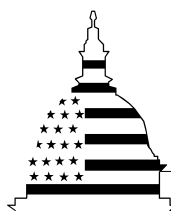


October 2005

DISTRICT OF COLUMBIA

Financial and Program Management Improvements Needed for Tuition Assistance Grant Program



G A O

Accountability ★ Integrity ★ Reliability



Highlights of [GAO-06-14](#), a report to congressional committees

Why GAO Did This Study

Congress created the District of Columbia Tuition Assistance Grant (DCTAG) program in 1999 to provide D.C. college-bound residents with greater choices among institutions of higher education by affording them the benefits of in-state tuition at state colleges and universities outside the District of Columbia. Congress appropriated \$17 million annually for fiscal years 2000 through 2004 and \$25.6 million for fiscal year 2005. GAO was asked to assess whether (1) adequate controls exist over the use of federal funds, including processes to determine institution and student eligibility, manage the cash needs of the program, and pay administrative expenses; (2) funds for the DCTAG program are accounted for separately from the District's general fund; and (3) administrative expenses for the program charged against federal funds are within the 7 percent limit of the total amount appropriated for the program.

What GAO Recommends

GAO recommends actions to improve internal controls over determining student eligibility, retaining required documents, routinely conducting reconciliations, and ensuring reimbursements are timely made. The Mayor and Chief Financial Officer generally agreed with our findings and recommendations and explained actions completed, underway, and planned.

www.gao.gov/cgi-bin/getrpt?GAO-06-14.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Jeanette Franzel at (202) 512-9471 or franzelj@gao.gov.

DISTRICT OF COLUMBIA

Financial and Program Management Improvements Needed for Tuition Assistance Grant Program

What GAO Found

The District's State Education Office (SEO) has taken actions to put program and financial management procedures in place, but DCTAG is at risk in the areas of student eligibility and program budgeting. The District of Columbia Tuition Assistance Grant program has effective controls for determining the eligibility of higher education institutions to participate in the program and for processing institutions' invoices for payment. Other controls, however, were less effective. SEO did not have sufficient documentation to demonstrate that some students approved for DCTAG program funds were eligible because documents required to be submitted by applicants were not available. The most commonly missing documents were those intended to establish domicile in the District. Moreover, SEO officials were not verifying applicants' Social Security numbers, which should be used to establish citizenship. Furthermore, SEO did not have documentation or procedures for determining the eligibility of applicants with special circumstances. The SEO has experienced significant turnover at the top management levels since it was created by legislation in 2000. High management turnover affects an organization's control environment and its ability to plan, direct, and control operations to effectively and strategically achieve its mission.

The District established dedicated cash accounts for the DCTAG program, separate from the District's general fund, as required by law. Reconciliations between these dedicated bank accounts and the District's financial management system, however, had not been performed prior to our review. At our request, the Office of Finance and Resource Management reconciled the dedicated bank accounts and discovered that the District's general fund had not been reimbursed for approximately \$8.3 million for prior-period cash expenditures made from the District's general fund on behalf of the DCTAG program. Also, about \$2.7 million in interest earned since the DCTAG-dedicated accounts were established had not been recorded as funds available for the program.

The District's forecasting method to project the number of students eligible to receive DCTAG funds in current and future years has not been reviewed for methodological soundness. While projections are based on the numbers of students that apply for the first time and those who submit renewal applications during a fiscal year, these projections have not been measured against actual results to include the historical experience of the program.

While the District reported that it used 5.3 percent (\$0.9 million) of the federal funds during fiscal year 2004 for DCTAG program administrative expenses, the District does not track the full amount of administrative expenses incurred for the program. District officials estimate that operating the DCTAG program costs more than the 7 percent legislatively set limit, and these additional costs were absorbed using District funds.

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United States Government Accountability Office
Washington, D.C. 20548

October 28, 2005

The Honorable Sam Brownback
Chairman
The Honorable Mary Landrieu
Ranking Minority Member
Subcommittee on the District of Columbia
Committee on Appropriations
United States Senate

The Honorable Joe Knollenberg
Chairman
The Honorable John W. Olver
Ranking Minority Member
Subcommittee on Transportation, Treasury,
and Housing and Urban Development, The Judiciary,
District of Columbia and Independent Agencies
Committee on Appropriations
House of Representatives

The District of Columbia College Access Act of 1999 (1999 Act), as amended by the District of Columbia College Access Improvement Act of 2002 (2002 Amendment),¹ established a program to provide eligible college-bound students who are domiciled in the District of Columbia with greater choices among institutions of higher education. The program was established under the administrative control of the Mayor of the District of Columbia and is commonly referred to as the District of Columbia Tuition Assistance Grant (DCTAG) program. Day-to-day DCTAG program operations are carried out through the District of Columbia government's State Education Office (SEO).²

The DCTAG program is funded by the "Federal Payment for Resident Tuition Support" to the District of Columbia that, beginning with fiscal year 2000, has been included in the annual District of Columbia appropriations

¹Pub. L. No. 106-98, 113 Stat. 1323 (Nov. 12, 1999), as amended by Pub. L. No. 107-157, 116 Stat. 118 (Apr. 4, 2002), D.C. Code, §§ 38-2701 through 38-2706 (2001 Ed., 2005 Pocket Part). Policies and procedures for the administration of the DCTAG program are set forth in D.C. Mun. Regs. tit. 29, ch. 70.

²See generally, D.C. Code, §§ 38-2601 through 38-2602, (2001 Ed.), relating to the responsibilities of the State Education Office.

act. The federal payment remains available until expended. For fiscal years 2000 through 2004, \$17 million in federal payments were appropriated annually for the DCTAG program.³ The amount of the federal payment was increased to \$25.6 million for fiscal year 2005.

Under the DCTAG program, the District pays the difference between in-state and out-of-state tuition, within certain capped amounts. The District also provides grants for students to attend private Historically Black Colleges and Universities (HBCU) nationwide as well as private institutions in the District of Columbia metropolitan area. As provided in the DCTAG legislation, students attending a participating public institution can receive a tuition grant of up to \$10,000 per year (calculated as the difference between in-state and out-of-state tuition rates), with a total lifetime cap of \$50,000 per student. D.C. residents attending private colleges and universities, including HBCUs, may receive an annual grant award of up to \$2,500 annually, with a total lifetime cap of \$12,500 per student.

The House Committee on Appropriations directed that we review the DCTAG program.⁴ As agreed to with your office, our specific objectives were to assess whether (1) adequate controls exist over the use of federal funds, including processes to determine institution and student eligibility,⁵ manage the cash needs of the program, and pay administrative expenses; (2) funds for the DCTAG program are accounted for separately from the District's general fund in dedicated cash accounts;⁶ and (3) administrative expenses charged against federal funds for the program are within the 7 percent limit of the total amount of federal funds appropriated for the

³Before rescission.

⁴See, H.R. Rep. No. 108-214, at 10 (2003) and H.R. Rep. No. 108-401, at 647 (2003).

⁵Eligible institutions include public institutions, public and private Historically Black Colleges and Universities nationwide, and private institutions in the District of Columbia metropolitan area. Eligible institutions may participate in the DCTAG program only if the institution has formally signed a Program Participation Agreement (PPA), which is also signed by the Mayor of the District of Columbia.

⁶The 2002 Amendment requires that a dedicated account be established for the DCTAG program consisting of (1) federal funds appropriated to carry out the program, (2) District of Columbia appropriated funds for the program, (3) any unobligated balances from amounts made available to the DCTAG program from previous fiscal years, and (4) interest earned on the balances in the dedicated account. D.C. Code, § 38-2705 (h) (2001 Ed., 2005 Pocket Part).

DCTAG program. We also reviewed projections for future program funding requirements and the methodologies used to formulate those projections.

To determine whether adequate controls were in place over the use of federal funds, we identified the internal controls built into the processes through interviews, reviews of policies and procedures, and walk-throughs of transactions. In addition, we selected statistical samples of tuition assistance payments made during fiscal year 2004 to test internal controls over the processes in place to test institution and student eligibility, as defined by the legislation and regulations, and the related disbursements.⁷ To review the District's accounting for DCTAG program funds, we reviewed the procedures for (1) maintaining the dedicated cash accounts for the DCTAG program and (2) reimbursing the District's general fund for disbursements made on behalf of the program. We also inquired about the frequency of reconciliations performed and reviewed the differences identified as a result of the District's first-ever reconciliation of the dedicated DCTAG bank accounts to the balances shown in the District's financial management system. To assess whether administrative expenses charged against federal funds for the program were within the established 7 percent limit of the total amount of federal funds appropriated for the DCTAG program, we obtained information concerning the types and amounts of administrative expenses incurred to operate the DCTAG program, and reviewed the procedures followed by the District intended to provide safeguards that the 7 percent limit on these expenses was not exceeded. We took several steps to assess the reliability and reasonableness of the DCTAG program disbursement transactions for fiscal year 2004, in the District's financial management system, System of Accounting and Reporting (SOAR).⁸ Overall, we found the disbursement transaction data to be sufficiently complete and reliable for the purpose of testing the controls over institution and student eligibility and for documenting the total amount of DCTAG program administrative expenses paid with federal funds for fiscal year 2004. We conducted our work from March 2004 through June 2004 and from February 2005 through July 2005 in accordance with U.S. generally accepted government auditing standards. See appendix I for more details on our scope and methodology.

⁷See appendix I for statistical sampling details.

⁸See appendix I for details on data reliability procedures.

Results in Brief

The SEO has taken actions to put program and financial management procedures in place, but DCTAG is at risk in the areas of student eligibility and program budgeting. Internal controls for determining whether applicants are eligible for program funds are not adequately designed and are not operating as prescribed in the DCTAG legislation and regulations. SEO's controls for determining the eligibility of institutions to participate in the DCTAG program and its procedures for processing invoices submitted by institutions for payment and handling refunds received by the District were operating effectively. Other controls, however, were less effective.

We found that (1) institutions receiving DCTAG program funds were eligible to participate and had signed Program Participation Agreements (PPA) and (2) SEO's procedures for processing invoices submitted by the institutions for payment and recording refunds received were effective for verifying that payments were based on adequate information and that students were not exceeding the annual or lifetime maximum amounts established by legislation. However, it was unclear whether SEO had obtained sufficient documentation to establish that some students approved for DCTAG program funds were in fact eligible because required documents to be submitted by applicants were not in the student files at the time of our review. On the basis of the results of our work, we estimated that documentation for 35.6 percent of the 3,094 students receiving DCTAG funds was inadequate to demonstrate their eligibility to participate in the DCTAG program.⁹ The most commonly missing documents were those intended to establish that the student was a resident of the District. Without adequate documentation in the applicants' files, we could not determine whether some students receiving tuition assistance were eligible to receive DCTAG program funds. Moreover, SEO officials are not verifying applicants' Social Security numbers, which are used to establish citizenship—as required by the 2002 Amendment.¹⁰ SEO also did not have an established procedure for determining and documenting the

⁹On the basis of the results of our work, we estimate at the 95 percent confidence level that the documentation for 35.6 percent of the 3,094 students receiving DCTAG payments was inadequate to demonstrate eligibility to participate in the program, with the range of estimates of student files lacking such documentation falling between 21.8 percent and 51.3 percent.

¹⁰D.C. Code §38-2702 (c) (2) (C) (2001 Ed., 2005 Pocket Part).

eligibility of applicants with special circumstances—those who were unable to submit the required documents with their application.¹¹

The SEO has experienced significant turnover at the top management levels since it was created by legislation in 2000. Since the inception of the DCTAG program, there have been four individuals serving as directors of the program and two directors of the SEO. High management turnover affects an organization's control environment by disrupting management's ability to plan, direct, and control operations to effectively and strategically achieve its mission.

The District has established dedicated cash accounts to segregate DCTAG program amounts from other District funds as required by law. However, we found that reconciliations were not being done between the balances in these bank accounts and the balance for the DCTAG program as recorded in SOAR. Reconciliations are a key internal control and are necessary to safeguard assets and track the expenditure of federal funds. Given the District's procedures for reimbursing the District's general fund periodically for disbursements made on behalf of the DCTAG program, reconciliations are particularly crucial to ensuring that the reimbursed amounts are correct. At our request, officials in the District's Office of Finance and Resource Management (OFRM), which falls under the Office of the Chief Financial Officer, performed a reconciliation of the balances in the dedicated bank accounts with the balances as recorded in SOAR. In doing this reconciliation, they discovered that the District's general fund had not been reimbursed for about \$8.3 million from the DCTAG bank accounts and that approximately \$2.7 million in interest earned since the DCTAG-dedicated bank accounts were established had not yet been budgeted as funds available for the program.

On a related matter, the District's forecasting method to estimate the number of students and the average cost per student for those participating in the DCTAG program each year is based on assumptions that have not been reviewed against historical experience or tested against available information, such as the numbers of students in D.C. high schools. While SEO officials recognize the need to develop a sound methodology for

¹¹D.C. Mun. Regs. tit. 29, §7002.7 addresses situations in which applicants with special circumstances (e.g., another person exercises parental responsibilities for an applicant) and provides that the District may determine whether the applicant meets domicile requirements on a case-by-case basis.

making these projections, their focus has been on the recruitment of students and colleges and universities to participate in the program. They told us that they have not yet had an opportunity to develop the methodology necessary to project current and future funding needs based on District statistics, such as the numbers of students in D.C. high schools, the historical experience rates of numbers of students that continue on to college, and the rate at which students return to college following their freshman year. With the development of a sound methodology for projecting the numbers of eligible applicants applying for DCTAG program funds, both Congress and the District will be able to make more informed decisions about funding needs for the program and how to best use available resources.

While the District reported that it used 5.3 percent (\$0.9 million) of its federally appropriated funds during fiscal year 2004 for DCTAG program administrative expenses, the District does not track the full amount of administrative expenses incurred for the program. District officials estimate that operating the DCTAG program costs more than the 7 percent legislatively set limit,¹² and these additional costs are absorbed using District funds. During our review of DCTAG expenditures for fiscal year 2004, we identified nine transactions amounting to \$34,510 of non-DCTAG expenditures for fiscal year 2004 that had been charged to the program in error. Once these errors were identified, District officials made correcting entries for these expenses in SOAR.

The Mayor and Chief Financial Officer generally agreed with our findings and recommendations and explained actions completed, underway, and planned for implementing them. The “Agency Comments and Our Evaluation” section at the end of this report discusses the program office’s views that many of the reported problems were start-up issues and have been largely resolved. We offer a different perspective in that these are ongoing issues for which the eligibility of students in their second, third, or fourth year of participating in the program is not fully documented. The written comments are reprinted in appendixes II and III, respectively.

¹²The 2002 Amendment provides that the District may not use more than 7 percent of the total amount of federal funds appropriated for the DCTAG program since enactment of the 1999 Act for administrative expenses. D.C. Code, §§ 38-2705 (b) (1) (2001 Ed., 2005 Pocket Part).

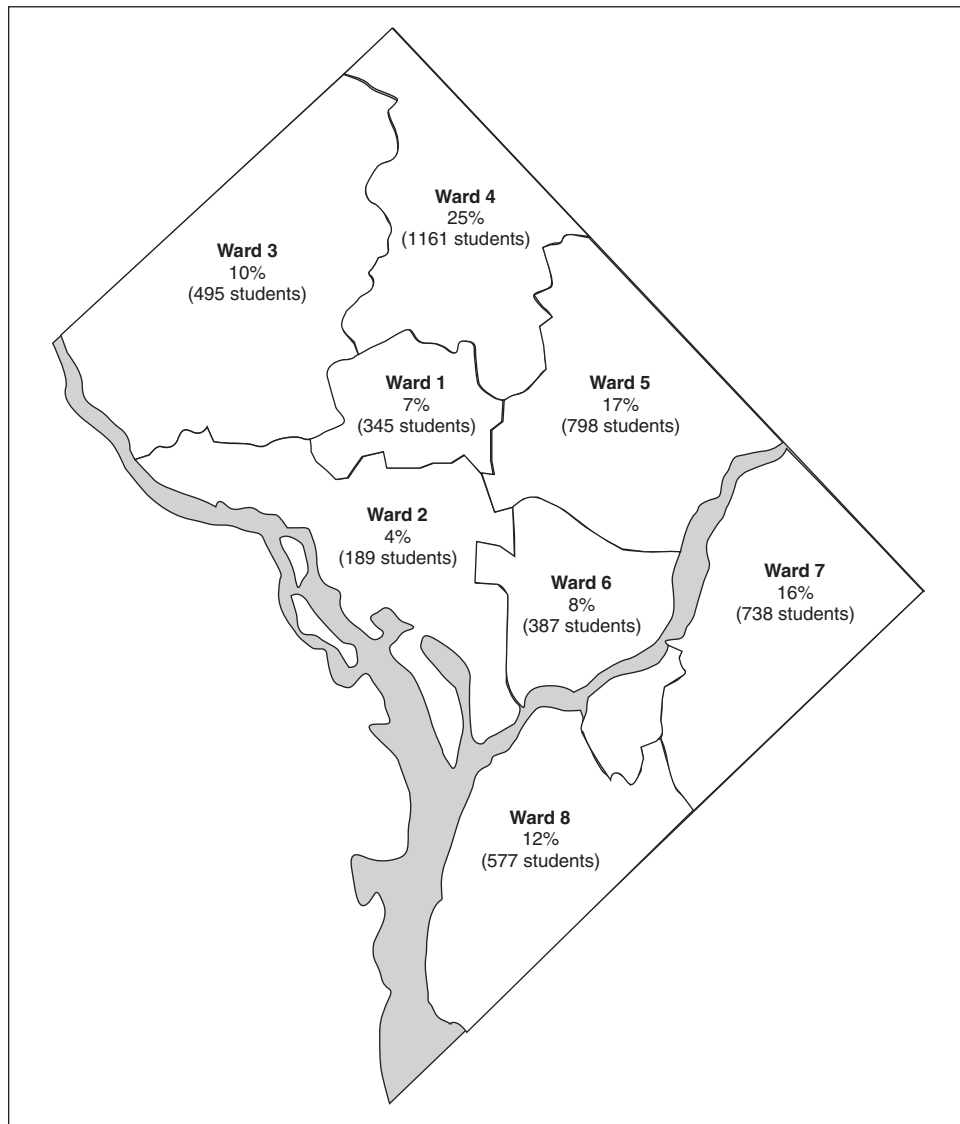
Background

The 1999 Act, as amended, establishes a program to provide college-bound students domiciled in the District of Columbia with greater choices among institutions of higher education by affording them the benefits of in-state tuition at state colleges and universities outside the District of Columbia. The District is authorized to use the federal payment for residential tuition support to pay institutions the difference between in-state and out-of-state tuition on behalf of eligible students, within certain capped amounts.¹³ The District also provides grants for eligible students to attend private HBCUs nationwide as well as private institutions in the District of Columbia metropolitan area. The University of the District of Columbia (UDC)¹⁴ is not eligible to participate in the DCTAG program because in-state tuition rates are already available for D.C. residents attending that institution. For academic year 2004-2005, 4,731 students participated in the DCTAG program, attending about 650 different public or private colleges and universities. Figure 1 shows the distribution of DCTAG-approved applicants for the academic year 2004-2005 by ward in the District of Columbia. The District disbursed about \$28.6 million in DCTAG funds for academic year 2004-2005 to public and private colleges and universities. Figure 2 shows the distribution of DCTAG program payments for the 2004-2005 academic year by type of institution.

¹³There are annual and lifetime caps on grant funds available to D.C. residents, depending on whether they attend public or private universities and colleges.

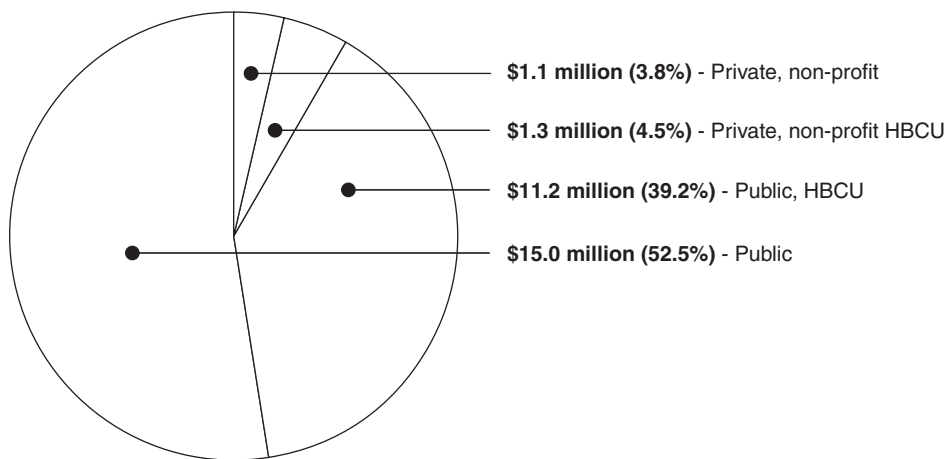
¹⁴The District of Columbia has only one postsecondary institution, the University of the District of Columbia (UDC), which was created in 1977 when the D.C. Teacher's College, the Federal City College, and the Washington Technical Institute were combined into a single institution. UDC currently offers certificates, 2-year, 4-year, and graduate degree programs.

Figure 1: Number and Percentage of DCTAG Students by Ward for Academic Year 2004-2005



Source: GAO based on data from the District of Columbia State Education Office.

Figure 2: DCTAG Payments Made during Academic Year 2004-2005 by Type of Institution



Source: GAO, based on data provided by the District of Columbia State Education Office.

D.C. students attending a participating public college or university¹⁵ can receive tuition assistance of up to \$10,000 per year (calculated as the difference between in-state and out-of-state tuition rates), with a total cap of \$50,000 per student. D.C. residents attending private institutions in the District of Columbia metropolitan area and private HBCUs nationwide¹⁶ may receive an annual grant award of up to \$2,500 per year, with a total cap of \$12,500 per student. DCTAG program funds can be applied only to a student's tuition and fee costs and must not supplant other grant funding that otherwise would be provided to eligible students. As a result, DCTAG program funds are considered as the final or "last dollar" that is added to a student's financial aid package. Because this assistance can be applied only to tuition and fees, other costs associated with college attendance, such as room and board fees, books, and transportation costs, must be paid by other means.

¹⁵An eligible institution may participate in the grant program only if the institution has formally signed a Program Participation Agreement (PPA), which is also signed by the Mayor of the District of Columbia.

¹⁶The 2002 Amendment expanded the range of private HBCUs that District of Columbia residents could attend from those located in Maryland and Virginia to nationwide. DC Code § 38-2704 (c) (1) (B) (2001 Ed., 2005 Pocket Part).

For fiscal years 2000-2004, Congress appropriated \$17 million annually for the DCTAG program and appropriated \$25.6 million for fiscal year 2005.¹⁷ This funding remains available until expended. Table 1 shows the amount of funds available and the use of those funds for grants and administrative expenses.

Table 1: DCTAG Funds Available and Expended by Fiscal Year (Dollars in millions)

Fiscal year	2000	2001	2002	2003	2004	2005 ^a
Funds available						
Federal appropriation amount	\$17.0	\$17.0	\$17.0	\$17.0	\$17.0	\$25.6
Less rescission amount	-0.1	0.0	0.0	-0.1	-0.1	-0.2
Carryover from prior year	0.0	16.3	22.7	23.2	17.0	5.5
Cumulative interest earned ^b	-	-	-	-	-	2.7
Total funds available	\$16.9	\$33.3	\$39.7	\$40.1	\$33.9	\$33.6
Funds expended						
Grant disbursements	0.0	9.1	15.4	22.0	27.5	23.0
Administrative expenses	0.6	1.5	1.1	1.1	0.9	0.6
Total funds expended	\$0.6	\$10.6	\$16.5	\$23.1	\$28.4	\$23.6
Funds remaining at year-end	\$16.3	\$22.7	\$23.2	\$17.0	\$5.5	\$10.0

Source: GAO based on data from the District of Columbia Office of Finance and Resource Management.

^a2005 figures are as of June 30, 2005.

^bThe District did not recognize interest earned as funds available for the program until 2005.

Controls over Determining Institution Eligibility Were Generally Operating Effectively, but Controls over Student Eligibility Need Improvement

On the basis of our detailed reviews of processes and supporting documentation, we concluded that SEO's controls over determining institution eligibility were generally operating effectively. Institutions that we tested that had received DCTAG program funds met eligibility requirements and had signed PPAs. In addition, these institutions were providing the required information to SEO along with their invoices. We also found that SEO reviewed the accompanying student information prior to approving the invoices for payment. However, we found that SEO's controls over determining student eligibility were less effective because some of the documents required to determine if applicants were eligible were not in the files. Missing paperwork included required documents,

¹⁷Before rescission.

such as photocopies of Social Security cards and documents proving domicile in the District of Columbia. Moreover, even when photocopies of Social Security cards were provided, we found that SEO officials were not taking steps to ensure the validity of applicants' Social Security numbers. Furthermore, we found that SEO had no process in place to document how eligibility determinations were made for those applicants with unusual or extraordinary circumstances that precluded them from providing the required documents. We also found that the high management turnover that occurred at the SEO since the DCTAG program's inception affected the organization's control environment and program operations.

Controls over Institution Eligibility and Payments Are Generally Effective

On the basis of our detailed review of processes and supporting documentation of college and university invoices paid by the District with DCTAG program funds, we concluded that (1) the billing institutions were eligible to participate in the DCTAG program and (2) the required information was provided with the invoices. To test specific controls at SEO and OFRM, we selected a statistical sample of payment transactions made during fiscal year 2004 totaling about \$11 million from DCTAG disbursement transactions of approximately \$28 million.¹⁸

As mentioned, institutions eligible to participate in the DCTAG program include public colleges and universities as well as public and private HBCUs nationwide, and private colleges and universities in the District of Columbia metropolitan area. An eligible institution must have signed a PPA, which is also signed by the Mayor of the District of Columbia, to participate in the DCTAG program.¹⁹ The PPA states that the institution must follow the DCTAG program regulations and all provisions of the legislation that established the program. Once the SEO has a signed PPA on file, the District makes grant payments directly to that institution for the approved applicants in the DCTAG program attending that institution. Payments for each academic period are based on invoices submitted by the institutions to the SEO. Each payment period, institutions must submit a roster of eligible students for payment containing (1) the institution's Tax Information number and Dun and Bradstreet number; (2) the student's

¹⁸See appendix I for statistical sampling details.

¹⁹For students interested in attending an eligible institution that has not yet signed a Program Participation Agreement (PPA), SEO officials will contact the school and request a signed PPA.

name, Social Security number, permanent address, enrollment status, amount of financial aid received, amount of tuition and fees charged for the payment period, the amount that would be charged to an in-state student for the payment period, and the award amount that should be paid to the institution for the payment period for each student on the roster. When the SEO receives an invoice, it verifies that both the institution submitting the invoice and all students listed on the roster are eligible for the DCTAG program funds, before payment of the invoice. In addition, the SEO determines the maximum payment allowed to each student considering program annual and lifetime limits. Invoices are then processed for payment by the District's Office of Finance and Resource Management (OFRM) and recorded in SOAR.

We reviewed the supporting documentation to assess whether (1) the institution met the criteria for an eligible institution as defined in the law and regulations, (2) the SEO had a signed and dated PPA on file for that institution at the time of the payment, (3) the information on the invoice submitted by the institution agreed with the information on the approved invoice sent to OFRM for payment, (4) payment of the invoice was authorized and dated by an appropriate individual in OFRM, and (5) all information shown on the paid invoice agreed with the transaction amount and information recorded in SOAR. We did not note any exceptions or discrepancies for these tests, and as a result, concluded that the SEO has effective controls for determining institution eligibility and processing payments to those institutions for the DCTAG program.²⁰

Controls over Refund Processing Are Generally Effective

Occasionally, the SEO receives refunds of DCTAG grant funds from institutions due to student withdrawals from college or other factors, such as a reduction in a student's course load below half-time. When refunding all or part of a tuition grant, institutions are required to submit certain information with the refund check, including the students' names, Social Security numbers, brief explanations for the refunds, and the academic periods to which the refunds relate. We examined the documentation relating to 16 refunds, which represented the entire population of refunds, received by the District during fiscal year 2004. In reviewing this documentation, we verified that (1) all of the required information was

²⁰On the basis of the results of our tests, we are 95 percent confident that the net upper error limit overstatement of improper/incorrect disbursements approved for payment is not more than \$1.38 million. See appendix I for statistical sampling details.

submitted with the refund check and the paperwork was signed and dated, (2) the receipt of the refund was posted to the student's account in SEO's Automated Information System (AIS) so that the student's annual and lifetime totals were correct, and (3) the refund amounts shown on the paperwork from the institutions agreed with the total refund amount²¹ deposited back to the District's general fund and recorded in SOAR by OFRM.²² For these 16 transactions, we found that all the required information was submitted and the refunds were properly recorded in SOAR. We also found that students' accounts were correctly adjusted for the refunded amounts. We did not audit to determine whether all refunds due the District were paid. Refunds are initiated solely by the participating institutions unless the SEO receives information indicating that a program participant was not entitled to some or all of the tuition assistance received.

The SEO Did Not Have Sufficient Documentation to Show Whether Internal Controls over Student Eligibility Are Operating Effectively

The SEO did not have sufficient documentation in the applicants' files we reviewed to demonstrate that applicants approved for DCTAG funds met the criteria in the DCTAG legislation and program regulations. On the basis of the results of our work, we estimated that documentation for 35.6 percent of the 3,094 students receiving DCTAG funds was inadequate to demonstrate their eligibility to participate in the DCTAG program.²³ For example, we noted that some first-time applicants did not include a photocopy of their Social Security card with their application as required by DCTAG program regulations. We also found that the SEO was not verifying the Social Security numbers of DCTAG applicants which is used to establish citizenship, as required by the 2002 Amendment. In addition, we found that some applicants' files did not contain records sufficient to establish that the applicant was domiciled in the District of Columbia. Without adequate documentation in the applicants' files, we could not

²¹In reviewing the refund paperwork, we found that several institutions had issued refunds covering multiple students.

²²Refunds are recorded as credits against DCTAG program expenditures. When the District's general fund is reimbursed for payments made for the DCTAG program, the refunded amounts are netted against the program expenditures for that period.

²³On the basis of the results of our work, we estimate at the 95 percent confidence level that the documentation for 35.6 percent of the 3,094 students receiving DCTAG payments was inadequate to demonstrate eligibility to participate in the program, with the range of estimates of student files lacking such documentation falling between 21.8 percent and 51.3 percent.

determine whether some students were eligible to receive DCTAG tuition grants.

We selected a random sample of students who received DCTAG funds during fiscal year 2004 from the population of students that were included in the grant payment transactions that we tested.²⁴ For each of the students, we reviewed the application submitted for the academic year, which was indicated on the institutional invoice for that student. If that application was a renewal application, we also reviewed that applicant's initial application for DCTAG funds as well because the initial application would have been required to include key documents as evidence of the applicant's identity and domicile in the District. Using the relevant application for each year, we tested whether the (1) applications were completed properly, (2) applications were signed and dated, and (3) required documents were in the file with the application. From the student files we reviewed, we noted 16 exceptions.²⁵ More specifically, we determined that 14 of the 45 sample files were missing required documentation—such as photocopies of Social Security cards and utility bills demonstrating domicile in the District of Columbia. We also found 1 of the 45 sample files where a student's application for academic year 2002-2003 was missing and another file where a student had not signed the affirmation statement on the renewal application for academic year 2003-2004 as required. In addition, we found that SEO officials did not have procedures to verify Social Security numbers—which provide a key verification for eligibility to receive federal funds for education. We could not determine whether the applicants had not provided all the requisite documentation or whether they had done so and SEO had not retained it in the relevant files.

²⁴See appendix I for statistical sampling details.

²⁵On the basis of the results of our work, we estimate at the 95 percent confidence level that the documentation for 35.6 percent of the 3,094 students receiving DCTAG payments was inadequate to demonstrate eligibility to participate in the program, with the range of estimates of student files lacking such documentation falling between 21.8 percent and 51.3 percent. See appendix I for statistical sampling details.

Lack of Social Security Number Verification

The required photocopy of the Social Security card is intended to establish the applicant's identity and citizenship.²⁶ While several applicants can have the exact same name, the Social Security number is a unique identifier that does not change. We also found that for those applicants that submitted a photocopy of their Social Security card, the SEO did not verify the validity of the Social Security number.

DCTAG program regulations require applicants to provide a copy of their signed Social Security card for identification purposes with their initial application for DCTAG funds. Furthermore, GAO's *Standards for Internal Control in the Federal Government* require that all transactions and other significant events be clearly documented, and that the documentation be readily available for examination.²⁷ During our testing of student eligibility for DCTAG funds, we checked students' applications to determine if the initial application submitted was accompanied by a signed copy of the applicant's Social Security card. We found that for 5 of the 45 student files we reviewed, there was no record of receipt of a photocopy of the applicants' Social Security card. According to SEO officials, either the photocopy of the Social Security card was not received from these applicants or the SEO did not retain the copy received. SEO officials stated that during the 9-month period after the DCTAG program was started, they focused more on creating awareness of the program than adhering to established policies and procedures. However, we did find that two of the five student files missing Social Security card documentation occurred in the 2002-2003 academic year, after the initial start-up year of the DCTAG program had passed. SEO officials informed us that while they have resolved this internal control issue by having the staff verify the applicants' Social Security numbers against those recorded on the District of Columbia Individual Income Tax return, Form D-40, or the public income source documents required for domicile verification, they recognize that the program remains vulnerable. The SEO's failure to collect or maintain proper documentation of applicants' Social Security cards prior to the disbursement of funds is a violation of its own procedures. Moreover, the

²⁶The 2002 Amendment provided that DCTAG applicants must meet the same citizenship and immigration status requirements as are needed to receive federal student assistance as described in section 484(a)(5) of the Higher Education Act of 1965 (20 U.S.C. 1091 (a) (5)). Thus, applicants must be a U.S. citizen or eligible noncitizen to qualify for the DCTAG program.

²⁷GAO, *Standards for Internal Control in the Federal Government*, GAO/AIMD-00-21.3.1 (Washington, D.C.: November 1999).

District is at increased risk that individuals not meeting DCTAG program requirements, including citizenship, are receiving DCTAG funds, or individuals are receiving DCTAG funds through the use of fraudulent Social Security numbers and may not be eligible for these funds.

For the 40 applications that did have documentation of the applicants' Social Security card, we found that the SEO did not take steps to ensure the validity of the student's Social Security number. According to SEO officials, they have not implemented a policy calling for verification of applicants' citizenship. For other federal financial aid, applicants are required to file a Free Application for Federal Student Aid (FAFSA) form.²⁸ We were told that some applicants and their families do not see the need to complete or submit this form to apply for DCTAG funds because the DCTAG program is not need or merit based. However, if the SEO required all DCTAG program applicants to submit the FAFSA form through the U.S. Department of Education, applicant citizenship and identity would then be verified through the normal process for providing federal student assistance.²⁹ The Social Security Administration (SSA) matches information provided on FAFSA forms with information on file to verify name, date of birth, U.S. citizenship status, Social Security number, and possible date of death. After these matches are completed, applicants receive Student Aid Reports (SAR). Without procedures to verify identity and citizenship, and by not requiring applicants to submit SARs, the SEO is at risk of disbursing DCTAG funds to ineligible individuals.

**Required Documents
Proving District Domicile
Were Not Available for Many
DCTAG Participants**

DCTAG program regulations require applicants to submit sufficient documents demonstrating domicile in the District of Columbia for at least 12 consecutive months prior to the start of their freshman year in college.³⁰ The DCTAG program regulations define domicile as the current fixed place of residence to which the applicant returns following temporary absences

²⁸To apply for Title IV federal student aid programs, students submit a Free Application for Federal Student Aid on which they report their own and/or their families' income, assets, and federal income tax expenses.

²⁹The U.S. Department of Education reviews the Free Application for Federal Student Aid forms submitted by students and issues Student Aid Reports that notify students of their eligibility to receive federal student aid for postsecondary education.

³⁰D.C. Mun. Regs tit. 29, §7003.2.

and where the applicant intends to reside indefinitely.³¹ Applicants are to submit such documentation with their initial application, and must include sufficient evidence of continued domicile in the District of Columbia with each renewal application. SEO accepts copies of domicile documentation and does not authenticate the validity of documents provided. If the student is a dependent,³² the DCTAG application (first-time D.C. private-school graduates and renewals) must include a copy of the certified³³ Form D-40, filed by the applicant's parent(s), guardian, or spouse from the most recent tax year. The certified copy of the tax return must include Schedule S of the Form D-40, showing the applicant as a dependent. Independent applicants are required to provide a certified copy of their own tax return for the most recent tax year with their applications. In cases where District taxes are not required to be filed (for example, receipt of public assistance, unemployment, retirement, or disability payments), copies of official agency letters showing receipt of these types of income may be filed with the DCTAG application in lieu of tax returns.

In addition, applicants are to submit copies of two current utility bills or copies of two earnings and leave statements (pay stubs). Copies of utility bills submitted must not be older than 45 days from the date of the application and should have the name and address of the parent(s), guardian, or spouse for dependent students. For independent applicants, the name and address of the student must be on the utility bill. Utilities that meet the criteria are those for residential service only and available from gas, electric, water, telephone, or cable providers. For situations in which utility costs are included in monthly rent payments, the SEO will accept a notarized letter from the rental/leasing agency verifying this arrangement. Alternatively, applicants may submit two pay stubs that must be for different pay periods. For applicants who are dependents, the copies of the pay stubs must have the name and address of a parent, guardian, or

³¹D.C. Mun. Regs tit. 29, §7001.1.

³²The domicile of a dependent applicant is the domicile of the minor's parents or legal guardian. For purposes of the DCTAG program, an applicant is a dependent student if his or her parent or guardian has not surrendered the right to the applicant's care, custody, and earnings. Dependent applicants are also those who receive over 50 percent of annual financial support from a parent, guardian, spouse, or other person.

³³A certified copy of a D-40 tax return bears the stamp and staff signature of the District of Columbia's Office of Tax and Revenue (OTR). A D-40 tax return that is stamped and signed indicates that OTR has completed the review and processing of the tax return.

spouse. Pay stubs submitted for an independent applicant must have the applicant's name and address.

In testing to determine if students were eligible for DCTAG program funds, we found 9 of the 45 student files we reviewed lacked sufficient proof of domicile in the District of Columbia. For these 9 students, we found that either applicants did not provide the required documents or the documents filed did not provide sufficient evidence of domicile in the District of Columbia. According to SEO officials, this lack of sufficient documentation was caused by the creation of a new program and the time needed to firmly establish procedures for reviewing applications. These officials explained that most of the weaknesses in documentation occurred during the DCTAG program's first year in operation. However, 6 of the 9 instances we identified were exceptions relating to academic years after 2000-2001, which was the first year of operation for the program. Without the required proof of domicile documentation, the District is at increased risk that individuals who are not domiciled in the District of Columbia are receiving DCTAG program funds.

How the SEO Determined Eligibility Was Unclear for Applicants with Unusual Circumstances

While reviewing student applications for eligibility, we encountered several cases where applicants were not able to provide the prescribed documents due to unusual or special circumstances. For example, a D.C. resident who is a ward of the court may not have all of the documents required to demonstrate domicile in the District of Columbia. A ward of the court is a person 21 years of age or younger who is in the custodial care of the District's foster care system due to the absence of parents or a legal guardian. Once a ward of the court turns the age of 22, they are technically no longer in the District's foster care system. Therefore, these applicants may not be able to produce the typical documents to demonstrate domicile in the District of Columbia, such as certified D-40 tax returns and recent utility bills with a District of Columbia address. In these extraordinary situations, DCTAG program regulations allow the SEO to determine on a case-by-case basis the domicile of applicants based on the particular facts and circumstances. In our review, we could not tell how SEO officials made these case-by-case determinations for those applicants with unusual circumstance because the SEO had no process in place to document how eligibility determinations are to be made for those applicants. Without a uniform procedure to document the facts and circumstances for each applicant, there is no way to tell how SEO officials satisfied themselves that the students were eligible for DCTAG funds.

High Management Turnover at SEO Affected the Control Environment and Program Operations

The DCTAG program has experienced significant management turnover since its beginning in 2000. Four individuals have held the position of DCTAG director. In addition, there have been changes in management positions providing oversight for the DCTAG program—two individuals have held the position of director of the SEO and there have also been changes in the position of director of higher education financial services at the SEO. The director of higher education financial services oversees the DCTAG program as well as other college assistance programs within the SEO. The effect of increased turnover of personnel and the lack of consistent leadership within the SEO was also identified by the District of Columbia Auditor in a report about the performance of the District's special nutrition and commodities distribution program, for which the SEO also has responsibility for administering.³⁴ According to the *Standards for Internal Control in the Federal Government*,³⁵ a positive control environment is the foundation for all of the other internal control standards, providing discipline and structure as well as the climate that influences the quality of internal control. The management of an organization has a tremendous influence over an entity's control environment. For example, management influences the control environment by (1) setting and maintaining an organization's ethical tone, (2) ensuring employees have the proper knowledge and training, and (3) creating the philosophy and operating style of the organization. Without consistent leadership, the control environment of DCTAG was unstable, changing with each shift in management. This inconsistency created a challenge for the program when attempting to develop an effective and efficient control environment.

DCTAG Funds Are Being Accounted for Separately, but Routine Bank Reconciliations Are Needed

While the District had established dedicated bank accounts for the DCTAG program as required by law, reconciliations were not being done between these bank accounts and the account balances for the DCTAG program in SOAR. When District officials performed a reconciliation in May 2005 at our request, they discovered a difference of approximately \$11 million that had not been reconciled—\$8.3 million of which should have been transferred from the DCTAG-dedicated bank accounts to the District's

³⁴Office of the District of Columbia Auditor, *Effectiveness of the Special Nutrition and Commodities Distribution Program Was Hindered by Lax Management and Inadequate Oversight by Other Agencies* (Washington, D.C.: Sept. 22, 2004).

³⁵GAO/AIMD-00-21.3.1.

general fund and \$2.7 million of which was interest that had been earned in the dedicated bank accounts since these accounts were established.

DCTAG Funds Accounted for in Dedicated Accounts

The District has established two dedicated accounts for the DCTAG program—one for funds to be expended in the short term (within the next 90 days) and the other for longer-term needs.³⁶ The 2002 Amendment requires that the District government establish a dedicated account that is available solely for the DCTAG program and consists of the following amounts: (1) federal funds appropriated to carry out the program, (2) District-appropriated funds for the program, (3) any unobligated balances from amounts made available to the DCTAG program from previous fiscal years, and (4) interest earned on the balances in the dedicated or separate accounts.³⁷ When the District receives the annual federal payment amount from the federal government for the DCTAG program, the funds are deposited directly in the short- and longer-term dedicated accounts. Payments made from DCTAG program funds to institutions for tuition grants and to vendors for administrative expenses are recorded in SOAR and paid with funds from the District's general fund. On the basis of the pattern of grant payments, OFRM regularly initiates transactions to transfer funds from the DCTAG-dedicated accounts to reimburse the District's general fund for disbursements made on behalf of the program based on transactions recorded in SOAR.

Reconciliations Not Performed

According to our *Standards for Internal Control in the Federal Government*,³⁸ internal control should generally be designed to ensure that ongoing monitoring occurs in the course of normal operations. Ongoing monitoring includes reconciliations of cash balances against the amounts recorded in the financial management system. A reconciliation process is a

³⁶This second account was established to earn a higher rate of return on deposited funds by investing in securities with longer maturities.

³⁷D.C. Code, § 38-2705 (h) (2001 Ed., 2005 Pocket Part). This provision of the law stemmed from a report issued by the Department of Education, Office of the Inspector General, which reported that because DCTAG federal funds were being maintained in the District's general fund, the District was retaining the interest earned on those funds and using the interest for unrelated purposes. U.S. Department of Education, Office of Inspector General, *Audit of the Implementation of the District of Columbia College Access Act of 1999*, ED-OIG/A03-B0003 (Philadelphia, Pa.: August 2001).

³⁸GAO/AIMD-00-21.3.1.

necessary and valuable part of a sound system of financial management controls. The District has a process in place for disbursement of DCTAG funds structured so that actual disbursements of tuition grants and program administrative expenses are paid out of the District's general fund and then funds are transferred from the DCTAG-dedicated bank accounts to reimburse the general fund. Periodically, OFRM calculates the amount of expenditures that have been paid out of the general fund and transfers funds from the dedicated bank accounts to the general fund via wire transfer. However, these calculations are not based on a reconciliation of DCTAG fund activity. As a result of the reconciliation performed by OFRM, we also found that a significant amount of expenditures, \$8.3 million, had not been captured in OFRM's calculations of the amount to be reimbursed to the District's general fund, and had not been transferred from the DCTAG-dedicated bank accounts to the District's general fund. According to District officials, the transactions were year-end accruals that subsequently became expenditures in succeeding fiscal years and were paid from the District's general fund on behalf of the DCTAG program, and it was an oversight by OFRM to not have included them in its calculations of the amount of funds to be transferred from the DCTAG-dedicated accounts to the general fund. In July 2005, District officials told us that they had electronically transferred the \$8.3 million from the DCTAG-dedicated accounts to the general fund to reimburse the general fund for these expenditures.

The other part of the unreconciled difference of \$11 million discussed above, \$2.7 million, was identified by District officials as interest earned on funds from the time the dedicated bank accounts were established in 2001 through June 30, 2005. Although these interest earnings appeared on the bank statements, District officials informed us that the \$2.7 million had not been recorded as available funds for expenditure for the DCTAG program. District officials told us that the interest earned is considered to be an integral part of the long-term planning and available budget for the DCTAG program; however, budget authority for the interest earned on DCTAG program funds had not been requested. The interest earned was not included as funds available for the DCTAG program in quarterly reports provided to congressional staff. They explained that up until 2005, there had been a carryover of funds from one year to the next for the DCTAG program. Due to the successful outreach of the program, District officials stated that they have reached the point where the carryover has been nearly exhausted. District officials also stated that based on their analysis of cost drivers that affect the program, such as the number of students and

cost of tuition, it would be prudent for the District to budget the earned interest during fiscal year 2006.

Without routine reconciliations between DCTAG-dedicated bank accounts and SOAR, errors that occur can go undetected. Errors that result in the failure to reimburse the District general fund for DCTAG program disbursements paid can affect the District's cash flow and could potentially contribute to the need for the District to borrow to cover short-term needs. Moreover, these errors could result in the understatement or overstatement of DCTAG program expenditures as well as the amount of funds available to be expended. Reconciliations are most effective when they are done soon after the close of the month when differences can still be researched easily.

The SEO's Forecasting Method to Project Future Funding Needs Has Not Been Reviewed for Methodological Soundness

The District's forecasting method to estimate the number of students and the average cost per student for those participating in the DCTAG program each year for future years is based on assumptions that have not been reviewed against historical experience or developed using other available information. The SEO's projections for fiscal years 2007 through 2010 are based on a flat 6 percent increase in the number of students in the program each year and an annual increase of 10 percent in the average cost per student to attend college. SEO officials do not have documentation or analysis supporting the appropriateness of these percentages for estimation purposes. According to SEO officials, the DCTAG program is unique because no other city in the United States has this type of program and, therefore, information already available on the numbers of high school graduates continuing on to college in other states or jurisdictions is not applicable. SEO officials stated that they recognize the need to develop a sound methodology for making these projections, but the focus has been on recruitment of students and colleges and universities to participate in the program. The officials explained that they have not yet had an opportunity to develop such a methodology or obtain the historical data needed to project current and future needs based on District information. This would require capturing, among other information, tuition rates at DCTAG participating institutions as well as historical graduation data from the District's public schools, 54 charter schools, and D.C.'s private high schools, and keeping statistics on the number of high school graduates that continue on to college and remain in college in subsequent years. With the development of a sound methodology for projecting the numbers of eligible applicants applying for DCTAG program funds, both Congress and the

District will be able to make more informed funding and budgeting decisions necessary to sustain the program.

Total Amount of the Administrative Expenses for the DCTAG Program Unknown

While the District reported that it used 5.3 percent (\$0.9 million) of the \$17 million of federal funds appropriated in fiscal year 2004 appropriated funds, less the rescission,³⁹ the District does not track the full amount of administrative expenses incurred for the program. The SEO does not allocate indirect costs by program, thereby likely undercharging the DCTAG program for administrative expenses incurred. District officials acknowledged that they did not know how much the total administrative costs were, but estimated that operating the DCTAG program costs more than the 7 percent legislatively set limit for federal funding. They explained that these additional costs are absorbed using District funds. According to SEO officials, they are working on a cost allocation process so that they can more fully track administrative expenses.

The 2002 Amendment provides that the DCTAG program may not use more than 7 percent of the total amount appropriated for the program since November 12, 1999, for administrative expenses.⁴⁰ Administrative expenses are defined as any program costs other than tuition grants, and generally include such things as payroll, supplies, materials, and utilities as well as SEO overhead costs. As noted, the District used 5.3 percent of the DCTAG federal payment for administrative expenses for fiscal year 2004. For fiscal year 2004 we reviewed, but did not audit, the administrative expense information included in the quarterly expenditure reports submitted to the Senate and House appropriations committees. The amount of DCTAG administrative expenses reported for fiscal year 2004 may not be the full amount of those expenses. District officials told us that they estimate the cost of administrative expenses for the DCTAG program based on the established limit of 7 percent, and explained that they do not have a process where they can accumulate and assign administrative costs to the SEO's various programs, including DCTAG. Also, during our review

³⁹Consolidated Appropriations Act, 2004, Pub. L. No. 108-199, Div. H, § 168, 118 Stat. 457 (January 23, 2004), included a provision for an across-the-board 0.59 percent rescission to be deducted from the budget authority provided for any discretionary accounting in the act.

⁴⁰We note that the federal payment for fiscal year 2005 provides that not more than \$1.2 million of the total amount appropriated for this program may be used for administrative expenses. The law applies to the period subsequent to the period we reviewed. Pub. L. No. 108-335, 118 Stat. 1322 (Oct. 18, 2004).

of fiscal year 2004 expenditures, we identified nine transactions amounting to \$34,510 of non-DCTAG expenditures for fiscal year 2004 that had been charged to the program in error. These expenditures were for administrative expenses incurred by the District's Tuition Assistance Program Initiative for Temporary Assistance for Needy Families. Once we notified the District of these improperly recorded transactions, District officials made the correcting entries in SOAR. District officials informed us that steps would be taken to implement routine reviews of expense allocations to ensure the accuracy of each transaction, including the assignment of expense to the appropriate SEO program.

Conclusions

The SEO has taken actions to put program and financial management procedures in place, but DCTAG is at risk in the areas of student eligibility and program budgeting. Internal controls for determining whether applicants are eligible for program funds are not adequately designed and are not operating as prescribed in the DCTAG legislation and regulations. The District needs well-designed and executed internal controls to provide reasonable assurance that DCTAG program objectives will be met and that only District residents meeting the eligibility criteria are awarded these tuition grants. These controls are crucial for the credibility of the program and the appropriate use of federal funding. To address the challenges of a growing program, the SEO will need continuity of leadership going forward to plan, direct, and control operations to effectively and strategically achieve the goals of the DCTAG program. Moreover, SEO and OFRM officials must closely monitor DCTAG program funds to ensure that accurate records are maintained, account reconciliations are performed and documented, and that sufficient funds are available to meet current and future financial needs. To ensure that the District has the resources to meet the demand for DCTAG tuition grants, the District needs projections of both the short-term and long-term financial needs of the program based on a sound analytical methodology. It is also important for the District to be able to accurately measure the administrative costs of the DCTAG program so that total operational costs can be determined. As the program continues to grow, monitoring of DCTAG program funds will become more crucial.

Recommendations for Executive Action

We recommend that the Mayor of the District of Columbia direct the head of the State Education Office to

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- require applicants for DCTAG program funds to provide a valid Student Aid Report or other document with similar information with their applications so that applicants' identities and citizenship will have been verified by the federal government before the District receives the information,
 - establish and implement procedures to ensure that sufficient evidence is obtained and maintained to demonstrate that applicants are actually domiciled in the District prior to providing participants with DCTAG funding,
 - develop and retain documentation that clearly shows how eligibility decisions are reached when it reviews applications submitted by students with unusual circumstances,
 - develop a sound methodology for forecasting (1) numbers of students in the program and (2) funds needed for future fiscal years,
 - coordinate with OFRM and the Office of Budget and Planning to ensure that interest earned on DCTAG-dedicated bank accounts is made available to be expended for the DCTAG program, and
 - refine the current mechanisms for identifying and recording the actual costs of administering the DCTAG program, in coordination with the Office of the Chief Financial Officer and OFRM.

We recommend that the Chief Financial Officer of the District of Columbia direct the Office of Finance and Resource Management to

- routinely conduct reconciliations and document the reconciliations performed between the DCTAG bank accounts and financial data in SOAR and
- establish and implement procedures to ensure that reimbursements that are due the District's general fund for all expenditures made on behalf of the DCTAG program are executed timely for the correct amounts.

Agency Comments and Our Evaluation

We received written comments on a draft of this report from the Mayor of the District of Columbia and the District's Chief Financial Officer. The Mayor and Chief Financial Officer generally agreed with our findings and recommendations and provided additional discussion about the issues

raised in the report. Their written comments are reprinted in appendixes II and III, respectively.

In his October 14, 2005, letter (see app. II), the Mayor generally agreed with our findings and recommendations, stating that the SEO will or has already implemented the six recommendations. In his comments, the Mayor characterized the findings in the draft report as stemming from weaknesses existing in the program's start-up years versus more currently. However, as described in our scope and methodology (see app. I), our testing was based on a sample of payments from all fiscal year 2004 expenditure transactions for the DCTAG program. These expenditure transactions for fiscal year 2004 included payment transactions for students receiving grants for both the 2003-2004 and 2004-2005 school years. Students receiving payments during that time period may have submitted their original applications during previous years depending on the year in which they entered the program. In order to test the sufficiency of documentation to obtain assurances on student eligibility, we reviewed the initial application submitted by each student, as well as the application submitted for fiscal year 2004. Our report identified a total of 16 exceptions that occurred as follows: 6 in the initial year of the program (2000-2001); 1 during academic year 2001-2002; 4 for academic year 2002-2003; and 5 during academic year 2003-2004. Thus, weaknesses in assessing eligibility in the early years can impact the use of DCTAG program payments in subsequent years.

The Mayor stated that appropriate internal controls are currently in place to ensure that the errors of the past are not replicated. The Mayor also stated that SEO agrees with or has already implemented the recommendations made by GAO. The Mayor also had the following specific responses to our recommendations:

The Mayor stated that the SEO will modify its OneApp (application for financial assistance) and will add the Student Aid Report, as criteria for eligibility for the 2006-2007 school year application, to address our recommendation that students' Social Security numbers be verified.

- The Mayor agreed that it is critical that domicile information be verified and maintained, and stated that the SEO is confident that its current approach satisfies our recommendation to establish and implement procedures to verify that applicants are domiciled in the District.
- The Mayor stated that a "letter to the file" is prepared for each applicant with unusual or special circumstances. However, at the time of our

review, none of the applicant files where special case-by-case determinations were made contained a letter to the file or any other written evidence documenting how eligibility decisions were made for applicants with unusual or special circumstances.

- The Mayor also stated that SEO is in the process of developing comprehensive District of Columbia high school graduation and college retention data to further improve its ability to forecast student participation in the DCTAG program and related costs. In responding to the related recommendation, the Mayor noted that SEO will improve upon its current forecasting methodology through additional analysis of District of Columbia high school graduation data as well as college retention data.
- The Mayor noted that SEO, OFRM, and the Office of Budget and Planning have coordinated as we recommended in the draft report and the interest earned on the funds in the dedicated accounts has been budgeted for fiscal year 2006. According to the Mayor, SEO and OFRM have also worked together to improve the recording of actual administrative costs incurred in operating the DCTAG program.

In commenting on a draft of this report, the CFO expressed his appreciation for our assessment and recommendations for the DCTAG program. According to the CFO, the District is required to reconcile all bank accounts to verify that the balances in the District's financial system (SOAR) correspond with bank account balances each quarter and at year-end. The CFO added that these reconciliations were performed timely. However, we found that the reconciliations had not been performed prior to our review. The CFO explained that the District's procedure is to use its own funds to pay DCTAG expenditures, including tuition payments, and then be reimbursed with federal funds maintained in the DCTAG-dedicated bank accounts. The CFO added that when GAO made the request, the District's general fund had not been fully reimbursed for all DCTAG expenditures. The CFO also noted that going forward the District will reimburse the general fund for all DCTAG expenditures on a monthly basis and reconcile quarterly.

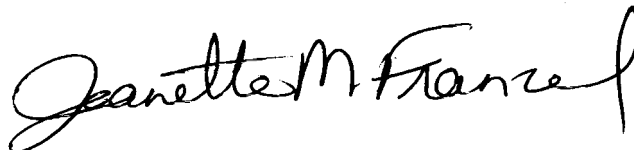
The CFO agreed that the earned interest in the dedicated bank accounts had not been included in budget authority. While the CFO stated that the earned interest was reflected in the annual budget submissions to Congress, our review of information provided by the Office of Budget and Planning shows that the earned interest was not included in the budget

request submissions. According to the CFO, the interest had not been budgeted because in the early years of the DCTAG program, the yearly congressional appropriation was more than sufficient to meet total expenditures. However, the CFO has concluded that budgeting the earned interest during fiscal year 2006 would be prudent, as the program growth has resulted in nearly exhausting the carry-forward of funds from previous years.

In his comments, the CFO stated that the District is absorbing some of the indirect costs that might otherwise be charged to the DCTAG program, while using federal funds to pay direct costs to the program. However, the CFO agreed that it is important to assess the total administrative cost of the DCTAG program. The CFO added that a methodology will be developed to document this information.

We will send copies of this report to the Mayor of the District of Columbia, the Chief Financial Officer of the District of Columbia, and the Director of the SEO. We are also sending copies of this report to the Chairman and Ranking Minority Members of the Subcommittee on Oversight of Government Management, the Federal Workforce, and the District of Columbia, Senate Committee on Homeland Security and Governmental Affairs; the House Committee on Government Reform; appropriate congressional committees; and other interested parties. We will also make copies of this report available to others on request. In addition, the report will be available at no charge on GAO's Web site at <http://www.gao.gov>.

If you or your staff have any questions about this report, please contact Jeanette M. Franzel, Director, Financial Management and Assurance, at (202) 512-9471 or FranzelJ@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff that made major contributions to this report are listed in appendix IV.



Jeanette M. Franzel
Director
Financial Management and Assurance

Scope and Methodology

To understand the processing of the District's Tuition Assistance Grant (DCTAG) program transactions, we reviewed reports issued by the Office of the Inspector General, U.S. Department of Education, and the Office of the District of Columbia Auditor. We interviewed District officials within the Office of the Chief Financial Officer (OCFO), the Office of Finance and Resource Management (OFRM), and the State Education Office (SEO) and reviewed documents to understand how DCTAG appropriated funds are recorded, monitored, and expended. We received an overview of the processing of DCTAG transactions and conducted walk-throughs of all processes at the SEO and OFRM to identify the internal controls built into these processes. We interviewed SEO officials to obtain an understanding of how institution and student eligibility for participation in the DCTAG program is determined and conducted walk-throughs of the steps taken to reach eligibility decisions.

We assessed the reliability of the District's DCTAG financial data by (1) reviewing existing documentation related to data sources, (2) analyzing the data to identify obvious problems with completeness or accuracy, (3) interviewing knowledgeable agency officials about the data, and (4) reviewing reports to identify known data reliability issues affecting the District financial management system, System of Accounting and Reporting (SOAR). We determined that the data were sufficiently reliable for purposes of this report.

In addition, we reviewed supporting documentation and reconciled the totals of disbursement transactions as recorded in SOAR with similar information provided in the quarterly reports that the District submitted to the Senate and House appropriations committees for fiscal year 2004. We also reviewed the disbursement transactions to identify any duplicate or missing amounts. Overall, we found the disbursement transaction data to be sufficiently complete and reliable for the purpose of testing the controls over determining institution and student eligibility and for documenting the total DCTAG program administrative expenses paid through SOAR for fiscal year 2004.

To test whether the data used to test student and institution eligibility were complete and accurate, we obtained a database of all fiscal year 2004 expenditure transactions from SOAR, and sorted the expenditures by object class. Each object class total was compared to the quarterly expenditure report compiled by OFRM in order to verify the completeness and accuracy of the population against actual expenditures. We analyzed the data to identify any duplicate or improperly classified transactions. We

identified all refund transactions in the database provided to us and found that 16 refunds were posted during fiscal year 2004. We tested 100 percent of the refund transactions and verified that (1) all of the required information was submitted with the refund check and the paperwork was signed and dated, (2) the receipt of the refund was posted to the student's account in the SEO's Automated Information System (AIS) so that the student's annual and lifetime totals were correct, and (3) the refund amounts shown on the paperwork from the institutions agreed with the total refund amount¹ deposited for that transaction.

To test controls over institutional payment transactions, we selected a dollar unit sample² of 58 tuition assistance payments made to institutions during fiscal year 2004,³ totaling about \$11.3 million from payments totaling about \$27.7 million.⁴ We tested the tuition grant payments made to institutions to determine whether the institutions were eligible to receive DCTAG payments. Eligible institutions in this context were those institutions that met the criteria specified in the DCTAG legislation and executed signed Program Participation Agreements, which had also been signed by the Mayor of the District of Columbia.

In testing the selected payments to institutions, we verified that the billing institutions were eligible to participate in the DCTAG program and that the required information was provided with the invoices. Specifically, we determined whether (1) the institution met the criteria for an eligible institution as defined in the law and regulations, (2) the SEO had a signed and dated PPA on file for that institution, (3) the information on the invoice submitted by the institution agreed with the documentation that was forwarded to OFRM for payment processing, (4) payment of the invoice was authorized and dated by an appropriate individual in OFRM, and (5) all information shown on the paid invoice agreed with the transaction as recorded in SOAR.

¹In reviewing the refund paperwork, we found that refunds for several students from multiple institutions were grouped together to comprise one refund transaction.

²The sample was selected based on a dollar-unit sampling methodology which by its nature will tend to select large dollar unit items.

³The sample was selected from the fiscal year 2004 population of 1,580 tuition grant disbursement transactions.

⁴We are 95 percent confident that the net upper error limit of ineligible institutions receiving DCTAG payments is no more than \$1.382 million.

To test controls over the SEO's processes to determine student eligibility for DCTAG program funds, we selected a random sample of 45 transactions from 3,094 individual payments made on behalf of students that were identified on the invoices from institutions that were selected in the dollar-unit sample discussed above.⁵ For each student selected, we reviewed the initial application submitted by that student as well as the application submitted for fiscal year 2004. We also reviewed applicant files to ensure that (1) all of the documents required to be submitted with the application were present, (2) the required documents provided were reviewed by the SEO, and (3) on the basis of that information, whether the students were eligible to receive DCTAG funds.

To assess whether funds for the DCTAG program were being accounted for separately in dedicated accounts, we reviewed District procedures for maintaining the dedicated accounts for the DCTAG program and for reimbursing the District's general fund for disbursements made on behalf of the program. We requested and reviewed (1) bank statements from the two dedicated bank accounts for fiscal year 2004 and June 2005 and (2) documentation showing the calculation of reimbursements to the District's general fund. We reconciled the bank statements to reports from SOAR, the District's financial management system. We also inquired about the frequency of reconciliations performed between the DCTAG bank accounts and the account balances in SOAR, and reviewed the results of two reconciliations performed by OFRM staff between the dedicated bank account balances and the balances recorded in SOAR.

To determine whether administrative expenses charged against federal funds are within the 7 percent limit of the total amount of federal funds appropriated for the DCTAG program, we obtained and reviewed information on the types and amounts of administrative expenses incurred to operate the DCTAG program. We reviewed the policies and procedures followed by the District intended to provide safeguards that the 7 percent limit on these expenses is not exceeded. To ensure that the administrative expense data we reviewed were complete and accurate, we obtained a database of all fiscal year 2004 expenditure transactions from SOAR, and sorted the expenditures by object class. We compared each object class

⁵On the basis of the results of our work, we estimate at the 95 percent confidence level that the documentation for 35.6 percent of the 3,094 students receiving DCTAG payments was inadequate to demonstrate eligibility to participate in the program, with the range of estimates of student files lacking such documentation falling between 21.8 percent and 51.3 percent.

total to the quarterly expenditure report compiled by OFRM in order to verify the completeness and accuracy of the population. We analyzed the data to identify any duplicate or improperly classified transactions that existed. We requested a breakdown of administrative expenses incurred during fiscal year 2004 by each program under the SEO's responsibility, however, the SEO was unable to provide us this information.

We conducted our work from March 2004 through June 2004 and from February 2005 through July 2005 in accordance with U.S. generally accepted government auditing standards.

Comments from the Mayor of the District of Columbia



ANTHONY A. WILLIAMS
MAYOR

October 14, 2005

Ms. Jeanette Franzel
Director, Financial Management Assurance
Government Accountability Office
441 G Street, N.W.
Washington, D.C., 20548

Dear Ms. Franzel:

I have reviewed your office's October, 2005 **Draft DISTRICT OF COLUMBIA: Financial and Program Management Improvements Needed for Tuition Assistance Grant Program (GAO-06-14)**. We found your report to be very useful and it was a pleasure working with the General Accounting Office (GAO) during its development.

As you know, the District of Columbia Tuition Assistance Grant (DCTAG) program has been a tremendous success since its inception in school year 2000/2001. For the most recent school year, 2004-2005, 4,767 students received funding from the TAG program, an increase of 9.4% from the previous school year.

In your report, you raise several administrative issues that we have prepared responses to. In several cases, we will illustrate, based upon the findings in the report, that these issues occurred during the earliest development stages of the DCTAG program and have been eliminated for several years. We maintain in each instance, that appropriate internal controls are currently in place to ensure that errors of the past are not replicated. This is supported by the fact that the draft report did not include any errors occurring in the 2004-2005 school year. The administrative issues as raised are addressed as followed:

I. GAO Concern

The SEO Did Not Have Sufficient Documentation to Show Whether Internal Controls over Student Eligibility Are Operating Effectively (page 12 of the report)

SEO Response

- The majority of errors documented in the report, 9 out of 14 or 64%, occurred during the start-up period of the program in SY 2000-2001. In addition, two of the additional errors

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occurred during SY 2002-2003, indicating that 78% of the errors found occurred before the 2003-2004 school year. The years for the remaining three errors are not documented in the report. The GAO did not find an occurrence of a first time applicant in SY 2004-2005, which was the base year of the audit, for which proper documentation had not been submitted. Based upon these findings, the SEO is confident that our strengthening of the program in the past year and our current internal controls are sufficient to provide appropriate documentation of student eligibility. We will continue to carefully analyze and document student eligibility.

II. GAO Concern

Lack of Social Security Number Verification (page 13 of the report)

SEO Response

- The majority of the errors found, 3 out of 5 or 60%, occurred during the start-up period of the program in SY 2000-2001 and the additional two errors occurred during SY 2002-2003. The GAO did not find an occurrence of a first time applicant in SY 2004-2005, which was the base year of the audit, for which proper documentation had not been submitted. Based upon these findings, the SEO is confident that it currently has in place proper internal controls for sufficient documentation. The SEO verifies applicant social security numbers by matching the numbers supplied on the social security card against information provided on certified District of Columbia tax documents.

III. GAO Concern

Required Documents Proving District Domicile Were Not Available for Many DCTAG Participants (page 15 of the report)

SEO Response

- The report is vague as to when the errors occurred, stating that ‘... instances we identified were exceptions relating to academic years after 2000-2001.’ The current process the SEO uses to verify domicile include applicant submission of District of Columbia Tax information as certified by the Office of Tax Revenue as well as copies of two recent (within 45 days) utility bills. In addition, all applications and supporting documents are scanned and filed electronically, further assuring that relevant information is maintained. Based upon these findings, the SEO is confident that it has in place the proper internal controls for domicile verification.

IV. GAO Concern

How the SEO Determined Eligibility Was Unclear for Applicants with Unusual Circumstances (page 16 of the report)

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SEO Response

- The report indicated ‘...several cases where applicants were not able to provide the prescribed documents due to unusual or special circumstances.’ Since the report was vague as to when the errors actually occurred, we will not be able to respond accordingly. However, currently these applicants are processed on case-by-case basis. SEO staff make determinations of eligibility using “professional judgment” (as covered in Section 479(a) of the Higher Education Act of 1965, as amended) and the Director of the Higher Education Financial Services department makes final decisions. Once the final decision has been rendered by the Director, a ‘letter to the file’ is prepared for each applicant in question.

V. GAO Concern

The SEO’s Forecasting Method to Project Future Needs has not been Reviewed for Methodological Soundness (see page 20 of the report)

SEO Response

- The forecasting method provided by the SEO to the GAO for review included actual student enrollment, expenditures and revenues for the DCTAG program from SY 1999-2000 through SY 2003-2004. Future cost projections were based upon growth trends in enrollment and average cost per student. The SEO is in the process of developing comprehensive District of Columbia high school graduation data as well as college retention data to further improve its ability to forecast costs.

Recommendations

The SEO agrees with and will respond accordingly or has already implemented the six recommendations as put forth by the GAO. More specifically:

I. GAO Recommendation

Require applicants for DCTAG program funds to provide a valid Student Aid Report or other document with similar information with their applications so that applicants’ identities and citizenship will have been verified by the federal government before the District receives the information

SEO Response

- SEO will modify our OneApp and will add the Student Aid Report, as criteria for eligibility, for the SY 2006-2007 application.

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II. GAO Recommendation

Establish and implement procedures to ensure that sufficient evidence is obtained and maintained to demonstrate that applicants are actually domiciled in the District prior to providing participants with DCTAG funding

SEO Response

- We agree that it is critical that domicile verification information is maintained. Currently, domicile is verified primarily through the submission of certified District of Columbia tax returns and recent (within 45 days) utility bills for the address used in the application. The SEO is confident that its current approach is satisfactory to demonstrate applicant domicile. Therefore we submit that this recommendation includes proposed procedures that are currently in place.

III. GAO Recommendation

Develop and retain documentation that clearly shows how eligibility decisions are reached when it reviews applications submitted by students with unusual circumstances

SEO Response

- Currently these applicants are processed on a case-by-case basis. SEO staff make determinations of eligibility using “professional judgment” (as covered in Section 479(a) of the Higher Education Act of 1965, as amended) and the Director of the Higher Education Financial Services department makes final decisions. Once the final decision has been rendered by the Director, a ‘letter to the file’ is prepared for each applicant in question. Therefore we submit that this recommendation includes proposed procedures that are currently in place.

IV. GAO Recommendation

Develop a sound methodology for forecasting (1) numbers of students in the program and (2) funds needed for future fiscal years

SEO Response

- The SEO’s current methodology is based on trend analyses using actual applicant data as well as up-to-date tuition costs. The SEO will improve upon its current forecasting methodology through additional analysis of District of Columbia high school graduation data as well as college retention data.

V. GAO Recommendation

Coordinate with OFRM and the Office of Budget and Planning to ensure that interest earned on the DCTAG dedicated bank accounts is made available to be expended for the DCTAG program

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SEO Response

- SEO, OFRM and OBP have coordinated and interest earned has been budgeted in FY 2006.

VI. GAO Recommendation

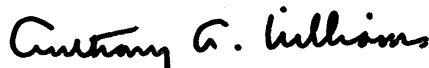
Refine the current mechanisms for identifying and recording the actual costs of administering the DCTAG program, in coordination with the Office of the Chief Financial Officer and OFRM

SEO Response

- SEO and OFRM have coordinated to improve the actual recording of administrative costs. We believe this will be valuable information for our agency, however, it is important to emphasize that the State Education Office has ensured that the program costs are not exceeding the legislatively allowed amount and that the legislation does not prohibit in any way other administrative support from the agency.

Please do not hesitate to contact us if you need to discuss this response. Please call, Deborah Gist, State Education Officer at (202) 727-3471, or John Parham, Director of Higher Education Financial Services if you should have any further concerns. He can be reached at (202) 727-3474.

Sincerely,


Anthony A. Williams

Comments from the Chief Financial Officer of the District of Columbia

Government of the District of Columbia Office of the Chief Financial Officer



Natwar M. Gandhi
Chief Financial Officer

October 13, 2005

Ms. Jeanette Franzel
Director
Financial Management and Assurance
United States Government Accountability Office
441 G Street, N.W.
Washington, DC 20548

Dear Ms. Franzel:

Thank you for the opportunity to respond to the draft report, *District of Columbia: Financial and Program Management Improvements Needed for Tuition Assistance Grant Program (GAO-06-014)*. We appreciate your assessment and recommendations for this vital program.

While the report addressed both programmatic and financial issues, we are offering comments on your financial findings and recommendations. We understand that the State Education Office will provide separate written comments on programmatic issues.

We would like to comment on the following three financial issues:

1. Reconciliation of the Tuition Assistance Grant (TAG) dedicated bank accounts and the District's financial management system.

The report states that reconciliations between the balances in the dedicated TAG bank accounts and the District's financial system could be improved. It should be noted that each quarter and at year-end the District is required to reconcile all bank accounts to verify that the balances in the District's financial system (System of Accounting and Reporting) correspond with balances in our bank accounts, and these reconciliations were performed timely.

It is true that when GAO made the request for this reconciliation, the District's general fund had not been fully reimbursed for all TAG expenditures. We want to make clear that this did not harm the TAG program. Our procedure is to use the District's own funds to pay up-front for TAG-related expenditures, including tuition payments, and then be reimbursed with federal funds from the TAG bank accounts. We are taking action to ensure that this kind of reconciliation occurs on a more frequent basis and that our general fund is promptly reimbursed.

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www.cfo.dc.gov

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Going forward, we will reimburse the general fund for all TAG expenditures on a monthly basis and reconcile quarterly.

2. Earned interest in the TAG dedicated accounts.

The report states that earned interest was not recorded as being “available.” Earned interest has been consistently recorded in the dedicated TAG bank accounts and documented in the District’s financial system. It is considered to be available to be budgeted and an integral part of the long-term planning for the program. However, the interest has not been included as budget authority, and perhaps in this sense was viewed in the report as not being “available.” The interest has not been budgeted because in the early years of the program total expenditures could be met with the yearly appropriation from Congress. There was a carryover of funds from one year to the next, making it unnecessary to include the earned interest as budget authority. This was reflected in our annual budget submissions to Congress.

Due to the successful outreach of the program, we have reached the point where we are now spending more than the yearly appropriation, and the carryover of funds is nearly exhausted. As your report points out, our analysis this year of cost drivers that affect the program -- numbers of students, schools attended, tuition costs, etc. -- leads us to the conclusion that it would be prudent to budget the earned interest during FY 2006. This will provide an important resource to draw upon should these cost drivers change, even slightly, resulting in the requested \$33.2 million not being sufficient to meet the needs of the program. The earned interest will help to minimize the negative impact of changes that may be required in the program should costs increase more than expected.

3. Administrative expenses.

Administrative expenses charged against federal funds are carefully tracked and, as the report states, are well within the seven percent limit of the total amount of federal funds appropriated to the TAG program. As the report points out, only \$900,000, or 5.3 percent, of the federal appropriation was used for administrative purposes in FY 2004. This minimum use of federal funds for administrative purposes is in line with our objective to maximize the use of federal funds to make tuition payments on behalf of District students. In so doing, the District is absorbing some indirect costs associated with the program, including most fixed costs and the costs of central administrative personnel in the State Education Office, which administers the TAG program. In short, we use federal funds to pay for direct program costs, including tuition payments and the cost of personnel dedicated to the program. We have been using our Local funds to pay for most of the indirect costs that might otherwise be charged to the program. We agree with your point that it is important to assess the total administrative cost of the program, and going forward we will develop a methodology to document this information.

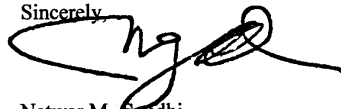
Appendix III
Comments from the Chief Financial Officer of
the District of Columbia

DC: Financial and Program Management Improvements Needed for Tuition Assistance Grant Program
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Thank you for this opportunity to provide comments on your report. Last year alone, the TAG program successfully assisted almost 5,000 District students to attend college or university. We look forward to working closely with you and your colleagues at the General Accountability Office and with the members of Congress and their staff to ensure the continued success of this vital program.

If you have any questions or concerns, please contact Barbara Jumper, Associate Chief Financial Officer, Government Operations Cluster or Robert Jose, Agency Fiscal Officer, Office of Financial and Resource Management, at 202-727-0333.

Sincerely,



Natwar M. Gandhi
Chief Financial Officer

cc: The Honorable Anthony A. Williams, Mayor of the District of Columbia
Lucille Dickinson, Chief of Staff, Office of the Chief Financial Officer
Barbara D. Jumper, Associate Chief Financial Officer, Office of the
Chief Financial Officer
Deborah Gist, Director, State Education Office
Sebastian Lorigo, Executive Director, Office of Integrity and Oversight

GAO Contact and Staff Acknowledgments

GAO Contact

Jeanette M. Franzel at (202) 512-9471 or FranzelJ@gao.gov

Acknowledgments

The following individuals also made important contributions to this report: Norma Samuel, Sharon Byrd; Richard Cambosos; Lisa Crye; Katelin Carnahan; James Maziasz; Philip Reiff; John Saylor; Sandra Silzer; Christopher Spain; and Sabrina Springfield.

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