




OFFICE OF
INSPECTOR GENERAL
U.S. DEPARTMENT OF THE INTERIOR

July 30, 2012

Memorandum

To: Eric Eisenstein
Division Chief, Internal Control and Audit Follow-up
Office of Financial Management

From: Michael P. Colombo 
Regional Manager

Subject: Verification Review of Recommendations of our January 2007 Audit Report,
“Proper Use of Cooperative Agreements Could Improve Interior’s Initiatives for
Collaborative Partnerships” (Report No. W-IN-MOA-0086-2004)
Report No. WR-VS-MOA-0010-2012

The U.S. Department of the Interior (Department) Office of Inspector General (OIG) has completed a verification review of the five recommendations presented in the subject audit report. The objective of the verification review was to determine whether the recommendations were implemented by the Office of Acquisition and Property Management (PAM) as reported to the Office of Financial Management (PFM), Office of Policy, Management and Budget. PFM reported to OIG when the Department had addressed each of the five recommendations in the subject report and provided supporting documentation. Based on our verification, we consider Recommendations 2, 3, 4, and 5 resolved and implemented and Recommendation 1 resolved but not implemented.

Background

Our January 2007 audit report, “Proper Use of Cooperative Agreements Could Improve Interior’s Initiatives for Collaborative Partnerships,” contained five recommendations relating to the Departments use and management of cooperative agreements and grants.

In a memorandum dated April 11, 2007, the Associate Deputy Secretary generally agreed with the overall findings that program and administrative improvements and management support were needed. The Associate Deputy Secretary also provided a list of corrective actions and target implementation dates associated with each recommendation. On April 16, 2008, we referred the recommendations to PFM for tracking and implementation.

Subsequently, PFM reported that all recommendations had been implemented (memorandums dated May 29, 2008; January 22, 2009; and September 27, 2011). The audit report was closed on September 27, 2011.

Scope and Methodology

The scope of this review was limited to determining whether the Department took action to implement the recommendations. To accomplish our objective, we reviewed the supporting documentation that PAM officials provided and discussed actions taken relating to each of the five recommendations.

We did not perform any site visits or conduct fieldwork to determine whether the underlying deficiencies we initially identified have been corrected. As a result, we did not conduct this review in accordance with the Generally Accepted Government Auditing Standards issued by the Comptroller General of the United States or the Quality Standards for Inspections of the Council of the Inspectors General on Integrity and Efficiency.

Results of Review

Our current review found that the Department implemented Recommendations 2, 3, 4, and 5 but did not implement Recommendation 1. We are requesting PFM to reinstate Recommendation 1 and take the appropriate follow-up action.

Recommendation 1: Establish an Interior-wide policy to require, in conjunction with bureau solicitors, reviews of all proposed cooperative agreements to ensure that (a) the bureau has legal authority, (b) there is substantial involvement by both parties to the agreement, (c) the correct legal instrument is used, and (d) all authorities and responsibilities, deliverables, cost budgets, and time frames for completing agreement objectives are clearly delineated.

On March 29, 2006, the Department formally adopted 505 DM 2.8.D requiring legal reviews for cooperative agreements in excess of \$750,000. In April 2007, the Associate Deputy Secretary response to our subject report disagreed with our recommendation to preform legal reviews on all cooperative agreements citing 505 DM 2.8.D which requires legal reviews for cooperative agreements with amounts in excess of \$750,000.

On December 28, 2006, PAM issued Financial Assistance Communication Liaison Policy Release 2007-1, "Enhancing Quality Assurance in the Award and Administration of Financial Assistance Transactions." This policy requires the use of the financial assistance review sheet, which addresses all points in the recommendation.

Subsequently, on January 9, 2008, the Department had taken the position that the threshold for legal review for cooperative agreements in excess of \$750,000 be dropped and that legal reviews would not be required for all cooperative agreements. The Office of the Solicitor was involved and concurred with the policy change. During our verification review, we learned that the Department is updating 505 DM 2.8.D and currently proposes legal review for cooperative agreements and any amendments that obligate in excess of \$500,000. Although our recommendation originally called for a review of all cooperative agreements we believe that establishing a review threshold of \$500,000 is a reasonable balancing of priorities and resources

for the administration of cooperative agreements. However, since the Department has not yet finalized the draft of 505 DM 2.8.D, we consider this recommendation resolved but not implemented.

Recommendation 2: Establish an Interior-wide policy to require periodic management reviews of all processes related to awarding and administering cooperative agreements. These processes should, at a minimum, include determining whether (a) required legal reviews were completed, (b) competition was solicited, (c) substantial involvement occurred from both parties, (d) goods and services were obtained at allowable and reasonable costs, and (e) transactions were properly coded to all financial and program systems.

PAM's December 28, 2006 policy includes a financial assistance agreement review sheet, which addresses all points in the recommendation. In addition, PAM issued Department of the Interior Guidance Release 2011-03, "Financial Assistance Monitoring Protocol," which developed a monitoring strategy and focuses on higher risk awards. After reviewing the available documentation, we conclude that Recommendation 2 is resolved and implemented.

Recommendation 3: Develop competition guidelines and metrics to evaluate and annually report the use of competition in awarding cooperative agreements to maintain the transparency consistent with the customer service mandates prescribed in Public Law 106-107.

PAM revised 505 DM 2.13 to state that competition in making awards through cooperative agreements is strongly encouraged and expected. It also requires that the synopses of all cooperative agreements be posted on www.grants.gov. As part of the bureau's internal control reviews, PAM requires them to describe their efforts and results to encourage competition in awarding cooperative agreements. After reviewing the available documentation, we conclude that Recommendation 3 is resolved and implemented.

Recommendation 4: In conjunction with DOI's University, establish and implement a training program for all acquisitions and program personnel. This training program should provide instruction on how to use applicable OMB circulars to conduct thorough cost reviews of budgeted and actual expenditures.

In 2008, DOI University started sponsored training for Department employees performing financial assistance functions. The training program is offered through Management Concepts and continues to be offered to Department employees performing financial assistance functions. After reviewing the available documentation and speaking with PAM officials, we conclude that Recommendation 4 is resolved and implemented.

Recommendation 5: Require cost reviews during the cooperative agreement's performance period to monitor billed costs and matching requirements. This would include comparing cost estimates developed during the application process to incurred costs.

PAM's Interior Guidance Release 2011-03, "Financial Assistance Monitoring Protocol," conveys the Department and PAM's specific expectations for financial assistance. These consist of bureau and office heads holding recipients accountable for the timely receipt of financial and programmatic reports, proactively addressing recipient problems that impede the effective implementation of financial assistance programs, and ensuring that public funds are properly expended. The new policy implements mandatory use of pre-award risk assessment checklist and post-award monitoring testing methods and provides templates to accomplish oversight of the grantees. After reviewing the available documentation, we conclude that Recommendation 5 is resolved and implemented.

Conclusion

We informed PAM officials of the results of this review on July 2, 2012. PAM officials agreed with the results of our review.

If you have any questions about this report, please contact me at (916) 978-5653.

cc: Heads of Bureaus and Offices
Audit Liaison Officers