



U.S. Department of Agriculture



Office of Inspector General
Great Plains Region

Audit Report

Biosecurity Grant Funding Controls Over Biosecurity Grant Funds Usage

Report No. 50099-17-KC
February 2005



UNITED STATES DEPARTMENT OF AGRICULTURE

OFFICE OF INSPECTOR GENERAL

Washington, D.C. 20250



DATE: February 17, 2005

REPLY TO
ATTN OF: 50099-17-KC

SUBJECT: Biosecurity Grant Funding

TO: Jeremy Stump
Director
Office of Homeland Security

John Surina
Deputy Assistant Secretary for Administration

We evaluated the U. S. Department of Agriculture's (USDA) use of supplemental appropriation funds allocated by Congress for Homeland Security purposes.¹ This review examined the use to which the Department put about \$51 million of those funds.² We made field visits to three recipient institutions and reviewed their financial records as well as progress reports provided to the sponsoring Departmental agencies. We determined that the institutions use of the supplemental Homeland Security funds met the legislative intent of recovering from and preparing response actions for potential future attacks.

We did, however, find two conditions warranting corrective action that we are bringing to the attention of the sponsoring agencies to assist them in improving the overall administration of the grant programs. We found four cost items totaling over \$4,300 that should not have been charged to their respective grants. When these items were brought to the attention of the institutions, they agreed to remove them from the grants. We also found that one grantee was not providing required progress reports in accordance with the grant agreement and two sponsoring agencies do not have written policies for conducting site visits to monitor grant accomplishments.

¹ Public Law (P.L.) 107-117 appropriated \$328 million and P.L. 107-206 appropriated \$226.5 million for a total of \$554.5 million.

² Of the \$554.5 million, \$201.5 million has been designated for emergency use only and \$302 million was reviewed separately under Audit No. 50601-7-Ch, Office of Homeland Security Allocation and Use of Homeland Security Funds, dated March 31, 2004.

BACKGROUND

As a direct result of the terrorist attacks of September 11, 2001, the United States Government passed legislation designed to assist Governmental agencies and others recover from the attacks and prepare response actions for potential future attacks.³ The funds were to be used to (1) provide Federal, State, and local preparedness for mitigating and responding to the attacks, (2) provide support to counter, investigate, or prosecute domestic or international terrorism, (3) provide increased transportation security, (4) repair facilities and transportation systems damaged by the attacks, and (5) support national security.

On January 3, 2002, the Office of the Secretary notified the USDA agencies of the supplemental appropriation⁴ for homeland security. Grants and cooperative agreements funded by the supplemental appropriations were made primarily through the Animal and Plant Health Inspection Service (APHIS), Agricultural Research Service (ARS), and the Cooperative State Research, Education, and Extension Service (CSREES). APHIS funded grants/cooperative agreements primarily for enhancing the response capabilities of State and tribal governments to foreign animal diseases. ARS funded grants/cooperative agreements primarily for purposes of developing or improving diagnostic tools for animal and plant pathogens. CSREES funded grants/cooperative agreements primarily for the purposes of developing diagnostic and reporting networks for plant and animal pathogens. Grant and cooperative agreement recipients included institutions of higher learning, private research institutions, foreign research institutions, and State and tribal governments.

OBJECTIVES

The objectives of the audit were to (1) identify and review sponsor controls to ensure funds were obligated and expended for authorized purposes related to homeland security, (2) evaluate the accuracy and usefulness of periodic status reports submitted by the grant recipients to the sponsoring agencies for review, and (3) evaluate whether the funds were actually and effectively used for homeland security purposes.

SCOPE AND METHODOLOGY

Our audit was conducted at the Washington, D.C., headquarters offices of APHIS, ARS, and CSREES. Additionally, field visits were made to three institutions of higher learning. These three institutions were judgmentally selected from a universe of different entities⁵ that received grants and/or cooperative agreements from USDA's homeland security funds. CSREES funded 19 grants/cooperative agreements for 16 recipients, totaling about \$19.6 million; ARS funded 24 grants/cooperative agreements for

³ P.L. 107-38, 2001 Emergency Supplemental Appropriations Act for Recovery from and Response to Terrorist Attacks on the United States, September 18, 2001.

⁴ P.L. 107-117, Department of Defense and Emergency Supplemental Appropriations for Recovery from and Response to Terrorist Attacks on the United States Act, 2002.

⁵ APHIS, ARS and CSREES may have multiple grants and cooperative agreements at the same entity.

18 recipients, totaling about \$3.9 million; and APHIS funded grants/cooperative agreements for 83 recipients, totaling about \$27.8 million. The sample institutions were selected in cooperation with agency personnel and represented grants from each agency and for the major USDA initiatives. We reviewed a total of seven grants, totaling about \$7.5 million of the approximately \$51.3 million disbursed by USDA. At the time of our review, the grant recipients had charged about \$2.1 million against the seven grants. Out of that total, we validated a judgmental sample of 95 individual charges totaling about \$1.4 million.

To accomplish the audit objectives, we reviewed applicable laws, regulations, and guidance concerning the use of supplemental funds for homeland security, as well as the individual grants/cooperative agreements and performance and financial reports; interviewed agency officials and project managers, as well as institution officials, Principal Investigators (PI), and their associates, as appropriate; and performed site visits and reviewed invoices and purchase orders to supporting documentation to verify that funds were used for approved homeland security uses.

Our audit was performed in accordance with Government Auditing Standards.

FINDINGS AND RECOMMENDATIONS

FINDING NO. 1 – IMPROPER CHARGES ON THREE GRANTS

Our review of seven grants disclosed that four cost items, totaling over \$4,300, had been improperly charged against grants. This occurred because the PIs with responsibility for the grants were generally given complete discretion over the use of the funds and the institutions did not perform second party reviews of how the costs were allocated. As a result, ineligible cost items were initially allocated against the grants.

Office of Management and Budget Circular A-110⁶ provides basic guidance for obtaining consistency and uniformity among Federal agencies in the administration of grants. The Circular is codified within USDA as 7 Code of Federal Regulations (CFR) Parts 3015 and 3019. Section 3015.61 specifies that complete, accurate, and current disclosure of the financial results of each USDA-sponsored project or program shall be made in accordance with the financial reporting requirement set forth in the grant. Additionally, effective control over and accountability for all USDA grant funds shall be maintained. The standard grant agreement⁷ requires that the funds be used for the grant's intended purpose. The codification places responsibility for the appropriate usage of funds upon the recipient.

We reviewed seven grants (one APHIS, three ARS, and three CSREES) at three institutions and noted that although the general language and degree of detail varied

⁶ Uniform Administrative Requirements for Grants and Agreements With Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations.

⁷ Form REE-452, Non-Assistance Cooperative Agreement, paragraphs 3 and 6. Note that not all agencies use this same form.

from one grant to the next, they were clear that funds were to be used for the individual grant's intended purpose. Therefore, as part of our review, we analyzed a sample of costs charged against each of the grants from the institutions visited. The individual costs were selected judgmentally for analysis and represented each type of expense; e.g., personnel, travel, expendable material, and capital expenditures charged against the grants. Using this methodology, we selected 95 sample items charged against the seven grants, totaling over \$1.4 million. We reviewed the supporting documentation for the charges, as well as discussed each item with institutional and USDA officials, as necessary.

This review disclosed four charges that appeared questionable for three grants at two institutions. At one institution, the cost of a seminar speaker (\$1,022.30) had been charged against a CSREES grant approved for a rapid diagnostic network for homeland security purposes. The PI agreed that this cost had been improperly charged against the grant, and the charge would be removed.

In another case, we found that the cost of a routine instrument cleaning (\$79.39) was charged against an APHIS grant approved for plant and animal research related to homeland security purposes. Our discussion with the PI disclosed that this expense did not apply to the grant. The PI stated that the accounting office incorrectly charged an invoice to the project. This PI also agreed to remove the cost from the grant.

At another institution, we found two improper charges against the ARS homeland security grant involving research for a plant disease. Our review of sample items disclosed the purchase, activation, and monthly charges for a cellular telephone (\$697.02). While not prohibited in the grant language, a review of the bills disclosed that the phone was maintained in the name of the PI's spouse and appeared to be used for personal calls. On this same grant, we noted charges for tuition reimbursement for two students (\$2,519). Tuition reimbursement is specifically prohibited by the standard grant agreement.⁸ The institution agreed that these charges were improper and agreed to remove them.

In each of these cases, we determined that the institutions did not routinely perform second party reviews to ensure the propriety of costs charged to grants or cooperative agreements. The PIs were generally given complete discretion over use of the funds. However, we determined that there were other eligible costs for each grant not claimed and concluded that recovery of the improper charges could be accomplished by substituting these costs for those identified as being inappropriate.

Recommendation No. 1:

Instruct APHIS, ARS, and CSREES to require the cited institutions to adjust their financial records and remove the improper charges disclosed by the audit.

⁸ Form REE-452, page 7, Item 16 (Tuition Remission).

Agency Response:

The agencies concurred with the recommendation. The February 1, 2005, written response is included in its entirety (except for enclosures) in exhibit B. ARS has instructed the cited institution to adjust its financial records and reverse the improper charges to the cooperative agreement. For CSREES, the institution adjusted their accounting records to remove the improper charges and provided documentation to support the change.

OIG Position:

We accept the agencies' management decision. Although APHIS' proposed action was not included in the response, we obtained supporting documentation from the grantee to support that the improper charges had been removed. For acceptance of final action, evidence of the reversal of the improper charges needs to be forwarded to the Office of the Chief Financial Officer (OCFO).

Final Completion Date: February 1, 2005

FINDING NO. 2 – PROGRESS REPORTS NOT PROVIDED

We found one case where required progress and financial reports had not been submitted to the granting Agency. The PI did not think that a progress report was due, and the sponsoring agency did not follow up to obtain the missing reports. As a result, there is reduced assurance that the progress and status of the grant was being properly monitored. In addition, we noted that two of the sponsoring agencies did not have written policies or procedures for performing field visits to determine the current status of ongoing projects.

Title 7 of the CFR, section 3019.51 states that recipients are responsible for managing and monitoring each project supported by an award. The awarding agency shall prescribe the frequency with which performance reports shall be submitted: no more frequently than quarterly, nor less frequently than annually. When required, the performance reports should provide a comparison of actual accomplishments with the goals and objectives established for the period, reasons why established goals were not met, and other pertinent information, including analysis and explanation of cost overruns or high unit costs. Also, Section 3015.94 states that the awarding agency shall make site visits as frequently as practicable to review program accomplishments and manage control systems, as well as provide such technical assistance, as may be required.

The standard grant agreement contains a section where the granting agency specifies the frequency of progress and financial reports. However, the basic format and content of the report is left to the discretion of the institution.

One CSREES grant included a requirement for quarterly progress reports. The grant document stated that the grant was effective from June 1, 2002, through May 31, 2004. However, as of our field visit in June 2003, the grantee had not completed any progress

reports. The PI disagreed with the documented starting date, stating that the funds had not been received until much later. But, we did find that the PI had started incurring expenses as early as August 2002. The institution agreed that progress reports should have been prepared and the PI prepared a progress report during our visit, following the outline of the basic grant deliverables.

We also found that only APHIS had a written policy on performing site visits to grantees and none of the agencies (ARS, APHIS, or CSREES) tracked the number of site visits performed or the results. Chapter 4 of APHIS' Agreements Management Manual lists site visits as one of the responsibilities of the Authorized Departmental Officer's Designated Representative, but the manual did not specify the number of visits to be performed. We noted that only one site visit had been performed for the grants (APHIS) included in our review. Additionally, we noted that ARS and CSREES did not have written instructions for reviewing/responding to progress and financial reports.

Recommendation No. 2:

Require CSREES to take appropriate action to ensure that the grant recipient submits timely progress and financial reports as required by the grant agreement and that the agency promptly follows up on delinquencies to obtain them when warranted in the future.

Agency Response:

The February 1, 2005, response (see exhibit B) indicates that CSREES has recently changed the quarterly reporting format for the National Animal Health Laboratory Network. Annual accomplishment reports will be submitted in April by each funding recipient, which serves as the basis for individual cooperative agreement renewal. Each funding recipient also submits cumulative reports in October that represent the accomplishments and impacts of their awards to date, which serve as the basis for response to Congressional questions, Performance Assessment Rating Tool reviews, and strategic planning. Finally, brief quarterly update reports are submitted in January and July that serve as tactical progress reports to ensure adequate project progress is being achieved. The agency recently tasked an employee with the responsibility of ensuring this process is carried out, with the authority to place funding holds on grants or cooperative agreements if accountability reporting is delinquent. Recipients have submitted current annual, cumulative, and quarterly reports.

OIG Position:

We accept CSREES' management decision. For acceptance of final action, provide OCFO with evidence that the new reporting format is in place.

Final Completion Date: February 1, 2005

Recommendation No. 3:

Require the ARS and CSREES to establish and document their policies and procedures for conducting site visits to their grantees.

Agency Response:

ARS concurs with the recommendation and will issue new policy and procedures requiring Authorized Departmental Officers Designated Representatives (ADODR) to conduct site visits for each of their respective extramural awards no less than once per year per agreement, for the purpose reviewing program accomplishments, validating the adequacy of control systems, and providing technical advice (see exhibit B). The ADODR shall file a written report for each site visit conducted with the Authorized Departmental Officer of record and such report shall be made part of and retained in the official agreement file. This policy issuance will be completed by September 30, 2005.

In the February 1, 2005, response (see exhibit B) CSREES stated that it is currently developing a policy concerning Post Award Management which contains a component for site visits. CSREES intends to develop a policy issuance, which will be a compendium of current practices and new policies to be used to conduct program, administrative and financial on site reviews. This policy issuance will be completed by September 30, 2005.

OIG Position:

We accept ARS' and CSREES' management decision. For acceptance of final action, provide OCFO with copies of the new policies and procedures after issuance.

Estimated Completion Date: September 30, 2005

GENERAL COMMENTS

During our review, we observed two other conditions, for which we will not be making a recommendation, but that merit comment and consideration by the agencies and institutions so that interim corrective actions could be considered.

- An integral part of one project was the procurement of sophisticated diagnostic tools. One necessary feature of these tools is their Internet capability. We observed that these tools did not have sufficient protection from viruses, worms, and other hazards of the Internet. If it becomes necessary to use these tools, along with their Internet capabilities, they may be subject to compromise.
- The standard grant agreement allows transfer of purchased materials to the institution upon completion or expiration of the grant. Personal computers are one item consistently purchased for grant completion purposes. However, due to the relative cost of personal computers, they routinely fall below the capitalization threshold of both USDA and the institutions. Therefore, although these computers are being used for homeland security purposes, we found they were not subject to control or accountability by the institution either during or after completion of the grant.

We accept management decision for all recommendations. Please follow your agency's internal procedures in forwarding documentation for final action to OCFO. Final action on the management decisions should be completed within 1 year of the date of the management decisions to preclude being listed in the Department's annual Performance and Accountability Report.

We appreciate the assistance and cooperation of your respective staffs during the audit.

/s/

ROBERT W. YOUNG
Assistant Inspector General
for Audit

Exhibit A – Summary of Monetary Results

Exhibit A – Page 1 of 1

Finding No.	Description	Amount	Category
1	Improper charges against three grants	\$4,318 ⁹	Funds to be put to better use.

⁹ Rounded.

Exhibit B – Agency Response

Exhibit B – Page 1 of 3



DEPARTMENT OF AGRICULTURE
HOMELAND SECURITY OFFICE
WASHINGTON, D.C. 20250-8000

TO: Robert W. Young
Assistant Inspector General for Audit FEB 1 2005
Office of Inspector General

FROM: Jeremy Stump *JWS*
Homeland Security Director
U.S. Department of Agriculture

SUBJECT: OIG Audit Report No. 50099-17-KC – Biosecurity Grant Funding

We wish to comment on items that we believe should be addressed and included as part of the final audit report.

Below is our response to each of the recommendations.

Recommendation No. 1.

Instruct APHIS, ARS and CSREES to require the cited institutions to adjust their financial records and remove the improper charges disclosed by the audit.

Departmental Response. ARS has instructed Iowa State University (the cited institution) to adjust its financial records and reverse improper charges to Specific Cooperative Agreement No. 58-1920-2-0231. ISU has agreed to make the appropriate adjustments and provide copies of documentation evidencing that corrective action(s) have been implemented. APHIS's questioned cost of \$79.39 for routine instrument cleaning related to a cooperative agreement with Kansas State University. The Agreement award number was 02-1001-0355-CA. For CSREES, Kansas State University (cooperative agreement no. 2002-30001-12084) adjusted their accounting records to remove the improper charge (\$1,022.30). See Attachment A.

Recommendation No. 2.

Require CSREES to take appropriate action to ensure that the grant recipient submits timely progress and financial reports as required by the grant agreement and that the agency promptly follows up on delinquencies to obtain them when warranted in the future.

Departmental Response. CSREES has recently changed the quarterly reporting format for that National Animal Health Laboratory Network (NAHLN). Annual accomplishment reports are submitted in April by each funding recipient, which serve as the basis for individual cooperative agreement renewal. Each funding recipient also submits cumulative reports in October that

Exhibit B – Agency Response

Exhibit B – Page 2 of 3

represent the accomplishments and impacts of their awards to date, which serve as the basis for responses to Congressional questions, Performance Assessment Rating Tool reviews, and strategic planning. Finally, brief quarterly update reports are submitted in January and July that serve as tactical progress reports to ensure adequate project progress is being achieved. The agency has recently tasked a GS-13 level employee with the responsibility of ensuring this process is carried out, with the authority to place funding holds on grants or cooperative agreements if accountability reporting is delinquent. Recipients have submitted current annual, cumulative, and quarterly reports.

Recommendation No. 3.

Require the ARS and CSREES to establish and document their policies and procedures for conducting site visits to their grantees.

Departmental Response. ARS agrees with Recommendation No. 3, and will issue new policy and procedures requiring Authorized Departmental Officers Designated Representatives (ADODR) to conduct site visits for each of their respective extramural awards no less than once per year per agreement, for the purpose of reviewing program accomplishments, validating the adequacy of control systems (where deemed necessary by the ADO), and providing technical advice. The ADODR shall file a written report for each site visit conducted with the Authorized Departmental Officer of record and such report shall be made a part of and retained in the official agreement file.

This policy issuance will be completed by September 30, 2005.

CSREES conducts several types of onsite reviews. CSREES' Office of Planning and Accountability acts as the agencies' clearinghouse for the conduct of Departmental, Program and Issue based onsite reviews. These program reviews are conducted principally by the agencies' scientific staff (National Program Leaders) at the request of its client and recipient organizations. Policies, procedures and instructions to staff and recipients concerning the planning and conducting of these reviews are posted on the CSREES web site at: www.csrees.usda.gov/business/other_links/prog_reviews.html.

CSREES is currently developing a policy concerning Post Award Management which contains a component for site visits. CSREES intends to develop a policy issuance which will be a compendium of current practices and new policies to be used by National Program Leaders and Office of Extramural Programs administrative and financial officials to conduct program, administrative and financial on site reviews. This policy issuance will be completed by September 30, 2005.

In addition, CSREES conducts financial and/or administrative reviews. These reviews are conducted principally by the agencies' award administrative staff and financial accounting staff, although in many instances they are assisted by scientists, when appropriate. Such reviews are conducted as a result of a whistleblower complaint, at the request of a specific individual(s) or as

Exhibit B – Agency Response

Exhibit B – Page 3 of 3

a result of irregularities discovered by staff during the pre-award, post-award or closeout award process. Internal guidance used by staff to conduct such reviews is attached.
(See Attachment B.)

If you have any questions, please contact Tim Johnson in the Homeland Security Office at 202-720-3632.

Informational copies of this report have been distributed to:

APHIS Administrator	
Attn: Agency Liaison Officer	(9)
ARS Administrator	
Attn: Agency Liaison Officer	(6)
CSREES Administrator	
Attn: Agency Liaison Officer	(5)
Government Accountability Office	(1)
Office of the Chief Financial Officer	
Director, Planning and Accountability Division	(1)
Office of Management and Budget	(1)