



U.S. Department of Agriculture

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Office of Inspector General  
Southwest Region

# **Audit Report**

**Cooperative State Research, Education, and Extension  
Service's Implementation of  
Agricultural Research, Extension, and Education  
Reform Act of 1998**

**Report No. 13001-3-Te  
August 2004**

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UNITED STATES DEPARTMENT OF AGRICULTURE

OFFICE OF INSPECTOR GENERAL

Washington D.C. 20250



DATE: August 16, 2004

REPLY TO  
ATTN OF: 13001-3-Te

SUBJECT: CSREES - Implementation of AREERA

TO: Colien Hefferan  
Administrator  
Cooperative State Research, Education, and Extension Service

ATTN: Louise Ebaugh  
Deputy Administrator  
Office of Extramural Programs

This report presents the results of our audit of the Cooperative State Research, Education, and Extension Service's implementation of the 1998 Agricultural Research, Extension, and Education Reform Act. Your agency's response to the draft report is included as exhibit B with excerpts and the Office of Inspector General's position incorporated into the relevant sections of the report.

Based on the response, management decisions have been reached on Recommendations Nos. 1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 13, 14, 15, and 17. Follow your internal agency procedures in forwarding final action correspondence to the Office of the Chief Financial Officer, Planning and Accountability Division. Documentation and/or actions needed to reach management decisions for Recommendations Nos. 12 and 16 are described in the Office of Inspector General's Position section of the report.

Please furnish the information needed to reach management decisions on the two remaining recommendations within 60 days. Please note that Departmental Regulation 1720-1 requires a management decision for all recommendations within a maximum of 6 months from the date of report issuance, and final action to be taken within 1 year of each management decision.

We appreciate the courtesies and cooperation extended to us by members of your staffs during the audit.

/RWY/  
ROBERT W. YOUNG  
Assistant Inspector General  
for Audit

# ***Executive Summary***

## **CSREES' Implementation of the Agricultural, Research, Extension, and Education Reform Act of 1998 (Audit Report No. 13001-3-Te)**

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### **Results in Brief**

Institutions of higher education that were granted land and money to advance agriculture interests have recently been required to focus a percentage of their Federal formula funds on activities addressing regional and national agricultural concerns. The 1998 Agricultural Research, Extension, and Education Reform Act (AREERA) mandated that these land-grant institutions spend some of their Federal monies (formula funds) on multi-State extension and integrated (research and extension) activities beginning in fiscal year 2000. With less than 13 months between passage and implementation, the Cooperative State Research, Education, and Extension Service (CSREES) was responsible for administering the new law. The management control system instituted, however, did not consistently ensure that institutions planned for and spent formula funds in the amounts intended by the law. We consider these matters to be material control weaknesses that should be reported in the agency's Federal Managers' Financial Integrity Act reports.

The implementation date imposed by the Act gave CSREES little time to put in place the comprehensive regulations, procedures and controls to ensure that institutions spent their formula funds as required. In addition, the CSREES Administrator responsible during implementation had not been in charge when Congress developed the law. Partly as a result of these factors, CSREES faced challenges in applying the complex Act adequately.

The law obliged institutions to spend the lesser of 25 percent of their formula funds on required activities or twice the percentage they had spent on such activities in fiscal year 1997. CSREES, however, allowed some institutions to select their own spending level in alleged hardship cases without verifying their claims. (The law did allow CSREES to reduce the required percentage in cases of hardship, infeasibility, and similar circumstances.) When we visited two of the institutions claiming hardship, we determined that no particular hardship or infeasibility kept them from complying with the law.

Under CSREES' stewardship, some institutions were not required to spend their formula funds as intended by Congress while others were. Similarly, CSREES approved some plans of work (required by the law) that did not contain all elements required by AREERA. It also released formula funds to some universities without approved plans of work although approval was a condition for funding.

While some institutions followed the rules, CSREES' ineffective oversight allowed others to circumvent the law's intent by not (1) correctly calculating

the percentage of formula funds they were to spend on mandated activities, (2) spending matching funds from their States in the amounts required, and (3) appropriately documenting planned activities.

In each case, CSREES should have withheld funding until the institutions met required standards. By releasing over \$40 million to institutions that did not qualify for the funds, the Government incurred about \$482,400 in additional interest costs. Further, some institutions' reports to CSREES showed that they did not spend over \$14 million on required AREERA activities and others did not match more than \$16 million in formula funds. (See exhibit A for a summary of monetary results.)

**Recommendation  
In Brief**

We recommend that CSREES institute effective controls that properly regulate land-grant institutions' compliance. Specifically, CSREES should ensure that reductions in target percentage are granted only in warranted cases of hardship, infeasibility, or similar circumstances. CSREES should monitor land-grant institutions' annual reports to ensure expenditures of formula funds for AREERA activities are at the agreed-upon target percentages. Also, CSREES needs to ensure that formula funds are not distributed to institutions until their plans of work fully meet AREERA and CSREES standards, and recover \$30 million in Federal funds not spent in accordance with AREERA.

**CSREES Response** CSREES officials concurred with all findings and recommendations in our audit report (see exhibit B). However, while they agreed that control weaknesses did exist with regard to the agency's implementation of AREERA, they expressed the opinion that because of the corrective actions initiated or planned by the agency it was not necessary to report the control weaknesses as "material" in the agency's Federal Managers' Financial Integrity Act reports. Also, they commented that once they have reviewed the institutions' full support for multi-State extension and integrated activity expenditures and support for State matching expenditures, it may not be necessary to recover the full \$30 million OIG identified as unsupported costs.

**OIG Position** We have accept CSREES' management decisions for 15 of the 17 recommendations. Full implementation of the corrective action measures CSREES' outlined in its response to the audit should alleviate the control weaknesses identified by our audit. Further, we acknowledge that to the extent CSREES' followup efforts obtain additional supporting evidence related to the institutions' AREERA activity expenditures, the amount of OIG unsupported costs should be reduced. We have explained in the Findings and Recommendations section of the report the actions CSREES needs to take for final action.

## ***Abbreviations Used in This Report***

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|---------------|--|
| Annual Report | Annual Report of Accomplishments and Results                               |
| AREERA        | Agricultural Research, Extension, and Education Reform Act of 1998         |
| CSREES        | Cooperative State Research, Education, and Extension Service               |
| FY            | Fiscal Year  |
| LGI           | Land-grant Institution   |
| NARETPA       | National Agricultural Research, Extension, and Teaching Policy Act of 1977 |
| NPL           | National Program Leader  |
| OCFO/PAD      | Office of the Chief Financial Officer/Planning and Accountability Division |
| OIG           | Office of Inspector General  |
| OMB           | Office of Management and Budget  |
| POW           | Plan of Work   |

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# ***Background and Objectives***

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## **Background**

An agency of the U.S. Department of Agriculture, CSREES manages programs that support institution-based agricultural education, research, and extension activities.<sup>1</sup> In particular, CSREES administers Federal agricultural funds allocated to institutions that have received land and predetermined amounts of Federal funding (formula funds). These institutions are referred to as land-grant institutions (LGI) and are identified by the year of the Act vesting them.<sup>2</sup> Through the years, Congress has promulgated a series of laws that require LGIs to spend their formula funds on activities that advance specific agriculture interests.<sup>3</sup>

With passage of AREERA on June 23, 1998, Congress required LGIs to focus a percentage of their formula funds on activities that addressed regional and national agricultural concerns by way of cooperative and integrated activities. In addition, CSREES required each institution by July 15, 1999, to detail a 5-year plan of work (POW) that explained how current and future programs would meet AREERA requirements. AREERA required the Secretary/CSREES to develop controls to evaluate the success of multi-State, multi-institutional, and multidisciplinary extension/research activities and joint research and extension activities in addressing critical agricultural issues identified in the POWs.

CSREES published administrative guidance for multi-State extension and integrated activities on its Web site on April 28, 2000. The administrative guidance and AREERA required States disbursing Federal money to 1862 LGIs to spend a given percentage of formula funds from fiscal year (FY) 2000 forward (target percentage) on multi-State extension and integrated (research and extension) activities. That amount could be either 25 percent of a FY's formula funds or twice the formula funds they had spent on similar activities in FY 1997 (base percentage), whichever was less.<sup>4</sup>

For institutions that chose not to commit 25 percent of their formula funds, CSREES required documentation supporting how they had calculated their base percentage so it could make certain the LGIs would spend the

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<sup>1</sup> Extension activities include practical research, publication of research results, informal education, and surveying those who use agricultural research.

<sup>2</sup> The First Morrill Act of 1862 and the Second Morrill Act of 1890 granted land to States in order to establish institutions devoted, among other things, to agriculture. Colleges and universities established by way of the First Morrill Act are known as 1862 LGIs and those established by way of the Second Morrill Act are known as 1890 LGIs.

<sup>3</sup> The Hatch Act of 1887, the Smith-Lever Act of 1914, and the National Agricultural Research, Extension, and Teaching Policy Act of 1977 (NARETPA), distribute formula funds.

<sup>4</sup> To clarify, base percentage is the percentage of FY 1997 formula funds that institutions spent on activities now mandated by AREERA. Target percentage is the percentage of formula funds from FY 2000 forward that institutions are required to spend on certain activities. Unless reduced by authority of the Secretary, target percentages have to be the lesser of twice the base percentage, or 25 percent of a FY's formula funds. For example, an institution that spent \$100,000 out of \$1 million in formula funds on required activities in FY 1997 would have a base percentage of 10 percent. The institution's target percentage for FY 2000, then, would be 20 percent of whatever formula funds it received for that year (or 25 percent if it selected that option). CSREES used the terminology "target" to describe AREERA's expenditure requirements but AREERA simply calls them "required expenditures" (Public Law 105-185 §§ 105(h)(2)(B) and 204(i)(2)(B)).



appropriate amount of formula funds (twice the base percentage) on mandated activities.

CSREES' April 2000 administrative guidance required institutions to submit, by July 1, 2000, CSREES forms documenting (1) their computations of their base percentages for AREERA activities,<sup>5</sup> (2) their selections of target percentages for those activities, and (3) their planned expenditures for AREERA activities for the next 5 years. However, before those documents were to be submitted, CSREES published a document on its AREERA Web site on June 13, 2000, answering frequently asked questions about that administrative guidance. CSREES' statements answering those frequently asked questions offered LGIs that could not calculate their base percentage a "good faith" exemption, which allowed those LGIs to choose their own target percentage.<sup>6</sup> The exemption, derived from the Secretary's authority via AREERA, permitted a reduction in the required percentage in cases of hardship, infeasibility, or other similar circumstances.<sup>7</sup>

In all cases, CSREES required each institution to submit a 5-year POW that described how current and intended programs met AREERA requirements. The law called for POWs to describe how existing and intended programs would use the formula and other funds to address critical agricultural concerns.<sup>8</sup> Since POWs had to meet AREERA standards before the institutions could receive their formula funds, CSREES established a review process to evaluate the POWs.

Beginning in FY 2000, AREERA required States to provide their 1890 LGIs with matching funds from non-Federal sources.<sup>9</sup> These institutions had to match 30 percent of their formula funds in FY 2000, 45 percent in FY 2001, and 50 percent every year thereafter. In order to manage these matching requirements, CSREES obliged LGIs to report twice annually on the availability, amount, and source of funds constituting the State matching of Federal extension and research funds.

## Objectives

Our objectives were to determine whether CSREES established adequate controls to ensure it had implemented AREERA activities in accordance with the law, and to ensure that LGIs administered their formula funds to meet the law's requirements. Specifically, we examined for 1862 LGIs whether CSREES was (1) ensuring that LGIs established the appropriate funding percentages (lesser of 25 percent or twice the FY 1997 expenditures) to put toward AREERA activities, (2) approving POWs that met AREERA and CSREES standards, and (3) holding LGIs accountable for funding AREERA

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<sup>5</sup> AREERA activities include multi-State extension, integrated extension and integrated research activities.

<sup>6</sup> CSREES' AREERA Web site contained a document answering frequently asked questions ([www.reeusda.gov/part/areera](http://www.reeusda.gov/part/areera)). The document indicated that the LGIs that were not able to determine their FY 1997 base percentages for AREERA activities could claim that they could not "in good faith" do so.

<sup>7</sup> Public Law 105-185 §105(h)(2)(C)

<sup>8</sup> Public Law 105-185 §§105(h)(2)(D), 202 and 204(a)(i)(D)

<sup>9</sup> Public Law 105-185 §226

activities at the levels they committed to. Also, for 1890 LGIs we examined whether CSREES was ensuring LGIs met matching requirements imposed by AREERA.

During our audit, we found that CSREES no longer required institutions to submit a yearly detailed report of their extension operations (Governor's Report) even though the Smith-Lever Act and NARETPA mandate the report. Accordingly, we reviewed CSREES' claim that the report duplicated information documented by the institutions in other financial statements and was therefore burdensome and unnecessary.

# Findings and Recommendations

## Section 1. Inconsistent Base Percentage Calculation

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CSREES inconsistently applied regulations that obliged 1862 LGIs to spend the lesser of 25 percent of their formula funds on mandated activities or twice the percentage they spent in FY 1997 on such activities (base percentage). When some institutions claimed they could not calculate their base percentage, CSREES allowed them to select their own spending targets.

In testimony before congressional committees prior to the passage of AREERA, the CSREES Administrator and others in the agricultural industry asked that Congress require LGIs to spend 25 percent of their extension formula funds for integrated and multi-State activities. A former congressional staffer informed us that Congress believed most institutions would select this percentage because staffers thought they were already spending 25 percent. Although AREERA provided LGIs two ways to spend less than that amount,<sup>10</sup> the law worked to ensure that they spent a significant amount of the formula funds on integrated and multi-State activities. By inappropriately reducing the percentage that LGIs had to spend, CSREES did not administer the law so that universities met the law's requirements.

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### Finding 1

#### Selection of Target Percentages Inconsistent With Congressional Intent

CSREES improperly allowed 16 LGIs to forgo computing their FY 1997 base percentages and to select inappropriate target percentages.<sup>11</sup> This condition developed because CSREES provided guidance that conflicted with AREERA and its own regulations. Also, CSREES had no controls in place but accepted (at face value) institutions' claimed inability to account for their FY 1997 Federal formula funds. As a result, CSREES inequitably applied the provisions of AREERA among the LGIs.

AREERA required LGIs to compute the percentage of FY 1997 formula funds expended on integrated research, integrated extension, and multi-State extension activities (base percentage).<sup>12</sup> Once that base percentage was computed, LGIs were to select a target percentage that was the lesser of 25 percent or twice that base percentage. That target was to be the percentage

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<sup>10</sup> (1) The lesser of 25 percent or twice the expenditure in FY 1997, or (2) that amount reduced by the Secretarial waiver for hardship or infeasibility.

<sup>11</sup> See footnote 4 for clarification of the terms "target percentage" and "base percentage."

<sup>12</sup> Public Law 105-185 §§105(h) and 204(i)

of formula funds expended on those activities in FY 2000 and thereafter. CSREES regulations allowed LGIs four options.

1. Option A: 25 percent
2. Option B: twice the percentage calculated for FY 1997
3. Option C: a percentage greater than Option B, but less than Option A
4. Option D: phase in Option C over 3 years<sup>13</sup>

In response to LGIs' complaints about the regulations, CSREES allowed institutions that claimed to have attempted "in good faith" to compute the FY 1997 base percentage (but were unable to do so) to select Options C or D.<sup>14</sup>

Although AREERA did not specifically provide for a "good faith" exemption, it did give the Secretary authority to reduce the required percentage in cases of hardship, infeasibility, or other similar circumstances.<sup>15</sup> Given this authority, the Office of the General Counsel indicated the additional options offered by CSREES were within the spirit of the law only if LGIs really had attempted to calculate their base percentages "in good faith." That is, CSREES would have correctly administered the AREERA funds if it ascertained that the LGIs' failure to compute their base percentages resulted from hardship, infeasibility, or other similar circumstances.

Our review of forms CSREES-BASE and CSREES-TARG for the 51 LGIs determined that approximately one-third of the LGIs (16) took advantage of CSREES' "good faith" exemption and selected options C or D. Of these, 10 chose to devote a small percentage of formula funds, 5 percent or less, to AREERA-mandated activities. (See exhibit D.) Further, 1 of the 10 LGIs did not explain on the required forms why it could not compute the base percentage despite the fact that CSREES required such documentation.

Almost all the LGIs requesting an "in good faith" exemption (15 of 16) did so on the grounds that their accounting records were not such as would allow them to determine their base percentage. In effect, they claimed their accounting systems were not set up to track multi-State extension or integrated expenditures.

If, however, LGIs' accounting systems could not tell how and on what their FY 1997 formula funds had been spent, then the LGIs were not in compliance with the Office of Management and Budget (OMB) Circular A-110.<sup>16</sup> The circular requires that financial management systems of institutions receiving formula funds (1) provide accurate and complete

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<sup>13</sup> Administrative Guidance for Multistate Extension Activities and Integrated Research and Extension Activities

<sup>14</sup> Frequently asked questions in CSREES' AREERA web site ([www.reeusda.gov/part/areera](http://www.reeusda.gov/part/areera))

<sup>15</sup> Public Law 105-185 §105(h)(2)(C)

<sup>16</sup> Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals and Other Non-Profit Organizations

disclosure of the financial results of each federally-sponsored project or program, and (2) maintain records that identify the source and application of funds for federally-sponsored activities.<sup>17</sup> In our opinion, inability to calculate the base percentage due to inadequate accounting records did not constitute a “good faith” attempt to determine the base percentage.

CSREES did catalogue the target selected by each LGI for every AREERA activity, and it did check the institutions’ math on forms documenting LGI calculation of the base and target percentages. However, we found no evidence that CSREES verified LGIs’ target selections or challenged their failure to submit forms documenting calculations, and CSREES’ procedures required no such actions. We visited 2 of the 16 LGIs that had invoked the “good faith” criteria (Auburn University and Purdue University) in order to verify their target percentage calculation.

We visited Auburn University because the extension officials had not submitted the required forms to CSREES to document their base percentage computations. Narratives in their FY 2000 Annual Report of Accomplishments and Results<sup>18</sup> (annual report) spoke to the inability of their current accounting system to determine the base percentage. Claiming that they had tried “in good faith” but failed, the officials subsequently selected 9.8 percent targets for extension activities.

Auburn’s extension officials selected the target percentage by querying only faculty members, whose salaries were paid with State extension funds, about their multi-State extension and integrated activity in FY 2000. Auburn extension officials did not ask employees paid with Federal extension funds about their multi-State extension or integrated activities in FY 1997. These Federal extension funds should have been counted in determining Auburn’s base percentage. Auburn also did not analyze extension publications, or FY 1997 accounting records, for evidence of integrated extension activities, research at institutions in other States, or travel expenses that would indicate multi-State extension expenditures.

In short, Auburn officials provided no evidence of hardship or infeasibility in determining the percentage of formula funds spent on nonfaculty and extension employees. Since Auburn did not meet AREERA’s condition for targeting a lower percentage than mandated, CSREES should not have allowed them to select a reduced (below 25 percent) percentage of formula funds to spend on multi-State extension and integrated extension activities.

We also visited Purdue University because its documentation indicated that although its FY 1997 expenditures exceeded zero for all AREERA activities,

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<sup>17</sup> OMB Circular A-110, subpart C, paragraph 21

<sup>18</sup> The Annual Report of Accomplishments and Results is a report required annually by CSREES to keep them informed of LGIs’ progress. (See Finding No. 2.)

there were no “systems in place at that time (FY 1997) to capture the expenditures by program/activity.”<sup>19</sup> Purdue officials selected CSREES’ Option D, incremental targets of 1, 3 and 5 percent, for all AREERA activities. When we asked Purdue officials about their selected percentage, they indicated they had not considered joint appointees’ (split appointees) activities to be integrated because CSREES’ guidance required joint appointees’ activities to be integrated to count as integrated activities. Our examination of CSREES’ guidance indicated it provided conflicting guidance. According to the guidance CSREES published on its Web site in the frequently asked questions, split appointments may be used, but the activity conducted by the individual on split appointments must be integrated. However, according to CSREES’ Guidance for Multi-State Extension and Integrated Research and Extension Activities (regulation), a LGI could use joint research and extension personnel appointments (split appointments) as an integrated activity. The regulation implied that split appointments were understood to be integrated activities.

We assessed Purdue’s FY 1997 accounting records of salary payments to joint appointees, research and extension officials compensated by both Federal formula extension and research funds. Our analysis indicated that the FY 1997 base percentage for integrated research and extension activities was greater than 18 percent requiring a target percentage for Purdue’s integrated extension and research activities in FY 2000 and thereafter of 25 percent for both activities.

Unlike Auburn and Purdue, four other LGIs that selected 25 percent, for five AREERA activities, did so because they could not calculate their FY 1997 base percentage. By complying with AREERA, these institutions faced expenditure restrictions that other institutions did not. In effect, CSREES inequitably administered the law and allowed some LGIs to avoid the congressional intent for LGIs to spend a mandated percentage of their formula funds on required activities.

Since CSREES did not ensure that LGIs’ requests for percentage reduction constituted hardship, infeasibility, or similar circumstances, we question the targets selected by the 16 LGIs claiming “in good faith” exemptions.

## **Recommendation No. 1**

Require LGIs not computing base percentages to select 25 percent for all AREERA activities or to correctly determine their base percentages.

**CSREES Response.** CSREES concurs. CSREES will require all 1862 LGIs to review their current target percentages for multi-State extension

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<sup>19</sup> This claim came from Purdue’s form CSREES-BASE (a form issued by CSREES for LGIs to document their base percentage calculation).

activities and integrated activities and, if applicable, reset their target percentages for FY 2006 and thereafter. If an institution declines to provide the additional information within a specified number of days, CSREES will notify the institution that a 25 percent target must be set. CSREES will approve target percentages by September 30, 2005.

**OIG Position.** We accept the management decision. For final action, complete actions outlined in the corrective action plan (exhibit B). Also, provide the Office of the Chief Financial Officer, Planning and Accountability Division (OCFO/PAD) a copy of CSREES' revised Administrative Guidance for Multistate Extension Activities and Integrated Research and Extension Activities (due May 31, 2005). Further, provide a schedule of 1862 LGIs that compares their original target percentages for multi-State extension activities and integrated activities to their revised target percentages.

## **Recommendation No. 2**

Establish and implement controls/procedures designed to ensure that requests for reductions in target percentages are granted only in verified cases of hardship, infeasibility, or other similar circumstances.

**CSREES Response.** CSREES concurs. CSREES will establish a policy requiring institutions requesting a waiver to do so in a letter addressed to the CSREES Administrator. This letter will be submitted to the Policy, Oversight, and Funds Management Branch for processing. After performing an administrative review, Funds Management will send the waiver request to the Planning and Accountability staff who, in conjunction with the appropriate national program leader (NPL), will either recommend approving or disapproving the waiver request. Funds Management will then prepare a letter from the CSREES Administrator to the institution either approving or disapproving the waiver request, and if necessary, requesting additional information in order to process the waiver request. The waiver request must be accompanied by supporting documentation and a reasonable explanation of why the target level could not be met. Acceptable cases of hardship or infeasibility would include State budget cuts, natural disasters affecting the institution, and other similar circumstances. The criteria and the procedures for requesting/processing a waiver will be included in the revised Administrative Guidance by September 30, 2004, for FY 2000 through FY 2005 requests, and by June 30, 2005, for FY 2006 and thereafter requests.

**OIG Position.** We accept the management decision. For final action, provide OCFO/PAD a copy of CSREES' revised Administrative Guidance that sets forth its controls/procedures of processing institutions requests for reductions in target percentages. Please highlight the pertinent changes.

### Recommendation No. 3

Revise guidance provided in CSREES' frequently asked questions that requires activities conducted by individuals on split appointments to be integrated so that it conforms to guidance published in CSREES regulations.

**CSREES Response.** CSREES concurs. The work conducted by an individual on a split appointment may not necessarily be "integrated" for a particular problem area. However, it may be counted as integrated if the institution is conducting work by a corresponding, complementary research or extension component (e.g., salary of another individual) in the same problem area. This complementary component may be supported with either Federal or non-Federal formula funds. Frequently asked questions related to this issue will be included in the Administrative Guidance and will be updated as the Administrative Guidance is revised by May 31, 2005.

**OIG Position.** We accept the management decision. For final action, provide the OCFO/PAD a copy of CSREES' revised Administrative Guidance, and highlight the language clarifying split appointments.



## **Section 2. CSREES Controls Over Compliance With AREERA Requirements**

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As the agency responsible for administering AREERA, CSREES requires institutions that receive Federal formula funds to submit a variety of documents. Three of the most critical documents are POWs, expenditure summaries, and financial status reports. In some cases, CSREES released Federal funds to LGIs that had not submitted one or more of the required documents. In other instances, CSREES released funding before it approved an LGI's document. And, CSREES approved documents that fell short of AREERA requirements.

Specifically, CSREES approved POWs that did not comply with AREERA standards. In addition, CSREES released formula funds to many LGIs that reported not meeting the spending levels intended by Congress and to other LGIs that reported not meeting the matching fund requirements. These conditions developed because CSREES' management controls were inadequate to ensure LGIs fully complied with AREERA. As a result, CSREES has no assurance that institutions expended Federal funds appropriately, and we are recommending that the agency recover all underexpenditures and unsupported costs.

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### **Finding 2**

#### **Formula Funds Released Without POWs Meeting AREERA Requirements for Approval**

CSREES approved 17 POWs and conditionally approved 13 other POWs that did not contain key POW elements required by AREERA for approval. Also, CSREES released Federal formula funds to 10 LGIs before they approved the POWs. These conditions developed because CSREES lacked effective administrative controls over the process for reviewing and approving POWs. As a result, CSREES disbursed \$40 million to institutions before their POWs complied with AREERA requirements causing the Government to incur additional interest costs of about \$482,400. Further, we concluded CSREES could not ensure the LGIs appropriately planned to spend Federal funds on approved research projects and extension programs.

CSREES required each institution to submit a 5-year POW. Review teams were to assess whether the POWs met AREERA and CSREES standards. The teams consisted of reviewers, facilitators, and/or NPLs who reviewed the POWs at the national level. To assist them, CSREES created a checklist and criteria for the NPL/facilitators/reviewers to use when evaluating the POWs. Led by these guidelines, the review teams summarized the elements of the POWs on the review team summary document, which commented on POWs'

strengths and weaknesses. The teams turned their recommendations over to what was then CSREES' Partnership unit (now known as the Planning and Accountability staff). The unit/staff then submitted an approval letter for the Administrator's signature. The review teams were responsible for tracking all POWs to ensure that any required revisions were timely resubmitted.

To evaluate the adequacy of CSREES' review and approval of institutions' POWs, we reviewed 30 of 75 POWs prepared by the 51 LGIs. We also reviewed all 93 letters the Administrator sent to LGIs approving their POWs. We reviewed the approval letters to identify POWs that CSREES conditionally approved and LGIs receiving Federal funds before CSREES approved the POWs. Our review found that CSREES had (a) improperly approved 17 POWs, (b) conditionally approved 13 POWs that should have been returned for revision, and (c) released formula funds to 10 LGIs before approving the POWs.

a. Approved POWs Not Meeting AREERA Requirements

Lacking effective oversight of its review teams and clear pass/fail guidelines, CSREES approved POWs that did not meet the standards set by AREERA. AREERA and CSREES required (1) descriptions of research and extension activities, (2) descriptions of the merit/peer review process to be implemented by October 1, 1999, and (3) descriptions of the stakeholders' input process to be implemented by October 1, 1999.<sup>20/21</sup> CSREES, however, did not issue regulations showing how LGIs should perform merit reviews and it issued regulations implementing the stakeholder input process 6 months after the POWs were to be submitted.

The guidance CSREES did issue was not adequate to ensure reviewers fully identified deficiencies in the POWs or, if identified, took appropriate corrective measures. AREERA called for descriptions of the research and extension programs, the merit/peer review process, and the stakeholders' input process. However, the wording in the checklist CSREES gave to its review teams to help them evaluate POWs implied that reviewers needed to note whether required elements were present. Thus, reviewers accepted incomplete information such as a catalogue of programs, or statements that the review process had taken place, as fulfilling AREERA requirements although the law required descriptions of those elements.

OIG assessed 17 POWs to determine if LGIs had met AREERA's requirements and compared our assessments with the review team summary for those POWs. We identified weaknesses with all 17 POWs,

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<sup>20</sup> Public Law 105-185, sections 102 (c), 103(d),(e), 104(a) and 201(a)(b)

<sup>21</sup> Guidelines for State POWs for the Agricultural Research and Extension Formula Funds

and 10 of the POWs did not fulfill AREERA requirements in multiple elements. We determined that five were lacking adequate descriptions in three elements, and five were lacking adequate descriptions in two elements. Further, we noted that CSREES' review teams identified problems similar to ours for 13 of the 17 POWs. Therefore, based on our review and our analysis of CSREES' review teams' summary documents, we concluded that none of the 17 POWs fully met AREERA requirements and should not have been approved. (See exhibit E.)

CSREES did not have an adequate mechanism to disapprove POWs not meeting AREERA requirements. Our review of CSREES guidance given the review teams (CSREES Review of POW<sup>22</sup> and USDA-CSREES Review of POW Checklist for Required Components) indicated these documents provided no pass/fail instructions. Further, an E-mail sent to the review staff on August 19, 1999, implied there was no pass/fail policy by stating: "If need be, \* \* \* approval can be made conditional upon the receipt of additional information, clarification, narrative, certification, etc." This guidance was in conflict with AREERA which required approval of POWs before release of Federal funds and also contrary to CSREES' regulations requiring return of all incomplete POWs. As a result, POWs needing what CSREES called "Suggested Improvements" generally were approved while those needing what it called "Required Improvements" were conditionally approved.<sup>23</sup> We maintain that as all of the elements were required by AREERA in order for LGIs to receive their funds, the deficient POWs should have been returned to the LGIs for correction and formula funds should have been withheld pending revision.

Since CSREES did not ensure the LGIs' POWs met AREERA standards, we concluded CSREES could not be sure the LGIs appropriately planned to spend Federal funds on approved research projects and extension programs. Further, because the LGIs should not have received funding until their POWs met AREERA standards, we calculated the added interest cost to the Government by releasing funds early. We assumed that an LGI (notified of deficiencies) would have revised its POWs within a 3-month period if formula funds were withheld.

To calculate the excess interest cost to the Government of the prematurely released funds, we multiplied one-fourth<sup>24</sup> of the formula fund distributions for which the LGIs were eligible in FY 2000 (\$17,304,251) by the lowest Federal funds rate<sup>25</sup> for the 3-month period of October 1999 through December 1999 (5.2 percent). We

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<sup>22</sup> Dated April 22, 1999

<sup>23</sup> Both suggested and required improvements were required by AREERA. See following section, "Conditionally Approved POWs."

<sup>24</sup> We used one-fourth of the funds because one-fourth of the total obligation is to be distributed each quarter.

<sup>25</sup> The rate at which the U.S. Government borrows money.

conservatively estimate, then, that if CSREES had not approved the POWs, the Government would have avoided about \$225,000 in additional interest costs.

b. Conditionally Approved POWs

AREERA, the Smith-Lever Act, and NARETPA, require all LGIs receiving formula funds to have their POWs approved by the Secretary before receiving their formula funds.<sup>26</sup> CSREES published guidelines in the Federal Register stating that POWs would either be approved without change, or returned to the LGI with clear and detailed recommendations for modification.<sup>27</sup>

CSREES' previous Administrator, however, signed letters to LGIs "conditionally approving" 13 POWs, which overrode the established policy. CSREES assumed that members of the review team would follow up on their recommendations during assessments of LGIs' subsequent annual reports;<sup>28</sup> however, a written policy requiring such followup was not established. As a result, the LGIs did not appropriately revise 12 of the 13 conditionally approved POWs.

Out of 13 conditionally approved POWs, CSREES officials provided OIG with 3 copies of POWs they indicated had been revised. OIG reviewed all three POWs and determined that two still had not adequately answered the deficiencies that CSREES' review team initially noted. However, the annual report review process allowed the LGIs to receive formula funds without having their POWs meet AREERA standards. (See exhibit F.)

Given that CSREES had no express authority to extend conditional approval, and that the LGIs did not appropriately revise their POWs, we found that formula funds were improperly released. We determined the excess interest cost to the Government by multiplying one-fourth of the FY 2000 formula fund distribution to LGIs who were conditionally approved by the least Federal funds interest rate in the first quarter of FY 2000, October through December 1999. (As previously discussed, we assumed that the LGIs would have submitted revised POWs within 3 months had their funding been withheld.) Since the LGIs received formula funds totaling almost \$16 million, the Government incurred additional interest costs of about \$206,900.

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<sup>26</sup> Public Law 105-185 § 7(d), Smith-Lever Act §4(a), and NARETPA §1444 (2)(d)

<sup>27</sup> Federal Register, Volume 64, number 126, page 35919 §II.C.1, dated July 1, 1999

<sup>28</sup> The annual reports essentially detailed how a given year of the 5-year POW had been implemented.

c. Formula Funds Released Before POWs Approved

CSREES released FY 2000 formula funds to 10 LGIs before their POWs were approved because distribution was not tied to approval. As a result, formula funds totaling \$7 million were released early causing the Government to incur about \$50,500 in added interest.

AREERA and other laws require that the Secretary approve LGIs' POWs before releasing research and extension formula funds.<sup>29</sup> We compared the dates on 92<sup>30</sup> approval letters generated by CSREES' Partnership Unit staff to the release dates of formula funds, provided by CSREES' Office of Extramural Programs' Funds Management Branch, and found 10 LGIs whose funds had been released before the POWs were approved.<sup>31</sup> The number of days between the release of funds and the approval of POWs varied from 13 to 160 days. We calculated the \$50,500 excess interest cost by multiplying the formula funds released early times the number of days the funds were released early times the average Federal funds rate for the periods.

Funds Management Branch officials indicated that they were never notified whether or not POWs had been approved and formula funds were not withheld when a POW was not approved.<sup>32</sup>

CSREES did not link the Funds Management Branch (responsible for releasing monies) to the Partnership Unit staff (responsible for approving POWs). As a consequence, CSREES had no management control over the distribution of funds prior to POW approval, contrary to requirements of law. CSREES officials acknowledged that there were "no procedures for withholding of funds for failing to meet AREERA requirements."

#### **Recommendation No. 4**

Establish and document controls (such as pass/fail guidelines, second party reviews, etc.) to ensure that LGIs' POWs meet AREERA standards and CSREES requirements before granting approval.

**CSREES Response.** CSREES concurs. CSREES will establish and document procedures that ensure LGIs' POWs meet AREERA and CSREES requirements before granting approval. The target date is September 30, 2004.

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<sup>29</sup> Public Law 105-185 §§202 and 225(b), Smith-Lever Act§4(a), and NARETPA §1444 2(d)(1)

<sup>30</sup> Of the 93 approved letters, one was not dated.

<sup>31</sup> Some LGIs received more than one approval letter because they submitted separate POWs for research and extension activities.

<sup>32</sup> Funds Management Branch officials stated that they only withheld funds when LGIs had not submitted either their Financial Status Reports, Form SF-269 or Certificates of Offset and Entitlement, Form CSREES-2103.

**OIG Position.** We accept the management decision. For final action, provide OCFO/PAD a copy of CSREES' new procedures/controls for ensuring POWs are not approved until they meet AREERA and CSREES requirements. Please highlight the pertinent changes, such as pass/fail guidelines.

## **Recommendation No. 5**

Revise the POW checklist to include appropriate checks for descriptions of (1) research and extension activities, (2) merit/peer review processes, and (3) stakeholder input processes required by CSREES and AREERA.

**CSREES Response.** CSREES concurs. For the review of the FY 2005 through FY 2006 update to the 5-year POW, CSREES will revise the reviewer checklist to provide clearer guidance to reviewers to ensure all POW compliance and reporting requirements are met prior to approval (i.e., pass/fail guidelines). Training for the FY 2005 through FY 2006 update will be provided to the POW reviewers. The target date for both actions is July 31, 2004.

The POW and related reporting requirements are being made accessible online beginning in FY 2006 for the upcoming 5-year POW (FY 2007 through FY 2011); the online features and checklist are in the development phase. The automated formats will contain required fields that will, to a large degree, eliminate insufficient POWs. The online POW product will be reviewed for approval by two NPLs, as is the current process. Institutions that submit insufficient information on the POW will be notified via E-mail, as is the current procedure. The target date for online application is July 31, 2006.

**OIG Position.** We accept the management decision. For final action, provide the OCFO/PAD a copy of CSREES' revised POW checklist. Please highlight the pertinent changes.

## **Recommendation No. 6**

Establish and document controls designed to ensure formula funds are not distributed to LGIs until their POWs fully meet AREERA and CSREES requirements and are approved by CSREES representatives.

**CSREES Response.** CSREES concurs. The Funds Management section of the Policy, Oversight, and Funds Management Branch currently maintains a checklist of required documentation for each formula fund program. This checklist includes the Financial Status Report, Form SF-269; appropriate budget forms; Programs of Research; Certifications of Offset, and the Certification of Lobbying Forms. Funds Management will add POW

reporting requirements to the checklist as it becomes feasible. However, institutions must have an approved FY 2005 through FY 2006 POW update in order to receive their first quarter FY 2005 formula funds allocation. In addition, formula funds will be placed “on hold” for failure to submit the appropriate expenditure reports for multi-State extension activities and integrated activities (i.e., CSREES-REPT) with the annual report which is due on March 1. As Funds Management progresses with the review and followup with the AREERA sections 105 and 204 requirements for FY 2000 through FY 2003, funds will be recovered through reducing funding authorizations as appropriate. The target date for establishing, documenting, and implementing controls is October 1, 2004.

**OIG Position.** We accept the management decision. For final action, provide OCFO/PAD a copy of CSREES’ new procedures/controls for ensuring formula funds are not distributed to LGIs until their POWs fully meet AREERA and CSREES requirements. Please highlight the pertinent changes in the checklist, as well as instructions for placing formula funds “on hold,” and recovering funds through reduced funding authorizations.

### **Recommendation No. 7**

Withhold further funding from the LGIs listed in exhibits E and F until they have submitted revised POWs that meet AREERA and CSREES requirements.

**CSREES Response.** CSREES concurs. CSREES will withhold formula funds in the first quarter of FY 2005 for those institutions that fail to have an approved FY 2006 through FY 2007 POW update. Reviewers will be instructed to ensure that the deficiencies noted in exhibits E and F are resolved during the review and approval of the FY 2005 through FY 2006 POW updates. The target date is September 30, 2004.

**OIG Position.** We accept the management decision. For final action, provide OCFO/PAD a document summarizing the results of CSREES’ review of FY 2006 through FY 2007 POW updates. The document should identify the LGIs having funds withheld because POWs did not meet standards, including those listed in exhibits E and F.

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### **Finding 3**

### **CSREES Did Not Ensure That LGIs Reported Spending Formula Funds at Required Levels**

CSREES did not effectively monitor the 51 1862 LGIs’ reported expenditures of Federal formula funds to ensure the institutions met their

required target percentages. Some institutions reported spending Federal formula funds in lesser amounts than required (27 LGIs in FY 2000 and 23 in FY 2001). Also, one institution reported spending more formula funds than allocated by CSREES. The reported underexpenditures (\$14.4 million) and overexpenditures (\$738,158) went unquestioned because CSREES had not established effective controls to monitor LGI compliance with target expenditure percentages, had not informed LGIs of noncompliance, and had not enforced penalties for noncompliance. Therefore, congressionally mandated objectives regarding expenditures of Federal funds were not fully achieved.

AREERA requires that LGIs spend, in FY 2000 and thereafter, 25 percent of their formula funds for multi-State extension and integrated activities or twice the percentage spent on those (AREERA) activities in FY 1997 (whichever is less).<sup>33</sup> The law also requires the Secretary to establish protocols to evaluate the success of multi-State extension activities, and joint research and extension activities.<sup>34</sup> Both the Hatch and Smith-Lever Acts require that if any portion of allotted funds is misapplied, it must be replaced by the State concerned and that no further monies should be paid to the State until the situation is rectified.<sup>35</sup>

CSREES required LGIs to submit a supplement summarizing their expenditures for AREERA activities (form CSREES-REPT) with their annual report. CSREES' Planning and Accountability staff distributed the annual reports to the NPLs, who were to make sure that the expenditure summaries (form CSREES-REPT) were present and the amounts reported met the LGIs' required target percentages. Once they had reviewed the annual reports, the NPLs were to note their positive and negative observations on the review team summary document. If the NPLs recommended approval, CSREES would then send a letter to each LGI indicating that its annual report(s) had been received and approved.

The NPLs, however, were not ensuring that LGIs had included form CSREES-REPT with their annual reports. Based on our review for the 51 LGIs, we found that, in both FYs 2000 and 2001, about 25 percent of the 152 required forms were not submitted. Specifically, we found 34 form CSREES-REPTs to be missing in FY 2001. We reviewed CSREES' letters approving the LGIs' annual reports for 23 of the 34 missing CSREES-REPTs and found that none of the approval letters noted the LGIs had not submitted the required form.

Also, the NPLs did not effectively review form CSREES-REPT to see if LGIs had met their target percentage expenditures. If NPLs had compared

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<sup>33</sup> Public Law 105-185 §§105 and 204

<sup>34</sup> Public Law 105-185 §202

<sup>35</sup> Hatch Act §5 and Smith-Lever §5



LGI's summaries of expenditures in form CSREES-REPT and/or annual report against their required expenditures, they would have discovered that 27 LGIs reported spending less than required on AREERA activities in FY 2000, and 23 LGIs reported spending less than required in FY 2001. In fact, there were adverse variances of more than \$8.4 million and \$6 million in FYs 2000 and 2001, respectively. (See exhibit G.) University of California, for example, reported a deficit in integrated extension program expenditures of \$230,231 in FY 2000 and \$170,348 in FY 2001. The NPLs, however, did not note the deficiency on the annual report review checklist, nor did CSREES bring the problem to the university's attention in its letter approving the LGI's annual report.

Although the LGIs were required to repay the underexpended funds to CSREES before they received further formula funds, CSREES did not inform the institutions of their noncompliance or enforce penalties. Because it did not ensure that NPLs adequately reviewed and analyzed LGIs' expenditure data, CSREES continued to inappropriately approve annual reports and LGIs continued to receive formula funds to which they were not entitled.

Further, we noted that one institution reported spending more Federal formula funds for integrated research activities than CSREES allocated. The University of Idaho reported in its annual report that it had expended \$2,280,792 and \$2,499,797 for integrated research activities in FYs 2000 and 2001, respectively, while CSREES allocated Hatch and Hatch multi-State formula funds of only \$2,023,484 and \$2,018,947 for the respective years - a difference of \$738,158 in all. The university's FY 2000 annual report indicated that expenditures for integrated research and extension activities included both State and Federal formula funds. Such information should have alerted CSREES that the required percentage of Federal formula funds might not have been expended on AREERA activities.

We identified a number of weaknesses in CSREES' process for reviewing LGIs' annual reports, including form CSREES-REPT. We concluded that these weaknesses contributed to the preceding conditions.

a. FY 2002 Annual Report – Reviewer's Package

This document was intended to guide NPLs in reviewing annual reports and related documents. However, it provided NPLs with no directions for ensuring LGIs were spending formula funds on AREERA activities at the required target percentages, or for recovering improperly expended funds. It did not specify what records NPLs should use to determine whether expenditures occurred at the required target percentages. Further, the document did not provide for a second party review process to ensure NPLs effectively performed their reviews.

b. Annual Report Review Checklist

Designed to guide NPLs in their review of the annual reports, the checklist asked NPLs to check either “Yes” or “No” to a series of questions to indicate whether the report adequately addressed a key issue. However, the checklist did not require NPLs to explain questions answered with a “No” in the review team summary. Also, multipart questions listed under the heading “multi-State extension and integrated research and extension sections” offered only one “Yes/No” answer space. For example, one of the questions read, “Multi-State Extension Activities Form(s) CSREES-REPT and/or CSREES-Waiver (2/00). And are they on target with their multi-State plan? Submission?” Such an organization allows the NPLs to check “Yes” for the entire question instead of accounting for each of its parts individually. Further, the question, “And are they on target with their multi-State plan?” is unclear. While the question’s intent apparently was to have NPLs determine if LGIs spent formula funds on AREERA activities at the required target percentages, some NPLs and LGIs interpreted the phrase “on target” as working toward the goal instead of actually meeting it.

c. Form CSREES-REPT

The form was intended for LGIs to report Federal formula funds expended on AREERA activities; however, language on the form does not make this purpose clear. Also, the form does not require the individual signing the form to certify to the correctness of the data provided, or that the amounts reported are Federal formula funds used for AREERA purposes.

d. Review Team Summary

This document (a template with section headings for organizing comments) was designed to summarize NPLs’ positive and negative observations during their reviews of the annual reports. However, the document did not require NPLs to comment on LGIs’ accomplishments or setbacks in spending the required percentage of formula funds on AREERA activities.

## **Recommendation No. 8**

Revise the Annual Report - Reviewer’s Package to include (a) guidance for determining if expenditures of formula funds on AREERA activities meet target percentages (including records to review), (b) guidance for recovering misapplied funds, and (c) a process for second party review.

**CSREES Response.** CSREES concurs. CSREES Funds Management is in the process of developing procedures for the review of the annual reports (i.e., form CSREES-REPT) for multi-State extension activities and integrated activities. As part of these procedures, there will be a checklist for the Funds Management staff and procedures for processing waiver requests and recovering funds, as well as a requirement that there be a second-party review. Procedures also will be established to communicate this information to the Planning and Accountability staff as well as to the appropriate NPLs.

The annual report review process will continue as is performed currently with a review by two NPLs. The review team summary report form for FY 2003 provides areas for NPL comments on multi-State extension activities and integrated research and extension activities. The Funds Management staff review will complement the NPL's review. The target date for development and implementation of these review procedures is December 31, 2004.

**OIG Position.** We accept the management decision. For final action, provide OCFO/PAD a copy of CSREES' revised procedures for the review of the annual reports. Highlight the portions of the document providing specific directions regarding meeting target percentages, recovering misapplied funds, and implementing second party reviews.

#### **Recommendation No. 9**

Reformat the annual report review checklist to permit only one question for every "Yes/No" answer space. Also, rewrite the questions to clarify the meaning of "on target."

**CSREES Response.** CSREES concurs. The FY 2003 annual report review checklist has one question attached to every "Yes/No" space. The annual report checklist for FY 2004 will be reviewed and revised as necessary. The target date is December 31, 2004.

**OIG Position.** We accept the management decision. For final action, provide OCFO/PAD a copy of CSREES' revised annual report review checklist showing there is only one question for every "Yes/No" answer space. Also, highlight the portions of the document providing specific directions regarding reviewers checking to ensure LGIs are reporting spending formula funds at the required target percentages.

#### **Recommendation No. 10**

Specify on form CSREES-REPT that only Federal formula funds expended on AREERA activities are to be reported. Also, require the signatory to certify the correctness of the data provided.

**CSREES Response.** CSREES concurs. CSREES-REPT will be revised to state that only Federal formula funds should be reported on the form. This will be clarified in the revised Administrative Guidance. The revised form also will require a signature to certify to the correctness of the data provided. The target date is December 31, 2004.

**OIG Position.** We accept the management decision. For final action, provide OCFO/PAD a copy of CSREES' revised CSREES-REPT. Please highlight changes to CSREES-REPT showing that only Federal formula funds are to be reported and the statement the signatory signs certifying the corrections of the data provided. Also, provide a copy of the revised Administrative Guidance with pertinent changes highlighted.

### **Recommendation No. 11**

Revise the Review Team Summary to provide for comments regarding LGIs' accomplishments, or lack thereof, in spending the required percentage of formula funds on AREERA activities.

**CSREES Response.** CSREES concurs. The review team summary for FY 2003 contains areas for comment by the NPLs on multi-State extension and integrated research and extension activities. A separate checklist (i.e., for FY 2004 reporting requirements) is being developed for the Funds Management staff to document whether or not each institution has met their AREERA sections 105 and 204 requirements. The Funds Management checklist will clearly identify if the institution has met their multi-State extension and integrated targets. A copy of this checklist will be forwarded to the Planning and Accountability Staff that, in turn, will provide it to the appropriate NPL. The target date for development and implementation of a Funds Management checklist for FY 2004 annual reports is December 31, 2004.<sup>36</sup>

**OIG Position.** We accept the management decision. For final action, provide OCFO/PAD a copy of CSREES' Funds Management checklist, and highlight the portions designed to disclose whether the institution has met its multi-State extension and integrated targets.

### **Recommendation No. 12**

Review formula fund expenditures for LGIs listed in exhibit G and recover funds not expended in accordance with required percentage amounts.

**CSREES Response.** CSREES concurs. CSREES will aggressively review annual reports for multi-State extension activities and integrated

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<sup>36</sup> CSREES agreed on July 15, 2004, to change the May 31, 2005 target date provided in their written response to the draft report to December 31, 2004.

activities and, if applicable, CSREES will provide institutions with an opportunity to submit revised CSREES-REPT's and/or waiver requests. If institutions have not met these requirements (i.e., FY 2000 through FY 2003) by June 30, 2005, funding authorizations will be reduced accordingly. CSREES will not withhold further distributions until recoveries are made; but instead, CSREES will reduce the funding authorizations as soon as it is verified that the institutions have not met the requirements or failed to secure approved waivers. The target date for the review and recovery of expenditures listed in exhibit G is September 30, 2005.

**OIG Position.** We concur with the proposed actions. To accept a management decision, please provide OIG the results of CSREES' review of formula fund expenditures for LGIs listed in exhibit G, including Letters of Determination informing the LGIs of the amount of reductions in funding authorization. For amounts reduced or waived by CSREES, provide support/justification for such actions.

### **Recommendation No. 13**

For the LGIs identified in exhibit G that have not repaid the amount of Federal formula funds CSREES confirmed to have not been expended in accordance with required percentage amounts, withhold further distributions until recoveries are made.

**CSREES Response.** CSREES concurs. CSREES will aggressively review annual reports for multi-State extension activities and integrated activities and, if applicable, CSREES will provide institutions with an opportunity to submit revised CSREES-REPT's and/or waiver requests. If institutions have not met these requirements (i.e., FY 2000 through FY 2003) by June 30, 2005, funding authorizations will be reduced accordingly. CSREES will not withhold further distributions until recoveries are made; but instead, CSREES will reduce the funding authorizations as soon as it is verified that the institutions have not met the requirements or failed to secure approved waivers. The target date for withholding further distributions until recoveries (i.e., for confirmed amounts on exhibit G) are made is October 1, 2005.

**OIG Position.** We accept the management decision. For final action, provide OCFO/PAD the names of LGIs identified in exhibit G that CSREES confirmed did not meet AREERA formula fund expenditure requirements or failed to secure waivers, and identify the amount of reduced funding authorizations imposed.

## Recommendation No. 14

Determine whether the University of Idaho underexpended Federal formula funds on AREERA activities and collect any misapplied formula funds.

**CSREES Response.** CSREES concurs. As part of its overall review of the AREERA sections 105 and 204 reporting requirements, CSREES will review the reports submitted by the University of Idaho and, if necessary, CSREES will require the university to recompute its FY 1997 baselines and target percentages in addition to resubmitting CSREES-REPT for FY 2000 through FY 2003. The target date is June 30, 2005.

**OIG Position.** We accept the management decision. For final action, provide the OCFO/PAD the results of CSREES' review of the University of Idaho's expenditure of Federal formula funds and the amount of misapplied funds recovered, if any.

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### Finding 4

#### 1890 LGIs Report Not Matching Formula Funds

Over 50 percent of the 1890 LGIs reported not matching Federal extension and research funds in FYs 2000 and 2001; however, CSREES personnel did not identify the deficiencies when reviewing the Financial Status Reports, Form SF-269. This condition developed because CSREES' written procedures for reviewing matching compliance were outdated and inadequate, and its operating practices were ineffective. As a result, CSREES did not recover and redistribute more than \$4.6 million in unmatched FY 2000 extension and research formula funds and more than \$11.4 million in FY 2001 to complying institutions as required by law.

AREERA mandated that States match a percentage of the funds their 1890 LGIs receive from the Government for research and extension activities.<sup>37</sup> These funds had to come from non-Federal sources and the matching requirement increased from 30 percent in FY 2000 to 45 percent in FY 2001, and finally to 50 percent in FY 2002.<sup>38</sup> Formula funds that were not matched from non-Federal sources were to be recovered and redistributed to those LGIs meeting their matches.<sup>39</sup>

In order to determine that an institution had available funds necessary to meet the matching requirements, CSREES sent a Certificate of Offset and Entitlement, Form CSREES-2103, to each LGI every August before the new FY. CSREES requested that LGIs indicate the amount of State matching

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<sup>37</sup> Public Law 105-185 §226

<sup>38</sup> The Farm Security and Rural Investment Act of 2002 (2002 Farm Bill) increased the matching requirement for 1890 LGIs from 50 percent to 100 percent by FY 2007. However, AREERA's cap was 50 percent.

<sup>39</sup> Public Law 105-185 §§226(a) and NARETPA § 1449(f)

funds available. By the last month of the FY (September), the institutions were to return the certificate indicating whether there were sufficient funds available as well as the source of those funds. If an institution did not return the certificate by the end of September, the LGI's quarterly formula fund distributions were to be withheld until it complied.

In May of the following FY, LGIs were to confirm by way of another certificate, form CSREES-2103, that they had sufficient funds to match the expected formula fund distribution. If a LGI did not confirm by July, CSREES was to withhold that institution's last quarterly (July) distribution until it indicated sufficient matching funds were available.

Meanwhile, following the end of each FY, in December or March of the next FY (depending on the type of formula funds distributed), each LGI submitted a form SF-269, to CSREES detailing, among other things, the level of matching fund expenditures.

CSREES' written procedure<sup>40</sup> required CSREES staff to review forms SF-269; however, the procedures were outdated and did not clearly delineate the review process for ensuring 1890 LGIs met matching requirements or the course of action when LGIs did not match Federal funds.

Our review of the procedure indicated it was revised in May 1998, prior to the passage of AREERA in June 1998. Therefore, it did not contain any specific directions for reviewing 1890 LGIs' compliance with matching requirements. Further, it indicated that no matching was required for 1890 LGIs.<sup>41</sup> Although, the procedure contained general instructions for reviewing matching requirements, they did not address the 1890 LGIs' unique matching requirements.

The instructions indicated the amount reported on line 10-I of form SF-269 must meet the FY matching or offset requirement. It further stated that if the matching amount provided by the recipient was less than the matching requirement, the reviewing staff was to check with the institution before requesting a refund. This instruction implied that a refund was to be requested if matching was not met; however, section III of the procedure, titled "Refunds," did not direct the staff to request refunds for deficient matching.

In discussing the review process with the staff, we learned CSREES released Federal funding if the LGIs demonstrated that State matching funds were available without ensuring the matching funds had actually been expended. If LGIs did not submit the required forms (SF-269 and CSREES-2103), funds

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<sup>40</sup> CSREES Formula Funds Review Procedures for SF 269 Long Form, revised 5/8/98

<sup>41</sup> A copy of the instructions obtained from CSREES staff had matching percentages annotated on the copy by pen and ink.

were withheld; however, CSREES staff did not withhold funds if LGIs' form SF-269 showed an insufficient expenditure of matching funds.

For all 1890 LGIs (17), we compared their required expenditure match against their reported State matching funds. We determined that in FY 2000, nine LGIs reported spending insufficient State funds to match extension and/or research distributions (\$4.7 million). Fourteen LGIs reported spending insufficient funds in FY 2001 to match extension and/or research distributions (\$11.4 million). For a summary of LGIs reporting not meeting matching requirements, see exhibit H.

### **Recommendation No. 15**

Establish and implement an effective procedure for reviewing LGIs' Financial Status Reports, Form SF-269, to ensure unmatched Federal formula funds have been identified, recovered, and redistributed to LGIs meeting their matches.

**CSREES Response.** CSREES concurs. Members of the CSREES Funds Management staff have been meeting on the Review/Grant Close-out, Form SF-269, process and will be revising the internal staff guidance. In addition, the final rule for the 1890 matching requirements will address the reporting requirements for matching on the Financial Status Report, Form SF-269. The formula funds section of "Doing Business with CSREES" on the agency's Web page also will be revised to emphasize the importance of reporting the match on the SF-269 form. The target date for revising internal guidance on the Review/Grant Close-out, Form SF-269, and process is December 31, 2004.

**OIG Position.** We accept the management decision. For final action, provide OCFO/PAD a copy of CSREES' revised guidance and procedures. Please highlight all pertinent changes, including those made to the agency's Web page.

### **Recommendation No. 16**

For the LGIs listed in exhibit H, determine whether Federal formula funds were matched. If matching did not occur, require LGIs to return the unmatched funds.

**CSREES Response.** CSREES concurs. CSREES is reviewing all the Financial Status Reports, Form SF-269, for the agricultural research and extension formula funds awarded to the 1890 LGIs, including Tuskegee University and West Virginia State University (FY 2000 through FY 2003). The Target date is September 30, 2004. CSREES will review the SF-269 forms of the institutions included in Schedule H. If applicable, CSREES will



provide institutions the opportunity to submit a waiver request (i.e., FY 2000 and for amounts above 50 percent for FY 2003 and thereafter) or submit a corrected SF-269 form. If institutions have not met their matching requirements by March 31, 2005, funding authorizations (i.e., FY 2000 through FY 2002) will be reduced accordingly. The target date for the review and recovery of expenditures listed in exhibit H is June 30, 2005.

**OIG Position.** We concur with the proposed actions. To accept a management decision, please provide OIG the results of CSREES' review of matching compliance for LGIs listed in exhibit H, including Letters of Determination informing the LGIs of the amount of reductions in funding authorization. For amounts reduced or waived by CSREES, provide support/justification for such actions.

### Section 3. Governor's Report

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#### Finding 5

#### Governor's Report No Longer Required By CSREES

The Governor's Report offers a detailed summary of a LGI's expenditures and operations in extension work to the Governor of its State and the Secretary of Agriculture. In FY 1997, CSREES ceased to require the report from LGIs receiving extension formula funds.

CSREES officials, relying upon the Paperwork Reduction Act,<sup>42</sup> indicated that OMB had "nixed" the report because the financial reporting required under OMB Circular A-110 sufficiently met the law's requirement and that additional reporting would be unnecessary and burdensome. While the circular does require a Financial Status Report, Form SF-269, from each LGI, that report asks only for total expenditures for the program, and the general funding sources (e.g., State, Federal, and program income).<sup>43</sup>

The Smith-Lever Act and NARETPA oblige each LGI receiving extension formula funds to make "a full and detailed report of its operations in extension work," which includes "a detailed statement of receipts and expenditures from all sources."<sup>44</sup> This report must be sent to the State's Governor and the Secretary of Agriculture.

We contacted OMB to determine if CSREES had sought its approval to discontinue the Governor's Report. OMB officials told us CSREES had not contacted them about the report, but that generally, OMB does not override the requirement to collect data if a law required the collection of that data.

Since form SF-269 does not require the detail of expenditures required by the Governor's Report, we suggest that it cannot replace the required report. Without the report, CSREES loses a valuable tool to help it monitor and control LGIs' extension expenditures.

#### Recommendation No. 17

Require LGIs receiving formula funds for extension operations to resume submitting the Governor's Report.

**CSREES Response.** CSREES concurs. CSREES will work with the LGIs in providing this report when the online POW reporting system is developed for FY 2007 through FY 2011. The target date for developing a

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<sup>42</sup> Title 5, Code of Federal Regulations 1320

<sup>43</sup> OMB Circular A-110, paragraph 52(a)(1)

<sup>44</sup> Smith L-Lever Act §5 and NARETPA §1445

report meeting the requirements of the Governors' Report is December 31, 2005.

**OIG Position.** We accept the management decision. For final action, provide OCFO/PAD a copy of the new report format and instructions requiring its use.

## **General Comments**

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During the course of our audit, we found LGIs that mistakenly believed CSREES had waived the requirement to spend Federal formula funds at the levels required by AREERA. These institutions had turned in a waiver request to CSREES along with their annual report in FYs 2000 and 2001. CSREES did not specifically reject or approve their waiver requests but it did approve the annual reports. LGIs erroneously assumed that, since the waiver requests were turned in along with the annual reports, approval of one counted as approval of the other.

The law and CSREES regulations allowed LGIs to request a waiver to reduce the target percentages they had agreed to spend on AREERA activities in case of hardship, infeasibility or other similar circumstances.<sup>45</sup> CSREES allowed reduction requests to be submitted annually, but required that the requests be submitted via form CSREES-WAIVER and that they be submitted prior to October 10 each FY (prewaiver) or submitted with the annual reports (postwaiver).

CSREES often did not act on the waiver requests (neither approving nor denying) and did not consider its approval of the annual report as commensurate with approval of the waiver. Although nine LGIs requested waivers, none were acted on by CSREES. CSREES did not, however, inform the institutions that their waiver requests had not been approved. Without knowing that CSREES had not approved their waiver requests, they were liable to underspend their formula funds and to incur consequent penalties without being aware of their situation.

Accordingly, we suggest that CSREES clarify the waiver approval process with LGIs to prevent accidental noncompliance and to maintain better control over formula fund expenditures.

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<sup>45</sup> Public Law 105-185 §§105 and 204, and Administrative Guidance for Multi-State Extension Activities and Integrated Research and Extension Activities (pages 12, 14, and 15)

## ***Scope and Methodology***

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The audit, conducted from October 2002 through December 2003, reviewed the administrative and financial records relating to implementation of AREERA sections 105 and 204 for computation of FY 1997 base percentages, target selections and reported expenditures for FYs 2000 and 2001 AREERA activities. We reviewed the administrative controls that CSREES implemented to manage AREERA activities. Specifically, we reviewed the controls related to CSREES' oversight of 1862 LGIs' computations of base and target percentages, development of POWs, and expenditures of formula funds at target percentages required by AREERA. Also, during the survey phase, October 2001 through September 2002, we reviewed the administrative and financial controls over the implementation of the matching fund requirement at 1890 LGIs mandated by section 226 of AREERA.

Distributions of Federal formula funds to the 51<sup>46</sup> 1862 LGIs totaled about \$421 million in both FYs 2000 and 2001. The portion of Federal formula funds LGIs targeted to expend for AREERA activities totaled about \$70.5 million (17 percent) in FY 2000 and \$75.7 million (18 percent) in FY 2001. Distribution of formula funds to the 17 1890 LGIs totaled about \$54 million in FY 2000 and \$58 million in FY 2001.

We reviewed documents and interviewed officials at the CSREES National Office in Washington, D.C., on several occasions. OIG visited four 1862 LGIs that were required to expend formula funds totaling about \$3.2 million on AREERA activities in FY 2000 and \$3.7 million in FY 2001. We visited one 1890 LGI that received formula funds totaling about \$2.6 million in FY 2000 and \$2.75 million in FY 2001. We also visited one public accounting firm in El Paso, Texas, to review its workpapers with respect to its A-133 audit of one of the LGIs we visited. (See exhibit C.)

We also contacted other 1862 and 1890 LGIs by telephone or written correspondence to verify and discuss data concerning compliance with AREERA activities. We did not include in the scope of our work the insular LGIs in Puerto Rico, the Virgin Islands, American Samoa, Micronesia, Northern Marianas, and Guam because not all AREERA activities are required of them.

To determine if CSREES appropriately implemented sections 105 and 204 of the AREERA requirements, we reviewed forms documenting the 51 LGIs' computations of their FY 1997 base percentages and their selections of the

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<sup>46</sup> Formula funds were distributed to the 50 States and the District of Columbia, who further distributed them to the 1862 LGIs.

target percentages for expenditures on AREERA activities. We obtained copies of the forms (CSREES-BASE, CSREES-TARG, and CSREES-PLAN) from CSREES' Office of Extramural Programs. These forms were designed to support the LGIs selections of the target percentages to perform the multi-State extension and integrated research and extension activities. (These three activities constitute AREERA mandated activities.)

To evaluate the adequacy of CSREES' review and approval process for POWs, we reviewed 30 of 75 POW submitted by the 51 LGIs. Further, we reviewed all letters the Administrator sent to the LGI approving their POWs to determine whether CSREES released the formula funds only after approving the POWs, as required by AREERA.

To determine whether LGIs expended Federal formula funds in amounts required by AREERA, we compared amounts the 51 LGIs reported to CSREES as being expended for AREERA activities, in their annual report and/or CSREES-REPT, with the expenditures<sup>47</sup> required for each AREERA activity in FYs 2000 and 2001.

To determine whether 1890 LGIs met their matching requirements, we reviewed copies of the Certificate of Offset and Entitlement, Form CSREES-2103, and Financial Status Report, Form SF-269, for the 17 LGIs. We also reviewed form SF-269 for 24 of the 51 1862 LGIs to determine the availability of carryover funds to meet deficiencies in FY 2000 expenditures for AREERA activities.

We analyzed the data presented to meet the objectives of the audit and to determine if the AREERA requirements were met. We performed the audit in accordance with generally accepted Government Auditing Standards.

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<sup>47</sup> Determined by multiplying formula fund distribution amounts by target percentage selected for each AREERA activity.

## **Exhibit A – Summary of Monetary Results**

Exhibit A – Page 1 of 1

| Finding Number | Recommendation Number | Description                        | Amount        | Category  |
|----------------|-----------------------|------------------------------------|---------------|---|
| 2              | 6                     | Formula Funds Prematurely Released | \$ 482,400    | Funds to be Put to Better Use – Operating Savings |
| 3              | 12                    | Required Expenditures Not Met      | \$ 14,423,970 | Unsupported Costs – Recovery Recommended          |
| 4              | 16                    | Federal Formula Funds Not Matched  | \$ 16,071,061 | Unsupported Costs – Recovery Recommended          |

# Exhibit B – CSREES Response

Exhibit B – Page 1 of 9



United States  
Department of  
Agriculture



Cooperative State  
Research, Education,  
and Extension Service

Washington, DC  
20250

JUL 09 2004

TO: Richard Long  
Assistant Inspector General for Audit  
Office of Inspector General

FROM: *for* Louise Ebaugh *Ellen Dams*  
Deputy Administrator

SUBJECT: Draft Audit Report No. 13001-3-Te – Cooperative State Research, Education, and Extension Service' Administration of the Agricultural Research, Extension, and Education Reform Act of 1998 (AREERA)

This is in response to your May 20, 2004, memorandum requesting our written response to the official draft of the subject audit, specifying corrective actions taken or planned on each audit recommendation and proposed completion dates for implementing such actions. In addition, you requested that our response include concurrence and comments regarding the monetary amounts in exhibit A of the report.

While the Cooperative State Research, Education, and Extension Service (CSREES) agrees that control weaknesses did exist with the agency's implementation of the Agricultural Research, Extension, and Education Reform Act of 1998 (AREERA), we disagree that these control weaknesses should be considered "material" and reported in the agency's Federal Managers' Financial Integrity Act reports. Most of the reported weaknesses were due to limited staffing and lack of established business processes needed to ensure that AREERA requirements were being met by the land-grant institutions. As soon as the internal control weaknesses and inadequate oversight were identified by the USDA Office of Inspector (OIG) audit, CSREES took action to hire more staff and to institute business processes and internal controls to ensure AREERA compliance by the land-grant institutions. The following corrective actions have taken place since the audit work began: (1) CSREES has hired a staff accountant to ensure that agricultural research and extension formula funds are released only when all fiscal and administrative requirements have been met; (2) another staff person has reviewed all reports submitted by the 1862 land-grant institutions on multistate extension activities and integrated activities and has begun contacting the institutions to resolve all deficiencies; (3) accounting staff have been instructed on AREERA requirements, particularly the matching requirements; (4) accounting staff have been aggressively contacting the 1890 land-grant institutions for revised SF-269, Financial Status Reports; and (5) as part of the review process for the FY 2005 - FY 2006 Plan of Work Update, the plan-of-work reviewers (i.e., National Program Leaders) are ensuring that the 5-Year Plan of Work (FY 1999 - FY 2004) deficiencies are resolved before the update is approved and the FY 2005 funds are released.

Attachment A includes our responses to the 17 recommendations reported under the five audit findings. Below is our response to your overall recommendation in the "Executive Summary":



**Recommendation in Brief:** *We recommend that CSREES institute effective controls that properly regulate land-grant institutions' compliance. Specifically, CSREES should ensure that reductions in target percentages are granted only in warranted cases of hardship, infeasibility, or similar circumstances. CSREES should monitor land-grant institutions' annual reports to ensure expenditures of formula funds for AREERA activities are at the agreed-upon target percentages. Also, CSREES needs to ensure that formula funds are not distributed to institutions until their plans of work fully meet AREERA and CSREES standards, and recover \$30 million in Federal funds not spent in accordance with AREERA.*

**Agency Response:** CSREES agrees that sufficient controls and oversight were not in place at the time AREERA requirements needed to be implemented. However, as soon as the internal control weaknesses and inadequate oversight were identified by the USDA Office of Inspector (OIG) audit, CSREES took action to hire more staff and to institute business processes and internal controls to ensure AREERA compliance by the land-grant institutions. Insufficient business processes, training, and staffing were the contributing factors to the inadequate oversight by CSREES on the AREERA compliance by the land-grant institutions. CSREES will ensure that fiscal year (FY) 2005 agricultural research and extension formula funds are not released prior to the approval of the FY 2005 - FY 2006 Update to the Plan of Work. CSREES will ensure that reductions in target percentages (i.e., for multistate extension and integrated activities) are granted only in warranted cases of hardship, infeasibility, or similar circumstances. CSREES will monitor land-grant institutions annual reports to ensure expenditures of formula funds for AREERA activities are at the agreed-upon target percentages.

CSREES is in the process of reviewing plan-of-work reporting requirements and financial reports as well as providing the land-grant institutions, if appropriate, with the opportunity to submit revised reports. CSREES anticipates that some of the land-grant institutions failed to report the expenditure of their matching funds in their financial reports, failed to set target percentages in accordance with AREERA, or failed to adequately report their multistate extension activities and integrated activities in their plan-of-work reporting requirements. Consequently, CSREES does not think it will recover \$30 million (i.e., as reported in Exhibit A of the draft report) in Federal funds.

The names of the 1862 land-grant institution and the 1890 land-grant institution in West Virginia need to be clarified in Exhibits E and G. The name of the 1862 land-grant institution is West Virginia University (*the word "state" was never in the name*) and the name of the 1890 land-grant institution is West Virginia State University (*the word "college" was replaced by the word "university" when their institutional status recently changed*).

CSREES appreciates the audit work conducted by the OIG auditors as their efforts have and will contribute to the improvement of CSREES management and oversight of agricultural research, education, and extension programs. Questions regarding this memorandum can be directed to Janet Downey, Oversight Staff, on (202) 205-0453.

**Cooperative State Research, Education, and Extension Service (CSREES) Response  
to the May 20, 2004, Draft USDA Office of Inspector General Audit Report No. 13001-3-Te:  
CSREES' Administration of the Agricultural Research, Extension,  
and Education Reform Act of 1998 (AREERA)**

**Section 1. Inconsistent Base Percentage Calculation**

**Finding 1. Selection of Target Percentages Inconsistent with Congressional Intent**

**Recommendation No. 1** *Require LGIs not computing base percentages to select 25 percent for all AREERA activities or to correctly determine their base percentages.*

**Agency Response**

CSREES concurs. CSREES will require all 1862 land-grant institutions (i.e., those subject to the requirements of sections 105 and 204 of the Agricultural Research, Extension, and Education Reform Act of 1998 (AREERA)) to review their current target percentages for multistate extension activities and integrated activities and, if applicable, to reset their target percentages for fiscal year (FY) 2006 and thereafter. CSREES will revise the current Administrative Guidance for Multistate Extension Activities and Integrated Research and Extension Activities to allow institutions to use "reasonable estimates" to determine their FY 1997 multistate extension activities and integrated activities vice the previous OIG interpretation of "auditable expenditures." The revised Administrative Guidance will consider only the extension formula funds allocated under section 3(b) and (c) of the Smith-Lever Act. Until the revised target percentages are established for FY 2006 and thereafter, CSREES will require institutions to comply (i.e., FY 2000 - FY 2005) with the target percentages set in FY 2000.

Institutions will be provided a broader definition of "multistate" in the revised Administrative Guidance. This will allow more institutions to successfully meet the AREERA section 105 requirements. For "integrated activities," CSREES will encourage institutions to use joint appointments as a starting point to meet the AREERA section 204 requirements, but only if there is a corresponding, complementary research or extension component in the same problem area. However, this complementary component may be supported with non-Federal formula funds. Institutions also will be required to review all other FY 1997 Federal expenditures in order to establish the FY 1997 baseline. If it is not feasible for an institution to start with joint appointments (e.g., cases where salaries are supported with State and/or local funds), institutions will be required to review all Federal expenditures and determine the level of (if any) integrated activities supported with Federal formula funds.

*Timeline for Revising Administrative Guidance and Revising Target Percentages for FY 2006 and Thereafter:*

|  |                                     |
|--|-------------------------------------|
| Revise Administrative Guidance         | September 30, 2004                  |
| USDA OGC Review                        | November 15, 2004                   |
| Publication Date/Comment Period        | December 1, 2004 - January 31, 2005 |
| Final Revised Administrative Guidance  | March 31, 2005                      |
| Clearance by USDA OGC                  | April 30, 2005                      |
| Publication Date                       | May 31, 2005                        |
| Institutions submit Target Percentages | July 31, 2005                       |
| CSREES approve Target Percentages      | September 30, 2005                  |
| Multistate Extension and Integrated    | March 31, 2006                      |

**Attachment A**

Target Amounts identified in Annual Allocations

*Timeline for Reviewing Existing Target Percentages for FY 2000 through FY 2005 :*

|   |                                  |
|---|----------------------------------|
| Preliminary Review (FY 2000 - FY 2003)  | May 31, 2004                     |
| Contacts with Institutions for More Information or Revised Forms. Consider and approve waivers. | June 1, 2004 - December 31, 2004 |
| Reduction of previous allocations for failure to meet requirements in FY 2000 - FY 2003         | January 1, 2005 - March 31, 2005 |
| Review FY 2004 Reports  | March 1, 2005 - May 31, 2005     |
| Review FY 2005 Reports  | March 1, 2005 - May 31, 2006     |

Since institutions and states have priorities and financial capacities which vary greatly, CSREES believes that a blanket requirement on all institutions to select 25 percent for all AREERA activities is not an equitable method of satisfying the legal requirement nor meets the spirit of the law. Additionally, given the length of time which has transpired and the level of difficulty expressed by some of the institutions in deriving percentages of FY 1997 “actual” spending levels, CSREES feels that documented “good faith efforts” by the institutions to derive “reasonable estimates” of their FY 1997 spending levels will suffice. CSREES will only insist on setting a target of 25 percent for those institutions that decline to document a “good faith effort” and present a “reasonable estimate” of FY 1997 spending. Therefore, CSREES anticipates retaining the previous four options (i.e., A, B, C, and D) for this effort. CSREES will instruct institutions to submit their documented method of deriving a “reasonable estimate” of FY 1997 expenditures to the Policy, Oversight, and Funds Management Branch. This branch will review the documentation and estimate and determine if it is acceptable. If the documentation is insufficient, the institutions will be given notice to supplement the documentation. If an institution declines to provide the additional information within a specified number of days, CSREES will notify the institution that a 25% target must be set.

**Recommendation No. 2** *Establish and implement controls/procedures designed to ensure that requests for reductions in target percentages are granted only in verified cases of hardship, infeasibility, or other similar circumstances.*

**Agency Response**

CSREES concurs. CSREES will handle waivers for failing to meet multistate extension and integrated target levels in the same manner that it handles waiver requests for the matching requirements. The institutions requesting a waiver must do so in a letter addressed to the CSREES Administrator. This letter should be submitted to the Policy, Oversight, and Funds Management Branch for processing. After performing an administrative review, Funds Management will send the waiver request to the Planning and Accountability Staff who, in conjunction with the appropriate National Program Leader, will either recommend to approve or disapprove the waiver request. Funds Management will then prepare a letter from the CSREES Administrator to the institution either approving or disapproving the waiver request, and if necessary, requesting additional information in order to process the waiver request. The waiver request must be accompanied by supporting documentation and a reasonable explanation of why the target level could not be met. Acceptable cases of hardship or infeasibility would include state budget cuts, natural disasters affecting the institution, and other similar circumstances. The criteria and the

procedures for requesting/processing a waiver will be included in the Proposed Revised Administrative Guidance.

*Timeline for establishing and implementing controls for the submission and approval of waiver requests:*

|  |                    |
|--|--------------------|
| Establish a procedure for approving waiver requests for FY 2000 through FY 2005  | September 30, 2004 |
| Communicate and implement the waiver policy (i.e., for FY 2000 - FY 2005)  | October 31, 2004   |
| Establish a procedure for approving waiver requests under the revised Administrative Guidance (i.e., FY 2006 and thereafter) | June 30, 2005      |

**Recommendation No. 3** *Revise guidance provided in CSREES' frequently asked questions that requires activities conducted by individuals on split appointments to be integrated so that it conforms to guidance published in CSREES regulations.*

**Agency Response**

CSREES concurs. The work conducted by an individual on a split appointment may not necessarily be "integrated" for a particular problem area. However, it may be counted as integrated if the institution is conducting work by a corresponding, complementary research or extension component (e.g., salary of another individual) in the same problem area. This complementary component may be supported with either Federal or non-Federal formula funds. Frequently Asked Questions (FAQ's) related to this issue will be included in the Administrative Guidance and will be updated as the Administrative Guidance is revised.

*Timeline for revising Frequently Asked Questions (FAQ's):*

|   |                  |
|---|------------------|
| Revise FAQ's for FY 2000 - FY 2005  | October 31, 2004 |
| Develop FAQ's to support revised Administrative Guidance (i.e., for FY 2006 and thereafter) | May 31, 2005     |

**Section 2. CSREES Controls Over Compliance With AREERA Requirements**

**Finding 2. Formula Funds Released Without POW's Meeting AREERA Requirements for Approval**

**Recommendation No. 4** *Establish and document controls (such as pass/fail guidelines, second party reviews, etc.) to ensure that LGIs' POWs meet AREERA standards and CSREES requirements before granting approval.*

**Agency Response**

CSREES concurs. CSREES will establish and document procedures that ensure LGIs' POWs meet AREERA and CSREES requirements before granting approval. Target date is September 30, 2004.

**Recommendation No. 5** *Revise the POW checklist to include appropriate checks for descriptions of (1) research and extension activities, (2) merit/peer review processes, and (3) stakeholder input processes required by CSREES and AREERA.*

**Agency Response**

CSREES concurs. For the review of the FY 2005 - FY 2006 Update to the 5-Year Plan of Work, CSREES will revise the reviewer checklist to provide clearer guidance to reviewers to ensure all plan-of-work compliance and reporting requirements are met prior to approval (i.e., pass/fail guidelines). Training for the FY 2005 - FY 2006 Update will be provided to the plan-of-work reviewers. Target data for both actions is July 31, 2004.

The Plan of Work and related reporting requirements are being made accessible online beginning in FY 2006 for the upcoming 5-Year Plan of Work (FY 2007- FY 2011); the online features and checklist are in the development phase. The automated formats will contain required fields which will, to a large degree, eliminate insufficient POWs. The online POW product will be reviewed for approval by two National Program Leaders, as is the current process. Institutions which submit insufficient information on the Plan of Work will be notified via email, as is the current procedure. Target date for online application is July 31, 2006.

**Recommendation No. 6** *Establish and document controls designed to ensure that formula funds are not distributed to LGIs until their POWs fully meet AREERA and CSREES requirements and are approved by CSREES representatives.*

**Agency Response**

CSREES concurs. The Funds Management section of the Policy, Oversight, and Funds Management Branch currently maintains a checklist of required documentation for each formula fund program. This checklist includes the SF-269, Financial Status Report; appropriate budget forms; Programs of Research; Certifications of Offset, and the Certification of Lobbying Forms. Funds Management will add plan-of-work reporting requirements to the checklist as it becomes feasible. However, institutions must have an approved FY 2005 - FY 2006 Plan of Work Update in order to receive their first quarter FY 2005 formula funds allocation. In addition, formula funds will be placed "on hold" for failure to submit the appropriate expenditure reports for multistate extension activities and integrated activities (i.e., CSREES-REPT) with the Annual Report of Accomplishments and Results which is due on March 1. As Funds Management progresses with the review and follow-up with the AREERA section 105 and 204 requirements for FY 2000 through FY 2003, funds will be recovered through reducing funding authorizations as appropriate. Target date for establishing, documenting, and implementing controls is October 1, 2004

**Recommendation No. 7** *Withhold further funding from the LGIs listed in Exhibits E and F until they have submitted revised POWs that meet AREERA and CSREES requirements.*

**Agency Response**

CSREES concurs. CSREES will withhold formula funds in the first quarter of FY 2005 for those institutions which fail to have an approved FY 2006 - FY 2007 Plan of Work Update. Reviewers will be instructed to ensure that the deficiencies noted in Exhibits E and F are resolved during the review and approval of the FY 2005 - FY 2006 Plan of Work Updates. Target date is September 30, 2004.

**Finding 3. CSREES Did Not Ensure that LGIs Reported Spending Formula Funds at Required Levels**

**Recommendation No. 8** *Revise the Annual Report of Accomplishments and Results - Reviewer's Package to include (a) guidance for determining if expenditures of formula funds on AREERA activities meet target percentages (including records to review), (b) guidance for recovering misapplied funds, and (c) a process for second party review.*

**Agency Response**

CSREES concurs. CSREES Funds Management is in the process of developing procedures for the review of the Annual Reports (i.e., CSREES-REPT) for multistate extension activities and integrated activities. As part of these procedures, there will be a checklist for the Funds Management staff and procedures for processing waiver requests and recovering funds, as well as a requirement that there be a second-party review. Procedures also will be established to communicate this information to the Planning and Accountability Staff as well as to the appropriate National Program Leaders.

The Annual Report of Accomplishments and Results review process will continue as is performed currently with a review by two NPLs. The *Review Team Summary* report form for FY 2003 provides areas for NPL comments on multistate extension activities and integrated research and extension activities. The Funds Management staff review will complement the NPL's review. Target date for development and implementation of these review procedures is December 31, 2004.

**Recommendation No. 9** *Reformat the Annual Report of Accomplishments and Results Review Checklist to permit only one question for every "Yes/No" answer space. Also, rewrite the questions to clarify the meaning of "on target."*

**Agency Response**

CSREES concurs. The FY 2003 Annual Report of Accomplishments and Results review checklist has one question attached to every "Yes/No" space. The Annual Report of Accomplishments and Results checklist for FY 2004 will be reviewed and revised as necessary. Target date is December 31, 2004.

**Recommendation No. 10** *Specify on form CSREES-REPT that only Federal formula funds expended on AREERA activities are to be reported. Also, require the signatory to certify the correctness of the data provided.*

**Agency Response**

CSREES concurs. CSREES-REPT will be revised to state that only Federal formula funds should be reported on the form. This will be clarified in the revised Administrative Guidance. The revised form also will require a signature to certify to the correctness of the data provided. Target date is December 31, 2004.

**Recommendation No. 11** *Revise the Review Team Summary to provide for comments regarding LGIs accomplishments, or lack thereof, in spending the required percentage of formula funds on AREERA activities.*

**Agency Response**

CSREES concurs. The *Review Team Summary* for FY 2003 contains areas for comment by the NPLs on multistate extension and integrated research and extension activities. A separate checklist (i.e., for FY 2004 reporting requirements) is being developed for the Funds Management staff to document whether or not each institution has met their AREERA section 105 and 204 requirements. The Funds Management checklist will clearly identify if the institution has met their multistate extension and integrated targets. A copy of this checklist will be forwarded to the Planning and Accountability Staff which, in turn, will provide it to the appropriate National Program Leader. Target date for development and implementation of a Funds Management checklist for FY 2004 Annual Reports is May 31, 2005.

**Recommendation No. 12** *Review formula fund expenditures for LGIs listed in exhibit G and recover funds not expended in accordance with required percentage amounts.*

**Agency Response**

CSREES concurs. CSREES will aggressively review Annual Reports for Multistate Extension Activities and Integrated Activities and, if applicable, CSREES will provide institutions with an opportunity to submit revised CSREES-REPT's and/or waiver requests. If institutions have not met these requirements (i.e., FY 2000 - FY 2003) by June 30, 2005, funding authorizations will be reduced accordingly. CSREES will not withhold further distributions until recoveries are made; but instead, CSREES will reduce the funding authorizations as soon as it is verified that the institutions have not met the requirements or failed to secure approved waivers. Target date for the review and recovery of expenditures listed in Exhibit G is September 30, 2005.

**Recommendation No. 13** *For the LGIs identified in exhibit G that have not repaid the amount of Federal formula funds CSREES confirmed to have not been expended in accordance with required percentage amounts, withhold further distributions until recoveries are made.*

**Agency Response**

CSREES concurs. CSREES will aggressively review Annual Reports for Multistate Extension Activities and Integrated Activities and, if applicable, CSREES will provide institutions with an opportunity to submit revised CSREES-REPT's and/or waiver requests. If institutions have not met these requirements (i.e., FY 2000 - FY 2003) by June 30, 2005, funding authorizations will be reduced accordingly. CSREES will not withhold further distributions until recoveries are made; but instead, CSREES will reduce the funding authorizations as soon as it is verified that the institutions have not met the requirements or failed to secure approved waivers. Target date for withholding further distributions until recoveries (i.e., for confirmed amounts on Exhibit G) are made is October 1, 2005.

**Recommendation No. 14** *Determine whether the University of Idaho underexpended Federal formula funds on AREERA activities and collect any misapplied formula funds.*

**Agency Response**

CSREES concurs. As part of its overall review of the AREERA section 105 and 204 reporting requirements, CSREES will review the reports submitted by the University of Idaho and, if necessary, CSREES will require the university to recompute its FY 1997 baselines and target percentages in

addition to resubmitting CSREES-REPT for FY 2000 - FY 2003. Target date is June 30, 2005.

#### **Finding 4. 1890 LGIs Report Not Matching Formula Funds**

**Recommendation No. 15** *Establish and implement an effective procedure for reviewing LGIs' Financial Status Report to ensure unmatched Federal formula funds have been identified, recovered, and redistributed to LGIs meeting their matches.*

#### **Agency Response**

CSREES concurs. Members of the CSREES Funds Management staff have been meeting on the SF-269 Review/Grant Close-out process and will be revising the internal staff guidance. In addition, the Final Rule for the 1890 Matching Requirements will address the reporting requirements for matching on the SF-269, Financial Status Report. The formula funds section of "Doing Business with CSREES" on the Agency's web page also will be revised to emphasize the importance of reporting the match on the SF-269. Target date for revising internal guidance on the SF-269 Review/Grant Close-out process is December 31, 2004.

**Recommendation No. 16** *For the LGIs listed in Exhibit H, determine whether Federal formula funds were matched. If matching did not occur, require LGIs to return the unmatched funds.*

#### **Agency Response**

CSREES concurs. CSREES is reviewing all the SF-269, Financial Status Reports, for the agricultural research and extension formula funds awarded to the 1890 land-grant institutions, including Tuskegee University and West Virginia State University (FY 2000 - FY 2003). Target date is September 30, 2004. CSREES will review the SF-269s of the institutions included in Schedule H. If applicable, CSREES will provide institutions the opportunity to submit a waiver request (i.e., FY 2000 and for amounts above 50 percent for FY 2003 and thereafter) or submit a corrected SF-269. If institutions have not met their matching requirements by March 31, 2005, funding authorizations (i.e., FY 2000 - FY 2002) will be reduced accordingly. Target date for the review and recovery of expenditures listed in Exhibit H is June 30, 2005.

### **Section 3. Governor's Report**

#### **Finding 5. Governor's Report No Longer Required by CSREES**

**Recommendation No. 17** *Require LGIs receiving formula funds for extension operations to resume the Governor's Report.*

#### **Agency Response**

CSREES concurs. CSREES will work with the land-grant institutions in providing this report when the online plan-of-work reporting system is developed for FY 2007 - FY 2011. Target date for developing a report meeting the requirements of the Governors' Report is December 31, 2005.



## ***Exhibit C – Sites Visited***

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Exhibit C – Page 1 of 1

| <u>Site Visited</u>  | <u>Location</u>         |
|--|-------------------------|
| Cooperative State Research, Education, and Extension Service | Washington, D.C.        |
| KPMG, LLP  | El Paso, Texas          |
| Auburn University  | Auburn, Alabama         |
| New Mexico State University                                  | Las Cruces, New Mexico  |
| Purdue University  | West Lafayette, Indiana |
| University of Arkansas at Pine Bluff                         | Pine Bluff, Arkansas    |
| University of Arizona  | Tucson, Arizona         |

## **Exhibit D – LGIs Not Computing Base Percentages**

Exhibit D – Page 1 of 1

### A R E E R A Activity

| <u>Land-Grant Institution</u>                       | <u>Multi-State Extension</u> | <u>Integrated Extension</u> | <u>Integrated Research</u> | <u>Selected Any Target 0 to 5%</u> |
|---|------------------------------|-----------------------------|----------------------------|------------------------------------|
| Auburn University                                   | x                            | x                           |                            |                                    |
| Colorado State University                           | x                            | x                           | x                          |                                    |
| University of Florida                               | x                            |                             | x                          |                                    |
| Purdue University                                   | x                            | x                           | x                          | x                                  |
| Michigan State University                           | x                            | x                           | x                          | x                                  |
| University of Minnesota                             | x                            | x                           |                            | x                                  |
| Mississippi State University                        | x                            |                             |                            | x                                  |
| North Carolina State University                     |                              | x                           |                            |                                    |
| North Dakota State University <sup>48</sup>         |                              | x                           | x                          | x                                  |
| Ohio State University                               | x                            | x                           |                            | x                                  |
| Oregon State University                             | x                            | x                           |                            | x                                  |
| University of Rhode Island                          | x                            | x                           |                            |                                    |
| Utah State University                               | x                            | x                           |                            | x                                  |
| Virginia Polytechnic Institute and State University | x                            | x                           | x                          |                                    |
| Washington State University                         | x                            | x                           | x                          | x                                  |
| University of Wisconsin                             | x                            | x                           |                            | x                                  |
| 16 LGIs   | 14                           | 14                          | 7                          | 10                                 |

<sup>48</sup> Form CSREES-BASE did not explain reasons for failure to compute base percentages.

# Exhibit E – Improperly Approved POWs

| LGI <u>1/</u>  | POW <u>3/</u> | DEFICIENCIES IDENTIFIED |                   |                     |
|--|---------------|-------------------------|-------------------|---------------------|
|  |               | MERIT/PEER REVIEW       | STAKEHOLDER INPUT | PROGRAM DESCRIPTION |
| Auburn University <u>2/</u>  | AES           | X/O                     | X/O               | X/O                 |
| Alabama A&M University   | CES           |                         |                   |                     |
| Tuskegee University  |               |                         | X                 | X/O                 |
| University of Arkansas @ Fayetteville  | CES           | X                       | X/O               | X                   |
| University of Arkansas @ Pine Bluff  | COMBINED      | X/O                     | O                 |                     |
| Colorado State University  | AES           | X/O                     | X                 |                     |
|  | CES           | X/O                     |                   | X                   |
| Iowa State University  | COMBINED      | X/O                     |                   |                     |
| Southern University and A&M College  | AES           | O                       |                   | X                   |
|  | CES           | X/O                     | X                 |                     |
| New Mexico State University  | COMBINED      |                         |                   | X                   |
| Langston University  | COMBINED      | X/O                     | X                 | X/O                 |
| Oklahoma State University  | AES           | X                       |                   |                     |
|  | CES           |                         |                   | X                   |
| Prairie View A&M University  | AES           |                         |                   | X/O                 |
|  | CES           | X/O                     |                   | X/O                 |
| West Virginia State University   | COMBINED      | X/O                     | X/O               | X                   |
| West Virginia University   | AES           | X                       | X                 | X                   |
| TOTAL POWs   | 17            |                         |                   |                     |
| NOTES:   |               |                         |                   |                     |
| X - Indicates a POW deficiency identified by OIG.  |               |                         |                   |                     |
| O - Indicates a POW deficiency identified by CSREES staff and noted on the Review Team Summary.  |               |                         |                   |                     |
| <u>1/</u> CSREES allowed LGIs to submit a POW for an institution’s individual activity (research or extension), for an individual institution (combining research and extension activities), for Statewide activity (multiple institutions with research or extension), or for any combination of these. |               |                         |                   |                     |
| <u>2/</u> Alabama submitted two POWs, one for each activity; however, each POW combined the activities for the three State universities.   |               |                         |                   |                     |
| <u>3/</u> AES - Agricultural Research/ Experiment Station (research activities)<br>CES - Cooperative Extension Service (extension activities)<br>Combined - A combined POW with both research and extension activities   |               |                         |                   |                     |

# Exhibit F – Conditionally Approved POWs

| LGIs  | POWs <sup>49</sup> |           |          |
|---|--------------------|-----------|----------|
|   | Research           | Extension | Combined |
| University of Connecticut                   |                    |           | X        |
| University of Kentucky                      | X                  |           |          |
| Kentucky State University                   | X                  |           |          |
| University of Minnesota                     | X                  | X         |          |
| Alcorn State University <sup>50</sup>       | X                  |           |          |
| North Carolina A&T State University         | X                  |           |          |
| Rutgers State University                    |                    |           | X        |
| South Dakota State University <sup>51</sup> |                    |           | X        |
| Texas A&M University                        |                    | X         |          |
| Utah State University <sup>49</sup>         | X                  |           |          |
| University of Wisconsin                     | X                  | X         |          |

<sup>49</sup> LGIs could submit a POW for an institution’s individual activity (research or extension), for an individual institution (combining research and extension activities), for Statewide activity (multiply institutions with research or extension) or for any combination of these.

<sup>50</sup> Revised POW submitted by the LGI did not correct deficiencies identified by CSREES.

<sup>51</sup> LGI adequately revised its POW and submitted it on February 4, 2000.

# Exhibit G – 1862 LGIs Reporting AREERA Expenditure Requirements Not Met – FYs 2000/2001

| FY 2000<br><br>1862 LGIs        | Integrated Research   |                 |               | Integrated Extension  |                 |           | Multi-State Extension |                      |           |  |
|---------------------------------|-----------------------|-----------------|---------------|-----------------------|-----------------|-----------|-----------------------|----------------------|-----------|--|
|                                 | Reported Expenditures | Required Amount | Deficit       | Reported Expenditures | Required Amount | Deficit   | Reported Expenditures | Required Amount      | Deficit   |  |
| Auburn University               | 1: \$ 0               | \$943,688       | \$479,670     | 2: \$ 0               | \$656,421       | \$656,421 | 2: \$ 0               | \$656,421            | \$656,421 |  |
| University of Arizona           | 3: 4: 98,090          | 104,497         | 8,288         | 4: 5: 152,100         | 152,466         | 0         |                       |                      |           |  |
| University of California        |                       |                 |               |                       | 1,518,197       | 1,748,428 | 230,231               |                      |           |  |
| Colorado State University       |                       |                 |               |                       | 387,152         | 434,986   | 47,834                |                      |           |  |
| University of Connecticut       |                       |                 |               | 4: 266,038            | 489,002         | 222,964   |                       |                      |           |  |
| University of Florida           |                       |                 |               |                       | 159,408         | 1,153,619 | 994,211               | 457,149              | 553,737   |  |
| University of Georgia           | 4: 139,075            | 1,151,296       | 1,012,221     | 4: 1,110,789          | 1,947,990       | 837,201   |                       |                      |           |  |
| University of Hawaii            |                       | 185,397         | 218,887       |                       | 89,489          | 90,926    |                       |                      | 1,437     |  |
| Iowa State University           |                       |                 |               | 4: 89,000             | 90,577          | 1,577     |                       |                      |           |  |
| Kansas State University         |                       | 31,758          | 32,618        |                       |                 | 860       |                       |                      |           |  |
| University of Maryland          |                       |                 |               | 4: 772,413            | 816,415         | 44,002    |                       |                      |           |  |
| University of Massachusetts     |                       |                 |               |                       | 3,150           | 3,194     |                       | 7,150                | 14,741    |  |
| University of Minnesota         |                       |                 |               |                       | 930,761         | 930,993   |                       |                      | 232       |  |
| Mississippi State University    |                       | 755,263         | 963,485       |                       |                 | 208,222   |                       |                      |           |  |
| University of Nebraska          |                       |                 |               |                       | 1,101,523       | 1,207,400 |                       |                      | 105,877   |  |
| Rutgers State University        |                       | 294,109         | 323,881       |                       | 169,480         | 317,320   |                       |                      | 147,840   |  |
| New Mexico State University     | 6: 69,080             | 92,100          | 23,020        |                       |                 |           |                       |                      |           |  |
| North Carolina State University |                       | 1,201,999       | 1,550,957     |                       |                 | 348,958   |                       |                      |           |  |
| Ohio State University           |                       | 0               | 643,418       |                       | 80,048          | 194,543   |                       |                      | 114,495   |  |
| Oklahoma State University       |                       | 66,639          | 272,717       |                       |                 | 206,078   |                       |                      |           |  |
| Oregon State University         |                       | 0               | 685,229       |                       |                 | 685,229   |                       |                      |           |  |
| Clemson University              |                       |                 |               |                       | 433,517         | 464,664   |                       |                      | 31,147    |  |
| South Dakota State University   |                       | 524,862         | 588,493       |                       | 626,179         | 823,076   |                       |                      | 196,897   |  |
| University of Tennessee         |                       |                 |               | 4: 945,175            | 979,044         | 33,869    |                       |                      |           |  |
| Utah State University           |                       |                 |               | 4: 88,000             | 90,393          | 2,393     |                       |                      |           |  |
| Virginia Polytechnic Institute  | 4: 301,000            | 396,417         | 95,417        | 4: 689,000            | 720,965         | 31,965    |                       |                      |           |  |
| West Virginia University        |                       |                 |               |                       | 193,860         | 309,076   |                       |                      | 115,216   |  |
| Subtotals:                      |                       |                 | (\$3,838,274) |                       |                 |           | (\$3,815,853)         | 7: (\$760,600)       |           |  |
|                                 |                       |                 |               |                       |                 |           |                       | Total: (\$8,414,727) |           |  |

**Notes:**

- 1: LGI failed to report, however, per OIG visit, actual expenditures totaled \$464,018.
- 2: LGI reported \$0 and requested a waiver, however, CSREES did not approve the waiver.
- 3: LGI reported \$98,090 (budgeted amount). LGI actually spent \$120,623; however, \$24,414 of the amount was ineligible; therefore, \$96,209 actual expenditure.
- 4: Amounts represent budgeted costs as reported on form CSREES-PLAN.
- 5: LGI reported \$152,100 (budgeted amount). LGI actually spent \$251,769, but \$8,808 of the amount was ineligible; therefore, \$242,961 actual expenditure.
- 6: Per OIG visit, University expended State funds, not Federal formula funds; therefore, required Federal expenditure levels were not supported.
- 7: Uncombined deficit was \$1,866,589; however, expenditures for integrated extension activities were combined with those for multi-State extension activities, as allowed by AREERA, resulting in the reduced \$760,600 deficits.

| FY 2001<br>1862 LGIs                        | Integrated Research              |                 |               | Integrated Extension  |                 |               | Multi-State Extension |                 |  |
|---|----------------------------------|-----------------|---------------|-----------------------|-----------------|---------------|-----------------------|-----------------|--|
|   | Reported Expenditures            | Required Amount | Deficit       | Reported Expenditures | Required Amount | Deficit       | Reported Expenditures | Required Amount | Deficit  |
| Auburn University                           | <sup>1</sup> \$ 0                | \$941,524       | \$438,655     |                       |                 |               |                       |                 |  |
| University of Arizona                       | <sup>2</sup> <sup>4</sup> 98,090 | 104,290         | 0             |                       |                 |               |                       |                 |  |
| University of California                    |                                  |                 |               | \$1,575,387           | \$1,745,735     | \$170,348     |                       |                 |  |
| Connecticut Agricultural Experiment Station | 0                                | 191,755         | 191,755       |                       |                 |               |                       |                 |  |
| University of Connecticut                   |                                  |                 |               | 265,309               | 488,219         | 222,910       |                       |                 |  |
| University of Florida                       |                                  |                 |               | 163,143               | 1,147,143       | 984,000       | \$467,860             | \$596,514       | \$128,654  |
| University of Georgia                       | 146,915                          | 1,154,858       | 1,007,943     | 1,101,134             | 1,935,768       | 834,634       |                       |                 |  |
| University of Maryland                      |                                  |                 |               | 765,614               | 819,151         | 53,537        |                       |                 |  |
| University of Massachusetts                 | 493,647                          | 530,224         | 36,577        | 0                     | 24,532          | 24,532        | 0                     | 61,331          | 61,331   |
| Michigan State University                   | 78,628                           | 97,185          | 18,557        |                       |                 |               |                       |                 |  |
| Mississippi State University                | 754,279                          | 961,550         | 207,271       |                       |                 |               |                       |                 |  |
| University of Nebraska                      |                                  |                 |               | 1,103,332             | 1,196,873       | 93,541        |                       |                 |  |
| Rutgers State University                    | 297,469                          | 323,263         | 25,794        | 179,140               | 319,580         | 140,440       |                       |                 |  |
| New Mexico State University                 | <sup>3</sup> 73,917              | 91,919          | 18,002        |                       |                 |               |                       |                 |  |
| North Carolina State University             |                                  |                 |               | 964,738               | 968,596         | 3,858         |                       |                 |  |
| North Dakota State University               | 8,977                            | 38,795          | 29,818        |                       |                 |               |                       |                 |  |
| Ohio State University                       |                                  |                 |               | 45,501                | 486,318         | 440,817       | 320,895               | 389,055         | 68,160   |
| Oklahoma State University                   | 70,000                           | 271,991         | 201,991       |                       |                 |               |                       |                 |  |
| Oregon State University                     | 449,381                          | 683,452         | 234,071       |                       |                 |               |                       |                 |  |
| Clemson University                          |                                  |                 |               | 401,595               | 475,666         | 74,071        |                       |                 |  |
| University of Tennessee                     |                                  |                 |               | 1,075,000             | 1,129,835       | 54,835        |                       |                 |  |
| Utah State University                       |                                  |                 |               | 133,551               | 134,632         | 1,081         |                       |                 |  |
| Virginia Polytechnic Institute              | <sup>4</sup> 361,000             | 474,512         | 113,512       | 827,000               | 856,973         | 29,973        |                       |                 |  |
| West Virginia University                    |                                  |                 |               | 210,000               | 308,575         | 98,575        |                       |                 |  |
| Subtotals:                                  |                                  |                 | (\$2,523,946) |                       |                 | (\$3,227,152) |                       |                 | <sup>5</sup> (\$258,145)<br>Total: (\$6,009,243) |

Notes:

- <sup>1</sup> LGI failed to report, however, per OIG visit, actual expenditures totaled \$502,869.
- <sup>2</sup> LGI reported \$98,090 (budgeted amount). LGI actually spent \$121,345, but \$332 of the amount was ineligible; therefore, \$121,013 actual expenditure.
- <sup>3</sup> Per OIG visit, university expended State funds, not Federal formula funds; therefore, required Federal expenditure levels were not supported.
- <sup>4</sup> Amount represented budgeted costs or reported on form CSREES-PLAN.
- <sup>5</sup> Uncombined deficit was \$2,480,688; however, expenditures for integrated extension activities were combined with those for multi-State extension activities, as allowed by AREERA, resulting in the reduced \$258,145 deficit.

# Exhibit H - 1890 LGIs Reported Formula Funds Not Matched - FYs 2000/2001

Exhibit H - Page 1 of 1

| FY 2000:                      | EXTENSION FUNDS |             |            |    |            |             | RESEARCH FUNDS |             |            |    |           |                                |
|-------------------------------|-----------------|-------------|------------|----|------------|-------------|----------------|-------------|------------|----|-----------|--------------------------------|
|                               | Match           |             | Match      |    | Unmatched  |             | Match          |             | Match      |    | Unmatched |                                |
| Land-Grant Institutions       | Reported 1/     | Distributed | Required   | 2/ | Waived     | 3/          | Reported 1/    | Distributed | Required   | 2/ | Waived    | 3/                             |
| Alabama A & M                 | \$0             | \$1,328,487 | \$398,546  |    | \$0        | \$398,546   | \$0            | \$1,619,671 | \$485,901  |    | \$0       | \$485,901                      |
| Tuskegee                      | 0               | 1,328,487   | 398,546    |    | 306,869    | 91,677      | 0              | 1,600,501   | 480,150    |    | 371,257   | 108,893                        |
| University of AR-Pine Bluff   |                 |             |            |    |            |             | 77,542         | 1,421,565   | 426,470    |    | 0         | 348,928                        |
| Florida A & M                 | 0               | 1,117,451   | 335,235    |    | 0          | 335,235     | 0              | 1,201,936   | 360,581    |    | 0         | 360,581                        |
| Kentucky State                | 0               | 2,004,220   | 601,266    |    | 0          | 601,266     | 0              | 2,124,022   | 637,207    |    | 0         | 637,207                        |
| Alcorn State                  |                 |             |            |    |            |             | 0              | 1,638,116   | 491,435    |    | 0         | 491,435                        |
| Lincoln                       |                 |             |            |    |            |             | 541,054        | 2,031,558   | 609,467    |    | 0         | 68,414                         |
| North Carolina A & T          | 447,960         | 2,384,752   | 715,426    |    | 215,429    | 52,037      | 274,908        | 2,618,586   | 785,576    |    | 285,564   | 225,104                        |
| Virginia State                | 0               | 1,521,996   | 456,599    |    | 0          | 456,599     | 515,018        | 1,716,752   | 515,026    |    | 0         | 8                              |
|                               |                 |             |            |    | Subtotals: | \$1,935,360 |                |             |            |    |           | \$2,726,470                    |
|                               |                 |             |            |    |            |             |                |             |            |    |           | FY 2000 Total: \$4,661,830     |
| <b>FY 2001:</b>               |                 |             |            |    |            |             |                |             |            |    |           |                                |
| Alabama A & M                 | \$0             | \$1,393,502 | \$627,076  |    | \$0        | \$627,076   | \$0            | \$1,711,670 | \$770,252  |    | \$0       | \$770,252                      |
| Tuskegee                      | 0               | 1,393,502   | 627,076    |    | 0          | 627,076     | 0              | 1,692,502   | 761,626 4/ |    | 0         | 761,626                        |
| University of AR-Pine Bluff   |                 |             |            |    |            |             | 583,557        | 1,502,890   | 676,301    |    | 0         | 92,743                         |
| Delaware State                | 188,595         | 454,323     | 204,445    |    | 0          | 15,850      |                |             |            |    |           |                                |
| Florida A & M                 | 0               | 1,184,779   | 533,151    |    | 0          | 533,151     | 0              | 1,297,262   | 583,768    |    | 0         | 583,768                        |
| Fort Valley State             | 0               | 1,686,506   | 758,928    |    | 0          | 758,928     | 0              | 1,950,987   | 877,944    |    | 0         | 877,944                        |
| Kentucky State                | 0               | 2,113,597   | 951,119    |    | 0          | 951,119     | 0              | 2,278,863   | 1,025,488  |    | 0         | 1,025,488                      |
| Southern University           | 0               | 1,155,460   | 519,957    |    | 0          | 519,957     | 0              | 1,371,407   | 617,133    |    | 0         | 617,133                        |
| University of MD-College Park | 276,637         | 889,788     | 400,405    |    | 0          | 123,767     |                |             |            |    |           |                                |
| Alcorn State                  |                 |             |            |    |            |             | 0              | 1,722,489   | 775,120    |    | 0         | 775,120                        |
| North Carolina A & T          |                 |             |            |    |            |             | 1,237,328      | 2,782,475   | 1,252,114  |    | 0         | 14,786                         |
| South Carolina State          | 0               | 1,222,968   | 550,336    |    | 0          | 550,336     | 38,936         | 1,492,258   | 671,516    |    | 0         | 632,581                        |
| Tennessee State               | 722,796         | 1,892,211   | 851,495 5/ |    | 0          | 128,699     |                |             |            |    |           |                                |
| Virginia State                | 719,933         | 1,599,855   | 719,935    |    | 0          | 2           | 400,298        | 1,826,952   | 822,128    |    | 0         | 421,830                        |
|                               |                 |             |            |    | Subtotals: | \$4,835,960 |                |             |            |    |           | \$6,573,271                    |
|                               |                 |             |            |    |            |             |                |             |            |    |           | FY 2001 Total: \$11,409,231    |
|                               |                 |             |            |    |            |             |                |             |            |    |           | Totals Both FYs: \$ 16,071,061 |

Note: Columns do not always total properly due to rounding.

Notes:

- 1/ Per form SF-269, Financial Status Report, matching State Funds.
- 2/ Required match is 30 percent of FY 2000 and 45 percent for FY 2001 formula fund distribution.
- 3/ Unmatched difference = required match less amount waived less match reported expended.
- 4/ LGI's form SF-269 indicated other Federal awards improperly used to match formula funds.
- 5/ LGI's form SF-269 indicated "in-kind" contributions used for match, AREERA required cash distributions.

Informational copies of this report have been distributed to:

|  |     |
|--|-----|
| Agency Liaison Officer                               | (5) |
| Government Accountability Office                     | (2) |
| Office of Management and Budget                      | (1) |
| Director, Planning and Accountability Division, OCFO | (1) |
| OIG Headquarters, Director FFAD                      | (1) |