



United States Department of Agriculture
Office of Inspector General





Controls Over the Grant Management Process of the Office of Advocacy and Outreach

Audit Report 91099-0001-21

What Were OIG's Objectives

To evaluate the policies, procedures, and internal controls used by OAO to select the FY 2012 recipients of grants funded through the Outreach and Assistance for Socially Disadvantaged Farmers and Ranchers Program.

What OIG Reviewed

OIG reviewed OAO's policies and procedures related to its grant management process. OIG also examined 57 applications initially selected by OAO officials to receive grants, as well as the 71 applications selected by OAO officials after issuance of our Fast Report on May 18, 2012. There were 193 applications submitted in FY 2012 for consideration.

What OIG Recommends

OAO needs to strengthen and document the policies, procedures, and internal controls related to its grant management process. The agency agreed with our recommendations and we accepted management decision.

The Office of Advocacy and Outreach needs to improve the policies, procedures, and internal controls used to select applicants to receive grants through the Outreach and Assistance for Socially Disadvantaged Farmers and Ranchers Program.

What OIG Found

The Office of Advocacy and Outreach (OAO) initially selected applicants to receive fiscal year (FY) 2012 grants through the Outreach and Assistance for Socially Disadvantaged Farmers and Ranchers Program (Section 2501 Program), even though these applicants may not have been the most meritorious and deserving candidates. OAO officials disregarded regulatory requirements and guidelines cited in the Funding Opportunity Announcement (FOA) in making those selections. Also, they had no documentation to support their decisions and could not explain why some applicants that appeared more deserving were not selected to receive grant funds. We reported these conditions in a Fast Report on May 18, 2012.

Based on our Fast Report, OAO reselected applicants for the Secretary's consideration in July 2012. We evaluated the process used to reselect applicants and concluded that it was more impartial and transparent than the process used to select the initial applicants. We notified the Acting Assistant Secretary for Administration of our conclusions on August 2, 2012.

In the fall of 2012, OIG performed additional work to review how well OAO was monitoring its grantees. This final report includes additional recommendations intended to strengthen OAO's processes for selecting grantees and help the agency better monitor grantees' use of funds.



United States Department of Agriculture
Office of Inspector General
Washington, D.C. 20250



DATE: February 28, 2013

AUDIT
NUMBER: 91099-0001-21

TO: Gregory L. Parham
Acting Assistant Secretary for Administration

Carolyn Parker
Director
Office of Advocacy and Outreach

ATTN: Lennetta Elias
Audit Liaison Officer
Office of the Chief Financial Officer

FROM: Gil H. Harden
Assistant Inspector General for Audit

SUBJECT: Controls over the Grant Management Process of the Office of Advocacy and Outreach

This report presents the results of the subject audit. Your written response to the discussion draft report, dated February 11, 2013, is included in its entirety at the end of this report. Excerpts from your response and the Office of Inspector General's position are incorporated into the relevant sections of the report. Based on your responses to the discussion draft, dated February 11, 2013, and the Fast Report 91099-0001-21 (1), dated May 18, 2012, we accept management decision on all recommendations, and no further response to this office is necessary.

Please follow your agency's internal procedures in forwarding documentation for final action to the Office of the Chief Financial Officer. In accordance with Departmental Regulation 1720-1, final action needs to be taken within 1 year of each management decision to prevent being listed in the Department's annual Agency Financial Report.

We appreciate the courtesies and cooperation extended to us by members of your staff during our audit fieldwork and subsequent discussions.

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Background and Objectives

Background

The Office of Advocacy and Outreach (OAO), an office within Departmental Management of USDA, was established by the *Food, Conservation, and Energy Act of 2008*, to assist farmers and ranchers who: (1) have modest-sized operations, (2) have recently begun operations, or (3) are classified as socially disadvantaged, to gain access to USDA programs.¹ OAO uses the Outreach and Assistance for Socially Disadvantaged Farmers and Ranchers Program (hereinafter, referred to as the Section 2501 Program) to gain and improve that access.² The Farm Bill authorized \$20 million for the Section 2501 Program in FY 2012.³

The Section 2501 Program provides grant funds for outreach, training, education, and technical assistance to encourage and assist socially disadvantaged farmers, ranchers, and forest landowners to purchase and operate farms, ranches, and non-industrial forest lands. The outreach efforts involve the use of formal and informal education and training presentations that are designed to inform socially disadvantaged farmers and ranchers about USDA programs, and to increase their participation in those programs.

Federal regulations require OAO to use a competitive process to select organizations⁴ that receive grant funds through the Section 2501 Program.⁵ The regulations state that OAO officials must award grants competitively to ensure that the most meritorious applicants receive funds, unless they can justify a deviation from competition. The regulations provide guidance related to evaluating applicant proposals, acquiring documentation from the award recipients, monitoring the use of funds by award recipients, and taking corrective action if necessary.

On April 18, 2012, the Secretary of Agriculture requested that we evaluate the procedures used by OAO to select the FY 2012 proposed recipients of grants funded through the Section 2501 Program. The Secretary's request was based on a hotline complaint, which alleged that OAO had not established adequate procedures and internal controls over the Section 2501 Program. The complaint also alleged that OAO officials were not adequately overseeing

¹ Generally, for the purposes of outreach and assistance, the term "socially disadvantaged" is defined in Section 2501 of the *Food, Agriculture, Conservation, and Trade Act of 1990*, as a group whose members have been subjected to racial or ethnic prejudice without regard to their individual identity. The *Consolidated Farm and Rural Development Act* added gender to the definition.

² The Section 2501 Program was authorized by the *Food, Agriculture, Conservation, and Trade Act of 1990* to support entities such as institutions of higher education and community-based organizations that provide outreach, technical assistance, and education to socially disadvantaged farmers and ranchers.

³ The *Food, Conservation, and Energy Act of 2008* provided \$75 million in funding for the Section 2501 Program. That amount was to be disbursed as follows: \$15 million in FY 2009, and \$20 million each in FYs 2010 through 2012.

⁴ Organizations eligible to receive Section 2501 Program grant funds include: 1890 Land-Grant Institutions, Indian Tribal Community Colleges, Alaska Native Cooperative Colleges, Hispanic-serving post-secondary educational institutions, other accredited post-secondary educational institutions, Indian tribes, and community-based organizations.

⁵ 7 Code of Federal Regulations (CFR) 2500, *OAO Federal Financial Assistance Programs, General Award Administrative Procedures*, dated October 26, 2011, and 7 CFR 3015.158, *Uniform Federal Assistance Regulations*.

the use of grant funds, and that the office lacked documentation to support the methodology used to select proposed recipients of Section 2501 Program grants.

We performed audit procedures based on the Secretary's request and reported our preliminary findings to the Assistant Secretary for Administration through a Fast Report on May 18, 2012.⁶ Based on our report, OAO re-evaluated and reselected applicants for the Secretary's consideration in July 2012. We evaluated the process used to reselect applicants and notified the Acting Assistant Secretary for Administration of our conclusions on August 2, 2012.

Objectives

To evaluate the policies, procedures, and internal controls used by OAO to select the FY 2012 recipients of grants funded through the Outreach and Assistance for Socially Disadvantaged Farmers and Ranchers Program.

⁶ "Controls over the Grant Management Process of the Office of Advocacy and Outreach—Section 2501 Program Grantee Selection for Fiscal Year 2012" (Fast Report 91099-0001-21 (1), May 18, 2012).

Finding 1: OAO Initially Selected Less Deserving Applicants To Receive FY 2012 Grants

OAO initially selected 57 applicants to receive FY 2012 grants through the Section 2501 Program despite the fact that they may not have been the most meritorious and deserving. OAO officials did not use a consistent and competitive process to select proposed recipients, and did not document the reasons for selecting applicants with lower scores than other applicants who were not selected. These actions violated OAO's draft policies and procedures, regulatory requirements, and provisions in the Funding Opportunity Announcement (FOA).⁷ OAO did not have oversight controls or other measures to prevent or detect staff failure to follow requirements. The selection of less meritorious applicants could have negatively impacted assistance to socially disadvantaged farmers and ranchers, and could have exposed the Department to unnecessary criticism and potentially even legal action.

We reported these issues to the Assistant Secretary for Administration and to OAO officials on May 18, 2012.⁸ In that report, we recommended that they take the following action:

- (1) Require an independent review panel of experts or qualified individuals, overseen by non-OAO officials, to determine the eligibility of the 193 applications submitted to OAO and to reevaluate those applications deemed to be eligible;
- (2) Require the independent review panel to score the applications and recommend those that should be selected to receive FY 2012 grants, as well as the amount of the awards;
- (3) Establish the criteria that will be used to fund exceptions to the recommendations made by the independent review panel; and
- (4) Require the OAO Director to document the selection process prior to public announcement of the awards.

The Assistant Secretary for Administration and the Director of OAO agreed with our findings and recommendations (see Agency Response for Recommendations 1 through 4). OAO officials subsequently took action to reevaluate the applications submitted for FY 2012 grants through the Section 2501 Program and, on July 26, 2012, recommended 71 applicants for the Secretary's consideration. We evaluated the process used by OAO to select the 71 applicants and concluded that it was more impartial and transparent than the process used initially to select applicants. We provided our conclusions regarding the 71 applicants to the Acting Assistant Secretary for Administration on August 2, 2012.

We did, however, have concerns with some of the policies and procedures used by OAO officials during both the first- and second-round of selections of proposed grant recipients. We also had concerns regarding the lack of internal controls to ensure that OAO officials complied with policies and procedures, as well as with regulatory and FOA requirements, during the initial selection of proposed grant recipients. The following sections describe our concerns:

⁷ The FOA was issued in November 2011.

⁸ "Controls over the Grant Management Process of the Office of Advocacy and Outreach—Section 2501 Program Grantee Selection for Fiscal Year 2012" (Fast Report 91099-0001-21 (1), May 18, 2012).

Standard Operating Procedures Did Not Cite All Regulatory Requirements

Our analysis of OAO's draft standard operating procedures (SOP) disclosed that they were generally sufficient in identifying the roles and responsibilities of OAO personnel involved in the grant management process. However, we did identify numerous instances where the SOP lacked specific requirements listed in Title 7 Code of Federal Regulations (CFR) 2500, and the Catalog for Federal Domestic Assistance (CFDA). For example, SOP 202 did not include the requirement for the Department to retain one file copy of each proposal received, which in this case would be for a period of 3 years, as cited in 7 CFR 2500.017. Additionally, SOP 206 lacked details contained in the CFDA that address OAO's responsibility to provide the applicant an opportunity for a hearing, to appeal, or to pursue other administrative proceedings to which the applicant is entitled under any statute or regulation applicable to the action involved.

OAO officials stated that the requirements were not included in the SOP because the staff member responsible for drafting the SOP relied only on CFR sections 3015, 3018, and 3019. Additionally, no one in upper management approved the SOPs that were drafted.

To correct this deficiency, OAO should revise the policy to incorporate those portions of the applicable CFR that have not been addressed to ensure proper oversight and administration of grants. Also, the OAO Director should review and approve the final policy to ensure that regulations are met and that required work is performed.

Competition Guidelines Not Followed

In reviewing the process OAO used to make determinations on which applicants would receive funding under the Section 2501 Program, we determined that OAO officials had not adhered to the competition guidelines required by the FOA. The FOA stated that new grants, as well as supplemental funds provided under existing grants, would be subject to evaluation. Through discussions with OAO officials, and our review of the initial scoring of the grants, we learned that the supplemental funds provided under existing grants were not subjected to evaluation during the initial grant selection process.

When we questioned OAO personnel as to why this occurred, OAO personnel stated that the timeframes established did not allow for the supplemental funds provided under existing grants to be evaluated. OAO decided that if an existing grantee was in good standing as a result of timely submission of progress and financial reports, the grantee would receive supplemental funding. We then attempted to verify the good standing rating of the proposed recipients who were to receive supplemental funds by reviewing records retained by OAO, but we were unsuccessful because the records were not readily accessible upon our request for them. After unsuccessfully attempting to verify the good standing rating of the initially selected supplemental applicants, we determined that the evaluation process was inadequate. While we understand that timeframes can alter expected processes, this alteration was done without documented justification or support.

After the OIG Fast Report, OAO reevaluated all grant proposals based on the criteria set forth in the FOA. In the future, we recommend that any deviation from the FOA be justified and properly documented.

Actions Taken and Decisions Made Not Documented

Through our discussions with OAO personnel, as well as our review of files associated with the grant selection process, we found examples of OAO personnel taking actions without documenting the rationale behind the actions taken.

For instance, in comparing the scores assigned to the applications to the initial list of proposed recipients, we noticed that OAO officials chose certain applicants over others despite the fact that they scored lower in the grant proposal evaluation process. We also noticed, as mentioned in the section above, that OAO officials chose not to evaluate the grant proposals for supplemental funding applications based on the criteria set forth in the FOA and certain ones were selected for funding. Additionally, while reviewing the multiple lists of proposed recipients, we noticed that OAO officials were recommending funding for proposed recipients that differed from the amounts they requested, either by decreasing or increasing the funding amount. For every example mentioned in this section, there was no documentation explaining the rationale or stating why the proposed recipients and applicants were or were not selected, or why there were differences in the amount of funding that proposed recipients would receive. As a result, we were unable to determine if the proposed recipients were the most deserving applicants.

To correct this deficiency, OAO should include, in its policies and procedures, the requirement to document any decision that affects the selection process or funding amount. Additionally, the OAO Director should require any deviation from the FOA or panel members' decisions to be documented.

Inconsistencies in the Handling of Scores

OAO officials had not accurately transferred the panel members' evaluation scores during the evaluation of the grant proposals in May 2012. For example, when reviewing the score sheets provided to the OAO Program Lead by the Panel Lead, we found that the final averages, located on the panel members' evaluation score sheets, did not match what was entered into the spreadsheet provided to us by the Program Lead. The OAO Program Lead stated that panel members provided their scores to each Panel Lead and then to the Program Lead where the scores were consolidated. We found that there was no second party or supervisory review of the Program Lead's consolidated information for accuracy. Subsequently, we found incorrect information within the spreadsheet OAO provided. We noted at least 53 scores that did not average out to the same score OAO presented on its spreadsheet. The 53 were incorrect due to user input errors. The Program Lead stated that in her haste to complete this table she may have entered numbers incorrectly. Although the miscalculations did not result in any material differences concerning which applicants would ultimately receive funding, OAO should ensure that the results of the evaluations are calculated correctly.

During our subsequent review in July 2012, we once again found that some scores did not average out to OAO's final score. In this instance, OAO stated the discrepancy occurred because some of the scores were "negotiated" to a specific score when the panel members regrouped to discuss the grant proposals, instead of being averaged out. Essentially, the panel members reevaluated the grant proposals without regard to the previous scores. We agreed that, while this method is allowable, the reason for the "negotiated" score needs to be documented, which OAO did not require.

To correct these deficiencies, OAO should ensure that someone is reviewing and reconciling any mathematical computations used as an evaluating factor. This will mitigate the possibility of a mathematical error. Also, as mentioned previously, deviations from the FOA need to be documented and disclosed to ensure transparency.

Discretionary Points Unnecessarily High and Not Disclosed to the Public

OAO officials assigned 25 discretionary points to all applicants from States participating in the Strikeforce Initiative when it selected applications in July 2012. They took that action to assist underrepresented groups of socially disadvantaged farmers and ranchers located in the Strikeforce Initiative States who may not have received assistance comparable to farmers and ranchers located in States outside of the initiative. We question OAO's decision to assign 25 discretionary points to applicants from States participating in the StrikeForce Initiative because it excluded 15 applicants who received a higher base score than applicants from StrikeForce States.⁹ Our analysis disclosed that those 15 applicants had scores above 89.7 (on a scale of 0 to 100) but were not selected to receive grants because applicants in StrikeForce States with base scores between 70.6 and 89.6 were selected to receive grants. For example, had OAO used only 10 discretionary points instead of 25 only 5 of the 15 applicants with higher scores would have been excluded.

We recognize that OAO needs to support Departmental initiatives. At the beginning of this process, OAO should have disclosed to the public that certain applications would receive 25 additional points to address Departmental initiatives.

As noted in the sections above and in our Fast Report, an OAO official disregarded FOA and regulatory requirements during the initial selection of applicants for FY 2012 grants.¹⁰ Our recommendation in our Fast Report to reselect applications was based, in part, on the number and degree of violations by the official. We would normally recommend consideration of administrative action in these circumstances. However, the official is no longer involved with the Section 2501 Program. Thus, we did not make such a recommendation.

⁹ StrikeForce States are Arizona, Arkansas, Colorado, Georgia, Mississippi, Nevada, New Mexico, Texas, and Utah.

¹⁰ "Controls over the Grant Management Process of the Office of Advocacy and Outreach—Section 2501 Program Grantee Selection for Fiscal Year 2012" (Fast Report 91099-0001-21 (1), May 18, 2012).

Recommendation 1

Require an independent review panel of experts or qualified individuals, overseen by non-OAO officials, to determine the eligibility of the 193 applications submitted to OAO and to reevaluate those applications deemed to be eligible.

Agency Response

OAO's response to Fast Report 91099-0001-21 (1), dated May 2012, is posted on our website (www.usda.gov/oig). OAO officials stated in the response that they would engage an independent review panel of qualified individuals to reevaluate the 193 applications. The process would be reviewed by a non-OAO official and would be completed by June 30, 2012.

OIG Position

We accept management decision for this recommendation.

Recommendation 2

Require the independent review panel to score the applications and recommend those that should be selected to receive FY 2012 grants, as well as the amount of the awards.

Agency Response

OAO's response to Fast Report 91099-0001-21 (1), dated May 2012, is posted on our website (www.usda.gov/oig). OAO officials stated in the response that the review panel would score the applications and, in conjunction with OAO officials, make recommendations of award amounts. The action would be completed by June 30, 2012.

OIG Position

We accept management decision for this recommendation.

Recommendation 3

Establish the criteria that will be used to fund exceptions to the recommendations made by the independent review panel.

Agency Response

OAO's response to Fast Report 91099-0001-21 (1), dated May 2012, is posted on our website (www.usda.gov/oig). OAO officials stated in the response that they would develop criteria to fund exceptions by June 8, 2012.

OIG Position

We accept management decision for this recommendation.

Recommendation 4

Require the OAO Director to document the selection process prior to public announcement of the awards.

Agency Response

OAO's response to Fast Report 91099-0001-21 (1), dated May 2012, is posted on our website (www.usda.gov/oig). OAO officials stated in the response that the OAO Director would review the recommendation package, sign the selection documents, and ensure that all decisions were fully documented by July 15, 2012.

OIG Position

We accept management decision for this recommendation.

Recommendation 5

Instruct the OAO Director to revise and approve OAO policy to ensure the incorporation of portions of any CFRs that have not been addressed to make sure regulations are met and the work that must be performed is carried out.

Agency Response

OAO stated in its response, dated February 11, 2013, that it has revised the SOP to include the requirement that the OAO Director will review, approve, and implement all final policy and procedures addressing the monitoring of grantees. These internal policies and procedures have been revised to include all regulatory citations that govern the 2501 Program. OAO anticipates final clearance from the Office of the Chief Financial Officer (OCFO) and the OAO Director's final approval by February 28, 2013.

OIG Position

We accept management decision for this recommendation.

Recommendation 6

Require OAO to include in its SOP the requirement to document and disclose all actions or rationales used that affect the selection process or funding amount for grant programs to ensure transparency. Additionally, OAO should include in its SOP the requirement that any deviation from the FOA or panel members' decisions be documented.

Agency Response

OAo stated in its response, dated February 11, 2013, that in consultation with OCFO, OAo has developed procedures to include the disclosure and documentation of all actions and/or rationales affecting the selection process or funding amounts to ensure program transparency. Any program guidance deviations, including instructions given to the panel reviewers, as well as criteria provided in the FOA will be documented as outlined in the newly revised SOP. OAo anticipates final clearance from OCFO and the OAo Director's final approval by February 28, 2013.

OIG Position

We accept management decision for this recommendation.

Recommendation 7

Require OAo to ensure a supervisor is reviewing and reconciling any mathematical computations used as an evaluating factor.

Agency Response

OAo stated in its response, dated February 11, 2013, that it has revised the SOP to reflect a second level review of all mathematical computations used as an evaluating factor. A final review will be conducted by the Program Director to ensure mathematical computations are accurate. OAo anticipates final clearance from OCFO and the OAo Director's final approval by February 28, 2013.

OIG Position

We accept management decision for this recommendation.

Recommendation 8

Require OAo to disclose, in the FOA, any special criteria that will factor into the proposal evaluation process.

Agency Response

OAo stated in its response, dated February 11, 2013, that it has revised the SOP to include the requirement that the FOA disclose all special criteria factoring into the proposal evaluation process, including the discretionary points awarded based on Secretarial priority. This includes disclosing the maximum number of points to be awarded under this provision. OAo anticipates final clearance from OCFO and the OAo Director's final approval by February 28, 2013.

OIG Position

We accept management decision for this recommendation.

Finding 2: FYs 2010 and 2011 Section 2501 Grant Funds Not Monitored

OAO officials had not monitored Section 2501 grants made in FYs 2010 and 2011. This occurred because OAO officials (1) did not assign monitoring duties to personnel, (2) did not have policies and procedures or compensating controls in place for handling monitoring of the Section 2501 grants in FY 2010, and (3) did not fully follow draft procedures once OAO had them in place in FY 2011. Given these problems, we concluded that there is reduced assurance that Section 2501 funds were being used for their intended purposes and were accomplishing the program's goals.

Federal regulations require agencies to monitor an award throughout its lifetime.¹¹ This includes reviewing progress and financial reports, as well as conducting onsite visits as warranted by the program.¹²

For FY 2010 and FY 2011, OAO awarded a combined total of 119 grants, totaling \$38 million. When we asked OAO for evidence of monitoring reviews performed, OAO officials stated that they had not performed any reviews. The officials stated that no one had been assigned the role or responsibility of monitoring community-based organizations.

It was not until August 2011 that OAO created a draft SOP for staff to use during the grant management process.¹³ The monitoring section of the draft SOP provided instruction for reviewing progress and financial reports and conducting onsite visits. These procedures stated that the program lead and program staff were responsible for day-to-day ongoing programmatic performance of each grant awarded.¹⁴ At a minimum, the program lead and program staff were required to review and approve quarterly progress reports and financial reports to ensure consistency between the two reports.

OAO officials informed us they were held responsible for reviewing and approving quarterly progress and financial reports. When we questioned how OAO officials were monitoring previously awarded grants, the acting program lead stated she had not been reviewing or approving any progress or financial reports for these grantees because she was instructed to focus only on the FY 2012 grant process. The Deputy Director gave this instruction as he was going to monitor awards made prior to FY 2012. However, this consisted mainly of ensuring only that the reports were received by OAO. The officials also stated that until October 2011, grantees were submitting the wrong type of reports. Once OAO staff identified this problem, they moved all grantees over to the Payment Management System that the Department of Health and Human Services (HHS) administers.¹⁵ However, under this system, the financial reports go directly to

¹¹ 7 CFR 2500, dated October 26, 2011.

¹² Recipients are also expected to comply with the Single Audit Act by submitting an independent audit when they receive \$300,000 or more.

¹³ These procedures were drafted by a contractor, under the guidance of OAO staff. As discussed in Finding 1, these procedures had not been reviewed or approved by OAO management.

¹⁴ The program staff consisted of a Grants and Agreements Manager, Grant Specialist, and Program Assistant.

¹⁵ OAO staff chose to use HHS because OAO was understaffed, did not have a proper payments system in place, and believed that the HHS system would fit OAO's needs.

HHS, and as long as there are no inconsistencies, HHS continues distribution of the grantee's funding. No additional review would be necessary to receive funding.

It should be noted that during this audit we focused on the FY 2012 grantee selection process.¹⁶ Therefore, we did not travel to or take a sample of reports from prior awarded grantees to determine if funds were being used properly. However, we did conclude that the lack of monitoring was a control deficiency that needed to be reported to OAO officials.

We also found that OAO's draft policy concerning onsite monitoring reviews was not being followed by OAO staff. The appendix instructed staff to conduct evaluative reviews of at least 10 percent of its active grant recipients, including onsite and offsite evaluations, although it specified that onsite reviews depended on the availability of travel funds and the necessity of conducting an ongoing evaluation for a particular project. According to the Deputy Director, onsite reviews were not being performed due to lack of adequate funding. He stated that the review of quarterly progress and financial reports compensated for the lack of onsite reviews. However, he was unaware that OAO was previously comparing the wrong reports and that currently, grantees can obtain funding without anyone reviewing a progress report. In addition, we attempted to verify that OAO was receiving the required quarterly progress and financial reports, but we were unsuccessful because OAO could not locate these reports when we requested them.

OAO officials agreed they have not been monitoring the grantees. The OAO Director explained that she is working with OCFO to implement new procedures for monitoring the progress of FYs 2011 and 2012 grantees. In addition, OAO officials agreed that roles and responsibilities have not been properly assigned because OAO was a new office and key positions had remained vacant until October 2011.

Recommendation 9

Require the OAO Director to review, approve, and implement the final policy and procedures currently being drafted addressing the monitoring of the grantees.

Agency Response

OAO stated in its response, dated February 11, 2013, that it has revised the SOP to include the requirement of the OAO Director performing the final review and approval of all policies and procedures governing program implementation and monitoring of grantees. The OAO Director-approved SOP is in OCFO for final clearance. OAO anticipates final clearance from OCFO and the OAO Director's final approval by February 28, 2013.

OIG Position

We accept management decision for this recommendation.

¹⁶ We plan to perform a separate audit of grants awarded under the Section 2501 Program in FY 2010 and FY 2011. This audit was initiated in January 2013.

Recommendation 10

Require the OAO Director to assign roles and responsibilities to the proper staff so that monitoring activities are being performed by appropriate staff.

Agency Response

OAO stated in its response, dated February 11, 2013, that OAO staff's assigned roles and responsibilities are incorporated in their position descriptions. The 2501 Program Director's position description has been modified to include the requirement to monitor staff and grantee duties and responsibilities.

OIG Position

We accept management decision for this recommendation.

Scope and Methodology

We performed an audit of OAO's grant management activities related to the Section 2501 Program. We performed work at OAO, located in Washington, D.C., from April through July 2012.

Our audit focused on the FY 2012 Section 2501 Program grants. To determine the merit of the grants awarded, we evaluated the 193 submitted grant applications for the FY 2012 Section 2501 Program, the initial selection of 57 applicants to receive over \$17 million in funds, and the subsequent selection of 68 applicants to receive over \$19 million in funds after OAO implemented corrective actions to its process. We also evaluated OAO's policies, procedures, and internal controls to determine the effectiveness of OAO's overall grant management process. In addition, based on weaknesses we noted during the selection of FY 2012 Section 2501 grants, we expanded our audit scope to include OAO's policies and procedures for monitoring the use of funds for grants made in FYs 2010 and 2011.

To accomplish our objectives we:

- Interviewed OAO officials responsible for the selection, oversight, and management of the Section 2501 Program grants.
- Reviewed applicable laws and regulations such as 7 CFR 3015.158, *Uniform Federal Assistance Regulations*; 7 CFR 2500, *OAO Federal Financial Assistance Programs, General Award Administrative Procedures*; and 7 CFR 3016, *Uniform Administrative Requirements*.
- Reviewed OAO's policies and procedures, including a draft SOP developed in 2011.
- Evaluated the FY 2012 FOA to ensure OAO properly solicited applications and that it followed all requirements set forth in the announcement.
- Evaluated criteria used to score applications and the methodology used for selection of grantees to ensure fair and equitable selection of applicants.
- Reviewed and analyzed OAO's April 2012 and July 2012 universe of applications, selected applications, funding amounts, applicant proposals, and evaluation scores to ensure the most meritorious applications were selected with the proper amount of funding.
- Reviewed and analyzed the criteria OAO used to score applications and the methodology it followed to select applicants in July 2012 to ensure OAO addressed recommendations from OIG's Fast Report, dated May 18, 2012.¹⁷

¹⁷ "Controls over the Grant Management Process of the Office of Advocacy and Outreach—Section 2501 Program Grantee Selection for Fiscal Year 2012" (Fast Report 91099-0001-21 (1), May 18, 2012).

- Reviewed and analyzed financial reports generated by grant recipients to document spending activity.

We conducted our audit in accordance with generally accepted government auditing standards. These standards require that we plan and perform the audit to obtain sufficient and appropriate evidence to provide a reasonable basis for our findings and conclusions based on our objectives. We believe that the evidence obtained provides a reasonable basis for our findings.

During the course of our audit, we did not verify information in any OAO electronic information system, and make no representation regarding the adequacy of any agency computer systems or the information generated from them.

Abbreviations

CFR.....	Code of Federal Regulations
FOA.....	Funding Opportunity Announcement
FY	Fiscal Year
OAo	Office of Advocacy and Outreach
OCFO.....	Office of the Chief Financial Officer
OIG	Office of Inspector General
Section 2501	Outreach and Assistance for Socially Disadvantaged Farmers and Ranchers Program
SOP	Standard Operating Procedure
USDA.....	United States Department of Agriculture

**USDA'S
DEPARTMENTAL MANAGEMENT
RESPONSE TO AUDIT REPORT**



United States
Department of
Agriculture

Office of the
Assistant Secretary
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Washington, DC
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February 11, 2013

AUDIT
NUMBER: 91011-0001-21

TO Rod DeSmet
Deputy Assistant Inspector General for Audit

THROUGH: Gregory L. Parham//*original signed*//
Acting Assistant Secretary for Administration

THROUGH: Phyllis Holmes//*original signed*//
Agency Liaison Officer

FROM: Carolyn C. Parker//*original signed*//
Director
Office of Advocacy and Outreach

SUBJECT: Controls over the Grant Management Process of the
Office of Advocacy and Outreach

This is in response to the audit report number 91011-0001-21 dated December 20, 2012, regarding the improvement of the policies, procedures, and internal controls used by the Office of Advocacy and Outreach (OAO) to select recipients of grants funded through the Outreach and Assistance for Socially Disadvantaged Farmers and Ranchers Program (2501).

We have reviewed the findings contained in the report and acknowledge the acceptance of 4 of 10 management's decisions. The remaining six are addressed as follows:

Recommendation 5

Instruct the OAO Director to revise and approve OAO policy to ensure the incorporation of portions of any CFRs that have not been addressed to make sure regulations are met and the work that must be performed is carried out.

Agency Response

OAO has revised the Standard Operating Procedures (SOPs) to include the requirement that the OAO Director will review, approve, and implement all final policy and procedures. These internal policies and procedures have been revised to include all regulatory citations that govern the 2501 Program. We anticipate the

final clearance from OCFO and the OAO Director's final approval by February 28, 2013.

Controls over the Grant Management Process of the
Office of Advocacy and Outreach

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Recommendation 6

Require OAO to include in its SOP the requirement to document and disclose all actions or rationales used that affect the selection process or funding amount for grant programs to ensure transparency. Additionally, OAO should include in its SOP the requirement that any deviation from the FOA or panel members' decisions be documented.

Agency Response

In consultation with the OCFO, OAO has developed procedures to include the disclosure and documentation of all actions and/or rationales affecting the selection process and funding amounts to ensure program transparency. Any program guidance deviations, including instructions given to the panel reviewers, as well as criteria provided in the Funding Opportunity Announcement (FOA) will be documented, as outlined in the newly revised SOPs. We anticipate the final clearance from OCFO and the OAO Director's final approval by February 28, 2013.

Recommendation 7

Require OAO to ensure someone is reviewing and reconciling any mathematical computations used as an evaluating factor.

Agency Response

OAO has revised the SOPs to include the requirement for a second level review of all mathematical computations used in the evaluating process. In addition, a final review will be performed by the Program Director to ensure accuracy. The revised SOPs are in the OCFO for final clearance. We anticipate the final clearance from OCFO and the OAO Director's final approval by February 28, 2013.

Recommendation 8

Require OAO to disclose to the public special criteria that will factor into the proposal evaluation process.

Agency Response

OAO has revised the SOPs to include the requirement that the FOA disclose all special criteria factored into the proposal evaluation process, including the discretionary points awarded based on Secretarial priority. This includes disclosing the maximum number of points to be awarded under this provision. The revised SOPs are in the OCFO for final clearance. We anticipate the final clearance from OCFO and the OAO Director's final approval by February 28, 2013.

Recommendation 9

Require the OAO Director to review, approve, and implement the final policy and procedures currently being drafted addressing the monitoring of the grantees.

Agency Response

OAO has revised the SOPs to include the requirement of the OAO Director to perform the final review and approval of all policies and procedures governing program implementation, including the monitoring of grantees. The OAO Director approved SOPs are in the OCFO for final clearance. We anticipate the final clearance from OCFO and the OAO Director's final approval by February 28, 2013.

Recommendation 10

Require the OAO Director to assign roles and responsibilities to the proper staff so that monitoring activities are being performed by appropriate staff.

Agency Response

The OAO staff's assigned roles and responsibilities are incorporated into their position descriptions. The 2501 Program Director's position description has been modified to include the requirement to monitor staff and grantee duties and responsibilities.

Informational copies of this report have been distributed to:

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