



UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF INSPECTOR GENERAL

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THE INSPECTOR GENERAL

ED-OIG/A03-B0018

Mr. Mark Carney
Office of the Chief Financial Officer
U. S. Department of Education
Federal Building No. 6, Room 4E314
400 Maryland Avenue SW
Washington, DC 20202

Dear Mr. Carney:

This *Final Audit Report* (Control Number ED-OIG/A03-B0018) presents the results of our audit of the U.S. Department of Education's (the Department's) discretionary grant monitoring process. The purpose of our audit was to evaluate the Department's discretionary grant monitoring process for identifying and monitoring high-risk grantees.

BACKGROUND

The Department awards approximately \$4.2 billion annually in competitive financial assistance, in the form of discretionary grants. Grantees include state and local educational agencies, colleges, universities, and other applicants. The Department's six principal offices¹ are responsible for administering these discretionary grant programs. Within each principal office, there are multiple grant program offices that administer discretionary grants. The program offices are responsible for the entire grant process. The grant process consists of five key phases. The phases are planning, pre-award, award, post-award, and closeout. Monitoring is a part of the post-award process. Monitoring provides assurances that the grant recipient is achieving the program's goals and objectives, and adhering to the laws and regulations governing the program.

OBJECTIVE, SCOPE AND METHODOLOGY

The objective of our audit was to evaluate the Department's discretionary grant monitoring process for identifying and monitoring high-risk grantees. To accomplish our objective, we reviewed applicable EDGAR and Departmental regulations and policies; reviewed the principal offices' documentation of the discretionary grants monitoring process; and interviewed GPOS officials and representatives from six principal offices.

¹ Office of Elementary and Secondary Education (OESE); Office of Vocational and Adult Education (OVAE); Office of Special Education and Rehabilitative Services (OSERS); Office of Bilingual Education and Minority Languages Affairs (OBEMLA); Office of Postsecondary Education (OPE); and Office of Educational Research and Improvement (OERI).

The scope of our review was the Department's process for monitoring discretionary grants and identifying high-risk grantees for federal fiscal year 2000 and discretionary grant funds awarded during fiscal years 1997 through 1999. Our audit was performed in accordance with government auditing standards appropriate to the scope of the audit described above.

We conducted on-site fieldwork from October 23, 2000, through November 13, 2000, at the six principal offices and GPOS offices in Washington, DC. In conjunction with this audit, we conducted an audit that focused solely on OESE's discretionary grant monitoring process. The additional audit fieldwork was performed from November 28, 2000, through January 30, 2001, at the OESE program offices in Washington, DC. Exit conferences were held with OESE officials on February 23, 2001, and OCFO and GPOS officials on March 22, 2001.

We reviewed the Department's 1999 Performance Reports and 2001 Plans and determined that they do not contain Government Performance and Results Act goals and indicators relevant to the objective and scope of our work.

AUDIT RESULTS

We found that the Departmental Directive, *Monitoring Discretionary Grants and Cooperative Agreements*, issued March 23, 1994, was not fully implemented. Also, the Directive does not include provisions to identify and monitor high-risk grantees, use information contained in the Single Audit reports during the monitoring process, share information on grantees designated as high-risk among program offices, or ensure consistent documentation of monitoring activity.

A draft of this report was provided to the OCFO for their review and comment. In their comments, OCFO concurred with Finding Number 1, but disagreed with the recommendation; and OCFO partly concurred with Finding Number 2 and the recommendations. OCFO's comments, along with our responses, have been incorporated into the report. A complete copy of OCFO's comments is included as an attachment to this report.

Finding No. 1 The Departmental Directive titled Monitoring Discretionary Grants and Cooperative Agreements was not fully implemented.

We performed a limited review of the Department's discretionary grants monitoring process in six principal offices.² Our review disclosed that the six principal offices did not totally comply with or completely implement the requirements of the Directive.

² Office of Elementary and Secondary Education (OESE); Office of Vocational and Adult Education (OVAE); Office of Special Education and Rehabilitative Services (OSERS); Office of Bilingual Education and Minority Languages Affairs (OBEMLA); Office of Postsecondary Education (OPE); and Office of Educational Research and Improvement (OERI).

The Directive requires each of the Department's principal offices to prepare:

- *A Strategic Monitoring Plan*, which covers a 5-year period, identifies key areas of improvement and describes a general framework/approach to monitoring.
- *An Annual Monitoring Plan*, which describes the specific programs and grantees to be monitored, procedures, budget, and schedule for the fiscal year.
- *An Annual Monitoring Report*, which describes the monitoring activities, findings, and actions taken during the previous year.

In addition, the Directive requires the formation of a Monitoring and Performance Measures Team (MPMT) to be composed of representatives from the Department's principal offices. The MPMT was to meet regularly to advise the principal offices on all aspects of monitoring and performance measures. Under the Directive, the Office of the Chief Financial Officer (OCFO) is responsible for ensuring that the MPMT receives the monitoring plans and reports prepared by the principal offices.

In conducting our review, we interviewed program officials from six of the Department's principal offices. The interviews disclosed that principal offices had a monitoring process, with program officials using various methods to monitor discretionary grants. In general, the monitoring methods consisted of program officials' review of performance reports, attendance at conferences and workshops, site visits, and other forms of contact with the grantee. We found that although program officials had a monitoring process, only OBEMLA prepared a strategic monitoring plan as required in the Directive. Officials of five principal offices that did not implement the Directive stated that they only recently became aware of the Directive's requirements. The same officials also stated that each program manager plans the implementation of monitoring activities. However, these principal offices did not document their monitoring plans or the results of monitoring activities performed by program staff.

We also interviewed officials from the Office of the Chief Financial Officer, Grants Policy and Oversight Staff (GPOS), who were responsible for policy development and oversight of discretionary grants. GPOS officials attributed the reason why the Directive was not fully implemented to various factors, including the reorganization of the grants office, staff turnover, the issuance of the Directive prior to the establishment of GPOS, and that the MPMT was never formed. Additionally, GPOS officials indicated that they did not request or collect the strategic monitoring plans, annual monitoring plans, and annual monitoring reports from the principal offices.

Although the program officials, from the six principal offices, indicated that their offices had a monitoring process, the process was not implemented in accordance with the Directive's requirements. The Directive should be an integral part of the Department's discretionary grant monitoring process because it provides the principal offices with a systematic and organization-wide monitoring process. The Directive should enable principal offices to have a more efficient and effective discretionary grant monitoring process and to ensure that grantees achieve the intended goals.

Recommendation:

- 1.1 The Chief Financial Officer should ensure that the principal offices implement the requirements set forth in the Departmental Directive on Monitoring Discretionary Grants and Cooperative Agreements, dated March 23, 1994, or the new Administrative Communications System (ACS) Handbook, when it is issued.

OCFO Comments:

OCFO concurs with the finding, but does not concur with the recommendation, because they believe that grant redesign efforts have made many of the Directive's provisions obsolete. To address this situation, OCFO is in the process of replacing the Directive with an ACS Handbook on the entire grant process, which they expect to issue after the beginning of fiscal year 2002. However, OCFO concurs that they need to ensure that requirements relating to monitoring grants are implemented across principal offices.

OIG Response:

Because the Directive has not been rescinded, the Directive remains in effect. In addition, many of the Directive's requirements, such as the preparation of strategic and annual monitoring plans and annual monitoring reports, remain applicable to the current grant process. In response to OCFO's comments, we have revised the recommendation to include the new ACS Handbook that will replace the Directive.

Finding No. 2 The Departmental Directive does not include provisions to identify and monitor high-risk grantees, use information contained in the Single Audit reports during the monitoring process, share information on grantees designated as high-risk among program offices, or ensure consistent documentation of monitoring activity.

Discussions with program officials disclosed that three of the principal offices (OVAE, OERI and OPE) did not have a process to identify and monitor high-risk grantees. Of the three principal offices (OSERS, OESE and OBEMLA) that indicated they had a process to identify and monitor high-risk grantees, only OBEMLA had a documented process. Principal offices identify and monitor high-risk grantees to ensure the accountability and effectiveness of discretionary grant programs. Without a systematic approach to identify and monitor high-risk grantees, principal offices have little assurance that federal funds awarded to grantees are properly safeguarded and that grant objectives are being met. In addition, OMB Circular A-102, *Grants and Cooperative Agreements with State and Local Governments, 2(f) Post Award Policies - Site Visits and Technical Assistance* states, "Agencies shall conduct site visits only as warranted by program or project needs. Technical assistance site visits shall be provided only (1) in response to requests from grantees, (2) based on demonstrated program need, or (3) when recipients are designated "high risk" under section [34 CFR § 80.12] of the grants management common rule." Principal offices do not have a process and criteria to determine what grantees are high-risk or when site visits are warranted.

The Directive should require program officials to use information contained in a grantee's Single Audit report during their discretionary grants monitoring process.

A tool available to program officials to identify and monitor high-risk grantees is the Single Audit report. The Single Audit is an organization-wide audit of grantees that focuses on their internal controls and compliance with laws and regulations governing federal funds.

We found that program officials interviewed did not use the results of Single Audit reports to oversee and monitor grantees. The Departmental Directive does not contain written procedures pertaining to the use of grantees' Single Audit Reports in the monitoring process. The summary results of most grantees' Single Audit reports are maintained on the Federal Audit Clearinghouse website (available on the Internet at <http://harvester.census.gov/sac/>). We found that in many cases, discretionary grants do not receive Single Audit coverage because these grants are not considered a major federal program due to the dollar amount of the federal award. Although discretionary grants may not receive audit coverage, grantees' Single Audit reports contain useful information that may assist program officials in identifying potentially high-risk grantees that may require additional monitoring and technical assistance. Single Audit reports contain information on grantee financial position, an assessment of their internal and management control system, and findings concerning other programs that may also indicate a weakness in the administration of discretionary grants.

Information on grantees designated as high-risk should to be shared between other principal and program offices.

We found that the principal offices and OESE program offices did not have a systematic process to identify high-risk grantees. A systematic process to identify high-risk grantees should include principal and program offices sharing information on grantees designated as high-risk. Once a grantee is designated as high-risk, all program offices should be aware of the grantee's high-risk status, so that they can then perform additional monitoring of these grantees as necessary. Our interviews of OESE program office staff disclosed that when a program office identifies a grantee as high-risk, the information is not shared with any other program offices. For example, the OESE Magnet Schools Assistance Program office designated a grantee that received 12 discretionary grants as high-risk; this information was not shared with any other OESE program offices. We noted that there were no written procedures as to how OESE program offices should share information on grantees designated as high-risk with all program offices.

Monitoring activity should be better documented.

In the five OESE program offices visited (which administer nine discretionary grant programs), we reviewed selected grantee files and found that program officials maintained some documentation of monitoring activities. There were wide variations in the level of documentation of monitoring activity contained in grant files reviewed (see Table 1). The level of documentation in the files was based primarily on what the

program staff believed to be necessary for monitoring. We also noted that there were no written procedures as to how program staff should be documenting ongoing monitoring activities.

TABLE 1: OESE GRANT FILES REVIEWED FOR MONITORING DOCUMENTATION³

OESE Discretionary Grant Program		Reading Excellence Act Program	Compensatory Education – Even Start Indian Tribes and Tribal Organizations	Public Charter Schools Program	Magnet Schools Assistance Program	Migrant Education Programs	21 st Century Community Learning Centers	Goals 2000 Programs	Women’s Educational Equity Act Programs	Safe and Drug-Free Schools and Communities Programs	Total
Grant Files Reviewed		5	5	5	5	5	14	6	5	10	60
Monitoring Activities	Performance Reports	NA ^a	5	5	5	5	13 ^b	6	5	10	54
	Performance Report Review Notes	NA	4	5	5	5	11	6	5	3	44
	Records of Telephone Conversations	1	1	--	2	1	2	--	--	3	10
	Site Visits	1	3	--	1	3	--	--	--	1	9
	Correspondence	2	2	2	3	5	3	4	4	4	29
	E-mail	4	--	--	2	2	6	--	--	4	18
	Other ⁴	--	4	--	5	4	4	1	1	8	27

Recommendations:

2.1 The Chief Financial Officer should incorporate into the Directive, or new ACS Handbook, provisions that require principal offices to: develop a systematic process and criteria for identifying and monitoring high-risk grantees, use grantees’ Single Audit reports during their discretionary grants monitoring process, implement a system to share information on grantees designated as high-risk between principal and program offices, and include in the monitoring process a provision for better documentation of the monitoring activity.

³ This table presents the number of grant files reviewed within the selected OESE grant program offices and the number of files that contained the documented monitoring activities.

^a The first performance period has not ended as of the date of our review, therefore performance reports have not been received by the Department.

^b Of the 14 grant files reviewed, one award was a Congressional earmark award that was not subject to continuations, therefore no performance report was required.

⁴ Other monitoring methods include: grantee evaluations, surveys, reviews of grantees’ budgets, fax messages, memos, and conference/meeting notes.

OCFO Comments and OIG Response:

The Directive does not include provisions to identify and monitor high-risk grantees.

OCFO Comments:

OCFO does not concur with this finding. OCFO believes that the whole grants process (i.e., criteria, evaluation, monitoring, and post-award), as laid out in the various Directives, does contain a systematic method of risk management for selecting and funding grant recipients. According to the OCFO, this process includes specific criteria and conditions for designating grantees as being in a high-risk category. OCFO concurs that information on grantees designated as high-risk needs to be kept current and in the forefront of program office staffs' consideration when selecting grant projects for funding and managing them.

OIG Response:

In order to maximize the ongoing management of risk throughout the whole grants process, the Department's guidance for each phase of the grants process, including the monitoring phase, should contain specific provisions related to identifying and monitoring grantees designated as high risk. The Directive, which covers the monitoring phase of the grants process, does not contain specific provisions to this effect. In response to OCFO's comments, we have revised the recommendation to include the new ACS II Handbook that will replace the Directive.

The Directive does not include provisions to use information contained in the Single Audit reports during the monitoring process.

OCFO Comments:

OCFO partly concurs with this finding. OCFO notes that the Directive contains a provision that, when developing Annual Monitoring Plans, principal offices may consider "particular difficulties identified in Federal or non-Federal audits." (Section VIII.C.4.e) OCFO states that not mentioning Single Audit reports specifically could lead to ambiguity in how program staff interprets this requirement and that staff could overlook the Single Audit reports as a source of significant and useful information. OCFO concurs with the recommendation that program office staff be required to use Single Audit reports as part of the grant administration and monitoring process. OCFO noted that the new ACS Handbook will address this issue.

OIG Response:

The Directive contains a brief mention of audit reports in a list of criteria that program offices may consider when selecting grantees for monitoring. The Directive does not contain specific provisions requiring program officials to review grantees' Single Audit reports, or guidance as to how program officials can use this information as a standard procedure in their discretionary grants monitoring process. We note that the OCFO plans

on addressing this issue in the new ACS Handbook, and have revised the recommendation to include the new ACS Handbook that will replace the Directive.

The Directive does not include provisions to share information on grantees designated as high-risk among program offices.

OCFO Comments:

OCFO agrees that sharing information with “other parts of the Department” about monitored grantees that have been designated as high-risk is an important part of the overall system of risk management. However, OCFO believes that the Directive addresses this issue in Sections IX.A.8 and 9. OCFO concurs with our recommendation and is working to enhance and make fully functional a GAPS data element for a grantee’s high-risk designation.

OIG Response:

While the Directive contains provisions for principal offices to “report particular monitoring findings on a project-specific basis to other areas of the Department or Federal government, where appropriate” (Section IX.A.9), it does not contain specific provisions mandating the sharing of information on grantees designated as high-risk. We note OCFO’s plans to implement a GAPS data element specifying a grantee’s high-risk designation. In response to OCFO’s comments, we have revised the recommendation to include the new ACS Handbook that will replace the Directive.

The Directive does not include provisions to ensure consistent documentation of monitoring activity.

OCFO Comments:

OCFO does not concur with the finding. OCFO notes that the Directive, specifically Sections IX.A.7, 8, and 9 and IX.B.2 and 4, establishes the requirements for documenting the monitoring activity. However, OCFO concurs with the recommendation and notes that the new ACS Handbook will contain new guidance on the types of information that monitoring documentation should contain

OIG Response:

While the Directive contains guidance regarding documenting monitoring activities (*i.e.*, that program offices should create complete and detailed file records of monitoring activities), the guidance may lead to inconsistent interpretations of the requirements among program staff. We find that monitoring activities should be better documented and that the Directive should contain provisions that specify the level of documentation to be maintained by program office staff. We note that the OCFO plans on addressing this issue in the new ACS Handbook. In response to OCFO’s comments, we have revised the finding’s title to better reflect the issue and have revised the recommendation to include the new ACS Handbook that will replace the Directive.

ADMINISTRATIVE MATTERS

Please provide us with your final response to each open recommendation within 60 days of the date of this audit report indicating what corrective actions you have taken or plan, and related milestones.

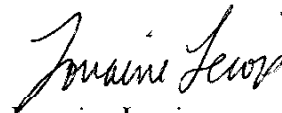
In accordance with Office of Management and Budget Circular A-50, we will keep this audit report on the OIG list of unresolved audits until all open issues have been resolved. Any reports unresolved after 180 days from the date of issuance will be shown as overdue in the OIG's Semiannual Report to Congress.

Please provide the Supervisor, Post Audit Group, Financial Improvement, Receivables and Post Audit Operations, Office of the Chief Financial Officer and the OIG, Audit Services, General Operations Team with semiannual status reports on promised corrective actions until all such actions have been completed or continued follow-up is unnecessary.

In accordance with the Freedom of Information Act (Public Law 90-23), reports issued by the OIG are available, if requested, to members of the press and general public to the extent information contained therein is not subject to exemptions in the Act. Copies of this audit report have been provided to the offices shown on the distribution list enclosed in the report.

We appreciate the cooperation given us in the review. Should you have any questions concerning this audit report, please contact Bernard Tadley, Regional Inspector General for Audit, at (215) 656-6279. Please refer to the control number in all correspondence related to the report.

Sincerely,



Lorraine Lewis

cc. Blanca Rodriguez, Grants Policy and Oversight Staff Director

Enclosure



UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF THE CHIEF FINANCIAL OFFICER

SEP 21 2001

Bernard Tadley
Regional Inspector General for Audit
Office of Inspector General
The Wannamaker Building
100 Penn Square East, Suite 502
Philadelphia, PA 19107

RE: Control Number ED-OIG/A03-B0018

Dear Mr. Tadley:

Thank you for the opportunity to comment on the draft audit report that your office prepared in connection with its evaluation of the discretionary monitoring process. To begin, I want to express appreciation for the detailed discussion that your findings present on this issue. Your findings have helped to give a much better sense of the extent and quality of grant monitoring that programs have been undertaking since the grant redesign. This, in turn, gives the Department the kind of information necessary to strengthen its oversight of the grants process.

With respect to the report's findings and recommendations, I offer specific comments below:

Finding No. 1 - *The Departmental Directive titled Monitoring Discretionary Grants and Cooperative Agreements was not fully implemented.*

OCFO concurs.

Recommendation 1.1 - *The Chief Financial Officer should ensure that the principal offices implement the requirements of the Departmental Directive on Monitoring Discretionary Grants and Cooperative Agreements, dated March 23, 1994.*

OCFO does not concur with this recommendation, but only in a technical sense. The current Directive on grant monitoring is in the process of being replaced. Many of its provisions, as indeed those of several other Directives related to the grants process, have been made obsolete by grant redesign efforts, which the Department began implementing in recent years.

To address this situation, OCFO began a process of replacing all of these affected Directives with a new ACS Handbook on the grants process, which will combine all the requirements related to the grants process--including those touching on monitoring--in a single source of information for program staff. OCFO is writing this document, to be issued after the

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beginning of FY 2002, with regular input from the Discretionary Grants Policy Advisory Team (Advisory Team), an intra-Principal Office (PO) group formed last year to help OCFO develop various aspects of grant policy.

However, OCFO concurs with the substance of the recommendation, i.e., that OCFO needs to assure that requirements related to monitoring--or any aspect of the grants process--are implemented across Principal Offices. Therefore, after this new document is completed, OCFO undertake a significant training effort designed for the Principal Office staff regarding the requirements in the new Handbook, including those related to monitoring. OCFO plans to reach a significant number of Program Staff with this training by the end of 2002.

In addition, by way of anticipating the requirements with respect to monitoring in the new Handbook, OCFO recommends that each of the six Principal Offices contract to have one or more full-time experts in monitoring methodology on site. Such experts would train the Program staff of each PO in monitoring methodologies and help them develop required monitoring plans, reports, and standardized instruments for capturing monitoring data on grantees in a systematic matter. OCFO hopes that the Secretary will agree to fund the contracted monitoring experts at the levels necessary for each principal office. If the Secretary approves the recommendation and the funding, OCFO estimates the contract(s) will be awarded and the experts in place before the end of 2002.

OCFO believes that both the training on the monitoring phase of the new Handbook and the proposed contracted monitoring experts for each PO will play a significant role in assure that the Department's requirements with respect to monitoring will be implemented across Program Offices.

Finally, the requirement in the current Directive that each Principal Office prepare a plan for and report on its monitoring activities each year will be carried over into the new Handbook. The Handbook will require that the Assistant Secretary for each Principal Office transmit to the Chief Financial Officer a copy of the plan and report for that area by certain specified dates each year. OCFO will then be able to use these documents as a foundation for oversight, in order to follow up with each Principal Office on specific questions or issues that OCFO has identified regarding monitoring activities in a particular program area.

Finding No. 2 - *The Departmental Directive does not include provisions to identify and monitor high-risk grantees, use information contained in the Single Audit reports during the monitoring process, share information on grantees designated as high risk among program offices, or document the monitoring activity.*

OCFO partly concurs with these findings.

OCFO does not concur with regard to the finding about the matter of high-risk grantees. But, in explaining why, it might be helpful to give some preliminary background discussion about the way the grants process addresses the matter of risk in general when funding grant projects.

Under Federal legislation, grants and cooperative agreements are defined as instruments that are for the purpose of funding and benefiting a public purpose. Unlike contracts, they are not

designed to obtain a product or service for the direct benefit of the government. Thus, there is no specific deliverable promised, against which the Government could withhold funds and reduce to a minimum the risk of having lost Federal funds needlessly in the event of non-performance. In effect, a grant or cooperative agreement is a commitment from the grantee to perform its best level of effort to achieve the objectives of a project. But specific outcomes or genuine educational progress in the case of this Department's projects cannot be absolutely guaranteed in any project.

The Department, therefore, has an interest in reducing to a minimum the risk to itself in funding all grants and enhancing the likelihood that every project will achieve success in reaching its goals. With that in mind, the whole grants process has evolved over the years as a system of risk management in selecting and funding grant recipients. In this specific sense, the grants process is not unlike insurance underwriting in the private sector: a large entity (a major insurance group, the Government) agrees to take on the possible occurrence of unknown future events (major claims, failure to perform a project successfully) in exchange for a probability of future benefits (long-term profitability, genuine benefit to the taxpayer) by assessing the risk factors involved.

At the beginning of the process, staff suggest legislated criteria and/or write regulatory criteria for awarding grants that will help to determine which applicants in a particular program will have the greatest chance of completing their projects successfully, thus incurring the least risk to the Department in funding them. These criteria might include such considerations as the quality of key personnel performing the work of the project (i.e., those best trained and most experienced have high probability of success) or the strength or condition of the grantee entity (i.e., those with great depth and/or breadth of resources are able to give the necessary support to assure successful project completion).

As the next phase in this system of evaluation, the Department refines this process by engaging subject-matter experts in the content area of the projects to review the applications and apply the funding criteria in a consistent and stringent manner. With the numerical point values these reviewers assign based on those criteria, Program Staff are then able to rank projects for funding from those most capable of succeeding to those least so. By funding only those with the highest point values, Program Staff take another step toward choosing projects with the least risk of failure to perform successfully.

The third phase of this system of risk control involves monitoring grants, the subject of this audit. In the monitoring process, Program Staff are intended to have continuous opportunity through contact and dialogue with a grantee to discover any increase in a project's risk of non-performance. This enables Department staff to evaluate progress on a project and counteract any weaknesses (i.e., increased risk) through consultations and technical assistance.

The final step in this interlocking system of grant oversight is post-award audit, which would allow for the recovery of some or all funds from grantees (high-risk or otherwise) that had adverse findings, especially of non-performance or fiscal mismanagement. Such recovery would effectively neutralize the harm to the Government's interest from grantees in this category.

In an ideal world, this multi-part system should ensure that no grantee would ever be at high risk of failing and would never need to be so designated. Realistically, the Department knows that is not the case. For many legitimate reasons, they may decide to fund a project, despite the fact that an entity might have structural or fiscal instability or that a project concept or design might be exploring or using unproven methodologies. There may also be a congressional mandate to fund projects in areas or issues that are inherently risk-prone.

The Department has established steps for dealing with grantees that will present greater than routine risk in their acceptance and use of Federal funds. It is in this aspect that the finding of the audit report represents some misunderstanding of the process of designating a grantee as high-risk. That determination is usually made before the Department actually obligates funds and the work of a project begins. That is why the monitoring Directive does not include provisions for identifying and classifying such grantees, since its concern is the post-award phase of the process. Information about designating high-risk grantees is included in ACS Directive, "Discretionary Grant Planning, Review, and Award Procedures," C:GPA:1-102, issued in 1992, which treats the grants process up to the time of award. At paragraph XX.E., this Directive discusses the criteria and conditions for a high-risk grantee.

As for the system of monitoring grantees designated as high-risk, the process would not be fundamentally different from that desired for all grantees. The presence of a high-risk designation--and the specific circumstances that led to it--would simply be an additional consideration taken into account as Program staff review all facets of the project in preparing for a monitoring conversation or site visit. Indeed, paragraph IX.A.4. of the current monitoring Directive discusses the need to take into account established risk factors of a grantee when the Program staff determine the most appropriate form of monitoring for a project.

Program staff have different ways of enhancing the monitoring process for high-risk grantees. For example, such grantees might receive multiple forms of monitoring, or all high-risk grantees in a program might be assured of a site visit so as to allow the Program staff close scrutiny of the grantee's activities. Program staff also have the option of requiring more frequent reporting as a term and condition of the grant, so that information about the grantee's progress is coming in more regularly for Program staff review and follow-up. Additionally, if the Program staff have chosen to make the project a cooperative agreement, they might add additional milestones to the agreement to make sure that such a grantee is staying on track.

OCFO agrees that sharing information with other parts of the Department about monitored grantees that have been designated as high-risk is an important part of the over-all system of risk management. The current Directive on monitoring addresses this matter in paragraphs IX.A.8. & 9., especially in the context of recovering funds in the event of adverse findings (most likely in cases of high-risk grantees). Paragraph IX.B. speaks to actions to be taken, including informing other areas of the Department, about adverse monitoring findings in general.

OCFO does not concur with the finding of lack of guidance in the Directive about documenting monitoring activity. Sections IX.A.7., 8., & 9. specifically require that Program staff "create complete and detailed file records of all monitoring activities" and that they

provide "timely written reports of monitoring activities, which include findings and recommendations for changes and improvements to projects whenever necessary, identify specific elements of exemplary performance in projects, and make recommendations for recovery of funds in cases of adverse findings." Section IX.B.2. takes this matter further in the event of documenting adverse findings, requiring that "the Principal Office shall provide information that permits the Department to establish a claim for recovery of funds." In addition, Section IX.B.4. requires that "Principal Officers shall report other findings involving possible violation of Federal law or regulation to the cognizant officials." Clearly, these requirements for "providing information" and "reporting findings" are intrinsic to documenting the monitoring activity.

OCFO partly concurs with the finding related to using the information in Single Audit reports. The current Directive on monitoring does contain a provision at VIII.C.4.e that the Annual Monitoring Plan specifically consider "particular difficulties identified in Federal or non-Federal audits." Such audit history could be understood to include that contained in Single Audit reports. However, OCFO concedes that not mentioning the Single Audit reports specifically could lead to ambiguity in the way Program Office staff interpret this requirement and that they could overlook the Single Audits as a source of significant and useful information.

Recommendation 2.1 - *The Chief Financial Officer should incorporate into the Directive provisions that require principal offices to: develop a systematic process and criteria for identifying and monitoring high-risk grantees, use grantees' Single Audit reports during their discretionary grants monitoring process, implement a system to share information on grantees designated as high-risk between principal and program offices, and include in the monitoring process a provision for better documentation of the monitoring activity.*

As explained in the extensive discussion above about the finding related to high-risk grantees, the grants process, as laid out in various Directives, does contain a systematic method of risk management for grant funding, which includes specific criteria and conditions for designating grantees as being in a high-risk category. OCFO concurs that this information needs to be kept current and in the forefront of Program staffs' consideration when selecting grant projects for funding and managing them. When both Directives (C:GPA:1-101 and C:GPA:1-102) are replaced, their provisions related to high risk grantees will be carried over in full into the new ACS Handbook on the grants process, which was discussed under Recommendation 1.1. In addition, the Handbook will mention the tighter administrative control that Program staff now have in managing and monitoring high-risk grantees by referring to their ability to revoke one or more of the so-called "expanded authorities," discussed in GPOS Policy Bulletin #19, whenever that is thought necessary.

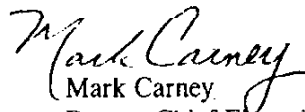
OCFO concurs with the recommendation for sharing information across the Department on high-risk grantees. In addition to carrying over the requirements of the current Directives into the new Handbook, OCFO is working to enhance and make fully functional in FY 2002 a data element in GAPS that will alert any Program Office employee to the fact of an entity's high-risk designation by some other area of the Department. This will enable Department staff to take that fact into account in deciding whether or not to fund a particular applicant's project.

Similarly, OCFO concurs with the recommendation to include provisions for better documentation of monitoring activity. The requirements of the current monitoring Directive will be carried over into the new ACS Handbook. In addition, the Handbook will contain new guidance on the types of information that monitoring documentation should contain. OCFO believes implementing the recommendation for contracting with monitoring experts in each Principal Office will make a major contribution to upgrading the quality of monitoring and documenting such activities.

Finally, OCFO concurs with the recommendation that Program staff be required to use Single Audit reports as part of their process of grant administration and monitoring. In that vein, the new Handbook will speak to precisely that issue and require documenting the grant file with relevant information from Single Audit reports for the grantee entity, where applicable. The Handbook and training will also direct Program staff to use internal resources, such as Department audit databases and Program Determination Letters, for further research, where that might be warranted.

I hope this discussion has been helpful in demonstrating OCFO's interest in putting in place the recommendations of the OIG audit. Should you have further questions or comments regarding this response, please contact Blanca Rosa Rodriguez, Director, Grants Policy and Oversight Staff, at 260-0172.

Sincerely,



Mark Carney

Deputy Chief Financial Officer

cc: Office of the Deputy Secretary
Office of the Inspector General
Assistant Secretary, Office of Elementary and Secondary Education
Assistant Secretary, Office of Vocational and Adult Education
Assistant Secretary, Office of Special Education and Rehabilitative Services
Assistant Secretary, Office of Bilingual Education and Minority Languages Affairs
Assistant Secretary, Office of Postsecondary Education
Assistant Secretary, Office of Educational Research and Improvement