UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF INSPECTOR GENERAL
61 FORSYTH STREET, ROOM 18T71
ATLANTA, GEORGIA 30303

Telephone: (404) 562-6470 **Fax: (404) 562-6509**

MEMORANDUM

DATE: December 30, 2003

TO: Jack Martin
Chief Financial Officer
Lead Action Official

Sally Stroup
Assistant Secretary
Office of Postsecondary Education

FROM: J. Wayne Bynum /s/ *J. Wayne Bynum*
Regional Inspector General for Audit
Office of Inspector General

SUBJECT: **FINAL AUDIT REPORT**
Stillman College's Administration of the Title III, Part B, Strengthening Historically Black Colleges and Universities Program
Control No. ED-OIG/A04-D0013

You have been designated as the action officials responsible for the resolution of the findings and recommendations in the attached final report. We have also provided a copy to the auditee and to your Audit Liaison Officers.

The Office of Inspector General is required to review and approve your proposed Program Determination Letter (PDL) and the Audit Clearance Document (ACD) before the PDL is forwarded to the auditee. Please provide these documents for review, electronically if you wish or by mail, to:

J. Wayne Bynum
Regional Inspector General, Region IV
U.S. Department of Education
Office of Inspector General
61 Forsyth Street, Room 18T71
Atlanta, GA 30303

In accordance with the Inspector General Act of 1978, as amended, the Office of Inspector General is required to report to Congress twice a year on the number of audits unresolved. In addition, any report unresolved after 180 days from the date of issuance will be shown as overdue in our reports to Congress.

In accordance with the Freedom of Information Act (5 U.S.C. § 552), reports issued by the Office of Inspector General are available to members of the press and general public to the extent information contained therein is not subject to exemptions in the Act.

If you have any questions, please contact me at 404-562-6477 or Assistant Regional Inspector General Mary Allen at 404-562-6465.

Attachment

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61 FORSYTH STREET, Room 18T71
ATLANTA, GEORGIA 30303

Telephone: (404) 562-6470 Fax: (404) 562-6509

December 30, 2003

Dr. Ernest McNealey
Stillman College
P.O. Box 1430
Tuscaloosa, AL 35403

Dear Dr. McNealey:

This **Final Audit Report** (Control Number ED-OIG/A04-D0013) presents the results of our audit of Stillman College's compliance with the administration of the Title III, Part B, Strengthening Historically Black Colleges and Universities Program. Audit coverage included the period October 1, 1997, through, March 31, 2003. The audit objective was to determine whether the College complied with Education Department General Administrative Regulations (EDGAR) and Departmental laws and regulations regarding Title III cash management and grant expenditures. We found that the College drew down more Title III funds than it expended for program activities and did not inform the Department of changes in key personnel.

AUDIT RESULTS

Finding No. 1 – The College Drew Down More Title III Funds Than It Expended for Title III Program Activities

The College drew down more Title III funds than it needed for program expenditures. This occurred because the College's Title III reconciliation process was not adequate. As a result, the College drew down $76,151 in Title III funds that it did not expend for its Title III activities.

The regulations at 34 C.F.R. § 74.22(b)(2) and (b)(3) (2002)[1] state:

> Cash advances to a recipient organization are limited to the minimum amounts needed and be timed to be in accordance with the actual, immediate cash

[1] Although the 2002 regulations are generally quoted in this report, the 1997 through 2003 regulations have the same requirements.

requirements of the recipient organization in carrying out the purpose of the approved program or project.

The timing and amount of cash advances are as close as is administratively feasible to the actual disbursements by the recipient organization for direct program or project costs and the proportionate share of any allowable indirect costs.

As of April 2003, the College had drawn down more Title III funds than it expended for its closed 1997-2002 grant. As a result, drawdowns exceeded expenditures by $76,151.[2] Table 1.1 below illustrates the differences in drawdowns and expenditures for the 1997-2002 Title III program (10/01/1997 - 09/30/2002) by the College's fiscal year (July 1st through June 30th).

Table 1.1 – 1997-2002 Title III Grant Drawdowns and Expenditures by the College's Fiscal Year

Dates	Drawdowns	Expenditures	Overdraws/(Underdraws)*
10/01/97-06/30/98	$ 645,146	$ 716,889	$ (71,743)
07/01/98-06/30/99	615,000	859,438	(244,438)
07/01/99-06/30/00	1,327,262	1,049,621	277,641
07/01/00-06/30/01	1,197,292	1,053,373	143,919
07/01/01-06/30/02	1,565,192	928,716	636,476
07/01/02-09/30/02	397,370	331,972	65,398
Adjustments**	0	731,102	(731,102)
Net Overdraw			**$76,151**

*An overdraw indicates that the College drew more funds than it needed to reimburse the expenditures it made. An underdraw indicates that the College drew less funds than it needed to fully reimburse the Title III expenditures it recorded.
** Adjustments are expenditures that the College had not recorded in its Title III accounting ledgers due to error.

Prior to any adjustments, the difference between drawdowns and expenditures was $807,253. The College provided documentation to show that this amount should be decreased by expenditures made between April 2000 and July 2002 totaling $819,962 that had not been entered into the Title III ledgers as of the time of our audit. We reviewed this information and determined that $731,102 of these expenditures were allowable Title III expenditures that should have been recorded in the College's accounting ledgers. We added these expenditures back to the College's total Title III expenditures for the period in the "Adjustments" line item in the table above. At the completion of our fieldwork, the College had not adjusted its accounting ledgers to record these Title III expenditures.

These expenditures were not recorded in the College's accounting ledgers for the following reasons:

[2] As of March 31, 2003, drawdowns for the 2002-2007 Title III grant had not exceeded expenditures.

- The College incurred expenditures in the amount of $326,887 between April 2000 and October 2001 that it paid for with institutional funds. We reviewed these expenditures and determined that $238,027 of these expenditures were allowable Title III expenditures and should have been paid with Title III funds.

- The College's auditors transferred $493,075 in Title III expenditures for equipment out of the Title III ledgers in June and July 2002 and recorded these items as long-term assets on the College's financial statements. However, these were allowable Title III expenditures and should have remained on the Title III ledgers.

Therefore, the College drew down $76,151 more Title III funds than it expended for program purposes ($807,253 difference between drawdowns and expenditures less $238,027 allowable expenditures less $493,075 allowable expenditures recorded as long-term assets).

We determined that the overall cause for the College drawing down excessive funds was the lack of an effective control procedure for reconciling the total amount of drawdowns and expenses on a cumulative basis. The College used a yearly reconciliation worksheet that included all funds drawn down and posted for the current fiscal year. However, it did not include drawdowns and expenditures from previous fiscal years. As a result, funds that were over- or underdrawn in the previous fiscal year were not taken into consideration when the College drew down grant funds in the current fiscal year. In addition, the College's auditors erroneously transferred allowable Title III expenditures out of the Title III accounting ledgers, which caused the College's fund availability figures to be misstated in the accounting system.

RECOMMENDATIONS

We recommend that the Chief Financial Officer, in conjunction with the Assistant Secretary for Postsecondary Education, require Stillman College to:

1.1 Return $76,151 not expended for the closed 1997-2002 Title III grant.

1.2 Adjust its Title III ledgers for the 1997-2002 grant to record $731,102 in allowable expenditures to the Title III grant.

1.3 Adopt a reconciliation process that identifies the amount of drawdowns and expenditures that have accumulated for the Title III grant for the current fiscal year, as well as for the entire grant period to avoid drawing Title III funds in excess of accumulated expenses.

STILLMAN RESPONSE

On December 3, 2003, the College’s Business Office Manager provided a written response to the draft report (see attachment). The written response stated that the College had implemented procedures to ensure that Title III expenses and revenue are properly coded and recorded to the correct grant year. As part of the new procedures, a monthly reconciliation is done to make certain that all funds drawn down reflect expenses paid or will be paid within three business days. In light of the fact that the Title III award year crosses the College fiscal year, a separate reconciliation spreadsheet is done for each award year, allowing the College to correctly match the expenses for a particular award year with funds requested. Between April 2000 and October 2001, the College incurred Title III expenditures in the amount of $326,887, which were paid with institutional funds. OIG determined that $238,027 were allowable Title III expenses. The College would like to know why the remaining $88,860 was disallowed. The College has asked its auditors to note the $731,102, which was taken off the ledger as part of the 2002 audit, as allowable expenditures for Title III in the 2003 audit reports.

OIG COMMENTS

The College provided detail information for 11 expenditures totaling $326,887 that it claimed were allowable Title III expenditures paid with institutional funds and that had not been transferred to the Title III accounting ledgers. We reviewed the Title III accounting ledgers and found that 4 of the 11 expenditures had already been transferred into the Title III accounting ledgers. We did not include these four expenditures totaling $88,860 (three for $20,000 each and one for $28,860) as part of the total allowable Title III expenditures because the expenditures had already been recorded in the Title III accounting ledgers and should not be counted twice. We did not change our figures in the final report.

We appreciate the College's effort to strengthen its procedures to improve its accounting practices. The actions described in the College's written response should help ensure that it meets Departmental requirements regarding the drawdown and expenditure of Title III funds. The College's revised procedures should also ensure that all Title III expenditures incurred are properly recorded in the College's accounting ledgers and reported in its annual audit.

Finding No. 2 – The College Did Not Inform the Title III Program Office of a Change in Key Personnel

The College did not notify the Title III program office that it had changed its Title III Project Director. As a result, the College was not in compliance with EDGAR. The Business Office Manager stated that this was due to an oversight on the part of the College.

The regulations at 34 C.F.R. § 74.25(c)(2) (2002) state:

> For nonconstruction awards, recipients shall request prior approvals from ED for one or more of the following program or budget related reasons: (2) Change in a key person specified in the application or award document.

The previous Project Director left in January 2003 and, at that time, the College designated a new Title III Project Director. However, as of the end of June 2003 the College had not requested approval from ED for the change in the Title III Project Director, a key person specified in the award.

According to the Business Office Manager, the College did not report a change in the Title III Director due to an oversight on the part of the College. When the previous Title III Director resigned, the College's focus was to find a replacement and keep operations running properly. As a result of not informing the program office of the change in Project Director, the College was not in compliance with EDGAR.

RECOMMENDATION

We recommend that the Chief Financial Officer, in conjunction with the Assistant Secretary for Postsecondary Education, require Stillman College to:

2.1 Inform the Title III program office of its change in Project Director and of any future changes in key personnel for its Title III grant in a timely fashion.

STILLMAN RESPONSE

The College will promptly notify the Title III program office when a new Title III Director is assigned. The Title III program office was notified when the new Title III Director was hired.

OIG COMMENTS

The College needs to ensure that the Title III program office is timely notified of any future changes in key personnel for its Title III grant.

BACKGROUND

Stillman College is a four-year, private, non-profit, Historically Black College located in Tuscaloosa, AL. The College was founded by the General Assembly of the Presbyterian Church in 1875. The College is accredited by the Southern Association of Colleges and Schools. The College has an enrollment of about 1,500 full-time students.

During the scope of this audit, the College received two 5-year Title III grants, the closed 1997-2002 grant and the current 2002-2007 grant. According to the College's approved Title III budgets, the College was authorized a total of $7,618,303 for these Title III grants as of March 31, 2003, as follows:

- 1997-2002 Grant (10/01/1997 – 09/30/2002) - $5,883,809
- 2002-2007 Grant (10/01/2002 – 09/30/2007) - $1,734,494

OBJECTIVES, SCOPE, AND METHODOLOGY

The audit objectives were to determine whether Stillman College complied with EDGAR and Departmental laws and regulations regarding Title III cash management and grant expenditures. Audit coverage included the period October 1, 1997, through March 31, 2003.

To accomplish the audit objectives, we performed the following:

- Reviewed applicable regulations.
- Reviewed the latest independent auditors' OMB Circular A-133 audits and financial statements for the years ended June 30, 1999, 2000, and 2001.
- Interviewed Department of Education Title III and Office of the Chief Financial Officer officials in Washington, DC.
- Interviewed Stillman College officials responsible for cash management and grant expenditures.
- Reviewed cash management procedures by verifying Stillman College records of fund receipts with the Department's drawdown records in the Grants Accounting and Payment System (GAPS), comparing GAPS drawdown records to Stillman College total program expenditures, verifying that the College established ledger control accounts for Title III expenditures, and checking for any questionable funds transfers out of the Title III accounting ledgers.
- Reviewed the College's draw, posting, reconciliation, and performance reporting procedures for Title III funds.
- Reviewed the College's policies for inventorying computer equipment and long-term assets.

- Selected a random sample using dollar-unit sampling of 60 grant expenditures out of a universe of 1,894 transactions for all Title III activities from January 1, 2000, through March 31, 2003, including payroll and computer equipment expenses. Dollar-unit sampling produces a sample that determines through statistical methods a high dollar threshold and selects all transactions in a sample that are above that threshold. The remainder of the sample is chosen randomly. We used this type of sampling to ensure that we reviewed both relevant large dollar value transactions and a completely random set of transactions. The total dollar amount of the sample was $1,934,850 out of a universe amount of $4,575,110. By using dollar-unit sampling, we reviewed 42 percent of the total universe dollar amount, a much more significant amount than we could have reviewed by a simple random sample.
- Verified that the selected grant expenditures were allowable, properly supported, and documented.
- Verified that the goals and execution of the College's Title III activities conformed with approved Title III applications, yearly budgets, and performance reports.

During the audit, we relied on computer-processed data contained in the College's computerized accounting system, Colleague. We used grant award and disbursement data from GAPS to corroborate information obtained from Stillman College. We did this by comparing Department records of program and grant awards, drawdowns, and disbursements with the College's data. We also held discussions with College officials to gain an understanding of the processes for requesting and drawing down Federal funds, and for its accounting of revenue from Department programs and grants. Based on these tests and assessments, we concluded that the College's data were sufficiently reliable for use in meeting the audit objectives.

Audit work was conducted during the period June, July, and August 2003. An exit conference was held with Stillman College officials on August 28, 2003. The audit was performed in accordance with generally accepted government auditing standards. Accordingly, the audit included such tests of program and accounting records as considered necessary to meet the audit objectives.

STATEMENT ON MANAGEMENT CONTROLS

As part of our review, we assessed the system of management controls, policies, and practices applicable to Stillman College's administration of Title III cash management of funds and grant expenditures. For the purposes of this report, we assessed and classified significant controls into the following categories: drawdown of Title III funds, recording of Title III expenditures (including reconciliation), and preparing Title III performance reports.

Due to inherent limitations, an evaluation made for the limited purposes described above would not necessarily disclose all material weaknesses in the management controls. We identified no significant deficiencies with preparing performance reports. However, our overall assessment disclosed management control weaknesses in each of the other control areas mentioned above. These weaknesses are discussed in the AUDIT RESULTS section of this report.

ADMINISTRATIVE MATTERS

If you have any additional comments or information that you believe may have a bearing on the resolution of this audit, you should send them directly to the following Education Department official, who will consider them before taking final Departmental action on this audit:

Jack Martin
Chief Financial Officer
U.S. Department of Education
400 Maryland Avenue, SW, Room 4E313
Washington, DC 20202

It is the policy of the U.S. Department of Education to expedite the resolution of audits by initiating timely action on the findings and recommendations contained therein. Therefore, receipt of your comments within 30 days would be greatly appreciated.

In accordance with the Freedom of Information Act (5 U.S.C. § 552), reports issued by the Office of Inspector General are available to members of the press and general public to the extent information contained therein is not subject to exemptions in the Act.

Sincerely,

/s/ J. Wayne Bynum

J. Wayne Bynum
Regional Inspector General
Region IV

Attachment

Attachment – Written Response to the Draft Report

STILLMAN

J. Wayne Bynum
Regional Inspector General for Audit
U.S. Department of Education
Office of Inspector General
61 Forsyth Street, Room 18T71
Atlanta, GA 30303

Dear Mr. Bynum:

Attached is a copy of Stillman College's response to the Title III "Draft Audit Report" findings.

If you have any questions, please contact me at (205) 366-8868.

Regards,

Lois Gwinn

Lois Collins Gwinn
Business Manager

Post Office Box 1430 • Tuscaloosa, Alabama 35403
Telephone 205-349-4240

Attachment – Written Response to the Draft Report

TITLE III OIG Audit Response
December 1, 2003

Finding No. 1 – The College drew down more Title III funds than it expended for the Title III Program activities

The College has implemented procedures to ensure that Title III expenses and revenue are properly coded and recorded to the correct grant award year. As part of the new procedures, a monthly reconciliation is done [to] make certain that all funds drawn down reflect expenses paid or will be paid within three business days. In light of the fact that the Title III award year crosses the College fiscal year, a separate reconciliation spreadsheet is done for each award year; allowing the College to correctly match the expenses for a particular award year with funds requested.

Between April 2000 and October 2001, the College incurred Title III expenditures in the amount of $326,887, which were paid with institutional funds. OIG determined that $238,027 was allowable Title III expenses. The College would like to know why the remaining $88,860 was disallowed.

The College has asked its auditors to note the $731,102, which was taken off the ledger as part of the 2002 audit, as allowable expenditures for Title III in the 2003 audit reports.

Finding No. 2 - The College did not inform the Title III Program Office of the change in key personnel.

The College will promptly notify the Title III Program Office when a new Title III Director is assigned. The Title III Program Office was notified when [ ] was hired as the new Title III Director.