U.S. Department of Commerce
Office of Inspector General

RECOVERY ACT:
Transparency and Accountability in Grants Management

Recovery Act

"We cannot overstate the importance of this effort. We are asking the American people to trust their government with an unprecedented level of funding to address the economic emergency. In return, we must prove to them that their dollars are being invested in initiatives and strategies that make a difference in their communities and across the country. Following through on our commitments for accountability and openness will create a foundation upon which we can build as we continue to tackle the economic crisis and the many other challenges facing our nation."

OMB Memorandum to Head of Departments and Agencies, February 9, 2009
www.recovery.gov/files/recoverylegislationmemo.pdf

Responsibilities in Grants Administration

- Chief Financial Officer and Assistant Secretary for Administration
- Office of Acquisition Management
- Office of General Counsel
- Office of Inspector General
- Financial, Budgeting, and Accounting Responsibilities
- Grants Management Responsibilities
- Programmatic Responsibilities
- Property Management Responsibilities

Dept of Commerce (DOC) Grants Manual, Chapter 4 – Responsibilities in Grants Administration

Grants Management Responsibilities

The Grants Officer oversees the financial management and administrative aspects of grants and cooperative agreements.

- Makes determinations of non-responsibility and designations of high-risk recipients.
- Performs analysis of a proposed budget to assure that costs in the award budget are reasonable, allowable, and allocable in accordance with the applicable cost principles.
- Ensures recipient's compliance with award terms and conditions.

DOC Grants Manual, Chapter 4 – Responsibilities in Grants Administration

Designate High-Risk Recipients

The Grants Officer is charged with determining whether an applicant is sufficiently responsible to receive Federal Financial Assistance. The following indicators determine whether high-risk designation is warranted:

- Financial Instability

- Inadequate Internal Controls

- Unsatisfactory Performance

- Irresponsible Official or Key Employees

- Unsatisfactory Audits

DOC Grants Manual, Chapter 9 – Pre-Award Administrative Requirements

Functions Transferred from the OIG to the Grants Office

- Credit Report Reviews

- Name Checks

    CD 346, Applicant for Funding Assistance

"DOC policy is to make awards to applicants and recipients who are competently managed, responsible, capable, and committed to achieving the objectives of the awards they receive. It is essential, therefore, that precautions be taken to award grants only to reliable and capable applicants who can reasonably be expected to comply with award requirements."

DOC Grants Manual, Chapter 9 - Pre-Award Administrative Requirements

Credit Report Reviews

- Assists in the prevention of fraud, waste, and abuse

- Assists the grants officer in the designation of high-risk recipients

Dun and Bradstreet's Five Cs of Fraud Prevention

- Confirmation
- Condition
- Consistency
- Character
- Continuity

Three Types of D&B Reports

- Supplier Evaluation Report

- Comprehensive Report

- Private Company Insight

D&B Supplier Evaluation Report

- Business Summary
- Risk Summary
- Financial Profile
- Operation
- History
- Public Filings
- Federal Government
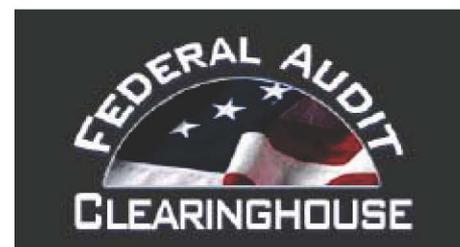- Payment Trends
- Customer Service

Single Audit Report: A Tool for Background Screening

"The most significant use of this database (Federal Audit Clearinghouse) is its capability to be used as a monitoring tool."

Russell Hinton, Former Chairperson of the National State Auditors Association in testimony to Congress

https://harvester.census.gov/fac/

Single Audit Report: A Pre-Award Tool

Determine if the potential award recipient has had past problems with the following:

- Financial Management System
- Cash Management
- Procurement Practices
- Property Management
- Financial/Performance Reporting
- Program Income
- Subrecipient Monitoring

Budget Cost Analysis

Cost Analysis is a formal means of determining the appropriateness of cost in an applicant's budget. The following 5 slides will provide examples of questions that could identify a problem in advance of an audit finding.

Always ask these questions:

- Are the costs **allowable** under the cost principles?

- Are the costs **reasonable** (ordinary and necessary) for the award?

- Are the costs **allocable** to the award?

Cost Analysis - Salaries

Audit Finding: Salary Distribution

A scientist is working an average of 40 hours a week on a federal grant and 20 hours a week on other company projects. All of the scientist's salary is being charged to the federal grant. The auditor questions one-third of the salary costs.

Questions from the Grants Management Division Cost Analysis Manual that could identify a problem in advance of an audit finding:

- Are time commitments such as hours and percent of time stated for each position?
- Do combined charges for all activities exceed 100%?
- Do time commitments seem reasonable?

Cost Analysis - Fringe Benefits

Audit Finding:

> Award recipient overcharged the government for fringe benefits. Fringe benefits were charged as a direct cost and also included in the calculation of their indirect cost rates. The auditor questioned all of the fringe benefit costs.

Questions from the Grants Management Division Cost Analysis Manual that could identify a problem in advance of an audit finding:

- Are all elements that comprise fringe benefits indicated?
- Do fringe benefit charges appear reasonable?
- Additional Suggested Question: Are fringe benefits included in the recipient's indirect costs?

Cost Analysis - Travel

Audit Finding:

Recipient did not have prior approval for international travel. The auditor questions all foreign travel costs.

Questions from the Grants Management Division Cost Analysis Manual that could identify a problem in advance of an audit finding:

- For foreign, domestic, and local travel, are trips listed?

- If actual trips are unknown, what is the basis for travel charges?

- Are travel charges reasonable and realistic?

Cost Analysis - Contractual

Audit Finding:

- Costs incurred under a contract were not included in the contract terms and the costs were expressly outside the time period of the contract. The auditor questioned these costs.

- The subawards are not being monitored by the recipient. The auditor questions the costs claimed under the subawards.

Questions from the Grants Management Division Cost Analysis Manual that could identify a problem in advance of an audit finding:

- Is each contract or subgrant listed as a separate item? (Separate budgets are required for subgrants or contracts regardless of the dollar value.)
- Do costs appear reasonable and realistic?
- Additional Suggested Question: How were contract costs determined?
- Additional Suggested Question: Do award recipients have a system in place to monitor subawards?

Cost Analysis - Indirect Costs

Audit Findings:

- Recipient does not have an approved indirect cost rate. The auditor questions all indirect costs.

- Recipient does not have adequate documentation to support indirect costs charged. The auditor questions all indirect costs.

Questions from the Grants Management Division Cost Analysis Manual that could identify a problem in advance of an audit finding:

- Is a copy of the current approved rate from the cognizant agency included?
- Is the correct rate being used for the correct period of time?
- Are charges with duplicate direct costs excluded?
- Additional Suggested Question: If an organization does not have a negotiated rate, (1) how did the organization determine the amount included in the budget for indirect costs, and (2) is that amount reasonable based on what you know about the organization?

Programmatic Responsibilities

The Program Officer is responsible for monitoring and for oversight of the work being conducted under an award, such as

1) **tracking the recipient's progress,** and

2) **comparing the actual accomplishments with the goals and objectives established in the award.**

DOC Grants Manual, Chapter 4 – Responsibilities in Grants Administration

Assessing Program Performance
Why Measure Performance?

- To continuously improve projects (and services)

- To provide better information for more effective decision-making

- To communicate programmatic results

- To strengthen accountability - required for Recovery Act investments (OMB Guidance M-09-15)

Assessing Program Performance
GPRA and PART

The executive branch and congressional committees need evaluative information to help them make decisions about the programs they oversee - information that tells them whether, and in what ways, a program is working well or poorly, and why.

GPRA - Government Performance and Results Act (1993):
- Congress expressed frustration that executive branch and congressional decision-making was hampered by the lack of good information on the results of federal program efforts.
- To promote improved federal management and increase efficiency and effectiveness of federal programs, GPRA instituted a government-wide requirement for agencies to set goals and report annually on program performance.

PART - Program Assessment Rating Tool (2002):
- OMB introduced the PART to examine federal programs in the budget formulation process.
- Performance measurement and program evaluation play key roles.

Assessing Program Performance and the Recovery Act

- The Recovery Act and OMB implementation guidance require agencies to enhance their performance management oversight for grants.

- OMB Guidance sets the expectation that **agencies will take actions beyond standard practices** to adapt current performance evaluation and review processes to include the ability to:

(1) *validate performance measurement data,* and
(2) *accurately report on program and economic outcomes.*

Performance Measurement As Defined by GAO

- The ongoing monitoring and reporting of program accomplishments, particularly progress toward pre-established goals

- Typically conducted by program or agency management

- Performance measures may address the type or level of program activities conducted (process), the direct products and services delivered by a program (outputs), or the results of those products and services (outcomes)

- Performance measurement focuses on whether a program has achieved its objectives, expressed as measurable performance standards

Program Evaluations Defined As Defined by GAO

- Studies conducted periodically or on an ad hoc basis to assess how well a program is working
- Typically examine achievement of program objectives in the context of other aspects of program performance
- Use program performance measures, along with other information, to learn the benefits of a program or how to improve it
- Several types exist - OMB Guidance discusses assessment of program and economic outcomes

Performance Measures

Performance Indicators Should:

- Be quantifiable and measurable

- Be relevant, understandable, timely, consistent, comparable, and reliable

- Incorporate a variety of measures
    - inputs
    - outputs*
    - outcomes*
    - efficiencies
    - service quality

Performance Measures Performance Indicators

Output Indicators – quantity of units produced

    Examples include:
- number of labs constructed
- miles of sea bottom mapped
- acres of wetlands restored
- number of people attending a training
- number of clients served
- number of buildings constructed

Outcome Indicators – qualitative consequences associated with a program or service that focus on the ultimate "why" of providing the service

    Examples include:
- number of jobs created or saved
- increase in pounds harvested of a certain fish stock
- amount of time saved by automating a system
- increase in the income tax received in a taxing district
- decrease in erosion of a riverbed or coast

Performance Indicators
What's the Difference?

Output measures

state what is to be provided/produced

- typically under managerial control

Outcome measures

state what is to be accomplished

- generally more difficult to measure

Performance Measures
Findings from Previous IG Work

OIG audits conducted from 2000 to 2005 found three main issues:

1. **Measures were unclear** – in many cases the wording did not accurately reflect the agency's goal (too vague or unclearly defined terms)

2. **Disclosures were inadequate** – metrics used to assess whether the goal had been met did not adequately reveal limitations or the data behind the metric

3. **A lack of management controls** – the follow-up or verification of the data to assess the goal was inadequate

Performance Measures
Prior OIG Recommendations

- Ensure **key terms are easily understood** and include informative explanations

- Ensure that **management controls** over data collection and the collection and reporting of performance data **are in place** to ensure integrity of the performance data

- Have **regular** (quarterly) **performance reviews** to discuss the effectiveness of controls, reliability of performance information, and any validation or verification reviews

Assessing Program Performance
- Review -

Effective and timely performance measurement and program evaluation allows bureaus to:

- monitor and evaluate program results against objectives,

- determine whether the investments are accomplishing intended results,

- measure the rate of progress in reaching the goals set, and

- help mitigate previously identified risks.

Performance Measures
How Can We Assist?

- OMB's Guidance for Recovery Act grants activities states that agencies "**in consultation with the IGs**, shall establish procedures to validate the accuracy of information reported" (p. 49).

- We will work with the bureaus on the front end to ensure that **procedures are in place** to validate and verify reported performance data.

- We will timely report any deficiencies to management so that they can take prompt corrective action.

- We will focus our preventative and follow-up oversight for these Recovery Act funds on higher risk areas, including effective data collection, clear and measurable outcomes or outputs, and adequate disclosures of limitations in the data.

- Our Recovery Act oversight will build on previous OIG work monitoring performance measures.

Office of Inspector General Responsibilities

The OIG is assigned the function of carrying out internal, external, financial statement, and other special audits of programs and operations of the Department of Commerce.

These functions include:

- Conduct, supervise, or coordinate IG audits and evaluations.

- Coordinate with the appropriate Grants Offices on negative findings reported on audits conducted in accordance with the Single Audit Act.

- Provide guidance about audit-related matters to Grants Officers, Program Officers, their staffs, OAM, and others as needed.

DOC Grants Manual, Chapter 4 – Responsibilities in Grants Administration

What Can Trigger An OIG Audit?

- OIG Audit Selection Process
  - Single Audit Indicators
  - Prior Audit Issues
  - Relative Program Risks/Recipient Characteristics
- Audits under the Recovery Act
- Grant/Program Officer Referral
- Hotline Complaints

Single Audit Indicators

- Findings in Single Audit Reports.

- Not filing Single Audit Reports with the Clearinghouse as required.

Single Audit Indicators

OIG monitors all findings in Single Audit Reports and issues the following types of Letters:

- Finding Letters requiring audit resolution in accordance with DAO 213-5.

- Finding Letters disclosing administrative findings or questioned costs of less than $10,000 (non-resolution letters).

Relative Program Risk and Recipient Characteristics

"OIG will use risk assessment techniques where data is available to identify high-risk programs and non-federal entities to be targeted for priority audits, inspections, and investigations with faster turnaround reporting."

M-09-15, OMB Memorandum to Head of Departments and Agencies, April 3, 2009

Audits under the Recovery Act

- **"OIGs will perform audits and inspections of their respective agencies awarding, disbursing, and monitoring of Recovery Act funds to determine whether safeguards exist for funds to be used for their intended purposes."**

M-09-15, OMB Memorandum to Head of Departments and Agencies, April 3, 2009

Grant/Program Officer Referral

Issues identified through
- Financial Reports
- Performance Reports
- Site Visits
- Other Monitoring Activities

Hotline Complaints

"There is no kind of dishonesty into which otherwise good people more easily and frequently fall than that of defrauding the government."

~ Ben Franklin

- Credible Complaints
- Significant or Material Issues
- Often Referred to Grants Officer
- OIG Hotline Number
  1-800-424-5197

Annual Audits Performed by Nonfederal Auditors

Nonfederal entities (States, local governments, tribes, and nonprofit organizations) are required by the Single Audit Act of 1996 to have an annual audit of their federal awards.

Implementing Single Audits

- Single Audit Act Amendment of 1996
- OMB Circular A-133
  http://www.whitehouse.gov/omb/circulars/a133/a133.html
- Compliance Supplement
  http://www.whitehouse.gov/omb/grants/grants_circulars.html#audit
- Federal Audit Clearinghouse

  https:\\harvester.census.gov/fac

Single Audit Requirements

- Required when the entity has $500,000 in annual expenditures of federal funds.

- Major programs receive the greatest audit coverage.

- Must be submitted to the Clearinghouse within 9 months of the end of the recipient's fiscal year.

- For fiscal year ending after January1, 2008, all single audit reports will be submitted to the Federal Audit Clearinghouse electronically.

Single Audit Requirements and the Recovery Act

- OMB will use the OMB Circular A-133 Compliance Supplement to notify auditors of compliance requirements that should be tested for Recovery Act awards.

- OMB will issue interim updates as necessary to keep Recovery Act requirements current.

- Federal agencies will perform a risk analysis of Recovery Act programs and ask OMB to designate any high-risk programs as Single Audit major programs, i.e., programs that must be tested in a particular year.

Single Audit Requirements and the Recovery Act

- For fiscal years ending September 30, 2009, and later, all Single Audit reports filed with the Federal Audit Clearinghouse will be made publicly available on the Internet. A link will be provided from Recovery.gov.

- Federal agencies will review Single Audits that include Recovery Act funding and provide a synopsis of audit findings relating to obligations and expenditures of Recovery Act funding.

Single Audit Findings

- Image Management System
  - Reports with findings can be downloaded.
  - Password required - it is easily obtained.

    CALL

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Single Audit Requirements and the Recovery Act

- "Inspectors General will reach out to the auditing profession and provide technical assistance and training as well as perform quality control reviews to ensure single audits are properly performed and improper payments and other non-compliance is fully reported."

M-09-15, OMB Memorandum to Head of Departments and Agencies, April 3, 2009

Thank You

Recovery Act
Survival Kit

Questions

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