
The Department's Management Controls Over Discretionary Grants Need To Be Strengthened To Ensure Grant Accountability



FINAL AUDIT REPORT ED-OIG/A07-B0016 September 2002

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U.S. Department of Education
Office of Inspector General
Region VII, Kansas City Office

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UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF INSPECTOR GENERAL

SEP 26 2002

MEMORANDUM

TO: Jack Martin
Chief Financial Officer
Office of the Chief Financial Officer

FROM: *Heather Lew for*
Thomas A. Carter
Assistant Inspector General for Audit

SUBJECT: FINAL AUDIT REPORT
The Department's Management Controls Over Discretionary Grants Need to be Strengthened to Ensure Grant Accountability
Control No. ED-OIG/A07-B0016

Attached is a copy of our final audit report referenced above. We are providing copies of this report to the Director, Grants Policy and Oversight Staff; the Director, GAPS Team; and the Office of the General Counsel.

In accordance with the Department's Audit Resolution Directive, you have been designated as the action official responsible for the resolution of the findings and recommendations in this report.

If you have any questions, please contact William Allen at 816-880-4024.

Please refer to the above control number in all correspondence relating to this report.

Attachment

The Department’s Management Controls Over Discretionary Grants Need To Be Strengthened To Ensure Grant Accountability

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The Department's Management Controls Over Discretionary Grants Need To Be Strengthened To Ensure Grant Accountability

Executive Summary

We conducted an audit of the U.S. Department of Education's (the Department's) administration of discretionary grants and cooperative agreements under 34 C.F.R. § 74.25. Our objectives were to determine whether these regulations provide the appropriate level of accountability for grant funds, and whether internal Department policies and procedures were sufficient to ensure that appropriate controls were in place over the use of grant funds while providing for operational flexibility for grant recipients.

We found that the regulations under 34 C.F.R. §§ 74.25 and 75.253, 75.261, 75.263, and 75.264 could provide the appropriate level of grant fund accountability if additional controls were incorporated in the Department's grant oversight policies and procedures and in GAPS. More specifically, we found that:

- The Department's oversight of grantees was not sufficient to balance their expanded discretionary authority;
- Program offices were not able to use the Grant Administration and Payment System (GAPS) for monitoring budget carryovers of grant balances to subsequent years as envisioned by the Department when the expanded authority flexibilities were first implemented; and
- Program offices were not systematically using GAPS data for monitoring grantees.

We recommend that the Chief Financial Officer establish and implement policies and procedures that ensure that:

- The appropriate level of program management is involved in decisions related to project period extensions and the resolution of exceptions listed on standard GAPS reports; and
- GAPS generates standard exception reports that list grants that exhibit large amounts of funds available for drawdown near the end of each budget period.

The OCFO generally agreed with our findings and recommendations. We have summarized the OCFO's responses at the end of the respective findings to which each relate and provided a full text of their responses as an Appendix.

Background

On July 28, 1997, the Department published significant changes to the Education Department General Administrative Regulations that affected the way most discretionary recipients administer their awards. Known as “Expanded Authorities” regulations, these amendments to 34 C.F.R. Part 75 renewed the Department’s emphasis on partnership with grantees by giving them more flexibility in carrying out their projects.

Provisions of 34 C.F.R. §§ 74.25, 75.253, 75.261, 75.263, and 75.264 significantly expanded discretionary grant recipients’ authority to undertake specific administrative actions relating to grants and cooperative agreements without prior approval by Department officials. Specifically, it allowed grantees to:

- Carry over unexpended funds from one budget period to the next,
- Extend the grant project period for a period of up to one year,
- Obligate funds up to 90 days before the effective date of a budget period without prior approval, and
- Make budget transfers without prior approval.

In making these regulatory changes, the Department envisioned that the greater flexibility in expending federal funds conferred to grantees would need to be matched with a closer attention to project monitoring by departmental program staff. The Department implemented a new financial system, GAPS, in part, to facilitate this improvement in project monitoring. The new system was expected to allow for review of fiscal drawdowns by grant number and fiscal year. The Department expected that this system, combined with other information gained by departmental program staff from such monitoring activities as recurring phone contacts, written communications, review of performance reports, and site visits, would provide for good accountability of grant expenditures.

Audit Results

We found that the Expanded Authorities regulations could provide the appropriate level of grant fund accountability if additional controls were incorporated in the Department's grant oversight policies and procedures and in GAPS. More specifically, we found that:

- The Department's oversight of grantees was not sufficient to balance their discretionary authority under 34 C.F.R. §§ 74.25, 75.253, 75.261, 75.263, and 75.264;
- Program offices were not able to use GAPS for monitoring budget carryovers of grant balances to subsequent years as envisioned by the Department when the expanded authority flexibilities were first implemented; and
- Program offices were not systematically using GAPS data for monitoring grantees.

Finding No. 1 – The Department's Oversight of Grantees Was Not Sufficient to Balance Their Expanded Discretionary Authority

We found that some grantees drew down significant amounts, as much as 100 percent, of their total grant award budgets during or after a 12-month maximum project period extension as provided under 34 C.F.R. §§ 74.25 and 75.261. We also found instances of project period extensions exceeding 12 months, project periods that had been extended more than once, and extensions that were made without the required written notification to the Department. These facts raised questions as to whether some of these actions did not in fact alter the objectives or scope of the grant projects or whether they were taken simply to use up unobligated balances, both of which are unallowable under 34 C.F.R. § 74.25 (e)(2) .

Eighteen of the 24 grants we reviewed showed drawdowns of more than 25 percent of their total grant award budgets during or after project period extensions. For four of these 18, 100 percent of the total grant award was drawn down during or after the project period extension.

We found that GPOS Bulletin No. 27, *Monitoring Discretionary Grants for Excessive Drawdowns*, provides guidance for monitoring grants having unusually large drawdowns at three different points of their projects:

- As of the end of the first quarter of a grant's current budget period, if more than 50 percent of the funds obligated for that budget period has been drawn;
- As of the end of the second quarter of the grant's current budget period, if more than 80 percent of the funds obligated for that budget period has been drawn; and
- As of the end of the third quarter of the grant's current budget period, if more than 100 percent of the funds obligated for that budget period has been drawn.

The drawdown activity we have identified above is not addressed in Bulletin No. 27. We found grants for which only small amounts, if any, were drawn down during the project period, and then, unusually large amounts were drawn down at the end of or during the extension of the project period. The absence of drawdowns for one or more budget periods is not, in itself, a violation of regulations or departmental policy, but it is out of the norm and could be an indicator of problems that should be considered for follow-up by program officials.

We also found instances of project period extensions exceeding 12 months, as well as multiple extension periods. These activities are not, in themselves, violations of regulations or departmental policy, but they are out of the norm and could be indicators of problems that should be addressed. An effective management control system would ensure that such activity has been reviewed by the appropriate level of program management.

In 12 of the 24 grant files we reviewed, we found no written notification from the grantee that provided supporting reasons for the extension. Seven of the notifications we found in the remaining 12 grant files were submitted later than their due dates. These instances indicate noncompliance with requirements regarding written notification that are stated in 34 C.F.R. § 4.25 (e)(2)(ii).

Although we agree with the Department’s intention to provide grantees with more flexibility in carrying out their projects, we have concluded that this flexibility should be balanced by increased oversight if the Department is to have reasonable assurance that a project period extension is within the grant’s scope and objectives and not simply made to spend unused funds.

Recommendations

We recommend that the Chief Financial Officer establish and implement policies and procedures that ensure that:

- 1.1 Action by the responsible program manager is required for extending a project period:
 - 1.1.1 More than one time;
 - 1.1.2 By more than 12 months ;
 - 1.1.3 If the notification for the extension has been submitted by the grantee later than the due date specified under 34 C.F.R. § 74.25; and
 - 1.1.4 If the extension is for expenditures exceeding a specified percent of the total amount of federal funds awarded under the grant.
- 1.2 The actions listed under Recommendation 1.1 are documented in the program offices’ official grant files so as to identify who took the action, when the action was taken, and the reasons for the action.

OCFO Response and OIG Comment

OCFO Response – OCFO generally agreed with our findings and recommendations. OCFO stated that they agree that the departmental review and approval of multiple time extensions and time extensions for more than 12 months is necessary (*Recommendations 1.1.1 and 1.1.2*). OCFO stated in its response that its current draft Discretionary Handbook provides procedures for review and approval by a warrant holder (the person who obligates grants under particular programs) that are sufficient to address the intent of our recommendations.

OIG Comment – It weakens administrative controls when a warrant holder is responsible for both approving grantees’ extension requests, for multiple grant extensions and time extensions exceeding the prescribed 12 months, and obligating the funds that correspond to that time period.

According to GAO's *Standards for Internal Control in the Federal Government (GAO/AIMD-00-21.3.1)*,

Key duties and responsibilities need to be divided or segregated among different people to reduce the risk of errors and fraud. This should include separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets. No one individual should control all key aspects of a transaction or event.

OCFO Response – OCFO noted that GPOS training for grantees emphasizes the importance of adhering to the 10-day notification period (*Recommendation 1.1.3*), so that program offices will have sufficient time to process the extensions in GAPS. OCFO stated that the ultimate goal of allowing grantees to initiate time extensions is to give them sufficient time to complete approved project activities that will result in successful project outcomes and that if it is administratively feasible, program staff should have the latitude to process notifications received with less than 10 days before the end of the project period.

OIG Comment – We do not share OCFO's perspective that program staff should have the latitude to process notifications that are not received at least 10 days before the end of the project period, as specified under 34 C.F.R. § 74.25. If the Department chooses to deviate from the 10-day requirement, the decision should be documented by management. Eighteen of the 24 grants reviewed did not receive the notifications for the extension at least 10 days before the project period. Some of these notifications were sent as late as eight months after the end of the grant project period.

OCFO Response – The OCFO stated that they do not believe that an additional level of review and approval is needed for project period extensions that involve expenditures exceeding a specified percent of the total amount of federal funds awarded under a grant (*Recommendation 1.1.4*). The OCFO stated that the GAPS exception report to be developed in response to Recommendation number 2.1 will serve a dual purpose of enabling program staff to take into account large remaining balances in grantees' accounts when (1) issuing continuation awards and (2) considering grantees' notifications of time extensions. OCFO stated that large available balances in GAPS are not usually an indicator of a problem since many grantees use their own funds initially to fund project activities and then reimburse themselves at a later date. Further, OCFO stated that they believe that large unexplained award balances at the end of the project period would become rare and infrequent once program officers begin following the new policy of reviewing the new exception report, addressed under Recommendation 2.1.

OIG Comment – Although we agree with the OCFO that the GAPS exception report, to be developed in response to our recommendation number 2.1, will enable program staff to make more informed decisions when considering extending project periods that involve large expenditures, we still believe that review and approval of such decisions should remain part of management’s responsibilities. As stated earlier, “Key duties and responsibilities need to be divided or segregated among different people to reduce the risk of errors and fraud.”
(GAO/AIMD-00-21.3.1)

Finding No. 2 – Program Offices Were Not Able to Use GAPS for Monitoring Carryovers of Grant Balances to Subsequent Years as Envisioned by the Department

We found that program offices were not able to use GAPS for monitoring budget carryovers of grant balances to subsequent years as envisioned by the Department when the Expanded Authorities were first implemented. The reason for this is that the Department did not collect grant expenditure information by the budget period for which the grant was awarded. The benefits of collecting this information may be outweighed by the additional paperwork burden for grantees and the Department. An alternative approach for the Department to oversee grantees that exercise the carryover flexibility would be to develop policy and procedures for generating exception reports from GAPS that would list grants that exhibit large amounts of funds available for drawdown near the end of each budget period. This type of report would help program offices concentrate their resources on grants that might have a higher risk of non-compliance and from which the Department might be able to realize budget savings.

In implementing the expanded authority provisions, the Department noted that GAPS would “track all funds by the fiscal year they were made available for obligation by the Department.” (Final Rule, 62 Fed. Reg. 40422, July 28, 1997) It issued regulations under 34 C.F.R. § 75.253 (c)(3) that state, “In determining the amount of new funds to make available to a grantee . . . the Secretary considers whether the unobligated funds made available are needed to complete activities that were planned for completion in the prior budget period.” Office of the Chief Financial Officer (OCFO) training materials on awarding and administering discretionary grants instruct grant-making teams to look for “Red Flags” such as grants that show large amounts of unobligated funds at the end of a budget period.

Officials in three program offices brought to our attention that they were unable to monitor unobligated grant balances that were carried forward to subsequent funding periods because the Expanded Authorities do not require grantees to request approval from the Department for these actions and GAPS does not provide a breakdown of grant drawdown balances by budget year.

GAPS as currently designed does not provide program offices a monitoring tool to help them identify large carryovers, and thereby reduce the risk of unallowable drawdowns and expenditures by grantees, and unrealized budget savings.

Recommendation

- 2.1 We recommend that the Chief Financial Officer establish and implement policies and procedures that ensure that GAPS generates standard exception reports that list grants that exhibit large amounts of funds available for drawdown near the end of each budget period.

OCFO Response

OCFO agreed with this recommendation.

Finding No. 3 – Program Offices Were Not Systematically Using GAPS Data For Monitoring Grantees

Officials from three program offices advised us that their staffs did not systematically use GAPS data for monitoring grantees. Also, according to most of the program officials we interviewed, the monitoring they performed was geared toward providing grantees with technical assistance and not toward monitoring grantee compliance with laws and regulations. Because of this, their monitoring was of limited usefulness as an internal control.

As discussed in the *Background* section of this report, the Department conferred to grantees Expanded Authorities with the idea that the Department would match the new flexibilities with closer attention to project monitoring. The Department implemented GAPS, in part, to facilitate this closer attention to monitoring. However, we did not find evidence of close monitoring or the use of GAPS for monitoring.

Twenty-two of the 24 grant files we reviewed did not contain evidence that monitoring had been performed, and neither of the two files that did show a degree of monitoring made any reference to the use of GAPS data. Officials from OCFO and three program offices told us that one reason that GAPS was not used for monitoring was the lack of policy in that regard.

We are making recommendations in this report to OCFO to make improvements in GAPS that would facilitate monitoring. However, if program offices do not systematically use GAPS data when monitoring grantees, OCFO's efforts to improve GAPS will be of limited effectiveness in helping to protect the Department's programs against mismanagement and fraud.

Recommendations

We recommend that the Chief Financial Officer establish and implement policies and procedures that ensure that:

- 3.1 Discretionary grant program staff research each exception listed on OCFO's standard exception reports and document in the official grant file its resolution; and
- 3.2 Discretionary grant program managers document their approval of these resolutions.

OCFO Response and OIG Comment

OCFO Response – OCFO agreed that program staff research each exception listed on OCFO’s standard exception reports and document in the official grant file its resolution. However, OCFO stated that, while they agree that program managers will need to be involved in certain instances where the program staff is unable to resolve a problem with a grantee, they did not believe that this higher level of review and approval would be necessary in most cases. OCFO stated that in accordance with policy in the draft Handbook, the program manager or a higher-level program official will need to be involved in approving serious decisions affecting a grant such as placing a grant on a “high-risk” status or discontinuing a grant at the time of the continuation award.

OIG Comment – As discussed under our comment section to recommendation 1.1.1, it weakens administrative controls when responsibilities for authorizing and reviewing transactions, such as resolutions of exceptions, are not subject to the review and approval of a different person, in this case a program manager. According to GAO’s *Standards for Internal Control in the Federal Government* (GAO/AIMD-00-21.3.1),

Key duties and responsibilities need to be divided or segregated among different people to reduce the risk of errors and fraud. This should include separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets. No one individual should control all key aspects of a transaction or event.

Objectives, Scope, and Methodology

Our audit objectives were to determine (1) whether the regulations currently in place for discretionary grants and cooperative agreements provide the appropriate level of accountability for grant funds, and (2) whether internal Department policies and procedures are sufficient to ensure that appropriate controls are in place over the use of grant funds while providing for operational flexibility for grant recipients.

To accomplish our audit objectives we:

- Reviewed applicable federal laws and regulations,¹ Department policy and guidance, and program information available in reports and on the Internet;
- Interviewed Department officials from OCFO and six program offices: Office of Bilingual Education and Minority Languages Affairs, Office of Elementary and Secondary Education, Office of Educational Research and Improvement, Office of Special Education and Rehabilitative Services, Office of Postsecondary Education, and Office of Vocational and Adult Education;
- Reviewed documentation provided by OCFO and the six program offices;
- Selected, from a universe of 4,718 discretionary grants,² a judgmental sample of 24 grants for review;³ and

¹ Regulatory citations are to the 1998 Volume of the Code of Federal Regulations.

² The universe from which we drew the judgmental sample was limited to discretionary grants for which a project period extension had been exercised under 34 C.F.R. § 74.25, that had final/current budget periods beginning between July 1, 1997, and June 30, 1999, and that incurred drawdowns more than 15 months after the beginning of the final/current budget period. In reviewing the data elements contained in GAPS, we determined that we could only trace in GAPS the use by grantees of one of the expanded authority flexibilities: the project period extension flexibility. Tracing grantee use of the remaining flexibilities was not possible because the Department did not collect the required information.

³ Because we judgmentally selected the sample, based on whether a grant had a lengthy extension, the results of the sample review cannot be projected to the universe of the Department's discretionary grants.

- Reviewed and analyzed the supporting grant administration data contained in the official grant file of each grant sampled, including grant performance reports when available, and compared it to the data contained in GAPS.

While for purposes of the audit we did not rely solely on the computer-processed data contained in GAPS, we did use it as the source for the sample and to establish context and illustrate materiality for some aspects of the findings. We also used the computer-processed data contained in GAPS to corroborate documentation in the Department's official grant files. As part of the audit, we tested GAPS data by reviewing the sampled grant files and found no exceptions to what we found in GAPS. Given the limited use of GAPS data in the audit and our testing of the data, we determined that the data was reliable for purposes of the audit.

We performed on-site fieldwork at OCFO and the six program offices intermittently from May 2, 2001, through August 9, 2001. In addition, we continued to collect and analyze data in our offices through May 1, 2002. On February 20, 2002, we held an exit conference with officials from OCFO and the program offices we visited. The audit was performed in accordance with Government Auditing Standards appropriate to the scope of the audit.

Statement on Management Controls

We have made a study and evaluation of the Department's management controls in effect during the period May 2, 2001, through August 9, 2001, as they relate to its administration of discretionary grants under 34 C.F.R. § 74.25. We conducted our study and evaluation in accordance with Government Auditing Standards. For the purpose of this report, we assessed and classified the relevant management control structure into the following categories:

- Departmental policies and federal regulations for administering discretionary grants under 34 C.F.R. Part 74; and
- The design of GAPS with respect to its usefulness as a tool for monitoring discretionary grants.

OCFO management is responsible for establishing and maintaining a management control structure for administering discretionary grants. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of the system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and recorded properly, so as to permit effective and efficient operations.

Because of inherent limitations in any management control structure, errors or irregularities may occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the degree of compliance with the procedures may deteriorate.

Our assessment disclosed weaknesses in the Department's management control structure, which result in more than a relatively low risk that errors, irregularities, and other inefficiencies may occur resulting in inefficient and/or ineffective performance. These weaknesses and their effects are fully discussed in the *Audit Results* section of this report.



UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF THE CHIEF FINANCIAL OFFICER

MEMORANDUM

TO : William Allen
Regional Inspector General for Audit

FROM : Mark Carney *Mark Carney*
Deputy Chief Financial Officer

SUBJECT : Response To Draft Audit Report, "The Department's Management Controls Over Discretionary Grants Need to be Strengthened to Ensure Grant Accountability" (ACN ED-OIG/A07-B0016)

The purpose of this memorandum is to respond to the above OIG draft audit report, dated August, 2002. OCFO appreciates the opportunity to address the recommendations noted in your report.

- Recommendation #1.1.1 – Action by the responsible program manager is required for extending a project period more than one time.
- Recommendation #1.1.2 – Action by the responsible program manager is required for extending a project period by more than 12 months.

The following response applies to both Recommendations 1.1.1 and 1.1.2:

Multiple time extensions and time extensions for a period of more than 12 months are actions that are not covered by the Expanded Authorities amendments; they therefore require prior approval. The draft Discretionary Grants Handbook (Handbook), which provides program offices with policies and procedures for post award administrative actions, requires a warrant holder (the one who obligates grants under particular programs) to review and approve actions that require prior approval as well as to update Grant Administration and Payment System (GAPS) data. A warrant holder's review of requests for multiple extensions or for time extensions exceeding 12 months would include evaluating the justification provided by the grantee and determining the appropriateness of approving the request.

OCFO agrees that departmental review and approval of multiple time extensions and time extensions for more than 12 months is necessary and believes that current procedures for review and approval by the warrant holder (rather than the program manager) are sufficient to address the intent of the recommendation.

- Recommendation #1.1.3 – Action by the responsible program manager is required for extending a project period if the notification for the extension has been submitted by the grantee later than the due date specified under 34 CFR §74.25.

34 CFR 74.25 states that a grantee who wants to initiate a one-time extension for up to 12 months shall provide written notification to the Department at least 10 days before the award's expiration date. It is important to keep in mind that the Office of Management and Budget and the interagency committee established this 10-day timeframe as an administrative convenience for Federal agencies, in order to allow sufficient time to process the extension in agencies' automated systems. The ultimate goal of allowing grantees to initiate time extensions is to give them sufficient time to complete approved project activities that will result in successful project outcomes. If it is administratively feasible for a program office to process a time extension for which notification was received less than 10 days before the end of the project period, OCFO believes program staff should have the latitude to do so without additional action by the program manager.

Nonetheless, OCFO notes that GPOS training for grantees emphasizes the importance of adhering to the 10-day notification period, so that program offices will have sufficient time to process the extension in GAPS.

- Recommendation #1.1.4. - Action by the responsible program manager is required for extending a project period if the extension is for expenditures exceeding a specified percent of the total amount of federal funds awarded under the grant.

The GAPS exception report to be developed by OCFO in response to Recommendation #2 will list grants that exhibit large amounts of funds available for drawdown near the end of each budget period. The report serves the dual purpose of enabling program staff to take into consideration large remaining balances in grantee accounts 1) prior to issuing a continuation award and 2) when considering grantees' notifications of time extensions. For such grantees, the draft Handbook instructs program offices to review the justification for the extension and, if necessary, contact the grantee to determine the reason(s) for the large balances before processing the time extension. It must be noted here that a significant number of grantees use their own funds initially to fund project activities and then reimburse themselves at a later date, according to financial activity schedules and fiscal-year schedules within State agencies and institutions of higher education. Since a large available balance in GAPS is not usually an indicator of a problem, OCFO does not believe an additional level of review and approval is needed. Further, OCFO believes that large unexplained award balances at the end of the project period will become

- Recommendation #1.1.3 – Action by the responsible program manager is required for extending a project period if the notification for the extension has been submitted by the grantee later than the due date specified under 34 CFR §74.25.

34 CFR 74.25 states that a grantee who wants to initiate a one-time extension for up to 12 months shall provide written notification to the Department at least 10 days before the award's expiration date. It is important to keep in mind that the Office of Management and Budget and the interagency committee established this 10-day timeframe as an administrative convenience for Federal agencies, in order to allow sufficient time to process the extension in agencies' automated systems. The ultimate goal of allowing grantees to initiate time extensions is to give them sufficient time to complete approved project activities that will result in successful project outcomes. If it is administratively feasible for a program office to process a time extension for which notification was received less than 10 days before the end of the project period, OCFO believes program staff should have the latitude to do so without additional action by the program manager.

Nonetheless, OCFO notes that GPOS training for grantees emphasizes the importance of adhering to the 10-day notification period, so that program offices will have sufficient time to process the extension in GAPS.

- Recommendation #1.1.4. - Action by the responsible program manager is required for extending a project period if the extension is for expenditures exceeding a specified percent of the total amount of federal funds awarded under the grant.

The GAPS exception report to be developed by OCFO in response to Recommendation #2 will list grants that exhibit large amounts of funds available for drawdown near the end of each budget period. The report serves the dual purpose of enabling program staff to take into consideration large remaining balances in grantee accounts 1) prior to issuing a continuation award and 2) when considering grantees' notifications of time extensions. For such grantees, the draft Handbook instructs program offices to review the justification for the extension and, if necessary, contact the grantee to determine the reason(s) for the large balances before processing the time extension. It must be noted here that a significant number of grantees use their own funds initially to fund project activities and then reimburse themselves at a later date, according to financial activity schedules and fiscal-year schedules within State agencies and institutions of higher education. Since a large available balance in GAPS is not usually an indicator of a problem, OCFO does not believe an additional level of review and approval is needed. Further, OCFO believes that large unexplained award balances at the end of the project period will become

rare and infrequent occurrences, once program officers begin following the new policy of reviewing the new exception report, addressed under Recommendation #2, before issuing continuation awards. Under this new financial monitoring policy, program officers will be required to determine the reasons for large balances at the end of interim budget periods and take appropriate action if a problem is discovered.

- Recommendation 1.2 – The actions listed under Recommendation 1.1 are documented in the program offices' official grant files so as to identify who took the action, when the action was taken, and the reasons for the action.

Policy in the draft Handbook for approvals of time extensions that go beyond the scope of the expanded authorities, such as those listed in Recommendations 1.1.1 and 1.1.2, specifies having a printed, dated, and signed copy of the modified Grant Award Notification in the file. This document, along with the grantee's notification with explanations, will provide the recommended documentation. Policy for documenting all other time extensions is included in the draft Handbook as well.

- Recommendation #2 – Establish and implement policies and procedures that ensure that GAPS generates standard exception reports that list grants that exhibit large amounts of funds available for drawdown near the end of each budget period.

We agree with this recommendation. An exception report that identifies grants that have large amounts of funds available near the end of each budget period will serve as a useful monitoring tool for program offices in their overall review to issue a continuation grant. The exception report would be used in conjunction with a grantee's continuation report as well as any other items for review at this time. Additionally, as stated in Recommendation 1.1.4, the report will be used in review of a request for a time extension. GPOS will work with the GAPS staff to develop such a report in accordance with the policy in the draft Handbook that requires program staff to review the exception report prior to issuing a continuation award or processing a time extension.

- Recommendation #3.1 – Discretionary grant program staff research each exception listed on OCFO's standard exception reports and document in the official grant file its resolution.
- Recommendation #3.2 – Discretionary grant program managers document their approval of these resolutions.

We are responding to these recommendations jointly since they both touch on actions taken and documented, with respect to the matter of drawdowns.

We agree with the recommendation that discretionary grant program staff research each exception listed on OCFO's standard exception reports and document in the official grant file its resolution. Policy is included in the draft Handbook regarding resolution and documentation of items on GAPS exception reports. Currently, Grants Policy Bulletin #27, "Monitoring Discretionary Grants For Excessive Drawdowns," requires ED program staff (under **Responsibilities**) to research grants listed on the drawdown report that have possible excessive drawdowns and to document discussions and actions related to resolving the issue of a particular grant.

While we agree that program managers will need to be involved in certain instances where the program staff member is unable to resolve a problem with a grantee listed on an exception report, we do not believe that this higher level of review and approval will be necessary in most cases. For example, as indicated earlier under Recommendation 1.1.4, a significant number of grantees use their own funds initially to fund project activities and then reimburse themselves at a later date, according to financial activity schedules and fiscal-year schedules within State agencies and institutions of higher education. Therefore, a large available balance in GAPS is not usually an indicator of a problem. In these cases, a program staff member contacting the grantee can easily verify the grantee's institutional drawdown practices. In accordance with policy in the draft Handbook, the program manager or a higher-level program official will need to be involved in approving serious decisions affecting a grant such as placing a grant on "high-risk" status or discontinuing a grant at the time of the continuation award. These types of actions must be documented in accordance with policy included in the draft Handbook.

**The Department's Management Controls Over
Discretionary Grants Need To Be Strengthened To
Ensure Grant Accountability**

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<u>Other ED Officials (electronically)</u>	
Chief of Staff, Office of the Secretary	1
Under Secretary, Office of the Under Secretary	1
Deputy Secretary, Office of the Deputy Secretary	1
Director, Budget Service	1
Director, Office of Public Affairs	1
Press Secretary, Office of Public Affairs	1
Assistant Secretary, Legislation and Congressional Affairs	1
Assistant Secretary, Office of Intergovernmental and Interagency Affairs	1
Director, Grants Policy and Oversight Staff, OCFO	1
Director, GAPS Team, OCFO	1
Director, Financial Improvement & Post Audit Operations, OCFO	1
Supervisor, Post Audit Group	1
Audit Liaison Officer, Office of the General Counsel	1
<u>Office of Inspector General (electronically)</u>	
Inspector General	1
Deputy Inspector General	1

Assistant Inspector General for Audit	1
Assistant Inspector General for Analysis and Inspections	1
Assistant Inspector General for Investigations	1
Deputy Assistant Inspector General for Audit	1
Director, State and Local Advisory and Assistance	1
Regional Inspectors General for Audit	1 each
Directors, Internal Audit Teams	1 each