United States Department of Agriculture

OFFICE OF INSPECTOR GENERAL

Section 2501 Grants Awarded FYs 2010-2011

91099-0003-21

March 2015

Section 2501 Program Grants Awarded FYs 2010-2011

Audit Report 91099-0003-21

What Were OIG's Objectives

Our objectives were to evaluate OAO's policies, procedures, and internal controls related to its grant management process during FYs 2010 and 2011, and to review the grants awarded to ensure that recipients were eligible and that they expended grants in accordance with regulations.

What OIG Reviewed

We evaluated grant award documentation for all 118 Section 2501 Program grants awarded in FYs 2010 and 2011, totaling $38.2 million. We also evaluated OAO's policies, procedures, and internal controls to determine the effectiveness of OAO's overall grant management process and the monitoring of grant funds.

What OIG Recommends

Due to the seriousness of the problems we have found with OAO's administration of this program, we recommended that the Assistant Secretary for Administration more closely monitor OAO's administration of this program.

OIG reviewed OAO's grant management process during FYs 2010 and 2011 to ensure grant recipients were eligible and funds were used in accordance with regulations.

What OIG Found

The Office of Inspector General (OIG) reviewed how the Office of Advocacy and Outreach (OAO) administered $20 million in grant funding for each of FYs 2010 and 2011 for its Section 2501 Program. This program reaches out to socially disadvantaged farmers, ranchers, and forest landowners to increase participation in Department of Agriculture (USDA) programs.

OIG found a pattern of broad and pervasive mismanagement of OAO grant funds in FYs 2010 and 2011. This occurred because grant approval processes were informal and undocumented and regulatory processes were disregarded:

- OAO improperly funded Section 2501 Program grants in FYs 2010 and 2011, which resulted in a potential Anti-Deficiency Act (ADA) violation totaling over $20 million.
- OAO approved grants to applicants who may not have been the most meritorious. We questioned 118 grants totaling over $38 million.
- OAO did not ensure that grantees adhered to regulations or the terms and conditions of their grant agreements, and performed limited monitoring of the grantees.

Our prior reviews have exposed similar concerns regarding OAO's administration of the Section 2501 Program for FY 2012. However, none of the individuals responsible for the administration of the Section 2501 Program during the years covered by our prior audits are currently employed by OAO. In addition, the Department has been developing and implementing internal controls and procedures as a result of our prior audit work.

We accepted management decision for all recommendations.

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

DATE: March 26, 2015

AUDIT NUMBER: 91099-0003-21

TO: Dr. Gregory L. Parham
Assistant Secretary for Administration

Carolyn Parker
Director
Office of Advocacy and Outreach

ATTN: Lennetta Elias
Audit Liaison

FROM: Gil H. Harden
Assistant Inspector General for Audit

SUBJECT: Section 2501 Program Grants Awarded FYs 2010-2011

This report presents the results of the subject audit. Your written response to the official draft report, dated March 3, 2015, is included in its entirety at the end of this report. Excerpts from your response and the Office of Inspector General's position are incorporated into the relevant sections of the report. Based on your responses to the official draft, we accept management decision on all recommendations, and no further response to this office is necessary.

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

We appreciate the courtesies and cooperation extended to us by members of your staff during our audit fieldwork and subsequent discussions. This report contains publically available information and will be posted in its entirety to our website (http://www.usda.gov/oig) in the near future.

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Background and Objectives

Background

The Office of Advocacy and Outreach (OAO), an office within Departmental Management of the Department of Agriculture (USDA), was established under the Food, Conservation, and Energy Act of 2008 (2008 Farm Bill).[1] OAO's mission is to improve access to USDA programs and enhance the viability and profitability of small farms and ranches, beginning farmers and ranchers, and socially disadvantaged farmers and ranchers.[2] OAO uses the Outreach and Assistance for Socially Disadvantaged Farmers and Ranchers Program, also known as the Section 2501 Program, to provide and improve access to USDA programs.[3]

The 2008 Farm Bill authorized $20 million for each of fiscal years (FY) 2010 through 2012 to carry out OAO's Section 2501 Program.[4] The "Agricultural Act of 2014" (2014 Farm Bill), January 2014, authorized $30 million[5] for each of FYs 2014 through 2018 to continue the Section 2501 Program.

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

[1] Pub. L. No. 110-246, § 14013.
[2] The term "socially disadvantaged farmer or rancher," for the purposes of outreach and assistance, is defined in Section 2501 of the "Food, Agriculture, Conservation, and Trade Act of 1990" as a farmer or rancher who is a member of a socially disadvantaged group.
[3] The Section 2501 Program was authorized by the "Food, Agriculture, Conservation, and Trade Act of 1990" to support entities such as institutions of higher education and Community-Based Organizations (CBO) that provide outreach, technical assistance, and education to socially disadvantaged farmers and ranchers. The Section 2501 Program is now codified at Title 7, *United States Code* (U.S.C.), § 2279 ("Outreach and Assistance for Socially Disadvantaged Farmers and Ranchers and Veteran Farmers and Ranchers").
[4] Under the 2008 Farm Bill, $20 million was made available in FYs 2010 through 2012 for Section 2501 Program grants. The 2008 Farm Bill also provides that not more than 5 percent (or $1 million) of the $20 million each year may be used for administering the Section 2501 Program. OIG did not audit the funds used for administering the Section 2501 Program.
[5] The 2014 Farm Bill authorized $10 million (each fiscal year) for FYs 2014 through 2018 to assist veteran farmers and ranchers, and it also authorized $20 million (each fiscal year) for FYs 2014 through 2018 for the Section 2501 Program. Pub. L. No. 113-79, Title XII, § 12201.

Federal regulations require OAO to use a competitive process to select organizations[6] and to monitor the grantees and their use of the grant funds.[7] The regulations state that OAO must award grants competitively to ensure that the most meritorious applicants receive funds, unless it can justify a deviation from competition. The regulations also provide guidance related to evaluating applicant proposals, acquiring documentation from award recipients, monitoring the use of funds by award recipients, and taking corrective action, if necessary. OAO must also review the financial and progress reports submitted by the award recipients.

The individuals responsible for the administration of the Section 2501 Program during the years covered by our current and previous audits are no longer employed by OAO. In addition, OAO has developed and is in the process of implementing additional internal controls and procedures over the Section 2501 Program as a result of recommendations we made in prior audit reports.

On April 18, 2012, the Secretary of Agriculture requested that the Office of Inspector General (OIG) evaluate the procedures used by OAO to select proposed recipients of the FY 2012 grants funded through the Section 2501 Program. OIG reviewed OAO's initial selection of grant recipients for FY 2012 and, due to the extent of issues identified, issued a Fast Report[8] in May 2012. This report stated that OAO had selected grant applicants that may have not been the most meritorious candidates because OAO officials disregarded regulatory requirements and guidelines cited by the FOA.[9] OIG recommended that OAO have an independent review panel of qualified individuals score the applications and recommend those that should be selected to receive FY 2012 grants, as well as the amount of the awards. OIG also recommended that OAO establish criteria that would be used to fund exceptions to the recommendations made by the independent review panel and require the Director of OAO to document the selection process prior to public announcement of the awards. As a result, OAO re-evaluated its initial selection and awarded the FY 2012 grants based on more meritorious criteria.

In February 2013, OIG issued an audit report, which included the recommendations from the May 2012 Fast Report, as well as additional recommendations to strengthen and document OAO's policies, procedures, and internal controls.[10] The recommendations specifically addressed the monitoring of Section 2501 Program grants and that OAO include in its Standard Operating Procedures (SOP) the requirement to document and disclose all actions or rationales used that affect the selection process or funding amount for grant awards to ensure transparency.

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[6] Title 7, *Code of Federal Regulations* (CFR), § 3019.43 "Competition," and the 2010 and 2011 Funding Opportunity Announcement (FOA) Part III "Eligibility Information." Organizations eligible to receive Section 2501 Program grant funds include: 1890 Land-Grant Institutions, Indian Tribal Community Colleges, Alaska Native Cooperative Colleges, Hispanic-serving educational institutions, other accredited post-secondary educational institutions, Indian tribes, and CBOs. CBOs are public or private nonprofit organizations that provide educational or related services to individuals in a community.

[7] 7 CFR Part 2500, "OAO Federal Financial Assistance Programs, General Award Administrative Procedures," and 7 CFR § 3015.158, "Competition in the Awarding of Discretionary Grants and Cooperative Agreements."

[8] This Fast Report was an interim report issued to agency officials to alert them of matters that needed immediate attention.

[9] Audit Report 91099-0001-21 (1), *Controls Over the Grant Management Process of the Office of Advocacy and Outreach – Section 2501 Program Grantee Selection for Fiscal Year 2012*, May 2012.

[10] Audit Report 91099-0001-21, *Controls Over the Grant Management Process of the Office of Advocacy and Outreach*, February 2013.

In addition to the aforementioned FY 2013 audit report, OIG conducted an indepth audit focused on OAO's FY 2010 StrikeForce Initiative pilot program. Similar to the Section 2501 Program, the StrikeForce Initiative was established to assist agricultural producers and communities in poverty-stricken and predominantly minority areas to gain access to USDA programs.[11] USDA used CBOs to pilot the StrikeForce Initiative and perform outreach activities in Arkansas, Georgia, and Mississippi. Based on our review, we found that OAO did not effectively implement the StrikeForce Initiative pilot program to ensure that the program's goals were met. Instead, OAO bypassed Federal regulations[12] and hand-picked the four CBOs that participated in the initiative without using a competitive process, as required. The CBOs generally had questionable qualifications to adequately achieve the goals of the initiative.

Additionally, OIG found that OAO did not properly authorize the disbursement of StrikeForce Initiative funding to two CBOs. OAO officials were unaware that funds from the StrikeForce Initiative, that were unused after the expiration date listed on the cooperative agreements, had not been returned to the Federal Government, as required.

As a result of the prior audits, OIG determined it necessary to conduct an audit on the administration of OAO's Section 2501 Program grants issued in FYs 2010 and 2011. OIG's followup audit included a review of OAO's policies, procedures, and internal controls in place to manage the FYs 2010 and 2011 grant process. OAO awarded 118 grants in FYs 2010 and 2011, totaling $38.2 million (61 grants totaling $19 million in FY 2010 and 57 grants totaling $19.2 million in FY 2011). For FY 2010, OAO awarded those grants in 27 States, Washington, D.C., and the Federated State of Micronesia; and for FY 2011, OAO awarded grants in 23 States and Washington, D.C. The grants were awarded to universities, CBOs, and Indian tribes.

Objectives

The objectives of the audit were to evaluate OAO's policies, procedures, and internal controls related to its grant management process during FYs 2010 and 2011, and to review the grants awarded in FYs 2010 and 2011 to ensure that grant recipients were eligible and that they expended grants in accordance with regulations.

[11] For purposes of this initiative, poverty-stricken counties are those identified by the U.S. Census Bureau as having poverty rates of 20 percent or more.
[12] 7 CFR § 3015.158.

Section 1: Grant Awards

Finding 1: OAO Potentially Violated the Anti-Deficiency Act

OAO improperly funded Section 2501 Program grants by funding the grants with FY 2010 funds without obtaining a legal obligation in FY 2010, and by funding grants with FY 2011 funds without obtaining a legal obligation in FY 2011. In FY 2010, the legal obligation for 61 grants, totaling $19 million, did not occur until after the FY 2010 funds had expired. Similarly, in FY 2011, the legal obligation for five grants, totaling $1.688 million, did not occur until after the FY 2011 funds had expired. This occurred because OAO submitted, and the Financial Management Division (FMD) improperly accepted, incomplete grant award documentation as evidence of awardees selected for grants. OAO did not obtain and complete unconditional binding grant award documentation prior to the expiration of the available funds.[13] Furthermore, FMD did not have adequate controls in place to ensure that there was a binding grant agreement in place before entering the grant obligation in Financial Management Modernization Initiative (FMMI). As a result, OAO may have an Anti-Deficiency Act[14] (ADA) violation of over $20 million.[15]

Pursuant to the ADA, "[a]n officer or employee of the United States Government . . . may not make or authorize an expenditure or obligation exceeding an amount available in an appropriation or fund for the expenditure or obligation."[16] The 2008 Farm Bill authorized "$20,000,000 for each of fiscal years 2010 through 2012" to carry out the Section 2501 Program.[17] These were 1-year funds that expired at the end of the fiscal year for which they were appropriated. Generally, to properly obligate Federal assistance funds, there must be some action to establish a firm commitment on the part of the United States and the commitment must be unconditional.[18]

In addition, 31 U.S.C. § 1501 states, in pertinent part, that "[a]n amount shall be recorded as an obligation . . . only when supported by documentary evidence of (1) a binding agreement between an agency and another person . . . that is (A) in writing, in a way and form, and for a purpose authorized by law; and (B) executed before the end of the period of availability for

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[13] Grant award documentation was obtained from OAO. OAO was unable to provide grant agreements for all of the grantees from FYs 2010 and 2011; therefore, OIG was able to review only the documentation provided to support the grant award. Additionally, the documentation provided was not always complete, as some documents were missing signatures and dates. Documentation included: grant agreements, grant award fact sheets, and grant award summary sheets. OIG based its conclusions regarding the obligation of awards on the documentation provided by OAO. The potential ADA violation is based on the documentation that OIG was provided; however, if additional documentation is identified, it may impact this finding.

[14] 31 U.S.C. § 1341.

[15] All numbers and dollar figures are based on information obtained from OAO and FMD through August 14, 2014.

[16] 31 U.S.C. § 1341(a).

[17] Pursuant to the 2008 Farm Bill, $20 million was made available annually in FYs 2010 through 2012 for Section 2501 Program grants. The 2008 Farm Bill also provides that not more than 5 percent (or $1 million) of the $20 million each year may be used for administering the Section 2501 Program. Pub. L. No. 110-246, § 14004(a)(3)(A) (June 18, 2008). OIG did not audit the funds used for administering the program.

[18] Government Accountability Office (GAO), "*Principles of Federal Appropriations Law,*" Third Ed., Vol. II, GAO 06-382SP, Ch. 7, "Obligation of Appropriations," pp. 7-40 (February 1, 2006).

obligation . . . or (5) a grant . . . payable (A) from appropriations made for payment of, or contributions to, amounts required to be paid in specific amounts fixed by law . . . ; (B) under an agreement authorized by law; or (C) under plans approved consistent with and authorized by law."[19] Lastly, the grant agreements for OAO's Section 2501 Program in FY 2010 and FY 2011 stipulated that the grant "shall be effective when executed by both parties."

OAO Improperly Funded FYs 2010 and 2011 Section 2501 Program Grants

To determine whether OAO awarded FYs 2010 and 2011 funds in accordance with Section 2501 Program regulations, we nonstatistically[20] selected 4 grantees and reviewed 10 grants to identify whether the grant award documentation was signed, dated, and completed (so that a valid obligation was created) prior to the end of the fiscal year in which the funds were available.[21] Of the 10 grants, 6 were intended to be funded with FY 2010 funds and 4 were intended to be funded with FY 2011 funds. We found that all six of the grants from FY 2010 were not properly obligated in FY 2010 because the grant award documentation was signed and dated by an OAO official or the grantee on or after October 1, 2010, which was in FY 2011, or the documentation was not signed and dated. Thus, the grant award documentation was not completed (and no legal obligation was created) during the period of availability of the funds.

As a result of identifying issues with 6 of the 10 grants, we expanded our review to include all grants awarded by OAO in FYs 2010 and 2011. OAO awarded 61 grants, totaling $19 million, in FY 2010 and 57 grants, totaling $19.2 million, in FY 2011. We identified the following:

- OAO staff were not able to provide evidence that any of the FY 2010 grant award documents were fully executed in FY 2010. We found that all 61 grants, totaling $19 million, were improperly obligated and not fully executed during the period of availability of funding for FY 2010. Thus, no legal obligation occurred in FY 2010, as the grants are not considered effective and binding until they are fully executed (signed and dated by both an OAO official and the grant recipient).
- OAO staff were not able to provide evidence that 5 of the 57 FY 2011 grants, totaling $1.688 million, were executed in FY 2011. Thus, no legal obligation occurred as to these five grants in FY 2011, as the grants are not considered effective and binding until they are fully executed (signed and dated by both an OAO official and the grant recipient).

Based on our analysis, we determined that $19 million of FY 2010 funds was improperly obligated, and $1.688 million of FY 2011 funds was improperly obligated, which resulted in a potential ADA violation. In both instances, former OAO officials improperly funded grants without first obtaining fully executed grant award documentation within the period of availability of funds and creating a legal obligation.

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[19] 31 U.S.C. §1501(a).

[20] We nonstatistically selected the recipients based on the geographic location of the grant recipients (grant recipients from States that had a high volume of grant activity), the monetary value of the grants (grants that had higher monetary value), and that the recipients were awarded grants in FYs 2010 and 2011.

[21] FY 2010 funds were available to obligate from October 1, 2009, through September 30, 2010. FY 2011 funds were available to obligate from October 1, 2010, through September 30, 2011.

Current OAO personnel stated that they were unaware of exactly what happened in FYs 2010 and 2011, as they were not employed by OAO at that time. However, former OAO personnel informed us that there were no policies or procedures for awarding grants during FY 2010 and the FY 2011 process was difficult.[22] Additionally, a former OAO employee stated that the staff was inexperienced and OAO had no infrastructure during those years. As part of our work, we reviewed the pertinent laws and regulations, as well as the grant award documentation, that OAO made available to us. Based on our review of this information and discussion with current and former OAO personnel, we determined that OAO had not properly funded FY 2010 or 2011 grants in accordance with regulations.

Based on our analysis, we recommend that OAO obtain and examine all grant agreements for FYs 2010 and 2011 grants to determine if they were executed within the period of availability of funding for FYs 2010 and 2011 Section 2501 Program grants.[23] Additionally, OAO should develop and implement standard operating procedures (SOP) to ensure that it obtains binding grant agreements (i.e., signed by both the grantee and an appropriate OAO official) within the period of availability of the appropriation prior to sending names and documentation to FMD for grant obligation.

Financial Management Division (FMD) Improperly Recorded Obligations of Funds for Grants

FMD recorded obligations for FY 2010 Section 2501 Program grants before obtaining fully executed grant award documentation from OAO. Specifically, FMD recorded obligations for most of the FY 2010 grants on August 30, 2010, prior to the dates of execution identified on the grant award documentation provided by OAO.[24] In response to our questions, an FMD official stated that [redacted] believed that there was a meeting on August 30, 2010, during which the grants were awarded and, therefore, the date of August 30, 2010, was applied as the date of obligation for those grants. However, the FMD official was unable to provide any documentation supporting the statement.

FMD is responsible for obligating and transferring funds within the Financial Management Modernization Initiative (FMMI).[25] We found that FMD recorded obligations in FMMI for 59 of 61 FY 2010 grants before grant award documentation was signed and dated by the grant recipient and OAO. Additionally, FMD recorded obligations for 53 of the 57 FY 2011 grants in FMMI before grant award documentation was signed and dated by the grant recipient and OAO.

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[22] Discussions with former OAO personnel took place during the course of our work for Audit Report 91099-0001-21, *Controls Over the Grant Management Process of the Office of Advocacy and Outreach*, February 2013.
[23] A total of 118 grants were intended to be awarded in FYs 2010 and 2011 (61 in FY 2010 and 57 in FY 2011).
[24] Information OIG obtained from FMMI, August 2014, detailing Grant Obligations and Posting Dates (i.e., obligation date) had inconsistencies that FMD could not explain. To resolve the inconsistencies, FMD contacted the National Finance Center (NFC) to obtain clarification. Per NFC's response, the request for resolution was given a low priority, and no timeframe was provided to answer OIG's questions. As a result, the information presented is based on the information obtained from FMMI.
[25] FMMI modernized Departmental and agency financial and administrative payment and program general ledger systems.

FMD officials informed us that they did not have, and still do not have, procedures or controls in place for recording obligations within FMMI for Section 2501 Program grants. An FMD official who recorded obligations for FY 2010 Section 2501 Program grants stated that FY 2010 was the first time FMD had recorded obligations for Section 2501 Program grants and, as such, FMD officials were unfamiliar with the process. The official also stated that FMD handled the recording of obligations for the Section 2501 Program grants in FYs 2010 and 2011 differently than the recording of other obligations during those years. Specifically, FMD recorded obligations for the Section 2501 Program grant funds for FYs 2010 and 2011 without first obtaining signed and dated grant award documentation. Instead, FMD entered the obligations based on a listing of grantees and award amounts, provided by a [redacted] OAO official. The official stated that FMD had copies of the selection letters that were sent by OAO to the grantees. However, the official stated that for all other obligations, FMD would not record the obligation unless both parties, the agency and the awardee, had signed and dated the agreement. As FMD has no established process for recording obligations for Section 2501 Program grants, we concluded that FMD should develop SOPs to ensure that it only records obligations in the FMMI accounting system when it has obtained from OAO a properly signed, binding agreement executed within the period of availability of the appropriation.

[redacted] stated that [redacted] did not know why FMD recorded the obligations without requiring both signatures and dates on the grant agreements. [redacted] stated that FMD should not have recorded the obligations in FYs 2010 and 2011 unless it had both signatures, the OAO official's and the grantee's, and dates on the agreement by September 30. [redacted] also confirmed that FMD did not have, and still does not have, any SOPs for Section 2501 Program grant obligations. [redacted] informed us that FMD had not developed SOPs on how to record Section 2501 Program grants. [redacted] stated that Departmental Management had just undergone a major reorganization, was implementing a new financial system (FMMI), and this was the first time that it had obligated Section 2501 Program grants.

Based on our audit, we concluded that OAO improperly funded Section 2501 Program grants prior to obtaining a legal obligation in FYs 2010 and 2011, resulting in a potential ADA violation.

Recommendation 1

Require OAO to obtain, if possible, original FYs 2010 and 2011 Section 2501 Program grant agreements and identify if they were executed within the period of availability of funds for FYs 2010 and 2011.

Agency Response

In its March 3, 2015, response, OAO officials stated that OAO and FMD reviewed all available grant agreements for FYs 2010 and 2011. They determined that not all of the agreements were executed within the period of availability of funds for FYs 2010 and 2011.

OIG Position

We accept management decision for this recommendation.

Recommendation 2

Require OAO to consult with the Office of the General Counsel (OGC) regarding whether any ADA violation may have occurred.

Agency Response

In its March 3, 2015, response, OAO officials stated that it [redacted]

OIG Position

We accept management decision for this recommendation.

Recommendation 3

Require OAO to address or correct any ADA violation.

Agency Response

In its March 3, 2015, response, OAO officials stated that [redacted] Final corrective action will be implemented by June 30, 2015.

OIG Position

We accept management decision for this recommendation.

Recommendation 4

Require OAO to develop SOPs to ensure that it obtains binding grant agreements (i.e., signed and dated by both the grantee and OAO) within the period of availability of the appropriation prior to requesting that the Financial Management Division (FMD) obligate a grant obligation.

Agency Response

In its March 3, 2015, response, OAO officials stated that the SOPs are currently in revision to include the requirement to sign and date the grant agreements within the period of availability. Proper execution of the grant agreements will be required prior to requesting FMD to obligate grant awards. The procedures will be implemented by September 30, 2015.

OIG Position

We accept management decision for this recommendation.

Recommendation 5

Require FMD to develop SOPs to ensure that it only enters obligations into the FMMI accounting system when there is a binding agreement executed within the period of availability of the appropriation.

Agency Response

In its March 3, 2015, response, OAO officials stated that the FMD SOPs are currently being developed. (The Office of the Assistant Secretary for Administration subsequently agreed via email with the corrective action.) The procedures will be implemented by September 30, 2015.

OIG Position

We accept management decision for this recommendation.

Finding 2: OAO Selected Questionable Grantees in FYs 2010 and 2011

Those receiving Section 2501 Program grants may not have been the most meritorious applicants in FYs 2010 and 2011, based on the regulatory requirements and guidelines cited by the Funding Opportunity Announcement (FOA). This occurred because former OAO officials did not use a competitive process to select recipients, as required, and did not maintain documentation about the selection process, which impaired our ability to fully evaluate the selections made. The selection of less meritorious applicants negatively impacts the assistance provided to socially disadvantaged farmers and ranchers, and could expose the Department to unnecessary criticism and potential legal action. Overall, we question the merits of all 118 Section 2501 Program grants, totaling over $38 million, issued in FYs 2010 and 2011.

Federal regulations require OAO to use a competitive process to select organizations[26] that receive grant funds through the Section 2501 Program.[27] The regulations state that OAO officials must award grants competitively to ensure that the most meritorious applicants receive funds, unless they can justify a deviation from competition. Federal regulations also state that the guiding principle for Federal assistance proposal review and evaluation is to ensure that each proposal is treated in a consistent and fair manner.[28] OAO was responsible for making Federal assistance awards to those responsible, eligible applicants whose proposals were judged most meritorious under the procedures established in the request for proposal[29] or the FOA.[30]

We found that OAO did not: (1) document the process used to select grantees, (2) use a competitive process to select grantees, and (3) follow guidance during the selection and administration of grant recipients for FYs 2010 and 2011. These actions violated regulations and the provisions set forth in the FOA. This issue has been a consistent theme for OAO, as the same issue was identified during OIG's audit of the FY 2012 grant selection process.[31]

Lack of Documentation

Current OAO officials could not provide documentation to support variables and criteria used by former OAO officials to make funding decisions in FYs 2010 and 2011. Based on our examination of OAO's limited files associated with the FYs 2010 and 2011 grant selection process,[32] and discussions with current and former[33] OAO personnel, we determined the grant

[26] 7 CFR § 3019.43, "Competition," Organizations eligible to receive Section 2501 Program grant funds include: 1890 land-grant institutions, Indian tribal community colleges, Alaska native cooperative colleges, Hispanic-serving post-secondary educational institutions, other accredited post-secondary educational institutions, Indian tribes, and Community-Based Organizations (CBO).
[27] 7 CFR § 3015.158, "Competition in the Awarding of Discretionary Grants and Cooperative Agreements."
[28] 7 CFR § 2500.021, "Guiding Principles."
[29] 7 CFR § 2500.031, "Administration."
[30] 7 CFR § 3015.158, "Competition in the Awarding of Discretionary Grants and Cooperative Agreements."
[31] Audit Report 91099-0001-21, *Controls Over the Grant Management Process of the Office of Advocacy and Outreach*, February 2013.
[32] Our examination included a review of OAO grant award records from FYs 2010 and 2011. We reviewed files for four sample grantees, based on States receiving the greatest number of grants, receiving grants in both FYs 2010 and 2011, and geographic location. We also requested further files from OAO regarding the grant selection process.
[33] Discussions with former OAO personnel were held during our work on Audit Report 91099-0001-21, *Controls Over the Grant Management Process of the Office of Advocacy and Outreach*, February 2013.

files do not contain documentation explaining why proposed applicants were or were not selected or any documentation to explain the criteria that were used to make the selections.

The [redacted] confirmed that there were no records available documenting the FYs 2010 and 2011 Section 2501 Program grant selection process. Current OAO officials attempted to generate FYs 2010 and 2011 grant files and, in some cases, supplemented the files with documentation obtained from the grant recipients. The current OAO officials were unable to provide a complete list of applications submitted for FYs 2010 or 2011. The lack of documentation prevented us from being able to determine if the most meritorious applicants were selected to receive grants based on competitive guidelines, and adversely impacts the transparency and accountability associated with selecting meritorious applicants to be awarded grants through the Section 2501 Program.

Additionally, the Section 2501 Program staff had high turnover during FYs 2010 and 2011, which added to the inconsistency in documentation retained by OAO. In fact, during our fieldwork, there were no current OAO officials who were involved in administering grants during FYs 2010 and 2011. This hindered our ability to obtain information as to why OAO had not documented the FYs 2010 and 2011 grant selection process. However, during our prior audit,[34] several former OAO officials confirmed that they had not documented funding decisions in FYs 2010 and 2011. Specifically, one former official stated that there seemed to be an effort to avoid putting anything in writing.

Competition Requirements Not Followed

[redacted] could not explain why grantees were not selected using a competitive process in FYs 2010 and 2011. [redacted] stated that while [redacted] had the final say as to which grantees were selected, input by other Departmental officials was also considered in the final decisions. Additionally, [redacted] confirmed that there were no records available for the FY 2010 and FY 2011 Section 2501 Program grant selection process. The lack of documentation prevented us from being able to determine if the most meritorious applicants were selected to receive grants based on competitive guidelines. Based on the information provided by current and former OAO officials and the limited documentation available, we determined that OAO did not follow the competitive guidelines as prescribed by Federal regulations, which state that awarding agencies shall enter into grants only after competition.[35] These regulations state that the awarding agency's competitive award process shall adhere to the following standards: (1) applicants must be invited to submit proposals through formal publication to reach the highest number of potential applicants, and (2) proposals are to be evaluated objectively by independent reviewers in accordance with criteria set forth by the awarding agency in the FOA.[36]

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[34] Audit Report 91099-0001-21, *Controls Over the Grant Management Process of the Office of Advocacy and Outreach*, February 2013.

[35] 7 CFR § 3015.158, "Competition in the Awarding of Discretionary Grants and Cooperative Agreements;" 7 CFR § 3019.44, "Procurement Procedures," OMB, "Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations;" Circular A-110 § 43, as amended (September 30, 1999).

[36] 2010 FOA Part IV "Application Review Information," 2010 FOA Part V "Application Submission," 2011 FOA "Executive Summary," and 2011 FOA Part III "Eligibility Information."

According to the FOA for FYs 2010 and 2011, each applicant for a Section 2501 Program grant should have been ranked based on merit through a two-part process. First, applications were to have been screened to ensure the applicant met the administrative requirements of the FOA and, second, applications that met those first requirements would then be technically evaluated by a review panel. The review panel would conduct a merit review based on the evaluation criteria. OAO would use this merit-based review to determine which applications would be recommended for funding. However, final approval of applications recommended for award would be made by the Assistant Secretary for Administration.[37]

The evaluation criteria set forth in the FY 2010 and the FY 2011 FOAs included reviewing applications based on: (1) the degree or number of socially disadvantaged farmers, ranchers, and forest landowners that the applicant proposed to assist; (2) the number of prospective socially disadvantaged farmers, ranchers, and forest landowners that the applicant proposed to assist; and (3) the number of USDA programs that socially disadvantaged farmers, ranchers, and forest landowners are introduced to and encouraged to participate in. The highest-ranking applications would be selected based on the allocation of funds available.[38]

However, OAO did not adhere to the competition requirements provided in the FOAs. A [redacted] OAO official told us that the review panel's recommendation was not necessarily the basis for making decisions in FYs 2010 and 2011. The [redacted] OAO official also stated that OAO did not review every grant proposal that was received, and the funding announcement in FY 2010 made the scoring requirement difficult. Additionally, another [redacted] OAO official stated [redacted] was notified by OAO officials in informal and undocumented ways to fund grant proposals, including through phone calls and unsigned post-it notes. OAO had no documentary evidence supporting that it selected FYs 2010 and 2011 grant recipients according to the requirements for competition provided in the FOAs.

We reported similar issues in our May 2012 Fast Report on the merit of OAO's initial selection of FY 2012 Section 2501 Program grant recipients.[39] We reported that at least some of the 57 applicants selected in FY 2012 may not have been the most meritorious candidates because OAO disregarded regulatory requirements and guidelines cited in the FOA. This occurred because OAO officials had not adhered to their draft policies and procedures or the guidelines cited in the FOA.

Overall, neither current nor former OAO officials could provide evidence that OAO selected grant recipients in FYs 2010 and 2011 based on the competitive requirements provided in the FOAs. The lack of documentation prevented us from being able to determine if the most meritorious applicants were selected to receive grants based on the competitive requirements provided in the FOA.

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[37] 2010 FOA Part II "Award Information," 2010 FOA Part IV "Award Administration Information," 2010 FOA Part V "Application Review Information," and 2011 FOA Part V "Application Review Requirements."
[38] 2010 FOA Section V "Application Review Information" and 2011 FOA Part V "Application Review Requirements."
[39] Audit Report 91099-0001-21 (1), *Controls Over the Grant Management Process of the Office of Advocacy and Outreach*, May 2012.

To ensure that this issue, which was identified in each fiscal year from 2010 through 2012, does not continue with future appropriations, we recommend that the Assistant Secretary for Administration closely monitor OAO to ensure that it administers the Section 2501 Program as required by policy and procedure.

Lack of Guidance to Administer Grants

The [redacted] stated that there were no documented SOPs for FYs 2010 and 2011. Through our discussions with former OAO staff, we also determined OAO did not implement or follow any guidance during the administration of FYs 2010 and 2011 grants. This occurred because OAO officials (1) had not developed SOPs for FY 2010, and (2) did not follow draft SOPs for FY 2011. Current and former OAO officials were unable to provide an explanation of how FYs 2010 and 2011 grants were selected, obligated, processed, or overseen. In [redacted], a [redacted] OAO official stated that staff was unsure if the procedures were even signed. The same official reported that OAO only occasionally used the draft SOPs.

Through our current audit, we found that OAO had updated its SOPs as of June 2013. Our review found that the updated SOPs appear adequate to address the concerns identified during our previous audit. However, we determined that the updated policies have not been fully implemented by OAO. Specifically, OAO has still not implemented monitoring procedures to ensure that grants issued in FYs 2010 and 2011 adhered to regulations and the terms and conditions set forth in the grant agreement (see Finding 3). Therefore, OAO is not effectively administering grant funds awarded in FYs 2010 and 2011.

The 2014 Farm Bill authorizes additional appropriations for the Section 2501 Program totaling $30 million for each of FYs 2014-2018.[40] These funds are exposed to an increased risk of misuse because OAO did not implement adequate policies. To correct this deficiency, OAO should implement its current operating procedures and ensure that its personnel adequately administer those procedures to avoid the issues we have identified.

Given the severity, consistency, and pervasiveness of the problems we have found with how OAO has awarded grants for the Section 2501 Program, the Assistant Secretary for Administration should closely monitor OAO to ensure that it administers the Section 2501 Program as required by policy and procedure. Overall, we question the merits of all 118 grants, totaling $38,200,000, issued in FYs 2010 and 2011.

Recommendation 6

Require the Assistant Secretary for Administration to more closely monitor OAO to ensure that it administers the Section 2501 Program as required by policy and procedure.

[40] The Agricultural Act of 2014, Pub. L. No. 113-79, Title XII, § 12201.

Agency Response

In its March 3, 2015, response, OAO officials stated that the Assistant Secretary for Administration monitors the OAO to ensure that it administers the Section 2501 Program as required by policy and procedure. (The Office of the Assistant Secretary for Administration subsequently agreed via email with the corrective action.) The monitoring will be implemented by September 30, 2015.

OIG Position

We accept management decision for this recommendation.

Section 2: Grant Management

Finding 3: OAO Did Not Provide Oversight for the Section 2501 Program

OAO did not ensure that FYs 2010 and 2011 grantees adhered to regulations or the terms and conditions of their grant agreements. We found that four grantees selected[41] for review had violated at least one or more of the terms or conditions set forth in the grant agreement or regulations. These violations included inadequate documentation of expenses, funds used after the grants had expired, a lack of transparency, and conflicts of interest. The grantees were able to violate the terms of their grants without detection because OAO had not developed or implemented policies, procedures, or controls to administer the Section 2501 Program in FYs 2010 and 2011. Specifically, OAO had not performed monitoring activities—such as site visits or desk reviews[42]—to evaluate the use or implementation of FYs 2010 and 2011 grant funds. By allowing grantees to violate regulations or the terms and conditions of the grant agreement, OAO did not ensure grant funds were used to meet the objectives of the Section 2501 Program.

Federal regulations state that, to be allowable under an award, costs must be reasonable, conform to limitations set forth in the award, be consistent with award policy, and be adequately documented.[43] Per the grant agreement, the grantee shall use grant funds only for the purposes and activities approved by OAO.[44] The grantee shall retain financial records, supporting documents, and all other records pertinent to the grant for a period of at least 3 years after the final report.[45] To ensure awards are properly administered, Federal regulations require agencies to monitor an award throughout its lifetime.[46] Additionally, the grant agreement states that OAO will monitor grantee performance to ensure performance requirements are met.[47]

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[41] We nonstatistically selected the grantees based on geographic location of the grant recipients (grant recipients from States that had a high volume of grant activity), the monetary values of the grants (grants that had higher monetary values), and that the recipients received grants in both FYs 2010 and 2011. There were 73 grant recipients who received Section 2501 Program funds in FYs 2010 or 2011.

[42] OAO SOP Section 401, "Monitoring Compliance," dated June 10, 2013: "Based upon funding availability, on and off-site visits are required at least every 3 years on at least 20 percent of the grantee population per fiscal year using a risk-based and/or statistical sampling approach. The visits should be documented using an on-site and desk review questionnaire with a hard copy placed into the grantee's official file. In the event funding is unavailable, OAO senior management can allow for alternative means of visits or can request the services from liaisons and other field office personnel within USDA. Any deficiencies identified through post-award monitoring are to be addressed formally through a corrective action plan."

[43] OMB, "Cost Principles for Non-Profit Organizations," Circular A-122 § (A)(2)(a), (b), (c), and (g), (May 10, 2004).

[44] OAO's FYs 2010 and 2011 Grant Agreement, Part B, Clause 5.

[45] OAO's FYs 2010 and 2011 Grant Agreement, Part C, Clause 3.

[46] OMB, "Recompilation of OMB Circular A-102," Circular A-102 (August 29, 1997); OMB, "Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations," Circular A-110, as amended (September 30, 1999).

[47] OAO's FY 2010 Grant Agreement, Part B, Clause 11(a), and FY 2011 Grant Agreement, Part B, Clause 12(b).

According to the 2008 Farm Bill, OAO could use up to 5 percent of the available funding, or $1 million, to administer the Section 2501 Program in FYs 2010 and 2011.[48] However, we found that OAO did not use these funds to perform monitoring activities, which enabled the FYs 2010 and 2011 grantees to violate regulations or the terms and conditions of the grant agreement.

Grant Awards Inadequately Administered

To identify whether the grants awarded in FYs 2010 and 2011 were administered in compliance with regulations and the grant agreement, we performed site visits to four grantees. The 4 grantees received a total of 10 grants, 6 of which were awarded in FY 2010 and 4 in FY 2011. As a part of our review, we selected[49] expenses to determine if they complied with award policy and were adequately documented by the grantees. We identified inadequately documented expenses at each of the four grantees we reviewed. Through our analysis of the grantees' financial records, we determined that:[50]

- Grantee A lacked adequate supporting documentation, including activity reports, detailing how the funds were used for 12 ($8,999) of the 15 ($13,677) expenses selected for review.
- Grantee B lacked adequate supporting documentation, including activity reports, detailing how the expenses were used for 6 ($33,156) of the 15 ($39,024) expenses selected for review.
- Grantee C lacked adequate supporting documentation, including activity reports, detailing how the expenses were used for 6 ($3,351) of 15 ($13,815) expenses selected for review.
- Grantee D did not have an accounting system to track or record expenses, and could not provide a complete list of expenses or supporting documentation; therefore, we were unable to select a sample of expenses for review. We, therefore, questioned all [redacted] in grant funds provided to the grantee in FYs 2010 and 2011.[51]

In total, we identified that the four grantees had over [redacted] in expenses that lacked adequate documentation supporting how the entities' activities contributed to advocacy and outreach efforts, which is the purpose of the Section 2501 Program.

To be allowable under an award, costs must be reasonable, conform to limitations set forth in the award, be consistent with award policy, and be adequately documented.[52] Additionally, the grant agreement states that the grantee shall retain financial records, supporting documents, and

[48] The 2008 Farm Bill, Pub. L. No. 110-246, tit. XIV, § 14004 (June 18, 2008). The Act also provides that not more than 5 percent (or $1 million) of the $20 million each year may be used for administering the program. OIG did not audit the funds used for administering the Section 2501 Program.
[49] We nonstatistically selected 15 expenses for each of 10 grants. The expenses were selected from the universe of expenses provided by the grantee, dividing those expenses into three strata (high, average, and low dollar value), and then selecting five expenses from each stratum. One grantee was unable to provide a complete list of expenses from which we could select a sample.
[50] See Exhibit B for a listing of the grantees that we reviewed.
[51] Grantee D was awarded [redacted] in FY 2010 and [redacted] in FY 2011.
[52] OMB, "Cost Principles for Non-Profit Organizations," Circular A-122, § (A)(2)(a),(b),(c) and (g) (May 10, 2004).

all other records pertinent to the grant for a period of at least 3 years after the final report.[53] However, the four grantees we reviewed inadequately documented expenses and did not retain adequate records.

We determined that this occurred because OAO had not performed any monitoring activities.[54] According to the [redacted] OAO had no documented SOPs, including monitoring requirements, for FYs 2010 and 2011. Additionally, former OAO officials stated that no onsite reviews were performed and grantees did not submit required progress and financial reports. This lack of monitoring enabled the grantees to violate documentation requirements established through regulations and the terms and conditions of the grant agreement.

During site visits to the four grantees, we asked if any officials from OAO had either visited or contacted the grantees to perform any monitoring activities. None of the grantees had been subjected to any formal monitoring review. Current and former OAO officials stated that onsite monitoring was not completed due to lack of staff and funding. However, according to regulations and the grant agreement, monitoring is required. Thus, OAO officials should have attempted to complete desk reviews to ensure grantees adequately documented expenses.

Grant Agreement Violations

We also found that all of the grant recipients in our sample violated terms or conditions set forth in the grant agreement. These violations were identified through a review of financial records and other supporting documentation provided by the grantees and OAO. Specifically, we identified whether the selected grantees: (1) awarded subcontracts to other entities in accordance with regulation; (2) adhered to conflict of interest, or nepotism, regulations; (3) had a financial management system in accordance with regulations; and (4) conducted Single Audits in accordance with regulations.

Our review of the four sampled grantees identified the following:

- Subcontracts—We found that two of the grantees violated policy[55] by issuing more than 50 percent of the grant award for subcontracts.
    - Grantee A subcontracted $201,484 of a [redacted] grant award.
    - Grantee D subcontracted at least $274,000 of a [redacted] award.

- Expired grants—Grantees A and B were reimbursed $448,735 for expenses they incurred after the grant expiration date.[56]

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[53] OAO's FYs 2010 and 2011 Grant Agreement, Part C, Clause 3.
[54] OMB, "Recompilation of OMB Circular A-102," Circular A-102 (August 29, 1997); OMB, "Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations," Circular A-110, as amended (September 30, 1999).
[55] The FY 2010 FOA provides that "[t]he subcontracted amount may not exceed one-third of the total grant award." The FY 2011 FOA provides, "[n]o more than one-half of the total funds available may be subcontracted to third parties."
[56] Grant Agreement, Part B (Terms and Conditions) Clause 7(c)—costs incurred after expiration of the grant are unallowable.

- Nepotism—We found two grantees violated regulations[57] and the nepotism grant agreement clause.
    - Grantee A awarded the [redacted] contract to the [redacted].
    - Grantee D awarded a subcontract [redacted]

- Financial Management System—Grantee D violated the clause requiring the grantee to provide a financial management system, including accounting records supported by source documentation.[58] The grantee did not have a financial management system and was unable to provide us with documentation to support the expenditure of grant funds. We noted that contractors were paid [redacted] stipends, though they did not report activities, and board members were paid for travel without providing invoices for expenses incurred.

- Single Audit—Grantee D did not obtain an annual audit after expending $500,000 or more of Federal awards in 1 year, which violated Federal regulations.[59]

Current OAO officials stated that they were unaware of these issues as they were not involved with the FY 2010 and FY 2011 grant process. If current or former OAO officials had completed monitoring procedures, such as onsite or desk reviews, these issues could have been identified and resolved.

We concluded that OAO is not completing adequate oversight or monitoring of FYs 2010 and 2011 grant recipients. No known site visits or other monitoring of FYs 2010 and 2011 grant recipients have been performed by OAO officials. By allowing grantees to violate regulations or the terms and conditions of the grant agreement, OAO did not ensure grant funds were used to meet the objectives of the Section 2501 Program.

As noted above and in Finding 2, current OAO officials stated that they did not have sufficient resources (funds and staff) to adequately monitor the Section 2501 Program. In our view, OAO needs to monitor grantees to ensure that they use program funds in accordance with regulations. The Assistant Secretary for Administration should closely monitor OAO to ensure it completes monitoring activities in compliance with regulations.

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[57] 7 CFR § 3019.42, "Codes of Conduct," states that the "recipient shall maintain written standards of conduct governing the performance of its employees engaged in the award and administration of contracts. No employee, officer, or agent shall participate in the selection, award, or administration of a contract supported by Federal funds if a real or apparent conflict of interest would be involved. Such a conflict would arise when the employee, officer, or agent, any member of his or her immediate family has a financial or other interest in the firm selected for award."

[58] 7 CFR § 3015.61(a), "Financial Management Standards," provides that complete, accurate, and current disclosure of the financial results of each USDA-sponsored project or program shall be made in accordance with financial reporting requirements. The source and application of funds shall be readily identified by the continuous maintenance of updated records.

[59] OMB, "Compliance Supplement," Circular A-133, Subpart B(a) (June 2007). All non-Federal entities that expend $500,000 or more in Federal awards in a year's period are required to obtain an annual audit.

FYs 2010 and 2011 Grants Not Closed Out

We also found that current OAO officials had not closed out and recovered unspent grant funds. None of the 118 grants awarded in FYs 2010 and 2011 had been closed out. However, we found that OAO's records indicated that a majority were ready to be or, in fact, had been closed out.

Federal regulations require agencies to monitor a monetary award during the entire period of an agreement.[60] Additionally, Federal regulations state that all unobligated funds after the expiration of an agreement must be immediately remitted to the Treasury.[61]

As of February 2014, OAO's records indicated that 17 FY 2010 and 9 FY 2011 grants were ready for close out, and 24 FY 2010 and 19 FY 2011 grants had been closed out. However, when we asked OAO officials to provide evidence that the grants had been closed out, they informed us that none of the grants have been closed in accordance with their SOPs. They stated that OAO was waiting on final documentation, but had yet to send those grantees a closeout letter, as required by regulation[62] and its SOPs.[63] When asked why grants were labeled as ready for close out, OAO officials provided the same reply, stating that those grants were ready to begin the closeout process because the grantees had completed their grants. However, current OAO officials stated that they were waiting on final documentation and the closeout letter. When we asked why they had not begun the process to close those grants, OAO officials were unable to provide a reason. Current OAO officials informed us that they were understaffed and were in the process of getting their records up-to-date.

In addition to not closing the grants, OAO has also not deobligated any unspent grant funds. Per OAO's records, the 41 grants labeled closed out or ready for close out for FY 2010 still had almost $138,000 in grant funds outstanding. For FY 2011, OAO's records indicated that the 28 grants labeled closed out or ready for close out still had over $13,000 in grant funds outstanding. When asked why they had not recovered the outstanding funds, OAO officials stated that they had sent letters notifying grant recipients to send a timeline for when or if the funds would be spent. The official also stated that OAO informed the grantees that unused funds should be returned to the Treasury. However, OAO officials were unable to provide a copy of this letter.

Throughout this review, we determined that OAO was not complying with regulations or its own SOPs. OAO officials are required to close out grants as soon as possible after expiration of the grant award. However, none of the FY 2010 or FY 2011 grants have been closed. Additionally, OAO has not recovered any unused grant funds.

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[60] 7 CFR § 2500.002, "Definitions"; 7 CFR § 2500.047, "Project Meetings"; OMB, "Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations," Circular A-110, as amended (September 30, 1999); OMB, "Recompilation of OMB Circular A-102," Circular A-102 (August 29, 1997).

[61] OAO should deobligate the remaining funds. 7 CFR § 2500.053, "Expiring Appropriations."

[62] 7 CFR § 3015.120(a), "Closeout," states that each grant or subgrant shall be closed out as soon as possible after expiration or notice of termination. 7 CFR § 3015.120(b)(3) states that within a maximum period of 90 days following the date of expiration of a grant, all financial, performance, and related reports required by the terms of the agreement shall be submitted to the awarding agency by the recipient.

[63] OAO SOPs, Section 500, Clause 3, states that the closeout letter is approved and signed by OAO senior management, then sent to the grantee. OAO officials stated the draft SOPs were implemented in October 2012. OAO signed the SOPs on June 10, 2013.

Overall, we concluded that OAO did not ensure FYs 2010 and 2011 grant recipients adhered to regulations or the terms and conditions of the grant agreement. Through our review of select grantees, we identified inadequate documentation of expenses, violations of the terms or conditions of the grant agreement, and failure by OAO to close out grants and recover unused funds. These issues occurred because neither current nor former OAO officials had implemented monitoring procedures to ensure that grantees adhered to regulations and the terms and conditions of the grant agreement. As a result, OAO failed to ensure grants were exclusively used to meet the objectives of the Section 2501 Program.

Recommendation 7

Require OAO to implement its monitoring procedures as outlined in its SOPs so that it can ensure grantees adhere to regulations and the terms and conditions of the grant agreement.

Agency Response

In its March 3, 2015, response, OAO officials stated that OAO will implement its monitoring procedures, as outlined in its SOPs, so that it can ensure grantees adhere to regulations and the terms and conditions of the grant agreement. The procedures will be implemented by September 30, 2015.

OIG Position

We accept management decision for this recommendation.

Recommendation 8

Require OAO to close out all grants according to its SOPs.

Agency Response

In its March 3, 2015, response, OAO officials stated that OAO is currently closing out all grants as required in the SOPs. The procedures will be implemented by September 30, 2015.

OIG Position

We accept management decision for this recommendation.

Recommendation 9

Require OAO to deobligate all unused grant funds within the timeframe established by regulation.

Agency Response

In its March 3, 2015, response, OAO officials stated that OAO is currently deobligating all grants as required in the regulation. The procedures will be implemented by September 30, 2015.

OIG Position

We accept management decision for this recommendation.

Scope and Methodology

Our audit looked at the Section 2501 Program grants awarded by OAO in FYs 2010 and 2011. To determine whether the grants were properly executed prior to establishing the obligations, we evaluated the grant documentation for all 118 grants in FYs 2010 and 2011, totaling $38.2 million (61 grants totaling $19 million in FY 2010 and 57 grants totaling $19.2 million in FY 2011). We also evaluated OAO's policies, procedures, and internal controls to determine the effectiveness of OAO's overall grant management process and the monitoring of grant funds.

Pursuant to the 2008 Farm Bill, $20 million was made available in each of FYs 2010 through 2012 for Section 2501 Program grants. The 2008 Farm Bill also provides that not more than 5 percent (or $1 million) of the $20 million each year may be used for administering the 2501 Program. OIG did not audit the funds used for administering the Section 2501 Program.

We performed audit work at the OAO national office located in Washington, D.C., and at four nonstatistically selected grantees. The selection was based on geographic location of the grant recipients, monetary value of the grants, and grant awards in both FYs 2010 and 2011. We selected grant recipients that (1) were from States with a high volume of grant activity, (2) had high monetary value grants, and (3) had received grant awards in both FYs 2010 and 2011. We conducted site visits to one grantee in [redacted], two grantees in [redacted], and one in [redacted]. We performed audit fieldwork from April 2013 through July 2014.

We requested documentation to support how OAO reviewed the grant proposals and approved grants during FYs 2010 and 2011. However, OAO was unable to provide us with a complete list of applications submitted, supporting documentation, or documentation to support the selection process used to review and approve grant proposals for FYs 2010 and 2011.

To accomplish our objectives we:

- Interviewed OAO officials responsible for the selection, oversight, and management of the Section 2501 Program grants.
- Reviewed an OAO organization chart to determine the hierarchy followed for all grant administration areas.
- Interviewed FMD officials to obtain an understanding of their procedures for establishing obligations in FYs 2010 and 2011.
- Reviewed relevant OIG audit reports: 91099-0001-21, *Controls Over the Grant Management Process of the Office of Advocacy and Outreach*, dated February 2013, and 91099-0002-21, *USDA StrikeForce Initiative*, dated September 2014.
- Analyzed OAO's Section 2501 Program grant award documents for FYs 2010 and 2011 to determine whether they were executed prior to establishing the obligations.
- Reviewed FMD's spending report which listed OAO's expenses for administering the Section 2501 Program.

- Reviewed applicable laws and regulations such as 7 CFR § 3015.158, "Competition in the Awarding of Discretionary Grants and Cooperative Agreements"; 7 CFR Part 2500, *OAO Federal Financial Assistance Programs, General Award Administrative Procedures*; and 7 CFR Part 3016, *Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments*.
- Reviewed OAO's policies and procedures, including draft SOPs developed in 2011 and finalized in June 2013.
- Evaluated the FY 2010 and FY 2011 FOA to determine if OAO properly solicited applications and followed all requirements set forth in the announcement.
- Reviewed and evaluated the grant agreements for FYs 2010 and 2011.
- Analyzed the documentation submitted to OAO by four selected grant recipients, which included: financial reports, progress reports, Single Audit reports, and subgrantee agreements.
- Interviewed four selected grantee officials to identify if OAO had conducted any monitoring and complied with laws and regulations.
- Reviewed financial records maintained by the four selected grantees.

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

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

Abbreviations

ADA.....Anti-Deficiency Act
CBO .....Community-Based Organizations
CFR.....*Code of Federal Regulations*
2008 Farm Bill.....Food, Conservation, and Energy Act of 2008
2014 Farm Bill.....Agricultural Act of 2014
FMD.....Financial Management Division
FMMI.....Financial Management Modernization Initiative
FOA.....Funding Opportunity Announcement
FY .....Fiscal Year
GAO.....Government Accountability Office
NFC.....National Finance Center
OAO.....Office of Advocacy and Outreach
OGC .....Office of the General Counsel
OIG .....Office of Inspector General
OMB .....Office of Management and Budget
Section 2501.....Outreach and Assistance for Socially Disadvantaged Farmers and Ranchers Program
SOP .....Standard Operating Procedures
U.S.C….....*United States Code*
USDA.....Department of Agriculture

Exhibit A: Summary of Monetary Results

The table below summarizes monetary results by finding and includes a description, dollar amount, and the category of questioned costs.

Finding	Recommendation	Description	Amount	Category
1	1	OAO Potential Anti-Deficiency Act Violation	$20,688,000[64]	Accounting Classification Errors
2	6	OAO Did Not Adequately Administer the Section 2501 Program	$38,200,000	Questioned Costs Recovery not Recommended
Total			$38,200,000[65]	

[64] The total monetary value of the grants issued in FYs 2010 and 2011 was $38,200,000 ($19,000,000 in FY 2010 and $19,200,000 in FY 2011). Of those funds, $20,688,000 ($19,000,000 for FY 2010 and $1,688,000 for FY 2011) were identified as improperly awarded by OAO, which resulted in potential ADA violations.

[65] The total amount of funds not provided competitively to grantees was $38,200,000 million (Finding 2) of which $20,688,000 may have resulted in an ADA violation (Finding 1). This prevents the duplication of these costs in our report.

Exhibit B: Grantee Breakdown

The table below shows the location and funding for the four grantees sampled in FYs 2010 and 2011.

Grantee	Location	2010 Funding	2011 Funding	**Total**
A	[redacted]	[redacted][66]	[redacted]	[redacted]
B	[redacted]	[redacted][67]	[redacted]	[redacted]
C	[redacted]	[redacted]	[redacted]	[redacted]
D	[redacted]	[redacted]	[redacted]	[redacted]
	Total	$2,245,113	$1,598,000	$3,843,113

[66] [redacted].
[redacted].

USDA'S
OFFICE OF ADVOCACY AND OUTREACH
RESPONSE TO AUDIT REPORT

United States
Department of
Agriculture

Office of the
Assistant Secretary
for Administration

Office of
Advocacy and
Outreach

1400 Independence
Avenue SW
Washington, DC
20250-9600

March 3, 2015

AUDIT NUMBER: 91099-0003-2 1

TO: Gil H. Harden
Assistant Inspector General for Audit
Office of Inspector General

FROM: Carolyn C. Parker
Director
Office of Advocacy and Outreach

SUBJECT: Section 2501 Program Grants Awarded FY 2010-2011

This letter constitutes the Office of Advocacy and Outreach's (OAO) official response to the recommendations contained within the subject report. The management response is attached.

If you have any questions or need additional information, please contact our office at (202) 720-6350 or contact the Associate Director,
Christian Obineme at Christian.obineme@osec.usda.gov.

Section 2501 Program Grants Awarded FY 2010-2011
Audit Number: 91099-0003-21

RECOMMENDATION 1: Require the Office of Advocacy and Outreach (OAO) to obtain, if possible, original FY 2010 and 2011 Section 2501 Program grant agreements and identify if they were executed with the period of availability of funds for FY 2010 and 2011.

AGENCY RESPONSE: The OAO and the Financial Management Division (FMD) reviewed all available grant agreements for FY 2010 and 2011. It has been determined that not all of the agreements were executed within the period of availability of funds for FY 2010 and 2011. The OAO requests management decision on recommendation 1.

Date Final Corrective Action Completed: January 27, 2015

RECOMMENDATION 2: Require OAO to consult with the Office of the General Counsel (OGC) regarding whether any Anti-Deficiency Act (ADA) violations may have occurred.

AGENCY RESPONSE: The OAO [redacted] The OAO requests management decision on recommendation 2.

Date Final Corrective Action Will Be Completed: January 2015

RECOMMENDATION 3: Require OAO to address or correct any ADA violation.

AGENCY RESPONSE: [redacted] The OAO requests management decision on recommendation 3.

Date Final Corrective Action Will Be Implemented: June 30, 2015

RECOMMENDATION 4: Require OAO to develop Standard Operating Procedures (SOPs) to ensure that it obtains binding grant agreements (i.e., signed and dated by both the grantee and OAO) within the period of availability of the appropriation prior to requesting that the Financial Management Division (FMD) obligate a grant obligation.

AGENCY RESPONSE: The SOPs are currently in revision to include the requirement to sign and date the grant agreements within the period of availability. Proper execution of the grant agreements will be required prior to requesting the FMD to obligate grant awards. The OAO requests management decision on recommendation 4.

Date Final Corrective Action Will Be Implemented: September 30, 2015

RECOMMENDATION 5: Require FMD to develop SOPs to ensure that it only enters obligations into the Financial Management Modernization Initiative (FMMI) accounting system when there is a binding agreement executed within the period of availability of the appropriation.

AGENCY RESPONSE: The FMD SOPs are currently being developed. The OAO requests management decision on recommendation 5.

Date Final Corrective Action Will Be Implemented: September 30, 2015

RECOMMENDATION 6: Require the Assistant Secretary for Administration to more closely monitor the OAO to ensure that it administers the Section 2501 Program as required by policy and procedure.

AGENCY RESPONSE: The Assistant Secretary for Administration monitors the OAO to ensure that it administers the Section 2501 Program as required by policy and procedure. The OAO requests management decision on recommendation 6.

Date Final Corrective Action Will Be Implemented: September 30, 2015

RECOMMENDATION 7: Require OAO to implement its monitoring procedures, as outlined in its SOPs, so that it can ensure grantees adhere to regulations and the terms and conditions of the grant agreement.

AGENCY RESPONSE: The OAO will implement its monitoring procedures in accordance with the SOPs, regulations, and the terms and conditions of the grant agreement. The OAO requests management decision on recommendation 7.

Date Final Corrective Action Will Be Implemented: September 30, 2015

RECOMMENDATION 8: Require OAO to close out all grants according to its SOPs.

AGENCY RESPONSE: The OAO is currently closing out all grants as required in the SOPs. The OAO requests management decision on recommendation 8.

Date Final Corrective Action Will Be Implemented: September 30, 2015

RECOMMENDATION 9: Require OAO to deobligate all unused grant funds within the timeframe established by regulation.

AGENCY RESPONSE: The OAO is currently deobligating all grants as required in the regulation. The OAO requests management decision on recommendation 9.

Date Final Corrective Action Will Be Implemented: September 30, 2015

CERTIFICATION: I certify that the response and actions detailed in the Agency Response section above have/will be completed.

Carolyn Parker, Director, Office of Advocacy and Outreach

3/4/2015

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