UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF INSPECTOR GENERAL

Audit Services
New York Audit Region

December 31, 2008

Control Number
ED-OIG/A02I0040

Dr. T. Alan Hurwitz
President, NTID
Vice President and Dean, RIT
Rochester Institute of Technology
National Technical Institute for the Deaf
52 Lomb Memorial Drive
Rochester, NY 14623

Dear Dr. Hurwitz:

This final audit report, Control Number ED-OIG/A02I0040, presents the results of our audit titled *National Technical Institute for the Deaf Federal Education Funds Expenditures*. The purpose of the audit was to determine whether (1) National Technical Institute for the Deaf (NTID) had adequate internal controls in place to account for Federal education funds, excluding Title IV Federal student aid, and (2) the related expenses were reasonable, allocable, and allowable, for the period October 1, 2006, through September 30, 2007.

BACKGROUND

NTID was created on June 8, 1965, through Public Law 89-36, the National Technical Institute for the Deaf Act, to promote the employment of persons who are deaf by providing postsecondary technical training and education for individuals who are deaf to prepare them for employment. The National Technical Institute for the Deaf Act was superseded by the Education of the Deaf Act (EDA) of 1986, as amended. This Act continued the authority of the U.S. Department of Education (the Department) to maintain the agreement with the host institution and to provide Federal subsidies to NTID so that it could continue to offer postsecondary educational opportunities for individuals who are deaf.

The Department maintains an agreement with the Rochester Institute of Technology (RIT), in Rochester, NY, as the host institution, to provide facilities and core services necessary to operate NTID. NTID is administered as one of eight colleges at RIT, and offers a variety of technical

programs at the certificate, diploma, associate degree, baccalaureate (American Sign Language-English Interpretation), and master's degree (Secondary Education of Students who are Deaf or Hard of Hearing) levels. RIT also provides NTID students with options for courses of study from seven other colleges; health and counseling services; library, physical education, and recreation facilities; and general services such as food, maintenance, grounds, and security.

NTID is subject to the accounting requirements set forth in the EDA and the agreement between the Department and RIT governing NTID's establishment and operation. Furthermore, the Department provides direct funding to NTID in addition to Title IV. For fiscal years (FYs) 2005, 2006, and 2007, Congress appropriated $55,343,680, $56,140,920, and $56,140,920, respectively. NTID's funding must be approved through an annual appropriation by Congress. NTID also receives nonfederal funds such as tuition and fees. The Department's Office of Special Education and Rehabilitative Services (OSERS), has administrative responsibility for NTID. This office monitors NTID to ensure compliance with the EDA. OSERS serves as the Department's principal liaison to NTID to ensure that Federal funds appropriated to NTID are expended appropriately.

While NTID does not appear in the Catalog of Federal Domestic Assistance (CFDA), it has been assigned CFDA numbers. Because the funding for NTID is a direct appropriation by Congress, there also is an award number which is a combination of letters and numbers that identifies the appropriated funds in the Grant Administration and Payment System (GAPS),[1] which also is used by RIT's Independent Public Accountant (IPA) to identify NTID's appropriated fund expenditures to comply with Office of Management and Budget (OMB) Circular A-133 reporting requirements.

The Department conducted a two and one-half day on-site monitoring visit of NTID from February 21-23, 2007, as part of the ongoing monitoring and evaluation of NTID's educational programs and administrative operations. This monitoring review was to ensure that Federal funds awarded to NTID are used only for the purpose for which they were appropriated and to ensure compliance with applicable requirements. The Department identified that NTID did not fully comply with the requirements for the annual report of the EDA, and required NTID to correct that finding. The Department also reported the need for a separate annual independent financial and compliance audit of NTID's programs and activities, which would provide much more useful fiscal information to the Department and assurances that Federal funds were expended in compliance with the EDA and other relevant requirements.

AUDIT RESULTS

Overall, we determined that NTID had adequate internal controls in place to account for Federal education funds, excluding Title IV Federal student aid, and the related expenses were

[1] GAPS is in the process of being replaced by a new system called G5. However, we obtained the information pertaining to this audit from GAPS. For the period under review, the codes used in GAPS were H908A07001, representing appropriated funds for operating expenses, and H908B07001, for endowment funds.

reasonable, allocable, and allowable, for the period October 1, 2006, through September 30, 2007.

We performed a review of NTID's operating, endowment and construction expenditures. During the year under review, NTID expended $55,312,920 for its operations, $828,000 for endowments, and $706,464 for construction projects. NTID expended $56,847,384 in appropriated funds during its fiscal year 2007.

We randomly and judgmentally sampled NTID operating expenditures, endowment funds, and construction expenditures to determine if the selected expenditures were reasonable, allocable, and allowable, for the period October 1, 2006, through September 30, 2007. We reviewed selected NTID general ledger operating accounts and compared them to supporting payroll distribution lists, payroll vouchers, timecards, purchase orders, and invoices. We found no evidence of unallowable charges. We reviewed NTID's endowment funds, including the classification of investments, restrictions on investments, and the use of investments earnings, and found no violations of investment and spending restrictions for the federally endowed funds. We also verified the general ledger accounts for construction expenditures to supporting contracts, purchase orders, and invoices. We found no exceptions.

We provided a draft of this report for review and comment on November 13, 2008. In its response to the draft report, NTID agreed with our conclusion and suggestions. NTID's comments are summarized in the Other Matters section of this report. Except for personally identifiable information (that is, information protected under the Privacy Act of 1974, 5 U.S.C. § 552a), the entire narrative of NTID's comments is included as Attachments A, B, and C to this report.

OTHER MATTERS

NTID did not maintain separate books, records, and documents for $55,312,920 in operating expenses it charged to Federal appropriation funds for the period October 1, 2006, through September 30, 2007. RIT provided its general ledger records, which listed $63,757,272 in operating expenses charged to NTID. RIT established separate accounts for NTID's operating expenditures with object codes for allowable Federal transactions pursuant to the EDA. According to RIT officials, Federal funds were exhausted by mid- or early-August of 2007. RIT continued charging the Federal transactions prior to closing the accounts at the end of NTID's fiscal year using other non-federal funds, such as tuition, and fees. RIT extracted out all of September 2007 and most of August 2007 transactions to provide the universe of $55,312,920 in Federal funds for NTID's operations. The difference of $8,444,352 was not part of the Federal appropriation.

RIT's IPA was also aware that RIT could not break down the costs for the Federal appropriation. Consequently, the IPA used the population of all NTID expenses for its audit.

Part VI (a)(1) of the Agreement for Establishment and Operation of NTID states, "The Sponsor [RIT] agrees that it will maintain separate books, records, documents, and other evidence pertaining to the costs and expenses of this Agreement (hereinafter collectively called the "records") to the extent and in such detail as will properly reflect all net costs, direct and indirect, and other costs and expenses of whatever nature for which expenditure is made during the year under the provisions hereof."

Since RIT did not separately account for appropriated expenditures, RIT could not readily provide the universe of $55,312,920 in Federal transactions expended from its appropriated Federal funds for the October 1, 2006, through September 30, 2007 period. We suggest that the Assistant Secretary for OSERS work with RIT to establish appropriate accounting records for appropriated funds, and to close out the records when all Federal funds are exhausted.

NTID Comments

In its response to the draft report, RIT/NTID agreed with our conclusion and suggestions. RIT/NTID agreed to change its process to more clearly segregate operating activity funded by the Federal appropriation from operating activity funded by other sources. RIT established a new project account to separately account for those operating expenditures funded by the Federal appropriation starting October 1, 2008 (NTID fiscal year 2009). For operating activity funded by other sources, RIT established a separate project account as of October 1, 2008. After this change, the aggregate and detailed information about total operating activity funded by the Federal appropriation would be readily available upon request.

OIG Response

We have considered NTID's comments, and agree that the changes implemented by RIT/NTID establish appropriate accounting records for Federal appropriated funds. These changes also mitigate the need to close out the records upon the exhaustion of Federal appropriated funds and they comply with Part VI (a)(1) of the Agreement for Establishment and Operation of NTID.

OBJECTIVES, SCOPE, AND METHODOLOGY

Our audit objectives were to determine whether (1) NTID had adequate internal controls in place to account for Federal education funds, excluding Title IV Federal student aid, and (2) the related expenses were reasonable, allocable, and allowable, for the period October 1, 2006, through September 30, 2007.

To accomplish our audit objectives, we—

- Reviewed the laws and legislative histories related to the establishment and operation of NTID, as well as, designation of RIT as the host institution responsible for providing facilities and core services necessary to operate NTID.

- Reviewed RIT's OMB Circular A-133 single audit reports for FYs ending June 30, 2005, June 30, 2006, and June 30, 2007, RIT's consolidated financial statements for the FYs ending June 30, 2006, and 2007, and Agreed Upon Procedures report for NTID's FY ending September 30, 2007.

- Reviewed other applicable reports, audits, and documents as background information on NTID.

- Interviewed RIT and NTID officials in Rochester, NY.

- Examined Federal awards received by NTID, including NTID's budget request, funding and drawdown information, and expenditures for the period October 1, 2006, through September 30, 2007.

- Reviewed selected RIT policies and procedures related to accounting practices, payroll, procurement, cash management, contracting, endowment funds, and capital projects.

- Gained an understanding of RIT's accounting system pertaining to the expenditure of NTID's appropriated funds.

- Examined RIT's accounting records (i.e., payroll distribution lists, timecards, purchase orders, invoices, etc.) and financial operations for NTID funds, and evaluated RIT's controls over the funds.

- Contacted and obtained information from OSERS official and the IPA who performed OMB Circular A-133 single audits for RIT and Agreed Upon Procedures for NTID.

- Identified, using RIT's Oracle database and GAPS, the following universes of NTID's expenditures during the audit period:
  1. All of NTID's operating expenditures charged to the Federal appropriation.
  2. NTID's endowment funds.
  3. NTID's construction expenditures charged to the Federal appropriation.

- To test NTID's operating expenditures, we randomly selected 30 transactions out of a total of 7,539 transactions for the year under review.

- To test the endowment funds, we randomly selected 5 of 53 funds from Pool I and 5 of 72 funds from Pool II.[2]

- Judgmentally selected and tested one construction project which had a total of $476,986 expenses paid during the period of our review from the funds appropriated in FY 2003.

[2] Pool I consists of private donations and federal matching funds after 10 fiscal years following the fiscal year in which the funds were matched. Pool II consists of private donations and federal matching funds that are less than 10 fiscal years following the fiscal year in which the funds were matched.

We gained an understanding of, and assessed the system of internal controls, policies, procedures and practices applicable to RIT and NTID's compliance with applicable federal laws and regulations. This assessment was performed to determine the nature, extent, and timing of our substantive tests to accomplish our audit objectives. Our review only disclosed one minor budgetary issue, which was not substantive in nature, and, therefore, did not appear to have an adverse affect on RIT's ability to administer NTID's Federal appropriation funds.

To achieve our audit objectives, we relied on computer-generated data from RIT's Oracle financial database. We tested the completeness of RIT's computer-generated documents and verified the authenticity by comparing computer-generated documents to source documents. Based on the comparison, we concluded that the computer-generated data was sufficiently reliable for the purpose of our audit.

We performed our fieldwork at NTID's location in Rochester, New York. We held an exit conference with NTID and RIT officials on September 24, 2008. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our conclusions based on our audit objectives. The evidence obtained provides a reasonable basis for our conclusions based on our audit objectives.

ADMINISTRATIVE MATTERS

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

We appreciate the cooperation and assistance extended by your staff during the audit. If you have any questions, please contact me at (646) 428-3888.

Sincerely,

/s/
Daniel P. Schultz
Regional Inspector General
for Audit

Attachments

Attachment A: Audit Response Letter

R·I·T

Rochester Institute of Technology

National Technical Institute for the Deaf
Office of the President, NTID
Vice President and Dean, RIT
52 Lomb Memorial Drive
Rochester, NY 14623-5604

December 5, 2008

U.S. Department of Education
Office of Inspector General
Attention: Daniel P. Schultz
32 Old Slip
26th Floor, Financial Square
New York, NY 10005

Dear Mr. Schultz:

In response to the OIG draft audit report titled "National Technical Institute for the Deaf Federal Education Funds Expenditures" dated November 13, 2008, we have prepared two separate documents for your review including: 1) RIT/NTID Management Response; and, 2) a Process Change document which provides a detailed description of the change implemented by RIT/NTID in response to the suggestion proposed during the audit period regarding how to account for Federal funds.

Please let me know if you have any questions about this information. Should you need anything further, please contact me or Lyn Kelly, RIT Controller and Assistant Treasurer.

Sincerely,

/s/
T. Alan Hurwitz
President, NTID
Vice President and Dean, RIT

cc: Lyn Kelly, Controller & Assistant Treasurer, RIT

Attachments:
Management Response
Accounting Process Change

Attachment B: Management Response

R·I·T

Rochester Institute of Technology

National Technical Institute for the Deaf
Office of the President, NTID
Vice President and Dean, RIT
52 Lomb Memorial Drive
Rochester, New York 14623-5608

US Department of Education
Office of the Inspector General Audit Report
Draft Audit Report
RIT/NTID Management Response

The University appreciates the OIG's recognition "that NTID had adequate internal controls in place to account for Federal education funds, excluding Title IV Federal student aid…" It has been the University's position that its system appropriately accounts for NTID expenditures as required by Part VI (a)(1) of the Agreement for Establishment and Operation of NTID. For example, in FY 2007, while RIT/NTID expended more on allowable operating activities than was funded by the Federal appropriation, since these expenses were charged to separate object codes in the general ledger, upon request, Management was able to provide detail for all activity up the amount of the Federal appropriation for the fiscal year.

In response to the suggestion proposed during the audit period, Management agrees to enhance its process to more clearly segregate operating activity funded by the Federal appropriation from operating activity funded by other sources. Effective October 1, 2008 (NTID fiscal year 2009), a new project account was established to separately account for those operating expenditures funded by the Federal appropriation. Operating activity funded by other sources is now charged to a separate project account. When viewed in the aggregate, information about total operating activity is available. We are confident that this new process will fully satisfy Part VI (a)(1) of the Agreement for Establishment and Operation of NTID. A detailed description of the process change is included with this report.

Attachment C: Accounting Process Change

R·I·T Rochester Institute of Technology

Accounting Process Change
NTID Fiscal Year 2009

Federal Appropriation – Project 02009

Effective October 1, 2008, RIT is changing the way it accounts for Federal funds received from the U.S. Department of Education via the annual appropriation for NTID.

Beginning in fiscal year 2009, only expenses funded by the Federal appropriation will be charged to project 02009. The list below includes those object codes for which RIT/NTID receives reimbursement from the Department of Education via the Federal appropriation. When charging an NTID operating expense to one of these object codes, the project number must be 02009 (for fiscal year 2009).

Description	Object Code
SALARIES & WAGES	70050-71899 & 71921-71999; excluding 71350*
FRINGE BENEFITS & TUITION WAIVERS	72000-69, 72071-100 & 72300-349
NTID INTERPRETING SVCS (W/DEPT 47600 ONLY)	75000
SCHOLARSHIPS – UNDERGRADUATE	82000
SCHOLARSHIPS – GRADUATE	82005
EQUIPMENT < $1,500	84000
DORMITORY EXCHANGE (W/DEPT 43900 ONLY)	90020
CAMPUS CONN EQUIPMENT (W/DEPT 41000 ONLY)	90101
ITS COMPUTER SERVICES	90230
CROSS-REG TUITION COSTS	90256
PRIOR YR ADJUSTMENT	90399, 90501
STAGE III/COMMONS INDIRECT	90495
OVERHEAD	90500
ROOM (STG III W/DEPT 43900 ONLY)	90525-90526, 51302
MAINTENANCE SERVICES ROUTINE	90625
MAINTENANCE NON-ROUTINE	90627
CUSTODIAL SERVICES	90630
OPERATING ENGINEERS	90635
GROUNDS SERVICES	90650
FUEL/HEAT	90655
LIGHTS/POWER	90660
EQUIPMENT > $1,500 (W/DEPT 41000 ONLY)	16200

*Federal Work Study Wages

Non-Federal Activity- Project 03009

A new project has been established for all other revenues and expenses associated with NTID operations (i.e., controllable expenses). Project 03009 will not include any Federal revenue received from the Department of Education, nor will it include the associated Federally allowable expenses. This project will change each year just as the Federal project changes

annually (i.e., in FY 2010 the Federally-funded project will be 02010; the non-federal project will be 03010).

Example

In the past, travel expenses funded by NTID's operating budget would have been charged to the same project as Federally funded expenses. Beginning October 1, 2008, travel expenses will be charged to project 03009. For example, when the NTID Research and Education Studies department processes a Travel Expense Report to reimburse a faculty member for travel expenses incurred in FY 2009, they'll now charge account number 01.47300.78000.15.**03009**.00000 (not 01.47300.78000.15.02009.00000).

Budgets

The NTID Office of Financial Planning and Budgeting has prepared your fiscal year 2009 budgets and the budget amounts for each account are reflected on the correct project number. For example, your salary budgets are on project 02009 and your travel budget is on project 03009.

Accounting has established "rules" within the Oracle general ledger that will only permit the Federally-allowable object codes to be used with project 02009 (and not project 03009).

NTID Department Statement

The NTID department statement will combine activity (budget, revenues and expenses) from both project 02009 and 03009. When you request a statement in the Oracle applications, you don't have to do anything differently than you have in the past. The statement will automatically combine the activity on both projects and print a statement for each department in your responsibility.

- ✓ If you want to request a statement for one project only, use segment override and enter the project number in the project segment (i.e., Project 02009 – enter 02009 in the project segment).
- ✓ If you want to request a statement for one department only (if you are responsible for multiple departments), enter the department number in the segment override field – leave the project number blank.

Oracle Detail Reports

When you run detail reports or drill down to subledger detail through an account inquiry, you will have to enter the correct project number. For most departments and transactions, the project number will be 03009. If you have questions about which project to use when performing an account inquiry, contact the NTID Office of Financial Planning and Budgeting.

File Feeds and Other on-Campus Charges

Please notify on-campus departments (e.g., The HUB, Dining Services, ETC, FMS) to use project number 03009 when they charge NTID for goods and services beginning in fiscal year 2009. Accounting will automatically change the project number to 03009 for all fiscal year 2009 transactions.

Procurement Card Default Accounts

Effective October 1, 2008, Accounting has changed the default account for all procurement cards to project 03009.

Student Employment

When completing hiring paperwork for student employees, use project 03009 in the account number. If the student is eligible for Federal Work Student wages, the expense will be charged to project 03009. If the student is not eligible, a special program will change the project number to 02009.