

**Management Framework:
Award Monitoring**

**National Science Foundation
Office of Inspector General**

**September 30, 2003
OIG 03-2-015**



MEMORANDUM

DATE: September 30, 2003

TO: Thomas N. Cooley
Chief Financial Officer

FROM: Deborah H. Cureton
Associate Inspector General for Audit

SUBJECT: Management Framework: Award Monitoring

Attached please find our final report on Management Framework: Award Monitoring. The intent of our report is to suggest principles and methods used by Federal and private grant-making organizations that, when taken as a whole, effectively implement a strategic management framework for monitoring award instruments. Because the report contains no recommendations, a response is not required.

If you have any questions, please contact Karen Scott or me at (703) 292-7100.

Attachment

cc : Mary Santonastasso
Christine Boesz
Karen Scott

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Introduction

The National Science Foundation's (NSF) mission is to promote the progress of science; to advance the national health, prosperity, and welfare; to secure the national defense; and for other purposes. NSF achieves its mission by awarding merit-based grants and agreements to individual researchers and groups, in partnership with colleges, universities, and other institutions – public, private, state, local, and federal – throughout the US. By providing these resources, NSF contributes to the health and vitality of the nation's research and education enterprise, which enables and enhances the nation's capacity for sustained growth and prosperity.

According to NSF statistics for fiscal year (FY) 2002, its budget of \$4.774 billion provided approximately \$4.543 billion for 21,670 awards for grants and cooperative agreements; approximately half of NSF's funding went to 50 NSF awardees. The award funding varied widely, ranging from approximately \$115,710 for the average research award to over \$30 million for the Terascale Computing System project. The remaining \$231 million of NSF's FY 2002 budget funded NSF's Administration and Management, which provides all operating support for the activities of the agency: evaluating and processing proposals, issuing awards, and overseeing grants and projects.¹

As the awards serve as the primary vehicle for NSF to achieve its mission, NSF has established a robust system of award selection. NSF's merit review process evaluates all proposals for research and education projects using two criteria: the intellectual merit of the proposed activity and the broader impacts of the activity on society. Specifically addressed in these criteria are the creativity and originality of the idea, the development of human resources, and the potential impact on the research and education infrastructure.

However, NSF's administration of its grants and cooperative agreements, once they have been awarded, has not been as strong. In the past, the NSF minimized its own involvement in post award management and emphasized the awardee's responsibilities to prudently manage the award funds and activities, and to comply with the applicable Federal requirements for financial management systems, procurement policies and procedures, and property management.

¹ Administration and Management includes operating expenses such as the salaries and expenses for all employees, as well as training and travel, IT investments, rent, human resources, and accounts for the Office of Inspector General.

This approach to award administration has been an ongoing issue for NSF. In 1991, in testimony before Congress,² the General Accounting Office (GAO) stated that the agency did little to monitor compliance with Federal requirements and that its post award involvement with awardees focused either on technical aspects of the research or on general educational activities. More recently, NSF's FY 2001 and 2002 Independent Auditor's Reports identified award management as a reportable condition for the agency stating that adequate procedures for monitoring awardees' administrative and financial management practices and compliance with laws and regulations are not in place. In addition, our office has identified Award Administration as a management challenge for NSF in both FY 2001 and 2002.

NSF management has recognized these concerns and is taking steps to improve its award administration and monitoring activities. NSF's Management Controls Committee has identified award administration as a performance goal and is addressing potential improvements. In addition, NSF has developed a draft risk assessment and on-site award monitoring document to provide guidance to staff responsible for monitoring the financial aspects of the award. The guide is intended to establish the strategic framework for assessing and managing NSF awardee risks and assets. Using the guide, NSF has begun to perform on-site evaluations of awardees that have been identified as high-risk through the risk assessment. Also, NSF has contracted with the consulting firm Booz-Allen & Hamilton, Inc., to perform an agency-wide analysis of NSF's business operations, including award management and oversight. However, NSF still needs to focus its attention on this critical management challenge as the Federal Government increases its emphasis on agency accountability for how funds are spent, as well as the prevention and identification of erroneous payments.

² Testimony on September 24, 1991, "Grant Management: Improvements Needed in Federal Oversight of NSF Grants" (GAO/T-RCED-91-92).

Objectives, Scope, and Methodology

In order to support NSF's efforts to address this management challenge, we undertook a review of how other grant making organizations monitor their awards.

Our objective was to survey grant-making organizations, both Federal and private, to identify principles and methods of effective post award monitoring and oversight. In this survey, we emphasized policies and practices for monitoring both the financial and programmatic aspects of the awards.

With input from NSF management, we selected several grant-making organizations, both Federal and non-Federal, to identify the policies and practices these organizations use to oversee their awards after they have been made. The Federal agencies we reviewed include the Department of Education, the Department of Health and Human Services including its National Institutes of Health, the Department of Justice, and the Office of Naval Research. We also reviewed the Rockefeller Foundation, the Sloan Foundation, and the Washington State Department of Health, to gain insights from private foundations, as well as a state government.

To determine how these organizations monitored awards, we obtained and reviewed their policies, guidance, and other documentation related to award oversight. We held meetings and teleconferences with the organizations' grant management and policy personnel to discuss their specific policies and practices for monitoring the awards once they have been made. In addition, we reviewed various GAO and Office of Inspector General reports related to the organizations' award monitoring practices.

We also reviewed information on award administration from the applicable Office of Management and Budget circulars, and attended training specific to grant monitoring. We reviewed documentation from the Department of Commerce and the Environmental Protection Agency regarding their award administration activities. In addition, we examined relevant internal control guidance issued by GAO and the Committee of Sponsoring Organizations of the Treadway Commission.³

³ The Committee of Sponsoring Organizations of the Treadway Commission is a voluntary private sector organization dedicated to improving the quality of financial reporting through business ethics, effective internal controls, and corporate governance. COSO was originally formed in 1985 to sponsor the National Commission on Fraudulent Financial Reporting, an independent private sector initiative that studied the causal factors that can lead to fraudulent financial reporting and developed recommendations for

The fieldwork for this review was performed in 2002. We did not intend this survey to be an audit, and, as such, generally accepted government audit standards do not apply. In addition, we did not evaluate or independently verify statements made by the surveyed organizations about how effectively or the extent to which these practices were working.

public companies and their independent auditors, for the SEC and other regulators, and for educational institutions.

Results of Survey

The purpose of this review is to provide guidance to assist NSF in strengthening its own post award oversight activities. Post award oversight consists of the activities after an award has been made that are necessary to manage, monitor, and close out an award to ensure Federal funds are accounted for and are used for the purpose of the grant or cooperative agreement. This includes reviewing and approving administrative changes to grants; monitoring projects for performance and financial compliance; providing technical assistance and feedback to awardees on their progress; reviewing awardees' final project outcomes and disseminating the results; and closing out expired grants timely.⁴

The report describes a framework of management principles that are critical to establishing and implementing an effective award monitoring compliance program. These management principles are based on the internal control framework advocated by the Committee of Sponsoring Organizations of the Treadway Commission (COSO),⁵ and require the leadership and support of all levels of agency management to be implemented successfully. Within this framework, the report identifies policies and practices established and implemented by Federal and non-Federal organizations to ensure their award administration activities are effective. It also provides a description of the procedures they follow and examples of the tools they use to facilitate the process. Although many of the practices we discuss apply to all aspects of award administration, we have emphasized the monitoring aspects, including providing technical assistance to the awardee when needed.

It is also important to note that without an overarching management framework supporting the specific award oversight policies and practices, it is difficult for award administration and monitoring activities to succeed in accomplishing the goal of ensuring compliance with administrative and financial requirements.

Award Monitoring is Important for NSF

Monitoring is the process by which the programmatic and business management performance of an award is continuously reviewed throughout its life by program and grants officials.⁶ The purpose of monitoring is twofold. First, monitoring helps promote the awardees' progress in achieving the research goals and objectives by providing

⁴ This definition is based on the Department of Education description of post-award activities.

⁵ See footnote 3 on p. 3.

⁶ ©Management Concepts Incorporated.

oversight of the awardee's programmatic and business management performance, and by providing technical assistance to awardees to improve their performance when necessary. Second, monitoring fulfills the agency's stewardship responsibilities over Federal funds. All Federal agencies are accountable for ensuring that public funds are used appropriately, for the stated purpose, and for ensuring that funds are not misspent due to errors, poor business and management practices, or intentional fraud or abuse. Monitoring does not seek to interfere with the research performed under the award or to place additional burdens on awardees. Instead, monitoring is meant to help ensure that NSF and the nation benefits from the investment of public funds in the awards.

Thus, through monitoring, NSF can meet its stewardship responsibilities as well as ensure that its awardees meet the objectives and requirements of their awards. This is an essential component in fulfilling NSF's mission to promote the progress of science. NSF promotes science by making awards through grants and cooperative agreements, rather than directly participating in science and engineering research. Thus, NSF's success in fulfilling its mission is intricately tied to that of its awardees' success in advancing science through the research funded by the NSF awards. For NSF to meet its mission and succeed in advancing science and engineering, its awardees must also be successful.

To be effective, award administration and monitoring must be established and implemented as part of an integrated management framework that provides reasonable assurance that its operations are effective and efficient; its financial reporting is reliable; and its activities are in compliance with applicable laws and regulations. The management framework needs to institutionalize award administration and monitoring activities into the operations of the agency so that they become routine as opposed to one being performed ad hoc. It also needs to ensure that both the business and programmatic aspects of managing awards are coordinated.

In performing our review, we identified six principles for an effective, integrated management framework as well as fifteen award administration and monitoring policies and practices that correspond to those principles. These management principles and associated practices are listed in the following chart:

PRINCIPLE ONE: Establish Management’s Commitment and Provide a Clear Vision of Award Administration

Practice 1: Define Objectives of Award Administration and Monitoring

PRINCIPLE TWO: Establish the Organizational Structure to Carry Out Award Oversight

Practice 2: Document Award Monitoring Roles and Responsibilities in Agency Policy

Practice 3: Coordinate the Financial and Programmatic Monitoring of Awards

PRINCIPLE THREE: Establish and Implement Award Monitoring Policies and Procedures

Practice 4: Develop Award Monitoring Plans Based on Risk

Practice 5: Verify Cost Sharing Before Making the Award

Practice 6: Expand Requirements for Single Audits to Foreign and For-Profit Awardees

Practice 7: Use Progress Reports as a Basis for Continued Funding

Practice 8: Require and Analyze the Financial Information Necessary to Monitor Award Risk

Practice 9: Perform Desk Reviews and On-Site Monitoring Based on Risk

Practice 10: Develop Policies to Manage Known High Risk Awardees

Practice 11: Conduct Outreach and Provide Technical Assistance to Educate Awardees of Requirements

PRINCIPLE FOUR: Provide Training and Other Resources

Practice 12: Establish a Training Program

Practice 13: Provide Accessible Reference Materials

PRINCIPLE FIVE: Utilize Management Information Systems to Facilitate Award Monitoring

Practice 14: Use Information Systems to Analyze Data and Measure Performance

PRINCIPLE SIX: Periodically Evaluate Award Administration and Monitoring Processes

Practice 15: Evaluate Award Administration and Monitoring Activities

Principle One: Establish Management's Commitment and Provide a Clear Vision of Award Administration

The most critical factor for the success of award administration and monitoring is the commitment of senior management. Senior management must provide a clear message to the organization's personnel, as well as to the awardees, that it takes its stewardship responsibilities seriously and that award administration and monitoring activities are an important aspect of fulfilling those responsibilities. Senior management must also ensure that award administration and monitoring activities of grants management, program, and financial personnel are coordinated and integrated to ensure the effective oversight of all aspects of awardee performance. Most of all, senior management needs to ensure that adequate resources, including staffing, systems, and funding, are available to make the award administration and monitoring activities viable. Without adequate resources and support, award administration and monitoring cannot be performed effectively.

As part of management's commitment, it is crucial for senior management to provide a vision for award administration and monitoring that clearly articulates what it wants to achieve through these activities. The vision needs to convey management's goals and direction for award administration and monitoring, as well as how the vision aligns with the organization's overall goals and priorities. It should convey management's commitment to provide sufficient funding and other resources for award administration and monitoring, and communicate to agency personnel management's increased emphasis on these activities. In addition, the vision should lead to clearly defined objectives for award administration and monitoring that will guide the monitoring activities and serve as the basis for designing, implementing, and managing the award administration and monitoring activities.

Practice 1: Define Objectives of Award Administration and Monitoring

In its grants handbook,⁷ the Department of Education (Education) has outlined nine objectives at the award and program level that its monitoring activities should address. The monitoring objectives are as follows:

- a. **Project Management** – Assess the conformity, effectiveness and quality of project activities to an awardee's approved proposal by

⁷ "Handbook for the Discretionary Grant Process" (Handbook OCFO-04), dated March 31, 2003.

- reviewing any revisions, performance reports, and/or other related documents;
- b. **Performance Measurement** – Measure the awardee’s progress against previously established performance measures;
 - c. **Cooperation** – Facilitate good working relationships with awardees;
 - d. **Compliance** – Assess awardee adherence to requirements of laws, regulations, conditions of the award, certifications and assurances;
 - e. **Fiscal Accountability** – Verify that Federal funds are managed according to Federal cash management requirements and are expended only for authorized purposes;
 - f. **Technical Assistance** – Provide guidance to awardees to improve the administration, fiscal management, or evaluation activities of the project and helping to correct identified problems;
 - g. **Follow-up** – Assess the awardee’s success in acting on findings and/or recommendations of previous monitoring, evaluation studies, and/or Federal and non-Federal audit reports;
 - h. **Dissemination** – Gather technical information developed by an awardee about significant achievements that could serve as models for other projects;
 - i. **Feedback** – Present recommendations resulting from monitoring activities, especially those resulting from performance measurement, for use in revising program laws and regulations to enhance program effectiveness.

By clearly identifying the objectives of post award monitoring, Education has not only stated what it hopes to achieve and reinforced its commitment by specifying the aspects of its awards it will address through its monitoring activities, but it has also identified the inherent risks⁸ of the grant program that will be minimized through monitoring. For example, within a grant program, risks exist that the purpose of the grant and/or the grant program will not be achieved; that Federal funding will be misused or accounted for improperly; and that awardees will not comply with all award requirements. Education’s objectives anticipate these risks and require monitoring actions to address them. Therefore, in meeting its objectives, effective monitoring should mitigate the inherent risks of the grant program.

⁸ According to the “Guide for Studying and Evaluating Internal Controls in the Federal Government” by Arthur Andersen, Revised August 1986, inherent risk is the potential for waste, loss, unauthorized use, or misappropriation due to the nature of the activity itself. Matters affecting the inherent risk of awards include the nature, purpose, and characteristics of the awards, budget level, its duration, its degree of organizational centralization, and special concerns.

Principle Two: Establish the Organizational Structure to Carry Out Award Oversight

As part of its award oversight framework, the granting organization must establish a management structure to perform award monitoring. The granting organization should document the management structure to clearly identify the personnel involved in award monitoring and formally recognize their oversight roles, responsibilities, and authorities. While these award oversight roles should be balanced and integrated with other grant management functions, the organizational structure should ensure that staff are specifically assigned to the oversight function. Otherwise, staffing and budgetary resources for award monitoring activities may be redirected to other grant management activities, such as pre-award processing and review.

In addition, the necessity for the different organizations within a granting organization, such as program and financial offices and personnel, to cooperate and coordinate with each other must also be articulated. The lack of a clearly defined management structure can lead to situations where the oversight responsibilities are not adequately covered or a duplication of effort exists. Communication between the different personnel and organizations involved can help to minimize these problems.

Practice 2: Document Award Monitoring Roles and Responsibilities in Agency Policy

The policies established by the Department of Health and Human Services (HHS) clearly recognize and describe the roles and responsibilities of both the grants management and the program personnel for award administration and monitoring. For example, according to these policies, grants management personnel are responsible for receiving and processing all awardee reports (both program performance and financial reports), reviewing the financial reports in coordination with the review of the program performance reports, and monitoring, on a continuous basis, the financial and business aspects of awards. Likewise, the program personnel have the equally important monitoring responsibility of evaluating programmatic performance and progress, serving as the focal point for responding to scientific and technical correspondence, and assisting the grants management personnel in reviewing project related expenditures. The policies further require that the grants management offices maintain the official files of record for each grant awarded by the operating divisions where all required awardee reports, financial as well as programmatic performance, and administrative actions are filed.

Practice 3: Coordinate the Financial and Programmatic Monitoring of Awards

HHS has also recognized the importance of teaming between the business-oriented grants management personnel and the programmatic personnel in its policies and emphasizes that they should work in partnership to ensure effective award management. The policies state:

“GMO (*Grants Management Officer*) responsibilities are distinguished from those related to the programmatic and technical aspects of financial assistance programs and awards, as represented by the PO (*Program Officer*). These distinctions arise from the need for appropriate management and internal controls as well as differences in expertise and primary focus; however, the two roles are complementary – not adversarial nor superior/subordinate. To ensure the most effective and efficient award and management of grants, the GMO and the PO should work in partnership, focusing on their respective areas of responsibility and expertise, and attempt to present unified positions to agency management and to the applicant/recipient. The GMO and PO roles are defined roles, each of which must be appropriately performed to ensure a compliant grant process and contribute to achievement of program/project outcomes. In most cases, these roles can be carried out in a responsible manner only when there is effective interaction between the GMO and the PO.”

Within most operating divisions at HHS, program and grants management offices use a team approach to monitoring awards to meet their separate, but overlapping responsibilities. The program office staff are responsible for reviewing the scientific and technical progress and accomplishments of the awardee, while grants management staff are responsible for assessing the business and financial compliance aspects of awardee performance.

Principle Three: Establish and Implement Award Monitoring Policies and Procedures

While the Office of Management and Budget (OMB) has established the general reporting requirements for awardees through its circulars, each agency is responsible for and needs to establish its own policies and procedures to implement the circulars, to effectively carry out its specific award monitoring goals and objectives. These policies and procedures should address award monitoring in a holistic way, recognizing that programmatic and financial monitoring are inter-related activities that must be coordinated to work effectively. An agency must, therefore, tailor its award monitoring policies and procedures to provide for collecting and analyzing information pertinent to its particular award portfolio and to assessing and addressing the risks associated with those awards. Such risks should be considered at the grant program level (the number of awards, the number of awardees, and special requirements for specific grant programs), as well as at individual award level (the dollar value, the award's purpose, the awardee's experience with Federal grants, findings from prior audits, and other award characteristics such as sub-awards and cost sharing).

By carefully considering its monitoring objectives and the identified risk factors, an agency's specific monitoring policies and practices should provide clear and comprehensive guidance for effective award monitoring. The level of risk should determine the appropriate monitoring activities, and an agency should use its professional judgment to vary its specific monitoring activities to fit the particular risks of its award portfolio.

According to COSO, monitoring can be done in two ways, either through ongoing activities, or through separate, periodic evaluations. Ongoing monitoring is built into the organization's normal, recurring operations, and is done on a real-time basis. Conversely, periodic evaluations provide after-the-fact assurance that the organization being evaluated is complying with requirements. For award monitoring purposes, periodic evaluations determine if an awardee has complied with administrative, financial, and programmatic requirements of its awards. To be effective, periodic evaluations should vary in scope and frequency, depending upon the assessed risk of the particular award portfolio. Because ongoing monitoring reacts dynamically to changing situations, it is generally considered more effective than periodic evaluations.

An agency may use either ongoing monitoring or periodic evaluations or a combination of both monitoring activities, depending upon the nature of

and the level of risk associated with its award portfolio.⁹ For example, if an agency has an effective, ongoing monitoring program for its active awards, it might limit its use of periodic site visits to new or high-risk awardees. Another agency may not have the resources or systems for a built-in ongoing monitoring program, but may increase its program's effectiveness by planning more frequent periodic evaluations of higher risk awardees. That agency might conduct monthly or quarterly telephone status reviews with its higher risk awardees, in addition to annual written progress reports.

A monitoring plan that combines ongoing activities and periodic evaluations based on award risk is especially beneficial for agencies with limited resources and travel funds. Where feasible, it focuses on identifying and resolving issues as they occur through ongoing monitoring, but allows for the periodic evaluations, such as site visits, when the risk level justifies the expense.

Below we discuss several specific monitoring policies and practices that organizations we reviewed have established as part of their monitoring activities. These policies and practices focus on developing a methodology for collecting, analyzing, and using information to ensure compliance.

Practice 4: Develop Award Monitoring Plans Based on Risk

The use of monitoring plans ensures that the nature of the award and its particular risks are identified and assessed upfront. The plans describe the specific steps an agency will take to assess and address the risks of its particular awards. The Washington State Department of Health (WSDOH), as a recipient of Federal grant funds that awards the funds to sub-recipients, has developed a monitoring plan, the Technical Assistance and Monitoring Evaluation Tool, that assesses the level of risk of its individual award sub-recipients, and recommends appropriate ongoing and periodic monitoring activities for that level of risk. The Tool recommends a variety of activities ranging from reviews of program reports and financial documentation for a low risk sub-recipient to on-site program monitoring and performance verification for a high-risk sub-recipient.

Similarly, both the Department of Justice (DOJ) and Education require monitoring plans for their awardees, but they do so at different activity levels. DOJ takes an award-level approach and develops a risk-based monitoring plan for each award that grants managers follow throughout the life cycle of the award to ensure that its goals and objectives are being met and that activities and products are being completed in a timely

⁹ "Draft - Enterprise Risk Management Framework," Committee of Sponsoring Organizations of the Treadway Commission, pp 79-82.

fashion. Monitoring priority is given to higher risk awards - those where problems have been identified in the past, implementation has been problematic, or where the awardee has specifically requested technical or other assistance. The plan documents the assigned monitoring priority, and describes how on-going and periodic monitoring will be done, what the focus will be over the life of the grant, and what type of reports are expected, all dependent on the risk of the individual award.

Education, on the other hand, uses a program-level approach and requires annual monitoring plans at an organizational level. Each organization within Education is required to submit to the Chief Financial Officer, a plan for monitoring all the organization's grants for the upcoming fiscal year. The monitoring plan must discuss the program's purpose, goals, and objectives; the performance indicators and the data needed to evaluate performance; the performance, both poor and exemplary, of individual awardees in the program; the technical assistance available to mitigate against poor performance and to help awardees achieve their goals; and the program's or awardees' high risk areas and the monitoring steps to address those areas.

In addition, Education requires its organizational components to submit an annual report to the Chief Financial Officer on monitoring activities undertaken during the previous fiscal year. The annual monitoring report must 1) discuss the general monitoring activities undertaken, including the different types of monitoring activities, the improvements made in the monitoring process, and the barriers to further improvements that still exist; 2) contrast both the programs monitored and the monitoring activities undertaken with those that had been anticipated in the annual monitoring plan, focusing on site visits made or other face-to-face meetings with awardees; and 3) summarize any unusual findings, favorable or unfavorable, revealed through the monitoring process, such as exemplary projects recommended for replication or dissemination, unauthorized expenditure of funds, violations of Federal law or regulation, etc. The report must also describe actions taken on such findings.

Regardless of whether an individual award or a program-level approach is used or whether the monitoring activities are customized for each award based on its risk level, or standardized for all awards in a particular risk category, it is important for an agency to have a plan that has been developed thoughtfully. The plan should reflect the risks of the award program, identify the ongoing and periodic monitoring activities, and identify the resources needed to implement the plan.

Practice 5: Verify Cost Sharing Before Making the Award

Cost sharing is an award requirement that frequently creates difficult issues in administering an award. Several organizations have taken a proactive approach to addressing the issue. When an award is dependent on cost sharing or matching, the Sloan Foundation requires the awardee to provide evidence of the award's cost sharing commitments *before* funds are released to the awardee. Likewise, for National Institutes of Health (NIH) construction grants, the source and amount of funds proposed by an applicant to meet a matching requirement must be identified in the grant application, and the applicant is required to demonstrate that the funds are committed or available prior to award. In addition, NIH may require this to be certified by the applicant. Such proactive requirements help address cost sharing issues before they become serious problems, and provides information that helps grant managers assess the award's risk, and develop an appropriate monitoring plan for the award.

Practice 6: Expand Requirements for Single Audits to Foreign and For-Profit Awardees

A periodic single audit, which examines an entity's financial statements and expenditures for Federal awards, is required for State and local governments, and non-profit organizations that expend \$300,000¹⁰ or more per year in Federal grants, cooperative agreements, and/or procurement contracts. The audit reports contain meaningful information on entities' financial status and the adequacy of their internal controls for managing Federal funds. These audits can indicate where entities have problems or issues in managing or accounting for its Federal award. Therefore, reviewing an awardee's single audit report is an important periodic monitoring activity for an agency to perform.

Some agencies have extended the requirement for single audits beyond their non-profit awardees to also require periodic single audits of their for-profit and foreign awardees, as these organizations are often assessed to be high- risk awardees. Periodic single audits provide the granting agencies with assurance that for-profit and foreign awardees are financially sound and that their accounting and management systems meet Federal requirements.

NIH is one such organization with extended audit requirements. Specifically, NIH requires its foreign and for-profit awardees to have an audit if, during the awardee's fiscal year, it expended a total of \$300,000 or more under one or more of HHS' awards, and at least one of those awards is a grant. The awardee has the option of having either a financial-

¹⁰ The threshold will be raised to \$500,000 for fiscal years ending after December 31, 2003.

related audit in accordance with Government Auditing Standards¹¹ or an audit that meets the requirements of OMB Circular A-133. Other agencies, such as DOJ, also have similar periodic audit requirements for their for-profit awardees.

Practice 7: Use Progress Reports As a Basis for Continued Funding

OMB Circulars require award recipients to prepare and submit periodic progress reports that contain a comparison of the actual award accomplishments with the goals and objectives established for the period; reasons why goals and objectives were not met; and other pertinent information, including, when appropriate, an analysis and explanation of cost overruns.¹² All agencies we reviewed require some version of a progress report at least annually and some agencies may withhold funding for continuation awards if the reports are not submitted. Like single audit reports, progress reports are an important tool for monitoring the ongoing activities of an awardee.

Education, however, takes this one step further and not only requires progress reports from awardees, but also expects the progress reports to show substantial progress has been made by the awardee in meeting the award objectives before the awardee can obtain funding for continuation grants. The awardee must provide data in the report that corresponds to the scope and objectives reflected in the approved award proposal, and also demonstrates that the awardee has made substantial progress within the scope of the approved proposal in attaining the objectives of the grant.

Further, in making the determination, Education's program staff reviews the financial status of the award to ensure that it is consistent with the reported programmatic progress. Program staff evidence their review by signing and dating the report and including it in the grant file. The program staff's signature on the progress report certifies that the report was read and the awardee is making the required substantial progress, and that an obligation may be recorded and continuation award mailed. If program staff believe the awardees have not demonstrated substantial progress toward meeting their project's program goals or objectives, they must recommend that the funding to awardees should be discontinued unless changes to the project that will enable the awardee to make substantial progress in succeeding budget periods are approved.

¹¹ Government Auditing Standards are commonly referred to as the "Yellow Book" (GAO-03-673G).

¹² OMB Circular A-110, Subpart C, Paragraph 51.

Practice 8: Require and Analyze the Financial Information Necessary to Monitor Award Risk

All of the organizations we reviewed require periodic financial reporting from its awardees to facilitate monitoring. They use the financial reports to assess the awardees' performance, both financial and programmatic. However, the degree of financial detail required varies by organization. For example, the Sloan Foundation requires awardees to report actual costs yearly, by budget line item. The Rockefeller Foundation is more stringent, requiring its awardees' annual financial reports for each grant to reflect both actual and budgeted costs for each line item.

For the Federal agencies we examined, most obtained the financial reports cited in the OMB circulars. Typically, the agencies required the submission of the Standard Form (SF) 272, Federal Cash Transaction Report (FCTR), as well as the SF 269, Financial Status Report (FSR). The FCTR allows an agency to evaluate the cash expenditures of an award for excessive or delayed drawdowns, and as such, identify possible performance or financial management problems. For example, a delayed drawdown pattern may indicate that the work on the award has been delayed or the awardee has financial management problems. Likewise, an excessive drawdown pattern may indicate that the project will run out of funds prematurely and the possible need for a scope change.

The FSR provides additional information that is not available through an FCTR. For example, the FSR requires the reporting of cost sharing, which can indicate whether the awardee is providing its share of the funds to support the project and if not, whether the project is in jeopardy. The FSR also requires the awardee to report program income related to an award, which may provide insight into whether the granting organization can reduce support to the awardee in the future. In addition, the FSR includes the calculation of the overhead costs including the overhead rate, the overhead base, and the overhead costs charged to the award. The final FSR for an award also serves as the awardee's certification as to the accuracy and appropriateness of the costs it charged to the award. As part of the financial monitoring, the agency should verify the accuracy of the report's arithmetic and overhead calculations, and should use the information to assess compliance with the financial requirements of the award. At the end of the award, the agency can use the FSR to determine if there are any outstanding, unobligated funds that should be recovered from the awardee.

Ideally, a granting organization would be able to effectively monitor and analyze the financial and programmatic progress of awards with a low to moderate risk using the FCTR in combination with the FSR. However, for high-risk awards, the granting organization may also need more detailed

financial information such as comparisons of budgeted line items to the actual costs, to perform a more complete evaluation of the awardee's progress.

The majority of agencies using the FCTR require their awardees to submit them quarterly, in accordance with the OMB circulars; however, for the FSR, the reporting frequency varied by agency. At the extremes, one agency required the FSRs to be submitted quarterly, while another only required it at the end of the award.

NIH, however, developed a different variation on reporting for the FSR, allowing it to focus its resources more effectively. Rather than requiring all awardees to report at the same interval, NIH implemented a risk-based approach that adjusts the frequency of the reporting based on the characteristics of the award or awardee. Awards that NIH considers higher risk are required to provide financial reports more frequently than lower risk awards. NIH requires annual FSRs for awards requiring close project monitoring or technical assistance such as clinical trials, awardees with a history of problems, and certain large or multi-project grants; however, for most awards, NIH requires the submission of FSRs only at the end of the award. In all cases, NIH continues to use quarterly FCTRs to monitor the financial aspects of its awards.

Practice 9: Perform Desk Reviews and On-Site Monitoring Based on Risk

Most periodic monitoring activities can be performed without visiting an awardee, however, for higher risk awardees, an on-site monitoring visit may be needed to provide firsthand assurance that awardees are meeting the objectives and complying with the requirements of their awards. The DOJ has established an active on-site financial monitoring program using a risk-based approach to determine whether to conduct on-site visits or rely on an evaluation of the awardee referred to as a desk review. To evaluate awardees, DOJ uses risk-based criteria, such as the award amount, the experience level of the awardee organizations, the age of the grant program, and the level of risk inherent to the program. Based on the risk assessment, it decides whether to conduct nationwide on-site financial reviews of awardee organizations, or the less comprehensive desk reviews.

In fiscal year 2002, DOJ had planned to perform on-site financial reviews of 441 grants totaling \$1.21 billion, and desk reviews of 550 grants worth \$1.78 billion from a sample population of over 18,000 grants valued at approximately \$14.2 billion. DOJ accomplishes these on-site and desk reviews with ten dedicated staff.

In performing a financial desk review, DOJ conducts a thorough assessment of the official grant file. Specifically, DOJ ensures that the awardee: 1) has made a timely submission of FSRs; 2) has accurately completed the FSRs submitted; 3) does not have excess cash on-hand; and 4) has complied with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Based on the issues noted during the review, DOJ provides the appropriate technical assistance to the awardee, and obtains any missing documentation identified.

As part of its on-site financial monitoring, DOJ reviews the awardee's accounting system and policies and procedures, traces reported costs to accounting records, reviews a sample of grant related transactions, and provides technical assistance to address issues noted. DOJ has developed a detailed Site Visit Review Guide that serves as a basis for conducting consistent and comprehensive on-site reviews. Although it primarily focuses on the financial system and costs, the guide also looks at the internal controls related to travel, procurement, property and equipment, and time records. Furthermore, it looks into special topics such as sub-recipient monitoring, special conditions, and matching funds. After the review, a site visit report is drafted and the program staff is debriefed, if necessary. Additionally, DOJ obtains and reviews corrective action plans from awardees and ensures the plans adequately address all issues identified.

Practice 10: Develop Policies to Manage Known High Risk Awardees

OMB circulars provide for, but do not require, Federal agencies to impose special grant conditions on high-risk awardees. Nevertheless, HHS has established specific internal policies requiring awardees designated as high risk to meet special conditions such as using the reimbursement payment method rather than advance payment and requiring the awardee to report more frequently on financial and program progress. The HHS policy outlines a process to manage high-risk awardees and address the awardee's issues. At HHS, an awarding office can designate an awardee as, "High-risk/Special award conditions" if it has concerns about the awardee's ability to meet performance expectations and accountability requirements. The Office of Inspector General may also recommend this designation as a result of adverse findings in its audits of the awardee. These concerns could arise because of the awardee's inexperience in handling Federal funds, a history of poor programmatic performance, financial instability, or inadequate management systems. Typically, HHS uses available information such as proposals, audit reports, and documented previous experience with the awardee as a basis for making this determination.

When placing the more stringent conditions on a designated high-risk awardee, HHS will simultaneously give the awardee the opportunity to address its issues and perform on the award. In addition, the awardee will be placed on the HHS Alert List, which notifies all awarding offices under HHS of the high-risk designation. By consulting the list, other operating divisions are able to determine whether they need to similarly condition their own grants to protect the Federal interest. Awardees are not to remain on the Alert List for more than two years, as HHS considers that time adequate for an awardee to complete the required corrective actions, and for HHS to assess the actions to ensure their effectiveness. If the issues have not been addressed after two years, an awardee may be kept on the list only if a justification is approved.

Practice 11: Conduct Outreach and Provide Technical Assistance to Educate Awardees of Requirements

As part of their monitoring responsibilities, several organizations are educating awardees on administrative and financial requirements using outreach and technical assistance. This helps the organizations to proactively identify issues before they become problems, as well as prevent issues in the first place.

Outreach improves awardee knowledge of the organization's policies, rules, and regulations so that problems are avoided in the future, and facilitates cooperation between the awarding organization and the awardee. NIH has a formal outreach program that is committed to providing an open environment promoting personal interactions with all segments of its research community using a variety of activities such as conferences, seminars, and workshops. It has also instituted Proactive Compliance Site Visits to advance awardee compliance with policy and legislative mandates, as well as to enhance an awardee's own compliance oversight activities. These proactive site visits are different from on-site periodic monitoring in that NIH initiates these visits to assess the institutions' understanding of Federal grants management policies and regulations rather than to assess their compliance with these requirements. As such, the Proactive Compliance Site Visits are intended to minimize or eliminate noncompliance, and to nurture a productive partnership between the NIH and its awardee institutions. NIH's proactive site visits facilitate dialogue regarding NIH policies in a non-crisis, non-adversarial manner.

Since FY 2000, NIH's Office of Extramural Research has performed eight to ten of these visits each year at institutions that met specific criteria such as the level and nature of support, as well as geographic and institutional diversity. NIH posts a report on the site visits on its web site explaining the process and provides the results of the visits.

In addition to outreach, other grant-making organizations are taking a proactive approach to providing awardees with technical assistance on financial and administrative requirements. These organizations focus on providing awardees with assistance and consultation services in order to resolve awardee problems and improve their performance. As part of its monitoring program, the WSDOH, for example, emphasizes technical assistance in its monitoring activities, stating it just “makes sense.” In addition to meeting its financial stewardship responsibilities through monitoring, providing technical assistance may forewarn the grantor of any problems, may provide timely intervention, may supply needed information, clear obstacles to success, and answer any technical questions. Similarly, grants management at the Office of Naval Research (ONR) also uses a proactive approach by providing technical assistance to its awardees through periodic visits and other contact with awardees.

Principal Four: Provide Training and Other Resources

In order to properly fulfill their duties, personnel responsible for monitoring grants and cooperative agreements need adequate training and access to reference information. Such training and information help ensure personnel possess the skills and knowledge they need to perform their award monitoring duties effectively. All personnel must understand the purpose and the technical requirements of their monitoring roles, as well as how their individual duties relate to the work of others. They also need access to available reference materials to guide and facilitate the quality of their monitoring efforts.

Practice 12: Establish a Training Program

Training employees is a critical aspect of the grants management programs we reviewed, and we found HHS has established a training certification program to encourage employees to receive appropriate training. The HHS Grants Management Professional Certification Program recognizes those individuals in the grants management profession pursuing a higher level of competency through completion of a specific training curriculum. HHS developed this certification program as part of its HHS Grants Management Professional Development Program that, “is guided by a vision that grants management should consist of highly trained and competent professional employees actively applying their business and administrative skills in partnership with program management officials to ensure that grants programs are soundly managed, and that grant laws and regulations are followed.” The certification indicates in part that grants management personnel have satisfactorily completed a specific training curriculum that enhances their ability to effectively carry out their responsibilities. The individual operating divisions of HHS implement the Certification Program and may require completion of the training and/or certification as prerequisites to an employee’s appointment to a Grants Management Officer or Project Officer position.

While not as comprehensive as the HHS training certification program, other organizations have also developed their own training courses specific to the needs of their award monitoring personnel. For example, the WSDOH has created a course to address monitoring of its sub-recipients, and Education has developed a course for conducting on-site monitoring. These courses help staff focus on issues or problems of a recurring nature, and guide them in addressing these issues.

Practice 13: Provide Accessible Reference Materials

In addition to training, grants management personnel should have other information resources available to enable them to perform their monitoring responsibilities competently and effectively. Several organizations, both Federal and non-Federal, are accomplishing this by setting up Intranet or Internet sites to ensure monitoring personnel have access to reference resources essential to their oversight activities. For example, NIH has a grants management intranet site where it posts information targeted specifically for personnel responsible for managing grants. The web site maintains information on specific topics and, as an additional resource, lists the names of “topic experts” who are available to provide more information on specific subjects.

The WSDOH has also set up an intranet site for grants management. The site provides basic management information for the organization such as the mission statement, vision, and organization charts as well as pertinent information for grants management such as Federal Compliance Updates and the Grants Manual. In addition, the site has a question and answer section where responses to frequently asked grant requirement questions are addressed. The site also allows users to search for information by specific words, and provides a forum in which grants teams can discuss issues online.

Principal Five: Utilize Management Information Systems to Facilitate Award Monitoring

To facilitate administering and monitoring awards, pertinent information on the awardee's programmatic and financial performance must be identified, captured and communicated in a form and timeframe that enable award monitoring personnel to carry out their oversight responsibilities. As such, some aspects of monitoring can be accomplished particularly effectively through the use of automated management information systems. Automated information systems enhance award administration and monitoring capabilities, as well as produce reports that make it possible to run and control operations. They deal not only with internally generated data, but also information about external events, activities and conditions necessary for informed business decision-making.

Practice 14: Use Information Systems to Analyze Data and Measure Performance

To facilitate its monitoring activities, ONR has developed an information system that allows its grant managers to proactively identify and address award issues before they become crises. The information system is centered on a database containing information for each individual grant, and facilitates many routine financial and programmatic monitoring tasks. For example, the system tracks the receipt of both technical and financial reports and performs basic accuracy checks on financial reports, and validates the data by crosschecking the balances to prior reports. It tracks the receipt of documents that are needed for closing out awards, and can automatically e-mail awardees for a variety of reasons, including to inform awardees of expenditure rate problems or to alert them of reports that are coming due. Thus, the system automates many of the routine tasks of monitoring awards, leaving award monitoring personnel free to concentrate on more complex monitoring tasks.

In addition, the system tracks workload and goals of regional grant offices and calculates performance metrics to evaluate operational performance. ONR's grants management has established organizational goals and the field offices are responsible for working toward these goals. ONR's system facilitates this process by tracking data such as critical milestones, and uses that data to calculate the metrics to measure progress toward accomplishing these goals. The system also provides performance information such as the length of time taken to process new awards, the number of new awards made, the number of awards that have expired, the receipt of close out documents, and the number of close outs performed.

Principal Six: Periodically Evaluate Award Administration and Monitoring Processes

In accordance with the final principle in the management framework, the overall award administration and monitoring process needs to be periodically evaluated to assess its effectiveness over time. This can also be accomplished through ongoing review activities, separate evaluations or a combination of the two. Ongoing review activities occur in the normal course of operations and include regular management and supervisory activities, and other actions personnel take in performing their daily award administration and monitoring duties. If separate evaluations are used, the scope and frequency of the evaluations will depend primarily on an assessment of risks and the effectiveness of ongoing review procedures.

Practice 15: Evaluate Award Administration and Monitoring Activities

To evaluate the effectiveness of its Grants Management activities, HHS recently implemented a measurement system called the balanced scorecard. The HHS Grants Management Balanced Scorecard (BSC) is administered on a three-year cycle and requires HHS to look at its own operational processes from multiple perspectives – the grants office, the program office, and the awardee. By obtaining information from each of these three groups, HHS gains a more complete picture of its operations. This scorecard provides a basis for measuring performance, as well as for making process improvements. The results of the surveys are analyzed and then used to improve grant system performance, operations, and policy activities. Grants management, policy staff, program staff, and other staff are involved as appropriate.