

Strengthening Grant Administration and Financial Controls Will Improve Management of the LA-RICS BTOP Grant

FINAL REPORT NO. OIG-18-002-A

October 16, 2017



U.S. Department of Commerce
Office of Inspector General
Office of Audit and Evaluation



October 16, 2017

MEMORANDUM FOR: Leonard Bechtel
Chief Financial Officer and Director of Administration,
Performing the Non-Exclusive Duties of the
Assistant Secretary for Communications and Information
National Telecommunications and Information Administration

Jeffrey S. Thomas
Acting Director of the Acquisition and Grants Office
National Oceanic and Atmospheric Administration

A handwritten signature in black ink, appearing to read "Andrew Katsaros". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

FROM: Andrew Katsaros
Assistant Inspector General for Audit and Evaluation

SUBJECT: *Strengthening Grant Administration and Financial Controls Will Improve
Management of the LA-RICS BTOP Grant*
Final Report No. OIG-18-002-A

Attached is our final audit report conducted in support of OIG's oversight role of monitoring National Telecommunications and Information Administration (NTIA) grants. The objective of our audit was to assess the effectiveness of NTIA's oversight of the Broadband Technology Opportunities Program (BTOP) grant award to the Los Angeles Regional Interoperable Communications System Authority (LA-RICS). In completing this objective, we assessed the National Oceanic and Atmospheric Administration's (NOAA's) related grant administration. Also, we assessed LA-RICS' efforts to meet grant objectives and provide FirstNet with lessons it has learned while building a public safety network.

We generally found NTIA's and NOAA's oversight of the LA-RICS BTOP grant and LA-RICS' efforts to be reasonable; however, we identified opportunities to address control weaknesses and improve management of the grant program. Specifically,

- NOAA grant monitoring procedures are incomplete,
- NTIA and NOAA did not maintain adequate grant files, and
- NTIA cannot fully rely on LA-RICS' financial controls.

We also note, in the "Other Matters" section of this report, issues related to corrupted files identified in the Grants Online official award file and inconsistent Special Award Conditions and financial reporting.

On September 8 and September 22, OIG received NTIA's and NOAA's responses to the draft report findings and recommendations, which we include within the report as appendix C. NTIA and NOAA have addressed the recommendations and noted actions they have already taken and will take to address them.

Pursuant to Department Administrative Order 213-3, please submit to us an action plan that addresses the recommendations in this report within 60 calendar days. This final report will be posted on OIG's website pursuant to sections 4 and 8M of the Inspector General Act of 1978, as amended (5 U.S.C. App., §§ 4 & 8M).

We appreciate the cooperation and courtesies extended to us by your staff during our audit. If you have any questions or concerns about this report, please contact me at (202) 482-7859 or Chris Rose, Supervisory Auditor, at (202) 482-5558.

Attachment

cc: Douglas Kinkoph, Associate Administrator, Office of Telecommunications
and Information Applications, NTIA
Arlene Simpson Porter, Director of Grants Management Division, NOAA
Milton Brown, Audit Liaison, NTIA
Mack Cato, Audit Liaison, NOAA



Report in Brief

October 16, 2017

Background

The National Telecommunications and Information Administration (NTIA), under the authority of the American Recovery and Reinvestment Act of 2009, awarded the Los Angeles Regional Interoperable Communications System (LA-RICS) a \$154 million Broadband Technology Opportunities Program (BTOP) grant—the largest award in the program—in September 2010.

LA-RICS was one of seven BTOP recipients that received a grant award to (a) deploy a public safety broadband network using 700 megahertz (MHz) spectrum and (b) serve as a pilot project representing a model of how a public safety broadband project might be designed, owned, operated, and maintained.

NTIA, with grant administration support from the National Oceanic and Atmospheric Administration's (NOAA's) Grants Management Division, awarded these seven public safety grants after the Federal Communications Commission permitted these grantees, on a conditional basis, to use the 700 MHz spectrum.

Why We Did This Review

The objective of our audit was to assess the effectiveness of NTIA's oversight of the BTOP grant award to LA-RICS. In completing this objective, we assessed NOAA's related grant administration. Also, we assessed LA-RICS' efforts to meet grant objectives and provide FirstNet with lessons it has learned while building a public safety network.

NATIONAL TELECOMMUNICATIONS AND INFORMATION ADMINISTRATION

Strengthening Grant Administration and Financial Controls Will Improve Management of the LA-RICS BTOP Grant

OIG-18-002-A

WHAT WE FOUND

We generally found NTIA's and NOAA's oversight of the LA-RICS BTOP grant and LA-RICS' efforts to be reasonable; however, we identified opportunities to address control weaknesses and improve management of the grant program. Specifically,

- *NOAA grant monitoring procedures are incomplete.* Throughout our audit, we requested the Standard Operating Procedures (SOPs) NOAA used to manage its grant administration responsibilities. While NOAA provided some SOPs covering aspects of its responsibilities, it did not have complete procedures for all of its significant roles and responsibilities.
- *NTIA and NOAA did not maintain adequate grant files.* NTIA and NOAA officials maintained documentation of their oversight efforts in the official award file maintained in Grants Online, but the grant files were not complete. We also found that not all monitoring activities were documented in Grants Online.
- *NTIA cannot fully rely on LA-RICS's financial controls.* LA-RICS did not develop written procedures for maintaining its internal financial system. Without documented procedures incorporating standards for maintaining the internal financial system, LA-RICS is unable to demonstrate that it has the necessary accounting and operational controls at the grantee level to manage the award.

We also note, in the "Other Matters" section of this report, minor issues related to corrupted files identified in the Grants Online official award file and inconsistent Special Award Conditions and financial reporting.

WHAT WE RECOMMEND

We recommend that NTIA's Chief Financial Officer and Director of Administration, Performing the Non-Exclusive Duties of the Assistant Secretary for Communications and Information

1. document all site visits and communicate to staff the need for timely documentation of the reports in the official grant file;
2. require LA-RICS, in consultation with NOAA, to develop and document procedures for maintaining its internal financial system; and
3. require LA-RICS, in consultation with NOAA, to develop and implement procedures for remitting interest quarterly.

We also recommend that NOAA's Acting Director of the Acquisition and Grants Office

4. review existing SOPs and assess the need to develop additional procedures for oversight roles and responsibilities for reviews of federal financial reports, performance progress reports, drawdowns, and post-site visit requirements, and
5. document review of LA-RICS' single audit reports in the official grant file.

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Cover: Herbert C. Hoover Building main entrance at 14th Street Northwest in Washington, DC. Completed in 1932, the building is named after the former Secretary of Commerce and 31st President of the United States.

Introduction

The National Telecommunications and Information Administration (NTIA), under the authority of the American Recovery and Reinvestment Act of 2009,¹ awarded the Los Angeles Regional Interoperable Communications System (LA-RICS) a \$154 million Broadband Technology Opportunities Program (BTOP) grant—the largest award in the program—in September 2010. LA-RICS was one of seven BTOP recipients that received a grant award to (a) deploy a public safety broadband network using 700 megahertz (MHz) spectrum and (b) serve as a pilot project representing a model of how a public safety broadband project might be designed, owned, operated, and maintained.² NTIA, with grant administration support from the National Oceanic and Atmospheric Administration's (NOAA's) Grants Management Division (GMD), awarded these seven public safety grants after the Federal Communications Commission (FCC) permitted these grantees, on a conditional basis, to use the 700 MHz spectrum.

In February 2012, Congress passed the Middle Class Tax Relief and Job Creation Act of 2012 (the Act), creating the First Responder Network Authority (FirstNet) as an independent authority within NTIA and requiring the FCC to reallocate and grant a single license to FirstNet for the use of the 700 MHz spectrum.³ The Act required the FCC to rescind the use of the spectrum to the seven BTOP recipients and grant it to FirstNet. Consequently, LA-RICS and the other public safety grantees would no longer have the legal authority to use the 700 MHz spectrum.

As a result, NTIA partially suspended the LA-RICS grant in May 2012, along with the six other public safety grants, until (a) it could be determined whether the LA-RICS' project proceeded in a manner that would benefit FirstNet and (b) LA-RICS gained authority from FirstNet to access and use the 700 MHz spectrum. In July 2013, LA-RICS addressed these issues and signed a spectrum manager lease agreement (SMLA) with FirstNet for an initial term of 5 years.⁴ In return for rights to use the spectrum, LA-RICS agreed to report to FirstNet its experience with developing and using a broadband network.⁵ NTIA lifted the LA-RICS grant suspension shortly thereafter.

Following the SMLA, LA-RICS faced significant challenges building network construction sites, prompting NTIA to require corrective actions:

- In April 2014, NTIA required LA-RICS to respond to a corrective action plan after concerns were raised that LA-RICS would not complete 231 network sites by the end

¹ Pub. L. No. 111-5, 123 Stat. 115.

² LA-RICS is a joint effort of the Los Angeles region's public safety agencies to plan and deploy a public safety broadband network enabling first responders to communicate with each other during routine and emergency operations within the Los Angeles County region.

³ Public Law 112-96, §§ 6201, 6204, 126 Stat. 156, 206, 208.

⁴ NOAA, on behalf of NTIA, established a Special Award Condition (SAC) that required the SMLA remain in effect throughout the award term and LA-RICS remain in compliance with the SMLA terms.

⁵ LA-RICS' experience allows FirstNet to learn as much as possible about public safety use of broadband technologies as FirstNet develops, deploys, and manages its own nationwide public safety broadband network.

of the performance period, which, at the time, was September 30, 2015.⁶ Additionally, NTIA raised concerns about LA-RICS' ability to properly complete environmental assessments, which caused delays in NTIA's review process and delayed construction start dates. In May 2014, LA-RICS responded by developing a project implementation plan that demonstrated how it would deploy the 231 sites and submitting adequate environmental assessments. NTIA accepted the corrective actions.

- In April 2015, NTIA—through NOAA GMD—suspended the award because the project was behind schedule. In its suspension letter, NOAA informed LA-RICS that it was supposed to complete construction at over 150 project sites, but construction had only been completed at 15 sites. Additionally, NOAA noted that the LA County Board of Supervisors and LA County Council took action requiring LA-RICS to stop project activity at a significant number of project tower sites to address environmental and aesthetic concerns expressed by members of the public. These actions placed the deployment schedule in severe jeopardy.

NTIA required LA-RICS to submit a corrective action plan in order to avoid further enforcement action, including grant termination. In April 2015, LA-RICS submitted a satisfactory action plan that significantly reduced the number of public safety broadband sites from 231 to 84. NOAA also reduced the grant award by \$37.5 million.

As a result of the Continuing Appropriations Act of 2016, Congress directed funds for active BTOP grants to remain available through 2020, extending the availability of awards otherwise set to expire on September 30, 2015.⁷ LA-RICS' grant is active, and activities are ongoing. LA-RICS continues to operate under the objectives established by the 2015 corrective action plan, and in April 2017, NTIA partially approved LA-RICS' request for Phase 2 of the project and extended the performance period to June 30, 2020. Under Phase 2, NTIA approved three additional objectives: (1) deploy three new emergency response vehicles, (2) add additional public safety users and agencies to the network, and (3) build a network testing center. NTIA increased the federal share of the award by approximately \$3 million, bringing the total authorized amount to approximately \$120 million.⁸ As of June 2017, LA-RICS has drawn down approximately \$111 million.

During the course of the audit, we noted progress in the following areas:

- LA-RICS completed—and NTIA confirmed—the construction of 78 sites. LA-RICS is now focused on continuing to operationalize the network, including testing, monitoring network performance, deploying devices, and testing application.
- LA-RICS consistently provided FirstNet with quarterly reports of the project status, including progress towards lessons learned required by the SMLA. FirstNet officials used the information to present lessons learned to FirstNet senior management on a

⁶ LA-RICS originally estimated the network would consist of 290 sites.

⁷ Pub. L. No. 114-53, § 121, 129 Stat. 502, 508 (2015).

⁸ The grant was awarded for \$154 million, but approximately \$37.5 million was deauthorized effective May 2015 following the reduction of planned construction sites. A total of \$3 million was reauthorized for Phase 2, bringing the total authorized amount to approximately \$120 million. (Differences in amounts are due to rounding.)

quarterly basis. For a summary of lessons learned and compliance with the SMLA, see appendix B.

- NTIA conducted consistent monitoring calls with LA-RICS, FirstNet, and NOAA. Since August 2014, NTIA documented over 90 conference call meetings where officials discussed LA-RICS' project status, lessons learned, and other issues affecting the achievement of the grant objectives.
- NTIA—with grants administration support from NOAA—took appropriate actions through suspensions and corrective action plans to address deficiencies with the recipient accomplishing grant objectives.

Objective, Findings, and Recommendations

The objective of our audit was to assess the effectiveness of NTIA's oversight of the BTOP grant award to LA-RICS. In completing this objective, we assessed NOAA's related grant administration. Also, we assessed LA-RICS' efforts to meet grant objectives and provide FirstNet with lessons it has learned while building a public safety network. We reviewed relevant policies and procedures, assessed grant file documentation, and interviewed NTIA, NOAA, LA-RICS, and FirstNet officials involved in grant monitoring, management or oversight. See appendix A for specific details on our objective, scope, and methodology.

We generally found NTIA's and NOAA's oversight of the LA-RICS BTOP grant and LA-RICS' efforts to be reasonable; however, we identified opportunities to address control weaknesses and improve management of the grant program. Specifically,

- NOAA grant monitoring procedures are incomplete,
- NTIA and NOAA did not maintain adequate grant files, and
- NTIA cannot fully rely on LA-RICS's financial controls.

We also note, in the "Other Matters" section of this report, minor issues related to corrupted files identified in the Grants Online official award file and inconsistent Special Award Conditions (SACs) and financial reporting.

I. NOAA Grant Monitoring Procedures Are Incomplete

NOAA could not demonstrate that it established and documented complete Standard Operating Procedures (SOPs) for its roles and responsibilities. While NOAA provided some SOPs covering aspects of its responsibilities, it did not have complete procedures for all of its significant roles and responsibilities. Regarding NTIA, the LA-RICS award contained a SAC that required it to receive approval prior to drawing down any grant funds. We reviewed a non-statistical sample of LA-RICS' drawdowns and found that NOAA documented support for all of them; however, NTIA's approval was not always documented.

A. *NOAA Did Not Establish and Document Complete SOPs for Grant Administration Responsibilities*

NOAA could not demonstrate that it established and documented complete SOPs for its roles and responsibilities. Throughout our audit, we requested the SOPs NOAA used to manage its grant administration responsibilities. While NOAA provided some SOPs covering aspects of its responsibilities, it did not have complete procedures for all of its significant roles and responsibilities. For example, NOAA developed a procedure outlining steps to be taken prior to site visits, but it did not include procedures for completing or reporting the results of the site visits. NOAA also developed procedures to conduct due diligence reviews, review recipients' single audit reports, and perform closeout actions; however, NOAA did not provide complete procedures outlining the

staff's roles and responsibilities. For example, NOAA was not able to demonstrate that it had documented procedures for reviewing performance progress reports (PPRs), federal financial reports (FFRs), and drawdown requests, including controls to define specific actions to be taken, timelines to perform and document reviews, approvals needed, etc.

The Government Accountability Office's (GAO's) *Standards for Internal Control in the Federal Government* states that controls are documented to meet operational needs and may define day-to-day procedures including the timing of when a control activity occurs.⁹ "Effective documentation assists in management's design of internal control by establishing and communicating the who, what, when, where, and why of internal control execution to personnel."¹⁰ Management considers and assigns the overall responsibilities assigned to each unit, determines what key roles are needed to fulfill the assigned responsibilities, and establishes the key roles. Management establishes control activities, such as policies, procedures, or techniques to achieve the entity's objectives and address risks.¹¹

Instead of following documented SOPs, NOAA officials relied, in part, on the knowledge of the key staff involved, which has been reduced significantly since only 2 active BTOP grants remain. Without complete, documented control procedures, NOAA officials sacrifice a useful tool to establish clarity, consistency, and completeness for staff responsibilities. Also, there is an increased risk that grants staff do not fulfill all key roles and responsibilities to conduct effective administration of the grant awards.

B. NOAA Did Not Always Document NTIA's Approval for LA-RICS' Drawdowns

The LA-RICS award contained a SAC that required it to receive approval prior to drawing down any grant funds. We reviewed a non-statistical sample of 10 LA-RICS' drawdowns and found that NOAA documented support for its approval for all 10 drawdowns in the official grant file; however, NTIA's approval was not documented in the official award file for 7 of the 10 drawdowns. NOAA, as grant administrator, later provided support outside of the official grant file for 5 of these drawdowns, but neither NTIA nor NOAA could demonstrate support for the remaining 2.

The NTIA *Federal Program Officer Handbook: Grant Monitoring Procedures (FPO Handbook)* places the responsibility for approving the drawdown on NOAA and does not require NTIA to approve the drawdown. However, during interviews regarding grant monitoring procedures, both NTIA and NOAA officials stated that NTIA approval was required and documented in the official award file. NOAA did not develop written procedures for this process, and as a result, it is not clear whether or not NOAA followed its stated unwritten practice. NTIA approval of drawdown activity is prudent considering its ownership of the funds, its role as the approver of the all bona fide needs

⁹ Government Accountability Office (GAO), September 2014. *Standards for Internal Control in the Federal Government*, GAO-14-704G. pp. 29, 56-57.

¹⁰ *Id.* at p. 29.

¹¹ *Id.* at p. 45.

under the award, and its responsibility to understand LA-RICS' programmatic activity. Without documenting NTIA's approval, NOAA risks allowing funds to be drawn down inconsistent with programmatic progress.

II. NTIA and NOAA Did Not Maintain Adequate Grant Files

Consistent with the Department of Commerce *Grants and Cooperative Agreements Manual* and the NTIA *FPO Handbook*, NTIA and NOAA officials maintained documentation of their oversight efforts in the official award file maintained in Grants Online,¹² but the grant files were not complete. To monitor and provide oversight of the BTOP grant to LA-RICS, NTIA and NOAA officials performed a variety of oversight functions, such as conducting site visits, reviewing and approving quarterly PPRs and FFRs submitted by the recipient, holding routine monitoring calls with the recipient to discuss project activity, and reviewing drawdown requests for grant funds. However, we found that not all monitoring activities were documented in Grants Online.

A. NTIA and NOAA Did Not Maintain Adequate Records for Documenting Site Visit Reports

We found that both NTIA and NOAA did not adequately maintain documentation for their site visit monitoring efforts. As the implementation of the LA-RICS award faced serious challenges, numerous site visits were performed to assess project status, identify problems facing the grantee, and identify corrective actions. Specifically, NTIA officials stated that they performed six site visits during the grant's performance period, and NOAA stated that it participated in three of those visits. NTIA and NOAA officials stated that they were each responsible for documenting their own agency's site visit reports. However, we found that officials inadequately documented site visit results.

- NTIA did not document the results of any of its six site visits in the official grant file maintained in Grants Online. Further, when we asked NTIA on three occasions to provide site visit reports, it could only provide two of the six reports from its records, but these reports were not documented in Grants Online.
- NOAA officials documented the results of all three of their site visits in the official grant file; however, two of those reports were not documented timely. For site visits in December 2014 and June 2015, NOAA officials did not document site visit reports until March 2017, more than a year and a half following the actual site visits. Also, NOAA officials did not document the site visit reports until after we inquired where the reports were documented in the official award file.

The Departmental *Grants and Cooperative Agreements Manual* states that, at a minimum, the official award file must include or have available for easy access site visit reports, as applicable.¹³ The interagency agreement between NTIA and NOAA states that NOAA is

¹² Grants Online is a web-based, single unified grant processing and administration system that allows federal program officers, grants office personnel, and recipients to document award actions.

¹³ U.S. Department of Commerce, *Grants and Cooperative Agreements Manual* 10-59 (Sept. 2016).

ultimately responsible for maintaining the official award file; however, NTIA also shares responsibility for documenting site visit reports. NTIA's *FPO Handbook* for grant monitoring procedures requires that NTIA officials submit a post site visit report within 30 days to the grants officer and document the report in the Grants Online official award file. NOAA officials did not provide documented procedures regarding post site visit requirements.

NTIA and NOAA officials stated that it was an oversight on their part that site visit reports were not documented within the required timeframe. NOAA officials stated that one of the site visit reports was not documented timely because previous staff conducting the site visit left the agency. However, this example of staff turnover emphasizes the need to timely document results of site visits to mitigate the risk of information loss.

NTIA's handbook *Effective Grant Monitoring: Site Visits*¹⁴ states that site visits demonstrate active engagement in the ongoing monitoring of BTOP projects and are designed to safeguard the large and complex investments. Without documenting site visit reports, NTIA and NOAA officials cannot demonstrate that they conducted complete oversight of the grant. Further, they sacrifice documented support for actions that NTIA or NOAA may need to take as a result of identifying deficiencies or verifying completed objectives during the site visit.

B. *NOAA Did Not Always Document Its Review of Annual Single Audit Reports*

NOAA did not always document its review of annual single audit reports.¹⁵ We reviewed the official grant file and found that from fiscal years (FYs) 2012–2016, NOAA only documented its review of the Single Audit reports for 3 of the 5 years. NTIA was able to provide evidence of its review of single audit reports for all of the years; however, these reviews were not included in the official grant file.

The Departmental *Grants and Cooperative Agreements Manual* states that the official award file must include—or have available for easy access—the recipients' project audit reports, including documentation of actions taken, the resolution and implementation of audit findings.¹⁶ In the interagency agreement between NTIA and NOAA, NOAA agreed to review audit reports and the recipient's response to any findings. NOAA's "Procedures for Compliance and Review of Single Audits for Applicants of Federal Financial Assistance" states that the grants management specialist is responsible for determining that the recipient submitted the single audit report and whether the audit report cited any material weaknesses, significant deficiencies or questioned costs. The specialist is required to use the most current single audit when making pre-award

¹⁴ NTIA, *Effective Grant Monitoring: Site Visits*, Version 1.1, at 1 (Feb. 8, 2012)

¹⁵ *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* states that a non-federal entity that expends \$750,000 or more during the non-federal entity's fiscal year must have a single audit conducted except when it elects to have a program specific audit conducted. 2 C.F.R. Chapter II § Part 200.501 (1-1-14 Edition). Each fiscal year, LA-RICS expended more than \$750,000 and performed the single audit, as required.

¹⁶ *Grants and Cooperative Agreements Manual* 10-59.

decisions, and as part of post-award monitoring, particularly when reviewing and approving partial and continuation awards, and upon closeout of the award.

A NOAA official stated that staff's review of the single audit report was not required annually; however, the documented procedures identified in the previous paragraph do not communicate this discretion. Additionally, NOAA internal procedures specify that the most current single audit will be used as part of post-award monitoring, but it does not specify documentation requirements.

Reviews of single audit reports allow oversight officials to review potential issues identified by independent auditors that may affect the recipient's ability to achieve the grant objectives. From FYs 2012–2016, LA-RICS did not receive any audit findings in the single audit annual reports. However, it is important for NOAA to document the status of these reviews to ensure that all information is available in the grant file for stakeholders to make complete and informed decisions about the risks facing the recipient. Without consistently documenting its review, NOAA officials cannot demonstrate that they fully conducted their monitoring tasks.

III. NTIA Cannot Fully Rely on LA-RICS' Financial Controls

LA-RICS did not develop written procedures for maintaining its internal financial system. Without documented procedures incorporating standards for maintaining the internal financial system, LA-RICS is unable to demonstrate that it has the necessary accounting and operational controls at the grantee level to manage the award. LA-RICS did not remit, on a quarterly basis as required, interest it earned from advance grant funds, and NOAA did not timely follow up with LA-RICS regarding this requirement.

A. *LA-RICS Did Not Document Procedures to Maintain Its Internal Financial System*

LA-RICS did not develop written procedures for maintaining its internal financial system recorded in a spreadsheet. The spreadsheet is maintained by LA-RICS officials and used to complete BTOP quarterly financial and performance reporting, such as FFRs and PPRs. It also tracks drawdowns, expenses, and match contributions. LA-RICS staff was able to describe the processes it performed to maintain the internal spreadsheet, but these processes were not documented.

The *BTOP Recipient Handbook* states that the accounting system should be integrated with an adequate system of internal controls to safeguard the funds and assets covered, check the accuracy and reliability of accounting data, promote operational efficiency, and encourage adherence to prescribed management policies.¹⁷ Further, although LA-RICS is not required to adhere to GAO's *Standards for Internal Control*, as a best practice, this guidance states that procedures should be documented to provide "a means to retain organizational knowledge and mitigate the risk of having that knowledge limited to a few

¹⁷ NTIA, *BTOP Recipient Handbook 73* (Mar. 2013).

personnel”¹⁸ Internal controls are documented to meet organizational needs and define day-to-day procedures.

LA-RICS officials stated that written procedures were not developed for maintaining the internal financial spreadsheet because staff responsible for maintaining the spreadsheet was small and LA-RICS relied on the staff’s understanding of how to properly code and maintain records in its internal financial system. An LA-RICS official also stated that staff provides verbal training for new employees to understand the processes involved with maintaining the internal financial system.

Without documented procedures incorporating standards for maintaining the internal financial system, LA-RICS is unable to demonstrate that it has the necessary accounting and operational controls at the grantee level to manage the award. LA-RICS is also relying on the knowledge of a few key personnel primarily responsible for tracking significant accounting and reporting data. LA-RICS risks losing that knowledge (1) should these key personnel separate from the organization, or (2) if staff duties change. Documenting processes would establish internal control continuity, consistency, and clarity.

B. LA-RICS Did Not Remit Interest Earned on Advanced Funds Quarterly As Required

LA-RICS did not remit, on a quarterly basis as required, interest it earned from advance grant funds, and NOAA did not timely follow up with LA-RICS regarding this requirement. LA-RICS drew down approximately \$67 million in September 2015 as an advance payment to cover costs incurred prior to the end of the grant period. LA-RICS deposited the funds into an interest-bearing account as required, and in January 2016, it returned \$32.5 million in excess funds (to the U.S. Department of Treasury) that had not been disbursed. While in possession of the advanced funds, LA-RICS earned interest of approximately \$136,000; however, LA-RICS did not remit the earned interest until August 2016, over ten months after the advanced funds were received. NOAA did not follow up on the required remittance until July 2016.

*Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments*¹⁹ requires grant recipients to remit interest on advanced grant funds at least quarterly. LA-RICS agreed to comply with this regulation as part of its SACs, and NOAA, through its interagency agreement with NTIA, is responsible for monitoring LA-RICS’ compliance with award conditions and taking appropriate action for non-compliance. Additionally the *FPO Handbook* states that the NOAA Grants Office is responsible for monitoring recipient requests for advances or reimbursements of BTOP grant funds.

Despite agreeing to the *Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments*, LA-RICS officials, including the Los Angeles County Auditor Controller, stated that they were not aware of the requirement to

¹⁸ GAO, September 2014. *Standards for Internal Control in the Federal Government*, GAO-14-704G, p. 29.

¹⁹ 15 C.F.R. pt. 24.21(i).

remit interest earned quarterly.²⁰ As a result, LA-RICS did not establish and implement a procedure to address this requirement. Additionally, we found that neither NTIA nor NOAA followed up on LA-RICS' non-compliance in a timely manner, and NOAA did not have procedures to ensure grant recipients remit interest quarterly for advance funds.

Because processes were not in place at LA-RICS and NOAA, the government did not timely receive the monetary benefits of remitted interest. Also, without clear procedures established at LA-RICS or NOAA, similar interest remittance issues could occur in the future.

Recommendations

We recommend that NTIA's Chief Financial Officer and Director of Administration, Performing the Non-Exclusive Duties of the Assistant Secretary for Communications and Information

1. document all site visits and communicate to staff the need for timely documentation of the reports in the official grant file;
2. require LA-RICS, in consultation with NOAA, to develop and document procedures for maintaining its internal financial system; and
3. require LA-RICS, in consultation with NOAA, to develop and implement procedures for remitting interest quarterly.

We also recommend that NOAA's Acting Director of the Acquisition and Grants Office

4. review existing SOPs and assess the need to develop additional procedures for oversight roles and responsibilities for reviews of FFRs, PPRs, drawdowns, and post-site visit requirements, and
5. document review of LA-RICS' single audit reports in the official grant file.

Other Matters

Corrupt Files in the Official Award File

During the course of our audit, we obtained documentation from the official award file maintained in Grants Online. However, we could not access a small number of files because the files had become corrupted. NOAA and NTIA officials also could not access the files. GAO's *Standards for Internal Control* states that all transactions and other significant events should be documented in a manner that allows the documentation to be readily available for examination.²¹ Although only a small number of overall files we reviewed were corrupt, corrupted files could result in lost information significant to grant oversight. NOAA is examining the cause of the problem and stated that it will update OIG regarding the issue.

²⁰ LA-RICS designated the LA County Auditor Controller as the fiscal agent for LA-RICS. The LA County Auditor Controller is responsible for maintaining appropriate accounts for LA-RICS, making payments on behalf of LA-RICS, and initiating independent annual single audits.

²¹ GAO, September 2014. *Standards for Internal Control in the Federal Government*, GAO-14-704G, p. 48.

Award Amendments and SACs for Match Requirements Are Inconsistent

The LA-RICS award contained a SAC that stated the “[r]ecipient will provide, from non-Federal sources, not less than 20 percent of the total project costs.” Subsequent to the award, LA-RICS received an approved waiver from NTIA reducing the match percentage to 15.05 percent, which was documented in the grant file. Although NOAA issued an amendment to reflect the new recipient share, the amendment does not explicitly state that the SAC no longer applies. Further, the language in the SAC does not allow an exception, which would occur by obtaining a waiver of this requirement. For example, the SAC could state the “[r]ecipient will provide, from non-Federal sources, not less than 20 percent of the total project costs, unless a waiver is obtained.” Explicitly stating that the SAC no longer applies in the amendment or adding language to the SAC would provide clarity.

The Cash Received Amount Reported in a FFR Was Inconsistent with the Cash Amount Actually Drawn Down

We reviewed each quarterly FFR submitted by LA-RICS in 2015 and 2016 (eight reports) and found that the cash receipts amount reported on the FFR ending March 31, 2016, did not match the amount of cash actually drawn down in the U.S. Department of the Treasury’s Automated Standard Application for Payments (ASAP) system.²² Specifically, the FFR noted that approximately \$86.3 million was received, but the ASAP account noted that approximately \$87 million was actually drawn. The FFR provided an explanation of the difference between the FFR and ASAP system; however, the explanation was inconsistent with the grant activity at that time.²³ Although FFR cash receipt amounts matched the ASAP draw down amounts in the other seven FFRs we reviewed, NOAA should ensure all reports contain accurate information.

²² A grant SAC required LA-RICS to submit the FFR on a quarterly basis for the periods ending March 31, June 30, September 30, and December 31. The FFR data is reviewed by the NOAA Grants Office to monitor financial performance of the award, such as ensuring that the recipient is expending funds at appropriate rates and that matching requirements are met, FFRs are completed correctly, and recipients are not maintaining excess cash on hand.

²³ The FFR amount reconciled with the ASAP system in subsequent periods. We found that this was a reporting inconsistency for that period only and did not find any instances of fraud, waste, or abuse.

Summary of Agency Responses and OIG Comments

On September 8, 2017, OIG received NTIA's response to the draft report. NTIA addressed our recommendations and is in the process of, or already has been, implementing corrective action. As stated in NTIA's response, NTIA has now documented available site visit reports in the official grant file (Grants Online) and will work with LA-RICS and NOAA to ensure that LA-RICS has the appropriate controls in place.

On September 22, 2017, OIG received NOAA's response to the draft report. NOAA addressed our recommendations and is in the process of, or already has been, implementing corrective action. As stated in NOAA's response, NOAA will take corrective action to supplement its existing procedures, including developing SOPs for oversight responsibilities and the review of drawdowns and updating its SOP for site visit preparation. In addition, NOAA will remind staff of the need to complete and upload single audit reports to the official grants file.

We include both agencies' responses as appendix C of this report.

Appendix A: Objective, Scope, and Methodology

The objective of our audit was to assess the effectiveness of NTIA's oversight of the BTOP grant award to LA-RICS, including NOAA's related administration. As part of our review, we assessed LA-RICS' efforts to meet grant objectives and provide FirstNet with lessons learned. We assessed the risks related to managing LA-RICS and developed our audit program accordingly. We reviewed and evaluated the processes NTIA and NOAA have in place to monitor the BTOP grant to LA-RICS. Our review focused on grant activity subsequent to July 1, 2013, when LA-RICS signed a SMLA with FirstNet.

To accomplish our objective we

- interviewed NTIA, NOAA, LA-RICS, and FirstNet officials to assess their plans, policies, procedures, and guidance for monitoring and managing the BTOP grant to LA-RICS and the SMLA between LA-RICS and FirstNet.
- reviewed and assessed NTIA, NOAA, and LA-RICS policies, procedures, plans, and other guidance used to manage the grant and determined whether effective controls were established.
- reviewed NTIA, NOAA, and LA-RICS files to assess whether appropriate actions were taken to monitor the grant, achieve grant objectives, document award actions and significant activity, and maintain grant files according to procedures.
- conducted a site visit at LA-RICS to verify BTOP reported results and project activity, review inventory and financial management systems, and verify BTOP grant assets.
- analyzed LA-RICS grant spending to determine whether spending was within the approved budget, met matching requirements, and spending trends were reasonable.
- selected a non-statistical sample of LA-RICS expenditures and drawdown requests to determine whether spending was reasonable, allocable, allowable, and supported.²⁴
- reviewed grant closeout policies and procedures to determine whether a close-out processes were reasonable.

We reviewed the following laws, regulations, standards, policies, and procedures:

- American Recovery and Reinvestment Act of 2009
- Middle Class Tax Relief and Job Creation Act of 2012
- Continuing Appropriations Act of 2016
- *Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments*, 15 C.F.R. Part 24

²⁴ We selected our sample based on risks pertaining to large dollar amounts expended and drawn down.

- Cost Principles for State, Local and Indian Tribal Governments, 2 C.F.R Part 225
- GAO, *Standards for Internal Control in the Federal Government*, dated September 2014
- Commerce, *Financial Assistance Standard Terms and Conditions*, dated January 2013
- Commerce, *Grants and Cooperative Agreements Manual*, dated October 2016
- Interagency agreement between NTIA and NOAA
- NTIA, NOAA, and LA-RICS internal grant management policies and procedures

We reviewed controls significant within the context of the audit objective by interviewing NTIA, NOAA, LA-RICS, and FirstNet officials, examining relevant policies and procedures, and reviewing documentation. We reported internal control weaknesses in the “Objective, Findings, and Recommendations” and “Other Matters” sections of our report. In satisfying our audit objective, we did not rely on computer-processed data. Instead, we reviewed documentation submitted by NTIA, NOAA, LA-RICS, and FirstNet, and we also reviewed documentation contained in the Grants Online award files. We did not test the reliability of any information technology systems.

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

We conducted our review from February–May 2017 under the authority of the Inspector General Act of 1978, as amended (5 U.S.C. App.), and Department Organization Order 10-13, April 26, 2013. We performed our work at Commerce and NTIA headquarters in Washington, DC; NOAA offices in Silver Spring, Maryland; LA-RICS office in Los Angeles; and the OIG regional office in Denver.

Appendix B: LA-RICS Progress Toward Meeting SMLA Objectives and Providing FirstNet with Learning Opportunities Regarding Public Safety Use of Broadband Technology

As a condition of the SMLA, LA-RICS agreed to report to FirstNet its experience with using broadband technology in real world settings. LA-RICS and FirstNet developed a plan for LA-RICS to perform and test particular broadband technology activities, referred to as “key learning conditions.”²⁵ The key learning conditions focused on obtaining information to better understand the costs and expectations of providing services to secondary responders²⁶ and understanding quality of service issues and network alert mechanisms while a network is congested or is experiencing a high level of network activity.

LA-RICS has faced challenges meeting these SMLA objectives directly because (a) LA-RICS has not enrolled any secondary responders into the LA-RICS network and (b) LA-RICS has not acquired enough users to test a congested network, which is a key indicator of network viability. LA-RICS established a goal of 12,000 users on the network by the end of 2016; however, as of March 2017, only 150 users accessed the network.

Despite having a limited number of users on the network, FirstNet officials have stated that LA-RICS has been beneficial for FirstNet and was in compliance with the terms of the SMLA. LA-RICS and FirstNet have worked together to develop different solutions to simulate testing a congested a network. LA-RICS has provided FirstNet with reports of network activity tested during major public events, including the Rose Bowl Parade, the Los Angeles Marathon, and the Carnaval (also known as the “West Hollywood Halloween Parade”). In addition, FirstNet officials stated that they have learned the following lessons from LA-RICS regarding deployment and operation of the network:

- *Using public safety assets or existing infrastructure is a source of risk.* Obtaining approval to use the infrastructure may never be realized or result in project delays. Because of challenges faced by FirstNet using existing infrastructure, FirstNet has had to reevaluate how it expects to use existing public safety assets.
- *Communicating technology information from the bottom-up may be the best approach.* When communicating how to use the public safety technology, LA-RICS originally used a top-down approach, communicating with senior public safety officials and having them communicate down to the direct public safety users. However, this approach did not work well. LA-RICS switched to a bottom-up approach, dealing directly, for example, with police and fire personnel, and the technology was accepted much easier.

²⁵ The SMLA requires the “Key Learning Conditions Plan” between FirstNet and LA-RICS.

²⁶ The Key Learning Conditions Plan stated that “[s]econdary responders are an integral component for emergency response.” Secondary responders include, but are not limited to, personnel from transportation, public works, emergency management, mass care, and energy workers.

- Educating the public safety community about the higher costs of operating a Long-Term Evolution (LTE) network may be needed. The public safety community may underestimate the technical resources necessary to operate a LTE network. The public safety community has been accustomed to operating a Land Mobile Radio network, which is basic compared to a LTE network. LTE networks have more functionality and features, such as databases and routers located in emergency vehicles requiring more staff to maintain and operate.

Appendix C: Agency Responses



UNITED STATES DEPARTMENT OF COMMERCE
National Telecommunications and
Information Administration
Washington, D.C. 20230

September 8, 2017

Andrew Katsaros
Assistant Inspector General for Audit Quality and Broadband
U.S. Department of Commerce
1401 Constitution Avenue, N.W.
Washington, DC 20230

Dear Mr. Katsaros:

Thank you for providing the National Telecommunications and Information Administration (NTIA) the opportunity to comment on the Office of Inspector General's Draft Report, *Strengthening Grant Administration and Financial Controls Will Improve Management of the LA-RICS BTOP Grant* (Draft Report). As the Draft Report acknowledges, NTIA has conducted reasonable oversight of the LA-RICS's Broadband Technology Opportunities Program (BTOP) grant to include over 90 conference call meetings, detailed site visits and administrative oversight actions including suspensions, partial suspensions, and corrective action plans. As a result, NTIA has effectively and efficiently utilized its limited resources to track the project's status, document the lessons learned and share best practices. In addition, NTIA has worked with our agency partners, the First Responder Network Authority (FirstNet) and the National Oceanic and Atmospheric Administration's Grant Management Division (NOAA), to identify and resolve issues that affect the achievement of the goals and objectives of LA-RICS's BTOP grant. Notwithstanding the improvement in our oversight efforts, the Draft Reports notes that there are specific oversight activities that NTIA can improve with respect to LA-RICS. NTIA recognizes the importance of your recommendations and, as outlined below, will take immediate steps to address and correct them.

1. NTIA Did Not Maintain Adequate Records for Documenting Site Visit Reports

The Draft Report states that NTIA, consistent with Department of Commerce's Grants and Cooperative Agreement Manual and the NTIA's Federal Program Officer Handbook, maintained documentation of its oversight functions in the official award file, such as reviewing and approving quarterly performance and financial reports, holding routine monitoring calls and reviewing drawdown requests for grant funds. However, the Draft Report found that NTIA staff did not always maintain documentation for all site visit reports. Accordingly, the Draft Report recommends that NTIA document all site visits and communicate to staff the need for timely documentation of the reports in the official grant file.

NTIA staff has consistently documented each site visit conducted for the LA-RICS grant. Specifically, prior to each site visit NTIA staff: (1) communicated directly by email and calls with LA-RICS staff to plan the site visit; (2) provided a detailed agenda with document requests; (3) coordinated with LA-RICS to identify the attendees, updates, reports and issues that LA-

RICS would be expected to provide and/or address; and (3) coordinated with NOAA regarding expected outcomes and/or results. After the completion of each site visit, NTIA staff routinely briefed NTIA's senior management and coordinated follow-up conference call meetings with LA-RICS regarding specific issues identified during the site visit. It is also important to note that NTIA staff drafted detailed site visit reports for two visits which followed significant agency oversight actions (LA-RICS's first suspension and the subsequent issuance of a Corrective Action Plan) and drafted notes from other follow-up visits. However, as the Draft Report notes, NTIA staff did not upload these reports and notes to the Grants Online system. NTIA did provide the detailed call notes and other documents to the OIG during the course of this audit. NTIA staff has also now uploaded this information to the official award file – the Grants Online system.

To further address your concerns and recommendation, NTIA has advised its staff of the importance of timely and formal preparation and documentation of site visit reports for all conducted site visits. Moreover, NITA has reinforced its written guidance to staff that we are required to upload all site visit reports to the Grants Online within 30 days after completion of a site visit. NTIA will monitor its staff to ensure that these guidelines are followed.

2. NTIA Cannot Fully Rely on LA-RICS' Financial Controls

The Draft Report recommends that NTIA, in consultation with NOAA: (1) require LA-RICS to develop and document procedures for maintaining its internal financial system; and (2) require LA-RICS to develop and implement procedures for remitting interest quarterly. NTIA agrees with these recommendations and will continue to work closely with NOAA and the recipient to ensure that LA-RICS has the appropriate internal controls and procedures in place to properly administer grant funds and adhere to all required grant rules and requirements. NTIA will give particular emphasis to the need for the grantee to meet all special financial requirements, including the quarterly interest remittance.

I look forward to continuing to work with you as NTIA continues its oversight of this award. If NTIA may be of further assistance, please contact Milton Brown, NTIA's Liaison to the Office of Inspector General, at (202) 482-1853.

Sincerely,



Douglas Kinkoph
Associate Administrator, Office of
Telecommunications and Information
Applications

cc: Milton Brown, NTIA
Aimee Meacham, NTIA
Scott Woods, NTIA
Jeffrey Thomas, NOAA
Arlene Simpson Porter, NOAA
Chris Rose, OIG



UNITED STATES DEPARTMENT OF COMMERCE
National Oceanic and Atmospheric Administration
ACQUISITION AND GRANTS OFFICE

SEP 27 2017

Andrew Katsaros
Assistant Inspector General for Audit Quality and Broadband
United States Department of Commerce
1401 Constitution Avenue, N.W.
Washington, D.C. 20230

Dear Mr. Katsaros:

This communication is in response to the Draft Report dated August 10, 2017, titled: *Strengthening Grant Administration and Financial Controls Will Improve Management of the LA-RICS BTOP Grant* (the Draft Report). The National Oceanic and Atmospheric Administration (NOAA), Acquisition and Grants Office (AGO), Grants Management Division (GMD) is specifically addressing the audit of NOAA's grant administration responsibilities for the Los Angeles Regional Interoperable Communications Authority (LA-RICS) Broadband Technology Opportunities Program (BTOP) grant.

NOAA GMD is thankful for the opportunity to comment on items reported in the audit, and acknowledges the findings and recommendations outlined in the report. GMD ensures appropriate action is being taken to address and correct the OIG's concerns identified in the Draft Report.

I. NOAA Grant Monitoring Procedures Are Incomplete

A. NOAA did not establish and document complete SOPs for Grant administration responsibilities

The Draft Report notes that NOAA did not establish and document complete Standard Operating Procedures for grant administration responsibilities. NOAA AGO/GMD has an extensive repository of documented Standard Operating Procedures (SOPs) in place, referred to as "GMD Alerts," which are utilized internally for day-to-day operations. As requested, GMD has provided OIG with several copies of GMD Alerts. Also, standard grant administration roles and responsibilities (e.g. review of performance progress reports and federal financial reports) are outlined in the Department of Commerce (DOC) Grants and Cooperative Agreements Manual, updated as of October 2016; and NOAA's Grants Cycle Process, updated as of December 2016. NOAA AGO/GMD staff adheres to the guidance outlined in both documents.

NOAA AGO/GMD Alerts are used by the Grants Management Division to ensure compliance during each step of the grants life cycle. The GMD Alerts are updated when Federal regulations are updated and/or when there is a Department of Commerce policy update.

B. NOAA did not always document NTIA's approval for LA-RIC's drawdowns

As stated in the exit conference, it is not a requirement to document NTIA's approval for drawdowns. The Grants Officer consults with the NTIA Program Office regarding the payment requests submitted by LA-RICS. Based on the consultation, along with supporting documentation, NOAA AGO/GMD proceeds with processing partial or full payment.

II. NOAA Did Not Maintain Adequate Grant Files

A. NOAA did not maintain adequate records for documenting site visit reports

NOAA AGO/GMD ensures that all site visit reports that NOAA solely or jointly participated in with NTIA were documented. However, there were two reports that were recently discovered within our files that were not uploaded to Grants Online. They have since been uploaded.

B. NOAA did not always document its review of annual single audit reports

The Draft Report indicates that NOAA did not always document its review of annual single audit reports. The GMD Alert dated September 5, 2012, effective at the time this award was issued, only required documenting review of single audits during pre-award review. This GMD Alert was superseded by GMD Alert 2016-10, dated February 2, 2016, and requires documenting review during pre-award, post award (for funded actions only, to include, incremental and continuations), and at the time of award closeout.

III. Recommendations and Corrective Actions

The following recommendations for NOAA's Director of the Acquisition and Grants Office were outlined in the Draft Report. NOAA's corrective actions are also summarized below, after each OIG recommendation:

- 1. OIG Recommendation** – Review existing SOPs and assess the need to develop additional procedures for oversight roles and responsibilities for reviews of FFRs, PPRs, drawdowns, and post-site visit requirements.

NOAA Corrective Action Planned or Taken: NOAA AGO/GMD has extensive SOPs in place referred to as "GMD Alerts." The GMD Alerts are internally utilized by the GMD staff as guidance for required day-to-day operations in grants administration, monitoring and oversight. Details on roles and responsibilities are depicted in the DOC Grants and Cooperative Agreements Manual. The Manual is used by operating units, grants offices and all involved in the grants and cooperative agreements lifecycle. NOAA AGO/GMD has source-referenced the manual's roles and responsibilities in its Grants Cycle Process. NOAA's Grants Cycle Process is updated annually, or as processes and Federal regulations are updated.

To address the OIG's recommendations regarding procedures for oversight roles and responsibilities, NOAA AGO/GMD will take the following corrective actions:

- a. Develop and disseminate Standard Operating Procedures to NOAA AGO/GMD staff for oversight responsibilities and required reviews of drawdowns. In addition, NOAA AGO/GMD management will remind staff of the 'best practice' to upload pertinent financial documentation to the grants file, as necessary.
 - b. Update GMD Alert # 2014-04 - Site Visit Preparation, to include guidance for the preparation and documentation of completed site visit reports. NOAA AGO/GMD management will remind NOAA AGO/GMD staff of the requirement to complete and upload site visit reports to the grants file.
2. **OIG Recommendation**– Document review of LA-RICS' single audit reports in the official award file.

NOAA Corrective Action Planned or Taken: GMD Alert 2016-10 sets forth the requirement to document review of single audits during pre-award, post award (for funded actions only, to include, incremental and continuations), and at the time of award closeout. NOAA AGO/GMD will remind NOAA AGO/GMD staff of the requirement to complete and upload single audit reports to the grants file.

NOAA AGO/GMD staff will continue to work with NTIA to communicate and collaborate on grant oversight functions and requirements concerning the LA-RICS award.

NOAA AGO/GMD is available to further discuss OIG's concerns, and will provide additional information if requested. Please contact Mr. Alan Conway by phone at 310-628-1310 or by email at alan.p.conway@noaa.gov if you have questions.

Sincerely,

Arlene Simpson Porter
Director, Grants Management Division

Cc Douglas Kinkoph NTIA
Chris Rose, OIG

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