

Improving the Grant Management Process



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**U.S. Department of Justice
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The Office of the Inspector General (OIG) Audit Division conducts internal audits of Department of Justice (DOJ) granting agencies and external audits of grant recipients.¹ Internal audits assess overall grant program management in areas such as awarding grants, monitoring grantees, and assessing program performance and reporting. External audits assess a grantee's compliance with grant conditions, including budget management and control, drawdown and reimbursement requests, program income, subgrantee oversight, matching funds, financial reporting, and program reporting.

Since its inception in April 1989, the OIG's Audit Division has conducted over 30 internal audits of the Office of Justice Programs, the Office of Community Oriented Policing Services, and the Office on Violence Against Women. The OIG Audit Division has conducted almost 900 external audits of grant recipients, and the Audit Division has also assisted the OIG Investigations Division on grant related investigations.

The OIG's Investigations Division investigates allegations of fraud related to DOJ-funded grant programs. These investigations have led to criminal convictions, civil recoveries, administrative recovery of funds, and debarments of individuals and grantees. Additionally, the Investigations Division provides proactive "Grant Fraud Awareness" training to granting agency personnel and external audiences to increase awareness of grant fraud issues.

Based on the OIG's 20 years of work in these areas, we developed the following list of ideas and practices that granting agencies should consider adopting to minimize opportunities for waste, fraud, and abuse in awarding and overseeing the \$4 billion in DOJ funding contained in the American Recovery and Reinvestment Act of 2009. This list includes practices that could be implemented in the short term (within 30 days), the medium term (within 1 year), and the long term (over 1 year).

¹ Throughout this document, the term granting agencies refers to the Office of Justice Programs, the Office of Community Oriented Policing Services, and the Office on Violence Against Women.

Grant Program Development

The initial stage of any grant program is the most important. If a program is not well developed, it is difficult to adequately implement or monitor it. To form a sound foundation, grant programs should have clear and strong objectives prior to soliciting applications. Further, it is essential that all participants in the grant program share a common understanding of the program purpose. Participants often have different interpretations, which prevents a federal strategy from being implemented.

- Program objectives therefore need to be developed in a timely manner to focus the efforts of all participants and to clarify expectations. To prevent the appearance that the program does not have a focused direction, grantees must not receive funding prior to submitting an application or before overall program objectives are established.
- With each program solicitation, measurable and obtainable performance measures should be established to ensure that legislative intent and program objectives are met.

Grant Applications

- While some applicants are experienced grantees with sophisticated grant writers, others may have never applied for a DOJ award. To ensure that all applicants are able to submit an application within the required timeframe, DOJ should establish and publicize an Internet site where grantees or potential grantees can submit questions and receive answers within 1 business day, and a telephone hotline to speak with a grant advisor.
- Granting agencies should set up or expand on-line opportunities for e-training for grantees, such as tutorials on grant do's and don'ts.
- The application process could be used to identify potential "red flags" for granting agencies to follow-up on prior to making awards. The application could include questions such as: (1) will funds be deposited in a separate account, (2) do you have written accounting procedures, (3) do you have an inventory system in place, (4) do you have an accounting system that can separately track all drawdowns and grant expenditures, (5) what performance measures have you established to determine if the grant objectives are being met, (6) what data will you collect to measure your progress in meeting performance measures, (7) do you have a management risk assessment process in place to identify

and mitigate potential risks, and (8) what is your records retention policy?

- Audits often find that grantees do not maintain timesheet documentation for personnel costs. The application process should include verification that timesheets for all personnel are maintained to document hours worked for grant and non-grant-related activities.
- Granting agencies should enhance pre-award screening to ensure that only applications that meet solicitation objectives and requirements are sent to peer reviewers.
- Granting agencies should establish criteria to gauge the risk associated with new grantees. For new grantees assessed to be high risk, grantee agencies should conduct background checks to verify proper payment of withholding taxes, credit standing, and other indicators of problems. In addition, grantee agencies should conduct Internet searches or other reference checks to identify negative information that should be considered prior to granting an award. For example, good sources of information include the General Services Administration's Excluded Parties List System, U.S. Attorneys, the Drug Enforcement Administration, the Federal Bureau of Investigation, the U.S. Marshals Service, the Bureau of Prisons, and other granting agencies.
- Granting agencies should review open OIG Audit and Inspections reports to determine whether grantee progress in implementing corrective action is sufficient to award additional grants.
- Granting agencies should check to make sure no ongoing OIG or other criminal investigations are in process before deciding to make awards.

Award Process

- Granting agencies should clearly document key aspects of the award process and maintain this documentation, such as the: (1) basis for non-competitive awards, (2) peer reviewers' agreement with the peer review consensus report, (3) basis for award selections that differ from peer review or program manager recommendations, and (4) procedures used to identify and remedy conflicts of interest among agency staff and external experts involved in the peer review process.
- To decrease the risk of unknowingly awarding funds to a high-risk grantee, a DOJ-wide procedure should be established that allows granting

agencies to share information on high-risk grantees prior to awarding funds.

- Granting agencies should consider mandating that high-risk grantees maintain separate bank accounts for grant funds, including separate accounts for each grant. This would make the use of grant funds more transparent and reduce the grantees' ability to hide improper use of grant funds.
- Granting agencies should determine a grantee's progress on implementing the requirements of prior grants before awarding additional grants for identical purposes.
- Granting agencies should include information on fraud awareness in grantee award packages.
- In the single audits, we are seeing an increase of the number of municipalities that have been formally designated as a "distressed municipality" by their respective states and are essentially in receivership with regard to financial management. These grantees may need federal grant funds, but they should automatically be designated high-risk and monitored more closely to ensure funds are accounted for and appropriately spent.

Monitoring

- Granting agencies should fully utilize an effective risk assessment model so they can provide proper monitoring. The risk assessment should include "red flag" indicators so that granting agencies can provide on-site assistance or on-site reviews to grantees with risk factors. Examples of "red flag" indicators include: inadequate separation of cash-related duties, inadequate internal controls, inadequate financial management system, prior grant mismanagement, and prior fraud.
- Granting agencies should increase their monitoring of grantees and subgrantees by increasing site visits and reviewing financial and progress reports for accuracy, completeness, and alignment with project goals. This practice is particularly important for new grantees, as well as for experienced grantees with problems managing prior grants.
- Granting agencies should conduct site visits earlier in the grant period to catch potential problems. As part of the site visits, they should ensure

that the grantee is maintaining accurate accounting records and adequate support for its expenditures.

- Granting agencies should require more specificity in grantee reporting. For example, a granting agency can require a report showing budgeted amounts versus expenditures by line item so that a reviewer can see how the funds are being spent. This will reinforce the requirement that the grantee should be adhering to the proposed budget.
- For grantees designated as high-risk, grant managers should periodically require the submission of supporting documentation so reported expenditures and achievements can be verified.
- Granting agencies should ensure the state administering agencies engage in and report back to the granting agencies on their specific monitoring and oversight of subgrants. This is often overlooked and is a major weakness in the process.
- To increase transparency, granting agencies should require state agencies to make subgrant award documents readily available to the public. This will increase the number of people who may detect potential problems and make subrecipients more likely to follow award guidelines.
- Granting agencies should have a process to ensure that all instances of alleged misuse of grant funds are properly documented and reported to the proper agency authorities and the OIG for appropriate and timely follow-up and resolution.
- Granting agencies should strengthen procedures for referring problem grantees, along with specific detailed information regarding the problems, to the OIG for audit or investigation.
- Granting agencies should require grantees to display OIG hotline posters in common areas to ensure proper referrals of fraud issues to the OIG.
- As required by the initial implementing guidance issued by the Office of Management and Budget for the Recovery Act, granting agencies should include a requirement that each grantee or sub-grantee awarded funds made available under the Recovery Act shall promptly refer to the OIG any credible evidence that a principal, employee, agent, contractor, sub-grantee, subcontractor, or other person has submitted a false claim under the False Claims Act or

has committed a criminal or civil violation of laws pertaining to fraud, conflict of interest, bribery, gratuity, or similar misconduct involving those funds. In addition, and beyond what is required by the OMB guidance, granting agencies also should require the grantee or sub-grantee when they become aware of an overpayment of funds distributed to the grantee or sub-grantee to promptly report to the OIG and granting agency that overpayment.

- For grantees with the potential to have significant problems, granting agencies should maximize the use of special conditions, such as requiring: (1) third-party management of grant funds, so that all expenditures and drawdowns are authorized and completed by a third party that has no vested interest in the grantee; (2) authorization to proceed with the next phase of a project based upon evidence of acceptable performance; and (3) more detailed financial reports.
- Grantee agencies should establish early intervention teams to make site visits to high-risk grantees within 30 days of grant awards.
- Granting agencies should consider seeking supporting documentation from all grantees for randomly selected drawdown requests of Financial Status Reports to ensure that these figures are supported by logical and verifiable financial transactions.
- Granting agencies should review and modify existing internal policies and guidance so that it is clear that their personnel are required to report anomalies or other indicators of the misuse of grant funds to the OIG and internal agency offices for appropriate follow-up.

Performance

- Granting agencies need to establish a better policy for determining when to allow retroactive approval for violations of requirements and conditions versus requiring the grantee to repay questioned costs. Generally, granting agencies now provide a retroactive approval or waive questioned costs and therefore encourage non-compliance by grantees.
- Granting agencies should assist grantees in determining the appropriate information to collect in order to assess program performance. (The Office of Justice Programs recently incorporated this in its measures for the Byrne Grant program.) Progress reports submitted to granting agencies often include program outputs, such as the number of people

served, rather than measures that assess whether the program is achieving its intended objective. Granting agencies should develop this type of guidance for each of their grant programs.

- Granting agencies should have procedures in place to ensure that all decisions made in response to grantee requests are documented in writing. Grantees often state that the granting agency provided verbal approval for a particular course of action. When there is no documentation to support the grantee's statement, the auditors must disallow the use of grant funds in that situation.
- Granting agencies should ensure they have a process to carefully review grantee's narrative progress reports to ensure the program is successfully meeting its stated objectives and to identify grantees that are at a high risk of failing to fulfill their stated goals and mission.

Training

- Key grantee officials (such as the person submitting Financial Status Reports) should be required to take annual grant administration training that covers financial and programmatic requirements, and fraud awareness. This could be implemented via an on-line training program that can administer a test to ensure the recipient understands the basic requirements and can track the recipient's completion of the training.
- Granting agencies should offer annual training to their grant administrators to reinforce administrative, financial, and programmatic requirements for the types of grants they award. This training should include grant fraud awareness and risk assessment training to remind participants of the specific risks to these funds, encourage discussion of fraud prevention and detection techniques, and emphasize employees' obligations when they identify indicators of misuse or fraud.
- Granting agencies should provide opportunities for the grant administrators to discuss common questions and problem areas grantees experienced to ensure consistent treatment by the granting agencies. These feedback and discussion sessions could be a good tool for developing the topics for training that key grantee officials will take on an annual basis.

Communications

- Granting agencies need to increase communication with their grantees, and in particular, new grantees. A common complaint from grantees is that the granting agency's program managers are either non-responsive or not available to answer questions.
- To facilitate communication with and among grantees, granting agencies should expand the use of communication tools such as Really Simple Syndication (RSS) feeds, blogs, and wiki applications hosted on the granting agencies website.
- Granting agencies should reach out to state audit agencies that provide coverage of grantee management and solicit both coverage of and feedback on grantees' use of DOJ funds.

Additional Considerations - Impact on Granting Agencies Financial Statements and Information Systems

- Granting agencies' Chief Financial Officers should consider the effect that new grants and grant spending programs will have on their agency's grant accrual estimate methodology. Specifically, the Chief Financial Officers should evaluate the Recovery Act grants separately to see if they are being reported, drawn down, or spent differently than other grants.
- Granting agencies' Chief Information Officers should develop procedures to alleviate the strain on their agency's information systems (specifically the financial reporting systems) from the massive number of applications, drawdowns, and SF-269 submissions that will occur within in a short period after the Recovery Act grants become available.