

PART I

Chapter 1 Report on P.L. 106-107 Implementation Efforts

BACKGROUND AND PURPOSE

This is the fifth annual progress report submitted to the Congress and the Office of Management and Budget (OMB), as required by section 5 of the Federal Financial Assistance Management Improvement Act of 1999 (Pub. L. No. [P.L.] 106-107, “the Act”). This 2006 report covers our interagency activities between June 2005 and September 2006.

We have provided an annual report each year since the P.L. 106-107 Initial Plan (Initial Plan) was submitted in May 2001. Each year we have described the collaborative efforts of 26 federal agencies to streamline and simplify the award and administration of federal grants.¹ This year, we also are providing a retrospective on what we have accomplished over the past 5 years. As a result, in addition to reporting our accomplishments during this reporting period, work in progress, and the “road ahead,” we are providing our assessment of the road we have traveled to this point.

We have taken this approach to this year’s report because we believe it is important to demonstrate what we have accomplished under the Act (and related initiatives) as well as to address what remains to be done. Our reasons for this belief are that this is the next-to-the-last annual report under the Act and the Government Accountability Office (GAO) has completed both phases of its evaluation of our implementation of the Act. In the second phase GAO audit, GAO stated that Congress should consider reauthorizing the Act beyond its November 2007 sunset date to ensure that cross-agency initiatives progress.²

THE YEARS IN REVIEW—2001-2005

Before we started our journey toward government-wide streamlining and simplification under P.L. 106-107, there had not been a comprehensive effort to streamline grants since the Federal Assistance Review in the early 1970’s. There had been efforts by grant-making agencies with similar interests to pursue change in selected areas. For example, major research agencies have worked extensively with recipients to develop common practices that would streamline research administration. With the enactment of P.L. 106-107, all of the 26 major grant-making agencies came together in work groups, set up a governance structure, consulted with external constituencies, and began to develop a plan for streamlining all aspects of grant award and administration. We did not know the details of how we would get to our destination and the successes, obstacles we would encounter, and mid-course corrections we would make along the way. We also did not envision the cooperative spirit that has emerged among the agencies.

¹ The term “grant” as used in this report includes cooperative agreements.

² “Grantees Concerns With Efforts to Streamline and Simplify Processes (GAO-06-566): <http://www.gao.gov/new.items/d06566.pdf>

The Initial Plan and Changes in the Grants Management Environment Since May 2001

At the time of the Initial Plan, the federal financial assistance portfolio consisted of \$325 billion dollars in annual expenditures and more than 600 programs. Currently, more than 1,000 programs provide over \$460 billion annually in federal financial assistance³. The increase in the size and diversity of our portfolio makes our work to streamline and simplify the process even more significant.

Our work to implement the Act was furthered by the introduction of two grant-related President's Management Agenda E-Government (E-Gov) initiatives—Grants.gov and the Grants Management Line of Business (GMLoB). During the last 5 years, we also underwent changes in organizational structure and leadership for the interagency effort and established relationships with other entities, several of which did not exist in 2001.

ORGANIZATIONAL STRUCTURE AND LEADERSHIP

At the outset, we had four streamlining and simplification work groups—the Pre-Award, Post-Award, Audit Oversight, and Electronic Processing Work Groups—and a policy and oversight team reporting to the Grants Management Committee (GMC), which operated under the auspices of the Chief Financial Officers (CFO) Council. The Electronic Processing Work Group has been replaced by the Grants.gov and GMLoB initiatives and we have added two new work groups—the Mandatory Grants Work Group and the Training and Certification Work Group.

We formed the Training and Certification Work Group to consider a common qualification and training framework for those individuals who ultimately will be responsible for implementing the new policies, procedures, and systems. The Mandatory Grants Work Group was an outgrowth of our understanding that discretionary and mandatory grants are distinct in many respects and that each needs a dedicated effort.

We have had sustained leadership by OMB and HHS, as the designated lead agency under the Act, through its P.L. 106-107 Program Management Office (PMO); however, there have been other governance changes. Last year, as part of the restructuring of responsibilities for the policy and electronic aspects of grants streamlining, the GMC was reconstituted as the Grants Policy Committee (GPC), which serves as the interagency policy arm of our efforts. The GPC, operating under the auspices of the CFO Council and the executive leadership of OMB, is chaired by the National Science Foundation (NSF). The Grants Executive Board (GEB), chaired by the National Endowment of the Arts (NEA), is the equivalent of the GPC for the electronic aspects of grants streamlining and simplification.

³ Number of programs listed at <http://www.grants.gov>. Total dollars based on FY 2004 Consolidated Federal Funds Report (<http://www.census.gov/prod/2005pubs/cffr-04.pdf>). This amount is expected to be higher when the FY 2005 and FY 2006 reports are released.

The Grants.gov and the GMLoB initiatives have had a significant effect on our efforts. Grants.gov is a single, government-wide electronic portal where the public can find information about all federal funding opportunities for grants under which an agency has discretion to make awards and through which applicants may electronically submit applications. The GMLoB initiative is intended to reduce the number of different “back office,” or internal agency, grants processing systems, and establish common sets of business practices across agencies, thereby reducing redundancy and costs. Each of these initiatives has its own PMO, which receives strategic direction from the GEB.

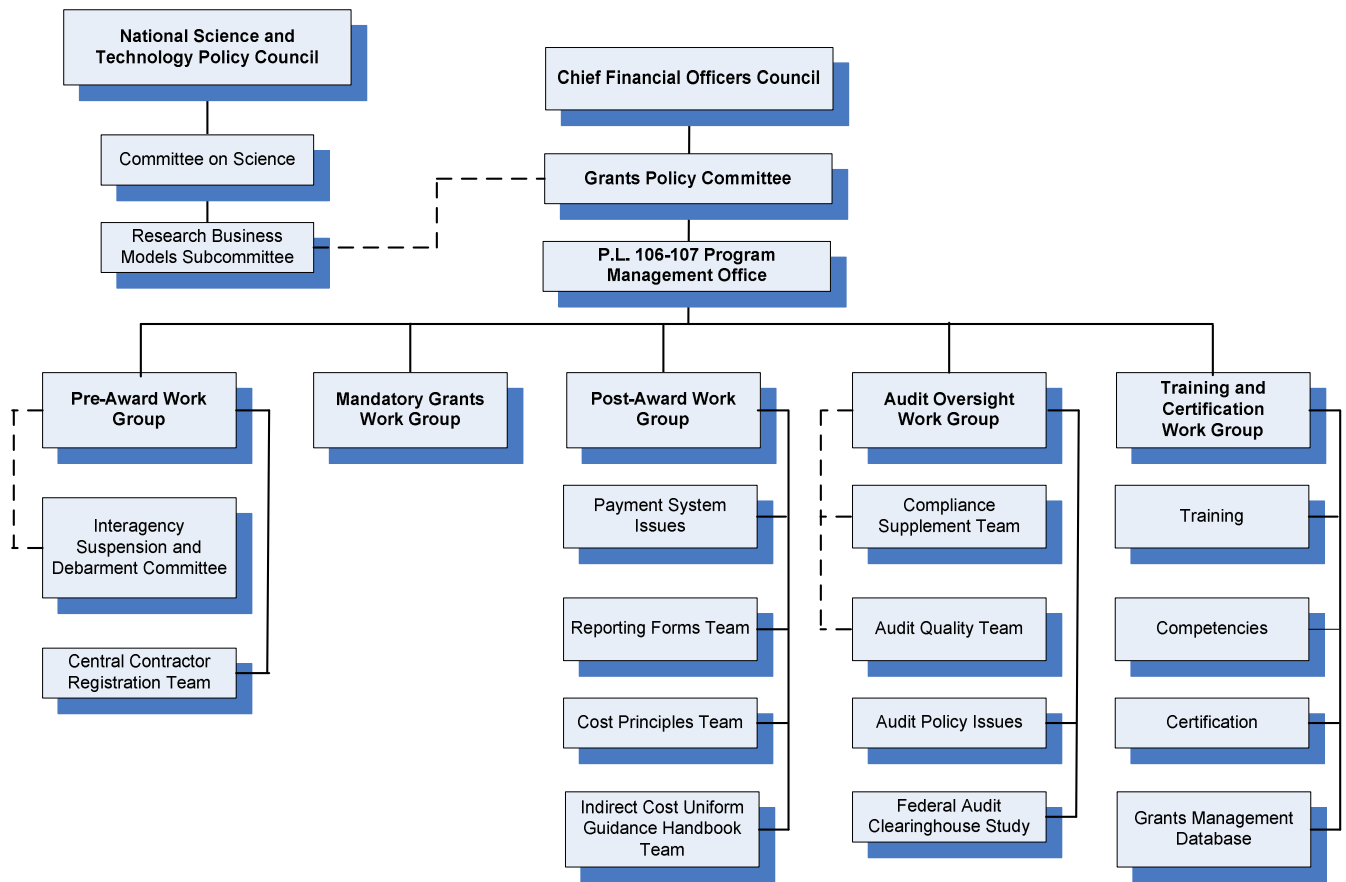
To be successful, all of these entities must work closely with each other, OMB, the individual federal agencies, and, as appropriate, other E-Gov initiatives. We have used various means to ensure that coordination, including designating liaisons and preparing periodic status reports to ensure that coordination.

OUTREACH

As part of the development of the Initial Plan, we held consultation meetings with external constituencies, invited them to submit written comments on an interim plan, and provided other opportunities for input. Since 2001, we have developed or enhanced our relationships with entities internal and external to the federal government in an effort to harmonize initiatives and be more inclusive. This includes the Federal Demonstration Partnership (which includes non-federal research organizations and federal agencies), the National Grants Partnership (which includes membership from the non-federal governmental and non-profit communities as well as from federal agencies), and the Research Business Models Subcommittee of the Committee on Science (which includes the federal research agencies and coordinates with the external research community).

Figure 1 shows the organizational structure included in the Initial Plan and Figure 2 shows the organizational structure and relationships as they exist today.

Figure 2. The Federal Grant Streamlining Initiative (P.L. 106-107):
Current Structure



We cite these changes to show that the accomplishments described in the following pages are ones where, although there have been changed priorities and processes, because of our commitment to change, we have accomplished many of the things we set out to do in 2001 and others we had not planned at that time.

Our Major Accomplishments—Through May 2005

AN OVERVIEW

Subsection 6(a) of the Act requires federal agencies to establish

- ◆ a common application or set of applications for use in applying for multiple federal financial assistance programs serving similar purposes, administered by different federal agencies;
- ◆ a common system, including electronic processes, wherein a non-federal entity can apply for, manage, and report on the use of funding from multiple federal programs serving similar purposes and administered by different agencies;

- ◆ uniform administrative rules for federal financial assistance programs across different federal agencies; and
- ◆ an interagency process for addressing the requirements of the Act.

In the Initial Plan, we cited our major objectives as

- ◆ streamlining, simplifying, and standardizing, to the extent appropriate;
 - announcements of funding opportunities;
 - application requirements and procedures;
 - award documents, including terms and conditions for
 - general administrative requirements, like those that currently originate in OMB Circulars A-102 and A-110, and
 - national policy requirements that originate in statutes, Executive Orders, their implementing regulations, and other appropriate sources;
 - reporting forms and business processes for reporting.
- ◆ improving reporting by recipients;
- ◆ making the descriptions of similar cost items in the cost principles consistent, where possible;
- ◆ having single audits that meet federal oversight needs; maintaining up-to-date information on federal requirements, and providing information and services to recipients, auditors, and agencies to ensure quality and timely audits; and
- ◆ developing and implementing electronic processes and data standards that are interoperable and provide a common face to applicants, recipients, and agencies.

Our major accomplishments, some of which are far along in development but are not yet implemented, fall in the four areas specified in subsection 6(a) in the statute and reflect the progress we have made toward fully meeting our stated objectives. These include the following:

- ◆ Making it easier for potential applicants to
 - find funding opportunities, determine whether a funding opportunity is of interest, and apply as a result of our development and deployment of Grants.gov; and

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- locate the same types of information in the same place in each announcement through use of a standard funding opportunity announcement format.
 - ◆ Reducing the number of different application forms and standardizing data elements across those forms.
 - ◆ Making it easier for recipients to provide reports under their grant awards and improving the quality of information reported through
 - development of a common set of reporting formats, including a consolidated federal financial report, real and personal property reports, an invention report, and performance reports for research and non-research awards; and
 - improvements in the quality of audits and audit services.
 - ◆ Exploring ways to reduce the number of different federal grant processing systems and leverage successful systems and processes, which is being carried out through the GMLoB.
 - ◆ Making suspension and debarment policies and procedures easier to understand, by rewriting in plain language the common rule adopted by the agencies.

Figure 3 provides an overview of our activities from November 1999 through May 2005. Other sections of this report provide additional detail on our accomplishments, some which continue to be refined as the result of experience, stakeholder feedback, and the GAO reports, and the remaining activities planned through the sunset of the Act in November 2007.

Figure 3. Summary of Accomplishments: Passage of the Act through May 2005

1999	through	2002	2003	2004	2005
<p>Passage of PL 106-107</p> <p>Federal Grant Streamlining Initiative Work Groups formed</p> <p>Public consultation meetings held</p> <p>Initial plan submitted to Congress</p>		<p><u>Proposed policies issued for public comment:</u></p> <p>-- Standard funding opportunity announcement format</p> <p>-- Grants.gov FIND data elements</p> <p>-- Changes to cost principles</p>	<p><u>Policies issued:</u></p> <p>-- Use of a standard announcement format</p> <p>-- Grants.gov FIND data elements</p> <p>-- Use of Grants.gov FIND</p> <p>-- Increase in A-133 audit threshold</p> <p>-- Common rule on suspension and debarment</p> <p>Agencies posting synopses on Grants.gov FIND for 100% of their discretionary funding opportunity announcements</p>	<p>Established Title 2 of the Code of Federal Regulations as central location for OMB grants and agreements guidance and federal agency implementation</p> <p>Developed a set of core application face page data elements for use in Grants.gov APPLY and hard-copy applications</p> <p>Deployed Grants.gov APPLY</p> <p>Enhanced the operation of the Federal Audit Clearinghouse</p>	<p>Established Grants Policy Committee</p> <p>Strengthened working relationship with Research Business Model Subcommittee, Federal Demonstration Partnership, National Grants Partnership</p> <p>Formed Training and Certification Workgroup</p> <p>Grants Executive Board charter amended</p> <p>Integrated Grants.gov FIND/APPLY and deployed additional data sets</p>

GRANTS.GOV AND GRANTS MANAGEMENT LINE OF BUSINESS AND THEIR RELATION TO P.L. 106-107

The Grants.gov and the GMLoB initiatives did not exist at the time of the Initial Plan; however, in combination with the P.L. 106-107 policy efforts, they have helped achieve, or hold the promise to achieve, significant streamlining and simplification of the grants process for applicants, recipients, and federal agencies.

Grants.gov directly supports the objectives of expanded E-Gov and P.L. 106-107 through

- ◆ FIND, on which federal agencies must post synopses of discretionary funding opportunities, and

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- ◆ APPLY, which has fostered use of standardized forms for cross-government use and allows potential applicants to search posted opportunities, receive opportunity posting notices via e-mail, download the application package, and submit applications electronically.

These functions are supported for both federal and non-federal users by the Grants.gov PMO and its contact center and e-mail support desk, as well as the common Web site with training tips, tools, search functions and technical library.

Grants.gov has successfully implemented architecture with open standards utilizing Extensible Markup Language (XML) allowing different standards to seamlessly integrate with Grants.gov without requiring infrastructure changes. The Grants.gov system-to-system functionality, available to applicant organizations, further simplifies the grant process for organizations that apply for large numbers of federal grants. This functionality allows those organizations to continue using their internal grant processing systems and create a seamless, automated integration with Grants.gov APPLY for all of the applications they submit to the federal agencies. Similarly, agency system-to-system interfaces allow agencies to integrate their back-office systems with Grants.gov. For example, the Department of Justice has been extremely successful integrating their back-office system with Grants.gov. Their application packages are transmitted within 90 seconds from the Grants.gov system to their back-office system, dramatically reducing transmission time from the applicant to the agency.

Although Grants.gov has made great strides in streamlining and standardizing the public-facing processes and data elements for finding and applying for grants, much of what hampers streamlining and standardization are the complex and varying requirements resulting from legacy agency grants management processes and systems. The GMLoB was created to address issues related to back-office processes and systems.

In Fiscal Year (FY) 2004, a task force made up of representatives from the 26 major grant-making agencies developed the vision for a target GMLoB operating model. The target operating model states that the federal grants management community will process grants in a decentralized way using common business processes supported by shared technical support services. This vision is complementary to and supportive of our policy initiatives.

Accomplishments in This Reporting Period

GRANTS.GOV

During this reporting period, Grants.gov sought and obtained feedback in an effort to continuously improve its utility to both the federal and non-federal communities. Grants.gov's accomplishments and those of the federal agencies are indicated by the following statistics for FY 2006:

- ◆ All 26 major federal grant-making agencies are posting synopses of all of their discretionary grant opportunity announcements at Grants.gov FIND and are posting application packages for some or all of those opportunities:
 - Of the 26 agencies, 21 reached the FY 2006 goal of posting 75 percent of their application packages for discretionary grant opportunities at Grants.gov APPLY.
 - 76 percent of all Federal discretionary grant opportunities were available for electronic application through Grants.gov.
 - 2,821 discretionary grant opportunity synopses were posted, with 5,197 posted since the advent of Grants.gov.
 - 2,298 discretionary grant application packages were posted, with a total of 6,230 published since inception.
- ◆ 90,045 applications have been received (exceeding the FY 2006 goal of 45,000), with 106,205 submissions since inception.

Highlights of Grants.gov activities during this reporting period include the following:

- ◆ In conjunction with the E-Authentication E-Gov initiative, deployed multiple credential service providers beginning with the federal grant-making agencies (grantors) in August 2006. E-Authentication provides standard identity verification services for users in both the public and private sectors.
- ◆ Deployed system-to-system functionality, which allowed applicant organizations and agencies to integrate their systems with Grants.gov:
 - Thirty-nine non-federal organizations are registered with Grants.gov to submit applications using XML and Web services, with an additional nine providers currently testing this capability.
 - Thirty federal systems are integrated with Grants.gov, which allows them to retrieve grant applications submitted to Grants.gov APPLY directly into their systems.
- ◆ Several Grants.gov outreach efforts were completed:
 - Hosting of a live Webcast on February 9, 2006, which had more than 4,000 participants, and offering an opportunity for questions and answers. The Webcast was a follow-up to a *Federal Register* notice [71 FR 2549, January 17, 2006] that encouraged organizations to reg-

ister early with Grants.gov to avoid any possible delays at the time of application submission.

- Presentations in 24 states and stakeholder meetings reaching more than 10,000 stakeholders. Participants in these meetings included congressional staff members, foundation executives, recipient grant managers and practitioners, federal program personnel, representatives of trade associations, and tribal advocates.
- The first listserv e-mail was sent on June 1, 2006 to the Stakeholders Members Group to provide them with the stakeholder meeting update. Listservs also have been created for the System-to-System Group, the Grantor User Group, and the Grants.gov newsletter subscribers. This service will allow Grants.gov to quickly send out announcements as well as allow for discussions.
- ◆ Grants.gov improvement efforts include the following:
 - In early July 2006, deployed a major Web site content redesign with enhanced features and capabilities, which were explained to the federal agencies in several informational sessions.
 - In August 2006, conducted a preliminary usability evaluation of the grantor side of Grants.gov. Initial results indicated that, while all of the grantor tasks were successfully performed by the participants, and their associated ratings of satisfaction were fairly high, a number of usability improvements were needed. Improvements are now being considered.

GRANTS MANAGEMENT LINE OF BUSINESS

Our GMLoB planning progressed sufficiently that we were able to define an implementation approach for our vision—processing grants in a decentralized way using common business processes supported by shared technical support services. This will be accomplished through several “consortia,” each led by a federal agency with a series of commercial service providers. Consortia lead agencies will align with agencies to be serviced according to common interests. In 2005, through a structured process, OMB designated three initial consortia lead agencies: the Department of Education, Administration for Children and Families (ACF) within HHS, and the National Science Foundation (NSF).

During this reporting period, the GMLoB PMO, which is overseen by NSF and HHS, continued to identify areas for government wide standardization and streamlining, working in conjunction with the GEB, the consortia leads, and the other federal agencies. This year our focus has been primarily on the consortia leads and information gathering. Some of the designated consortia leads, with the advice and assistance of the GMLoB PMO, have begun operational pilots. The

several shared services pilot programs that have been undertaken involve NSF and the U.S. Department of Agriculture's Cooperative State Research, Education, and Extension Service and a similar partnership between HHS components ACF and the Health Resources and Services Administration.

TITLE 2 OF THE CODE OF FEDERAL REGULATIONS

In 2004, as recommended by the Pre-Award Work Group, OMB established Title 2 of the Code of Federal Regulations (CFR) as the central location for government wide policy and procedural requirements for grants and agreements. The streamlining reasons for establishing Title 2 as the location for OMB guidance for grants and agreements and agency implementation of that guidance are to

- ◆ Make all of OMB's guidance for grants and agreements easier to use and more accessible for federal agencies and applicants for, and recipients of, grants and agreements.
- ◆ Make it easier for applicants/recipients to find agencies' implementations of the OMB guidance. Each agency's regulations currently are in its own title of the CFR, causing a recipient that receives awards from several agencies to have to find and read regulations in multiple CFR titles. Co-locating the agencies' rules in Title 2 will eliminate that burden.

Since May 2004, OMB, with the assistance of the Pre-Award and Post-Award Work Groups, has relocated to Title 2 its existing OMB Circular A-110 and the three sets of OMB cost principles in OMB Circulars A-21, A-87, and A-122.

Replacing Common Rules with Adoptable Guidance

The Interagency Suspension and Debarment Committee (ISDC), working with the Pre-Award Work Group, made significant progress this year toward replacing the common rule on nonprocurement debarment and suspension with adoptable OMB guidance in the new Title 2. This guidance is a model for adoptable guidance to eliminate other common rules so that we ultimately will realize benefits from this initiative that are broader than debarment and suspension.

Specifically, replacing common rules with adoptable guidance will do the following:

- ◆ *Make it easier to discern an agency's variations from OMB's government wide language.* When each agency publishes a common rule, e.g., the suspension and debarment common rule, it is difficult to identify any agency-specific additions or exceptions to the government-wide language because the variations are embedded in and integrated with the agency's publication of the full text of the rule. With the new approach, each agency's implementation of the guidance will be a brief rule that: (1) adopts the OMB guidance, giving it regulatory effect for that agency's activities; and

(2) states any agency-specific additions, clarifications, and exceptions to the government-wide policies and procedures contained in the guidance.

- ◆ *Reduce the volume of federal regulations.* The agencies' separate publications of the full text of a common rule currently require hundreds of pages in each paper copy of each edition of the CFR. The new approach will cut this many-fold, which reduces both burdens on the public and costs of maintaining the regulations.
- ◆ *Streamline the process for updating government-wide requirements.* To update a common rule, all signatory agencies had to process the same rule-making document before it could be sent to OMB and published in the *Federal Register*. This exceedingly complex and time-consuming process created long delays in updating a common rule. With the new approach, OMB will publish proposed changes to the guidance in the *Federal Register*, with an opportunity for the public to comment. When OMB finalizes each change to the guidance, the updating process will be complete because agencies that have adopted the guidance generally will not need to make any changes to their adopting implementations.

The accomplishments in this reporting period related to replacing rules with adoptable guidance are as follows:

- ◆ On August 31, 2005, OMB issued in the *Federal Register* [70 FR 51863] the guidance prepared by the ISDC. The guidance is in interim final form at 2 CFR part 180.
- ◆ The ISDC prepared a template that OMB issued to the agencies for use in adopting the guidance.
- ◆ On April 4, 2006, OMB issued a call to the agencies to establish their assigned chapters in 2 CFR, issue regulations in those chapters to adopt the OMB guidance on debarment and suspension, and remove their codifications of the common rule in their separate CFR titles.

Agencies are now preparing their rulemaking documents to adopt the OMB debarment and suspension guidance, which must be completed by February 2007, to bring this multi-step initiative to completion.

REPORTING

Consistent with our vision to streamline and simplify reporting, while at the same time ensuring that federal agencies and programs have the information they need to manage their grant programs and ensure recipient accountability, we have spent the last several years designing and vetting standard reporting formats in each area for which reports currently are required. These include the—

- ◆ Consolidated Federal Financial Report (FFR), which melds the Financial Status Report (SF 269) and Federal Cash Transactions Report (SF 272);
- ◆ Real Property Report to ensure accountability for land or buildings acquired or constructed under grants;
- ◆ Personal Property Report to address the status of tangible personal property valued at over \$5,000 acquired under grants;
- ◆ Summary Report of Inventions;
- ◆ Performance Progress Report for use on grants other than those for research; and
- ◆ Research Performance Progress Report for use on research and research-related grants.

Leadership for these efforts has been provided by the Post-Award Work Group and the Research Business Models Subcommittee. All of these reporting formats have been reviewed by the federal grant-making agencies and are being prepared for public comment. Two of these reports have been the subject of previous *Federal Register* notices; while others have been informally vetted with affected recipient constituencies.

The FFR and the data elements for the summary report of inventions were published in the *Federal Register* for public comment on April 8, 2003 [68 FR 17097] and October 30, 2002 [67 FR 66178], respectively. The nature of the comments as well as the need to ensure the suitability and availability of these reports for electronic submission resulted in the delay in bringing them to closure before now. This year, we focused on resolving those issues. In the case of the FFR, we conducted a pilot effort with the Department of Health and Human Services Payment Management System to demonstrate recipient ability to complete and transmit the report electronically. It provided valuable information on the form design and electronic transmission, which will result in a better product for the federal agencies and our recipients.

AUDIT

One of this year's accomplishments was to use the interagency process to develop information with respect to the effect of Hurricanes Katrina and Rita on OMB Circular A-133 audits. We developed draft guidance to assist non-federal entities and their auditors as well as cognizant and oversight agencies for audit. The document covers requests for waivers, extensions, or other deviations from the requirements of the Circular and guidance to federal cognizant and oversight agencies in responding to such requests. We also included an appendix in the 2006 OMB Circular A-133 Compliance Supplement that listed, by program, the waivers or special provisions for the entities affected by the Hurricanes Rita and Katrina, including those in the disaster areas and those receiving displaced indi-

viduals and providing services to them. The Compliance Supplement also is posted on OMB's Web site (http://www.whitehouse.gov/omb/circulars/a133_compliance/06/06toc.html)

ACTIVITIES UNDERWAY OR PLANNED

We have a number of important activities underway that will reach fruition during the next reporting period as well as several planned activities that will build on the successes of the past few years. Where appropriate, we will continue to involve stakeholders and the public (through *Federal Register* notices) in these activities, which include the following:

- ◆ Expanding our outreach efforts by initiating a series of Webcast stakeholder meetings to inform stakeholders about the progress of our P.L. 106-107 implementation activities and to hear their comments and concerns. The first meeting is scheduled for October 25, 2006.
- ◆ Continuing to enhance the use and functionality of Grants.gov in response to user feedback and advances in technology by
 - working with agencies on successful implementation of the goal to post 100 percent of discretionary application packages in FY 2007;
 - implementing platform-independent forms viewer to support Macintosh users;
 - working with Central Contractor Registration (CCR) to simplify the registration process for applicants and grantees;
 - making available E-Authentication service from multiple credential service providers for the applicant community; and
 - reviewing and updating the SF 424 forms.
- ◆ Continuing to streamline and simplify pre-award, award, and post-award processes for applicants and recipients by doing the following:
 - Developing guidance for issuance by OMB on the structure and content of awards, including both administrative and national policy requirements. This guidance will replace the OMB Circular A-102 common rule and OMB Circular A-110. This major undertaking will result in not only the adoptable guidance approach described above with its inherent benefits but also in a standard approach to the information transmitted in an award. Standard language for and placement of award terms and conditions will provide greater clarity and allow for increased understanding by recipients of the requirements that apply to them. This effort has the potential to reduce the direct burden

- on applicants and recipients as well as help recipients avoid audit disallowances;
- Issuing a policy on use of certifications and assurances under grants to reduce burdens associated with submissions by applicants and recipients; and
 - Completing the streamlining of OMB guidance on grants and agreements and associated agency regulations, and relocating them in the new central location in Title 2 of the CFR.
- ◆ Continuing our efforts to make it easier for recipients to report on activities under their awards and enhancing the quality of information about recipients and awards by doing the following:
- Completing our efforts to standardize reporting requirements. The next steps in this process include publishing in the *Federal Register* for public comment, several reports (summary of inventions, Federal Financial, Real Property, Tangible Personal Property, Performance/Progress, and Research Performance); developing the policy that will accompany each report, which will be proposed as part of the terms and conditions in Title 2 CFR; and planning for government-wide electronic implementation allowing submission through a single portal.
 - Continuing our efforts to achieve greater standardization of the payment request process.
 - Making further refinements in the cost area, including possible additional changes to the OMB cost principles and completion of a manual for non-profit organizations on how to develop indirect cost proposals.
 - Developing, as a joint effort of the RBM Subcommittee's Subrecipient Monitoring Task Force, OMB, and the Audit Oversight Work Group, additional coverage in the 2007 OMB Circular A-133 Compliance Supplement for subrecipient monitoring.
 - Clarifying the roles and responsibilities for cognizant audit agencies and cross-cutting programs.
- ◆ Forming GMLoB partnerships among the consortia leads and the remaining agencies, including development of cross-servicing agreements and plans for migration.

LOOKING AHEAD

The vision to streamline and simplify the grants process still remains valid and we recognize that there is more we can and should do. One of our greatest accomplishments has been the interagency collaborative process we have developed and the appreciation that grants management is a “global” enterprise. Agencies can no longer act in isolation, whether in developing grant policies or systems. To the extent possible, we plan to use the infrastructure we already developed as we go forward, for example in addressing the government-wide implementation of the recently enacted Federal Funding Accountability and Transparency Act of 2006.

We expect to continue our work after November 2007. We understand that the Act may be extended; however, even in the absence of such an extension, we will continue our efforts. We have accomplished a great deal and are enthusiastic about taking advantage of additional opportunities to make improvements.

PART II

**Chapter 2 Department of State Report on
P.L. 106-107 Implementation Efforts**

U.S. DEPARTMENT OF STATE

ANNUAL REPORT TO CONGRESS UNDER P.L. 106-107, 2006

In May 2001, the U.S. Department of State (Department) along with 25 other Federal grant-making agencies submitted to the Congress and the Office of Management and Budget (OMB) an initial plan for implementing the Federal Financial Assistance Management Improvement Act of 1999, Public Law 106-107 (P.L. 106-107 or the “Act”) (<http://www.hhs.gov/grantsnet/pl106-107final.pdf>). The Act and initial plan call for each of the 26 Federal grant-making agencies to provide annual reports on its progress in meeting the plan’s goals and objectives.

The Department of State is the lead U.S. foreign affairs agency, and the Secretary of State is the President's principal foreign policy adviser. The Department advances U.S. objectives and interests in shaping a freer, more secure, and more prosperous world through its primary role in developing and implementing the President’s foreign policy. The Department also supports the foreign affairs activities of other U.S. Government entities abroad including the U.S. Agency for International Development (USAID) and the Department of Commerce.

The Department has over 25 bureaus and offices that award Federal financial assistance. Our applicants and recipients include state and local governments, universities, colleges, non-profit organizations, non-governmental organizations, international and foreign organizations, and individuals. The Department’s Federal financial assistance programs subject to P.L. 106-107 requirements amounts to approximately \$1.23 billion annually.⁴ Two offices within the Department, the Office of the Procurement Executive (A/OPE) and the Office of Grants Financial Management (RM/FPRA/OGFM), are responsible for leading and coordinating efforts within the Department to implement P.L. 106-107.

Though work remains, the Department is committed to streamlining and simplifying Federal financial assistance as envisioned by the Act. Our progress and accomplishments are provided in the following sections of this report.

Participation in the Government-Wide Streamlining and Grants.Gov Efforts

INTERAGENCY PRE-AWARD WORK GROUPS

⁴ This amount does not include other assistance instruments such as assessed and voluntary contributions and bilateral agreements between the United States and foreign governments.

The Department participates in several government-wide streamlining efforts. We are active participants in the interagency Pre-Award Work Group and the Training and Certification Work Group that is chaired by Department of Health and Human Services' (HHS). This group is reviewing a variety of training requirements for Federal financial assistance personnel in Federal agencies.

We also participate in the government-wide Pre-Award Working Group that is preparing standardized terms and conditions for all government agencies for inclusion in Title 2 of the Code of Federal Regulations (CFR).

In order to prepare for Title 2 of the CFR, the Department created a Terms and Conditions (T&C) Work Group that has drafted the Standard Terms and Conditions for all awards issued by the Department domestically and is in the process of compiling the Standard Terms and Conditions for overseas assistance awards.

GRANTS.GOV

To remain current on Grants.gov initiatives, Department representatives attend Grants.gov stakeholder meetings. Department participation in Grants.gov in FY06 increased from FY05. In addition, the Department exceeded the FY06 ramp-up goal of 75% application packages posted to the amount of e-Find grant opportunities posted in FY06.

Total Synopses	Number of Synopses with Matching Packages	Percentage of Synopses with matching Packages against Total Synopses	Electronic Submissions Received in FY06
57	50	88%	962

This year, we will continue to actively work with the Bureaus to provide training and ensure that the Department maintains its green status on the E-Gov scorecard. To this end, the Department is committed to providing every opportunity posted with a matching application package to allow grantees to apply electronically for all postings. Furthermore, following Grants.gov closely has allowed us to plan ahead and incorporate Grants.gov considerations into the development of our Joint Assistance Management System (JAMS) and other grant-related activities, described later in this report.

GMLOB

The Department is an active participant in OMB's Grants Management Line of Business (GM LOB) initiative. The goal of this initiative is to recommend a common government-wide solution to achieve end-to-end integrated grants man-

agement – from initial find and apply (provided through Grants.gov) through award and closeout actions. It defines the framework for grants management back-office systems to include architecture and defining integration with agency management systems such as financial and budget systems.

Recently, JAMS was presented to the GMLOB as a possible Grants Management Consortia solution for foreign assistance tracking with the Department as a member. In addition, plans have been drafted to decommission systems or aspects of systems that duplicate the assistance tracking functionality of JAMS within the Department upon the implementation of JAMS in FY08.

PAYMENTS TO GRANTEEES USING THE HHS PAYMENT MANAGEMENT SYSTEM (PMS)

The Department continued to see progress during the year in its use of the HHS Payment Management System (PMS). Bureaus using PMS find that the system is user-friendly, improves accountability, and is an effective means to help them better manage financial assistance programs. Several bureaus have elected to exceed Department guidance (which requires use of PMS for grantees that are U.S.-based organizations with domestic bank accounts) by utilizing PMS for grantees with overseas bank accounts, including international organizations that receive assessed and voluntary contributions.

The Department began using PMS in 2000, when the Bureau of Education and Cultural Affairs (ECA), one of the Department’s largest grant-making bureaus, registered 84 recipients that year. Department-wide implementation of PMS began in 2003 and increased steadily over the years. As of August 2006, all domestic Department grant-making offices are using PMS. Despite not having additional offices implement PMS, the Department saw a significant increase in the number of recipients registered in the payment system.

	<u>2005</u>	<u>2006</u>	<u>% Increase</u>
Number of Department bureaus using PMS	18	18	0%
Number of recipients registered in PMS	831	971	18%

Internal Efforts to Create an Environment Conducive to Grants Streamlining and Simplification and Assess Impact of Changes

To further improve accountability and streamline the processing of grant transactions, the Department developed and successfully implemented interfaces between our existing “back-office” grant systems, the Department’s central accounting system, and PMS. The interfaces replaced duplicative manual data

entry procedures used to record financial and grants management data in each system. The new streamlined process created a single source of entry for data input, eliminating duplicative work for Department personnel and ensuring consistency and accuracy of data entered in the grant and central accounting systems both within the Department and in PMS. In FY06, the Department continues to experience benefits from the interface implementation with “back-office” systems through reduced errors and inconsistencies in fiscal data reported in the Department’s financial system and to Treasury.

The interface automated the recording of payments made on the Department’s behalf from PMS into the Department’s central accounting system. In FY 2006 through the month of August, \$1.2 billion in payments was processed in PMS and posted to the Department’s financial system through the interface. Since its inception in FY 2004, over \$ 2.6 billion has processed through the interface. Additionally, the interface enabled fiscal and grant data (such as payment authorization and accounting classification code) to be loaded in the Department’s central accounting system and PMS using a single point of entry to ensure the accuracy of data in both systems. During FY 2006, the Department realized the benefits of this interface process.

To support the implementation of PMS and the development of these interfaces, the Department developed system assurance and reconciliation reports and procedures for discrepant data reported between the Department’s central accounting system and HHS’ PMS. These reports help the Department and its grant-making bureaus manage the grants payment and reconciliation process more efficiently and strengthen our accountability.

Federal Financial Assistance Steering Committee

In 2005, the Department’s independent auditors identified assistance management as a reportable condition in internal control. This was primarily due to the lack of an integrated Federal financial assistance management system that could provide timely, reliable and comprehensive information on assistance. The Management Controls Steering Committee that oversees our management control program under the Federal Managers’ Financial Integrity Act accepted this finding, and established the Federal Financial Assistance Steering Committee (FFASC) to assess the impact and severity of this condition and oversee its remediation. The collaborative effort between the Department and USAID to develop a Joint Assistance Management System (JAMS) is a critical component in resolving these deficiencies. JAMS is described more fully in the following section. In addition, progress has been made on centralizing assistance guidance, standardizing processes, and expanding the training of employees involved in assistance.

Joint Assistance Management System (JAMS) Development.

The Department of State, in partnership with USAID, is developing a Joint Assistance Management System (JAMS) to manage Federal financial assistance (FFA).

This system will address the Department's Federal financial assistance reportable condition identified in FY05. Specifically, JAMS will capture Federal financial assistance information from solicitation through closure, provide comprehensive and timely information on these FFA programs, meet the JFMIP core system requirements, and interface with the Department's financial management system and Grants.gov.

In September 2005, the JAMS Project Team selected a commercial-off-the-shelf product. A first proof of concept was conducted in March 2006, with the participation of Department and USAID personnel from both domestic bureaus and foreign posts. The feedback from this demonstration led to the formation of comprehensive high-level and detailed functional and technical requirements which are to be incorporated by the developer into the production version. A second proof of concept to demonstrate these changes is scheduled for late November 2006. The production pilot of JAMS is planned for the first quarter of FY08, with full domestic implementation scheduled to begin in the second quarter of FY08, followed by overseas implementation.

Grants Management Training

A/OPE and RM/FPRA/OGFM continue to provide Department-wide grants management training to ensure that the grants and financial management staff responsible for managing, supervising, administering, and/or developing internal bureau/office grant policies possess a uniform and basic working knowledge of OMB Circulars, Executive Orders, statutes, and regulations applicable to grants. Our second annual Department-wide conference devoted to Federal financial assistance management topics will be held in mid-November 2006, as part of our ongoing effort to keep responsible staff up-to-date. In addition, A/OPE has instituted a quarterly meeting to highlight current issues and inform the Department's grants management community of notable changes in policy or procedures.

Another form of outreach and guidance was the September launch of www.JAMS.gov, the official informational website on JAMS created by the Department and USAID, and hosted on USAID's intranet. In addition to JAMS updates, the website also has a Department-only section that provides employees with a "one stop shop" for USG and internal Department guidance on Federal financial assistance. The site provides links to OMB assistance sites, GMLOB, Grants.gov, PMS, and GAO, as well as links to relevant sections of the Department's Foreign Affairs Manual and Handbook, the Office of the Procurement Executive's Grants Policy Directives and Federal Financial Assistance Steering Committee documentation. The website had over 3,000 "hits" in the first two weeks, with the Department's section on assistance receiving over 800 – around half of which were from first-time viewers.

Formal training is provided to Financial Management Officers (FMO), Grants Officers (GO), and Public Affairs Officers (PAO) (the primary grants officers at most U.S. embassies worldwide) as part of the overseas readiness training pro-

vided at the Foreign Service Institute (FSI), the Department's training provider. In 2006, FSI's role was expanded to give them responsibility for designing and implementing grants courses worldwide.

The Department successfully launched an on-line training course entitled *Introduction to Grants and Cooperative Agreements* and is developing another on-line monitoring course entitled, *Monitoring Grants and Cooperative Agreements* for grants personnel. These on-line courses deliver current information to a broader audience and are monitored by FSI. In addition to the training courses, the Department has drafted comprehensive training manuals for both domestic grantors and grantees and is currently compiling an additional set for the overseas grants community.

Future Steps

The Department remains committed to the goals and objectives of standardizing Federal grant management activities, streamlining and simplifying the grants process and to making the grant application and reporting process less complicated pursuant to P.L. 106-107.