

# AUDIT REPORT

## ALBUQUERQUE OPERATIONS OFFICE'S GRANT ADMINISTRATION



SEPTEMBER 2001

U.S. DEPARTMENT OF ENERGY  
OFFICE OF INSPECTOR GENERAL  
OFFICE OF AUDIT SERVICES



U. S. DEPARTMENT OF ENERGY  
Washington, DC 20585

September 18, 2001

MEMORANDUM FOR THE SECRETARY

FROM: Gregory H. Friedman (Signed)  
Inspector General

SUBJECT: INFORMATION: Audit Report on "Albuquerque Operations Office's Grant Administration"

BACKGROUND

As of September 30, 1999, the Albuquerque Operations Office (Albuquerque) administered grants with a total value of \$509 million. These grants funded numerous activities such as research and development, education, and state and local projects. Albuquerque personnel were responsible for (1) ensuring that the activities were in accordance with the grant terms, and (2) verifying the proper expenditure of funds. To a large extent, these administrative responsibilities are accomplished through a review and analysis of various technical and financial reports provided by the grant recipients. A Federal Assistance Reporting Checklist is included as part of each grant. This checklist identifies the reporting requirements and frequency of required reports for each project. For example, "Topical" reports present the technical results of work performed on a specific phase of a project and "Final Technical" reports present a technical accounting on the total work performed on a project. There are also several financial reports on budgets, expense rates, and planned milestones, including a spending plan. The review by the Department of these reports, referred to as "deliverables," is an important and necessary part of the grant administration process.

The objective of the audit was to determine whether Albuquerque was receiving the deliverables required in its grant instruments. Problems in obtaining deliverables relating to grants and cooperative agreements have been highlighted in prior Office of Inspector General reports. Currently, we are conducting a series of audits dealing with this subject.

RESULTS OF AUDIT

The audit disclosed that Albuquerque was not receiving many of the deliverables specified in its grants. As of May 2001, Albuquerque had not received final deliverables for 11 of the 28 completed grants, which were included in our review. In one case, a \$3.1 million grant required a final deliverable to document the results of research performed on engine combustion. However, the final deliverable had not been received 30 months after the date specified in the grant instrument. The final deliverable was a report that would have described all the technical work accomplished on the project.

In performing the audit, we found that Albuquerque had no formal procedures to identify when deliverables were due, thus impacting its ability to initiate follow-up actions. As a consequence, the results of research and development funded through the Albuquerque grants were not readily available, and Albuquerque could not fully exercise its fiduciary responsibility over the expenditure of public funds.

To strengthen its grant administration program, we recommended that Albuquerque develop and

implement a process to identify when deliverables are due, initiate follow-up action when required documents are not received, and institute remedies allowed in the Department of Energy Acquisition and Assistance Regulations Financial Assistance Letter 98-02 to obtain deliverables specified in its grant instruments.

### MANAGEMENT REACTION

Management concurred with the finding and recommendations in the report and provided a corrective action plan.

Attachment

cc: Deputy Secretary  
Under Secretary for Energy, Science and Environment  
Administrator, National Nuclear Security Administration

# ALBUQUERQUE OPERATIONS OFFICE'S GRANT ADMINISTRATION

---

## TABLE OF CONTENTS

### Overview

Introduction and Objective..... 1

Conclusions and Observations..... 1

### Deliverables Not Received

Details of Finding ..... 2

Recommendations and Comments ..... 4

### Appendices

Scope and Methodology..... 6

Past Audits ..... 8

---

## Overview

---

### INTRODUCTION AND OBJECTIVE

Grants are issued when limited Federal collaboration and participation is anticipated and when a public need is served. As of September 30, 1999, the Albuquerque Operations Office (Albuquerque) administered 75 grants with a total value of \$509 million. These grants funded activities such as scientific research and development, education, and state and local projects. Albuquerque personnel are responsible for ensuring that activities are in accordance with the grant terms and verifying the proper expenditure of funds. These responsibilities are accomplished through a review and analysis of various technical and financial reports called deliverables.

The objective of our audit was to determine whether Albuquerque was receiving the deliverables specified in its grants. Similar audits addressing the receipt and dissemination of deliverables are currently being conducted at the Department of Energy's (DOE) Oakland and Richland Operations Offices.

### CONCLUSIONS AND OBSERVATIONS

Albuquerque was not receiving the deliverables specified in its grants. Neither final nor interim deliverables were received from many of its grants awarded for research and development, education, and state and local activities. This occurred because Albuquerque did not have formal procedures in place to identify deliverables that were due. This lack of procedures impacted Albuquerque's ability to initiate follow-up actions when deliverables were overdue. By not having the procedures to monitor a grantee's performance and financial status, Albuquerque cannot fully exercise its fiduciary responsibility over the expenditure of public funds.

The audit identified a material internal control weakness that management should consider when preparing its yearend assurance memorandum on internal controls.

(Signed)  
Office of Inspector General

## **Deliverables Not Received**

---

### **Numerous Final And Interim Reports Not Received**

As of May 2001, Albuquerque had not received final deliverables for 11 of 28 grants reviewed. One grant funded at \$3.1 million, for example, required a final deliverable to document the results of research performed on engine combustion. This deliverable was supposed to be sent within 90 days of the project end date to Albuquerque and DOE's Office of Scientific and Technical Information (OSTI) in order to make the results available to the public. The final deliverable was due by November 1998. As of May 2001, however, the final deliverable had not been received either by Albuquerque or OSTI and was 30 months late.

Another grant, funded at \$316,000, specified the submission of a final deliverable. This deliverable was to demonstrate how the curriculum on environmental restoration and management was strengthened at educational institutions. The final deliverable was due by January 1995. As of May 2001, the final deliverable had not been received by Albuquerque and was 76 months late.

In addition to not receiving final deliverables, Albuquerque did not receive numerous interim deliverables specified in 25 of the 28 grants reviewed. An educational grant funded at \$2 million, for instance, required 51 interim deliverables. These deliverables were to provide information about an advanced manufacturing degree program initiated at a university. These interim deliverables also included reporting on the status of funds. However, Albuquerque received only 9 of the 51 interim deliverables required. Albuquerque also did not receive interim deliverables from another grant, funded at \$850,000, awarded to a local government entity. This grant required 15 interim deliverables documenting the status of funds. As of May 2001, however, no interim deliverables had been received.

### **Administrative Responsibilities**

With minimal Federal involvement, it is essential that a grant's performance and financial status be monitored and accounted for through the receipt of deliverables--an important and necessary part of the grant process. The grant instrument is the binding document identifying the deliverables required of the grantee as determined by the Contracting Officer (CO) and the Contracting Officer Technical Representative (COTR). The grantee agrees to the reporting requirements when the grant is awarded. Grantees are required to send the deliverables to the CO and COTR. For research and development grants, grantees are also required to send the final deliverables to OSTI for dissemination of the results to the public.

---

DOE Acquisition and Assistance Regulations Financial Assistance Letter (FAL) 98-02 requires the CO and the COTR to keep each other informed as to the receipt of deliverables. When a deliverable is not received within the specified time frame, the first step is to initiate immediate follow-up action with the grantee. If the deliverable is still not received, the CO should issue a notification letter detailing the corrective actions the grantee must take and possible enforcement actions. The possible enforcement actions can include converting from an advance payment to reimbursement payment, temporarily withholding payments, disallowing costs, terminating the grant, withholding future grant awards for the project or program, and taking other legal remedies. If these follow-up actions fail, a second notification letter is issued by the CO advising the grantee of the enforcement actions taken. At a minimum, FAL 98-02 requires the CO to withhold payments to the grantee pending correction of the deficiency.

**Deliverables Not Tracked**

Albuquerque did not have formal procedures to identify when deliverables were due. Such procedures were needed because Albuquerque, as of September 30, 1999, was administering 75 grants, each with its own deliverable requirements and unique submittal times. Although Albuquerque had not instituted formal procedures, at least one COTR demonstrated that deliverables could be tracked. In 1995, this COTR used a spreadsheet to annotate the receipt of deliverables. After tracking several interim deliverables, the effort was discontinued. This was the only attempt found at tracking grant deliverables.

The lack of formal procedures to identify the receipt of deliverables impacted Albuquerque's ability to initiate follow-up actions when deliverables were not received. Because Albuquerque did not know when deliverables were due, notification letters or similar documents were not issued to 7 of the 11 grantees that failed to submit the required final deliverables. For four grants where Albuquerque knew that a deliverable was not received, officials issued letters or similar documents; however, most did not stipulate what actions would be taken if the deliverables were not received within a specified period. For example in August 2000, Albuquerque simply requested a final report from one grantee. The request did not provide a timeframe and did not indicate what actions would be taken if the deliverable was not received. In fact, when the deliverable was not received by October 2000, Albuquerque waived the requirement. Although most grantees failed to submit their required deliverables, Albuquerque never withheld payments pending correction of the deficiencies.

---

Further, we assessed whether there were performance measures established under *The Government Performance and Results Act of 1993* related to the receipt and follow-up of interim and final deliverables. We determined that Albuquerque did not have any performance measures addressing these issues.

**Cannot Identify  
Grant Progress**

Without deliverables Albuquerque cannot perform its fiduciary duty to ensure that taxpayer funds are spent as intended. In addition, Albuquerque cannot document whether a grant is meeting its goals and objectives if it does not monitor the grantee's performance and financial status. The lack of reporting may serve as a red flag and indicate the need for assistance or actions to protect DOE's and taxpayers' interest. Without the final reports on research and development grants, Albuquerque cannot document or make public the results on grants worth \$4.9 million. Without final reports on education or state and local grants, DOE is not in a position to assure that expenditures led to desirable results.

**RECOMMENDATIONS**

We recommend that the Manager, Albuquerque Operations Office:

1. Develop and implement formal procedures to identify when deliverables are due;
2. Initiate follow-up action when deliverables are not received;
3. Issue notification letters if the initial follow-up action fails;
4. Carry out the remedies allowed in FAL 98-02; and,
5. Develop performance measures related to the receipt and follow-up of interim and final deliverables.

**MANAGEMENT  
COMMENTS**

Management concurred with the finding and all recommendations and provided a corrective action plan.

Specifically, Albuquerque will form a Process Improvement Team staffed by personnel from the Contracts and Procurement Division and the Technology Development Division. This Team will develop a system to track deliverables under financial assistance instruments. The Team will concurrently assess the roles and responsibilities of the CO and the COTR and will formally assign responsibility for tracking deliverables accordingly. Management envisions the assigned responsibilities will be as defined in Draft FAL 2001-02, the planned successor to FAL 98-02.



---

Management also stated that the Contracts and Procurement Division had conducted an internal assessment at the same time the Office of Inspector General was conducting its audit. The Division's assessment concluded that Albuquerque had been remiss in the administration of its grants relative to the required deliverables and identified the resources available to perform the workload as one of the root causes. Thus, the Team will also need to address the issue of human resources in both of its Divisions.

Finally, Albuquerque agreed to establish performance measures consistent with the requirements of *The Government Performance and Results Act of 1993*.

**AUDITOR COMMENTS**

Management's proposed actions are responsive to the recommendations.

## Appendix 1

---

### SCOPE

The audit was performed between November 2000 and June 2001 at Albuquerque. For the grants selected, we reviewed the grant files administered by Albuquerque's Contracts and Procurement Division. We attempted to obtain the files that the Division could not locate from other sources, such as the COTR or grantee. However, we were still unable to obtain the required documentation for two grants.

Although Albuquerque administered a total of 75 grants as of September 30, 1999, we selected our sample from a population of 49 grants valued at \$176 million that were to have ended prior to October 1, 2000, as reported in the DOE's Procurement and Assistance Database System. The population allowed us to select grants worth \$300,000 or more that had both interim and final deliverables. The population breaks out as follows: Education grants (19 grants valued at \$26 million), Research and Development grants (15 grants valued at \$13 million), and State/Local Government grants (15 grants valued at \$136 million).

### METHODOLOGY

To accomplish our audit objective, we:

- Reviewed applicable Federal and DOE regulations;
- Interviewed contracting officials, project officers, and grantees;
- Reviewed prior audit reports related to the audit objective;
- Reviewed grant files for the receipt of interim and final deliverables;
- Reviewed *The Government Performance and Results Act of 1993* and determined whether performance measures were established; and,
- Selected a sample of 28 grants, with DOE funding of \$62 million. This included the two grant files Albuquerque was unable to locate. We only selected grants with a total project cost, according to the Procurement and Assistance Database System, equal to or greater than \$300,000. They are broken out as follows: Education grants (6 grants valued at \$12 million), Research and Development grants (11 grants valued at \$10 million), and State/Local Government grants (11 grants valued at \$40 million).

---

The audit was conducted in accordance with generally accepted Government auditing standards for performance audits and included tests of internal controls and compliance with laws and regulations to the extent necessary to satisfy the objective of the audit. Accordingly, we assessed internal controls and performance measures established under *The Government Performance and Results Act of 1993*. Albuquerque did not have performance measures related to the receipt and follow-up of interim or final deliverables. Because our review was limited, it would not necessarily have disclosed all internal control deficiencies that may have existed at the time of our audit. We relied only on computer processed data from the Procurement and Assistance Database System for selecting our sample. Therefore, we did not assess the reliability of computer processed data since it did not impact our audit work to answer our objective.

Management waived the exit conference on August 21, 2001.

## Appendix 2

---

### PAST AUDITS RELATING TO GRANT ADMINISTRATION

- *Audit of Peer-Reviewed Scientific Literature Generated at the Department's Light Sources*, (DOE/IG-0520, August 2001). Only 44 percent of abstracts generated from work performed at the Department's light sources in Fiscal Year 2000 were available for public dissemination through the Office of Science and Technical Information (OSTI). This occurred because OSTI did not establish procedures to ensure that peer-reviewed journal literature for research performed at the light sources was collected in OSTI's *PubSCIENCE* database. As a result, scientific advancement was not fully promoted, and research and development efforts are more likely to be duplicated.
- *Audit of Departmental Receipt of Final Deliverables for Grant Awards*, (DOE/IG-0415, December 1997). Over 700 grants awarded by 5 procurement offices reviewed did not provide final technical and financial reports. The report also found that officials were waiving reporting requirements in order to facilitate the closeout process. Without the final deliverables, the report concluded DOE could not demonstrate that the public benefit specified in the grant instrument was achieved.
- *Audit of the Department of Energy's Scientific and Technical Information Process*, (DOE/IG-0407, June 1997). DOE and its contractors had not implemented systems to identify, collect, and disseminate scientific and technical information; and OSTI was not receiving all scientific and technical information generated by the contractors. At the outset of research and development projects, DOE and its management and operating contractors did not identify the deliverables. Without a process to identify deliverables, DOE could not adequately track or monitor the overall success of its research and development program or ensure broad-based dissemination of scientific and technical information.
- *Audit of Selected Government-Funded Grants and Contracts at Princeton University*, (ER-B-98-04, November 1997). The audit questioned the amount of labor effort and expenditures incurred on 20 Princeton agreements. The amount of hours claimed by the principal investigator and Princeton employees reported to have worked at the commercial business raised doubt about the amount of effort that was actually devoted to agreements at Princeton. This condition was exacerbated by Princeton's inadequate documentation of labor effort. Because a principal investigator played a major role in both the Princeton agreements and a commercial concern that performed similar work, it obscured whether the labor effort and expenditures were incurred solely for the benefit of Princeton's agreements.
- *Audit of Economic Development Grants and A Cooperative Agreement with East Tennessee Not-For-Profit Organizations*, (ER-B-97-01, October 1996). Significant amounts awarded to the East Tennessee Economic Council (Council) were not being used for their intended purposes. This occurred because DOE considered certain types of costs to be allowable even though the costs were outside the grants' approved scopes of work. Also, DOE advanced the Council about \$1.4 million more than it needed to establish a revolving loan fund. DOE also allowed the Council to hold about \$148,000 in interest earned because the officials responsible for awarding and administering the grants were not familiar with Federal rules on cash advances and interest earned on them.

### CUSTOMER RESPONSE FORM

The Office of Inspector General has a continuing interest in improving the usefulness of its products. We wish to make our reports as responsive as possible to our customers' requirements, and, therefore, ask that you consider sharing your thoughts with us. On the back of this form, you may suggest improvements to enhance the effectiveness of future reports. Please include answers to the following questions if they are applicable to you:

1. What additional background information about the selection, scheduling, scope, or procedures of the audit would have been helpful to the reader in understanding this report?
2. What additional information related to findings and recommendations could have been included in this report to assist management in implementing corrective actions?
3. What format, stylistic, or organizational changes might have made this report's overall message more clear to the reader?
4. What additional actions could the Office of Inspector General have taken on the issues discussed in this report which would have been helpful?

Please include your name and telephone number so that we may contact you should we have any questions about your comments.

Name \_\_\_\_\_ Date \_\_\_\_\_

Telephone \_\_\_\_\_ Organization \_\_\_\_\_

When you have completed this form, you may fax it to the Office of Inspector General at (202) 586-0948, or you may mail it to:

Office of Inspector General (IG-1)  
U.S. Department of Energy  
Washington, D.C. 20585  
ATTN: Customer Relations

If you wish to discuss this report or your comments with a staff member of the Office of Inspector General, please contact Wilma Slaughter at (202) 586-1924.

The Office of Inspector General wants to make the distribution of its reports as customer friendly and cost effective as possible. Therefore, this report will be available electronically through the Internet at the following address:

U.S. Department of Energy Office of Inspector General Home Page  
<http://www.ig.doe.gov>

Your comments would be appreciated and can be provided on the Customer Response Form attached to the report.