

April 2012

GRANTS MANAGEMENT

Action Needed to Improve the Timeliness of Grant Closeouts by Federal Agencies



G A O

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Why GAO Did This Study

In 2008, GAO reported that about \$1 billion in undisbursed funding remained in expired grant accounts in the largest civilian payment system for grants, PMS, operated by the Department of Health and Human Services' Program Support Center. GAO was asked to update its 2008 analysis evaluating: (1) the amount of undisbursed funding remaining in expired grant accounts, including the amounts that have remained unspent for at least 5 years or more and for 10 years or more; (2) issues raised by GAO and federal inspectors general related to timely grant closeout by federal agencies; and (3) actions OMB and agencies have taken to track undisbursed balances in grants eligible for closeout. To do this, GAO analyzed data from two federal payment systems disbursing 79 percent of all civilian federal grant awards—PMS and the ASAP system, which is operated jointly by the Department of the Treasury and the Federal Reserve Bank of Richmond. In addition, GAO also reviewed audit reports that it and federal inspectors general issued; relevant OMB circulars and guidance; and performance reports from federal agencies.

What GAO Recommends

GAO recommends that OMB revise future guidance to better target undisbursed balances in grants eligible for closeout and instruct agencies to take action to close out grants that are several years past their end date or have no undisbursed balances remaining. OMB staff said that they generally agreed with the recommendations and will consider them as they review and streamline grant policy guidance.

View [GAO-12-360](#). For more information, contact Stanley J. Czerwinski at (202) 512-6806 or czerwinski@gao.gov or Beryl H. Davis at (202) 512-2623 or davisbh@gao.gov.

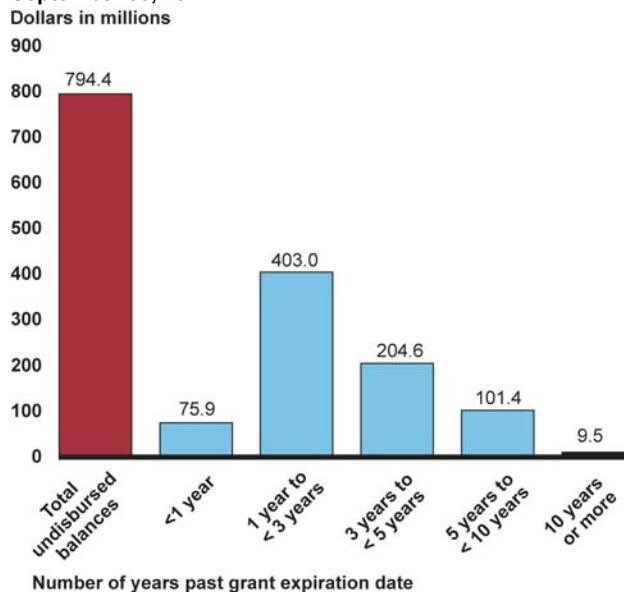
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What GAO Found

At the end of fiscal year 2011, GAO identified more than \$794 million in funding remaining in expired grant accounts—accounts that were more than 3 months past the grant end date and had no activity for 9 months or more—in the Payment Management System (PMS). GAO found that undisbursed balances remained in some grant accounts several years past their expiration date: \$110.9 million in undisbursed funding remained unspent more than 5 years past the grant end date, including \$9.5 million that remained unspent for 10 years or more (see fig. below). GAO also found \$126 million in grant accounts in the Automated Standard Application for Payments (ASAP) for which there had been no activity for 2 years or more, including \$11 million that remained inactive for 5 years or more. However, data from these two systems are not comparable because, unlike PMS, ASAP accounts can include multiple grant agreements between a federal agency and a grantee, only some of which may be eligible for closeout.

Amount and Aging of Undisbursed Balances in Expired Grant Accounts in PMS as of September 30, 2011



Source: GAO analysis of HHS PMS data.

GAO and agency inspectors general have raised concerns in audit reports about timely grant closeout. These reports found that some agencies lack adequate systems or policies to properly monitor grant closeout or did not deobligate funds from grants eligible for close out in a timely manner.

OMB issued guidance to certain agencies at the direction of Congress for reporting undisbursed balances in expired grant accounts that instructed agencies to report on expired appropriations accounts rather than grant accounts eligible for closeout. By focusing on grants eligible for closeout, OMB could better direct agency management toward grants in need of more immediate attention. Grant closeout makes funds less susceptible to fraud, waste, and mismanagement; reduces the potential costs in fees related to maintaining grants; and may enable agencies to redirect resources to other projects.

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Abbreviations

| | |
|-------------|---|
| ACF | Administration for Children and Families |
| AFR | Agency Financial Reports |
| ASAP | Automated Standard Application for Payments |
| CDC | Centers for Disease Control and Prevention |
| CFDA | Catalog of Federal Domestic Assistance |
| CFO Act | Chief Financial Officer Act of 1990 |
| CFO Council | Chief Financial Officers Council |
| DHS | Department of Homeland Security |
| DOC | Department of Commerce |
| DOE | Department of Energy |
| DOJ | Department of Justice |
| DPM | Division of Payment Management |
| EPA | Environmental Protection Agency |
| FMS | Financial Management Service |
| GPC | Grants Policy Committee |
| HHS | Department of Health and Human Services |
| IG | inspector general |
| NASA | National Aeronautics and Space Administration |
| NSF | National Science Foundation |
| OMB | Office of Management and Budget |
| PAR | Performance and Accountability Report |
| PMS | Payment Management System |
| PSC | Program Support Center |
| USDA | Department of Agriculture |

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Accountability * Integrity * Reliability

United States Government Accountability Office
Washington, DC 20548

April 16, 2012

The Honorable Tom Carper
Chairman
Subcommittee on Federal Financial Management, Government
Information, Federal Services, and International Security
Committee on Homeland Security and Governmental Affairs
United States Senate

The Honorable Tom Coburn, M.D.
Ranking Member
Permanent Subcommittee on Investigations
Committee on Homeland Security and Governmental Affairs
United States Senate

In 2008, we reported that at the end of calendar year 2006 about \$1 billion in undisbursed funding remained in grant accounts whose period of availability to the grantee had expired as identified in the largest civilian payment system for grants.¹ Undisbursed balances are funds that the federal awarding agency has obligated by entering into a grant agreement, but the grantee has not drawn down, or the federal awarding agency has not “disbursed.” Once the grant’s period of availability to the grantee has expired, the grant can be closed out and the funds deobligated by the awarding agency. Grant closeout is an important final point of accountability for grantees that helps to ensure they have met all financial requirements and have provided final reports, as required. Closing out of grants also allows agencies to identify and redirect unused funds to other projects and priorities as authorized or to return unspent balances to the Treasury. Conversely, failure to close out grants could allow grantees to draw down funds after the agreed-upon grant end date. Federal regulations generally require that financial records and other documents pertinent to a grant are to be retained for a period of 3 years from the date of submission of the final report.² If a grant account is not closed out within this time frame, there is the risk that agencies may not

¹GAO, *Grants Management: Attention Needed to Address Undisbursed Balances in Expired Grant Accounts*, [GAO-08-432](#) (Washington, D.C.: Aug. 29, 2008).

²This requirement is included in OMB Circular No. A-110 and has generally been incorporated into federal grant-making agencies’ regulations.

be able to obtain the documents needed to make the necessary financial adjustments and collect any unallowable costs or erroneous payments.

In 2008, we reported that our and inspectors general (IG) past audits of federal agencies as well as agencies' annual performance reports had suggested that failure to close out grants in a timely manner was a long-standing problem. We also found that when federal agencies made timely grant closeout a high priority and took corrective actions, there were improvements in grant closeouts and resolution of undisbursed funding. In 2008, we recommended that the Office of Management and Budget (OMB) instruct agencies to track undisbursed balances that remain in grantees' accounts after the grant funding period has ended and report on the resolution of this funding in their annual performance reports—Performance and Accountability Reports (PAR) and Agency Financial Reports (AFR). We stated that tracking undisbursed funding in expired grant accounts and including the status of grant closeouts in annual performance reports could raise the visibility of the problem both within the agency and governmentwide and lead to improvements in the timeliness of grant closeouts and a reduction in undisbursed balances. OMB supported the intent of our recommendations, but it did not favor having agencies track and report on these balances in their annual performance reports and therefore did not take action.

You asked us to update our previous analysis by evaluating: (1) the amount of undisbursed funding remaining in expired grant accounts, including the amounts that have remained unspent for at least 5 years or more and for 10 years or more; (2) issues raised by us and federal IG related to timely grant closeout by federal agencies; and (3) what actions OMB and agencies have taken to track undisbursed balances in grants eligible for closeout.

To determine the amount of undisbursed balances in expired accounts, we analyzed data from the quarterly closeout reports provided to users of the largest civilian federal payment system—the Payment Management System (PMS) administered by the Department of Health and Human Services' (HHS) Program Support Center (PSC)—at the end of fiscal year 2011.³ Closeout reports list all grant accounts that remain open more than 3 months past the grant end date and for which there has been no

³Fiscal year 2011 ended on September 30, 2011.

disbursement in the preceding 9 months. These grant accounts are referred to as “expired grant accounts.” Using PMS data, we determined the amount of funds that remained in expired accounts for 5 years or more past the grant end date and the amount that remained in these accounts for 10 years or more. In addition, for this report we also analyzed data from “dormant account reports” provided to users of a second payment system, the Automated Standard Application for Payments (ASAP), administered by the Department of the Treasury (Treasury) and the Federal Reserve Bank of Richmond. Dormant account reports list ASAP accounts for federal grants that had been inactive for 2 years or more. Unlike PMS accounts, ASAP accounts can include multiple grant agreements between a federal agency and a grantee. Therefore, these reports cannot be used to identify individual grants eligible for closeout or the amount of funds that remain undisbursed for an individual grant agreement. Instead, these reports provide a list of accounts in need of attention that agencies can use to help identify unspent funds available for deobligation.

These two payment systems were selected because they provide payment services to other federal departments and entities and account for a significant percentage of federal grant disbursements. These two systems provided payment services to offices from 20 departments and other federal entities in fiscal year 2011, disbursing about 79 percent of all civilian federal grant awards. See appendixes II and III for a full list of PMS and ASAP users. To assess the reliability of the payment system data used in this report, we (1) reviewed existing documentation on the systems, including system audits by independent auditors; (2) interviewed officials responsible for administration of the systems and discussed potential limitations of the data; and (3) performed electronic testing for obvious errors in completeness and accuracy. On the basis of our assessment, we believe that the data are sufficiently reliable for the purposes of this review. See appendix I for additional details on our analysis of payment system data, including limitations to our analysis.

To identify issues we and federal IGs have raised related to the timely closeout of grants, we conducted a web-based search for audit reports issued by GAO from September 2007 to May 2011 and federal IGs at the 24 Chief Financial Officer Act of 1990 (CFO Act) agencies from January 2008 to June 2011, and contacted officials from each of the IG to ensure that our web search did not omit any relevant reports. To analyze actions OMB has taken to track undisbursed balances, we interviewed agency officials and reviewed related OMB circulars and other guidance related to grant management and performance reporting. To analyze actions

agencies have taken to track undisbursed balances in expired accounts, we reviewed the fiscal years 2009, 2010, and 2011 performance reports for the 24 agencies required to issue audited financial statements under the CFO Act for information reported on undisbursed balances in grants eligible for closeout since our 2008 report was issued.

We conducted this performance audit from May 2011 to April 2012 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide 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.

Background

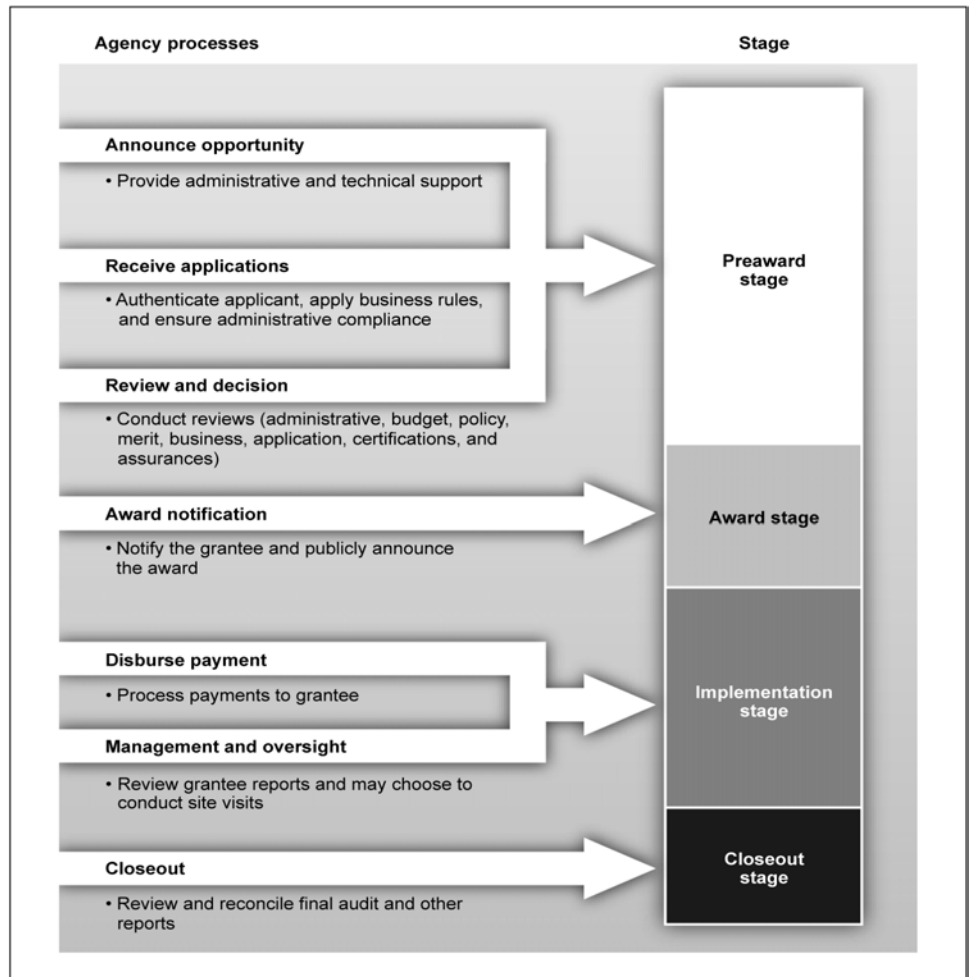
Federal Grant Awards and Grant Life-Cycle

The federal government uses grants to achieve national priorities through nonfederal parties, including state and local governments, educational institutions, and nonprofit organizations. While there can be significant variation among different grant programs, most federal grants share a common life cycle for administering the grants: pre-award, award, implementation, and closeout (see fig. 1). During the award stage, the federal awarding agency enters into an agreement with grantees stipulating the terms and conditions for the use of grant funds including the period of time funds are available for the grantee's use. Also in the award stage, the awarding agency opens accounts in one of several payment management systems through which grantees receive payments.⁴ During the post-award stage, the grantee carries out the requirements of the agreement and requests payments, while the awarding agency approves payments and oversees the grantee. Once

⁴The Grants Policy Committee (GPC), a committee of the Chief Financial Officers Council (CFO Council), was charged by the Director of OMB with coordinating governmentwide streamlining and simplification activities for federal grants and cooperative agreements. GPC recommended that federal agencies move to one of three systems: two systems for civilian agencies—ASAP and PMS—and one for defense agencies. Federal grant-making agencies were directed to select by January 1, 1999, one or more of the payment systems, but the consolidation effort was never fully completed. OMB confirmed that there were at least nine civilian federal payment systems, including the ASAP system and PMS, still active at the time of our review.

the grantee has completed all the work associated with a grant agreement or the end date for the grant has arrived, or both, the awarding agency and grantee close out the grant. Closeout procedures ensure that grantees have met all financial requirements, provided their final reports, and returned any unspent balances.

Figure 1: Grant Life-Cycle of Federal Awarding Agency



Source: GAO.

Grant closeout procedures, like other stages of the grant cycle, are subject to a wide range of requirements derived from a combination of OMB guidance, agency regulations, agency policy, and program-specific statutes. OMB Circular No. A-110, *Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations*, and OMB Circular No. A-102, *Grants and Cooperative Agreements with State and Local Governments*, provide OMB guidance to federal agencies on grant administration. These circulars apply only to federal awarding agencies;

they do not apply directly to grantees. Each federal agency that awards and administers grants and agreements that are subject to the guidance in Circulars A-110 and A-102 is responsible for issuing regulations, with which grantees must comply, that are consistent with the circulars, unless different provisions are required by federal statute or are approved by OMB.

Agency regulations issued under the circulars typically impose closeout procedures upon both the awarding agency and the grantee. Generally, within 90 days after the completion of the award, grantees must submit all financial, performance, and other reports as required by the terms and conditions of the award.⁵ Also within this 90-day period, grantees generally are to liquidate all obligations incurred under the award. Grantees then are to promptly refund any remaining cash balances to the awarding agency. Awarding agencies must make prompt payments, often defined as within 90 days, to grantees for allowable reimbursable costs under the award being closed out.⁶ Also, if allowed by the terms and conditions of the award, the awarding agency must make a settlement for any upward or downward adjustment to the federal share of costs after the closeout reports are received. Some federal agencies' grant policies, such as HHS's, further specify that grants are to be closed out within 180 days of the end of the grant funding period.

While there can be substantial variation among grant programs, figure 2 illustrates how closing out grants could allow an agency to redirect resources toward other projects and activities or return unspent funds to Treasury.⁷ Generally, if the undisbursed balances that are deobligated from closed grant accounts are still available for incurring new obligations,

⁵Generally, agency regulations specify that the time period for closeout may be extended under certain circumstances, including when the grantee requests an extension of the period of performance or there are delays in completing the final financial reports.

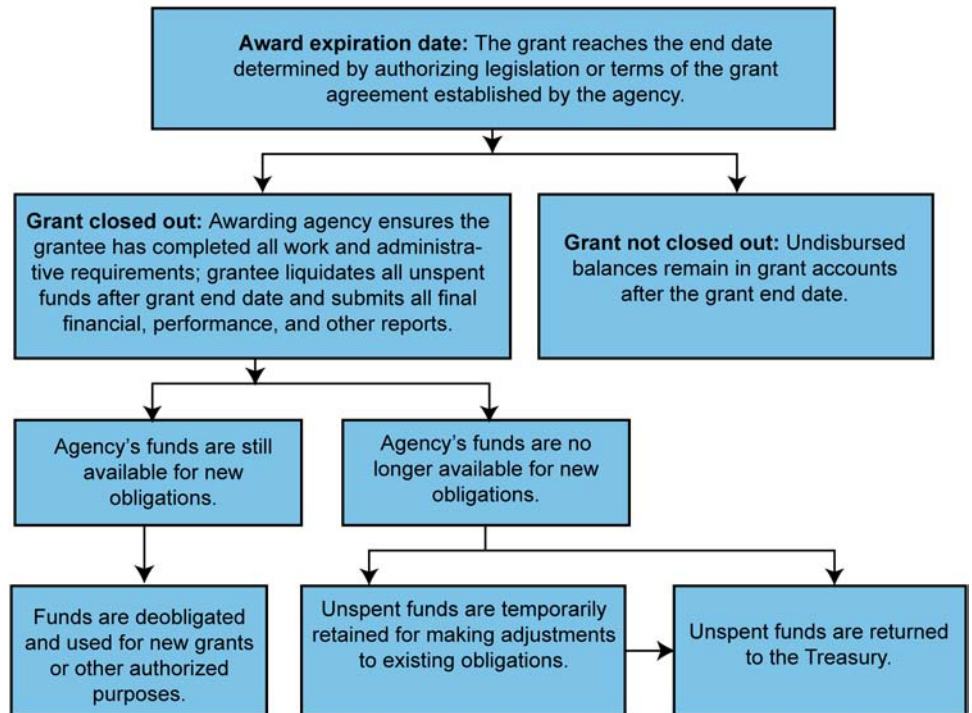
⁶Allowability of cost is determined by the cost principle applicable to the grantee incurring the costs. For example, the allowability of costs incurred by the State, local, or federally-recognized Indian tribal government is based on OMB Circular A-87.

⁷The Department of Justice, for example, has the authority to transfer undisbursed balances in expired appropriations accounts to a working capital fund prior to their cancellation.

the agency may use the funds to enter into new grant agreements.⁸ This may allow the federal agencies to use existing resources to fund new grant projects. If the undisbursed amounts are returned to expired appropriation accounts, the agency may not use the deobligated funds to make new grants. However, the agency may use the deobligated funds to make adjustments to obligations that were incurred before the appropriations account expired. Expired appropriations accounts remain available for 5 years to make adjustments, after which, the undisbursed balances are canceled and returned to the Treasury. In other words, the funds are no longer available for use by the agency. This helps ensure that federal agency resources are not improperly spent and helps agencies maintain accurate accounting of their budgetary resources. It may also reduce future federal outlays relative to the federal government's original estimated amount of spending for these programs.

⁸This period of availability for making new obligations lasts for a set number of years, which are established in law. Annual budget authority lasts for up to 1 fiscal year. Multi-year authority lasts for longer periods, and no-year authority lasts until the funds are expended for their designated purpose. A notable exception to using undisbursed balances for new obligations are balances deobligated from grants made under the American Recovery and Reinvestment Act of 2009, which must be deposited in the general fund of the Treasury. Pub. L. No. 111-203, § 1306.

Figure 2: Deobligating Undisbursed Balances in Expired Grant Accounts



Source: GAO analysis of OMB circulars and federal regulations.

Tracking Grant Awards in Federal Payment Systems

One way agencies can track whether grants are being closed out and undisbursed grant balances deobligated in a timely manner is through federal payment systems. Some agencies make grant payments directly to grantees using their own proprietary payment systems, while others entered into arrangements with payment systems that serve multiple agencies to make payments on their behalf. Payment systems represent an important control point for managing federal grant funds. After a grant agreement reaches its end date, an agency may need to close out a grant in multiple systems, including the agency's general ledger or in a separate grant management system. However, failure to also close out a grant in the payment system and deobligate any unspent balances could allow grantees to continue to draw down federal funds even after the grant's period of availability to the grantee has ended. In addition, failure to close out the grant in the payment system also prevents the timely deobligation of unspent funds and limits agencies' ability to recapture funds that might be used for other purposes.

The largest civilian federal payment system is the Payment Management System (PMS) which is operated by PSC. PMS allows grantees to draw federal funds from grant accounts preauthorized by federal agencies. Grantees request payments from PMS, which transmits authorized payments to either the Federal Reserve Bank or Treasury for deposit into the grantee's bank account. Each PMS account represents a different grant agreement with a specified expiration date. To help federal grant-making agencies identify and close out grant accounts in a timely manner, each quarter PSC makes available a "closeout" report, listing expired grant accounts—those that remain open more than 3 months past the grant end date and for which there has been no disbursement in the preceding 9 months. These grant accounts are referred to as "expired grant accounts."

Another large payment system, the Automated Standard Application for Payments (ASAP) system, is implemented jointly by Treasury's Financial Management Service (FMS) and the Federal Reserve Bank of Richmond. Like PMS, ASAP allows grantees to draw federal funds from accounts preauthorized by federal agencies.⁹ Since 2009, FMS has issued a "dormant account report" to all ASAP users to help agencies identify and address undisbursed balances that remain in accounts for which there has been no activity for 2 years or more. Dormant account reports have generally been provided twice each year. The first report lists all dormant accounts as of a specific date, and the second report shows agencies' progress toward addressing dormant accounts. Unlike PMS accounts, ASAP accounts can include multiple grant agreements between a federal agency and a grantee. Therefore, these reports cannot be used to identify individual grants eligible for closeout or the amount of funds that remain undisbursed for an individual grant agreement. Instead, these reports provide a list of accounts in need of attention that agencies can use to help identify unspent funds available for deobligation.

⁹The ASAP system provides payment services for a range of federal programs including nongrant programs. For the purposes of this report, our focus is on accounts for grant programs only.

**More Than
\$794 Million in
Undisbursed Balances
Remained in Expired
Grant Accounts in
PMS; More Than
\$126 Million Also
Remained in Dormant
Accounts in ASAP**

We found that more than \$794 million in undisbursed balances remained in expired PMS accounts, including undisbursed balances that remained in accounts several years past their expiration date. Roughly three-fourths of all undisbursed balances in expired grant accounts were from grants issued by HHS, the largest grant-making agency in the federal government. Although this represents only a small share (2.7 percent) of the total funding that was made available for these grants, department officials told us they are taking action to improve timely closeout. We also found that more than \$126 million in undisbursed balances remained in dormant grant accounts—accounts for which there had been no activity for 2 years or more—in ASAP, another large federal payment system.

**Undisbursed Balances
Remained in Expired
Grant Accounts in PMS**

As of September 30, 2011, we found that \$794.4 million in undisbursed balances remained in PMS, the largest federal civilian payment system in 10,548 expired grant accounts. These are accounts that were more than 3 months past the grant end date and had no activity for 9 months or more. Undisbursed balances in expired grant accounts were spread across numerous federal agencies and almost 400 different programs. (See app. II for a list of PMS customers.) For comparison, the total amount of undisbursed balances in expired grant accounts in PMS is more than \$200 million less than the amount we previously reported for calendar year 2006, while the overall amount of grant disbursements through PMS increased by about 23 percent during this time, from \$320 billion in fiscal year 2006 to \$415 billion in fiscal year 2011. Overall, total undisbursed balances as of September 30, 2011, represent roughly 3.3 percent of the total amount of funds made available for these grants, down from 7.4 percent at the end of calendar year 2006.¹⁰ However, at the department or agency level, the total amount of undisbursed balances in expired accounts as of September 30, 2011, varied from 2.7 percent to 34.8 percent of the total funding made available for these grant accounts during this period.

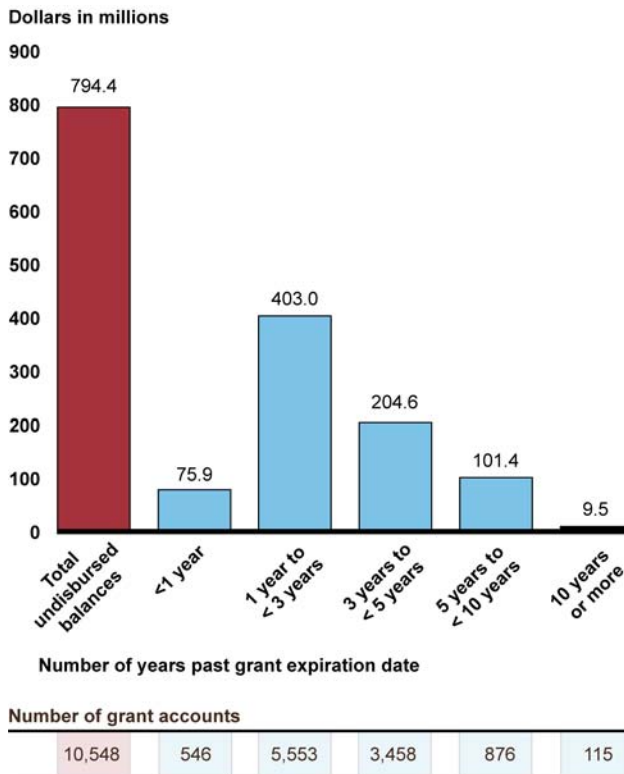
OMB guidance and agency regulations generally require grantees to submit all financial and performance reports and liquidate all obligations

¹⁰Overall, more than \$24 billion was originally made available for grants with undisbursed balances identified as expired on the PMS closeout report for September 30, 2011, and more than \$14 billion for the PMS closeout for December 31, 2006.

incurred under the award within 3 months (or 90 days) after the completion of the award; awarding agencies must then make prompt payments to grantees for allowable reimbursable costs for the award being closed out. Therefore, based on the information in PMS, these expired grant accounts should be considered for grant closeout. Failure to close out a grant in the payment system and deobligate any unspent balances can allow grantees to continue to draw down federal funds in the payment system even after the grant's period of availability to the grantee has ended, making these funds more susceptible to waste, fraud, or mismanagement.

As figure 3 shows, we found that undisbursed balances remained in grant accounts several years past their expiration date. We found that 991 expired grant accounts were more than 5 years past the grant end date; they contained a total of \$110.9 million in undisbursed funding. Of these, 115 expired grant accounts containing roughly \$9.5 million remained open more than 10 years past the grant end date. Federal regulations generally require that grantees retain financial records and other documents pertinent to a grant for a period of 3 years from the date of submission of the final report. The risk increases after several years that grantees will not have retained the financial documents and other information for these grants that are needed by federal agencies to properly reconcile financial information and make the necessary adjustments to the grant award amount and the amount of federal funds paid to the recipient, potentially resulting in the payment of unnecessary and unallowable costs.

Figure 3: Amount and Aging of Undisbursed Balances in Expired Grant Accounts in PMS as of September 30, 2011



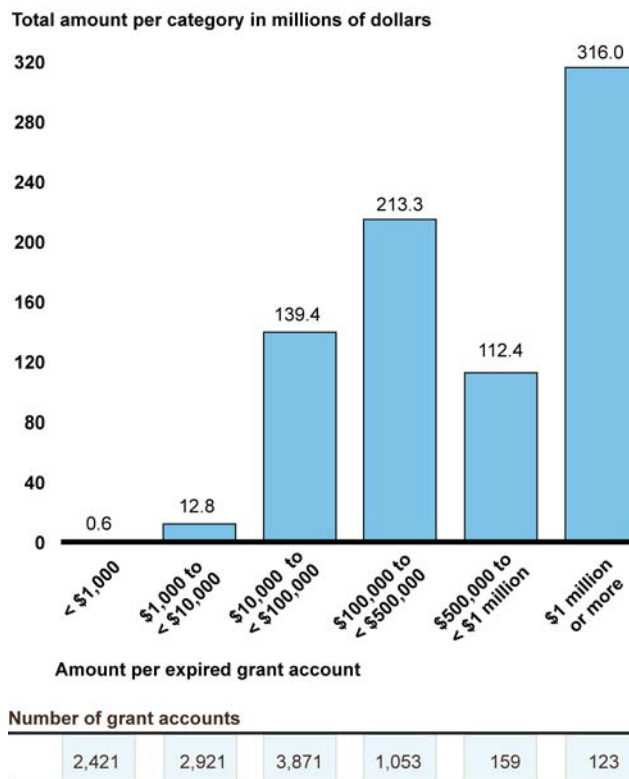
Source: GAO analysis of HHS PMS data.

Note: Excludes expired grant accounts with no undisbursed balances remaining, which are discussed later in this report. Data may not add to total due to rounding.

While the amount of funds remaining in individual expired grant accounts ranged from less than \$1 to more than \$19 million, a small percentage (a little more than 1 percent) of grant accounts with undisbursed balances of \$1 million or more accounted for more than a third of the total undisbursed funds in expired grant accounts. Overall, 123 accounts from eight different federal agencies had more than \$1 million in undisbursed balances at the end of fiscal year 2011. These expired grant accounts had a combined total of roughly \$316 million in undisbursed balances, or 40 percent of the total undisbursed funding in expired grant accounts as of September 30, 2011 (see fig. 4). Accounts with undisbursed balances remaining at the end of the agreed-upon grant end date can indicate a potential grant management problem. Data showing grantees that have not expended large amounts of funding such as \$1 million or more by the

specified grant end date raise concern that grantees have not fully met the program objectives for the intended beneficiaries within the agreed-upon time frames.

Figure 4: Distribution of Undisbursed Balances Remaining per Expired Grant Account in PMS as of September 30, 2011



Source: GAO analysis of HHS PMS data.

Note: Excludes expired grant accounts with no undisbursed balances remaining, which are discussed later in this report.

About \$600 Million of Undisbursed Balances in Expired Grant Accounts Were for Grants Issued by HHS

Roughly three-fourths of all undisbursed balances in expired grant accounts (\$594.7 million) in PMS as of September 30, 2011, were from 8,262 HHS-issued grants. HHS is the largest grant-making agency in the federal government in terms of total dollars awarded and disbursed. Overall, the total undisbursed balances in expired HHS grant accounts represented 2.7 percent of the total amount authorized for these accounts, which is the lowest percentage for any federal department with undisbursed balances in expired grant accounts included on the

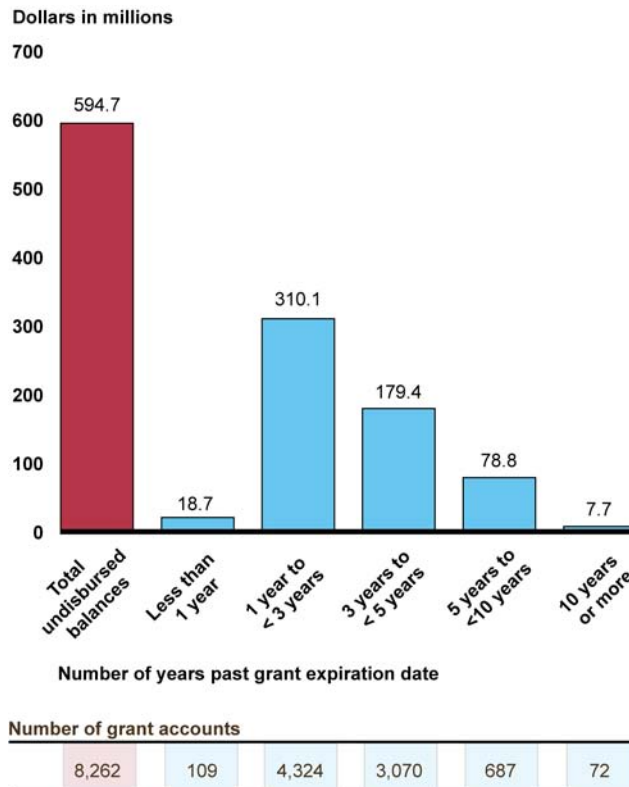
September 30, 2011 PMS closeout report. This indicates that the grantees have typically spent the vast majority of the funds awarded. However, the remaining funds add up to hundreds of millions of dollars that the agency could potentially redirect toward other projects and activities or return to Treasury. Furthermore, 85 of the 123 expired grant accounts with \$1 million or more remaining at the end of fiscal year 2011 discussed earlier in this report were HHS-issued grants. Of the 10 HHS operating divisions with accounts in PMS, the Administration for Children and Families (ACF) and the Centers for Disease Control and Prevention (CDC) had the largest undisbursed balances at the end of fiscal year 2011 with roughly \$321.7 million and \$110.1 million, respectively.¹¹

While HHS policy generally requires that grants be closed out within 180 days after the grant's end date, we found more than \$265 million in undisbursed balances in expired grant accounts that remained open 3 or more years past the grant end date. This includes more than \$86 million in expired grant accounts that were 5 years or more past the grant end date, of which more than \$7 million remained unspent 10 years after the grant end date (see fig. 5).¹² Of this total, ACF and CDC had a combined \$70.8 million in undisbursed balances in expired grant accounts that were 5 years or more past the grant end date, including \$6.1 million that remained unspent 10 years after the grant end date.

¹¹A list of the 10 operating divisions with PMS accounts is provided in appendix II.

¹²HHS Grants Policy Directive 4.02 outlines the department's grants management requirements for closeout.

Figure 5: Amount and Aging of Undisbursed Balances in Expired HHS Grant Accounts in PMS as of September 30, 2011



Source: GAO analysis of HHS PMS data.

Note: Excludes expired grant accounts with no undisbursed balances remaining, which are discussed later in this report.

HHS Reports Taking Actions to Address Backlog in Response to Previous Audits

In response to past audit reports, officials from HHS’s Division of Grants said that they have increased monitoring of grant closeout.¹³ In February 2011, HHS established an interagency workgroup—the Accelerated Closeout Team—led by the Office of Grants and Acquisition Policy and Accountability to coordinate a departmentwide response in strengthening financial controls and accelerating the number of grant and contract

¹³The Division of Grants in the Office of Grants and Acquisition Policy and Accountability provides departmentwide leadership and management directions in grant policy and oversight, grants systems management and coordination, and other related areas.

closeouts. The Accelerated Closeout Team for grants reviewed and analyzed PMS data from previous years and used the data to develop a list of eligible grant awards—focusing specifically on those from fiscal year 2008. They have a near-term goal of closing out all eligible grants with a grant end date of 2008. According to HHS, they have identified tens of millions of dollars in undisbursed balances in PMS available for deobligation through this initiative. The initiative will conclude later this year at which point HHS will re-evaluate any additional areas requiring specific attention. HHS officials said that they are drafting a departmentwide grants closeout policy to improve the grant closeout process going forward.

HHS officials said that attention on timely grant closeout in PMS increased in response to previous audits. Both the HHS Office of Inspector General and the HHS independent auditor¹⁴ have reported a backlog of expired HHS grant accounts with undisbursed balances in PMS. The HHS Inspector General issued four reports from 2008 to 2009 on grant closeout in PMS at four selected operating divisions.¹⁵ Using PMS data from March 30, 2006, to March 31, 2007, the HHS Inspector General found between \$174 million and \$1.3 billion in undisbursed balances at the four operating divisions in grant accounts that had not been closed within 180 days of the grant end date as specified in agency policy. The HHS Inspector General attributed the backlog in grant closeout in part to lack of staff and resources, inconsistent guidance, and a lack of supporting documentation and recommended that the agency use the information in the audit reports to ensure that grants are closed out in a timely manner and to eliminate the backlog of grants eligible for closeout. The operating divisions generally concurred with the Inspector

¹⁴Independent auditors are independent accounting experts who conduct impartial audits of the financial statements of public and private organizations to ensure there are no misstatements and assess whether organizations' systems to detect and prevent fraud (internal controls) are effective.

¹⁵These four divisions included the two operating divisions (ACF and CDC) mentioned above. See HHS, Office of the Inspector General, *Review of the Centers for Medicare and Medicaid Services Grant Close out Procedures*, A-02-06-02001 (Washington, D.C.: 2008); *Review of Administration for Children and Families Grant Closeout Procedures*, A-02-07-02000 (Washington, D.C.: 2009); *Review of Centers for Disease Control and Prevention Grant Closeout Procedures*, A-02-07-02014 (Washington, D.C.: 2009); and *Review of Health Resource and Services Administration Grant Closeout Procedures*, A-02-07-02008 (Washington, D.C.: 2009).

General's recommendations and described actions that they planned to take to improve timely closeouts in response.

Findings from HHS's independent auditor as reported in the agency's PARs over several years indicate that timely closeout of grants has been a long-standing issue at HHS but that the agency has been making progress. From fiscal year 2006 to fiscal year 2011, the HHS independent auditor routinely reported on concerns with management controls over grant closeout, including a backlog of HHS grant accounts in PMS that were already beyond what the auditor considered a reasonable time frame for closeout. For example, during its review of fiscal year 2009 grant activity provided from PMS as of March 31, 2009, the independent auditor identified approximately 644 grant obligations totaling \$40.3 million that were dated prior to fiscal year 2002 that had not been closed out.¹⁶ The independent auditor concluded at that time that HHS management needed to increase its emphasis on closeout in order to reduce the backlog and ensure consistency between PMS and HHS operating divisions' separate grant tracking systems, and, as part of the department's fiscal year 2011 PAR, the independent auditor noted significant improvements in this and other financial management processes.

Agencies Were Charged Fees to Maintain Thousands of Expired Accounts, Including Accounts with No Undisbursed Balances Remaining

Promptly closing out grants in the payment management system after the grant end date would help agencies minimize the amount that they are charged in monthly service fees. PSC, which operates PMS, does not close out a grant account in PMS until instructed to by the awarding agency and continues to charge service fees to the awarding agencies. PMS fees are calculated to allow PSC to fully recover the cost of its PMS operations. In addition to payment services, PMS also provides a number of other services to assist users, such as standardized electronic forms for meeting federal grant reporting requirements, audit support, and collection services on overdrawn grants and disallowed costs. PSC provides these additional services for all open accounts, regardless of the grant account balance. PSC charges federal grant-making agencies based on two billing rates: a hybrid rate referred to as the "Type I" rate, which is generally applied to grants awarded to state, local, and tribal governments, and a flat rate referred to as the "Type II" rate, which is

¹⁶HHS, *Department of Health and Human Services FY 2009 Agency Financial Report*, (Washington, D.C.: November 2009).

generally applied to grants awarded to nonprofit agencies, hospitals, and universities.

We identified more than 28,000 expired grant accounts in PMS with no undisbursed balances remaining as of the end of fiscal year 2011 for which the grant-making agency was charged a fee. More than 21,000 of these expired grant accounts with no undisbursed funds remaining—approximately 79 percent of all such accounts—were for HHS grants with the remaining amount spread across 11 other federal agencies. The closeout report made available to PMS users identifies these accounts using a special status symbol, which indicates that the awarding agency only needs to submit the closeout code to finalize grant closeout. Until the code is submitted, these grant accounts continue to cost the awarding agency through accumulated monthly service fees. According to data provided by PSC, PMS users were charged a total of roughly \$173,000 per month to maintain the more than 28,000 expired grant accounts with zero dollar balances listed on the yearend closeout report. Roughly \$137,000 of this was charged to HHS operating divisions. Overall, the total charges for all expired grants with a zero dollar balance would represent roughly \$2 million in fees if agencies were billed for these accounts for the entire year.¹⁷ While the fees are small relative to the size of the original grant awards, they can accumulate over time. We found roughly 9,770—about 34 percent—of the expired grant accounts with no undisbursed balances remained open 3 or more years past the grant expiration date. If the grant has otherwise been administratively and financially closed out, then agencies paying fees for expired accounts with zero dollar balance are paying for services that are not needed instead of providing services to grant recipients. The presence of expired grant accounts with no undisbursed funds remaining also raises concerns that administrative and financial closeout—the final point of accountability for these grants, which includes such important tasks as the submission of financial and performance reports—may not have been completed.

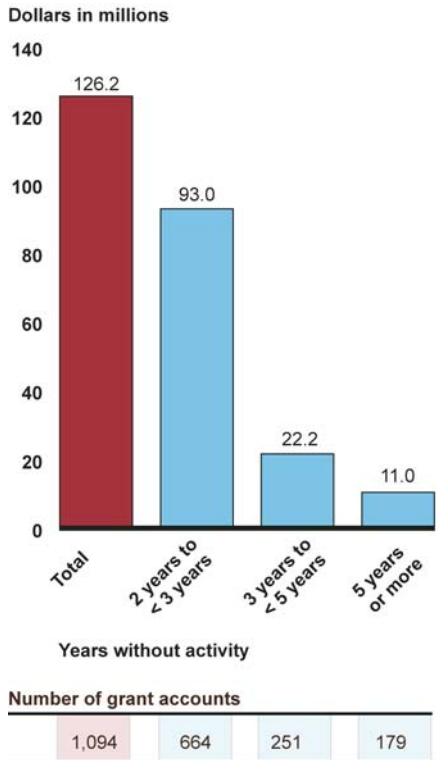
¹⁷The total presented above is an illustration of potential costs assuming that all accounts with no undisbursed balances remaining as of September 30, 2011, had a zero dollar balance for the entire fiscal year. Based on the information in the closeout report, we could not determine the number of months in fiscal year 2011 that these accounts had a zero dollar balance.

More Than \$126 Million Remained in Dormant Accounts for 2 Years or More in ASAP

As of the end of fiscal year 2011, we found that \$126.2 million in undisbursed balances remained in dormant grant accounts in ASAP, another large federal payment system. These balances remained in 1,094 dormant grant accounts—accounts for which there had been no activity for 2 years or more. According to the dormant account report, this represents roughly 15 percent of the cumulative authorized funding made available for these accounts. Grant accounts for eight federal departments and other federal entities that use the ASAP system for payment services appeared on the report, with undisbursed balances ranging from roughly \$41,000 to more than \$40 million, per entity. (See app. III for a list of ASAP customers.)

Individual accounts in the ASAP system can include multiple grant agreements between a federal agency and a grantee; therefore, these reports cannot be used to identify individual grants eligible for closeout or the amount of funds that remain undisbursed for an individual grant agreement. However, the existence of undisbursed balances in inactive accounts can indicate the need for increased attention. This is particularly true of accounts where there has been no activity for a prolonged period of time. While nearly three-quarters of the undisbursed balances in dormant accounts were inactive for 3 years or less, we found roughly \$33 million in 430 accounts that had been inactive for 3 years or more. Of that \$33 million, \$11 million in 179 accounts had been inactive for 5 years or more (see fig. 6).

Figure 6: Amount of Undisbursed Grant Balances in Dormant Accounts in the ASAP System as of September 30, 2011



Source: GAO analysis of Treasury ASAP data.

FMS officials first began issuing “dormant account reports” to all ASAP users in 2009 in response to the findings in our 2008 report that using federal payment systems to track undisbursed balances in grant accounts could help reduce unused funding. ASAP dormant account reports have evolved over time to improve their usability. Currently, accounts with undisbursed balances are included in dormant account reports if (1) the grantee has not drawn down funds for 2 years or more and (2) the awarding agency has made no changes to the authorized amount of funding available to the grantee in 2 years or more. Dormant account reports are generally provided twice a year—once in the fall or winter followed by a second report in the spring or summer. The first report lists all of the dormant accounts as of a specific date, and the second report shows the status of these same accounts several months later, allowing agencies to track progress toward addressing the dormant accounts that

appeared on the first report. The amounts reported for the end of fiscal year 2011 represent the first phase of this two-phase cycle.

Unlike PMS, the ASAP system does not provide grant management operations for users; therefore, it is the agencies' responsibility to maintain grant management information such as the grant end date. However, as with PMS, the separation of grant management and payment functions makes it possible for agencies to closeout a grant in a separate grant management system but fail to close out the grant in the ASAP system. According to FMS officials, if an ASAP account remains open, grantees may be able to continue to draw funds so long as there are funds available in the account. ASAP accounts that have no balances remaining but remain open are not included in dormant account reports regardless of their period of inactivity. FMS has encouraged agencies to close these accounts, but it does not charge users for these accounts or for other payment system services provided by the ASAP system. Instead, Congress appropriates funds to FMS to cover the cost of its operations.

Audits Continue to Raise Concerns about Timely Grant Closeout

In addition to the HHS audits described earlier, we and agency IGs have continued to raise concerns about timely grant closeout in federal agencies and grant programs. As part of our previous report on undisbursed balances in expired grant accounts issued in 2008, we reviewed 7 years of past audits and found that both we and federal IGs issued numerous reports identifying specific grant programs or awarding agencies that had undisbursed funding in grants eligible for closeout.¹⁸ Since that time, we have issued additional reports identifying challenges related to timely closeout of grants, and the Inspectors General at the Departments of Agriculture (USDA), Education, Energy (DOE), HHS, Homeland Security (DHS), and Labor (Labor) have all issued reports identifying similar challenges in offices or programs within their respective agencies. These reports identified a lack of adequate systems or policies in place to properly monitor grant closeout and inadequacies in awarding agencies' grant management processes, in part because closeouts are a low management priority. While they focused on expired grants in specific

¹⁸For our 2008 report, we conducted a web-based literature search for related audit reports and reviewed over 150 reports issued by GAO, various federal IGs, and federal agencies from 2000 to 2006 to identify some common grants management problems related to closing expired grants. The results of this work are summarized in [GAO-08-432](#).

offices or grant programs, when taken together, these report findings indicate that the timely closeout of grants continues to be an issue for multiple programs and grant-making agencies across the federal government.

We found that agencies did not have adequate systems and policies in place to properly monitor grant closeout. For example, in 2011, we reported that USDA's draft grant closeout policies for the McGovern-Dole Food for Education Program did not include time frames for when grant agreements should be closed.¹⁹ As a result, this put USDA at risk that grant agreements will not be closed out in a timely fashion, preventing USDA from ensuring that grantees of the McGovern-Dole Food for Education Program have met all financial requirements and that unused or misused funds are promptly reimbursed to USDA. We recommended that the Secretary of Agriculture formalize policies and procedures for closing out grant agreements and establishing guidance to determine when agreements should be closed. USDA agreed with our recommendations and said it will take steps to address them. Similarly, in 2011 we found that roughly \$24 million in Farm Labor Housing program loan and grant obligations remained undisbursed more than 5 years after the funds were obligated and that the Rural Housing Service had no guidelines for deobligation in force.²⁰ The Rural Housing Service has since issued guidance, as we had recommended.

We also found that agencies did not deobligate funds from grants eligible for closeout in a timely manner. For example, in 2012, we reported that Department of Justice's (DOJ) Bulletproof Vest Partnership program had not deobligated about \$27 million in balances from grants awarded from fiscal years 2002 through 2009 whose terms have ended and whose grantees are no longer eligible for reimbursement.²¹ DOJ agreed with our recommendation that the department deobligate undisbursed funds from

¹⁹See GAO, *International School Feeding: USDA's Oversight of the McGovern-Dole Food for Education Program Needs Improvement*, [GAO-11-544](#) (Washington, D.C.: May 19, 2011).

²⁰See GAO, *Rural Housing Service: Opportunities Exist to Strengthen Farm Labor Housing Program Management and Oversight*, [GAO-11-329](#) (Washington, D.C.: Mar 30, 2011).

²¹GAO, *Law Enforcement Body Armor: DOJ Could Enhance Grant Management Controls and Better Ensure Consistency in Grant Program Requirements*, [GAO-12-353](#) (Washington, D.C.: Feb. 15, 2012).

Bulletproof Vest Partnership program grants that have closed and said that in the absence of statutory restrictions stating otherwise, it intends to use the deobligated, undisbursed funds to supplement appropriations in fiscal years 2012 and 2013. In another example, we reported in 2010 that recipients of 58 percent of Department of the Interior's Office of Insular Affairs project grants failed to submit final closeout reports on time, which can delay the deobligation of any unspent grant funds from the project account.²² The Department of Interior agreed with our recommendations to improve the Office of Insular Affairs' ability to manage grants.

Federal IGs identified similar issues at their agencies. For example, in September 2009 the Inspector General at Labor reported that funds were not deobligated when a grant expired because of delays in grant closeouts. Also, grants from the Employment and Training Administration and the Veteran's Employment and Training Service were not closed within 12 months of their expiration because of a large backlog of grants in need of close out.²³ In another example, USDA's Agricultural Research Service reported in April 2009 that it deobligated the \$2.75 million in response to a finding from the department's inspector general, making the funds available for other research projects and preventing the potential misuse of funds.²⁴ IGs also reported that system updates and a lack of timely information led to problems at DHS²⁵ and the Department of Education, respectively.²⁶

²²See *U.S. Insular Areas: Opportunities Exist to Improve Interior's Grant Oversight and Reduce the Potential for Mismanagement*, GAO-10-347 (Washington, D.C.: Mar. 16, 2010). Results are based on a review of a random probability sample of 173 grant project files. We were able to project our sample results to the 1,771 Office of Insular Areas grant projects in the grant management database as of April 27, 2009. The confidence interval for this estimate is within +/- 11 percent.

²³Department of Labor, Office of the Inspector General, *Management Advisory Comments Identified in an Audit of the Consolidated Financial Statements for the Year Ended September 30, 2009*, 22-10-006-13-001 (Washington, D.C.: 2010).

²⁴USDA, Office of Inspector General, *Agricultural Research Service Management Controls Over Research Agreements, 02601-1-SF* (Washington, D.C.: July 2009).

²⁵DHS, Office of the Inspector General, *Opportunities to Improve FEMA's Disaster Closeout Process*, OIG-10-49, (Washington, D.C.: 2010) and DHS, Office of the Inspector General, *Management Letter for the FY 2010 DHS Financial Statements and Internal Control over Financial Reporting Audit*, OIG-11-45 (Washington, D.C.: 2011).

²⁶Department of Education, Office of the Inspector General, *Audit of the Department's Process to Resolve Lapsed Funds*; ED-OIG/A19H0010 (Washington, D.C.: 2009).

Federal IGs reported that grant closeout procedures have been viewed as a low priority for federal agencies and that agencies have devoted limited staff resources to other grant management functions, including the issuance of new grant awards. Lack of attention and staffing contribute to delays in grant closeout and the timely deobligation of funds. For example, DOE's Inspector General found that one of DOE's regional offices was not closing out Small Business Innovation and Research Phase II grants in a timely manner in part because staff focused their attention instead on active awards.²⁷ The Inspector General found expired grants had been completed for more than 3 years but had not been closed out. In addition, the Inspector General found questionable or unallowable costs during their review of grant closeout. Because grantees are only required to maintain annual audit and expense reports to support progress on projects and costs incurred and other information for 3 years, the supporting cost data may not be available for review, resulting in the payment of unnecessary and unallowable costs.

These findings are consistent with the results of a survey of IGs and other investigative agencies by the National Procurement Fraud Task Force's Grant Fraud Committee, a committee chaired by the Inspector General for DOJ, which aims to detect and prevent grant fraud. Many respondents to the survey suggested that grant awarding agencies are often focused on awarding grant money and do not devote sufficient resources to the oversight of how those funds are spent. Survey respondents noted that awarding agencies often inadequately monitor grantee activities by, among other things, not properly closing out grants in a timely manner.²⁸

²⁷Department of Energy, Office of Inspector General, *Management Controls over Monitoring and Closeout of Small Business Innovation Research Phase II Grants*, OAS-M-08-09 (Washington, D.C.: July 2008).

²⁸National Procurement Fraud Task Force, Grant Fraud Committee, *A Guide to Grant Oversight and Best Practices for Combating Grant Fraud* (February 2009).

Absence of Clear Guidance Has Resulted in a Lack of Consistent Governmentwide Reporting on Undisbursed Balances in Expired Grant Accounts

OMB has not issued governmentwide guidance on tracking or reporting undisbursed balances for grants eligible for closeout, as we recommended in 2008. OMB did issue instructions for tracking and reporting on undisbursed grant balances to a small number of affected federal agencies in 2010 and 2011 as required by law. However, this guidance included grant accounts that were still available for disbursement and was not limited only to those grant accounts eligible for closeout. We found that agencywide information on undisbursed balances in grant accounts eligible for closeout is largely lacking.

OMB Has Not Issued Governmentwide Guidance on Tracking or Reporting Undisbursed Balances in Grants Eligible for Closeout

In 2008, we recommended that OMB instruct all executive departments and independent agencies to annually track the amount of undisbursed balances in expired grant accounts and report on the status and resolution of the undisbursed funding in their annual performance reports. In our report, expired grant accounts were defined as the grants that remained open after the end of the grant period and were eligible for closeout. Our previous work found that reporting on the status of grant closeouts in annual performance reports, such as agency PARs, can raise the visibility of the problem within federal agencies, lead to improvements in grant closeouts, and reduce undisbursed balances. These reports enable the president, Congress, and the American people to assess agencies' accomplishments for each fiscal year by comparing agencies' actual performance against their annual performance goals, summarizing the findings of program evaluations completed during the year, and describing the actions needed to address any unmet goals, among other things.

OMB responded at the time that it supported the intent of our recommendations to strengthen grants management by explicitly requiring federal agencies to track and report the amount of undisbursed grant funding remaining in expired grant accounts and that it believed agencies should design processes with strong internal controls to promote effective funds management for all types of obligations. OMB's comments did not indicate a commitment to implement our recommendations. OMB stated that, during its regular review, it would consider revising the grant management guidance in Circulars No. A-102 and No. A-110 to include such instructions. As of December 2011, these Circulars, as well as No. A-11, *Preparation, Submission and Execution of*

the Budget, and No. A-136, *Financial Reporting Requirements*, do not include any guidance or instructions to agencies on tracking or reporting on undisbursed balances in grants eligible for closeout in agencies' performance reports.²⁹

**In Response to Legislation,
OMB Instructed Select
Agencies to Report on
Undisbursed Balances but
Not on the Amount in
Grant Accounts Eligible
for Closeout**

Section 537 of the Commerce, Justice, Science, and Related Agencies Appropriations Act of 2010 required that the Director of OMB instruct departments, agencies, and other entities receiving funds under the act to track undisbursed balances in expired grant accounts. The legislation specifically required that OMB instruct affected agencies to report on the following information:

1. details on future action the department, agency, or instrumentality will take to resolve undisbursed balances in expired grant accounts,
2. the method that the department, agency, or instrumentality uses to track undisbursed balances in expired grant accounts,
3. identification of undisbursed balances in expired grant accounts that may be returned to the Treasury of the United States, and
4. in the preceding 3 fiscal years, details on the total number of expired grant accounts with undisbursed balances (on the first day of each fiscal year) for the department, agency, or instrumentality and the total finances that have not been obligated to a specific project remaining in the accounts.

These legislative reporting requirements were similar to what we recommended in 2008. Subsequently, the same reporting requirements were carried forward for fiscal year 2011 by the Full-Year Continuing Appropriations Act, 2011 and for fiscal year 2012 by Section 536 of the Commerce, Justice, Science, and Related Agencies Appropriations Act, 2012, affecting select agencies 2012 PAR and AFR submissions due in November 2012.³⁰

In 2010 and 2011, as required by these laws OMB issued implementing instructions to affected federal agencies' financial officers and budget officers. Four agencies—the Department of Commerce (DOC), DOJ,

²⁹OMB Circular No. A-11, *Preparation, Submission and Execution of the Budget* and A-136, *Financial Reporting Requirements*, provide guidance to agencies on preparing and submitting their performance reports.

³⁰Pub. L. No. 111-117, div. B, 123 Stat. 3034, 3113, 3158 (Dec. 16, 2009).

National Aeronautics and Space Administration (NASA), and National Science Foundation (NSF)—provided responses in their annual performance reports.³¹ However, in its instructions, OMB equated “expired grant accounts” with expired appropriation accounts. Specifically, OMB’s guidance referenced the definition of expired appropriations found in Circular No. A-11 in defining expired grant accounts as “including budget authority that is no longer available for new obligations but is still available for disbursement.”

The performance period for active grant agreements can last multiple years during which time authorized disbursements may be made from expired appropriation accounts. Under OMB’s definition, agencies were instructed to report all undisbursed funding in expired appropriation accounts which could include active grant accounts as well as grant accounts eligible for closeout. In contrast, in this and other reports, we defined expired grant accounts as accounts that remain open after the specified grant end date, or expiration date, and are eligible for close out.³² Undisbursed balances in these accounts are funds that the federal government has obligated by entering into a grant agreement but that should no longer be disbursed to grantees because the period of availability to the grantee has ended.

Following OMB’s guidance, three agencies—DOJ, NSF, and NASA—reported on amounts in expired appropriation accounts in their 2010 performance reports.³³ For example, NSF reported in its fiscal year 2010 AFR over \$1.7 billion in undisbursed balances as of September 30, 2010, which agency officials confirmed to us as the total amount of expired

³¹The Marine Mammal Commission, an entity receiving funding under the Commerce, Justice, Science, and Related Agencies Appropriations Act, reported in its fiscal year 2011 PAR that it did not have any undisbursed balances in expired grant accounts.

³²See [GAO-08-432](#) and GAO, *Federal Grants: Improvements Needed in Oversight and Accountability Processes*, [GAO-11-773T](#) (Washington, D.C.: June 23, 2011).

³³DOJ, *Department of Justice FY 2010 Performance and Accountability Report*, (Washington, D.C.: November 2010); NASA, *National Aeronautics and Space Administration FY 2010 Performance and Accountability Report* (Washington, D.C.: November 2010); and NSF, *National Science Foundation FY 2010 Agency Financial Report* (Washington, D.C.: November 2010). DOC reported on the number of expired grant accounts in the print edition of its fiscal year 2010 PAR but not the amount of undisbursed balances in these accounts. See DOC, *Department of Commerce FY 2010 Performance and Accountability Report* [print edition] (Washington, D.C.: November 2010).

appropriations in the agency's two research-related appropriations accounts. The amount reported included funds available for disbursement on only active grant agreements. Similarly, officials from DOJ and NASA also confirmed to us that the number they reported in their 2010 performance reports represented balances in expired appropriations accounts and not the amount of funding that remained in grant accounts eligible for close out. Furthermore, according to DOJ officials, most DOJ grants, with the exception of grants funded through the American Recovery and Reinvestment Act (Recovery Act), are funded with no-year appropriations that do not enter into an expired phase and therefore fall outside the scope of OMB's guidance.

Agency officials told us that the purpose of gathering information on grants funded with expired appropriations was unclear. Federal agencies are generally required to include detailed information on the overall budgetary resources made available to the agency, including amounts in expired appropriation accounts, as well as the status of those resources at the end of the fiscal year. Agency officials said that the information on undisbursed balances reported in their PAR or AFR was derived at least in part from these publicly available budgetary reports and is generally readily available; however, information on undisbursed balances in grant accounts that have reached their end date and are eligible for closeout is generally not publicly available or otherwise provided to OMB and Congress.

OMB issued largely identical instructions to select agencies for reporting on undisbursed balances in expired grant accounts in their 2011 performance reports. While NASA and NSF took different approaches in reporting compared to the prior year, DOJ reported on the amount of undisbursed funding in expired appropriations. DOC reported undisbursed balances, but could not confirm whether all of its grant-making bureaus reported expired appropriations or grant accounts. NASA officials said that the number reported in their 2011 PAR represented the amount of undisbursed balances in grant accounts that have reached their end date and are eligible for closeout. Based on this understanding of the guidance, NASA reported in its 2011 PAR that in 2009 there were about 1,650 expired grants with \$18 million in undisbursed balances.³⁴ In

³⁴NASA, *National Aeronautics and Space Administration FY 2011 Performance and Accountability Report* (Washington, D.C.: November 2011).

comparison, when reporting on amounts in expired appropriations in their previous year's PAR, NASA reported over 2,100 expired grants with \$58 million in undisbursed balances for 2009.³⁵ In its 2011 PAR, NSF reported on neither the amount of grants funded with expired appropriations nor on the amount of undisbursed balances in grant accounts that have reached their end date and are eligible for closeout. Instead, NSF reported the amount of funding that was deobligated as a result of successfully closing out grants. For example, NSF reported that in fiscal year 2011, the agency closed out a total of 18,648 grants. As a result, \$35,204,328 in undisbursed balances were deobligated and retained for adjustments to existing obligations and an additional \$5,610,546 was deobligated and returned to Treasury.³⁶ The information provided by NSF in its 2011 PAR illustrates how closing out grants allows an agency to redirect unspent funds or return the funds to Treasury as appropriate. It does not, however, provide information on the number of grants past their grant end date or the balances remaining in these grant accounts.

Consistent Reporting on Grant Closeout in Performance Reports Lacking

In our review of CFO Act agencies' annual performance reports for fiscal years 2009 to 2011, we found that systematic, agencywide information on undisbursed balances in grant accounts eligible for closeout is largely lacking in part because OMB guidance does not provide explicit instructions to agencies to track undisbursed balances for grants that are eligible for close out. Other than the four agencies receiving explicit instructions from OMB and the information reported by independent auditors, we found only one federal agency—the Environmental Protection Agency (EPA)—reported agencywide information on the timeliness of grant closeout. EPA developed an agencywide performance metric—the percentage of eligible grants closed out—in part as a response to our prior findings that the agency had a large backlog of grants in need of closeout.³⁷ In its 2011 AFR, EPA reported that it closed out 99.5 percent of eligible grants from 2009 and earlier and 93.4 percent

³⁵NASA, *National Aeronautics and Space Administration FY 2010 Performance and Accountability Report* (Washington, D.C.: November 2010).

³⁶NSF, *National Science Foundation FY 2011 Agency Financial Report* (Washington, D.C.: November 2011).

³⁷See GAO, *Grants Management: EPA Has Made Progress in Grant Reforms but Needs to Address Weaknesses in Implementation and Accountability*, [GAO-06-625](#) (Washington, D.C.: May 12, 2006).

of grants that expired in the prior fiscal year.³⁸ As part of our prior work we concluded that while EPA's performance measure did not assess compliance since it did not reflect the 180-day closeout standard, the measure was a valuable tool for determining if grants were ultimately closed.³⁹ EPA does not provide information in its AFR on the amount of undisbursed funds that remain in expired grants. While we have noted progress in EPA's recovery of funds from expired grants in our prior work, we have also observed that EPA's budget justification documents do not describe the amount of deobligated funding available for new obligations; such information could be useful to Congress because the availability of these funds could partially offset the need for new funding.⁴⁰ We found that information on timely grant close out in other agencies' performance reports was limited to sections of the performance reports prepared by independent auditors, where two agencies' auditors raised concerns related to timely grant closeout.⁴¹

Conclusions

Our analysis shows that there has been an improvement in closing out expired grant accounts with undisbursed balances in PMS since our 2008 report. Undisbursed balances in these accounts declined from roughly \$1 billion at the end December 2006 to a little more than \$794 million at the end of September 2011, despite a significant increase in annual grant disbursements through PMS during this time. However, more work needs

³⁸EPA, *U.S. Environmental Protection Agency Fiscal Year 2011 Agency Financial Report* (Washington D.C.: November 2011).

³⁹[GAO-06-625](#).

⁴⁰See GAO, *Environmental Protection Agency: Management Challenges and Budget Observations*, [GAO-12-149T](#) (Washington, D.C.: Oct. 12, 2011).

⁴¹Audits of financial statements of the 24 CFO Act agencies are required to be performed by the agency's IG or by an independent auditor as selected by the IG. Auditors are responsible for preparing an audit report, or separate audit reports, on the principal statements, internal control, and compliance with applicable laws, regulations, and governmentwide policy requirements. These reports are published as part of the agency's PAR or AFR. For issues related to timely grant closeout identified by independent auditors in agencies' performance reports in fiscal years 2009, 2010, and 2011, see HHS, *Department of Health and Human Services FY 2009 Agency Financial Report* (Washington, D.C.: November 2009), *Department of Health and Human Services FY 2010 Agency Financial Report* (Washington, D.C.: November 2010), *Department of Health and Human Services FY 2011 Agency Financial Report* (Washington, D.C.: November 2011), and DHS, *U.S. Department of Homeland Security Annual Financial Report Fiscal Year 2011* (Washington, D.C.: November 2011).

to be done to further improve the timeliness of grant closeout and reduce undisbursed balances. In our 2008 report, we found that agencies can improve their grant closeout process when they direct their attention to the issue and make timely grant closeout a high priority. Since this time, HHS has increased attention on grant closeout, and both the agency and its independent auditor have reported that progress has been made toward addressing the agency's existing backlog of grant accounts in PMS eligible for closeout. The dormant account report developed by Treasury offers further encouragement by raising agencies' awareness of undisbursed balances in inactive grant accounts in the ASAP system.

We have found that agencies can raise the internal and external visibility of the issue of undisbursed balances and improve performance by reporting on undisbursed balances in grants that are eligible for closeout in agencies annual performance reports. However, the number of agencies that have voluntarily provided this information in their performance reports is limited. We therefore reiterate our previous recommendation, not yet implemented, that OMB should instruct all executive departments and independent agencies to report on the status and resolution of the undisbursed funding in grants that have reached the grant end date in their annual performance reports, the actions taken to resolve the undisbursed funding, and the outcomes associated with these actions.

OMB's implementation of Section 537 of the Commerce, Justice, Science, and Related Agencies Appropriations Act of 2010 and subsequent legislation creates a framework for such reporting. However, interviews with agency officials and variations in agencies' responses to OMB's instructions indicate that additional clarification is needed, particularly to the definition of "expired grant accounts," if this information is to be effectively used by agency management, OMB, and Congress to address the backlog of grants in need of closeout. The definition included in guidance issued by OMB equates "expired grant accounts" with grants funded with expired appropriations and therefore includes active grant agreements still in the implementation phase for which the agency would have valid reasons to make future disbursements. By instead focusing on undisbursed balances obligated to grant agreements that have reached the end of their period of performance and are eligible for closeout, OMB could better direct agency management focus toward a subset of grants in need of more immediate attention. OMB could also better direct agency management's focus by putting an emphasis on grants that have not been closed out several years past their expiration date. As time passes,

these funds become more susceptible to improper spending or accounting as monitoring diminishes over time.

OMB's guidance currently does not address grants with no undisbursed balances remaining. The presence of tens of thousands of expired grant accounts in PMS with no undisbursed funds remaining raises concerns that these accounts are not receiving sufficient attention. Reducing the number of accounts with zero balances remaining would help ensure that administrative and financial closeout—the final point of accountability for these grants—is being completed. It would also minimize the amount agencies pay in potential fees for maintaining these accounts, which can accumulate over time.

Recommendations for Executive Action

In addition to the previous recommendation reiterated above, we recommend that the Director, OMB, take the following three actions:

- Revise the definition of “undisbursed balances in expired grant accounts” in future guidance issued to agencies, including those required to report under Section 536 of the Commerce, Justice, Science, and Related Agencies Consolidated Appropriations Act, 2012, to focus on undisbursed balances obligated to grant agreements that have reached the grant end date and are eligible for closeout, as described in this report.
- Instruct agencies with undisbursed balances still obligated to grants several years past their grant end date to develop and implement strategies to quickly and efficiently take action to close out these grants and return unspent funds to the Treasury when appropriate.
- Instruct agencies with expired grant accounts in federal payment systems with no undisbursed balances remaining to develop and implement procedures to annually identify and close out these accounts to ensure that all closeout requirements have been met and to minimize any potential fees for accounts with no balances.

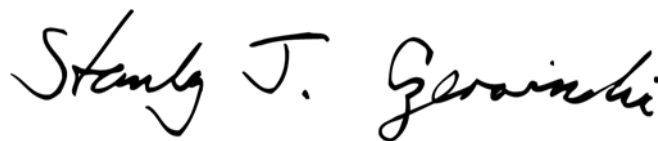
Agency Comments

We provided a draft of this report to the Administrator of the National Aeronautics and Space Administration; the Attorney General; the Director of the National Science Foundation; the Acting Director of the Office of Management and Budget; and the Secretaries of Commerce, Health and Human Services, and Treasury. OMB staff provided the following comments via e-mail: “OMB is in general agreement with GAO’s recommendation in regards to providing better guidance for agencies in the management and closeout of expired grants with undisbursed balances. We are in the process of reviewing and streamlining our grant

policy guidance to the agencies and will consider these recommendations.” The Chief Financial Officer and Assistant Secretary for Administration at DOC and the Assistant Secretary for Legislation at HHS responded with written comments, which we have reprinted in appendixes IV and V. Staff at the other agencies provided technical or clarifying comments, which we incorporated as appropriate, or had no comments.

As agreed with your offices, unless you publicly announce the contents of this report earlier, we plan no further distribution until 30 days from the report date. At that time, we will send copies to the Administrator of the National Aeronautics and Space Administration; the Attorney General; the Director of the National Science Foundation; the Acting Director of the Office of Management and Budget; and the Secretaries of Commerce, Health and Human Services, and Treasury. We will also make copies available to others upon request. In addition, the report will be available at no charge on the GAO website at <http://www.gao.gov>.

If you have any questions about this report, please contact Stanley J. Czerwinski at (202) 512-6806 or czerwinkis@gao.gov or Beryl H. Davis at (202) 512-2623 or davisbh@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. Key contributors to this report are listed in appendix VI.



Stanley J. Czerwinski
Director, Strategic Issues



Beryl H. Davis
Director, Financial Management and Assurance

Appendix I: Objectives, Scope, and Methodology

Our objectives for this report were to evaluate: (1) the amount of undisbursed funding remaining in expired grant accounts including the amounts that have remained unspent for 5 years or more and for 10 years or more, (2) issues raised by GAO and federal inspectors general (IG) related to timely grant closeout by federal agencies, and (3) what actions the Office of Management and Budget (OMB) and agencies have taken to track undisbursed balances in grants eligible for closeout.

To address the first objective, we analyzed data from two federal payment systems: the Payment Management System (PMS) administered by Department of Health and Human Services' (HHS) Program Support Center (PSC) and the Automated Standard Application for Payments (ASAP) system administered jointly by the Department of the Treasury (Treasury) and the Federal Reserve Bank of Richmond. Federal payment systems facilitate the transfer of cash payments from federal awarding agencies to grantees. Some agencies make grant payments directly to grantees using their own proprietary payment systems, while others enter into arrangements with payment systems that serve multiple agencies to make payments on their behalf. The PMS and ASAP systems were selected for review based on the following criteria:

1. These payment systems provide payment services to other federal departments and entities. In 2011, offices from 13 federal departments and other federal entities used PMS for making grant disbursements, and offices from 9 federal departments and other federal entities used ASAP for grant disbursements. See appendixes II and III for a full list of federal entities that use PMS and ASAP for payment services.
2. These payment systems account for a significant percentage of civilian federal grant disbursements. Based on fiscal year 2010 data, the most recently available at the time of our selection, PMS made about \$411 billion in grant disbursements, or 68 percent of all civilian federal grants disbursements in fiscal year 2010, and ASAP made payments of an additional \$45 billion in grant disbursements, or 7 percent of all civilian federal grant disbursements in that year. In 2011, PMS and ASAP disbursed \$415 billion and \$62 billion in federal grant funding, respectively, or 79 percent of all civilian federal grant disbursements in fiscal year 2011.

Analysis of Expired Grant Account Data from PMS

Description of PMS

PMS is a centralized grant payment and cash management system, operated by HHS's Program Support Center (PSC) in the Division of Payment Management (DPM). According to DPM, the main purpose of PMS is to serve as the fiscal intermediary between awarding agencies and the recipients of grants and contracts. Its main objectives are to expedite the flow of cash between the federal government and recipients, transmit recipient disbursement data back to the awarding agencies, and manage cash flow advances to grant recipients. PSC personnel operate PMS, making payments to grant recipients, maintaining user/recipient liaison, and reporting disbursement data to awarding agencies. Awarding agencies' responsibilities include entry of authorization data into PMS, program and grant monitoring, grant closeout, and reconciliation of their accounting records to PMS information. Awarding agencies pay PSC a service fee for maintaining accounts and executing payments through PMS. PMS continues to charge agency customers a servicing fee until an account is closed.

PMS Closeout Reports

To update our previous analysis of undisbursed balances in expired grant accounts and provide a degree of comparability, we replicated the methodology used in our 2008 report.¹ Namely, to determine the amount of undisbursed balances in expired grant accounts, we analyzed PMS data from closeout reports PSC makes available to PMS customers each quarter. These closeout reports list all expired grant accounts that, according to the data system, have not completed all of their closeout procedures. An account is considered expired in PMS if (1) the grant end date is more than 3 months old and (2) the latest date of disbursement was at least 9 months old. PMS does not close a grant account until instructed to do so by the awarding agency. For each grant account, the report includes such information as the identification number, the amount of funding authorized for the grant, the amount disbursed, and the beginning and end dates for the grant. The grant end date is a mandatory field completed by the awarding agency.

¹GAO, *Grants Management: Attention Needed to Address Undisbursed Balances in Expired Grant Accounts*, [GAO-08-432](#) (Washington, D.C.: Aug. 29, 2008).

PSC provided us with the PMS quarterly closeout report for the end of fiscal year 2011 (September 30, 2011). PSC appended to the closeout data an additional field showing the applicable number from the Catalog of Federal Domestic Assistance (CFDA) for each grant account. We used the CFDA number provided by PSC to help determine which accounts to exclude from our analysis. The purpose of these exclusions was to avoid including accounts that would distort the calculation of undisbursed funds in expired PMS grant accounts and to provide comparability with our previous findings. Our criteria for excluding accounts were consistent with the methodology we used in our 2008 report.² We excluded a total of 115 grant programs—both HHS and non-HHS—based on the following:

- We excluded accounts from our analysis that did not have a defined end date. The purpose of the PMS closeout report is to alert awarding agencies of accounts in PMS that remain open after their posted end date. If a grant does not have a defined end date, such as the Temporary Assistance for Needy Families, then HHS staff consider the PMS closeout report merely as a reminder to the awarding agency of the open account and that PMS continues to charge fees on this open account.³
- We excluded expired accounts associated with the following HHS block grant programs: Community Mental Health Services Block Grant, Preventive Health and Health Services Block Grant, Substance Abuse and Preventive Treatment Block Grant, Maternal and Child Health Services Block Grant, Social Services Block Grant, Low Income Housing Energy Assistance Block Grant, and Community Services Block Grant. An independent audit of PMS stated that (1) the funds for these block grants continued to be available to the grantees

²[GAO-08-432](#).

³We did not exclude grant accounts for similar programs or HHS block grants that were identified in the CFDA as Recovery Act related, because, to achieve the purposes of the Act, Congress explicitly directed Federal departments and agencies to expend the funds made available in this Act as quickly as possible consistent with prudent management. On September 15, 2011, the Director of OMB further directed agencies to “accelerate the spending of remaining Recovery Act funds in discretionary grant programs (including formula grant programs that received discretionary funding in the Recovery Act), consistent with existing laws and regulations and programmatic objectives.” If those funds have not been spent by September 30, 2013, agencies have been instructed to reclaim them to the extent permitted by law.

- until the obligation/expenditure period expired, and (2) traditional financial reporting requirements do not apply to these programs.⁴
- We excluded grant accounts with a negative undisbursed balance, meaning that total payments to the grantee exceed the authorized amount. According to PSC officials, an overadvancement on a PMS account can occur if the awarding agency reduces a grant's authorization limit below the amount already paid to the grantee because the awarding agency determines that the grant recipient is entitled to a lesser amount than the agency originally authorized. Agencies use their accounting systems to send authorization transactions to PMS. If an agency's authorization transaction will create an overadvanced account in PMS, the transaction is sent to an exception file for review. The agency must override the exception to transmit an authorization transaction that causes an overadvanced account. According to officials from PSC, agencies will do so (1) if they want PSC to initiate a collection action to recover the overadvanced amount or (2) for grantees with multiple grant accounts in PMS that are "pooled," to redistribute charges to open grant accounts to correct the overadvanced grant.
 - We excluded accounts that were excluded in our 2008 analysis because the CFDA number and program description had been deleted from the Catalog before 2000 (the last Catalog entry would have been in 1999) or we could not find any information on the CFDA number either in CFDA or in the CFDA Historical Index, which provides the history of all CFDA numbers.
 - We excluded accounts if we could not associate them with a grant program. For instance, we found some PMS accounts that, based on the most recent CFDA, were for nongrants.

We included expired accounts that were associated with grants or cooperative agreements that had a time limit for spending the funds.⁵ We also included accounts for letters of credit. According to PSC officials, almost all accounts in PMS are grants or cooperative agreements with the

⁴HHS, Division of Payment Management, *Report of Independent Auditor on Controls Placed in Operation and Tests of Operating Effectiveness for the Payment Management System (PMS), for the Period October 1, 2005 to June 30, 2006* (Washington, D.C.: August 2006).

⁵According to HHS officials, some no-cost extensions that extend the grant period without changing the authorized amount of funding may not be reflected in PMS data. As a result, data may include some grants that have received an extension and are therefore not eligible for closeout.

exception of a few letters of credit. The recipient of a letter of credit may not be required to meet the same performance reporting requirements as the recipient of a grant, but, as with grants, they are required to meet certain reporting requirements, such as submitting a Federal Financial Report (SF-425). Letters of credit, according to PSC officials, also have end dates in PMS comparable to grants and follow the same the same closeout procedures in PMS. PSC informed us that it would not be able to exclude letters of credit from the data they provide us.

For reporting purposes, we separated data into two sets of expired grant accounts: (1) one set consisted of expired accounts for which all of the funds made available had been disbursed and (2) a second set of accounts that included expired accounts with a positive undisbursed balance. To obtain an estimate of the total amount of fees paid for maintaining accounts with no undisbursed balances remaining, we requested data from PSC for all accounts that appear on the year-end fiscal 2011 closeout report (i.e., as of September 30, 2011) with a unique accounting status symbol indicating that no undisbursed balances remained and that the awarding agency only needed to submit the final closeout code to PSC to finalize grant closeout. According to data provided by PSC, PMS users were charged a total of roughly \$173,000 per month to maintain more than 28,000 expired grant accounts with no undisbursed balances remaining listed on the year-end closeout report. Roughly \$137,000 of this was charged to HHS operating divisions. The closeout report provided by PSC does not provide information on when the authorized funds in these accounts were fully disbursed. However, more than 9,000 of these grants were more than 3 years past their end date. For illustrative purposes, we multiplied the monthly fees for these accounts by 12 to obtain a rough approximation of what the total annual fees charged for these accounts would be assuming that all accounts with no undisbursed balances remaining balance as of September 30, 2011, had a zero dollar balance for the entire fiscal year.

Reliability Testing of PMS Closeout Data

To test the reliability of PMS closeout data, we (1) reviewed existing documentation related to PMS, including the most recent audit of the design and operating effectiveness of the system's controls, (2) interviewed officials responsible for administration of the database on data entry and editing procedures and the production of closeout reports, and (3) conducted electronic testing for obvious errors in completeness and accuracy. An independent auditor assessed internal controls for PMS

in 2011 and reported that, with one exception, the controls were suitably designed to provide reasonable assurance the control objectives would be achieved if the controls operated effectively.⁶ We discussed with HHS officials data entry and editing procedures, the production of closeout reports, and any known limitations associated with the data. According to HHS officials, no-cost extensions that extend the grant period without changing the authorized amount of funding may not be reflected in PMS data. As a result, PMS closeout reports may include grants that have received an extension and are therefore not eligible for closeout. No obvious errors in completeness and accuracy were identified during electronic testing. After conducting these assessment steps, we found that the PMS closeout data were sufficiently reliable for the purposes of this report.

Analysis of Dormant Grant Account Data from ASAP

Description of ASAP System

ASAP is an electronic payment system implemented jointly by the Department of the Treasury's (Treasury) Financial Management Service (FMS) and the Federal Reserve Bank of Richmond. ASAP allows grantee organizations receiving federal funds to draw from accounts preauthorized by federal agencies. In addition to grants, ASAP is also used to make payments to financial agents that are performing financial services for FMS and other federal agencies. For example, ASAP can be used for reimbursing financial institutions for payments made by federal agencies through debit cards. Agencies establish and maintain accounts in ASAP to facilitate the flow of funds to organizations. Unlike PMS grant accounts, which represent an individual grant agreement between a federal agency and grantee, accounts in ASAP can represent multiple grant agreements between an awarding agency and a grantee. Individual grant agreements within these accounts may have reached their grant

⁶HHS, *Description of the U.S. Department of Health & Human Services, Program Support Center Financial Management Service Division of Payment Management Grants Management System For the Period October 1, 2010 through June 30, 2011* (Washington D.C.: August 2011). This was a Statement on Standards for Attestation Engagements No. 16 (SSAE 16) audit conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The exception noted by the independent auditor related to access by a program developer to install certain changes in the PMS program.

ASAP Dormant Account Reports

end date, while others may not have. Therefore, the ASAP system cannot be used to determine which individual grants are eligible for closeout.

FMS officials began issuing “dormant account reports” to all ASAP users in 2009 as a response, Treasury officials told us, to the findings in our 2008 report that using federal payment systems to track undisbursed balances in grant accounts can help reduce unused funding.⁷ Dormant account reports provide information on all inactive ASAP accounts, including accounts for nongrant programs. For the purposes of this report, our focus was on accounts for grant programs only. The first dormant account report focused only on undisbursed balances in accounts where the grantee had not drawn down funds for a prolonged period of time. However, the criteria used by FMS for generating dormant account reports have evolved over time to improve the usability of the reports. For the dormant account report provided to us for the end of fiscal year 2011, accounts with undisbursed balances were included if: (1) the grantee had not drawn down funds for at least 2 years, and (2) the awarding agency had made no changes to the authorized amount of funding available for at least 2 years. For each grant account, the report includes information such as the identification number, the account balance, the cumulative amount of funding authorized to the grantee, and the date of the last payment request. The grant account end date is an optional field completed by the awarding agency. FMS did not include accounts with no balance remaining on this report, but has encouraged agencies to close these accounts if they are no longer active. FMS does not charge users for these accounts or for other payment system services provided by the ASAP system and instead receives appropriations to cover the cost of its operations.⁸

According to FMS officials, dormant account reports are generally provided twice a year, allowing agencies to track progress on addressing inactive accounts. The first report lists all of the dormant accounts as of a specific date, and the second report shows agencies’ progress toward addressing dormant accounts included on the first report. For this report,

⁷[GAO-08-432](#).

⁸For fiscal year 2011, Congress appropriated \$233,253,000 to FMS for salaries and expenses. Since fiscal year 1998, Congress has also provided Treasury with permanent indefinite appropriations for sums needed to reimburse the Federal Reserve Banks for services performed as fiscal agents of the United States, including expenses incurred related to the ASAP system.

we reviewed the most recently available dormant account report for the end of fiscal year 2011.⁹ This report listed all ASAP accounts that have not had any activity (i.e., no payment requests and no funding added or removed) since September 30, 2009.

Reliability Testing of ASAP
Dormant Account Data

To test the reliability of ASAP dormant account report data, we: (1) reviewed existing documentation related to the ASAP system, (2) interviewed officials responsible for administration of the database on data entry and editing procedures and the production of dormant account reports, and (3) conducted electronic testing for obvious errors in completeness and accuracy. We discussed with FMS officials internal control testing and other quality review procedures for the ASAP system as well as dormant account reports. We also discussed missing data in certain fields on the dormant account report identified during electronic testing to ensure that omissions did not indicate potential errors. After conducting these assessment steps, we found that the data from dormant account reports were sufficiently reliable for the purposes of this report.

Review of Audits by GAO
and Federal IGs and of
Agencies' Performance
and Accountability
Reports Issued Since 2008

To address our second objective, we collected and reviewed audit reports issued by GAO from September 2007 to May 2011 and by the offices of inspectors general at the 24 Chief Financial Officers Act (CFO Act) agencies from January 2008 to June 2011, which since the issuance of our 2008 report, had focused on undisbursed funds in expired accounts. We reviewed IG reports from the 24 CFO Act agencies in order to provide coverage of the major grant-making agencies and because this approach updated the review we performed as part of the work on our 2008 report, which included IG reports issued between 2000 and 2006. Based on our review for this report, we identified IG reports on HHS, Departments of Energy and Homeland Security, and the Environmental Protection Agency with findings of weaknesses related to undisbursed grant balance, or grant closeout. We then interviewed IG officials at these four agencies to discuss their findings and any plans to conduct future audits on undisbursed grant funds. We also interviewed IG officials from four additional agencies—the Department of Commerce (DOC), Department

⁹This report was run on October 31, 2011. To familiarize ourselves with the evolving process FMS was developing to generate the dormant account reports, we also reviewed the first dormant account report provided to ASAP system users dated January 2009, a follow-up to this initial report dated April 2009, and a dormant account report dated July 2011. Because the criteria for determining which accounts are dormant have changed over time, it is not possible to compare information on dormant account reports from different reporting cycles.

of Justice (DOJ), National Aeronautics and Space Administration (NASA), and National Science Foundation (NSF)—where agency management had reported on undisbursed balances in expired grant accounts in the agencies' 2010 and 2011 annual performance reports, as described below. Finally, we followed up with each of the IG Offices at the remaining 16 CFO Act agencies via e-mail to ensure we had obtained any relevant reports and to determine if they had any plans to conduct future audits related to undisbursed grant funds, or grant closeouts. As a result of this follow up, we identified two additional IG reports related to timely grant closeout at the Departments of Agriculture and Labor.

To analyze actions agencies have taken to track undisbursed balances in expired accounts, we reviewed annual performance reports for all 24 agencies required to issue audited financial statements under the CFO Act from fiscal years 2009 to 2011.¹⁰ The 24 CFO Act agencies were responsible for the vast majority—more than the 95 percent—of grant programs identified in the CFDA database as of June 2, 2011. We performed a keyword search to determine if the agency, its office of inspector general, or the independent auditor had reported on undisbursed balances in expired grant accounts or the timely closeout of grant accounts. We also reviewed the Performance and Accountability (PAR) and Agency Financial Reports (AFR) of four entities receiving funds under the Commerce, Justice, Science, and Related Agencies Act provision of P.L.111-117 for compliance with relevant reporting requirements in Section 537.

Review of Relevant OMB Circulars and Federal Regulations

To address our third objective, we reviewed relevant OMB guidance and regulations from federal grant-making agencies. Specifically, we reviewed the OMB Circulars No. A-102, *Grants and Cooperative Agreements with State and Local Governments*, and No. A-110, *Uniform Administrative Requirements for Grants and Other Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations*. Each federal agency that awards and administers grants and cooperative agreements that are subject to the guidance in Circulars A-102 and A-110 is responsible for issuing regulations that are consistent with the circulars,

¹⁰The Government Management Reform Act of 1994 amended the requirements of the Chief Financial Officers (CFO) Act of 1990 by requiring, among other things, the annual preparation and audit of organizationwide financial statements of 24 executive departments and agencies.

unless different provisions are required by federal statute or are approved by OMB. We reviewed regulations from federal grant-making agencies that have codified governmentwide grants requirements, as identified on OMB's website, to determine (1) the length of time prescribed for closing out federal grants and (2) the length of time federal grantees are required to retain records related to grant awards.¹¹

To identify federal governmentwide guidance related to federal agency performance reporting, we reviewed OMB Circular No. A-11, *Preparation, Submission and Execution of the Budget* and Circular No. A-136, *Financial Reporting Requirements*. We also reviewed two memoranda related to tracking undisbursed balances in expired grant accounts issued by OMB in October 2010 and August 2011 to select agencies receiving funding under the Commerce, Justice, Science, and Related Agencies appropriations act, as required by law.¹² We interviewed officials from OMB to discuss the purpose and scope of their guidance and officials at the four agencies that reported undisbursed balances in expired grant accounts in 2010 and 2011 annual performance reports—DOC, DOJ, NASA, and NSF—to discuss their implementation of OMB's instructions.

¹¹See http://www.whitehouse.gov/omb/grants_chart/. This list includes regulations from 28 federal departments and independent agencies.

¹²Pub. L. No. 111-117 and Pub. L. No. 112-10.

Appendix II: Federal Agencies Using the Payment Management System (PMS) for Grant Payments (as of June 2011)

Department of Health and Human Services

Health Resources and Services Administration
Food and Drug Administration
National Institutes of Health
Centers for Disease Control and Prevention
Substance Abuse and Mental Health Services Administration
Agency for Healthcare Research and Quality
Indian Health Service
Centers for Medicare & Medicaid Services
Administration for Children and Families
Administration on Aging

Department of Agriculture

Food Safety and Inspection Service
National Institute of Food and Agriculture
Agriculture Research Service
Forest Service
Office of Advocacy Outreach

Department of Homeland Security

Federal Emergency Management Administration
Bureau of Customs and Border Protection
Immigration and Customs Enforcement
Office of the Chief Procurement Officer

Department of the Interior

U. S. Fish and Wildlife Service
National Park Service

Department of Labor

Mine Safety and Health Administration
Bureau of Labor Statistics
Occupational Safety and Health Administration
Veterans Employment and Training
Employment and Training Administration

Department of State

Bureau of Educational and Cultural Affairs
Bureau of Educational and Cultural Affairs Fulbright Commission, Europe
Bureau of Educational and Cultural Affairs Fulbright Commission,
Western Hemisphere
Bureau of Educational and Cultural Affairs Fulbright Commission, East
Asia
Bureau of Educational and Cultural Affairs Fulbright Commission, Near
East/South Asia
Bureau of East Asian and Pacific Affairs
Bureau of Oceans and International Environmental Scientific Affairs
Bureau of Democracy, Human Rights and Labor
Bureau of International Narcotics and Law Enforcement Affairs
Bureau of Administration, Office of Overseas Schools
Bureau of Political-Military Affairs, Office of Humanitarian Demining
Programs
Bureau of Population, Refugees and Migration
Bureau of Diplomatic Security
Bureau of European and Eurasian Affairs
Bureau of Human Resources
Bureau of Intelligence and Research
Bureau of Near Eastern Affairs
Bureau of Nonproliferation
Bureau of Nonproliferation, Office of Export Control Cooperation
Bureau of International Security and Nonproliferation and Disarmament
Fund
Bureau of South Asian Affairs
Bureau of African Affairs
Office of International Information Programs
Bureau of Economic and Business Affairs
Bureau of Western Hemisphere Affairs
Bureau of Public Affairs

Department of the Treasury

Internal Revenue Service
Office of the Fiscal Assistant Secretary

Department of Veterans Affairs

National Cemetery Administration
Veterans Health Administration

Health care for Homeless Veterans
Supported Services for Veteran Families

Corporation for National Service

Executive Office of the President

Office of National Drug Control Policy

National Aeronautics and Space Administration

Ames Research Center
Dryden Flight Research Center
Glenn Research Center
Goddard Space Flight Center
Headquarters
Johnson Space Center
Kennedy Space Center
Langley Research Center
Marshall Space Flight Center
Stennis Space Center

Small Business Administration

Office of Women's Business Ownership

United States Agency for International Development

Agency for International Development

Appendix III: Federal Agencies Using the Automated Standard Application for Payments (ASAP) System for Grant Payments (as of June 2011)

Department of Agriculture

Food and Nutrition Service
National Institute of Food and Agriculture

Department of Commerce

Economic Development Administration
International Trade Agency
Minority Business Development Agency
National Institute of Standards
National Oceanic and Atmospheric Administration
National Telecommunications and Information Agency

Department of Energy

Environmental Protection Agency

General Services Administration

Department of the Interior

Bureau of Reclamation
Bureau of Land Management
Office of Surface Mining
Minerals Management Service
U.S. Geological Survey

Library of Congress

Nuclear Regulatory Commission

Social Security Administration

Appendix IV: Comments from the Department of Commerce



UNITED STATES DEPARTMENT OF COMMERCE
Chief Financial Officer
Assistant Secretary for Administration
Washington, D.C. 20230

March 20, 2012

Mr. Stanley J. Czerwinski
Director, Strategic Issues
United States Government Accountability Office
441 G Street, NW
Washington, DC 20548

Dear Mr. Czerwinski:

Thank you for the opportunity to comment on the draft report from the U.S. Government Accountability Office (GAO) entitled, *Grants Management: Action Needed to Improve the Timeliness of Grant Closeouts by Federal Agencies* (GAO-12-360).

We generally concur with the report's findings and recommendations. The Department of Commerce (DOC) is making a continuing and aggressive effort to reduce the backlog of expired awards which have not been closed and to deobligate undisbursed funds in these awards. We can report that substantial progress has been achieved in the past several years. We will continue to use every tool available, including the use of contractual support for award closeout, to sustain the progress made to date.

As indicated on page 25 of the GAO Draft Report, DOC is required by Section 537 of the *Commerce, Justice, Science, and Related Agencies Appropriations Act of 2010* are required to track undisbursed balances in expired grant accounts and report this data in our Performance and Accountability Report (PAR) to Congress. DOC has reported this data in its 2010 and 2011 PAR and will do so in the 2012 PAR. Additionally, the DOC Grants Council continues to include regular reports from grant making bureaus on the status of closeout of expired awards and deobligation of undisbursed funds in the accounts of these awards. DOC is developing a process of more extensive oversight of this issue and grants administration generally from the Department level.

The Grants Council and senior Department management continue to work with DOC bureaus to develop and implement strategies to address award closeout and deobligation of undisbursed funds in expired awards.

If you have questions regarding this response, please contact Barry E. Berkowitz in the Office of Acquisition Management at (202) 482-4248.

Sincerely,



Scott B. Quehl
Chief Financial Officer and
Assistant Secretary for Administration

Appendix V: Comments from the Department of Health and Human Services



DEPARTMENT OF HEALTH & HUMAN SERVICES

OFFICE OF THE SECRETARY

Assistant Secretary for Legislation
Washington, DC 20201

MAR 20 2012

Stanley Czerwinski, Director
Strategic Issues
U.S. Government Accountability Office
441 G Street NW
Washington, DC 20548

Dear Mr. Czerwinski:

Attached are comments on the U.S. Government Accountability Office's (GAO) report entitled, "Grants Management: Action Needed to Improve the Timeliness of Grant Closeouts by Federal Agencies" (GAO-12-360).

The Department appreciates the opportunity to review this draft section of the report prior to publication.

Sincerely,

A handwritten signature in black ink that reads "Jim R. Esquea".

Jim R. Esquea
Assistant Secretary for Legislation

Attachment

cc: Susan Ragland, Director
Financial Management and Assurance

GENERAL COMMENTS OF THE DEPARTMENT OF HEALTH AND HUMAN SERVICES (HHS) ON THE GOVERNMENT ACCOUNTABILITY OFFICE'S (GAO) DRAFT REPORT ENTITLED, "GRANTS MANAGEMENT: ACTION NEEDED TO IMPROVE THE TIMELINESS OF GRANT CLOSEOUTS BY FEDERAL AGENCIES" (GAO-12-360)

The Department appreciates the opportunity to comment on this draft report. HHS concurs with the overall findings and recommendations of GAO, and offers the following comments:

HHS acknowledges that while additional work is needed to improve the process for closing out expired grant accounts with undisbursed balances, the Department has made significant progress in focusing additional attention on the importance of grant closeouts and in reducing the amount of undisbursed grant balances since GAO's report in December 2006. According to HHS' Payment Management System data, 60,722 HHS grants were eligible for closeout during Fiscal Year 2011. Of this total, 25,799 or 42.5% were closed.

Beyond the statistics, HHS is proud of its efforts to fully engage the HHS grants community in tackling this challenge by facilitating information sharing, heightening senior management attention and action, and bolstering the Department's grant closeout policies. HHS' recent key actions include the following:

- In February 2011, in response to an identified need to improve financial controls, monitoring, and business procedures to effectively address undelivered orders, unobligated funds, and grants and contract closeouts, HHS established an internal team, led by the Office of Grants and Acquisition Policy and Accountability (OGAPA), to coordinate a Department-wide response to strengthen financial controls and accelerate the number of grant and contract closeouts. The Accelerated Closeout Team (ACT) for Grants reviewed and analyzed Payment Management System data from previous years and used the data to develop a list of eligible grants, focusing specifically on those from Fiscal Year 2008. By the end of 2011, ACT efforts had resulted in the deobligation of \$116 million from 2,700 grant awards.
- Payment Management System staff provides HHS agencies with a Quarterly Closeout Report and a list of closeout transactions on grants from Fiscal Year 2005 and prior (grants that are funded by a cancelled appropriation) for agency review. The reports are also made available in the Payment Management System. Furthermore, the staff routinely communicates with Financial Officers and Grant Management Officers on grant closeout activities, ensuring that agencies understand the quantity of grants and dollar values that could be closed-out through agency review and action.
- HHS uses a strategic approach to target for closeout those grants that are several years past their expiration date, as well as those for which the grantee has not expended large amounts of funding (i.e. \$1 million or more) by the specified grant end date.
- At the Department level, HHS continues to monitor grant closeout activity and monitors agency activities to identify additional areas requiring specific attention.

- Finally, HHS is updating its existing grants administration procedures, including drafting a Department-wide grants closeout policy, to improve the grant closeout process going forward.

Appendix VI: GAO Contact and Staff Acknowledgments

GAO Contacts

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Staff Acknowledgments

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