Office of Inspector General
United States Department of State

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# Audit of the Department of State Management and Monitoring of Federal Assistance Awards to For-Profit Organizations

CONTRACTS, GRANTS, AND INFRASTRUCTURE DIVISION

**HIGHLIGHTS**
Office of Inspector General
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### What OIG Audited

From FY 2018 through FY 2020, the Department of State (Department) reported approximately $358 million in active grants and cooperative agreements to for-profit organizations in the State Assistance Management System (SAMS). In 2013, the Department mandated the use of SAMS. According to the Department, SAMS is its online Federal financial assistance management system built to unify Federal assistance processes and provide greater transparency, accountability, and reporting capabilities to bureaus and posts.

The Office of Inspector General (OIG) conducted this audit to determine whether the Department managed and monitored selected grants and cooperative agreements to for-profit organizations in accordance with applicable Federal requirements, Department policies and guidance, and award terms and conditions. To perform the audit, OIG reviewed nine selected awards to for-profit organizations, across four Department bureaus, which were active in SAMS between FY 2018 and FY 2020.

### What OIG Recommends

OIG made 11 recommendations to improve internal controls related to the oversight of grants and cooperative agreements. On the basis of the Bureau of Administration's response to a draft of this report, OIG considers all 11 recommendations resolved, pending further action. A synopsis of management's response to the recommendations offered and OIG's reply follow each recommendation in the Audit Results section of this report. The Bureau of Administration's response to a draft of this report is reprinted in its entirety in Appendix B.

### What OIG Found

Grants Officers (GO) and Grants Officer Representatives (GOR) did not always manage and monitor selected awards in accordance with requirements. Specifically, OIG found that GOs and GORs did not consistently perform and document performance and financial monitoring, complete annual updates to risk assessments and monitoring plans, obtain audit reports, or conduct annual reviews when applicable. In addition, OIG found that oversight personnel were maintaining key documentation in "unofficial" award files that included personal computer drives, shared drives, or bureau-specific systems, which is contrary to Department policy that mandates the use of SAMS as the official award file.

OIG determined that a primary reason for the deficiencies identified is that the Department has not required the use of a key oversight function within SAMS to manage post-award activities. Specifically, the SAMS' Post-Award Activities (PAA) function is a control mechanism for post-award activities to assist both recipients and oversight personnel in award management and monitoring. Although Department policy requires the use of SAMS for awards management, the use of the PAA function within SAMS is optional and therefore not being consistently used by oversight personnel. In addition, OIG noted instances in which the Department's Federal assistance oversight policies and procedures were not clear. For example, OIG found that policy related to GOR review of award recipients' financial reports was not clear, and the policy was also not explicit about who is responsible for ensuring that annual reviews are conducted for awards with a period of performance exceeding 12 months. Moreover, the Department needs a communication strategy to ensure that GOs and GORs are aware of oversight requirements and understand oversight responsibilities. Until these deficiencies are corrected, the Department will not have reasonable assurance that awards are being administered in accordance with requirements nor will it be able to affirm that the awards are achieving expected program goals and objectives.

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## OBJECTIVE

The Office of Inspector General (OIG) conducted this audit to determine whether the Department of State (Department) managed and monitored selected grants and cooperative agreements to for-profit organizations in accordance with applicable Federal requirements, Department policies and guidance, and the award terms and conditions.

## BACKGROUND

OIG consistently cites the Department's oversight of Federal assistance as a major management challenge.[1] In a 2020 capping report,[2] OIG noted that it had issued 51 reports from FY 2017 through FY 2019 that identified systemic weaknesses related to the Department's oversight of Federal assistance awards, demonstrating that the Department continues to have serious, recurring, and systemic weaknesses in this area.

### Federal Assistance Awards to For-Profit Organizations

From FY 2018 through FY 2020, the Department reported 439 active grants[3] and cooperative agreements[4] totaling approximately $358 million, which were awarded by 16 bureaus to 267 for-profit organizations, both foreign and domestic. These grant and cooperative agreement actions ranged from $175 to $67.6 million. The grants and cooperative agreements were awarded for various programs, including public diplomacy, weapons abatement, addressing child sex trafficking, civil society support, enhancing education and communication capacity, access to an uncensored internet, access to justice, peacekeeping operations, and human rights protections. As detailed in Table 1, OIG selected nine awards[5] to for-profit organizations from four bureaus for testing:[6] Bureau of Political-Military Affairs (PM); Bureau of Near Eastern Affairs (NEA); Bureau of Counterterrorism and Countering Violent Extremism (CT); and Bureau of Democracy, Human Rights, and Labor (DRL).

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[1] OIG, *Inspector General Statement on the Department of State's Major Management and Performance Challenges Fiscal Year 2021* 6 (OIG-EX-22-01, November 2021).

[2] OIG, *Information Report: Systemic Weaknesses Related to the Administration and Oversight of Department of State Contracts and Federal Assistance From FY 2017 to FY 2019* (AUD-CGI-20-44, September 2020).

[3] A grant is an assistance instrument used when the principal purpose is the transfer of money, property, or services to accomplish a public purpose of support or stimulation authorized by Federal statute when it is anticipated that there will be no substantial involvement between the agency and the grantee during performance.

[4] A cooperative agreement is an assistance instrument that has the same principal purpose as a grant. However, unlike a grant, it is anticipated that there will be substantial involvement between the agency and the award recipient during performance of the cooperative agreement.

[5] Due to sensitivity concerns with some of the awards, OIG is not including the name of the organizations or the award numbers in this report. Accordingly, OIG will refer to recipients as A through I and awards as 1 through 9.

[6] Appendix A provides details of the sample selection methodology.

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## Table 1: Federal Assistance Awards to For-Profit Organizations Selected for Review

| Number | Award Description | Type of Award | Award Value |
|--------|-------------------|---------------|-------------|
| | **PM** | | |
| 1 | Conventional Weapons Destruction | Cooperative Agreement | $119,796,873 |
| | **NEA** | | |
| 2 | Building Legitimacy of Local Councils | Cooperative Agreement | $60,550,000 |
| 3 | Civil Society Support | Cooperative Agreement | $31,374,994 |
| 4 | Supporting Moderate Education | Cooperative Agreement | $23,885,664 |
| 5 | Promoting Innovative Entrepreneurship | Grant | $2,002,631 |
| | **CT** | | |
| 6 | Enhancing Airport Security | Cooperative Agreement | $12,504,679 |
| | **DRL** | | |
| 7 | Access to Uncensored Internet | Grant | $4,085,460 |
| 8 | Enhancing Access to Justice | Grant | $3,124,551 |
| 9 | Human Rights Protections | Grant | $2,400,000 |
| | | | **$259,724,852** |

**Source:** Generated by OIG using data obtained from the State Assistance Management System.

## Award Oversight Responsibilities

### *Bureau of Administration, Office of the Procurement Executive*

The Bureau of Administration, Office of the Procurement Executive (OPE), leads the full range of Federal assistance management services for the Department. OPE's Federal Assistance Division is responsible for developing, issuing, and maintaining operational guidance, procedures, and policy for all Department Federal assistance programs (e.g., grants and cooperative agreements) domestically and abroad.

OPE's Federal Assistance Division also develops, implements, and manages the Department's Federal assistance training requirements for grants management professionals, such as Grants Officers (GO) and Grants Officer Representatives (GOR). The Division collaborates with grant-making bureaus, program offices, and the Foreign Service Institute[7] to build knowledge and skills to support the Department's Federal assistance program.

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[7] The Foreign Service Institute is the primary training institution for the Department. The Foreign Service Institute provides classroom courses and distance learning courses.

### *Grants Officer and Grants Officer Representative*

According to the Department's Federal Assistance Directive (FAD),[8] GOs and GORs are charged with primary oversight and monitoring responsibilities for Federal assistance awards. GOs are authorized to award, amend, and terminate Federal assistance agreements. The GO must designate a GOR for all Federal assistance awards exceeding $100,000.[9] A GOR assists the GO to ensure that the Department exercises prudent management and oversight of the Federal assistance award through programmatic and financial monitoring and evaluating the award recipient's performance. The GO and GOR are responsible for monitoring the financial capability, stability, and funds management of the recipient, as well as the actual expenditures related to the award activity.[10]

Monitoring all Department assistance awards is required and is performed to ensure that recipients' programmatic performance and financial management are adequate and that they accomplish intended activities, goals, and objectives.[11] The FAD outlines monitoring requirements, including risk assessments, monitoring plans, Performance Progress Reports (PPR) and Federal Financial Reports (FFR), and annual reviews.

- Risk Assessments–Bureaus, offices, and posts are required to conduct a risk assessment for all awards. Because some awards are deemed riskier than others, the level of award monitoring should be based on the risk assessment. Prior to award, GOs are responsible for verifying that the required risk assessment has been completed. Post-award risk assessments must be performed annually for awards with a period of performance exceeding 12 months.[12]

- Monitoring Plans–Every award must have a written monitoring plan that is appropriate to the award and tied to the risk assessment. Additionally, the plan should be tied to the scope of the program or project and show the performance metrics for the scheduled activities and the frequency and types of monitoring mechanisms to be used. For awards with a period of performance longer than 1 year, at a minimum, an annual review of the monitoring plan must be completed to ensure any new risks and/or changes in scope, schedule, or costs are accounted for, documented, and monitored.[13]

- Performance Progress Reports–Award recipients are required to report on their award's performance progress with the frequency required by the terms and conditions of the Federal award. The GO or GOR must document the official Federal award file in the

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[8] The FAD establishes internal guidance, policies, and procedures for all domestic and overseas bureaus, offices, and posts within the Department for administering Federal assistance.

[9] FAD, October 2020, at 80.

[10] Ibid., at 127.

[11] Ibid., at 126.

[12] Ibid., at 62.

[13] Ibid., at 79.

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State Assistance Management System (SAMS) to indicate that he or she has reviewed the report. The GOR must provide a written assessment of the report.[14]

- Federal Financial Reports–Award recipients are required to report on their award's financial status as often as required by the terms and conditions of the Federal award, but no less frequently than annually and not more frequently than quarterly except in unusual circumstances. Recipients must use the Standard Form (SF) 425, Federal Financial Report.[15] The GO or GOR must document in the official Federal award file that he or she has reviewed and approved the SF 425 by signing the form, adding a note to the official Federal award file in SAMS, or reviewing and approving in the Payment Management System (PMS).[16] When PMS is used, the GO or GOR must review the SF 425 electronically in PMS.[17]

- Annual Reviews–Awards with a period of performance in excess of 12 months require annual reviews. Documentation of the annual review must be uploaded to the official Federal award file in SAMS. The following should be reviewed:
  - PPRs compared to the activities scheduled in the award provisions to determine if the award's goal and objectives are being met.
  - FFRs (SF 425 and SF 270, Request for Advance or Reimbursement) compared to the approved budget and scheduled activities to determine the appropriateness of payment requests.
  - Monitoring plans to ensure that any changes in activities, schedule, or costs are documented and monitored. If no changes are needed, the official Federal award file should be amended to indicate that.
  - Risk assessments for any changes to the level of risk for the award. If no revisions are needed, the official Federal award file should be amended to indicate that.
  - The status of obligations and expenditures in the Department's financial systems, especially if more than one obligation has been processed for an award.
  - The status of payments in PMS to confirm proper charges.[18]

### State Assistance Management System

In 2013, the Department mandated the use of SAMS. SAMS is the Department's online Federal financial assistance management system to unify Federal assistance processes and provide greater transparency, accountability, and reporting capabilities to bureaus and posts. According to the FAD, "SAMS is the end-to-end electronic grants management system implemented that resolved the Department's significant deficiency in the management of Federal financial

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[14] Ibid., at 128.

[15] Ibid., at 127.

[16] PMS is a centralized Federal award payment and cash management system. The Department requires PMS to be the sole electronic payment method for domestically awarded Federal financial assistance to U.S.-based organizations in which the recipient is expected to receive multiple payments.

[17] FAD, October 2020, at 127.

[18] Ibid., at 131.

assistance."[19] The FAD also states that all Federal awards must be managed using SAMS and that SAMS is the official Federal award file for all awards.[20]

Among other features intended to assist both recipients and oversight personnel in award management and monitoring, SAMS includes a Post-Award Activities (PAA) function. The PAA function serves as a placeholder where documentation can be uploaded and reviewed. These placeholders for documentation are available for post-award tasks, such as review of PPRs and FFRs, site visits, or other monitoring activities. In addition, PAA is designed to create workflows for submitting, reviewing, and monitoring post-award activities among the GO, GOR, and award recipient, including automated reminder email notifications to complete PAA tasks. PAA users can also view a list of tasks that are completed or overdue for each award and, once a PAA is completed, all attached documents are automatically moved to the award file and become read-only.

## AUDIT RESULTS

### Finding A: Selected Bureaus Did Not Consistently Manage and Monitor Awards

GOs and GORs did not always manage and monitor selected awards in accordance with Federal requirements, Department policies and guidance, and award terms and conditions. Specifically, OIG found that GOs and GORs did not consistently perform and document performance and financial monitoring, complete annual updates to risk assessments and monitoring plans, obtain audit reports, or conduct annual reviews when applicable. In addition, OIG found that oversight personnel were maintaining key documentation in "unofficial" award files that included personal computer drives, shared drives, or bureau-specific systems, which is contrary to Department policy that mandates the use of SAMS as the official award file.

OIG determined that a primary reason for the deficiencies identified is that the Department had not required the use of a key oversight function within SAMS to manage post-award activities. Specifically, the SAMS' PAA function is a control mechanism for post-award activities to assist both recipients and oversight personnel in award management and monitoring. PAA is designed to create workflows for submitting, reviewing, and monitoring post-award activities among the GO, GOR, and award recipient, including automated reminder email notifications to complete PAA tasks. Although Department policy requires the use of SAMS for award management, the use of the PAA function within SAMS is optional.

Furthermore, the Department does not provide comprehensive training on the PAA function; therefore, it is not being consistently used by oversight personnel. In addition, OPE had not established effective, alternative controls to monitor Federal assistance oversight. In addition, some GOs and GORs stated that they have had difficulty using SAMS due to technical issues and were reluctant to use it. OIG also noted instances in which the Department's Federal assistance

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[19] Ibid., at 17.

[20] Ibid., at 17-18.

oversight policies and procedures were not clear. Moreover, the Department needs a communication strategy to ensure that GOs and GORs are aware of oversight requirements and understand oversight responsibilities. Until these deficiencies are corrected, the Department will not have reasonable assurance that awards are being administered in accordance with requirements nor will it be able to affirm that the awards are achieving expected program goals and objectives.

### GOs and GORs Did Not Always Manage and Monitor Awards as Required

OIG found that GOs and GORs did not always manage and monitor awards in accordance with requirements. For example, key post-award activities (i.e., reviewing performance and financial reports, completing annual updates to risk assessments and monitoring plans, obtaining audit reports, and conducting annual reviews of the awards) were not always conducted to provide reasonable assurance that assistance funds were being used as intended and in accordance with applicable laws and regulations. In addition, OIG found that oversight personnel were maintaining key documentation in "unofficial" award files that included personal computer drives, shared drives, or bureau-specific systems. Not only are these practices contrary to Department policy that requires the use of SAMS as the official award file, but they are also inefficient and do not meet the goals of transparency and accountability required when awarding Federal assistance funds.

*Performance Monitoring*

The FAD states that the GOR is responsible for providing the GO with a written assessment (GOR report) of the award recipient's performance based on a review of the PPR within 30 days of the receipt of the report.[21] Furthermore, the FAD states that the GO or GOR must document the required review of the PPR in the official Federal award files, which is in SAMS.[22]

OIG found that GORs did not always prepare GOR reports as required. Specifically, for the 9 awards tested, GORs prepared 20 (19 percent) of 108 required GOR reports. Furthermore, GOs and GORs did not consistently document their review of PPRs in SAMS. Specifically, OIG found documentation of PPR reviews in SAMS 26 percent of the time. Table 2 summarizes the deficiencies found for the selected awards related to PPRs.

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[21] Ibid., at 80.

[22] Ibid., at 128.

## Table 2: Summary of Performance Monitoring for Selected Awards

| Award | Number of PPRs | Number of GOR Reports Within 30 days (Percent) | Number of Documented GO or GOR Reviews (Percent)[a] | Evidence of GO or GOR Review in SAMS (Percent)[b] |
|---|---|---|---|---|
| **PM** | | | | |
| 1 | 15 | 0 (0) | 8 (53) | 8 (53)[c] |
| **NEA** | | | | |
| 2 | 17 | 1 (6) | 16 (94) | 0 (0) |
| 3 | 17 | 2 (12) | 16 (94) | 0 (0) |
| 4 | 9 | 1 (11) | 3 (33) | 3 (33)[c] |
| 5 | 6 | 5 (83)[d] | 6 (100) | 5 (83) |
| **CT** | | | | |
| 6 | 11 | 11 (100) | 11 (100) | 11 (100) |
| **DRL** | | | | |
| 7 | 8 | 0 (0)[e] | 0 (0) | 0 (0) |
| 8 | 13 | 0 (0)[f] | 1 (8) | 1 (8) |
| 9 | 12 | 0 (0)[g] | 0 (0) | 0 (0) |
| **Total** | **108** | **20 (19)** | **61 (56)** | **28 (26)** |

[a] Evidence of review included GOR reports, SAMS notes, or any other evidence provided by GOs and GORs that indicated the PPRs were reviewed.

[b] Evidence of review constituted GOR reports, SAMS notes, or any other documentation in SAMS that indicated the PPRs were reviewed.

[c] Evidence was uploaded to SAMS as late as 13 months after the 30-day benchmark.

[d] OIG received a sixth GOR report for the award. However, it was not dated; therefore, OIG could not confirm that it was prepared in a timely manner.

[e] None of the six DRL reports were dated or signed; therefore, OIG could not confirm that they were prepared in a timely manner or signed by the designated GOR.

[f] None of the 11 DRL reports were dated or signed; therefore, OIG could not confirm that they were prepared in a timely manner or signed by the designated GOR.

[g] None of the 12 DRL reports were dated or signed; therefore, OIG could not confirm that they were prepared in a timely manner or signed by the designated GOR.

**Source:** Generated by OIG using information obtained from SAMS official award files, award oversight personnel, and the results of audit testing.

*Financial Monitoring*

The FAD states that the GO and GOR are responsible for monitoring the financial capability, stability, and funds management of the recipient and the actual expenditures of the award activity.[23] Furthermore, the FAD states that the GO or GOR must document the review and approval of the FFR by signing the form, adding a note to the official Federal award file in SAMS,

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[23] Ibid., at 127.

or reviewing and approving the FFR in PMS within 30 days of receipt of the report.[24] When PMS is used, the GO or GOR must review the FFR electronically in PMS.[25]

OIG found that GOs or GORs did not always approve FFRs as required.[26] Specifically, for the 9 awards tested, OIG found that 50 (46 percent) of 108 FFRs had been approved by the GO. In addition, only one of the GORs for one (11 percent) of nine selected awards reviewed FFRs quarterly as required. OIG also noted that 51 (47 percent) FFRs were approved by default in PMS due to the lack of timely review by the GO or GOR. Table 3 summarizes the deficiencies found for the selected awards related to FFRs.

## Table 3: Summary of Financial Monitoring for Selected Awards

| Award | Number of FFRs | Number of GOR FFR Review (Percent)[a] | Number of GO FFR Approval (Percent) | Number of PMS Default Approval (Percent) | Number of Approved FFRs in SAMS (Percent) |
|---|---|---|---|---|---|
| **PM** | | | | | |
| 1 | 15 | 8 (53) | 1 (7) | 14 (93) | 0 (0) |
| **NEA** | | | | | |
| 2 | 17 | 0 (0) | 11 (65) | 6 (35) | 17 (100)[b] |
| 3 | 16 | 0 (0) | 11 (69) | 2 (13) | 13 (81)[b] |
| 4 | 10 | 0 (0) | 8 (80) | 2 (20) | 10 (100)[b] |
| 5 | 6 | 0 (0) | 6 (100) | Not applicable[c] | 1 (17) |
| **CT** | | | | | |
| 6 | 11 | 11 (100) | 6 (55) | 2 (18) | 0 (0) |
| **DRL** | | | | | |
| 7 | 8 | 0 (0) | 3 (38) | 5 (63) | 0 (0) |
| 8 | 13 | 0 (0) | 1 (8) | 11 (85) | 0 (0) |
| 9 | 12 | 0 (0) | 3 (25) | 9 (75) | 0 (0) |
| **Total** | **108** | **19 (18)** | **50 (46)** | **51 (47)** | **41 (38)** |

[a] Evidence of review included GOR reports, SAMS notes, or any other evidence provided by GOs and GORs that indicated the FFRs were reviewed.
[b] Evidence was uploaded to SAMS as late as 46 months after the 30-day benchmark.
[c] Use of PMS is not required for foreign-based organizations.
**Source:** Generated by OIG using information obtained from SAMS official award files, award oversight personnel, and the results of audit testing.

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[24] FAD, October 2020, at 123. Regarding approvals in PMS, the FAD states that bureaus must have strong internal control procedures established to ensure that the FFR "has been reviewed/accepted in PMS (without allowing the PMS system to accept by default)."

[25] FAD, October 2020, at 127.

[26] OIG assessed SAMS to determine whether documentation was available, and OIG also requested GOs and GORs provide additional documentation that was maintained outside of SAMS (e.g., evidence that the GO or GOR approved reports in PMS).

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*Risk Assessments and Monitoring Plans*

The FAD requires GOs or GORs to, at a minimum, perform an annual risk assessment[27] and complete an annual review of the monitoring plan to ensure that any new risks or changes in scope, schedule, or costs are accounted for, documented, and monitored for awards with a period of performance of more than 1 year.[28] The annual risk assessment must be documented, and monitoring plans must be modified to reflect any changes to the level of risk for the agreement.[29]

OIG found that for two (22 percent) of nine awards tested, the GO and GOR had updated risk assessments and monitoring plans annually, as required. Because updates to the risk assessments and monitoring plans were not always performed timely, GOs and GORs effectively reduced the number of times the process was performed during the life of the award. For example, the GO and GOR should have performed three risk assessment and monitoring plan updates for one selected award during its 4-year performance period. However, the second update to the risk assessment and monitoring plan was performed almost 1.5 years after the prior update, and the third update was not conducted because the award had only 8 months remaining in its period of performance. In another instance, the GO and GOR for a selected award updated the risk assessment only once during the 4-year performance period, and the monitoring plan was updated once, 10 months before the award was completed.

*Audit Reports*

The FAD requires foreign for-profit organizations that expend $750,000 or more[30] in Federal funds in the organization's fiscal year, whether as a prime or a subrecipient, to perform a single or program-specific audit annually. The FAD states that the Notice of Funding Opportunity must alert potential applicants to this requirement.[31]

OIG found that the Notice of Funding Opportunity for two of three selected foreign for-profit awards did not alert potential recipients of the audit requirement. Additionally, the requirement was not stipulated in the Specific Award Provisions of two of three award agreements. Furthermore, the award files did not show that the GO evaluated whether organizations met the threshold requirement prior to award. Specifically, risk assessments and monitoring plans for the two awards did not address efforts to obtain and review audit reports. The initial and first updated risk assessment and the monitoring plans for the third award mentioned the audit requirement; however, the current GO did not obtain audit reports.

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[27] FAD, October 2020, at 62.

[28] Ibid., at 79.

[29] Ibid., at 62.

[30] Ibid., at 55. The FAD states that when the foreign recipient organization expends less than $750,000 in its fiscal year, the bureau, office, or post must, as part of its annual review of risk, assess whether a financial and/or a program audit should be performed to verify financial accountability.

[31] Ibid., at 55.

Although OIG acknowledges that 2 Code of Federal Regulations (C.F.R.) §200, Subpart F—Audit Requirements, does not apply to foreign organizations, the Department has instituted in the FAD more stringent audit requirements for foreign for-profit organizations to help detect financial management issues and to identify costs that may be disallowed. Therefore, Department oversight personnel should have required applicable foreign for-profit organizations to perform a single or program-specific audit annually, and the GO or GOR should have obtained and reviewed the audit reports to inform updates to risk assessments and monitoring plans.

*Annual Reviews*

The FAD requires annual reviews for awards with a period of performance in excess of 12 months. In addition, documentation of the annual review must be uploaded to the official Federal award file, which is SAMS.[32] For the nine awards reviewed, OIG did not find evidence within SAMS that the GOs or GORs had conducted required annual reviews for any of the awards.

### GOs and GORs Did Not Use SAMS Consistently

OIG found that OPE did not have effective policies and guidance regarding the use of SAMS to ensure the completeness, accessibility, retention, and review of award files. Although the use of SAMS is mandated by the Department and is the official award file, OIG found that GOs and GORs for the nine selected awards were not using SAMS consistently or timely to perform and document award oversight. GOs and GORs were typically using SAMS as an electronic folder and not as a management system that provided greater transparency, accountability, and reporting capabilities. In addition, oversight personnel were maintaining key documentation in "unofficial" award files that included personal computer drives, shared drives, or bureau-specific systems. These practices do not align with Department policy, are inefficient, and do not meet the goals of transparency and accountability required when awarding Federal assistance funds. As a result, it was necessary for OIG to make numerous requests for information to oversight personnel to determine if the oversight had occurred and obtain any existing supporting documentation not documented or uploaded in SAMS.

Furthermore, GOs and GORs were not consistently using the SAMS' PAA function, a mechanism that creates an oversight workflow between the GO and GOR. In fact, some bureaus used their own internal applications to track award oversight, rather than SAMS. Specifically, NEA and DRL provided OIG with documentation from bureau-developed systems—Assistance Coordination

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[32] Ibid., at 131.

Performance Reporting System[33] and Performance Assessment Tool[34]—to show evidence of review of PPRs. However, the audit team was not always able to determine from these reports whether the designated GOR or GO reviewed them. In addition, when evidence of PPR and FFR reviews were uploaded to the SAMS official award file, it was often many months after the respective quarters. Moreover, documentation did not contain sufficient details to ascertain whether the oversight occurred when required or was performed by the designated oversight personnel. OIG therefore had to base its analysis on dates generated by SAMS when the documents were "batch" uploaded to the award files.

It is equally important to note that because selected bureaus were not using the full functionality of SAMS, namely the PAA function, to document post-award oversight activities consistently, OPE and bureau management could not effectively monitor GO and GOR award oversight due to the lack of visibility of the oversight process. The Government Accountability Office (GAO) states that management should monitor internal controls "as part of the normal course of operations." Ongoing monitoring should be "built into the entity's operations, performed continually, and responsive to change."[35] OIG concludes that the consistent use of the SAMS PAA function would enable management to more readily ascertain whether required post-award oversight activities are being performed, documented, and maintained in SAMS as the official award file. However, because the use of the PAA function is not required by Department policy, SAMS cannot be relied upon as a monitoring tool to assess whether GOs and GORs are fulfilling their roles and responsibilities concerning post-award oversight.

In addition to not requiring the use of the PAA function in SAMS, OIG found that OPE did not have an effective alternative to the PAA function to monitor Federal assistance oversight and ensure that post-award activities were being performed when required and, if not performed, then detected and corrected. Moreover, the selected bureaus did not have processes to routinely identify inadequate oversight of awards. In addition, OIG did not find evidence within the tested award files to indicate that bureau management and GOs reviewed the status of the award files to ensure that they included required documents until after OIG initiated this audit.

Furthermore, OPE had not provided training on the full use of the PAA function. OIG reviewed SAMS post-award training material and met with SAMS training personnel and found that SAMS training covers only the use of the PAA function between the award recipient and Department

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[33] NEA's standard operating procedures related to grants management state that the Assistance Coordination Performance Reporting System "...is an online database unique to NEA/AC [Office of Assistance Coordination]. ACPRS enables recipients to submit results monitoring plans, work plans, and performance reporting information. . . . It also serves as a digital filing cabinet for NEA/AC personnel to store and organize award documentation."

[34] DRL's standard operating procedures related to grants management state that the Performance Assessment Tool "is an internal database that is used to draft PO/grant review of quarterly reports, upload quarterly report follow-up, track standardized data (F-Indicators; portfolio indicators, if applicable), and update program narratives for each program. . . . While this additional program information may be found in the [Performance Assessment Tool], the official award file continues to be SAMS Domestic."

[35] Government Accountability Office, *Standards for Internal Control in the Federal Government* (GAO-14-704G, September 2014), § 16.04 and 16.05, "Internal Control System Monitoring."

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oversight personnel and not its use internally between the GO and GOR. Training Department oversight personnel in the use of the full PAA function, should the full PAA function be adopted and implemented, would provide OPE and bureau management visibility over the GO and GOR workflow. Visibility over the workflow would ensure that management can ascertain whether required award oversight is occurring and identify bureaus or offices that would most benefit from grants management reviews and assistance. However, a SAMS training official stated that, unless the use of the PAA function is required, oversight personnel will not be motivated to use it even though training could be expanded to cover the full use of the PAA function.

*Technical Issues With SAMS*

OIG found that some GOs and GORs had difficulty using SAMS due to technical issues. For example, a GO experienced problems documenting reviews and team members needed to reapprove prior quarter reports. This GO documented problems he and his team were having with SAMS in an award file. Specifically, the GO stated, "Given the persistent problems since implementation of the SAMS Domestic Reporting system, we've requested offline reports in addition to SAMS reporting until the system's errors can be corrected and the system can function to accurately capture recipient's reports and [Department of State] review." [36] Another GO stated that SAMS is not user-friendly, and he had experienced numerous glitches. The GO also stated that award recipients had experienced challenges uploading reporting documentation into SAMS. A GOR identified problems getting a SAMS account because they were located overseas. The GOR stated that the issue had been ongoing since September 2020. In addition, another GOR stated that he did not have a SAMS account due to access issues. A third GOR stated that SAMS could not track information that was needed, such as team members, award themes, subawards, indicators, or reviews. As a result, due to continual issues with SAMS, some bureaus continued to use bureau-specific reporting modules, send assessments via email, or store documentation on shared drives.

### Oversight Policies and Procedures Were Not Clear, and the Department Needs a Communication Strategy

OIG also found instances in which the Department's Federal assistance oversight policies and procedures were not clear. Moreover, the Department needs a communication strategy to ensure that GOs and GORs are aware of and understand oversight responsibilities. According to GAO,[37] "Management should implement control activities through policies." The policies should document "control activity design, implementation, and operating effectiveness." In addition, organizations can "further define policies through day-to-day procedures."

For example, OIG found that there was a lack of clear FAD guidance related to reviewing FFRs. Although the FAD states that a GOR is to "receive and review required recipient reports (progress, financial, or other), and ensure they are timely and complete,"[38] it only explicitly

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[36] NEA GO Memorandum to File for Award #5, May 14, 2020.

[37] GAO-14-704G, September 2014.

[38] FAD, October 2020, at 80.

requires that GORs "provide the GO with a written assessment of the recipient's performance based on the review of Program Progress Report within 30 days of receipt of the report."[39] The FAD also states, "At the direction of the GO, [the GOR should] document the official Federal award file to indicate that the GOR reviewed and approved the Program Progress Report and/or the Federal Financial Report within 30 days of receipt of the reports."[40] However, GOs for six of the nine awards selected did not provide direction related to FFR reviews in the GOR designation memoranda, which contributed to GORs not viewing FFR review as a responsibility.

In addition, the FAD is not specific about who is responsible for ensuring that annual reviews are conducted for those awards with a period of performance exceeding 12 months. Specifically, the FAD assigns responsibility for conducting the annual review to the "Federal Assistance Team."[41]

OIG also found that GOs were unaware of the FAD audit requirement that applied to foreign for-profit organizations. One GO stated that 2 C.F.R. 200,[42] Subpart F, does not apply to foreign for-profits and would not acknowledge the audit requirement instituted in the FAD. OIG reviewed the Department's regulation under C.F.R., Title 2, Subtitle B, Chapter VI, Part 600, "The Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards," § 600.101, "Applicability," which was consistent with 2 C.F.R. 200, but did not indicate that there was a specific FAD audit requirement that applied to foreign for-profit organizations.

GAO guidance also states that management "communicates to personnel the policies and procedures so that personnel can implement the control activities for their assigned responsibilities." However, OIG found that GOs and GORs did not always understand their responsibilities included in policies and procedures. For example, one GO stated that she only reviewed one or two FFRs a quarter from her assigned portfolio or an FFR if there was a technical question because it was difficult to review all reports. In addition, GORs for six of nine awards stated that they believed reviewing the FFRs was a GO responsibility rather than a GOR responsibility. Furthermore, the GOs and GORs for 8 of the 9 selected awards stated that that they found annual reviews redundant since they performed "quarterly GOR reviews" or performed desk or site reviews of the recipient in lieu of annual reviews of the SAMS award file. Moreover, GOs were unaware of the FAD audit requirement that applied to foreign for-profit organizations.

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[39] Ibid.

[40] Ibid.

[41] FAD, October 2020, at 3. According to the FAD, the Federal Assistance Team comprises all the participants in the Federal award process, beginning with the development of the Department's strategic plan and ending with closeout of the award.

[42] C.F.R., Title 2, Subtitle A, Chapter II, Part 200, "Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards," § 200.501, "Audit Requirements."

***Improving Award Oversight Is Paramount***

In a capping report related to Federal assistance issued in September 2020,[43] OIG acknowledged the Department's efforts to implement SAMS but underscored that full implementation and use of SAMS was needed to further assist the Department with improving award oversight, accountability, and transparency of Federal assistance administration. In that report, OIG emphasized that a concerted effort must be made to encourage procurement and oversight officials to fully use SAMS, in addition to assessing award oversight policies and procedures.

The findings in this report further support the need for Department management to establish additional controls to ensure that oversight personnel are consistently using SAMS. The Department requires the use of SAMS to manage awards and has designated SAMS as the official Federal award file.[44] However, the use of PAA function within SAMS is presented as an optional tool to manage awards and document award oversight. Specifically, the FAD states, "In SAMS, the GO and GOR *can* use post-award and monitoring task functionality as an efficient way to track activities, completion dates, and overdue tasks."[45]

However, should the Department require the use of the PAA function, it would enable Department management to more readily and timely ascertain whether required award oversight is occurring, and award documentation is properly maintained. Currently, the Department does not have an effective alternative to the PAA function to monitor Federal assistance oversight and ensure that post-award activities are being performed when required and, if not performed, then detected and corrected. Furthermore, OPE could more efficiently identify[46] bureaus or offices that would most benefit from grants management reviews, assistance, and training.[47]

OIG therefore concludes that the Department would benefit from requiring the full use of the PAA function and training personnel in its use. In addition, the inconsistent use of SAMS by the GOs and GORs does not achieve the intended purpose of automating and centralizing the

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[43] AUD-CGI-20-44, September 2020.

[44] FAD, October 2020, at 17-18.

[45] Ibid., at 126.

[46] FAD, October 2020, at 16. The FAD states that OPE "consults with bureaus to determine which offices and posts would most benefit from [OPE] reviews during the upcoming fiscal year. The criteria for selecting a post or bureau for review is based on various factors; that include: OIG and GAO reports highlighting potential weaknesses, dollar amount of Federal awards processed, volume of Federal awards processed, and the public visibility of a post's or office's Federal award activities. Specific requests for reviews from bureaus/offices/posts are also taken into consideration."

[47] Ibid. The FAD states that OPE "conducts Grant Management Reviews . . . of domestic bureaus/offices, . . . to strengthen the Department's oversight of its Federal programs. Suggestions and observations from the [Grant Management Reviews] and [Grant Review Evaluation Assistance and Trainings] reports help to inform the Department's risk assessment guidance and training. Each review specifically evaluates compliance with risk assessment requirements, and focuses on documentation contained in the official Federal award file, suggested areas for improvement, as well as noting best practices."

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Federal assistance management process or of providing greater transparency, accountability, and reporting capabilities. Furthermore, it does not achieve the end-to-end electronic grants management system implemented to resolve the Department's significant deficiency in managing Federal financial assistance. Moreover, until these deficiencies are corrected, the Department will not have reasonable assurance that awards are being administered in accordance with requirements, nor will it be able to affirm that the awards are achieving expected program goals and objectives. OIG is therefore making the following recommendations to improve internal controls related to the oversight of grants and cooperative agreements.

**Recommendation 1:** OIG recommends that the Bureau of Administration revise the Federal Assistance Directive to require Grants Officers (GO) and Grants Officer Representatives (GOR) to fully use the State Assistance Management System Domestic's Post-Award Activities function to upload and review documentation for all post-award tasks, such as the review of Performance Progress Reports and Federal Financial Reports, GOR reports, annual reviews, other monitoring activities; and to document workflows for submitting, reviewing, and monitoring post-award activities among the GO, GOR, and award recipient.

**Management Response:** The Bureau of Administration concurred with the intent of the recommendation, stating that it had identified an alternative course of action to address the recommendation. The Bureau of Administration stated that only SAMS Domestic, which serves grant-making bureaus and offices that are based domestically, has post-award monitoring functionality. Therefore, OPE will revise the FAD to require GOs and GORs to fully use SAMS Domestic's PAA function to upload and review documentation for all post-award tasks.

**OIG Reply:** Because the PAA function is only available in SAMS Domestic and all the awards reviewed for this audit were in SAMS Domestic, OIG revised the recommendation made in a draft of this report to clarify that it referred to the PAA function in SAMS Domestic. According to OPE officials, although SAMS Overseas has a similar "Monitoring Tasks" function for post-award tasks, it does not have the same features as the SAMS Domestic PAA function. In addition, Bureau of Administration officials stated that they would analyze the feasibility of rolling out the PAA function to SAMS Overseas in the future. Therefore, because of the Bureau of Administration's concurrence with the revised recommendation and planned actions, OIG considers this recommendation resolved, pending further action. This recommendation will be closed when OIG receives documentation demonstrating that the Bureau of Administration has revised the FAD to require GOs and GORs to fully use SAMS Domestic's PAA function to upload and review documentation for all post-award tasks and to document workflows for submitting, reviewing, and monitoring post-award activities among the GO, GOR, and award recipient.

**Recommendation 2:** Concurrent with the implementation of Recommendation 1, OIG recommends that the Bureau of Administration require bureaus to perform quarterly reviews of the State Assistance Management System Domestic's Post-Award Activities function reports. The reviews should verify that Grants Officers and Grants Officer

Representatives have complied with oversight requirements such as the review of Performance Progress Reports and Federal Financial Reports, GOR reports, annual reviews, and other monitoring activities.

**Management Response:** The Bureau of Administration concurred with the intent of the recommendation, stating that it had identified an alternative course of action to address the recommendation. The Bureau of Administration stated that only SAMS Domestic, which serves grant-making bureaus and offices that are based domestically, has post-award monitoring functionality. Therefore, OPE will revise the FAD to require domestic-based bureaus to perform quarterly reviews of SAMS Domestic's PAA function reports.

**OIG Reply:** Because the PAA function is only available in SAMS Domestic, OIG revised the recommendation made in a draft of this report to clarify that it referred to the PAA function in SAMS Domestic. Because of the Bureau of Administration's concurrence with the revised recommendation and planned actions, OIG considers this recommendation resolved, pending further action. This recommendation will be closed when OIG receives documentation demonstrating that the Bureau of Administration has required bureaus to perform quarterly reviews of SAMS Domestic's PAA function reports to verify that GOs and GORs have complied with oversight requirements.

**Recommendation 3:** Concurrent with the implementation of Recommendation 1, OIG recommends that the Bureau of Administration require bureaus to designate an official to review the State Assistance Management System's Post-Award Activities function reports to verify that Grants Officers and Grants Officer Representatives comply with oversight requirements.

**Management Response:** The Bureau of Administration concurred with the recommendation.

**OIG Reply:** On the basis of the Bureau of Administration's concurrence with the recommendation, OIG considers this recommendation resolved, pending further action. This recommendation will be closed when OIG receives documentation demonstrating that the Bureau of Administration has required bureaus to designate an official to review the SAMS PAA function reports to verify that GOs and GORs comply with oversight requirements.

**Recommendation 4:** OIG recommends that the Bureau of Administration modify the State Assistance Management System user training to include guidance on documenting the Grants Officer and Grants Officer Representative workflows within the State Assistance Management System using the Post-Award Activities function.

**Management Response:** The Bureau of Administration concurred with the recommendation.

**OIG Reply:** On the basis of the Bureau of Administration's concurrence with the recommendation, OIG considers this recommendation resolved, pending further action. This recommendation will be closed when OIG receives documentation demonstrating that the Bureau of Administration has modified the SAMS user training to include guidance on documenting the GO and GOR workflows within SAMS using the PAA function.

**Recommendation 5:** OIG recommends that the Bureau of Administration conduct a survey of Grants Officers and Grants Officer Representatives to identify technical issues related to the use of and suggested improvements for the State Assistance Management System Domestic's Post-Award Activities function.

**Management Response:** The Bureau of Administration concurred with the intent of the recommendation, stating that it would like this recommendation revised to focus on SAMS Domestic's PAA function.

**OIG Reply:** In response to the Bureau of Administration's suggestion, OIG revised the recommendation made in a draft of this report. Specifically, OIG revised the recommendation, as suggested, to focus on the SAMS Domestic's PAA function. Because of the Bureau of Administration's concurrence with the revised recommendation, OIG considers this recommendation resolved, pending further action. This recommendation will be closed when OIG receives documentation demonstrating that the Bureau of Administration has conducted a survey of GOs and GORs to identify technical issues related to the use of and suggested improvements for SAMS Domestic's PAA function.

**Recommendation 6:** Following implementation of Recommendation 5, OIG recommends that the Bureau of Administration analyze the results of the survey to identify the reasons hindering the use of State Assistance Management System Domestic's Post-Award Activities function, including technical issues that need to be addressed and if appropriate, develop and implement a corrective action plan to increase the use of the State Assistance Management System Domestic's Post-Award Activities function.

**Management Response:** The Bureau of Administration concurred with the intent of the recommendation, stating that it would like this recommendation revised to focus on SAMS Domestic's PAA function.

**OIG Reply:** In response to the Bureau of Administration's suggestion, OIG revised the recommendation offered in a draft of this report to focus exclusively on SAMS Domestic's PAA function. Because of the Bureau of Administration's concurrence with the revised recommendation, OIG considers this recommendation resolved, pending further action. This recommendation will be closed when OIG receives documentation demonstrating that the Bureau of Administration has analyzed the results of the survey to identify the reasons hindering the use of SAMS Domestic's PAA function, including technical issues that need to be addressed, and if appropriate, develop and implement a corrective action plan to increase the use of SAMS Domestic's PAA function.

**Recommendation 7:** OIG recommends that the Bureau of Administration revise the Federal Assistance Directive to clearly articulate that the Grants Officer Representative (GOR) must provide the Grants Officer with a written assessment (GOR report) of the recipient's performance based on a review of the Program Progress Report and Federal Financial Report within 30 days of receipt of the reports.

**Management Response:** The Bureau of Administration concurred with the intent of the recommendation, stating that it had identified an alternative course of action to address the recommendation. Because program reports and financial reports are not always on the same schedule, OPE will revise the FAD to require GORs to provide the GO with a written assessment (GOR report) of the recipient's performance, based on a review of the PPR and the *most recent* FFR within 30 days of receipt of the reports.

**OIG Reply:** OIG accepts the Bureau of Administration's alternative course of action and considers this recommendation resolved, pending further action. This recommendation will be closed when OIG receives documentation demonstrating that the Bureau of Administration has revised the FAD to require the GOR to provide the GO with a written assessment (GOR report) of the recipient's performance, based on a review of the PPR and the most recent FFR within 30 days of receipt of the reports.

**Recommendation 8:** OIG recommends that the Bureau of Administration develop and implement a communications strategy that provides Grants Officer Representatives with specific and detailed requirements for financial monitoring to improve their understanding of and compliance with those requirements. This communications strategy should underscore the importance of reviewing the Federal Financial Report to ensure that the amount of funds expended is commensurate with the work accomplished on the award.

**Management Response:** The Bureau of Administration concurred with the recommendation.

**OIG Reply:** On the basis of the Bureau of Administration's concurrence with the recommendation, OIG considers this recommendation resolved, pending further action. This recommendation will be closed when OIG receives documentation demonstrating that the Bureau of Administration has developed and implemented a communications strategy that provides GORs with specific and detailed requirements for financial monitoring to improve their understanding of and compliance with those requirements.

**Recommendation 9:** OIG recommends that the Bureau of Administration develop and implement a communications strategy that provides Grants Officers with specific and detailed requirements for financial monitoring to improve their understanding of and compliance with those requirements. This communications strategy should underscore the critical importance of reviewing and approving the Federal Financial Report in a timely manner within the Payment Management System, rather than allowing a default approval. It should further remind Grants Officers that Grants Officer Representatives could be

delegated Federal Financial Report approval responsibility within the Payment Management System to ensure timely approval of reports.

**Management Response:** The Bureau of Administration concurred with the recommendation.

**OIG Reply:** On the basis of the Bureau of Administration's concurrence with the recommendation, OIG considers this recommendation resolved, pending further action. This recommendation will be closed when OIG receives documentation demonstrating that the Bureau of Administration has developed and implemented a communications strategy that provides GOs with specific and detailed requirements for financial monitoring to improve their understanding of and compliance with those requirements.

**Recommendation 10:** OIG recommends that the Bureau of Administration revise the Code of Federal Regulations, Title 2, Subtitle B, Chapter VI, Part 600, Section 600.101, to include a reference to the Federal Assistance Directive foreign for-profit audit requirements or add a new section detailing audit requirements to for-profit organizations. Language included should be consistent with the Federal Assistance Directive and the Department of State's Standard Terms and Conditions.

**Management Response:** The Bureau of Administration concurred with the intent of the recommendation, stating that it had identified an alternative course of action to address the recommendation. Specifically, OPE will revise the FAD to clearly articulate that although 2 C.F.R. §200, Subpart F, audit requirements are not applicable to foreign non-profit and foreign for-profit organizations, foreign organizations that expend $750,000 or more in Department funds in the organization's fiscal year are required to undergo a recipient-contracted single or program-specific audit annually.

**OIG Reply:** OIG accepts the Bureau of Administration's alternative course of action and considers this recommendation resolved, pending further action. This recommendation will be closed when OIG receives documentation demonstrating that the Bureau of Administration has revised the FAD to state that foreign organizations that expend $750,000 or more in Department funds in the organization's fiscal year are required to undergo a recipient-contracted single or program-specific audit annually.

**Recommendation 11:** OIG recommends that the Bureau of Administration develop and implement a communications strategy that provides Grants Officers with specific and detailed audit requirements for foreign for-profit organizations to improve their understanding of and compliance with those requirements. This communications strategy should underscore the critical importance of requiring, obtaining, and reviewing audit reports to inform risk assessments and to formulate monitoring plans.

**Management Response:** The Bureau of Administration concurred with the recommendation.

**OIG Reply:** On the basis of the Bureau of Administration's concurrence with the recommendation, OIG considers this recommendation resolved, pending further action. This recommendation will be closed when OIG receives documentation demonstrating that the Bureau of Administration has developed and implemented a communications strategy that provides GOs with specific and detailed audit requirements for foreign for-profit organizations to improve their understanding of and compliance with those requirements.

# RECOMMENDATIONS

**Recommendation 1:** OIG recommends that the Bureau of Administration revise the Federal Assistance Directive to require Grants Officers (GO) and Grants Officer Representatives (GOR) to fully use the State Assistance Management System Domestic's Post-Award Activities function to upload and review documentation for all post-award tasks, such as the review of Performance Progress Reports and Federal Financial Reports, GOR reports, annual reviews, other monitoring activities; and to document workflows for submitting, reviewing, and monitoring post-award activities among the GO, GOR, and award recipient.

**Recommendation 2:** Concurrent with the implementation of Recommendation 1, OIG recommends that the Bureau of Administration require bureaus to perform quarterly reviews of the State Assistance Management System Domestic's Post-Award Activities function reports. The reviews should verify that Grants Officers and Grants Officer Representatives have complied with oversight requirements such as the review of Performance Progress Reports and Federal Financial Reports, GOR reports, annual reviews, and other monitoring activities.

**Recommendation 3:** Concurrent with the implementation of Recommendation 1, OIG recommends that the Bureau of Administration require bureaus to designate an official to review the State Assistance Management System's Post-Award Activities function reports to verify that Grants Officers and Grants Officer Representatives comply with oversight requirements.

**Recommendation 4:** OIG recommends that the Bureau of Administration modify the State Assistance Management System user training to include guidance on documenting the Grants Officer and Grants Officer Representative workflows within the State Assistance Management System using the Post-Award Activities function.

**Recommendation 5:** OIG recommends that the Bureau of Administration conduct a survey of Grants Officers and Grants Officer Representatives to identify technical issues related to the use of and suggested improvements for the State Assistance Management System Domestic's Post-Award Activities function.

**Recommendation 6:** Following implementation of Recommendation 5, OIG recommends that the Bureau of Administration analyze the results of the survey to identify the reasons hindering the use of State Assistance Management System Domestic's Post-Award Activities function, including technical issues that need to be addressed and if appropriate, develop and implement a corrective action plan to increase the use of the State Assistance Management System Domestic's Post-Award Activities function.

**Recommendation 7:** OIG recommends that the Bureau of Administration revise the Federal Assistance Directive to clearly articulate that the Grants Officer Representative (GOR) must provide the Grants Officer with a written assessment (GOR report) of the recipient's performance based on a review of the Program Progress Report and Federal Financial Report within 30 days of receipt of the reports.

**Recommendation 8:** OIG recommends that the Bureau of Administration develop and implement a communications strategy that provides Grants Officer Representatives with specific and detailed requirements for financial monitoring to improve their understanding of and compliance with those requirements. This communications strategy should underscore the importance of reviewing the Federal Financial Report to ensure that the amount of funds expended is commensurate with the work accomplished on the award.

**Recommendation 9:** OIG recommends that the Bureau of Administration develop and implement a communications strategy that provides Grants Officers with specific and detailed requirements for financial monitoring to improve their understanding of and compliance with those requirements. This communications strategy should underscore the critical importance of reviewing and approving the Federal Financial Report in a timely manner within the Payment Management System, rather than allowing a default approval. It should further remind Grants Officers that Grants Officer Representatives could be delegated Federal Financial Report approval responsibility within the Payment Management System to ensure timely approval of reports.

**Recommendation 10:** OIG recommends that the Bureau of Administration revise the Code of Federal Regulations, Title 2, Subtitle B, Chapter VI, Part 600, Section 600.101, to include a reference to the Federal Assistance Directive foreign for-profit audit requirements or add a new section detailing audit requirements to for-profit organizations. Language included should be consistent with the Federal Assistance Directive and the Department of State's Standard Terms and Conditions.

**Recommendation 11:** OIG recommends that the Bureau of Administration develop and implement a communications strategy that provides Grants Officers with specific and detailed audit requirements for foreign for-profit organizations to improve their understanding of and compliance with those requirements. This communications strategy should underscore the critical importance of requiring, obtaining, and reviewing audit reports to inform risk assessments and to formulate monitoring plans.

# APPENDIX A: PURPOSE, SCOPE, AND METHODOLOGY

The Office of Inspector General (OIG) conducted this audit to determine whether the Department of State (Department) managed and monitored selected grants and cooperative agreements to for-profit organizations in accordance with applicable Federal requirements, Department policies and guidance, and the award terms and conditions.

OIG conducted this audit from February to December 2021 in the Washington, DC, metropolitan area. The scope of the audit involved Federal assistance awards to for-profit organizations that were active from FY 2018 to FY 2020. OIG performed audit work at four bureaus: Bureau of Political-Military Affairs (PM); Bureau of Near Eastern Affairs (NEA); Bureau of Counterterrorism and Countering Violent Extremism (CT); and Bureau of Democracy, Human Rights, and Labor (DRL). OIG conducted this performance audit in accordance with generally accepted government auditing standards. These standards require that OIG plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for the findings and conclusions based on the audit objective. OIG faced challenges in completing this work because of the COVID-19 pandemic. These challenges included limitations on in-person meetings and difficulties within the Department that affected its ability to respond to OIG requests for information in a timely manner. Despite the challenges, OIG believes that the evidence obtained provides a reasonable basis for the findings and conclusions presented in this report.

To obtain background information, OIG reviewed applicable sections of the Department's policies and procedures including the Federal Assistance Directive, the Foreign Affairs Handbook, and the Foreign Affairs Manual. In addition, OIG reviewed Title 2 of the Code of Federal Regulations, Part 200, "Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards," and applicable Department requirements under Part 600, "Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards."

To gain an understanding and assess how selected bureaus managed and monitored awards, OIG met with Grants Officers (GO), Grants Officer Representatives (GOR), and other relevant officials responsible for award oversight from the selected bureaus. In addition, OIG reviewed award documentation including monitoring plans, quarterly performance and financial reports, and other relevant documentation related to award oversight for grants and cooperative agreements selected for testing.

## Data Reliability

OIG used computer-processed data to support the finding and conclusions presented in this report. Specifically, OIG used data from the Department's State Assistance Management System (SAMS), which is the Department's Federal assistance management system and official award file for Federal assistance awards, to select the nine grants and cooperative agreements

for review. OIG also obtained award data from USAspending.gov[1] for FYs 2018 to FY 2020 to compare with the data OIG received from SAMS. OIG reconciled the SAMS and USAspending.gov data to determine the completeness of the universe of awards to for-profit organizations that were active during the scope period and found no significant discrepancies. As a result of its work, OIG concluded that the SAMS data were sufficiently complete and reliable for the purpose of this audit.

## Work Related to Internal Control

OIG considered several factors, including the subject matter of the audit, to determine whether internal control was significant to the audit objective. Based on its consideration, OIG determined that internal control was significant for this audit. OIG then considered the components of internal control and the underlying principles included in the *Standards for Internal Control in the Federal Government*[2] to identify internal controls that were significant to the audit objective. Considering internal control in the context of a comprehensive internal control framework can help auditors to determine whether underlying internal control deficiencies exist.

For this audit, OIG concluded that three of five internal control components from the *Standards for Internal Control in the Federal Government* were significant to the audit objective—Control Environment, Control Activities, and Monitoring. The Control Environment component is the foundation for an internal control system. It provides the discipline and structure to help an entity achieve its objectives. The Control Activities component includes the actions management establishes through policies and procedures to achieve objectives and respond to risks in the internal control system, which includes the entity's information system. The Monitoring component relates to activities management establishes and operates to assess the quality of performance over time and promptly resolve the findings of audits and other review. OIG also concluded that four principles related to the selected components were significant to the audit objective as described in Table A.1.

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[1] USAspending.gov is considered the official source for spending data for the U.S. Government.

[2] Government Accountability Office, *Standards for Internal Control in the Federal Government* (GAO-14-704G, September 2014).

## Table A.1: Internal Control Components and Principles Identified as Significant

| Components | Principles |
|---|---|
| Control Environment | Management should establish an organizational structure, assign responsibility, and delegate authority to achieve the entity's objectives. |
| Control Activities | Management should design control activities to achieve objectives and respond to risks. |
| Control Activities | Management should implement control activities through policies. |
| Monitoring | Management should establish and operate monitoring activities to monitor the internal control system and evaluate the results. |

**Source:** Generated by OIG from an analysis of internal control components and principles from the Government Accountability Office, *Standards for Internal Control in the Federal Government* (GAO-14-704G, September 2014).

OIG then reviewed criteria, interviewed Department officials, and reviewed award documentation to obtain an understanding of the internal controls related to the components and principles identified as significant for this audit. OIG performed procedures to assess the design, implementation, and operating effectiveness of key internal controls. Specifically, OIG:

- Reviewed award file documentation to determine if key oversight activities—such as review and approval of quarterly performance and financial reports, annual updates to risk assessment, and monitoring plans—had been performed.
- Reviewed award file documentation to determine if annual reviews of the award file were performed.
- Assessed the completeness of the SAMS award files and use of SAMS.

Internal control deficiencies identified during the audit that are significant within the context of the audit objective are presented in the Audit Results section of this report.

## Sampling Methodology

OIG's sampling objective was to select grants and cooperative agreements for testing to determine whether the Department managed and monitored selected grants and cooperative agreements to for-profit organizations as required.

OIG judgmentally selected 9 grants and cooperative agreements for testing from a universe of 439 Federal assistance awards, totaling $357,847,124, to for-profit organizations that were active during FY 2018 to FY 2020. Specifically, OIG selected the four grants with the highest dollar value and the five cooperative agreements with the highest dollar value from that universe. The award actions during FY 2018 to FY 2020 for the selected awards totaled $154,970,694, which was 43.3 percent of the amount of Department award actions to for-profit organizations during the scope period. These nine grants and cooperative agreements were awarded by four bureaus to nine different recipients. Although OIG selected awards for review based on whether the awards were active during FY 2018 to FY 2020, OIG reviewed award file documentation available for the entirety of the awards' periods of performance. Due to sensitivity concerns with some of the awards, OIG is not including the name of the

organizations or the award numbers in this report. Accordingly, OIG will refer to recipients as A through I and awards as 1 through 9. Table A.2 provides information on the nine awards that OIG selected for testing.

## Table A.2: Federal Assistance Oversight Awards

| Recipient | Award Number | Bureau and Period Performance | Type of Award | Domestic or Foreign Recipient | Award Value[*] |
|---|---|---|---|---|---|
| | | **PM** | | | |
| A | 1 | 9/19/2016—1/30/2020 | Cooperative Agreement | Domestic | $119,796,873 |
| | | **NEA** | | | |
| B | 2 | 1/16/2016—2/15/2020 | Cooperative Agreement | Domestic | $60,550,000 |
| C | 3 | 1/22/2016—1/31/2020 | Cooperative Agreement | Domestic | $31,374,994 |
| D | 4 | 12/4/2018—10/31/2021 | Cooperative Agreement | Domestic | $23,885,664 |
| E | 5 | 10/01/2019—3/31/2022 | Grant | Foreign | $2,002,631 |
| | | **CT** | | | |
| F | 6 | 9/24/2018—9/24/2022 | Cooperative Agreement | Domestic | $12,504,679 |
| | | **DRL** | | | |
| G | 7 | 9/23/2019—9/30/2021 | Grant | Foreign | $4,085,460 |
| H | 8 | 4/30/2018—6/30/2021 | Grant | Domestic | $3,124,551 |
| I | 9 | 7/25/2018—9/30/2022 | Grant | Foreign | $2,400,000 |
| | | | | **Total** | **$259,724,852** |

[*] Award values include the entire award amount, not just the award actions that occurred during FY 2018 to FY 2020.
**Source:** Generated by OIG using award data obtained from SAMS.

## Prior Office of Inspector General Reports

In the *Audit of U.S. Embassy Kabul, Afghanistan, Public Affairs Section Administration of Grants and Cooperative Agreements* (AUD-MERO-21-42, September 2021), OIG reported that Embassy Kabul's Public Affairs Section adhered to some Federal and Department requirements in the administration of Federal assistance. With respect to assessing, mitigating, and monitoring risks, the Public Affairs Section conducted risk assessments prior to providing funds but did not document annual reviews of risks for 16 (80 percent) of 20 awards reviewed. Moreover, while officials identified risks and recommended that mitigation measures be put in place, they did not provide documentation showing that the GOs or GORs established mitigation measures for 12 awards for which officials had identified high programmatic and organizational risks. With respect to monitoring and evaluating performance, six awards were missing at least one performance report and three awards were missing one or more financial reports. Officials

cited the security environment, staff turnover, and the COVID-19 pandemic as challenges in administering the awards. Nevertheless, OIG concluded that weak internal controls also contributed to the deficiencies. The report's six recommendations remained open and are considered unresolved, pending a Department response, as of January 2022.

In the *Management Assistance Report: Financial Monitoring of Financial Assistance Grants and Cooperative Agreements in Somalia Needs Improvement* (AUD-MERO-21-35, July 2021)*,* OIG identified financial monitoring deficiencies. Specifically, OIG reported that financial reports were not submitted by the required deadlines and the Department did not always review the reports once submitted. OIG also identified $321,599 in unallowable or unsupported expenditures. The deficiencies occurred because a site visit had not occurred until 2 years and 8 months after the award began and supporting financial documentation was inadequate, despite issues that were noted during the pre-award risk assessment. OIG also reported that the Department permitted an award recipient to keep $3.78 million in incentive compensation that was not authorized in the terms and conditions of the award. Six of the report's eight recommendations remain open and are considered resolved, pending further action, while two have been implemented and closed, as of January 2022.

In the *Audit of Department of State Foreign Assistance Grants and Cooperative Agreements in Somalia* (AUD-MERO-20-45, September 2020), OIG reported that CT did not designate an award provided to a for-profit organization as high risk even though it was implemented in a country where travel is restricted due to political instability and terrorism. In addition, CT did not conduct an annual risk assessment for the award as required. OIG also found that CT had not established a process for mitigating risks. Finally, OIG reported that the award file was not complete because it did not contain the GOR designation memorandum. Three of the report's 10 recommendations related to an award made to a for-profit recipient and all three have been implemented and closed, as of January 2022.

In the *Information Report: Systemic Weaknesses Related to the Administration and Oversight of Department of State Contracts and Federal Assistance from FY 2017 to FY 2019* (AUD-CGI-20-44, September 2020), OIG identified systemic weaknesses and gauged Department progress towards resolving deficiencies related to the administration and oversight of Federal assistance and contracts during FY 2017 to FY 2019. During that time, OIG issued 51 reports that identified $41.8 million in potential monetary savings and contained 178 recommendations to 13 domestic bureaus and offices, 4 regional bureaus, and 30 overseas posts. OIG reported systemic deficiencies, including inadequate training and oversight of the GORs by the GOs and management officials. This report did not include formal recommendations but, instead, encouraged senior officials to examine policies and procedures for grants, as well as establish strategies for maintaining an oversight workforce.

In the *Audit of the Bureau of European and Eurasian Affairs Administration and Oversight of Selected Contracts and Grants* (AUD-CGI-18-50, August 2018), OIG reported that the Bureau of European and Eurasian Affairs' GOR files did not have all required documents, including monitoring plans, evidence of performance reviews and financial reviews, or evidence of site

visits. Seven of the 17 recommendations included in the report were specific to grants. All seven recommendations had been implemented and closed, as of January 2022.

# APPENDIX B: BUREAU OF ADMINISTRATION RESPONSE

**United States Department of State**

*Washington, D.C. 20520*

April 18, 2022

**MEMORANDUM**

TO:          OIG/AUD – Norman P. Brown

FROM:     A – Alaina B. Teplitz

SUBJECT:  Draft Report – Audit of the Department of State Management and Monitoring of Federal Assistance Awards to For-Profit Organizations

Thank you for the opportunity to provide an update to the subject report.

**Recommendation 1:** OIG recommends that the Bureau of Administration revise the Federal Assistance Directive to require domestic-based Grants Officers (GO) and Grants Officer Representatives (GOR) to fully use the State Assistance Management System Domestic's Post-Award Activities function to upload and review documentation for all post-award tasks, such as the review of Performance Progress Reports and Federal Financial Reports, GOR reports, annual reviews, other monitoring activities; and to document workflows for submitting, reviewing, and monitoring post-award activities among the GO, GOR, and award recipient.

**Management Response to the Draft Report:** The Bureau of Administration (A) concurs with the intent of the recommendation. However, only State Assistance Management System (SAMS) Domestic, which serves domestically-based grant-making bureaus and offices, has post-award monitoring functionality. The Office of the Procurement Executive (A/OPE) has identified an alternative course of action to address the recommendation. Specifically, A/OPE will revise the Federal Assistance Directive to require Grants Officers (GO) and Grants Officer Representatives (GOR) to fully use SAMS Domestic's Post-Award Activities function to upload and review documentation for all post-award tasks.

**Recommendation 2:** Concurrent with the implementation of Recommendation 1, OIG recommends that the Bureau of Administration require bureaus to perform quarterly reviews of the State Assistance Management System Domestic's Post-Award Activities function reports. The reviews should verify that Grants Officers and Grants Officer Representatives have complied with oversight requirements such as the review of Performance Progress Reports and Federal Financial Reports, GOR reports, annual reviews, and other monitoring activities.

**Management Response to the Draft Report:** A concurs with the intent of the recommendation. However, only SAMS Domestic, which serves domestically-based grant-making bureaus and offices, has post-award monitoring functionality. A/OPE has identified an alternative course of action to address the recommendation. Specifically, A/OPE will revise the Federal Assistance Directive to require domestic-based bureaus to perform quarterly reviews of SAMS Domestic's Post-Award Activities function reports.

**Recommendation 3:** Concurrent with the implementation of Recommendation 1, OIG recommends that the Bureau of Administration require bureaus to designate an official to review the State Assistance Management System's Post-Award Activities function reports to verify that Grants Officers and Grants Officer Representatives comply with oversight requirements.

**Management Response to the Draft Report:** A concurs with the recommendation.

**Recommendation 4:** OIG recommends that the Bureau of Administration modify the State Assistance Management System user training to include guidance on documenting the Grants Officer and Grants Officer Representative workflows within the State Assistance Management System using the Post-Award Activities function.

**Management Response to the Draft Report:** A concurs with the recommendation.

**Recommendation 5:** OIG recommends that the Bureau of Administration conduct a survey of Grants Officers and Grants Officer Representatives to identify technical issues and suggested improvements for the State Assistance Management System.

**Management Response to the Draft Report:** A concurs with the intent of the recommendation. However, would like to see this recommendation targeted to SAMS Domestic's Post-Award Activities function.

**Recommendation 6:** Following implementation of Recommendation 5, OIG recommends that the Bureau of Administration analyze the results of the survey to identify technical issues that need to be addressed, and if appropriate, develop and implement a corrective action plan to address suggested changes to increase the use of the State Assistance Management System.

**Management Response to the Draft Report:** A concurs with the intent of the recommendation. However, would like to see this recommendation targeted to SAMS Domestic's Post-Award Activities function.

**Recommendation 7:** OIG recommends that the Bureau of Administration revise the Federal Assistance Directive to clearly articulate that the Grants Officer Representative (GOR) must provide the Grants Officer with a written assessment (GOR report) of the recipient's performance based on a review of the Program Progress Report and Federal Financial Report within 30 days of receipt of the reports.

**Management Response to the Draft Report:** A concurs with the intent of the recommendation. However, program reports and financial reports are not always on the same schedule. A/OPE has identified an alternative course of action to address the recommendation. Specifically, A/OPE will revise the Federal Assistance Directive to clearly articulate that the GOR must provide the GO with a written assessment (GOR report) of the recipient's performance based on a review of the Program Progress Report and *the most recent* Federal Financial Report within 30 days of receipt of the reports.

**Recommendation 8:** OIG recommends that the Bureau of Administration develop and implement a communications strategy that provides Grants Officer Representatives with specific and detailed requirements for financial monitoring to improve their understanding of and compliance with those requirements. This communications strategy should underscore the importance of reviewing the Federal Financial Report to ensure that the amount of funds expended is commensurate with the work accomplished on the award.

**Management Response to the Draft Report:** A concurs with the recommendation.

**Recommendation 9:** OIG recommends that the Bureau of Administration develop and implement a communications strategy that provides Grants Officers with specific and detailed requirements for financial monitoring to improve their understanding of and compliance with those requirements. This communications strategy should underscore the critical importance of reviewing and approving the Federal Financial Report in a timely manner within the Payment Management System, rather than allowing a default approval. It should further remind Grants Officers that Grants Officer Representatives could be delegated Federal Financial Report approval responsibility within the Payment Management System to ensure timely approval of reports.

**Management Response to the Draft Report:** A concurs with the recommendation.

**Recommendation 10:** OIG recommends that the Bureau of Administration revise the Code of Federal Regulations, Title 2, Subtitle B, Chapter VI, Part 600, Section 600.101, to include a reference to the Federal Assistance Directive foreign for-profit audit requirements or add a new section detailing audit requirements to for-profit organizations. Language included should be consistent with the Federal Assistance Directive and the Department of State's Standard Terms and Conditions.

**Management Response to the Draft Report:** A concurs with the intent of the recommendation. After discussions with the OIG and reviewing the audit section of the FAD, it appears that there is an incorrect assumption that an audit is required for all domestic and foreign for-profit organizations. A/OPE has identified an alternative course of action to address the recommendation. Specifically, A/OPE will revise the Federal Assistance Directive to clearly articulate that although 2 CFR §200, Subpart F audit requirements are not applicable to foreign non-profit and foreign for-profit organizations, foreign organizations that expend $750,000 or more in Department of State funds in the organization's fiscal year are required to undergo a recipient-contracted single or program-specific audit annually.

**Recommendation 11:** OIG recommends that the Bureau of Administration develop and implement a communications strategy that provides Grants Officers with specific and detailed audit requirements for foreign for-profit organizations to improve their understanding of and compliance with those requirements. This communications strategy should underscore the critical importance of requiring, obtaining, and reviewing audit reports to inform risk assessments and to formulate monitoring plans.

**Management Response to the Draft Report:** A concurs with the recommendation.

Approved:   A – Alaina B. Teplitz [ABT]

Drafter:    A/OPE    Carly Sweet, cell: (202) 436-6897

Cleared:    A/FO:  Christine Sappenfield          (Ok)
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            A/LM/PMP:  Mikael McCowan             (Ok)
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            M:  Kevin Brendle                     (Ok)
            M/SS:  Sandra Cimino                  (Ok)
            CGFS:  Susana Ramirez                 (Ok)
            A/EX:  Joseph McGuire                 (Info)

## ABBREVIATIONS

| | |
|---|---|
| C.F.R. | Code of Federal Regulations |
| CT | Bureau of Counterterrorism and Countering Violent Extremism |
| DRL | Bureau of Democracy, Human Rights, and Labor |
| FAD | Federal Assistance Directive |
| FFR | Federal Financial Report |
| GAO | Government Accountability Office |
| GO | Grants Officer |
| GOR | Grants Officer Representative |
| NEA | Bureau of Near Eastern Affairs |
| OIG | Office of Inspector General |
| OPE | Office of the Procurement Executive |
| PAA | Post-Award Activities |
| PM | Bureau of Political-Military Affairs |
| PMS | Payment Management System |
| PPR | Performance Progress Report |
| SAMS | State Assistance Management System |
| SF | Standard Form |

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