



UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF INSPECTOR GENERAL

THE INSPECTOR GENERAL

**MEMORADUM**

SEP 24 2001

**TO:** Susan B. Neuman  
Assistant Secretary for Elementary and Secondary Education

**FROM:** Lorraine Lewis *Lorraine Lewis*

**SUBJECT: FINAL AUDIT REPORT**  
*Review of the Office of Elementary and Secondary Education Discretionary Grants Monitoring Process*  
Control Number ED-OIG/A03-A0021.

Attached is the above subject final audit report that covers the results of our review of OESE's discretionary grants monitoring process during the period October 1, 1999 through September 30, 2000.

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

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

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

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

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

Attachment

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# REVIEW OF THE OFFICE OF ELEMENTARY AND SECONDARY EDUCATION DISCRETIONARY GRANTS MONITORING PROCESS

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## FINAL AUDIT REPORT



**CONTROL NUMBER ED-OIG/A03-A0021**  
SEPTEMBER 2001

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Our mission is to promote the efficiency,  
effectiveness, and integrity of the  
Department's programs and operations.



U.S. Department of Education  
Office of Inspector General  
Philadelphia, Pennsylvania

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**NOTICE:**

Statements that financial and/or managerial practices need improvement or recommendations that costs questioned be refunded or unsupported costs be adequately supported, and recommendations for the better use of funds, as well as other conclusions and recommendations in this report, represent the opinions of the Office of Inspector General. Determinations on these matters will be made by the appropriate Education Department officials. In accordance with the Freedom of Information Act (5 USC §552), reports issued by the Office of Inspector General are available, if requested, to members of the press and general public to the extent information contained therein is not subject to exemptions in the Act.

**TABLE OF CONTENTS**

	<u>Page</u>
<b>Executive Summary</b> .....	1
<b>Audit Results</b> .....	2
<b>Finding No. 1</b> - OESE should implement a systematic process to identify and monitor high-risk grantees.....	2
Recommendations.....	4
<b>Finding No. 2</b> - OESE has not implemented the Departmental Directive on monitoring discretionary grants.....	5
Recommendation.....	6
<b>Background</b> .....	6
<b>Objective, Scope and Methodology</b> .....	6
<b>Statement on Management Controls</b> .....	7
<b>Appendix A: OESE Discretionary Grant Monitoring Methods</b> .....	8
<b>Appendix B: OESE Grant Files Reviewed for Monitoring Documentation</b> .....	9
<b>Appendix C: OESE’s Comments to the Report</b> .....	10

## EXECUTIVE SUMMARY

We performed an audit of the Office of Elementary and Secondary Education (OESE) monitoring of discretionary grants. The objective of our audit was to evaluate OESE's discretionary grant monitoring process for identifying and monitoring high-risk grantees.<sup>1</sup>

Our review of the OESE discretionary grants monitoring process disclosed that OESE program offices visited had a process for monitoring discretionary grants, but the process needs improvement. Through interviews with representatives from OESE program offices and a review of selected grantees' files, we found that OESE should implement a systematic process to identify and monitor high-risk grantees. In addition, OESE should incorporate into the monitoring process a review of the grantees' Single Audit reports. Furthermore, program officials' monitoring activity should be documented, and information on grantees designated as high-risk should be shared with other program offices.

We also found that OESE did not prepare a strategic monitoring plan, annual monitoring plan or annual monitoring report in accordance with the Departmental Directive, *Monitoring Discretionary Grants and Cooperative Agreements*, issued March 23, 1994.

An integral part of having an effective discretionary grant monitoring process is OESE's implementation of the Department's Directive and making available to program officials all available information to assist in identifying and monitoring high-risk grantees.

Copies of a draft audit report were provided for OESE's review and comment. In its response, OESE concurred with the findings and recommendations detailed in the report.

We recommend that the Assistant Secretary for Elementary and Secondary Education:

- Develop a systematic process to identify and monitor high-risk grantees which includes a process for program offices to obtain and review grantees' Single Audit reports, with findings related to Departmental programs, for use as an indicator to identify high-risk grantees.
- Include in the monitoring process a provision for documenting the monitoring activity.
- Implement a system to share information on grantees designated as high-risk between program offices.
- Implement the requirements in the Departmental Directive, *Monitoring Discretionary Grants and Cooperative Agreements*.

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<sup>1</sup> 34 CFR § 80.12 states, "a grantee or subgrantee may be considered 'high-risk' if an awarding agency determines that grantee or subgrantee: (1) has a history of unsatisfactory performance, or (2) is not financially stable, or (3) has a management system which does not meet the management standards set forth in this part, or (4) has not conformed to terms and conditions of previous awards, or (5) is otherwise not responsible."

## AUDIT RESULTS

Our review of OESE's discretionary grants monitoring process disclosed that OESE program offices visited had a process for monitoring discretionary grants, but the process needs improvement. Through interviews with representatives from OESE program offices and a review of selected grantees' files, we found that OESE should implement a systematic process to identify and monitor high-risk grantees. In addition, OESE should incorporate into the monitoring process a review of grantees' Single Audit reports. Furthermore, information on grantees designated as high-risk should be shared between program offices.

We also found that OESE did not prepare a strategic monitoring plan, annual monitoring plan, and annual monitoring report in accordance with the Departmental Directive, *Monitoring Discretionary Grants and Cooperative Agreements*.

Copies of a draft audit report were provided for OESE's review and comment. In their response, OESE concurred with the findings and recommendations detailed in the report. OESE's complete response is included as an appendix to this report.

### **FINDING NO. 1 - OESE should implement a systematic process to identify and monitor high-risk grantees.**

The Standards for Internal Control in the Federal Government (GAO/AIMD-00-21.3.1) state that internal controls should generally be designed to assure that ongoing monitoring occurs in the course of normal operations. It is performed continually and is ingrained in the agency's operations. It includes regular management and supervisory activities, comparisons, reconciliations, and other actions people take in performing their duties. As the stewards of federal education funds, the Department must ensure that federal funds are spent appropriately and grant projects' objectives are being met. OESE needs to implement an office-wide strategy to identify and monitor high-risk grantees to ensure the accountability and effectiveness of discretionary grant programs.

We performed work on nine discretionary grant programs within OESE and found that there was not a systematic process to identify and monitor high-risk grantees. Discussion with program officials disclosed that, although some grantees were viewed as problematic, they did not have a systematic process for identifying grantees as high risk. We found that only one of the nine programs had designated grantees as high-risk. That program office identified two grantees as high-risk, one through monitoring activities and the other from a parent's complaint.

Program officials also indicated that 34 CFR §80.12, *Special grants or subgrant conditions for high-risk grantees*, provided the guidance necessary to identify and monitor high-risk grantees. However, 34 CFR §80.12 does not establish the procedures

for determining which grantees meet the characteristics set out in the regulation. In addition, OMB Circular A-102, *Grants and Cooperative Agreements with State and Local Governments*, 2(f) *Post-Award Policies - Site Visits and Technical Assistance*, states, “Agencies shall conduct site visits only as warranted by program or project needs. Technical assistance site visits shall be provided only (1) in response to requests from grantees, (2) based on demonstrated program need, or (3) when recipients are designated ‘high risk’ under section [34 CFR § 80] of the grants management common rule.” OESE does not have a process to determine what grantees are high risk or when site visits are warranted.

The basic process to identify high-risk grantees should include reviewing readily available information pertaining to grantees. Within the Department, this information includes (1) grantees’ annual performance reports; (2) the Department’s Grants Administrative Payment System (GAPS) information pertaining to grantees with excessive drawdowns of federal funds early in the performance period or drawdowns of federal funds on an irregular basis; (3) the results of the principal office’s partnership and accountability activities relating to the grantee; (4) information available from the Federal Audit Clearinghouse (available on the internet at <http://harvester.census.gov/sac/>) concerning the grantee’s Single Audit reports; and (5) information on grantees designated as high-risk by other program offices. This information can be used in conjunction with 34 CFR §80.12, which establishes the criteria, special conditions or restrictions, and notification methods for grantee or subgrantees designated as high-risk. Identifying high-risk grantees enables program officials to assign scarce resources for additional monitoring activities of grantees that may require the most assistance.

**A review of discretionary grantees’ Single Audit reports with findings related to Departmental programs should be incorporated into OESE program offices’ monitoring practices.**

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

We found that program officials did not use the results of Single Audit reports to oversee and monitor grantees. During our conversations with program officials, some officials indicated that, if available, they would use information from grantees’ Single Audit reports to help identify and monitor high-risk grantees. The summary results of most grantees’ Single Audit reports are maintained on the Federal Audit Clearinghouse website. Although this information is publicly available, it is not widely used by program officials. The same Single Audit report information is gathered by Office of Chief Financial Officer (OCFO) for the Department’s audit resolution process. OCFO only shares audit finding information with program officials when the findings are specific to the program and technical in nature. In many cases, discretionary grants do not receive Single Audit coverage because these grants are not considered a major federal program due to the dollar amount of the federal award. Although discretionary grants may not

receive audit coverage, grantees' Single Audit reports contain useful information that may assist program officials in identifying potential high-risk grantees that may require additional monitoring and technical assistance. Grantees' Single Audit reports contain information on grantees' financial position, an assessment of their internal and management control system, and findings concerning other programs that may indicate weakness in their administration of discretionary grants.

**Information on grantees designated as high-risk should be shared between OESE program offices.**

Our review disclosed that when a program office identifies a grantee as high-risk, the information is not shared with other OESE program offices. Discussions with OESE program officials disclosed that they were not aware of two Magnet School Assistance Program grantees that were designated high-risk. We found that one of these high-risk grantees received twelve OESE discretionary grants and the other received one. Once a grantee is designated as high-risk, other program offices should be aware of the grantee's high-risk status. The other program offices can then perform additional monitoring of these grantees as necessary.

**Monitoring activity should be documented.**

In the five OESE program offices visited (nine programs reviewed), we reviewed selected grantee files and found that program officials maintained some documentation of monitoring activities. There were wide variations in the level of documentation of monitoring activity contained in grant files reviewed. (See Appendix B: OESE Grant Files Reviewed for Monitoring Documentation.) The level of documentation in the files was based primarily on what the program staff believed to be necessary for monitoring. We also noted that there were no written procedures as to how program staff should be documenting ongoing monitoring activities.

**Recommendations:**

We recommend that the Assistant Secretary for Elementary and Secondary Education:

- 1.1 Develop a systematic process to identify and monitor high-risk grantees, which includes a process for program offices to obtain and review grantees' Single Audit reports with findings related to Departmental programs, for use as an indicator to identify high-risk grantees.
- 1.2 Include in the monitoring process a provision for documenting the monitoring activity.
- 1.3 Implement a system to share information on grantees designated as high-risk between program offices.



**FINDING NO. 2 - OESE has not implemented the Departmental Directive on monitoring discretionary grants.**

The Office of Elementary and Secondary Education (OESE) has not implemented the Departmental Directive on monitoring discretionary grants that requires each principal office to develop and implement strategies for monitoring discretionary grants. The Departmental Directive, *Monitoring Discretionary Grants and Cooperative Agreements* (the Directive) requires each of the Department's principal offices to prepare:

- A *strategic monitoring plan*, which covers a 5-year period, identifies key areas of improvement, and describes a general framework and approach to monitoring.
- An *annual monitoring plan*, which describes the specific programs and grantees to be monitored, the procedures, budgets, and schedule for the fiscal year.
- An *annual monitoring report*, which describes the monitoring activities, findings, and actions taken during the previous year.

Our review of OESE's discretionary grants monitoring process disclosed that OESE did not prepare a strategic monitoring plan, annual monitoring plan and annual monitoring report in accordance with the Directive. In the OESE program offices visited, most program officials indicated that they either were not aware of the Directive or were not fully aware of its requirements.

Although the Directive was not implemented by OESE, program officials indicated that they nevertheless monitored grantees' progress throughout the grant period. We found that some programs offices took a proactive approach towards monitoring and developed a process for monitoring, while other offices monitored grantees in response to problems. Although these monitoring processes did not meet the requirements of the Directive, it indicated that program officials recognized the need for an effective monitoring process.

The monitoring methods varied among the different program offices visited. Based on interviews with program officials, monitoring methods consist primarily of program officials' review of performance reports, attendance at conferences and workshops, site-visits, and contact with the grantee. (Appendix A includes a list of monitoring methods utilized by the program offices visited.)

We found that only one program office had a written plan on how the office was going to perform discretionary grant monitoring. Although the plan was documented, it did not meet the requirements of the Directive. We also found that in some instances, monitoring activities were inconsistently carried out within the same program office.

OESE needs to implement the Departmental Directive and to provide a common framework for monitoring discretionary grants. Implementing the Directive will establish OESE-wide standards and guidance necessary to ensure that information obtained through monitoring will be used to improve the programs' performance and services, and help to achieve the programs' legislative intent. Without an effective and common framework for monitoring, OESE officials are unable to adequately ensure that the Department's funds are being spent appropriately and grant project goals and objectives are being met.

**Recommendation:**

- 2.1 The Assistant Secretary for Elementary and Secondary Education should implement the requirements in the Departmental Directive, *Monitoring Discretionary Grants and Cooperative Agreements*.

**BACKGROUND**

OESE provides financial assistance to State and local education agencies for maintenance and improvement of preschool, elementary and secondary education. OESE annually distributes approximately \$1 billion of discretionary grants to eligible grantees. Grantees include state and local educational agencies, and other applicants. A discretionary grant program is one that permits the Secretary to use discretionary judgment in selecting applications for funding. Most discretionary grant programs are administered directly by the Department.

We visited the five OESE program offices, which manage the nine programs selected for review. The program offices are responsible for the entire grant process, which includes planning, pre-award, award, post-award, and closeout. Grant monitoring is an integral part of the post-award process. Monitoring ensures that grants meet their intended goals and objectives and have effective financial management controls.

**OBJECTIVE, SCOPE AND METHODOLOGY**

The objective of our audit was to evaluate OESE's discretionary grant monitoring process for identifying and monitoring high-risk grantees. To accomplish our objective, we interviewed officials from OESE program offices that administer discretionary grants. We judgmentally selected nine out of 34 OESE programs: SDFSC, Migrant Education, Reading Excellence Act, Compensatory Education-Even Start Indian Tribes and Tribal Organizations, Goals 2000, Public Charter Schools, Women's Educational Equity Act, Magnet Schools Assistance and 21<sup>st</sup> Century Community Learning Centers. In addition, we judgmentally selected a sample of grant files, which we reviewed for documentation of monitoring activity. The results are summarized in Appendix B, *OESE Grants Files*

*Reviewed for Monitoring Documentation.* We reviewed OESE 's discretionary grant monitoring process for fiscal year 2000, which included grant funds awarded during fiscal years 1997 through 1999. In addition, we interviewed officials from OESE's Executive Office and from the Office of the Chief Financial Officer - Grants Policy and Oversight Staff (OCFO-GPOS).

To identify applicable criteria, we interviewed representatives from OCFO-GPOS, which has grant oversight responsibility for the Department.

We discussed with program officials the methodology they employed to monitor grantees and based on information obtained, we developed a chart (Appendix A: OESE Discretionary Grant Monitoring Methods) summarizing the nine programs selected.

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

We conducted on-site fieldwork from November 28, 2000, through January 30, 2001, at the five OESE program offices, which manage the nine programs selected for review, and the OCFO-GPOS office in Washington, DC. The exit conference was held on February 23, 2001. Our audit was performed in accordance with government auditing standards appropriate to the scope of the audit described above.

## STATEMENT ON MANAGEMENT CONTROLS

As part of our audit, we assessed the system of management controls, policies, procedures and practices applicable to OESE's monitoring of discretionary grants.

Our assessment was to determine the nature, extent and timing of our substantive review to accomplish the audit objectives. For the purpose of this report, we categorized the significant controls as follows:

- Program Offices Monitoring Policies
- Reporting of Monitoring Data
- Use of Monitoring Instruments

Because of the limited nature of our audit, the overall system of management controls was not reviewed and we cannot express an overall opinion on the controls. However, we identified weaknesses in the department's monitoring of discretionary grants. These weaknesses are discussed in further detail in the Audit Results section of this report.

**Appendix A: OESE Discretionary Grant Monitoring Methods**

Monitoring Method	Reading Excellence Act Program	Compensatory Education – Even Start Indian Tribes and Tribal Organizations	Public Charter Schools Program	Magnet Schools Assistance Program	Migrant Education Programs	21 <sup>st</sup> Century Community Learning Centers	Goals 2000 Programs	Women’s Educational Equity Act Programs	Safe and Drug-Free Schools and Communities Programs
Telephone Contact/ Correspondence/E-mail	✓	✓	✓	✓	✓	✓	✓	✓	✓
Review of Performance Reports	✓	✓	✓	✓	✓	✓	✓	✓	✓
Site Visits	✓	✓	✓	✓	✓	✓	✓	✓	✓
Workshops/Conferences/Meetings	✓	✓	✓		✓	✓	✓		✓
Review of Grantee Materials	✓						✓		
Technical Assistance		✓			✓	✓	✓		✓
Review of Evaluation Reports		✓				✓	✓		
Review of GAPS Data					✓			✓	
Review of Grantee Budgets							✓	✓	
Website/listserv			✓			✓	✓		

✓ Identifies monitoring methods that program officials said were used during the discretionary grants monitoring process.

**Appendix B: OESE Grant Files Reviewed for Monitoring Documentation<sup>1</sup>**

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

<sup>1</sup> This table presents the number of grant files reviewed for each program office and the number of files containing the documented monitoring activities.

<sup>2</sup> Other monitoring methods include: grantee evaluations, surveys, reviews of grantees’ budgets, fax messages, memos, and conference/meeting notes.

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

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



UNITED STATES DEPARTMENT OF EDUCATION  
OFFICE OF ELEMENTARY AND SECONDARY EDUCATION

Appendix C

THE ASSISTANT SECRETARY

SEP 13 2001

MEMORANDUM

TO: Lorraine Lewis  
Inspector General

FROM: Susan B. Neuman, Ed.D.

SUBJECT: Response to Draft Audit Report (Control No. ED-OIG/A03-A0021) –  
Review of the Office of Elementary and Secondary Education  
Discretionary Grants Monitoring Process

We have reviewed the above-referenced audit report and offer the following comments.

**Finding No. 1 – OESE should implement a systematic process to identify and monitor high-risk grantees.**

OIG, in its review of OESE grants monitoring, found that many sound and responsible practices are in place. However, those practices are not uniformly employed across all OESE operating units. OIG specifically found three areas where improvements could be made. We concur with those recommendations for improvement. OESE will take steps to: (1) increase the use of Single Audit reports in identifying high-risk grantees, (2) share information on high-risk grantees across program units, and (3) improve procedures for documenting monitoring activities, particularly in areas where sound documentation procedures are not yet in place.

**Finding No. 2 – OESE has not implemented the Departmental Directive on monitoring discretionary grants.**

At a meeting last winter with OESE staff (including Thomas Corwin, who at the time was carrying out the responsibilities of the Assistant Secretary), the OIG auditors explained that very few Department of Education program office staff were aware of the Departmental Directive because ED management offices appeared to have taken no actions to inform program offices of its issuance and implications. OESE was one of the offices that had not been informed about the Directive and, thus, had not taken steps specifically to implement it.

Page 2 – Lorraine Lewis

However, as the audit found, a number of OESE program units have implemented proactive and systematic monitoring practices that are consistent with the thrust of the Directive. Not all of our program units have done so, so we will use the findings of the audit to guide our development of systematic monitoring practices across this office.

Since becoming aware of the Directive, as a result of the audit, the Office of the Assistant Secretary has disseminated it to all OESE staff who are responsible for monitoring discretionary grants. They have requested and received written monitoring plans from each program unit. We will take further actions to ensure that the Directive is properly implemented across all our program units.

I hope that the above is responsive to your concerns. Should OIG staff have any questions, please have them contact Debbie Kalnasy of our Executive Office.

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