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**United States Department of State  
and the Broadcasting Board of Governors  
Office of Inspector General**

Report of Audit

**Review of the Department's  
Management of  
Financial Assistance**

**Report Number AUD/CG-03-29, March 2003**

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## **EXECUTIVE SUMMARY**

### **PURPOSE**

The Office of Inspector General (OIG) conducted an analysis of the Department of State's (Department) spending on federal financial assistance<sup>1</sup> programs and its current structure and processes for managing such assistance. OIG reviewed data related to federal financial assistance awarded domestically<sup>2</sup> during FYs 1998 through 2000. Specifically, OIG identified domestic bureaus and offices within the Department providing financial assistance; ascertained the types of funding mechanisms used to award assistance; quantified the dollar value of assistance; and identified policies, procedures, and systems used to manage the assistance programs. In addition, OIG reviewed actions the Department was taking to implement the Federal Financial Assistance Management Improvement Act of 1999,<sup>3</sup> which requires, among other things, streamlining and simplification of the processes, administration, and reporting procedures for federal financial assistance programs.

### **BACKGROUND**

Annually, the Department awards billions of dollars in financial assistance to a wide range of recipients. Within the Department, various offices have responsibility for providing guidance related to managing financial assistance. The Office of the Procurement Executive in the Bureau of Administration (A/OPE) promulgates policies and procedures for the award of grants and cooperative agreements, provides technical assistance and training, and issues warrants to grant officers delegating to them the authority to make awards. As of FY 2000, there were 43

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<sup>1</sup> Federal financial assistance is defined in the law as "assistance that non-federal entities [a state, local government, or nonprofit organization] receive or administer in the form of grants, loans, loan guarantees, property, cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, or other assistance..." (31 U.S.C. 7501(a)(5)).

<sup>2</sup> OIG defined "domestically" as funds awarded in the United States by domestic bureaus and offices.

<sup>3</sup> Pub. L. No 106-107 (1999); 31 U.S.C. 6101 notes.

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active domestic grant warrants and 283 overseas warrants. The bureaus and offices that award assistance are responsible for programmatic and administrative control of the assistance carried out under their authority, including the publishing of bureau-specific procedures, as necessary. Finally, the Bureau of Resource Management (RM) has established the Office of Grants Financial Management (RM/GFS/FPPRA/OGFM) to provide the leadership on financial management of grants and other forms of financial assistance through policy development, oversight, and training. RM also has established a Grants Management Steering Committee, though it had not met as of the end of OIG's fieldwork.

The President signed the 1999 Act on November 20, 1999, to improve the effectiveness and performance of federal grant and other financial assistance programs, simplify the application and reporting requirements, improve delivery of services to the public, and facilitate greater coordination among those responsible for delivering such services. Federal agencies, with oversight from the Office of Management and Budget (OMB), were to develop plans within 18 months (i.e., by May 2001) to:

- streamline application, administrative, and reporting requirements;
- develop a uniform application for related programs;
- develop and expand the use of electronic application and reporting via the Internet (E-Grants by October 2003);
- demonstrate interagency coordination in simplifying the requirements for cross-cutting programs; and
- set annual goals to further the purposes of the 1999 Act.

Instead of each agency's developing its own plan, the Director of OMB charged the Grants Management Committee of the Chief Financial Officers Council to coordinate and oversee the governmentwide implementation of the 1999 Act, including the development of an initial plan. The initial plan, submitted to Congress on May 18, 2001, was signed by 26 agencies, including the Department, and fulfilled the above planning requirements. The 1999 Act required each agency to designate a lead official for carrying out the responsibilities of the agency under the 1999 Act. The initial plan identified both the procurement executive and the director of the Office of Financial Policy, Reporting, and Analysis (RM/GFS/FPPRA) as lead officials for the Department.

## **RESULTS IN BRIEF**

The Department lacks comprehensive and reliable information on funding provided to nongovernmental organizations. This is due, in part, to the decentralization of the Department's management of financial assistance — no one office or system within the Department is responsible for or capable of capturing essential statistical data related to Departmentwide financial assistance. For example, the Department's official accounting system, the Central Financial Management System (CFMS), cannot provide total obligations for financial assistance. Based on CFMS disbursements and budget estimates, RM estimated financial assistance to be \$2.57 billion for FY 2000. A/OPE reported \$2.66 billion in domestic awards. However, based on unaudited data provided by the 21 bureaus and offices that OIG identified as providers of financial assistance, awards for FY 2000 totaled \$3.03 billion.

The Department also did not use standard policies, procedures, or systems for managing financial assistance. Bureaus and offices within the Department have acted independently, with little, if any, centralized oversight. As a result, recipients of grants found varied application forms, duplicate information collection requirements, separate reporting requirements, and, in some cases, inefficiently timed funds disbursement.

Neither A nor RM have communicated and coordinated effectively, with each other or with other bureaus. For example, officials from only three of the 21 bureau and offices were aware of the 1999 Act and its implications for the Department's assistance programs. This lack of effective communication and coordination between offices has led to a duplication of effort and is impeding the 1999 Act's overall implementation within the Department.

The recent audit of the Department's FY 2002 financial statements<sup>4</sup> corroborated OIG's findings and concerns related to financial assistance. The work found that the Department lacks an integrated management information system that can provide timely and comprehensive grant information. The Department's systems cannot provide users with timely summary reports and other financial management information.

OIG proposes that the Department clarify the financial assistance roles and responsibilities of A and RM and designate a single official with overall responsibility for implementing the 1999 Act. That official should assess the resources,

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<sup>4</sup> OIG contracted with Leonard G. Birnbaum and Company, LLP, to perform an audit of the Department's FY 2002 financial statements.

management structure, and systems needed to comply with the 1999 Act as well as the Federal Financial Management Improvement Act of 1996 (FFMIA).<sup>5</sup>

## **PRINCIPAL FINDINGS**

### **Complete Data on Total Financial Assistance Is Lacking**

OIG found that because the Department used a decentralized approach to manage financial assistance, no one bureau or office could provide accurate overall statistical data on assistance programs, such as the total amount of financial assistance awarded by the Department, the number of awards by type of assistance, or the total awarded to any one recipient. According to the data OIG collected and compiled for FYs 1998 through FY 2000, the Department awarded about \$8 billion domestically for financial assistance, including \$3.03 billion in FY 2000. RM and A/OPE also individually collected and compiled assistance data for FY 2000 and reported \$2.57 billion and \$2.66 billion in domestic awards, respectively, resulting in a difference of about \$460 million from OIG's compilation.

Some differences may have been caused by the inclusion of funds that were transferred to another agency and not recorded in the accounting system; use of miscellaneous obligating documents, which would not post transactions to the financial assistance budget object classification codes; posting and keying errors; differences of opinion on what should be called assistance; use of estimates and differing sources of data; and inclusion of overseas transactions. The difference in the amounts illustrates the need for standardized policies and guidance and an integrated system to account for financial assistance transactions.

The Department's Accountability Report for FY 2001 showed the integration of grants tracking systems for the educational and cultural programs as a material weakness and said that integration of the Department and the United States Information Agency (USIA) would eliminate redundant record keeping, simplify coordination, and provide accurate and consistent data on grant costs and recipients. This weakness was transferred to the Bureau of Educational and Cultural Affairs (ECA) from USIA. Although this weakness was resolved during the past year, OIG noted that ECA's grants management system still did not interface with the Department's accounting system.

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<sup>5</sup> Pub. L. No. 104-208 (1996).

Also, a similar situation exists in the Department as a whole. None of the multiple systems that bureaus and offices use to track financial assistance, including grants, are integrated with or linked to the Department's CFMS. A Departmentwide integrated tracking system for all assistance programs is needed to facilitate greater coordination among those responsible for delivering such services and to provide the information necessary for program and financial managers to manage effectively and efficiently. As the Department takes steps to modernize its accounting system and to comply with the core system requirements of the Joint Financial Management Improvement Program (JFMIP), it has an opportunity to integrate the collection of these data into the design of its system.

### **Uniformity Is Lacking in Financial Assistance Management**

OIG found that uniformity was lacking in the Department's management of financial assistance. Some of the Department's administrative requirements and systems are duplicative, burdensome, and conflicting. This hinders the goal of providing cost-effective service delivery to recipients. For example, although regulations require the use of standard forms when applying for financial assistance, Department bureaus and offices used various formats to collect this information. In addition, Department bureaus and offices did not use the same payment system. Common complaints from Department officials and recipients alike were that the Department's routine payment process was cumbersome and often resulted in untimely payments. Under the initial plan to implement the 1999 Act, RM selected the governmentwide Payment Management System (PMS), which was required for federal grants awarded after September 30, 2002. OIG also found a lack of uniformity in the systems and procedures being used by the various bureaus and offices to manage grants.

### **Better Communication and Coordination Needed To Implement the 1999 Act Effectively**

The Department has designated both the procurement executive and the director of RM/GFS/FPRA as lead officials to carry out Department responsibilities under the 1999 Act. This has led to confusion among the bureaus and offices over which one has overall responsibility, and this dual designation has hindered efforts to implement the 1999 Act. Both offices took actions independently to comply with the requirements of the 1999 Act, but neither fully coordinated with the other or with the other bureaus and offices responsible for awarding federal financial assistance. In fact, at the time of OIG's fieldwork in 2001, only three

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bureaus were aware of the 1999 Act and its implications. The lack of a single official responsible for implementing the legislation, and the poor communication and coordination between the Department's designated representatives and among the bureaus and offices administering assistance, have impeded the overall implementation of the 1999 Act.

## **RECOMMENDATIONS**

OIG recommends that RM, in coordination with A and other bureaus and offices, develop a Departmentwide grants management system that is integrated fully with the Department's official accounting system and a specific plan to bring grants management into compliance with the requirements of FFMIA. A, in conjunction with RM, should further standardize policies and procedures for managing federal assistance. In addition, the Department should clarify the financial assistance roles and responsibilities of A and RM and should designate a single official with overall responsibility for implementing the 1999 Act.

## **DEPARTMENT COMMENTS**

OIG provided a draft version of this report for comment to RM, A, and the other bureaus and offices listed in Appendix A. RM did not provide any written comments. A/OPE generally agreed with the report, but suggested changes to the recommendations. OIG considered the comments in preparing the final report and incorporated them, as appropriate. A/OPE's comments are included in their entirety in Appendix E.

The Bureau of Diplomatic Security (DS) and ECA also provided comments, which are included in Appendices F and G. In addition, the Bureau of Population, Refugees, and Migration (PRM) provided informal comments. These comments generally agreed with the report; however, OIG did not direct any recommendations to these bureaus. In its response, DS said that all three OIG recommendations in the report would improve the oversight and uniformity of awarding, funding, and administering federal assistance awards in the Department of State.



## **PURPOSE, SCOPE, AND METHODOLOGY**

OIG, in coordination with the Department's then Grant Management Review Committee, conducted an analysis of Department spending on assistance programs and assessed the current structure, processes, and roles. Specific purposes were to identify all offices in the Department that awarded federal financial assistance; ascertain the types of funding mechanisms used to award assistance; quantify the dollar value of assistance; and identify the related policies, procedures, and systems (automated or manual) used by the Department to manage assistance programs. OIG also reviewed the Department's actions taken to implement the 1999 Act.

To identify the bureaus and offices within the Department that awarded financial assistance and the extent and magnitude of that assistance during FY 1999, OIG prepared a survey questionnaire and distributed it Departmentwide. To expand the scope to include FYs 1998 through 2000 and to compile an inventory of policies, procedures, and systems used by bureaus and offices, OIG developed a second questionnaire and conducted on-site interviews with key personnel. The results are based on the responses of 21 domestic bureaus and offices that awarded federal financial assistance during FYs 1998 through 2000. OIG did not collect or compile any data on funds awarded by overseas missions.

OIG also compiled program descriptions, written policies and procedures, and examples of forms and award documents, if the offices visited had such documentation. OIG did not review the effectiveness of office procedures or systems. In addition, OIG coordinated with the independent accounting firm<sup>6</sup> hired by RM to assist in revising the financial regulations related to financial assistance.

Some bureaus and offices did not have officers warranted to award grants and instead used the services of the Office of Logistics Management, Office of Acquisitions Management (A/LM/AQM), ECA, or PRM. Therefore, OIG analyzed these data to eliminate instances of double counting. The assistance totals developed by OIG were based on the unaudited data provided by Department bureaus and offices, and OIG could not ensure their overall accuracy. In at least one case,

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<sup>6</sup> In June 2000, RM contracted with KPMG, LLP, to analyze financial regulations, processes, and procedures and recommend revisions.

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OIG adjusted a bureau's response based on information obtained through other OIG work. Therefore, it is possible that some or all of the amounts awarded by a particular office within a bureau may not be reflected in this report.

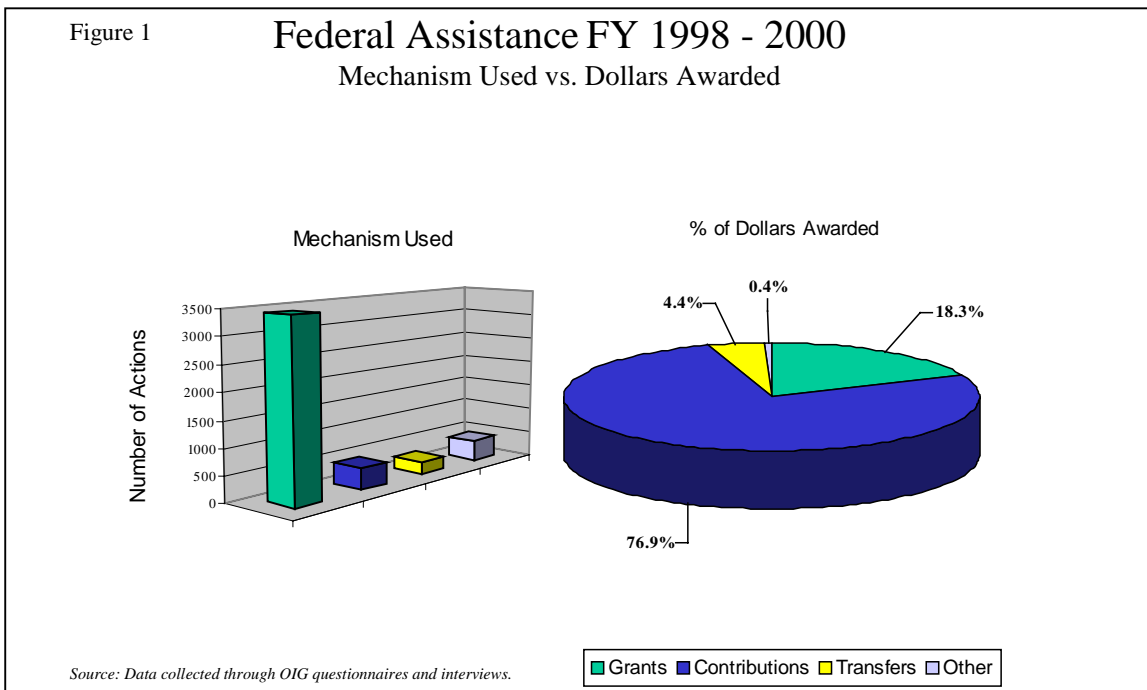
In examining Department actions taken to implement the 1999 Act, OIG interviewed key officials from RM, A/OPE, and A/LM/AQM. OIG also questioned relevant staff within each bureau and office to determine their awareness of the 1999 Act, its implications for their programs, and the actions the offices were taking to implement it.

OIG sent out the initial survey questionnaire in June 2000 and from January through December 2001, compiled and analyzed the data from returned questionnaires. During 2002, OIG conducted follow-up interviews to clarify specific data. OIG's procedures were limited to those necessary to support the conclusions reached in this report. OIG conducted these limited procedures in accordance with government auditing standards; however, such procedures did not constitute an audit under those standards. Had OIG performed such an audit, other matters may have come to our attention. Major contributors to this report include Fay Ropella, division director; Alma Wolfe, audit manager; and Cheryl Lucas and Karen Crue, senior auditors.

# FINDINGS

## COMPLETE DATA ON TOTAL FINANCIAL ASSISTANCE IS LACKING

OIG found that no one office or system within the Department could provide complete and accurate statistical data related to federal financial assistance, in part because the Department used a decentralized approach to manage assistance, without adequate central guidance or controls. To determine the dollar amount and magnitude of financial assistance, OIG gathered and compiled data provided by 21 Department bureaus and offices actively involved in awarding domestic financial assistance, as shown in Appendix A. This compilation showed that for FYs 1998 through 2000, the Department awarded 4,498 financial assistance transactions totaling \$7.98 billion. Figure 1 illustrates the mechanisms used to award funds and the percentage of total amount by award mechanism.

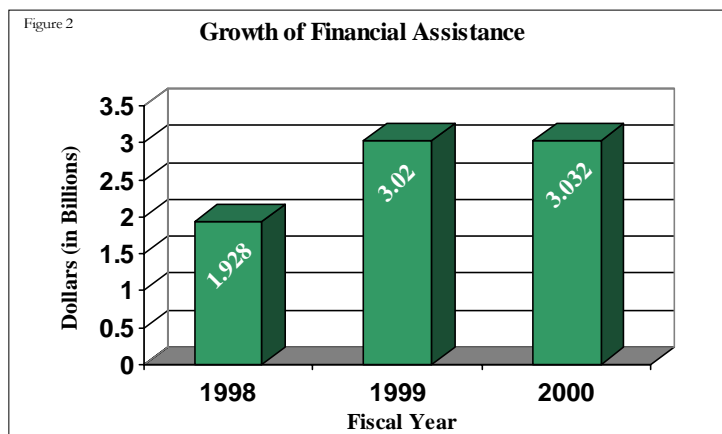


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The mechanism most frequently used to award assistance was a grant,<sup>7</sup> which represented more than 75 percent of the assistance transactions awarded by the Department during FYs 1998 through 2000, as reported to OIG. Although grants were the most frequently used mechanism, the Department provided more actual assistance through voluntary and assessed contributions totaling \$6.1 billion (\$1.6 billion voluntary and \$4.5 billion assessed), or nearly 77 percent of the financial assistance awarded.

OIG noted that the Department does not have a central control system that records and tracks grant transactions and related information from solicitation through closure. For example, although CFMS records each obligation, it cannot provide total obligations or summary data on a specific grant or grantee, such as the amount and number of awards to any one organization at a given period of time. As shown in Appendix A, 19 bureaus and offices awarded assistance through grants and cooperative agreements. Of the bureaus and offices that awarded grants, some said that it would be helpful for them to have access to a central database that would enable bureaus to crosscheck with each other on funding provided to recipients.

Based on its compilation of data from 21 bureaus and offices that awarded federal financial assistance, OIG found that the level of assistance had increased about 57 percent from FY 1998 to FY 2000, as shown in Figure 2, with most of the increase in FY 1999. Officials attributed the growth in FY 1999, in part, to the consolidation of USIA with the Department and an increase in the number of transfers from the United States Agency for International Development (USAID). Based on work performed for the FY 2002 financial statement audit, OIG has learned that financial assistance has continued to increase to an estimated \$4.6 billion.



Source: OIG questionnaires and interviews

<sup>7</sup> As used in this report, “grants” include cooperative agreements, which indicates that the Department anticipates having substantial involvement with the recipient.

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In a separate effort to determine the magnitude of assistance within the Department, A/OPE sent a worldwide cable (01 State 024678) in February 2001, requesting that domestic bureaus and offices and overseas missions, “report all grants, cooperative agreements, voluntary contributions, and assessed contributions, including democracy commission funds, donations of US [government] excess property, and ambassador’s special self-help grants, issued during FY 2000.” A/OPE compiled these data into its Grants Register database. The Grants Register showed cumulative amounts for domestically awarded federal assistance as \$2.66 billion. OIG noted significant differences between the data reported by bureaus to A/OPE and the data reported to OIG. For example, ECA reported 772 actions totaling \$295 million to OIG, but only 270 actions totaling \$81 million to A/OPE, a difference of 502 actions totaling \$214 million. Some of the differences may have occurred because bureaus and offices reported only initial awards to A/OPE and did not include all amendments; others may have had different interpretations of the term “federal financial assistance.”

RM also provided an estimate of the Department’s financial assistance. Based on disbursements data from CFMS and budget amounts, RM estimated that the Department awarded \$2.57 billion during FY 2000 for financial assistance programs. The Department’s accounting system records and tracks financial assistance transactions by obligation number under two budget object classification codes: 4130 (contributions) and 4120 (grants and cooperative agreements). However, CFMS cannot provide total obligations for financial assistance. According to RM, CFMS can provide only totals for disbursements and expenditures by budget object classification code. In CFMS, obligations are recorded by allotment number, and reports can be generated only by allotment number. The recent FY 2002 financial statement audit corroborated OIG’s findings and showed that the Department lacked an integrated management information system that could provide timely, reliable, and comprehensive grant information, as well as overall statistics for FY 2002. RM/GFS/FPRA/OGFM advised the contract auditors that such information was not readily accessible in CFMS and was not otherwise maintained.

There was a \$460-million variance between OIG’s and RM’s numbers. Potential reasons for the variance could include:

- Some transactions reported to OIG as financial assistance might include funds transferred to other federal agencies, and such funds might be recorded on the books of the other agencies and not included in CFMS.

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- Some bureaus and offices used a miscellaneous obligating document, which does not post to the financial assistance budget object classification codes in CFMS. (ECA officials said that teacher exchanges were coded into CFMS as miscellaneous obligations and were, therefore, not included in RM's totals for financial assistance.)
- Some keying and posting errors occurred, such as not using the correct budget object classification codes to record financial assistance transactions in CFMS. (This could result from differing interpretations or definitions of what constitutes financial assistance.)
- Some numbers were based on estimates.
- Some transactions might have actually been paid overseas.

The differences in the FY 2000 totals for financial assistance obtained by A/OPE, RM, and OIG illustrate the need for a centralized grants management system.

### **Interface With CFMS**

OIG found a lack of uniformity in the systems that the bureaus and offices were using to manage grants. None of the systems interfaced with CFMS. In fact, most bureaus and offices maintained information in simple spreadsheets or databases. The work performed for the FY 2002 financial statement audit confirmed OIG's conclusion that there is no Departmentwide system that tracks grants or other financial assistance awards from commitment to closeout. Instead, the bureaus and offices maintained separate official record-keeping systems for their grants. These systems were not integrated into a unified system to facilitate oversight, management, and reporting.

FFMIA requires, among other things, that agencies implement and maintain financial management systems that substantially comply with federal financial management systems requirements. JFMIP and OMB Circular A-127; "Financial Management Systems", detail these requirements.

In September 2001, the General Accounting Office published Grant Financial System Requirements (GAO/01-911G), a checklist for reviewing systems under FFMIA. This document provides an overview of grant system requirements and functional requirements for the following 11 functions: commitments, decommitments, obligations, payments, cost accruals, financial reports, interest collections, grant closeout, records retention, general system requirements, and information technology in the grants process.

For example, mandatory financial data required for obligations in the grants system include grant number, grantee or recipient name, grantee identifier, grant purpose, dollar amount, accounting classification data (appropriation, object classification, project, and program), taxpayer identification, and Catalog of Federal Domestic Assistance (CFDA) number. As the Department takes steps to modernize its accounting system and to comply with the JFMIP core requirements, it has an opportunity to include the collection of these data into the design of its system.

## **Summary**

With decentralized management, the Department could not provide basic statistical data related to overall financial assistance. Independent efforts to quantify the amount of assistance provided in FY 2000 resulted in markedly differing amounts obtained by A/OPE, RM, and OIG. These differing results illustrate the need for better accountability for financial assistance resources. The Department's accounting system should be capable of providing accurate totals for assistance transactions.

**Recommendation 1:** OIG recommends that the Bureau of Resource Management, in coordination with the Bureau of Administration and other bureaus and offices, develop a Departmentwide grants management system that is fully integrated with or linked to the Department's official accounting system. The bureaus also should develop a specific plan to bring grants management into compliance with the requirements of the Federal Financial Assistance Management Improvement Act of 1999.

## **UNIFORMITY IS LACKING IN FINANCIAL ASSISTANCE MANAGEMENT**

The Department did not use uniform policies, procedures, or systems for managing its financial assistance. As a result, applicants applying for financial assistance had to deal with different application forms, duplicate information collection requirements, different reporting requirements, and inefficiently timed funds disbursement. Several Department officials explained that they did not always know when to use a particular funding mechanism or which office to ask for help in determining the most cost-effective means to award federal funds.

As the funding for assistance continues to grow, so does the need for effective oversight and standardization of policies, procedures, and systems— for not only grants, but all forms of assistance. Some of the Department’s administrative requirements and systems are duplicative, burdensome, or conflicting, which impedes cost-effective service delivery to the public.

## **Policies and Procedures**

Twelve of 19 bureaus and offices that awarded financial assistance through grants did not have any written policies and procedures. Seventeen of the bureaus and offices also did not follow policies and procedures issued by A/OPE. Establishing and following written policies and procedures is one of the key elements in an effective internal control structure to ensure uniformity in practices and consistency in the treatment of costs. The procedures should cover the history of an award from commitment to close-out.

The Department also did not require the use of a common application or reporting form, with which a nonfederal entity could apply for and report on its use of financial assistance funding. OIG found that 17 of 19 bureaus and offices that provided assistance through grants did not use the standard application form (SF-424: Application for Federal Assistance). Yet only two of the 17 had an alternate form approved by OMB. In fact, several offices did not require a specific application form.

OMB requires federal agencies to obtain clearance on documents they intend to use in gathering information from more than ten recipients. Section 12 of 22 Code of Federal Regulations (CFR) 145 says that:

- (a) Department grants officers shall comply with the applicable report clearance requirements of 5 CFR part 1320, “Controlling Paperwork Burdens on the Public,” with regard to all forms used by the awarding agency in place of or as a supplement to the Standard Form 424 (SF-424) series.
- (b) Applicants shall use the SF-424 series or those forms and instructions prescribed by the grants officer and approved by A/OPE.

A/OPE, however, did not have any guidance on its web site regarding the use of alternate application forms. OIG noted that recent revisions to the Foreign Affairs Handbook (4 FAH-3 H-631) mandate that “offices and bureaus will require applicants to use the SF-424 when applying for grants and cooperative agreements.”



Similarly, OIG found that the various bureaus and offices within the Department obtained financial reporting information in various formats, even though 22 CFR 145<sup>8</sup> required the use of either standard forms or approved alternate forms. In addition, some bureaus and offices required recipients to submit financial reports (SF-269, Financial Status Report) 30 days after the end of each fiscal quarter during the period of the award, while others required recipients to submit annual financial reports. OIG noted that the final revisions to the Foreign Affairs Manual (4 FAM) and the Foreign Affairs Handbook (4 FAH-3) said, "...When appropriate, bureaus may require a financial report annually instead of quarterly and may prescribe a format other than that of the Form SF 269." This lack of uniformity and guidance within the Department places an undue burden on applicants and poses a significant problem when recipients report to more than one government agency.

The lack of uniformity also will impede the Department's participation in the administration's E-Grants project. Led by OMB and managed by the Department of Health and Human Services (HHS), the E-Grants project will require grant-making agencies to assign identification numbers to applicants, which will make grant management more efficient and better coordinated. OMB said that agencies that have invested in modern grant management technology should be able to switch to the new numbering system easily. However, OMB conceded that changing to a governmentwide numbering system could be expensive for agencies with older technology. If the Department intends to utilize the E-Grants interface, further analysis will need to be conducted to determine the implications for the bureaus and offices that award assistance.

## **Dual Payment Systems**

OIG found that the Department was using two different systems to pay grantees. ECA used PMS, administered by HHS, and the other bureaus used the Department's vendor claims process. OIG also noted instances in which the Department used both systems to pay the same grantee. For example, under grants awarded by ECA, the National Endowment for Democracy (NED) requested payments through PMS. Yet for grants awarded by the Bureau of Democracy, Human Rights, and Labor (DRL), NED had to request funds through the Department's vendor claims process. According to a NED official, grants issued by DRL have posed severe cash management challenges, and the processing of requests for payments can take weeks or even months. As a result, NED has had to delay implementation and completion of Department programs.

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<sup>8</sup>The Department codified OMB circulars in 22 CFR.

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Department officials and grant recipients alike said that the Department's current payment process was cumbersome and often resulted in untimely payments. Many Department agreements with nongovernmental organizations required recipients to request scheduled drawdowns of funds, usually quarterly. As a result, numerous recipients requested funds in excess of current needs to avoid periods of insufficient funding, should a delay in payment occur. The lack of flexibility to select the most advantageous method of requesting funds has resulted in inefficiently timed funds disbursement.

RM began reexamining which payment system to use under the 1999 Act. On April 10, 2002, RM conducted demonstrations on the capabilities and control features of both PMS and the Automated Standard Application for Payment. On August 5, 2002, RM sent an e-mail to some bureaus and offices that said:

*Please be advised that **effective October 1, 2002** [emphasis added], payments to Department of State domestic grant and cooperative agreement recipients, and where practicable those foreign recipients with a domestic banking relationship, will be processed by the Department of Health and Human Services through its Payment Management System.*

Based on recent work performed for the FY 2002 financial statement audit, RM could not provide statistical data on the number of active Department grants that were maintained in PMS. RM staff downloaded reports from PMS and manually posted and adjusted grant records in CFMS.

OIG also received comments from DS, which said that PMS training was not long enough and was confusing. In addition, bureau officials said that they did not receive specific directions on how to inform recipients about the new payment system. Therefore, each bureau sent out its own explanation.

### **Interest Due the Federal Government**

The Department's practice of requiring recipients to return interest earned on federal funds was inconsistent with OMB guidelines. In 1993, OMB revised Circular A-110, "Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations", in part to require all entities not subject to the provisions of the Cash Management Improvement Act, as amended,<sup>9</sup> to return interest earned in excess of \$250 annually to HHS. HHS acts as the governmentwide agent for the collection

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<sup>9</sup> Pub. L. No. 101-453 (1996).

of interest generated from grant advances. In codifying the circular, the Department amended the section to require that the interest earned be remitted to the Department annually (22 CFR 145.22 (l)).

Department bureaus and offices did not apply this requirement uniformly. For example, one grantee that received awards from ECA, the Bureau for International Narcotics and Law Enforcement Affairs (INL), and another federal agency had to submit separate interest payments to HHS for awards from ECA and the external agency and to the Department for INL awards. This practice places an additional burden on those recipients that receive assistance from multiple funding sources within the Department and from other federal agencies. OIG noted that RM had taken steps to correct this inconsistency, making revisions to the Foreign Affairs Handbook that require Department recipients to return interest earned to HHS. OIG also noted that 22 CFR 145 will need to be revised to reflect this change.

## **Catalog of Federal Domestic Assistance**

CFDA is a governmentwide compendium of federal programs, projects, services, and activities that provide assistance or benefits to the U.S. public. It contains financial and nonfinancial assistance programs administered by departments and agencies of the federal government. As the basic reference source of federal assistance programs, the primary purpose of the catalog is to help potential applicants identify programs that meet their specific objectives and obtain general information on the programs. CFDA is also intended to improve coordination and communication between the federal government and state and local governments.

The Department did not register many of its programs in the catalog. As of March 2002, only five bureaus and offices (ECA, Office of the Legal Adviser, and the Bureaus of Oceans and International Environmental and Scientific Affairs, Human Resources, and Intelligence and Research) listed programs in the CFDA, as shown in Appendix B. Department officials agreed with OIG that their programs should have been included in the catalog; however, they had no guidance on when or how to submit the data. They also said that they did not know the process for obtaining a CFDA number. Having the programs listed in the catalog fosters competition, which maximizes program efficiency and effectiveness—one of the goals of Chapter 63, “Using Procurement Contracts and Grant and Cooperative Agreements”, of the United States Code.<sup>10</sup>

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<sup>10</sup> 31 U.S.C. 6301.

## **Indirect Cost Rates**

OMB Circular A-122, “Cost Principles for Non-Profit Organizations”, and A-21, “Cost Principles for Educational Institutions”, establish the policy that a single federal agency is responsible for the review, negotiation, and approval of indirect cost rates for use on federal awards by nonprofit organizations. Normally, the federal agency with the predominate financial interest is the cognizant or oversight agency. Some federal agencies have established specific offices to deal with indirect cost rates. For example, USAID has a branch with five employees dedicated to issuing negotiated indirect cost rates. The Department has not assigned this responsibility to a particular office or established a standard indirect cost rate determination guide, which would result in a uniform approach with a recipient when more than one award or federal agency is involved.

OIG found that bureaus and offices within the Department did not follow a uniform, systematic, and economical methodology for allocating indirect administrative costs to direct cost objectives. For example, INL and ECA required the same recipient, which received awards from both bureaus, to treat indirect costs in two different ways. For awards received from INL, the recipient was allowed to claim indirect costs, but for the awards received from ECA, the recipient could claim only direct costs. This policy was confusing and resulted in the recipient’s establishing two different systems to account for the costs. Another recipient had negotiated different indirect cost rates with different bureaus for the same time period. However, the OMB circulars state that once an oversight agency has established an indirect cost rate for an organization, all federal agencies must use the same established rate.

An official in A/OPE told OIG that a policy directive would be issued soon that designates an official in A/LM/AQM’s Office of International Programs as the Department’s point of contact for negotiating all indirect cost rates for Department recipients. As federal financial assistance continues to grow, however, additional staff may be warranted in this area. Currently the Department has about 50 negotiated indirect cost rate agreements, as shown in Appendix C.

## **Summary**

OIG found diverse practices in the awarding and administering of financial assistance among the Department’s bureaus and offices. This occurred because of a lack of standard procedures and policies. The disparities in procedures have confused and frustrated recipients, and the lack of standard policies and guidance

has resulted in inadequate guidance for the Department employees who award and administer financial assistance. Standardized procedures and policies could benefit the Department by ensuring consistent treatment of recipients, improved oversight, cost savings through properly negotiated indirect cost rates, and compliance with the 1999 Act. Decentralization has caused a number of administrative problems in awarding federal financial assistance, and Department officials, as well as recipients, have complained that there is no single office to which they can go for help.

**Recommendation 2:** OIG recommends that the Bureau of Administration, in coordination with the Bureau of Resource Management, issue additional policies to promote greater standardization of procedures and greater efficiency and effectiveness, to include, but not limited to: developing procedures for the use of the E-Grants interface; requiring Department bureaus and offices to list their programs in the Catalog of Federal Domestic Assistance; establishing a standard policy on the use of indirect cost rates; and revising 22 CFR 145 to match the revisions to the Foreign Affairs Manual.

A/OPE agreed with the thrust of this recommendation, but considered the development of procedures for E-Grants and revising 22 CFR 145 to be premature, pending future regulatory changes and new guidance from OMB. OIG does not believe that it is premature to plan and develop procedures for the E-Grants interface because not all bureaus and offices have access to the Internet or are aware of the 1999 Act and its implications. In its response dated January 21, 2003, DS said that “the concept of e-grants by October 2003 seems unrealistic. Several bureau offices do not have Internet access.”

## **BETTER COMMUNICATION AND COORDINATION NEEDED**

The lack of communication and coordination within the Department has and will continue to inhibit it from effectively implementing the 1999 Act. The Department has designated two lead agency officials, the procurement executive in A/OPE and the director of RM/GFS/FPRA, to carry out Department responsibilities under the 1999 Act. Both A/OPE and RM have taken actions independently to comply with the requirements of the 1999 Act. However, neither had effectively coordinated with the other Department bureaus and offices responsible for awarding federal financial assistance. In fact, only a few were familiar with the 1999 Act, and none

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of the officials OIG interviewed said that they had been asked to participate in any planning sessions related to financial assistance. The Department has not developed an overall plan to establish specific annual goals to further the 1999 Act's purposes and measure annual performance in achieving those goals.

A/OPE has the delegated authority (Delegation of Authority No. 120-5)<sup>11</sup> to prescribe procurement and grant policies, as well as issue warrants to grant officers. When USIA and the Department were consolidated, A/OPE established the position of Federal Assistance Program Director (A/OPE/FA); however, the Department did not allocate any additional staff.

In the initial phase of implementing the 1999 Act, A/OPE, with the assistance of OIG, prepared an inventory of programs, gathered and compiled examples of forms and guidance used within the Department, and provided these materials to OMB. As of June 2002, A/OPE had issued 19 directives on its web site dealing with matters ranging from grant numbers to the appointment of grant officers, as shown in Appendix D.

On September 27, 2001, A/OPE announced the creation of "Grantsnet." The electronic message posting service had two objectives: to facilitate the exchange of questions and ideas among the grants community—grants officers, grants officers' representatives, and program officers; and to provide a means for A/OPE/FA to disseminate information on grants issues. As stated on page 11, A/OPE went out with a worldwide data call that required each bureau and office to provide a listing of assistance awards for FY 2000 and, from these data, produced a "Grants Register."

In September 2001, A/OPE/FA awarded a contract to develop and implement a pilot web-based grants database that linked to A/OPE's web page, [www.statebuy.gov](http://www.statebuy.gov). According to the contract:

- A/OPE/FA would require all warranted officers and any other offices disbursing federal assistance electronically to report all grants activity at least annually. The format would be approved by A/OPE/FA.
- A/OPE/FA would help promote Departmentwide accuracy and consistency in reporting grants data by preparing guidelines; providing expert advice, reviews, validation, and data analysis; and participating in the continued training required to maintain the integrity of the Department's federal assistance program, given evolving technology and the ever-increasing statistical reporting requirements.

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<sup>11</sup> Authority delegated to the procurement executive on November 23, 1994, to issue policies, procedures, and regulations governing federal assistance (grants and cooperative agreements).

This effort was made without coordination with bureaus and offices that administer assistance programs. As a result, procedures and systems might not interface effectively with other Department efforts. According to Department officials with grants management responsibilities, this effort was not coordinated with them, except for soliciting comments on specific directives. In fact, the requirements to report financial assistance annually, once a grant management system is integrated with the accounting system, would be duplicative and would not provide needed management information on a timely basis. Because of the way information is reported and collected by A/OPE/FA, it might not correlate or reconcile with the official accounting records. Based on recent work performed for the FY 2002 financial statement audit, none of the bureaus surveyed were using the new database.

In December 2000, RM obtained approval to establish RM/GFS/FPRA/OGFM to provide leadership in the financial management of grants through policy development, oversight and training. RM, without coordinating with A/OPE or the bureaus, hired an accounting firm to conduct an analysis of Department spending on assistance programs, processes, and roles.

RM further proposed the establishment of a Grants Management Steering Committee, which included representatives from the grant-making bureaus and offices. This committee was to assist in establishing uniform, Departmentwide policies and procedures for issuing and monitoring grants, determining and establishing grants management objectives, and overseeing the grants management processes for the Department. According to Department officials, however, as of the end of OIG's fieldwork, this committee had not yet met to discuss the 1999 Act and its implications for the Department.

RM has never issued a Department notice announcing the establishment and mission of RM/GFS/FPRA/OGFM or the Grants Management Steering Committee, although an official in RM told us that a mission statement was being developed for RM/GFS/FPRA/OGFM. During OIG's interviews, several bureau personnel asked what was the purpose of RM/GFS/FPRA/OGFM, specifically, the differences between its and A/OPE/FA's responsibilities. The listed duties (policy and guidance, training, and oversight) might duplicate long-standing, existing delegations of authority to A/OPE. The specific roles and responsibilities of each office should be examined and then explicitly stated and disseminated Departmentwide. This would prevent any further confusion when bureaus and offices are seeking guidance.

## Summary

Communication and coordination would enhance implementation of the 1999 Act, assist in developing effective policies and procedures, and draw upon relevant expertise throughout the Department. In addition, this would provide first-hand knowledge of the needs of each bureau and office.

**Recommendation 3:** OIG recommends that the Bureau of Administration and the Bureau of Resource Management clarify their respective financial assistance roles and responsibilities and designate a single official with overall responsibility for implementing the Federal Financial Assistance Management Improvement Act of 1999. That official should assess the resources, management structure, and systems needed to comply with the Federal Financial Assistance Management Improvement Act of 1999, as well as the Federal Financial Management Improvement Act of 1996.

A/OPE did not agree with the statement that a single official with overall responsibility should be designated. A/OPE said that that has already been accomplished with Delegation of Authority No. 120-5, which is sufficiently broad to encompass all aspects of grants, including financial.

OIG understands A/OPE's concerns; however, OIG believes that for effective implementation of the 1999 Act, a more coordinated effort, through a single office or group like the Grants Management Steering Committee, would be the most effective approach. In its response, DS endorsed the recommendation that a single official be designated with the overall responsibility of implementing the 1999 Act. The designated official then would coordinate the responsibilities of A/OPE and RM/GFS/FPRA/OGFM, thereby clarifying these offices' roles in assisting bureau grants officers in their duties.



## LIST OF RECOMMENDATIONS

**Recommendation 1:** OIG recommends that the Bureau of Resource Management, in coordination with the Bureau of Administration and other bureaus and offices, develop a Departmentwide grants management system that is fully integrated with or linked to the Department's official accounting system. The bureaus also should develop a specific plan to bring grants management into compliance with the requirements of the Federal Financial Assistance Management Improvement Act of 1999.

**Recommendation 2:** OIG recommends that the Bureau of Administration, in coordination with the Bureau of Resource Management, issue additional policies to promote greater standardization of procedures and greater efficiency and effectiveness, to include, but not limited to: developing procedures for the use of the E-Grants interface; requiring Department bureaus and offices to list their programs in the Catalog of Federal Domestic Assistance; establishing a standard policy on the use of indirect cost rates, and revising 22 CFR 145 to match the revisions to the Foreign Affairs Manual.

**Recommendation 3:** OIG recommends that the Bureau of Administration and the Bureau of Resource Management clarify their respective financial assistance roles and responsibilities and designate a single official with overall responsibility for implementing the Federal Financial Assistance Management Improvement Act of 1999. That official should assess the resources, management structure, and systems needed to comply with the Federal Financial Assistance Management Improvement Act of 1999, as well as the Federal Financial Management Improvement Act of 1996.

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## ABBREVIATIONS

A	Bureau of Administration
A/LM/AQM	Office of Logistics Management, Office of Acquisitions
A/OPE	Office of the Procurement Executive
A/OPE/FA	Federal Assistance Program
CFDA	Catalog of Federal Domestic Assistance
CFMS	Central Financial Management System
DRL	Bureau of Democracy, Human Rights, and Labor
DS	Bureau of Diplomatic Security
ECA	Bureau of Educational and Cultural Affairs
FFMIA	Federal Financial Management Improvement Act of 1996
HHS	Department of Health and Human Services
INL	Bureau of International Narcotics and Law Enforcement Affairs
JFMIP	Joint Financial Management Improvement Program
NED	National Endowment for Democracy
OIG	Office of Inspector General
OMB	Office of Management and Budget
PMS	Payment Management System
PRM	Bureau of Population, Refugees, and Migration
RM	Bureau of Resource Management
RM/GFS/FPRA	Office of Global Financial Services, Office of Financial Policy, Reporting, and Analysis

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RM/GFS/FPRA/OGFM	Office of Grants Financial Management
USAID	United States Agency for International Development
USIA	United States Information Agency

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<i>Department Bureaus and Offices That Reported Awards of Financial Assistance During FYs 1998 - 2000 (in millions)</i>					
<u>Office Symbol</u>	<u>Office Name</u>	<u>Financial Assistance Implemented through Grants<sup>a</sup></u>		<u>Total Financial Assistance<sup>b</sup></u>	
		<u>No. of Awards</u>	<u>Dollar Value Grants</u>	<u>No. of Awards</u>	<u>Dollar Value Assistance</u>
A	Bureau of Administration	1	\$8.00	1	\$8.00
A/LM/AQM <sup>c</sup>	Office of Acquisitions Management	0	0.00	0	0.00
A/OPR/OS	Office of Overseas Schools	685	18.75	685	18.75
AF	Bureau of African Affairs	0	0.00	54	19.69
DRL	Bureau of Democracy, Human Rights and Labor	58	29.33	59	30.33
DS	Bureau of Diplomatic Security and Foreign Missions	26	43.27	26	43.27
EAP	Bureau of East Asian and Pacific Affairs	5	25.47	5	25.47
EB	Economics and Business Affairs	22	0.85	22	0.85
ECA	Bureau of Educational and Cultural Affairs	1,512	579.22	1,617	644.66
EUR	Bureau of European Affairs	20	17.19	20	17.19
HR	Bureau of Human Resources	1	1.29	70	9.32
IIP	International Information Programs	143	2.11	143	2.12
INL	Bureau of International Narcotics and Law Enforcement Affairs	21	12.87	96	282.86
INR	Bureau of Intelligence and Research	27	14.07	27	14.07
IO	Bureau of International Organization Affairs	1	0.58	185	4,462.70
NEA	Bureau of Near Eastern Affairs	29	13.36	38	14.38
NP	Bureau of Nonproliferation	7	0.24	335	27.03
OES	Bureau of Oceans and International Environmental Scientific Affairs	14	3.09	45	34.52
PM	Bureau of Political Military Affairs	55	30.85	55	30.85
PRM	Bureau of Population, Refugees and Migration	747	640.79	976	2,277.56
S/NIS/C <sup>d</sup>	Office of the Coordinator of US Assistance to the Newly Independent States	39	15.98	39	15.98
<b>Total</b>		<b>3,413</b>	<b>\$1,457.31</b>	<b>4,498</b>	<b>\$7,979.60</b>

Source: OIG analysis of data provided by Department bureaus and offices.

<sup>a</sup> As used in this report, “grants” includes cooperative agreements

<sup>b</sup> Grants total is included in the Total Financial Assistance column.

<sup>c</sup> Issued awards on behalf of bureaus and offices without warranted officers. Totals applied to applicable program office.

<sup>d</sup>EUR and S/NIS merged in summer 2001. The coordinators’ offices merged into a new office, EUR/ACE.

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*Department Programs Listed  
in the Catalog of Federal Domestic Assistance  
(as of March 2002)*

CFDA No.	Program Title	Responsible Bureau or Office
19.200	Claims Against Foreign Governments	Legal Adviser
19.201	Protection of Ships From Foreign Seizure	
19.202	Special Domestic Assignments	Bureau of Human Resources
19.204	Fishermen's Guaranty Fund	Bureau of Oceans and International Environment and Scientific Affairs
19.300	Program for Study of Eastern Europe and the Independent States of the Former Soviet Union	Bureau of Intelligence and Research
19.400	Educational Exchange-Graduate Students	Bureau of Educational and Cultural Affairs
19.401	Educational Exchange-University Lecturers (Professors) and Research Scholars	
19.402	International Visitors Program	
19.403	American Council of Young Political Leaders	
19.404	Professional Development-International Educators/Administrators	
19.405	College and University Partnerships Program	
19.406	Educational Partnerships Program	
19.407	Teacher Exchange-New Independent States (NIS)	
19.408	Educational Exchange-Teachers from Secondary and Postsecondary Levels and School Administrators	
19.409	Creative Arts Grants	
19.410	Educational Exchange-Congress-Bundestag Youth Exchange	
19.411	Educational Exchange-NIS Secondary School Initiative	
19.412	Educational Exchange-Postgraduates and Faculty	
19.413	Cultural Exchange (Performing Arts)	
19.414	Cultural Exchange (Visual Arts)	
19.415	Professional Exchanges-Annual Open Grant	
19.418	Educational Exchange-Fulbright American Studies Institutes	
19.419	Professional Development-Teacher Training	
19.420	Cooperative Grants	
19.421	Exchange-English Language Fellow Program	
19.422	Educational Exchange-Teaching Excellence Awards Program	
19.423	Exchange-English Language Specialist/Speaker Program	

Source: CFDA as of March 2002.

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*Nongovernmental Organizations  
Who Had Negotiated Indirect Cost Rates Agreements With the Department  
(as of June 2002)*

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ACIE: ACTR/ACCELS	International Republican Institute
AFS Intercultural Programs	International Rescue Committee
American Council of Learned Societies	International Research and Exchange Board (IREX)
American Cultural Exchange	Iowa Peace Institute
American Refugee Committee	Jefferson Institute and Cypress Valley Alliance
American University of Armenia Corporation	LASPAU
Asia Foundation	Lawyers Alliance for World Security
AYUSA	Maureen & Mike Mansfield Foundation
Cambridge - Yerevan Sister Cities Association	Meridian International Center
Catholic Relief Services	Mississippi Consortium for International Development
Center for International Private Enterprise (CIPE)	Nacel Open Door
Church World Service, Inc.	NAFSA
Cleveland International Programs	National Association of State Auditors
Connect US - Russia	National Committee on US China Relations
East West Center	National Council for International Visitors
Educators for Social Responsibility, Inc.	National Democratic Institute For International Affairs
Geonomics Institute	National FFA Organization
Graduate School, U.S. Department of Agriculture	Project Harmony, Inc.
Immigration and Refugee Services of America	REAP International
Institute for Democratic Strategies	Texas International Education Consortium
Institute for the Study & Development of Legal Systems	The International Center
Institute for the Training and Development	Town Affiliation/Sister Cities International
Institute of International Education (IIE)	United States Catholic Conference
International Catholic Migration Commission	World Relief Corporation
International Center for Journalists	Youth for Understanding, Inc.
International Orthodox Christian Charities	

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*A/OPE's Grant Policy Directives  
(as of June 2002)*

Directive No.	Title	Effective Date <sup>a</sup>
1	Grants Officer Appointment System	12/24/92
2	Unauthorized Commitments	04/13/93
3	Forms for Award and Amendment of Federal Assistance Agreements	03/12/93
4	Reporting of Minority Business Participation	06/24/93
5	Competition Requirements	10/01/94
6	Metric Program	10/01/95
7	Certification on Recipient Contract Awards	10/01/94
8	Overseas Assistance Awards	10/09/98
9	Audit Appeals	09/22/99
10	Form DS-2010, Grant Obligation and Invitational Travel	10/01/99
11	The Grants Approval Process in the Department of State	07/25/00
12	Notification to Congress of Public Diplomacy Grants Awarded Overseas	11/20/99
13	Disposal of Excess Public Diplomacy Property	09/29/00
14	Standardized Assistance Instruments Identification Numbering System	09/07/00
15	Guidance on the Use of Assistance Instruments	06/22/01
16	Designation of Grant Officer Representatives	06/22/01
17	Public Diplomacy Property Grants	10/04/01
18	Property Grants	01/14/02
19	Executive Order 13224, Blocking Property and Prohibiting Transactions with Persons who Commit, Threaten to Commit, or Support Terrorism	02/14/02

Source: A/OPE web site as of June 2002.

<sup>a</sup>Effective date is the date when directive was first issued and does not reflect any subsequent revisions.

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MEMORANDUM

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**TO:**          OIG/AUD – Mr. Richard Berman  
**FROM:**      DS/EX – Thomas G. McGrath, Acting [Approved]  
**SUBJECT:**   Draft Report on Financial Assistance Management

The Grants Officer for the Bureau of Diplomatic Security reviewed the OIG draft report on Financial Assistance Management and concurs with the basic recommendations. There are over twenty-one (21) bureaus and offices that award federal financial assistance to state and local governments, universities, colleges, non-profit organizations and individuals. As stated in the report, there is much confusion in the various bureaus, because there are no standard procedures or systems for managing financial assistance. There has been no consistent uniform direction for the 43 domestic Grants Officers and 283 warranted Grants Officers overseas.

For example, the concept of e-grants by October 2003 seems unrealistic. Several bureau offices do not have Internet access. Additionally, some recipients of these awards do not have the Internet interface ability, especially overseas. Also, effective October 1, 2002, all payments to the Department of State recipients were to be processed by HHS through its Payment Management System (PMS). The DS Bureau sent five officers to the three-hour PMS training course in October 2002. All officers agreed that the training was not long enough and was confusing. In addition, the DS Bureau did not receive specific directions on how to inform recipients about the new payment system. Therefore, each bureau sent out its own explanation.

The figures for DS funding in Appendix B, Financial Assistance Awards, are correct for FY1999 and FY2000. However, it was not until fiscal year 2000 that all bureaus were required to submit an annual report. Until that time, there was no mechanism to track the federal assistance dollars awarded by the Department of State.

The DS Bureau highly endorses the recommendation that a single official be designated with the overall responsibility of implementing the Federal Financial Assistance Management Improvement Act of 1999. This individual would then coordinate the responsibilities of A/OPE and RM/OGM, thereby clarifying these offices' roles in assisting bureau grants officers in their duties.

In conclusion, all three recommendations in the report would improve the oversight and uniformity of awarding, funding, and administering federal assistance awards in the Department of State.

Cc: DS/EX – Joan A. Lewis

DS/EX – Pat Greeson

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January 29, 2003

MEMORANDUM

TO: OIG/AUD – Ms. Fay Ropella

FROM: ECA-IIP/EX – David Whitten

SUBJECT: Draft Report on Financial Assistance Management

Thank you for sharing with us the draft Report on Financial Assistance Management. We appreciated the opportunity to work with you and your staff in the course of the review and believe that the review process has already helped to achieve some of the objectives the report sets out. For example, the adoption Department-wide of the HHS Payment Management System occurred during the course of your interviews on this subject, and that development has recently led to very productive discussions between ECA and RM on ways in which we may be able to exploit PMS, CFMS and ECA's new Grants Management Information System to strengthen our financial oversight of grants.

The Department's capacity to administer financial assistance programs has evolved significantly since the beginning of your review, especially with respect to the still unfolding Government-wide e-Grants effort and the establishment of the Department's own Grants Financial management Office in RM. For ECA, a significant development since the beginning of the review was the implementation of a new Grants Management Information System and the resolution of the long-standing material weakness referred to in the draft report. We have also found that increasing Department attention to assistance management is bringing us into more frequent contact with other elements of the Department involved in grant-making, including other substantive bureaus.

There are two specific issues I would like to mention in response to the draft. First, as you know, I am cautious about centralization as a solution any remaining shortcomings in assistance management. From a program bureau point of view, there is much to be said for approaches that are flexible and designed to meet specific program objectives and needs. I share your desire for greater coordination and communication – something that I think is happening now, consistent with the report's recommendations – but would be cautious about the extent to which we try to impose standard approaches or pull control further away from the substantive elements.

Second, I wonder whether the reference to the Catalog of Federal Domestic Assistance in recommendation 2 might need to be further qualified. Although ECA does currently represent the great bulk of Department programs listed in the CFDA, my understanding is that some of our activities are not appropriate to the CFDA. I would think that other parts of the Department are even more likely to administer programs that are, not surprisingly given the foreign affairs mission of the Department, not "domestic assistance."

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I do believe that the general thrust of the report's recommendations are being realized as all of us who work with grants gain a better appreciation of issues that cut across the Department. As always, I appreciate the support you and your staff have given us during the period of the review leading up to this report, and we look forward to a continuing close relationship in the future.

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