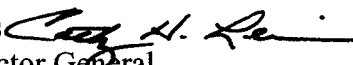UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF INSPECTOR GENERAL

AUG 1 2003

INSPECTION MEMORANDUM

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

From: Cathy H. Lewis
             Assistant Inspector General
             Evaluation, Inspection, and Management Services

Subject: Review of Management Controls Governing Changes in Discretionary
             Grant Programs (ED/OIG I13C0022)

Executive Summary

This memorandum provides the results of our inspection of the Department of
Education's (Department) management controls governing changes in discretionary grant
programs. Our objectives were to determine (1) what changes to an existing grant require
prior Departmental approval, (2) what policies, guidelines, or procedures program
officers use to assess whether a change requires prior approval, and (3) whether
Department personnel are implementing these policies, guidelines, or procedures when
approving changes to existing grants. Specifically, we reviewed changes in the scope or
objectives of discretionary grants and changes in key personnel. We also reviewed
whether key personnel were being properly identified and how grant application folders
were being maintained.

Department regulations state that any changes in the scope or objectives of grants must be
pre-approved by the Department. At the time of our inspection, the Grants Policy and
Oversight Staff (GPOS) had not issued specific guidelines for identifying changes in
scope or objectives.[1] However, we interviewed project directors and/or program officers
and reviewed documents to determine if, in their view, a change in scope or objectives
had occurred. Of the 36 grant projects we reviewed, 4 had been identified as having
changes in scope or objectives. Based upon the information available, we agreed with
these assessments.

---

[1] A component within the Office of the Chief Financial Officer responsible for the development, training,
and oversight of the grants process at the Department. GPOS provides technical assistance to program
offices regarding discretionary grant planning, award, administration, and closeout. It is also responsible
for amendments to the Department's regulations (ACS Handbook OCFO-4, Appendix p. 50).

Changes in key personnel also require prior approval. We found that 7 of the 36 grant projects experienced changes in key personnel. Department regulations state that individuals classified as key personnel must be pre-approved by the Department before being hired. Additionally, Department policy states that a resume must be on file with the Department before these individuals are selected. Of the 7 personnel changes, only 1 grantee submitted the required resume and received prior Department approval.

Additionally, we found that program officers and grantees did not properly classify individuals (or positions) as key personnel for 15 of the 36 projects and, as a result, this information was not on the Grant Award Notification (GAN).[2] Without properly identifying key personnel positions, it is difficult to determine those individuals responsible for the administration of the project. Moreover, without properly classifying individuals as key personnel (and reviewing their resumes for prior approval) it is difficult for program officers to determine if these individuals possess the qualifications necessary to fulfill the grant's objectives.

The extended absence of a project director in programs of higher education, hospitals, and other non-profit organizations also requires prior approval. Of the projects we inspected in these categories, one experienced a project director vacancy for more than 3 months. This vacancy was not noted in the folder or pre-approved by the Department.

We also found that 21 of the 36 grant folders reviewed were not organized according to GPOS guidelines.

During our inspection, we observed two potential best practice areas. The Strengthening Institutions Program located in Title III uses a standard Interim Performance Report that provides readily available information concerning grantee performance. It also requests updated information from grantees regarding changes in key personnel. In the Technology Challenge program located within OII, supervisors assign specific duties to staff regarding folder maintenance and creation of the GAN. The separation of such duties appears to improve grant folder maintenance.

As a result of our inspection, we recommend that the Director of GPOS develop a definition for what constitutes a change in scope or objectives, enforce existing regulations and management guidelines governing changes and identification of key personnel, and ensure proper grant folder maintenance.

Background

In July of 1997, the Department implemented additional regulations governing discretionary grant recipients. Generally providing what is known as "expanded

---

[2] A Grant Award Notification (GAN) is the official document signed by an authorized Department staff member stating the amount and the terms and conditions of an award for a discretionary grant or cooperative agreement (ACS Handbook OCFO-4, Appendix, p. 49).

authorities,"[3] these regulations were designed to allow grantees greater flexibility in grant administration. While the new regulations allow grantees greater flexibility in managing their grants, certain changes still require prior approval from the Department. Prior approval is necessary when there is:

- a change in the scope or objectives of the project or program;
- a change in key personnel; [4]or
- an absence of a project director in excess of three months or a 25 percent reduction in time devoted to the project.[5]

Inspection Results

We reviewed applicable regulations, policies, and bulletins, randomly sampled grant application folders, and interviewed responsible program officials in the Office of Postsecondary Education (OPE); Office of English Language Acquisition, Language Enhancement, and Academic Achievement for Limited English Proficient Students (OELA); Office of Elementary and Secondary Education (OESE); and Office of Innovation and Improvement (OII), formerly known as the Office of Educational Research and Improvement (OERI). We also interviewed grantee personnel responsible for the administration of each grant project.

We reviewed programs for changes in scope or objectives, changes in key personnel, proper identification of key personnel, and grant application folder maintenance.

Prior to our review, a representative from the Office of General Counsel (OGC) explained that specific guidelines defining what constitutes a change in scope or objectives do not currently exist. However, the Department has developed a handbook that addresses this issue.[6] The handbook states that when a change in scope or objectives is requested by the grantee, program staff must consult with the assigned program attorney before approving or disapproving the change. Although a specific definition does not exist, we still reviewed grant folders for appropriate documentation and interviewed Department personnel and project directors to help identify what they considered to be a change in scope or objectives.

We identified five management control areas where guidelines exist, but the Department lacks consistent and proper implementation: (1) prior approval regarding changes in key personnel, (2) updated GAN information concerning changes in key personnel, (3) proper identification of key personnel, (4) organization of grant application folders, and (5) prior approval of absences of Project Directors which exceed three months in duration.

---

[3] 34 CFR §§ 75.253, 75.263, 75.261, 75.264.
[4] 34 CFR § 80.30
[5] 34 CFR § 74.25(c)(1)-(3).
[6] The Administrative Communications System (ACS) handbook states it is designed to create consistent policy, standards and procedures for the Department's discretionary grant programs and to assure the Department awards and administers Federal funds across every program in an equitable manner for the benefit of all children and other learners (ACS Handbook OCFO-4, p. 1-1).

Improvement Needed in the Implementation of GPOS Procedures

Changes in Scope and Objectives

Department regulations require prior approval whenever a change in scope or objectives occurs. Although specific guidelines explaining what constitutes a change in scope or objectives do not exist, 4 of the 36 projects we reviewed included what we believed to be a change in scope or objectives. Changes in 3 of the 4 projects were due to a reduction in funding and, therefore, the projects were unable to provide services as originally intended. The remaining grantee determined that one of its objectives (enumerated in the original application) was impractical to develop because a similar project already existed. Documentation in the grant folders showed that the changes for all four projects had been pre-approved.

Lack of Prior Approval for Key Personnel Changes

Department regulations also require that grantees receive prior approval before selecting a replacement for a key personnel vacancy. Moreover, Department policy states that resumes for prospective key personnel must be sent to the Department prior to these individuals being hired.[7] Of the 36 projects we reviewed, 7 experienced changes in key personnel. Of these 7 projects, documentation of prior approval could not be located for 6 of the grantees. Further, 6 of the 7 key personnel changes were not properly listed on the GAN.

Lack of Identification of Key Personnel Positions and Lack of Updated GAN Information

We also found that 15 of the 36 grantees did not properly identify positions/individuals (currently on staff) as key personnel. Interviews with project staff indicated that individuals who currently occupied these positions should have been identified as key personnel. Department policy states that when a change in key personnel is approved, the change must be noted on the GAN.[8] By listing all key personnel on the GAN, program officers can readily recognize those positions requiring prior approval when a change in key personnel occurs. Additionally, Department staff can readily determine those individuals responsible for the proper administration of the grant.

The ACS handbook indicates that if key personnel are not on staff at the time the GAN is generated, resumes must be sent to the Department when these positions are filled. Although individuals may not occupy key personnel position(s) at the time the award is

---

[7] GPOS Bulletin #15, pp. 1-3 (October 30, 1998).
[8] GPOS Bulletin #15, p. 3 (October 30, 1998).

generated, we recommend that GPOS add language to the handbook stating that if the position(s) classified as key personnel is/are vacant, the position description should still be placed on the GAN. GAPS is the system used to generate this document and it possesses the capability of listing multiple individuals/positions classified as key personnel.

Absence of the Project Director

One of the higher education projects we inspected, experienced a project director vacancy that exceeded 3 months. According to the current project director, the position was unoccupied for 5 months and occurred at the inception of the project. There was no documentation in the grant folder indicating the grantee had obtained prior Department approval for this lapse in time.

Recommendations

We recommend that the Director of GPOS:

1.1   Develop an explanation/definition of what constitutes a change in scope or objectives.

1.2   Re-emphasize the importance of updating the GAN when changes in key personnel occur.

1.3   Re-emphasize to program officers and grantees, the importance in jointly identifying those individuals classified as key personnel and placing these identities/position descriptions on the GAN at the time Department staff creates the award.

1.4   Require Department staff to include key personnel position descriptions in the GAN document (Block 4), even if these positions are not currently occupied.

Organization of Grant Application Folders

We found that 21 of the 36 grant folders reviewed were not organized according to GPOS guidelines. Problems included improperly placed performance reports, non-sequential e-mail correspondence, a misplaced GAN, and original applications improperly secured to the folder. Consistent organization of a grantee's folder is essential to "facilitate review by ED officials for a variety of purposes, including audits, the preparation of special reports, or responses to the Freedom of Information Act."[9]

We also found that some program officers were responsible for approximately 35 grants, while program officers in other programs were responsible for over 130 grants.

---

[9] GPOS Bulletin #2, p. 1 (November 4, 1998).

Generally, those application folders assigned to program officers with fewer grants were maintained and updated according to GPOS guidelines on a more consistent basis. Further, we suggest grantees maintain a grant folder similar to the one maintained by Department personnel. One grantee we interviewed indicated she was unaware of how to maintain correspondence sent to/from the Department. Duplicate folders maintained at the Department and project location would help to verify correspondence between both entities.

Recommendations

We recommend the Director of GPOS:

2.1   Establish a baseline regarding the maximum number of grants assigned to each program officer.

2.2   Establish periodic reviews of grant application folders by GPOS staff or Department supervisors. This periodic oversight should include instructional guidance to help reinforce proper controls and procedures.

2.3   Distribute GPOS Bulletin # 2 "Organization of the Official Grant Folder" to each grantee as a guideline for proper folder maintenance.

Best Practices

In addition to the recommendations above, the Director of GPOS should consider the following best practice examples.

We noted the Strengthening Institutions Program located in Title III uses a standard Interim Performance Report that provides up-to-date information concerning grantee performance. Additionally, the performance report includes questions addressing changes in key personnel issues and thereby reinforces the importance of notifying the Department when changes occur. Moreover, the structure of this report makes accessing information regarding the grantee's performance and other areas of grantee oversight much easier to access. GPOS should review this best practice in more detail and consider a similar report for other discretionary grant programs.

We also noted that supervisors in the Technology Challenge program located within OII, limited program officer administrative duties (*e.g.*, grant application folder maintenance and filing of grantee correspondence) by assigning some of these duties to administrative staff. By separating these duties, proper procedures dealing with grant folder updates and maintenance appear to be more closely followed. Moreover, program officers are able to devote more time to programmatic issues.

Objectives, Scope, Methodology

Objectives

The objectives of our inspection were to:

1. Determine what changes to an existing grant (in addition to changes permitted in EDGAR Part 75) require prior Department approval.

2. Determine what policies, guidelines, or procedures program officers use to assess whether a change requires prior approval.

3. Determine whether Department personnel are implementing these policies, guidelines, or procedures when approving changes to existing grants.

Scope

We limited the scope of our inspection to discretionary grants within OPE, OESE, OELA, and OII. We reviewed grantees that received funding between 1998 and 2001. We did not select fellowship or scholarship grants for review because these grants focus more on individual accomplishments rather than programmatic outcomes. Additionally, key personnel and changes in scope or objectives are not usually integral to the success of fellowships and scholarships.

Methodology

We requested a complete listing of the Department's discretionary grantees for programs in OPE, OESE, OELA, and OII. We randomly selected 2 to 3 discretionary grant programs from each of these principal offices. Based upon a stratified dollar amount for each program, we randomly selected and reviewed 36 projects for our inspection.

The audit liaison officer for each of the above principal offices provided us with the name of a contact person for each of the programs selected. After an informational meeting with these staff members, we reviewed each of the grant application folders from our random selection. We inspected these folders looking at areas related to our stated objectives or any anomalies in grant application folder maintenance.

Upon completion of the folder inspection, we interviewed both the Department program officer[10] and grant project director concerning any changes (e.g., scope or objectives or key personnel) that might have occurred yet were not noted in the application folder. We also inquired if other individuals affiliated with the project should be classified as key personnel.

---

[10] One program officer was unavailable to be interviewed. However, we were able to contact and interview the appropriate project directors.

Our inspection took place between October 2002 and February 2003.

This inspection was performed in accordance with the President's Council on Integrity and Efficiency (PCIE) Quality Standards for Inspections dated March 1993.

We appreciate the cooperation given to us during the inspection. If you have any questions or wish to discuss the contents of this report, please call Melinda Stephens at 202-205-3371 or Deb Schweikert, Director, EIMS-Inspections at 202-205-5569. Please refer to the control number in all correspondence relating to this report.

cc: Blanca Rodriguez
        Director of GPOS