



U.S. Department of Agriculture



Office of Inspector General  
Southeast Region

# Audit Report

## Cooperative State Research, Education, and Extension Service – 1994 Land-Grant Institutions

Report No. 13011-3-At  
August 2007

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UNITED STATES DEPARTMENT OF AGRICULTURE

OFFICE OF INSPECTOR GENERAL

Washington, D.C. 20250



August 17, 2007

REPLY TO

ATTN OF: 13011-3-At

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

ATTN: Ellen Danus  
Chief  
Policy, Oversight, and Funds Management Branch  
Office of Extramural Programs

FROM: Robert W. Young */s/*  
Assistant Inspector General  
for Audit

SUBJECT: Review of 1994 Land-Grant Institutions

This report presents the results of the subject audit. Your response to the official draft report, dated August 13, 2007, is included as exhibit C, with excerpts and the Office of Inspector General's (OIG) position incorporated into the Findings and Recommendations sections of the report.

Based on your response, we have reach management decision on Recommendations 1, 2, 3, 4, and 5. Additional information as specified in the OIG Position sections is needed before we can accept management decisions for Recommendations 6, 7, and 8.

In accordance with Departmental Regulation 1720-1, please furnish a reply within 60 days describing the corrective actions taken or planned and the timeframes for implementation of the recommendation. Please note that the regulation requires that management decision to be reached on all recommendations within a maximum of 6 months from 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 staff during the audit.

# Executive Summary

## Cooperative State Research, Education, and Extension Service – 1994 Land-Grant Institutions (Audit Report No. 13011-3-At)

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### Results in Brief

The Cooperative State Research, Education, and Extension Service (CSREES) provides grants and endowment funds to the 1994 Land-Grant Institutions (1994 LGI). The funds are used to conduct agricultural research, education and extension activities in order to improve the quality of education to Native American students, especially those students who are geographically isolated or who might otherwise find the cost of higher education prohibitive. The Office of Inspector General conducted this audit to evaluate CSREES' controls over these funds and to verify that 1994 LGIs were using the funds in accordance with their agreements.

Thirty-three 1994 LGIs received 325 grants totaling \$24 million from fiscal year (FY) 2003 through FY 2005. We reviewed grant agreements, planning documents, performance reports, and financial reports for all 33 1994 LGIs. We verified expenditures at 2 1994 LGIs that received 18 grants and endowment funds totaling \$1.5 million from FY 2003 through FY 2005.

We did not find any material noncompliance with grant provisions by the two 1994 LGIs we visited, however, we found that CSREES needs to strengthen its Federal grant management controls<sup>1</sup> in the following areas.

### CSREES' Onsite Reviews Could Be Improved

CSREES' monitoring reviews of 1994 LGIs could be improved by prioritizing onsite visits to institutions, assessing program accomplishments, verifying expenses during onsite reviews, and establishing a followup process to ensure observed deficiencies are corrected. At the time of our fieldwork, CSREES had no documented procedures for conducting risk assessments of the 1994 LGI grant programs to determine potential vulnerabilities or establish procedures for performing reviews. Because of its limited resources, CSREES needs to expedite developing and implementing such risk assessment procedures. An effective review process will provide CSREES assurance that grant funds are used to fully accomplish program objectives.

### CSREES Had Not Received and Reviewed 1994 LGIs' Required Reports

We found that CSREES was not receiving and reviewing all reports that it required 1994 LGIs to submit—including Office of Management and Budget (OMB) *Circular A-133* Single Audit reports, plans of work, annual program performance reports, and financial status reports. During our fieldwork,

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<sup>1</sup> 7 Code of Federal Regulations 3015.94 dated January 1, 2005.

CSREES did not have procedures for tracking the receipt of required reports, for reviewing reports that were submitted, and for following up with 1994 LGIs who failed to submit their reports. CSREES acknowledged that its backlog of work and staffing constraints may have contributed to the problem. CSREES had also not re-assigned staff to perform monitoring tasks. CSREES needs to ensure that 1994 LGIs are submitting the required reports.

#### CSREES Had Not Timely Closed Out Expired 1994 LGIs Grant Agreements

Of the 562 1994 LGI grants totaling over \$30 million dollars which expired as of October 1, 2004, we found that 33 still had unliquidated balances totaling \$874,986—after their 90-day deobligation deadline had elapsed (see exhibit B). This occurred because CSREES, at the time of our fieldwork, did not have documented procedures for closing out grants when they expired. Unless grants are closed out and funds deobligated, funds remaining after the grant's expiration are vulnerable to abuse. We found one instance where a 1994 LGI improperly drew down \$6,680 after its grant period had expired.

#### Two 1994 LGIs Expended Grant Funds for Questionable Purposes

During our visit to two 1994 LGIs,<sup>2</sup> we found that they used grant funds for ineligible expenses. We reviewed the 18 FY 2003 through FY 2005 grants and endowment funds issued to these 2 1994 LGIs totaling \$1.5 million; they spent funds from 3 grant awards on ineligible or unsupported expenses totaling \$76,359. These ineligible expenses included:

- \$45,790 used for purposes other than those stated in the grant agreement,
- \$6,680 drawn down after the grant project had expired,
- \$11,509 in salary expenses incorrectly charged to grant projects, and
- \$12,378 in questionable equipment expenses.

Overall, we did not find any material noncompliance with grant provisions by the two 1994 LGIs we visited; however, CSREES needs to strengthen its grant monitoring as required by Federal grant regulations.

### **Recommendations in Brief**

We are recommending that CSREES:

- Improve and implement risk assessment procedures and, based on the results, prioritize onsite reviews of 1994 LGIs.

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<sup>2</sup> Sinte Gleska University, Rosebud, South Dakota and Fond du Lac Tribal Community College, Cloquet, Minnesota.

- Improve and implement procedures for including the review of grants program accomplishments and expenses during onsite visits and require documentation of the review.
- Improve and implement procedures for followup and resolution of review findings and recommendations.
- Improve and implement procedures for tracking the receipt of all required reports and monitoring them once they are received.
- Develop and implement procedures to ensure that all grants are periodically checked for unexpended balances and closed out 90 days after the grant has expired, and review the 33 expired grants with obligated balances totaling \$874,986 and return excess funds to the U.S. Treasury.
- Recover from the two 1994 LGIs \$76,359 in questioned or unsupported costs.

**Agency Response**

In its August 9, 2007, written response to the official draft report, CSREES officials agreed with all the recommendations in the report. We have incorporated applicable portions of CSREES' response, along with our position in the Findings and Recommendations sections of the report. CSREES' response to the official draft report is included in its entirety as exhibit C of the audit report.

**OIG Position**

We concurred with the corrective actions proposed by CSREES, although additional information as outlined in the OIG Position sections will be needed to reach management decision on Recommendations 6, 7, and 8. CSREES needs to provide us with the results of its review of the 33 expired grants with \$874,986 in unliquidated balances and the amount of funds returned to the U.S. Treasury. Also, CSREES needs to provide us with a copy of the bills for collection of the \$73,359 owed to it by the two 1994 LGIs and support that the amounts have been entered as a receivable on the agency's accounting records.

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# ***Background and Objectives***

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## **Background**

Authorized on October 20, 1994, the 1994 Land-Grant Program established 29 colleges as “1994 Land-Grant Institutions” (1994 LGI) and provided grants to these 1994 LGIs serving Native Americans.<sup>3</sup> These 1994 LGIs educate students who may be isolated geographically and who may otherwise find the cost of higher education prohibitive.<sup>4</sup> By serving the cultural needs of this student body, 1994 LGIs aim to better serve local Native American populations, particularly those on reservations.

Four programs are available to 1994 LGIs: the Tribal College Endowment Fund Program; the Tribal College Educational Equity Grant Program; the Tribal College Research Grant Program; and the Tribal College Extension Service Grant Program. These programs are intended to afford these institutions the means to conduct research, education, and outreach activities to improve conditions in Native American communities.

A Tribal College Endowment Fund was established and designed to strengthen these colleges through increased capacity of teaching programs in food and agriculture. Interest accruing from the endowment fund is split among 1994 LGIs (40 percent of accrued interest is divided equally among the 1994 LGIs, while 60 percent is distributed to 1994 LGIs based on student enrollment). As part of its oversight and accountability responsibilities, Cooperative State Research, Education, and Extension Service (CSREES) requires each college, once notified of its annual distribution, to submit a planning document detailing how its share of the interest on the endowment funds will be used. Proper uses for these funds include: (1) development of curricula and materials, (2) faculty development, (3) experiential learning programs, (4) instruction delivery systems, (5) teaching equipment and instrumentation, and (6) student recruitment and retention. Beginning in fiscal year (FY) 2002, funds could also be used for facility construction and maintenance.

The Tribal College Education Equity Grant Program is designed to promote and strengthen higher education in the food and agricultural sciences. 1994 LGIs must submit an application to receive a grant, but each approved grant receives the same amount. For FY 2005, each grant totaled \$67,637.

The Tribal College Research Grant Program makes funds available to 1994 LGIs to perform research activities in their communities and is intended

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<sup>3</sup> Public Law 103-382, as an amendment to the First Morrill Act, dated July 2, 1862.

<sup>4</sup> Public Law 103-382 initially established 29 colleges as “1994 Tribal Land-Grant Institutions,” but 4 other colleges were later added, resulting in a total of 33 eligible 1994 LGIs.

to assist these institutions in conducting agricultural research addressing high priority concerns of tribal or national significance.

The Tribal College Extension Service Grant Program is designed to fund community outreach programs in (1) agriculture; (2) community resource and economic development; (3) family development and resource management; (4) 4-H and youth development; (5) leadership and volunteer development; (6) natural resources and environmental management; and (7) nutrition, diet, and health.

In FY 2005, Congress appropriated \$1.2 billion for CSREES, of which \$20.64 million was authorized for 1994 LGIs. Of the \$20.64 million, CSREES allocated in the following manner: \$2.23 million for the Tribal College Educational Equity Grant Program, \$1.08 million to the Tribal College Research Grant Program, \$3.25 million to the Tribal College Extension Service Grant Program, \$11.9 million to the Tribal College Endowment Fund, and interest payments of \$2.18 million to 1994 LGIs.

For FY 2006, Congress has appropriated \$1.17 billion for CSREES, of which \$23.1 million was authorized for 1994 LGIs.

**Objectives**

The objectives of this audit were to (1) assess CSREES' management controls over funds provided to 1994 LGIs and (2) determine if funds were expended in accordance with laws, regulations, and grant agreements or planning documents submitted to CSREES.



# Findings and Recommendations

## Section 1 – CSREES’ Monitoring and Oversight Over Funds Provided to 1994 LGIs

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We did not find material deficiencies in our review of 1994 LGIs’ compliance with their grant agreements or planning documents. However, CSREES needs to improve its management controls over 1994 LGI funds in the following areas:

- CSREES reviews of 1994 LGIs could be improved by documenting selection criteria for prioritizing onsite visits and assessing 1994 LGIs’ program accomplishments and verifying expenses.
- CSREES could not demonstrate that they received reports they required 1994 LGIs to submit under the terms of their agreements, nor that they reviewed those they did receive. Moreover, the agency did not followup with 1994 LGIs when their reports were late or missing.
- CSREES had not deobligated 33 of the 562 grants that expired prior to October 1, 2004. These 33 grants had unliquidated balances totaling nearly \$874,986.

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### Finding 1

### Effectiveness of CSREES’ Reviews Could be Improved

CSREES’ reviews of 1994 LGIs could be improved by prioritizing onsite visits to institutions, better assessing program accomplishments, verifying expenses during onsite reviews, and establishing a followup process to ensure observed deficiencies are corrected. At the time of fieldwork, CSREES did not conduct a documented risk assessment of the 1994 LGI programs to determine potential vulnerabilities or establish documented procedures for performing reviews. In addition, the only employee who had performed comprehensive and detailed onsite financial and performance reviews of 1994 LGIs left the agency. An effective review process will provide CSREES assurance that funds are used to fully accomplish program objectives.<sup>5</sup>

Federal regulations require agencies awarding grants to make site visits as frequently as practicable to review program accomplishments, review control systems, and provide technical assistance.<sup>6</sup>

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<sup>5</sup> \$24 million in grant funds were awarded to the 33 1994 LGIs from FY 2003 through FY 2005.

<sup>6</sup> 7 *Code of Federal Regulations* 3015.94, dated January 1, 2005.

## CSREES Does Not Assess Risk in Prioritizing Its Monitoring Visits to 1994 LGIs

CSREES performed onsite reviews at 10 of 33 1994 LGIs from April 2003 through January 2005. When we asked CSREES officials why they selected these 10 1994 LGIs, they explained the selections were based on the locations of the 1994 LGIs to reasonable accommodation, travel costs, and travel time. CSREES should improve its monitoring process by performing a documented risk assessment to determine the 1994 LGIs that pose the greatest risk for program weakness (i.e., not submitting performance accomplishment reports) or those that need immediate attention due to financial hardship (i.e., received an adverse opinion on their financial statements). In addition, CSREES should use the results of the risk assessment to prioritize its visits to 1994 LGIs.

Without having consistent, documented risk assessment procedures for determining onsite reviews, CSREES may not visit 1994 LGIs that may be vulnerable to program abuse. For example, one institution<sup>7</sup> that CSREES had scheduled for an onsite visit during April 2006 went bankrupt in April 2005. This institution had an adverse opinion on its FYs 2001 and 2002 financial statements (issued on October 21, 2005),<sup>8</sup> which should have raised CSREES' concerns.

### Onsite Reviews Were Not Detailed

CSREES' onsite reviews did not include a documented assessment of program accomplishments or a documented review of invoices and accounting and payroll records to verify the accuracy and allowability of expenses made and reported by the 1994 LGIs.

According to CSREES officials, their reviews were primarily programmatic in nature and for "outreach" purposes to discuss extension, higher education, and research activities. The reviews did not include a documented evaluation of the adequacy of program expenses and program accomplishments.

When we asked CSREES officials during our fieldwork why these reviews lacked detailed analysis, they stated that they did not have the staff needed to both perform and document the weeklong reviews necessary to assess 1994 LGIs' program performance and financial controls. The officials further explained that the employee who had performed at least two detailed reviews left the agency and had not been replaced. However, CSREES officials provided comments for the exit discussion that they had replaced the departed employee in October 2005 and that the Office of Extramural Programs has

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<sup>7</sup> Si Tanka University, Eagle Butte, South Dakota.

<sup>8</sup> The auditor's opinion on the FY 2001 financial statements was dated October 23, 2003.

sufficient staff and expertise to perform these reviews. CSREES did not provide evidence of any reviews performed by this official since their hiring.

### CSREES Lacked Procedures to Followup on Issues Identified by Onsite Reviews

Despite the fact that CSREES' onsite reviews did not always include a documented assessment of program accomplishments or financial reviews, the 10 site reviews that CSREES' performed did identify outreach and program deficiencies that needed improvements such as the need to (1) better communicate the effects of its grant program, (2) better coordinate between several overlapping programs, and (3) more accurately allocate salary costs to grants. CSREES officials state that they prepared reports for each site review, but at the time of our fieldwork, CSREES was only able to provide 6 reports, identifying a total of 17 issues. For the 10 site reviews, when CSREES identified a problem and recommended a solution from its reviews, it asked the 1994 LGIs to submit a corrective action plan. However, we found that 1994 LGIs did not submit corrective action plans for the deficiencies stated in the six reports and that CSREES could not demonstrate to the Office of Inspector General (OIG) a tracking system to followup on the deficiencies reported or to verify that the deficiencies were corrected.

When we asked CSREES officials why they had not required 1994 LGIs to submit corrective action plans, they explained that they had not consistently required 1994 LGIs to submit corrective action plans. CSREES needs to fulfill its grant monitoring responsibilities by verifying that 1994 LGIs have resolved any deficiencies identified in its reviews.

### **Recommendation 1**

Improve and implement procedures for including the review of grants program accomplishments and expenses during onsite visits and require documentation of the review.

**Agency Response** In its August 13, 2007, response, CSREES stated the following.

CSREES concurs. CSREES will improve and implement procedures for including the review of grants program accomplishments and expenses during onsite visits and require documentation of the review. CSREES will revise and implement these procedures for 1994 LGIs by December 31, 2007, and training will be provided to Agency staff by June 30, 2008.

**OIG Position** We concur with CSREES' management decision for this recommendation.

## Recommendation 2

Improve and implement procedures requiring (1) 1994 LGIs to submit corrective action plans to address identified deficiencies, (2) CSREES to track resolution of identified deficiencies, and (3) CSREES to perform followup reviews as necessary.

**Agency Response** In its August 13, 2007, response, CSREES stated the following.

CSREES concurs. CSREES will improve and implement procedures requiring (1) 1994 LGIs to submit corrective action plans to address identified deficiencies; (2) CSREES to track resolution of identified deficiencies; and (3) CSREES to perform followup reviews as necessary. These procedures will be incorporated in the revised On-site Review Guidelines which will be completed and implemented by December 31, 2007, and training will be provided to Agency staff by June 30, 2008.

**OIG Position** We concur with CSREES' management decision for this recommendation.

## Recommendation 3

Improve and implement procedures for performing onsite reviews of grants program accomplishments and expenses.

**Agency Response** In its August 13, 2007, response, CSREES stated the following.

CSREES concurs. CSREES will revise and implement procedures for performing onsite reviews of grants program accomplishments and expenses by December 31, 2007. Training on new procedures will be provided to Agency staff by June 30, 2008.

**OIG Position** We concur with CSREES' management decision for this recommendation.

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## Finding 2

### CSREES Needs to Improve How It Tracks 1994 LGIs' Required Reports

We found that CSREES was not receiving and reviewing all of the reports that it required 1994 LGIs to submit—including Office of Management and Budget (OMB) *Circular A-133* Single Audit<sup>9</sup> reports, plans of work, annual program performance reports, and financial status reports. This occurred

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<sup>9</sup> Hereinafter referred to as Single Audit.

because CSREES did not, at the time of our fieldwork, have documented procedures for tracking the receipt of required reports, for reviewing reports that were submitted, and for following up with 1994 LGIs who failed to submit their reports. CSREES also attributed backlog of work and staffing constraints as contributing to the problem.

The Federal Managers' Financial Integrity Act of 1982 requires agencies to monitor grant recipients to ensure that costs are in compliance with applicable laws and regulations.<sup>10</sup> In fulfillment of this requirement, CSREES' grant terms and conditions require 1994 LGIs to submit several sorts of reports—Single Audit reports, plans of work, and performance and financial reports.

Without a documented system for assuring reports are received and reviewed, 1994 LGIs may not receive the guidance they require to effectively utilize awards as required by grant agreements.

### Single Audit Reports

We found that CSREES since FY 2004 was not receiving and, therefore, not reviewing any required Single Audit reports for the 33 1994 LGIs. This occurred because CSREES did not have documented procedures for tracking the receipt of the reports or for reviewing the reports they received. CSREES needs to improve its grant monitoring requirements by following up to ensure grantees submit Single Audit reports.

OMB *Circular A-133* requires institutions receiving grants to prepare and submit a Single Audit report if they receive over \$500,000 in Federal funds. This report must include an auditor's opinion, a report on internal controls, and a report on compliance with laws, regulations, and grant agreements.<sup>11</sup> Single Audits are used to determine whether unallowable or questionable costs have been charged to the program audited, whether 1994 LGIs are being run effectively and efficiently, and whether 1994 LGIs are in compliance with all applicable laws and regulations. OMB *Circular A-133* also requires the institutions to submit Single Audits information to the OMB-designated Federal Audit Clearinghouse in Jeffersonville, Indiana.

All 33 of the 1994 LGIs each received combined Federal grant funds in excess of \$500,000 and, therefore, were required to submit a Single Audit report.<sup>12</sup> CSREES has not received any of the reports starting from FY 2004. Prior to FY 2004, CSREES had assigned an employee to followup on the reports but the employee left the agency and this duty was not reassigned. We

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<sup>10</sup> Public Law 97-255, dated September 8, 1982.

<sup>11</sup> OMB *Circular A-133*: "Audits of States, Local Governments, and Non-Profit Organizations," dated June 24, 1997.

<sup>12</sup> Grant award amounts were obtained from the information contained in the Federal Audit Clearinghouse. The 1994 LGIs received the additional funding from the U.S. Department of Education and the U.S. Department of the Interior.

reviewed seven Single Audit reports submitted to CSREES by three 1994 LGIs prior to FY 2004. Although the reports disclosed reportable conditions for Federal grants, none of the issues was related to the Department of Agriculture or the 1994 LGI grant program.

As of May 2006, CSREES had assigned someone to begin reviewing Single Audit reports. CSREES also plans on hiring an additional staff member whose primary responsibility will be the tracking of Single Audit reports and resolution of audit findings. In comments provided to OIG for the exit discussion for this report, CSREES advised that it now has documented procedures for handling these reports.

#### Performance Reports for Equity and Research Grants

At the time of our fieldwork, CSREES had not developed documented procedures to track performance reports or for following up with 1994 LGIs to submit such reports. CSREES officials were unsure of how many reports they had received or how many were owed to them by 1994 LGIs. We found that CSREES had not received all performance reports for 1994 LGI equity and research grants. For example, we requested research and equity performance reports for three 1994 LGIs for FYs 2003 and 2004. CSREES officials disclosed that only 4 of 14 (28.5 percent) required performance reports were on hand. The grant terms and conditions require that annual performance reports should provide a concise project overview, a summary of the progress toward project objectives, and identify current problems or unusual developments pertinent to the ongoing project.

CSREES did not track the submission of annual performance or final technical reports for equity and research grants. However, CSREES officials stated that performance reports were tracked and analyzed for the tribal extension grants since CSREES had appointed a national program leader over the program. The national program leader also followed up with the 1994 LGIs if they did not submit the required reports. There was no national program leader assigned for the equity and research grant programs at the time of our fieldwork.

CSREES officials told us after our fieldwork ended, that they now track performance reports and that the Awards Management Branch, prior to making a new award to a 1994 LGI, checks to see if any prior report is delinquent. CSREES notes that this check will be formalized on its award fact sheet, CSREES-2009.

#### Financial Reports

CSREES had not received Standard Form (SF) 269s for equity, endowment, and research grants for 12 of the 33 1994 LGIs since FY 2004. All of the

SF-269s, “Financial Status Report,” were not being submitted by the 1994 LGIs, and CSREES did not followup to find out why reports were not being forwarded. In addition, CSREES did not review and analyze the reports it received from the 1994 LGIs. The SF-269 report shows the financial progress of the grants, provides data by grant budget period, and contains information on total outlays and unobligated balances. CSREES requires 1994 LGIs to submit this financial report annually.

Although CSREES could locate some of these reports, it had no record of having received many of them. This occurred because CSREES lacked documented controls for tracking the receipt of all required reports and for following up with grantees that did not submit their reports. CSREES officials stated they had developed procedures and a tracking system but, due to other priorities, they did not aggressively follow up when financial reports were not received.

We concluded that CSREES needs to improve its grant monitoring responsibilities for tracking the receipt of all required reports, reviewing them, and following up with 1994 LGIs that do not submit their reports on time.

#### **Recommendation 4**

Improve and implement documented procedures for tracking the receipt of all required reports and for following up when reports are not received. Establish a formal review process of the reports.

**Agency Response** In its August 13, 2007, response, CSREES stated the following.

CSREES concurs. CSREES will improve and implement documented procedures for tracking the receipt of all required reports and for following up when reports are not received. These procedures will require a formal review of the reports. CSREES will revise and implement these procedures by March 31, 2008.

**OIG Position** We concur with CSREES’ management decision for this recommendation.

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#### **Finding 3 CSREES Needs to Improve How It Closes Out Grant Agreements**

Of the 562 1994 LGI grants totaling \$30,375,073 that expired as of October 1, 2004, we found that 33 still had unliquidated balances totaling \$874,986—after their 90-day deobligation deadline had elapsed (see exhibit B). This occurred because CSREES officials stated that they had a backlog of work and staffing constraints. Furthermore, CSREES officials stated that they had not documented their procedures for reviewing and closing out unused

funds for expired grants. Unless grants are closed out and funds deobligated, funds remaining after the grant's expiration are vulnerable to abuse. We found one instance at one of the two 1994 LGIs we visited where the 1994 LGI improperly drew down \$6,680 after its grant period had expired.

OMB *Circular A-110* requires that unless the agency grants an extension, the awarding agency shall close out the grant and all funds should be deobligated and returned to the U.S. Treasury within 90 calendar days of expiration.<sup>13</sup>

In addition to what was explained above, some CSREES officials incorrectly believed that grants could not be closed out for 5 years and intended to start reviewing grants that expired in FY 2001 sometime in FY 2007.

If grants are not closed out in a timely fashion and excess funds are not deobligated within 90 days, then those funds can be vulnerable to abuse. We informed a 1994 LGI during our fieldwork that we would be recommending the deobligation of \$6,680. The 1994 LGI subsequently drew down this amount even though the project had been completed (see Finding 4 for a fuller discussion of this improper drawdown). CSREES has less control over how funds are being used for the purposes established in the grant agreement.

We concluded that CSREES should implement procedures for closing out grants and deobligating excess funds within 90 days after the grant has been closed out.

## **Recommendation 5**

Implement procedures, including a tracking system, to ensure that all grants are periodically checked for unexpended balances and closed out 90 days after the grant has expired.

## **Agency Response**

In its August 13, 2007, response, CSREES stated the following.

CSREES concurs. CSREES will revise and implement improved procedures to include a tracking system to periodically check for grants with unexpected balances (i.e., beyond 90 days of the termination date). These procedures will be revised and implemented by December 31, 2007.

## **OIG Position**

We concur with CSREES' management decision for this recommendation.

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<sup>13</sup> OMB *Circular A-110*, subpart D, dated September 30, 1999.



## **Recommendation 6**

Review the 33 expired grants with \$874,986 unliquidated balances, close out balances as appropriate, and return the remaining funds to the U.S. Treasury.

**Agency Response** In its August 13, 2007, response, CSREES stated the following.

CSREES concurs. CSREES will complete the review of the expired grants with unliquidated balances and will return remaining funds to the U.S. Treasury by September 30, 2007.

**OIG Position** We agree with CSREES' corrective actions to review the expired grants with unliquidated balances and return the remaining funds to the U.S. Treasury. However, to reach management decision, CSREES needs to provide us with the results of their review and the amount of funds returned to the U.S. Treasury.

## Section 2 – 1994 LGI Grant Expenditures

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### Finding 4

### Two 1994 LGIs Claimed Ineligible Expenses

At the 2 1994 LGIs we visited, we reviewed all 18 FY 2003 through FY 2005 grants totaling \$1,544,875 that were awarded to the 2 institutions. We did not find any material noncompliance with grant provisions by the two 1994 LGIs; however, we found that funds from three grants were spent for ineligible expenses. Officials at two 1994 LGIs made various errors allocating salaries to projects, charging expenditures to grants that should have been closed out, or using funds for purposes outside the grant agreement. As a result, we identified ineligible or unsupported expenses totaling \$76,359 of the \$1,544,875 (or about 5 percent).

#### Sinte Gleska University (SGU)

At SGU, we identified a total of \$52,470 of \$632,275 we reviewed in grant funds was used for questionable purposes as detailed below (see exhibit A).

SGU received a FY 2004 equity grant intended to develop a health and wellness curriculum to teach students basic nutrition so they could educate the reservation community concerning proper diet and healthy lifestyles. Of the \$52,470 awarded for this nutrition program, however, \$45,790 was used to fund SGU's bison ranch program, which allows students to raise bison and sell bison meat. Although the bison ranch received an equity grant in FY 2003, the FY 2004 grant was not intended to fund the ranch. Nonetheless, FY 2004 funds were used to continue the older project.

When we spoke to SGU's Chief Financial Officer about how this problem occurred, she explained that the university was changing its accounting software and that, consequently, the change in the bison ranch's funding source was not recorded. Without this change, charges for the ranch were improperly allocated to the FY 2004 equity grant. She further explained that there were delays in implementing the health and wellness curriculum and that any work that was done was charged to other Government grants.

The remaining \$6,680 of the \$52,470 FY 2004 equity grant was drawn down in March and May of FY 2006. Since this grant had already expired in FY 2005 and grant funds had never been used for the approved project, this drawdown was improper. During our audit, we advised 1994 LGI officials that we would recommend that the remaining balance of \$6,680 be deobligated. However, SGU subsequently drew down the remaining balance before our recommendation could be made. CSREES has less control over how these funds are used (see Finding 3 regarding the need to close out grants and deobligate excess funds).

Fond du Lac Tribal and Community College (FDLTCC)

At FDLTCC, we identified a total of \$23,889 of \$912,600 in grant funds was used for unsupported purposes as detailed below (see exhibit A).

We found that FDLTCC was charging salaries and benefits to grant projects when employees were not working directly on those projects. For instance, FDLTCC paid two staff members for working on the 1994 LGI's FY 2003 and FY 2004 equity grants although the employees were also teaching classes and could not have worked all the time they charged to the grant program. We determined that FDLTCC had charged \$11,350 for the time these employees' were teaching, instead of working directly on grant projects. Additionally, the institution unintentionally charged \$161 in student salaries to a CSREES grant (a 2003 Soil Mapping research grant) although the student was working on a different project.

Since both of these errors were made when FDLTCC allocated employee costs to grants, we asked officials how they estimate the time employees devote to each project. FDLTCC officials explained that faculty salaries were paid out of general funds and costs were later allocated to the various CSREES grants. Rather than determining how much actual time was spent on each approved project, FDLTCC officials assumed that all time unaccounted for was used for grant projects. We concluded that this was an unsupported method for allocating time and that it may result in grants being over or under charged.

Finally, we found that FDLTCC charged \$12,378 in equipment costs to its Environmental Science Delivery Project—a FY 2003 equity grant at the end of the grant period. FDLTCC officials could not provide supporting documentation for these charges or explain how these charges benefited the program nor could they show us the equipment that was purchased.

We concluded that, unless CSREES improves its oversight of grants awarded to 1994 LGIs (as discussed in section 1), similar problems will result in 1994 LGIs not complying with the terms of their grant agreements and using funds for purposes other than those for which their grants are intended.

**Recommendation 7**

Recover from SGU \$52,470 in questioned costs.

**Agency Response** In its August 13, 2007, response, CSREES stated the following.

CSREES concurs. CSREES will bill SGU \$52,470 for questioned costs by September 30, 2007, and will recover funds by December 31, 2007.

**OIG Position** We agree with the corrective action proposed by CSREES; however, to reach management decision CSREES needs to provide us with a copy of a bill for collection of \$52,470 for SGU and support that the amount has been entered as a receivable on the agency's accounting records.

**Recommendation 8**

Recover from FDLTCC \$23,889 in unsupported costs.

**Agency Response** In its August 13, 2007, response, CSREES stated the following.

CSREES concurs. CSREES will bill FDLTCC \$23,889 in unsupported costs by September 30, 2007, and will recover funds by December 31, 2007.

**OIG Position** We agree with the corrective action proposed by CSREES; however, to reach management decision CSREES needs to provide us with a copy of a bill for collection of \$23,889 for FDLTCC and support that the amount has been entered as a receivable on the agency's accounting records.

# ***Scope and Methodology***

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Our review was performed at the CSREES national office in Washington, D.C., and at two 1994 LGIs: FDLTCC in Cloquet, Minnesota, and SGU in Rosebud, South Dakota. Thirty-three 1994 LGIs received 325 grants totaling \$24,281,000 from FY 2003 through FY 2005. We reviewed grant agreements, planning documents, performance reports, and financial reports for all 33 1994 LGIs. Also, to determine if CSREES was properly closing out grants that had been expired, we reviewed 562 grants totaling \$30,375,073 that had expired prior to October 1, 2004.

We judgmentally selected two 1994 LGIs for review. Specifically we selected FDLTCC because it had received more grant funds than any other 1994 LGI (10 grants for \$912,600) from FY 2003 through FY 2005 and had received a large amount in research grants (\$362,201) during this period. Also we selected SGU because it was a 4-year institution and had received an adverse audit opinion (because of the university's failure to allow for inventory observation, inadequacy of records and failure to depreciate assets) for FY 2003. SGU received eight grants for a total of \$632,275 from FY 2003 through FY 2005. In total, we reviewed 18 grants to these 2 1994 LGIs totaling \$1,544,875, from FY 2003 through FY 2005. We conducted our audit from January to August 2006.

To accomplish our objectives, we:

- Reviewed regulations, policies, and procedures governing program costs.
- Reviewed external and internal audit reports, CSREES reports, and grant performance reports.
- Reviewed grant agreements and planning documents, strategic plans, program funding, and financial reports.
- Interviewed CSREES and 1994 LGI officials to determine what controls are used to monitor program costs.
- Reviewed audits performed under the Single Audit Act to identify issues concerning the use of program funds.
- Reviewed 1994 LGIs' accounting and payroll records to verify the accuracy and allowability of charges reported to CSREES.
- Reviewed 1994 LGIs' grant files and outcomes reports, and interviewed project directors to determine results achieved by CSREES programs.

- Interviewed branch chiefs and staff employees from Policy Oversight Branch, Funds Management Branch, and Award Management Branch to determine results achieved by CSREES programs.

This audit was performed in accordance with generally accepted government auditing standards.

# Exhibit A – Summary of Monetary Results

FINDING NO.	RECOMMENDATION NO.	DESCRIPTION	AMOUNT	CATEGORY
3	6	Expired Grants Funds	\$874,986	Funds to Be Put to Better Use-Deobligations
4	7	Ineligible Expenses SGU	\$52,470	Questioned Costs, Recovery Recommended
4	8	Unsupported Expenses FDLTCC	\$23,889	Unsupported Costs, Recovery Recommended
		<b>Total</b>	<b>\$951,345</b>	

## **Exhibit B – 1994 LGI Expired Grants With Unliquidated Balances**

Exhibit B – Page 1 of 1

<b>College</b>	<b>Grant Number</b>	<b>Expiration Date</b>	<b>Amount</b>
Chief Dull Knife	2001-38424-10253	9/30/2004	\$36,266.70
Chief Dull Knife	2003-38421-36913	8/31/2004	4,655.00
Chief Dull Knife	2001-47002-01230	8/1/2003	13,534.70
Crownpoint Institute of Technology	2001-38421-16919	8/31/2002	51,619.00
Crownpoint Institute of Technology	2003-38421-36919	8/31/2004	849.69
Crownpoint Institute of Technology	99-47002-0729 (FY 2001)	9/14/2004	15,350.62
Crownpoint Institute of Technology	99-47002-0729 (FY 2002)	9/14/2004	84,764.00
Dine College	2003-47002-01624	9/30/2004	12,991.43
D-Q University	2002-38421-26926	8/31/2004	2,800.00
D-Q University	2003-38421-36926	9/14/2004	4,195.34
Fond du Lac Tribal and Community College	99-47002-0760	9/14/2003	10,963.97
Fort Berthold Community College	2003-51200-01664	8/14/2004	7,572.12
Haskell Indian Nations University	2003-47002-01676	8/31/2004	85,000.00
Haskell Indian Nations University	99-47002-0824 (FY 2001)	9/14/2003	85,000.00
Haskell Indian Nations University	99-47002-0824 (FY 2002)	9/14/2003	85,000.00
Institute of American Indian Arts	XX-AIEF-0-6901	9/30/2000	41,189.00
Lac Courte Oreilles Ojibwa Community College	2002-38421-26921	9/14/2004	165.11
Lac Courte Oreilles Ojibwa Community College	99-47002-0738	9/14/2004	10,335.67
Little Priest Tribal College	2003-38421-36931	8/31/2004	54,482.00
Nebraska Indian Community College	2003-38421-36924	9/14/2004	54,482.00
Nebraska Indian Community College	98-AIHE-0-8924	8/31/1999	50,000.00
Sinte Gleska University	00-38424-9592	9/30/2003	168.00
Sisseton Wahpeton Community College	2001-38421-16928	8/31/2003	38,232.00
Sisseton Wahpeton Community College	2002-38421-26928	9/14/2004	49,968.00
Sitting Bull College	98-AIHE-0-8923	6/30/1999	50,000.00
Southwestern Indian Polytechnic Institute	2001-38421-16900	8/31/2002	8,750.00
Southwestern Indian Polytechnic Institute	2001-38424-10389	9/14/2004	93.08
Southwestern Indian Polytechnic Institute	2002-38421-26900	9/30/2004	8.35
Southwestern Indian Polytechnic Institute	99-47002-0737	6/14/2004	1,311.47
Stone Child College	2003-47002-01657	7/31/2004	2,500.00
United Tribes Technical College	00-38424-9671	9/14/2004	11,042.44
White Earth Tribal & Community College	2002-38421-26932	9/29/2004	107.07
White Earth Tribal & Community College	2003-38421-36932	9/14/2004	1,589.10
<b>Total</b>			<b>\$874,985.86</b>



# Exhibit C – Agency Response

Exhibit C– Page 1 of 5



Cooperative State  
Research, Education,  
and Extension Service

Washington, DC  
20250-2200

AUG 13 2007

TO: Robert W. Young  
Assistant Inspector General for Audit

FROM: Colien Hefferan  
Administrator *Colien Hefferan*

SUBJECT: Audit Report No. 13011-3-At – Review of 1994 Land-Grant Institutions

This is in response to your July 9, 2007, 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.

The Cooperative State Research, Education, and Extension Service (CSREES) agrees with all of the recommendations in the subject report and the Attachment provides our responses to the eight recommendations. CSREES plans to complete all corrective actions by June 30, 2008. Below is our response to your overall recommendation in the "Executive Summary":

**Recommendation in Brief:** *We are recommending that CSREES:*

- △ *Improve and implement risk assessment procedures and based on the results, prioritize onsite reviews of 1994 LGIs.*
- △ *Improve and implement procedures for including the review of grants program accomplishments and expenses during onsite visits and require documentation of the review.*
- △ *Improve and implement procedures for followup and resolution of review findings and recommendations.*
- △ *Improve and implement procedures for tracking the receipt of all required reports and monitoring them once they are received.*
- △ *Develop and implement procedures to ensure that all grants are periodically checked for unexpended balances and closed out 90 days after the grant has expired, and review the 33 expired grants with obligated balances totaling \$874,986 and return excess funds to the U.S. Treasury.*
- △ *Recover from the two 1994 LGIs \$76,359 in questioned or unsupported costs.*

**Agency Response:** CSREES is in the process of implementing the above recommendations on risk assessments; site visits; tracking and monitoring of financial, technical, and audit reports as well as planning documents for the 1994 endowment funds; close-out and monitoring procedures for terminated awards; and recovering questioned or unsupported costs.

## **Exhibit C – Agency Response**

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Exhibit C– Page 2 of 5

CSREES appreciates the audit work conducted by the OIG auditors as their efforts have and will contribute to improved monitoring and oversight by CSREES of Federal funds awarded to the 1994 land-grant institutions. In addition, the work of the OIG auditors also will contribute to CSREES conducting more effective outreach activities with these institutions. Questions regarding this memorandum can be directed to Ellen Danus, Office of Extramural Programs, on (202) 205-5667.

Attachment

**Cooperative State Research, Education, and Extension Service (CSREES) Response  
to the July 9, 2007, Draft USDA Office of Inspector General  
Audit Report No. 13011-3-At: Review of 1994 Land-Grant Institutions**

**Section 1. CSREES' Monitoring and Oversight Over Funds Provided to 1994 LGIs**

**Finding 1. Effectiveness of CSREES' Reviews Could Be Improved**

**Recommendation 1:** *Improve and implement procedures for including the review of grants program accomplishments and expenses during onsite visits and require documentation of the review.*

**Agency Response:**

CSREES concurs. CSREES will improve and implement procedures for including the review of grants program accomplishments and expenses during onsite visits and require documentation of the review. CSREES will revise and implement these procedures for 1994 LGIs by December 31, 2007, and training will be provided to Agency staff by June 30, 2008.

**Recommendation 2:** *Improve and implement procedures requiring (1) 1994 LGIs to submit corrective action plans to address identified deficiencies, (2) CSREES to track resolution of identified deficiencies, and (3) CSREES to perform followup reviews as necessary.*

**Agency Response:**

CSREES concurs. CSREES will improve and implement procedures requiring (1) 1994 LGIs to submit corrective action plans to address identified deficiencies; (2) CSREES to track resolution of identified deficiencies; and (3) CSREES to perform followup reviews as necessary. These procedures will be incorporated in the revised On-site Review Guidelines which will be completed and implemented by December 31, 2007, and training will be provided to Agency staff by June 30, 2008.

**Recommendation 3:** *Improve and implement procedures for performing onsite reviews of grants program accomplishments and expenses.*

**Agency Response:**

CSREES concurs. CSREES will revise and implement procedures for performing onsite reviews of grants program accomplishments and expenses by December 31, 2007. Training on new procedures will be provided to Agency staff by June 30, 2008.

**Finding 2. CSREES Needs to Improve How It Tracks 1994 LGIs' Required Reports**

Attachment

1

**Recommendation 4:** *Improve and implement documented procedures for tracking the receipt of all required reports and for following up when reports are not received. Establish a formal review process of the reports.*

**Agency Response:**

CSREES concurs. CSREES will improve and implement documented procedures for tracking the receipt of all required reports and for following up when reports are not received. These procedures will require a formal review of the reports. CSREES will revise and implement these procedures by March 31, 2008.

**Finding 3. CSREES Needs to Improve How It Closes Out Grant Agreements**

**Recommendation 5:** *Implement procedures, including a tracking system, to ensure that all grants are periodically checked for unexpended balances and closed out 90 days after the grant expired.*

**Agency Response:**

CSREES concurs. CSREES will revise and implement improved procedures to include a tracking system to periodically check for grants with unexpended balances (i.e., beyond 90 days of the termination date). These procedures will be revised and implemented by December 31, 2007.

**Recommendation 6:** *Review the 33 expired grants with \$874,986 unliquidated balances, close out balances as appropriate, and return the remaining funds to the U.S. Treasury.*

**Agency Response:**

CSREES concurs. CSREES will complete the review of the expired grants with unliquidated balances and will return remaining funds to the U.S. Treasury by September 30, 2007.

**Section 2. 1994 LGI Grant Expenditures**

**Finding 4. Two 1994 LGIs Claimed Ineligible Expenses**

**Recommendation 7:** *Recover from SGU \$52,470 in questioned costs.*

**Agency Response:** CSREES concurs. CSREES will bill SGU \$52,470 for questioned costs by September 30, 2007, and will recover funds by December 31, 2007.

**Recommendation 8:** *Recover from FDLTCC \$23,889 in unsupported costs.*

# **Exhibit C – Agency Response**

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**Agency Response:** CSREES concurs. CSREES will bill FDLTCC \$23,889 in unsupported costs by September 30, 2007, and will recover funds by December 31, 2007.

**Attachment**

**3**

Informational copies of this report have been distributed to:

Administrator, CSREES (5)

ATTN: Agency Liaison Officer

Government Accountability Office (1)

Office of Management and Budget (1)

Office of the Chief Financial Officer

Director, Planning and Accountability Division (1)