. Controls should be defined to ensure that all authorizations are properly documented and periodically reviewed for appropriateness. Policies and procedures should be developed to protect IT resources from physical and environmental threats. **Action completed 10/19/00. Revised CAP submitted to OIG 11/2.**

Issue #5- Controls Surrounding the Monitoring of the Department's Program Needs to be Strengthened (Reportable Condition- Repeat Condition) (OVAE- Monitoring)

5. Rec. #4- Non-Repeat- Strive to develop monitoring procedures that ensure compliance with provisions of the Perkins Act, and are capable of being conducted using the available resources of the Office of Vocational and Adult Education. This could be accomplished by using an annual mail-in review process with a site visit every five years, or teleconferencing for staff interviews, so that there is personal communication between the reviewers and agency personnel. It seems that there may be several ways that monitoring can be accomplished using methods other than the traditional site visit. **Action completed 10/5/00. Revised CAP submitted to OIG 11/2.**

ACN- 17-90019 (FY99)

Issue #4- Controls Surrounding Information Systems Need Enhancement (Material Weakness- Repeat Condition)

6. Rec. #4- Non-Repeat- Update the security policies and procedures to reflect the changing system security needs. In addition, the Department should implement periodic reviews of the plan to ensure that changes to systems and processes are adequately addressed. Procedures should be developed and implemented to ensure that all access authorizations are documented and that access rights are revalidated on a periodic basis. **Action completed 10/19/00. Revised CAP submitted to OIG 11/2.**

November 2000

ACN- 17-60002 (FY96)

Issue #2- Education Needs to Complete Steps Underway for Improving Oversight of Guaranty Agencies (Material Weakness) (SFA- Guaranty Agencies, Subsidiary Ledger)

7. Rec. #1- Repeat- Implement a subsidiary ledger which tracks GA's activities (loans receivable, reserves held at GAs, etc.), by GA.

ACN- 17-70002 (FY97)

Issue #2- Education Needs to Complete Steps Underway for Improving Oversight of Guaranty Agencies (GAs)- (Material Weakness) (SFA- Guaranty Agencies, Subsidiary Ledger)

8. Rec. #1- Repeat- Implement a subsidiary ledger which tracks GA activities (loans receivable, reserves held at GAs, etc.), by GA.

ACN- 17-90019 (FY99)

Issue #2- Reconciliations Need to be Improved (Material Weakness- Repeat Condition) (OCFO- Reconciliations)

9. Rec. #2- Repeat- Perform reconciliations of all significant accounts and programs, both proprietary and budgetary, on a monthly basis. The reconciliations should include documentation of the research performed and the resolution of the issue. All differences identified should be researched and resolved in a timely manner. In addition, supervisory review should be performed of the reconciliations.
10. Rec. #4- Non-Repeat- Resolve unreconciled differences specific to the grantback account. In addition, non-grantback funds should be reclassified to the appropriate suspense account.

December 2000

ACN- 17-40303 (FY95)

Issue #6- Improvements are required in Security over Financial Systems and in Disaster Recovery Capabilities (Reportable Condition)

11. Rec. #2- Repeat- Prepare a formal disaster recovery plan for the PAS and PMS systems that: (1) identifies critical applications and recovery and telecommunication requirements, (2) determine the site and capacity need for a back-up center, and (3) document recovery/activation procedures.
12. Rec. #3- Repeat- Periodically test the disaster recovery plan once it is implemented.

ACN- 17-60002 (FY96)

Issue #5- Improvements are Required in Security over Financial Systems and in Disaster Recovery Capabilities (Reportable Condition).

13. Rec. #3- Repeat- Continue efforts to develop a comprehensive disaster recovery plan for the new systems environment that: (a) Identifies critical applications and their recovery and telecommunication requirements; (b) Describes the site and capacity needed for a back-up center; (c) Documents formal recovery/continuation procedures.
14. Rec. #4- Repeat- Periodically review and test the disaster recovery plan once it is implemented.

ACN- 17-70002 (FY97)

Issue #7- Improvements are Required in Security Over Financial Systems and in Disaster Recovery Capabilities (Reportable Condition).

15. Rec. #2- Repeat- Continue efforts to develop a comprehensive disaster recovery and operational continuity plan for the new systems environment that includes the following:
 - Business Impact Analysis for each customer/division/resource to determine the critical system and processes.
 - Identification of critical applications and their recovery and telecommunication requirements.
 - Cost-effective (commensurate with business risks) recovery strategies to address short and long-term interruptions,
 - A detailed business recovery strategy addressing personnel, recovery resources, and recovery actions.Specifically, this task covers the identification of individuals responsible for managing and performing the recovery process, definition and assignment of team members' responsibilities, identification of key technical and non-technical resources, and development of detailed restoration procedures.
16. Rec. #3- Repeat- Periodically test the disaster recovery plan to evaluate different components of the plan to identify problems and implement solutions.

ACN- 17-80006 (FY98)

Issue #3- Controls Surrounding Information Systems Need Enhancement (Material Weakness- Repeat Condition)

17. Rec. #1- Repeat- Continue to develop a disaster recovery plan. Once developed, the plan should be tested and updated regularly to assess its effectiveness.

Issue #5- Controls Surrounding the Monitoring of the Department's Program Need to be Strengthened (Reportable Condition- Repeat Condition) (SFA- Monitoring)

18. Rec. #6- Non-Repeat- Appropriately address the recommendations in the OIG reports, "Applicants with Defaulted Student Loans Continue to Receive Student Financial Aid" (ED-OIG/A06-70004) and "Improving the Process of Forgiving Student Loans" (ED-OIG/A06-80001).

ACN- 17-90019 (FY99)

Issue #4- Controls Surrounding Information Systems Need Enhancement (Material Weakness- Repeat Condition)

19. Rec. #1- Repeat- Finalize development of a disaster recovery plan. Once, developed, the plan should be tested and updated regularly to assess its effectiveness.

Issue #8- Reporting and Monitoring of Property and Equipment Needs to be Improved (Reportable Condition)

20. Rec. #2- Non-Repeat- Conduct a complete and comprehensive physical inventory of all property and equipment. Ensure to update the Asset Management Information System (AMIS) for the results of the physical inventory.

September 2001

ACN- 17-80006 (FY98)

Issue #1- Financial Reporting Needs to Be Strengthened (Material Weakness – Repeat Condition) (Oracle)

21. Rec. #1- Non-Repeat- Define and document the information system requirements to efficiently manage operations and then develop or modify reports to meet reporting and reconciliation requirements.



THE SECRETARY OF EDUCATION
WASHINGTON, D.C. 20202

October 20, 2000

Honorable David M. Walker
Comptroller General
General Accounting Office
441 G Street, NW
Washington, DC 20548

Dear Mr. Walker:

Thank you for the opportunity to respond to the recommendations in your report, "Financial Management: Review of Education's Grantback Account" (GAO/AIMD-00-228).

When the Department of Education became a separate agency in 1980, it inherited the pooled payment system from our predecessor agency, the Department of Health, Education and Welfare. Our experience with a pooled payment system was that it created significant difficulties in internal fund accounting and outlay estimating. In addition, under the pooled-payment system, the Department found it extremely difficult to respond to requests for information about expenditure patterns from Congressional committees. While these difficulties may have been acceptable given the technical capabilities that existed 20 years ago, technical advances have enabled both agencies and recipients to make great strides in improving their financial systems toward resolving these difficulties.

Following extensive contacts and briefings with the grant recipient community, the Office of Management and Budget (OMB), and the Congressional Budget Office, the Department launched the Grant Administration and Payment System (GAPS) in 1998. GAPS incorporates the OMB Circular A-110 requirement that recipients must draw funds to meet only immediate needs. GAPS is an award-by-award payment system and considers each payment as an expenditure; therefore, recipients do not have to file any financial reports with the Department. This award-by-award payment system significantly reduces accounting and paperwork burdens on our recipients, and also permits improved outlay reporting at the program appropriation level. In fact, in a 1999 report, GAO commended the Department for its increased ability under GAPS to report outlays in an accurate and timely way to Congress and OMB. GAPS has also enabled the Department to do rapid cash reconciliation at the end of every fiscal year and eliminated any possibility that a recipient accidentally expends funds in excess of those obligated to it under any award.

We are pleased that in its report, GAO recognized the complexity and difficulty of accounting for pooled grants, as well as the benefits of managing grants at the award level. In the future, the Department believes that its funds control practices, particularly for grant programs, will be

stronger than ever because of the move in 1998 to GAPS. This system maintains detailed transaction history data at the grant award level and greatly reduces the need to make manual accounting adjustments. This is because precise funds management controls direct transactions to the correct appropriation.

The GAO report made four recommendations. As of today, recommendation one, which has already been substantially completed, is on track to be fully implemented by November 2000. Work on recommendations two, three, and four is complete.

We believe that through the implementation of GAPS and continuous internal process improvements, GAO's recommendations are currently being addressed. Specifically the approach we are taking:

- Assures full compliance with the Anti-Deficiency Act, eliminating any concern that funds might be drawn in excess of those appropriated and apportioned for any program;
- Improves agency ability to reconcile cash and outlays rapidly and correctly;
- Significantly improves agency capability to report outlays to the Office of Management and Budget and Congress on an appropriation and program level, as they require;
- Improves our agency's capability to monitor recipients and provide oversight for the programs delegated to us by Congress; and
- Increases the partnership between an agency and recipients, ensuring that recipients have the full assistance of the agency in resolving financial and program problems.

Our progress to date and actions underway to address the specific recommendations in your report are more thoroughly outlined below. The documentation related to completed items is available upon request.

Recommendation 1

Develop and implement a formal, detailed plan to eliminate the portion of the grantback account balance that was transferred in March 2000 to a deposit fund suspense account, including steps describing how Education will:

- complete the GAPS reconciliation project and account for adjustments resulting from such reconciliations;
- implement adequate controls over its recipient reconciliations and fund balance with Treasury reconciliations, requiring that Education maintain detailed records by the applicable fiscal year and appropriation for any unreconciled differences transferred to suspense accounts until such differences are resolved; and

- return to Treasury the remaining funds related to the adjustment activity that were transferred in March 2000 to a deposit fund suspense account, including a re-evaluation of the October 1997 and January 2000 reviews.

Recommendation 1 Status: The Department is on track to complete corrective action in November 2000.

The Department has developed a formal, detailed plan to eliminate the portion of the Grantback account that was transferred in March 2000 to a deposit fund suspense account. We have made significant progress in implementing it. The Department, in conjunction with the Treasury Department, is currently conducting a post-validation assurance review, designed to insure that funds were properly returned to an appropriation or the government's general fund.

The GAPS reconciliation project is complete. The Department has performed a daily reconciliation of GAPS to FMSS since July. This reconciliation keeps current transactions reconciled between the two systems. The Department is validating a series of adjustments that will fully reconcile FMSS and GAPS from May 1998 through June 2000. These adjustments will be introduced into the accounting system in November 2000.

The Department's acting Chief Financial Officer has made staff awareness of controls a top priority. Staff are being retrained on how these controls work and on newly revised operating procedures. While GAPS does maintain detailed records, we have emphasized to staff the need for supporting documentation in all transactions. This policy has been captured in a newly written operating procedure and incorporated throughout OCFO procedures, including those covering recipient account reconciliation.

At our request, the Department of Treasury, Center for Applied Financial Management, validated our October 1997 and January 2000 reviews of the deposit fund suspense account, which resulted in suspense account funds being returned to Treasury's general fund. The amounts returned were deemed reasonable according to the Treasury Department analysis. We will determine if any additional funds should be returned to Treasury when we complete post validation of the account in November.

Recommendation 2

Develop and implement detailed policies and procedures to properly manage and maintain documentation and records (both on-site and in off-site storage facilities) related to all transactions and other significant events related to grant activity, including sound funds control practices to ensure compliance with the Anti-Deficiency Act.

Recommendation 2 Status: Completed.

As noted above, while GAPS does maintain detailed records, we have emphasized to staff the need for supporting documentation in all transactions. This has been captured in a newly written operating procedure and incorporated throughout OCFO procedures including those covering recipient account reconciliation and fund balance with Treasury reconciliation. Newly revised policies and procedures recently put into place include the following:

AD-01 "Managing OCFO Records" -- This procedure details the steps for managing the OCFO's records. It is OCFO policy to create and maintain adequate and proper documentation.

FT-02 "Administrative Control of Funds" -- This document prescribes the Department's policies and procedures regarding budget execution, and describes government-wide funds controls and financial management principles and concepts, and their application to Department programs and operations.

Recommendation 3

Develop and implement detailed policies and procedures for performing GAPS recipient reconciliations, including requirements for supervisory review and approval of GAPS adjustments, review of applicable Single Audit results prior to making adjustments, and obtaining summary level documentation from the recipients supporting the validity of the requested adjustments.

Recommendation 3 Status: Completed.

We have developed and issued detailed policies and procedures, "Reconciling Recipients Program Award Drawdown Activity with Department Records and Tracking Completed Adjustments (Procedure GO-07)." The procedures require that staff obtain supervisory approval of GAPS adjustments, review applicable Single Audit results prior to making adjustments, and obtain summary level documentation from recipients that support the validity of the requested adjustments.

Recommendation 4

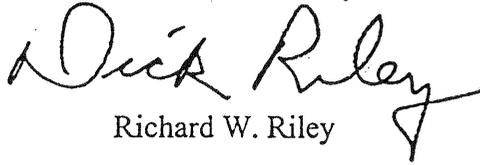
Develop and implement detailed policies and procedures requiring supervisory review and approval of Education's monthly Statements of Transactions Standard Form 224. We are required to reconcile our disbursement and collection activity with Treasury on a monthly basis.

Recommendation 4 Status: Completed.

We have developed and issued detailed policies and procedures, "Preparing and Transmitting the Statement of Transactions SF-224," that require supervisory review and approval of the Department's monthly Statement of Transactions.

In closing, I want to emphasize the Department's commitment to continued improvement of financial management practices and financial integrity. We take our responsibilities in this area very seriously. Please let me know if you need additional information.

Yours sincerely,



Richard W. Riley