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Report to the Chairman, Subcommittee on VA, HUD, and Independent Agencies, Committee on Appropriations, House of Representatives

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ENVIRONMENTAL PROTECTION

EPA's Progress in Closing Completed Grants and Contracts

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The Honorable Jerry Lewis
Chairman, Subcommittee on VA, HUD,
and Independent Agencies
Committee on Appropriations
House of Representatives

Dear Mr. Chairman:

The Environmental Protection Agency (EPA) has a primary mission to protect human health by safeguarding the natural environment—air, water, and land. EPA carries out a large part of its mission by awarding grants and contracts to states, public and private entities, and other federal agencies. More than 70 percent of EPA's budget is used to award grants[1] and contracts. Once a grant or contract is completed or terminated and once the applicable budget or project period has expired, the agency must determine if the required work was completed and then close out the project, which includes making any final payments due the recipient. One of the primary purposes of closing out grants and contracts is to ensure that any unliquidated obligated funds are recovered and used for environmental programs, as permitted by statute. The unliquidated funds from completed grants and contracts represent millions of dollars that potentially could be recovered, deobligated, and used to provide EPA with additional resources needed to fund other environmental programs. The timely closeout of grants and contracts is also an important financial management practice to ensure that the terms of the contracts and grants are accomplished.

The timely closeout of inactive grants and contracts—those completed grants and contracts whose required time period for closeout has expired—is a long-standing management problem for EPA. The agency's untimely grant closeout activities and insufficient oversight of nonconstruction grants were identified as material weaknesses in the agency's Fiscal Year 1997 Integrity Act Report to the President and Congress. Also identified as a separate material weakness was the untimely closeout of construction grants for wastewater treatment facilities. Government entities were provided with these grants to improve water quality. In 1994, EPA's Office of Inspector General reported that a significant number of inactive contracts needed to be closed out. EPA has

[1]In this report, "grants" include both grants and cooperative agreements. Grants provide organizations with financial assistance to carry out programs without substantial federal involvement. Cooperative agreements provide financial assistance with substantial federal involvement.

developed several initiatives to reduce the number, or backlog, of inactive grants and contracts requiring closeout.

This report responds to your request that we (1) identify EPA's efforts to close out inactive grants and contracts; (2) identify the progress that EPA has made in reducing the number of inactive grants and contracts, identify the number of remaining inactive grants and contracts, and identify the dates by which they are expected to be closed out; and (3) determine the amount of unliquidated obligations for inactive grants and contracts.

To respond to these objectives, we reviewed documents, interviewed EPA officials, and reviewed a random sample of grant and contract files. We also analyzed EPA's automated data files to identify the amount of unliquidated obligations for inactive grants and contracts.

Results in Brief

Over the last 8 years, EPA has taken several initiatives to reduce the backlogs of inactive grants and contracts needing closeout. In 1992, EPA developed a policy specifying procedures for closing out nonconstruction grants, and in 1998, the agency developed a strategy for eliminating the existing backlog of inactive nonconstruction grants and preventing a future backlog. However, closeout procedures and strategies for nonconstruction grants were not consistently followed, and strategies at the regional level frequently did not include specific actions for implementation. EPA also developed automated systems to improve the monitoring of the nonconstruction grant closeout process. In 1990 and 1997, EPA developed strategies to reduce the backlog of wastewater treatment construction grants. In fiscal year 1994, EPA established goals for closing out a specific number of inactive contracts.

EPA has made significant progress in closing out inactive grants and contracts, but a considerable number remain to be closed. In 1996, the agency had a backlog of nearly 18,000 nonconstruction grants, but by June 1998, the backlog was reduced to approximately 4,100. EPA estimated in 1996 that the backlog of nonconstruction grants would be eliminated by July 2000. With closeouts progressing at the current rate, it is likely that this goal will be attained. The number of inactive wastewater treatment construction grants needing closeout was about 500 as of March 1998—reduced from about 5,900 at the end of fiscal year 1990. While the construction grant backlog was initially projected to be eliminated by the end of fiscal year 1997, this goal was not attained, and in December 1996, EPA revised its projection to eliminate the backlog by

2002. Recent estimates from EPA's offices implementing the closeout strategy for construction grants indicate that this goal is unlikely to be attained. In March 1993, EPA had approximately 2,000 inactive contracts needing closeout, and by August 1998, that number had been reduced to 1,028. Many of the remaining contracts are likely to be more difficult to close out because they are old (37 percent have been inactive for 5 years or more) or are of a type that requires additional documentation to close out. Therefore, it is questionable whether EPA can sustain the closeout progress made in the past.

Significant amounts of unliquidated obligations remain for inactive grants and contracts and could potentially be allocated to other EPA projects and programs. As of June 30, 1998, inactive nonconstruction grants and contracts accounted for approximately $428.9 million in unliquidated obligations. Construction grants had unliquidated obligations of about $183.2 million as of March 30, 1998. Together, these unliquidated obligations total $612.1 million, and for about $423.8 million of this total amount, there are no statutory time restrictions on the use of funds. Therefore, a large portion of these funds is potentially available for recovery and could be used for other approved projects.

Background

EPA relies extensively on states, public and private entities, and other federal agencies to implement most federal environmental programs by awarding grants and contracts. The administration of these grants and contracts has been primarily delegated to EPA's Grants Administration Division and Office of Acquisition Management. The Grants Administration Division's grant management functions are performed through EPA's 10 regional Grants Management Offices and two Grants Operation Branches in Washington, D.C. Three Office of Acquisition Management contracting offices, located in Research Triangle Park, North Carolina; Cincinnati, Ohio; and Washington, D.C., perform most of the agency's contracting activities.

The closeout of federal grants and contracts is required within specified time periods after the grants and contracts are completed or terminated. EPA's Final Closeout Policy for Assistance Agreements establishes the agency's policy for closing out all completed grants. The grants addressed in this policy include nonconstruction grants, such as grants to states for conducting air quality monitoring activities or grants to universities for conducting environmental research. Completed nonconstruction grants should be closed out within 180 days after all of their terms and conditions

have been satisfied. Construction grants are used for designing and constructing wastewater treatment facilities to improve water quality in specific geographical areas. The required closeout time frame for construction grants varies, depending on the last grant action (e.g., final audit resolution, project returned unaudited by the Office of Inspector General, final debt collection, or forgiveness or dismissal of debt). Generally, the closeout for construction grants should begin within 6 months of the last grant action.

Contracts are used by EPA for obtaining goods and services, such as the services of contractors who remove hazardous waste at abandoned industrial sites. The Federal Acquisition Regulation sets the time standards for closing out completed contracts. These standards, which depend on the nature of the contract, range from 6 to 36 months after the physical completion of the contract. In addition to the Federal Acquisition Regulation, EPA refers to its Acquisition Handbook in implementing the agency's closeout procedures for managing contracts. The regulations and handbook provide for uniform and systematic procedures for promptly closing out completed contracts. Closeout actions may begin when a contract is physically completed, which occurs when the contractor delivers all goods or performs all services as required. A contract is also considered complete when EPA gives the contractor notice of complete contract termination.

A significant number of inactive grants and contracts were not closed out in a timely manner and grew into a significant work backlog. In 1996, there were nearly 18,000 inactive nonconstruction grants requiring closeout, and at the end of fiscal year 1990, there were 5,860 construction grants requiring closeout. In 1994, EPA's Office of Inspector General reported that approximately 2,000 inactive contracts required closeout.

EPA Has Taken Several Actions to Close Out Inactive Grants and Contracts

EPA has taken an aggressive approach to reducing the backlogs of inactive grants and contracts awaiting closeout. During the past 6 years, EPA has implemented several initiatives to address these backlogs and avert future ones. For example, EPA has developed automated systems to monitor the closeout process and streamlined closeout procedures to avoid unnecessary delays. These initiatives generally involved headquarters-developed strategies that required implementation by other organizational units. These units are in EPA's regional grants management or contracting offices that have primary responsibility for closing out the inactive grants and contracts. The initiatives vary in terms of scope and

length of time, but they all attempt to focus management's attention on the issue of closing out inactive grants and contracts. The agency has developed a strategy for eliminating the backlog of nonconstruction grants and preventing a future backlog. A separate strategy was developed to reduce the backlog of wastewater treatment construction grants that were not closed out.

While EPA has devoted considerable effort and resources to these initiatives, the closeout requirements and strategies that it developed have not been consistently implemented. While reviewing randomly selected files, we found that closeout procedures were not followed at times and that the strategies to avert a future backlog of grants requiring closeout were not implemented as required. For example, notification letters to alert grantees of the required reports for the closeout process were not always sent at the required intervals, and closeout strategies developed at the regional offices did not specifically describe how the plans for regional strategies would operate. As a result, improvements in the closeout process were not fully realized.

EPA Has Taken Efforts to Reduce the Number of Nonconstruction Grants Requiring Closeout

EPA has undertaken several significant efforts to reduce the number of inactive nonconstruction grants that require closeout. To clarify and emphasize closeout requirements for grants, EPA, in 1992, issued a policy—the Final Closeout Policy for Assistance Agreements—to all EPA organizations that were responsible for closing out grants. This document sets forth the agency's policy for closing out completed grants for all EPA programs. To ensure the timely closeout of grants, the policy requires that the agency's offices and grant recipients take certain actions within specified time frames. These time frames include those for agency offices to obtain required documents from grant recipients and take actions to complete closeouts. For example, 90 days before a grant ends, EPA is required to notify the grant recipient of the closeout requirements.

The 1992 policy specifies that completed grants should be closed out within 180 days after all of their terms and conditions have been satisfied. For example, one grant that we reviewed, made to a Georgia county organization for providing environmental information to teachers, was completed in January 1996 and was closed in May 1996 when the organization received information that the program had been conducted as described in the project plan and that other terms of the grant were fulfilled. To ensure the timely submission of required documents showing that a grant's conditions have been satisfied, the 1992 policy contains a

schedule for sending notification letters to the grant recipient requesting these documents. For example, a notification letter that provides instructions and lists the documents that the recipient must submit as a part of the closeout process should be mailed 90 days prior to the grant's ending date. Subsequent notification letters are required if the documents have not been received.

EPA also implemented a policy in January 1998 to expedite the closeout of grants that expired prior to October 1, 1990. This policy provided that EPA could request required documents for several grants from the same grantee and that if the documents were not available or the grantee was no longer in existence, the grants could be closed without the required documents consistent with EPA's regulations. To avert a future grant backlog, the agency developed a strategy that includes identifying the required closeout documents for individual grants before the grants are awarded, requiring each grants management office to develop a closeout strategy, and streamlining closeout procedures to improve the effectiveness of the closeout process.

Other ongoing initiatives taken by EPA include developing a pending grants closeout database to improve and track closeout information for EPA's headquarters program and grants management offices, pilot testing an automated notification system to provide EPA with information on required reports for closing out inactive grants, and tracking and monitoring grants by their required closeout dates.

Closeout Procedures and Plans for Nonconstruction Grants Were Not Consistently Followed or Implemented

EPA did not always follow its procedures when closing out nonconstruction grants. Grants were closed out without the information needed to determine whether their objectives were accomplished or whether expenditures were made according to plans and requirements. For example, EPA's closeout procedures require that the grant project officer certify that the project has been completed in accordance with the conditions of the grant award. During our review of 15 randomly selected grant files, we found that only 2 files showed evidence that the final certifications were made by the project officers.[2] In addition, a follow-up letter requesting required reports was sent to the grant recipient for only one file. Appendix I contains additional information on the results of our file reviews.

[2]The selected files were from three locations—Chicago, Illinois; Atlanta, Georgia; and Washington, D.C.—and were from a universe of grants that were closed out from 1993 through 1998. The results of this sample are not projectable to the universe of closed grants.

EPA also closed out a number of pre-1990 inactive grants without required documentation by using its January 1998 policy to expedite the closeout of older grants. Agency officials could not identify the number of grants that were closed out under this policy. The implementation of the policy resulted in deviations from the agency's closeout procedures that might not have been needed if the grants had been closed out in a timely manner. Deviations from EPA's closeout procedures were attributed to such factors as EPA's not having received the final certification of a project's completion from the project officer or EPA's missing some required closeout reports (e.g., the final financial status report or federally owned property report). EPA officials cited these factors as some of the primary impediments they encountered when closing out the older grants.

The strategy to avert a future backlog was also not consistently implemented. The regional grants management offices were required to prepare individual plans for averting a backlog, but our review of these plans showed that most generally restated the 1992 final closeout policy. As a result, the issues facing individual grants management offices were not addressed. Some submitted plans provided no assurance that another backlog would be averted because they lacked specific guidance on how they would operate. For example, the majority of the plans did not identify a specific strategy or methodology that would be used to accomplish closeout goals, and some did not contain any closeout strategy. Additional information on the lack of follow-through on closeout procedures or plans by EPA is found in appendix I.

Strategies Have Not Resulted in the Closeout of All Construction Grants

EPA has developed two closeout strategies for construction grants during the past 8 years. The objectives of the first strategy, developed in 1990, were not attained, and actions called for in the second strategy, developed in 1997, were not fully implemented. The construction grants program provided grants to municipalities for individual projects to improve water quality. Fiscal year 1990 was the final year that funding was authorized for the program. At the end of that year, 5,860 grant projects totaling $34 billion were yet to be completed and closed out. After 1990, state revolving funds were to provide loans for community wastewater treatment facilities.[3] To close out these grant projects, in November 1990, EPA developed a closeout strategy that contained eight action initiatives to expedite the closeout process. The plan had a goal of closing out all grants

[3]In the 1987 amendments to the Federal Water Pollution Control Act, also known as the Clean Water Act, the Congress authorized the creation of state revolving funds. The federal government provides annual grants for states to help capitalize their revolving funds, which are used to make loans to local governments and others to improve water quality.

by September 30, 1997. If all the initiatives had been implemented successfully, a substantial portion of the plan could have been completed by fiscal year 1996, and project audits[4] and closeouts would have occurred shortly thereafter to reach the goal for fiscal year 1997. This goal presumed that EPA's Office of Inspector General would take the steps necessary to eliminate the audit backlog and accelerate the audit process. Completed project grants were submitted to the Office of Inspector General for a decision on whether to audit the projects, and the Office had 3 years to make these decisions. To accelerate these audits, the Office of Inspector General had changed its audit-screening process in fiscal year 1995 by identifying 1,400 projects that were subject to review to determine whether an audit should be performed. The remaining projects did not have to be screened and could be closed without an audit. As a result, regional offices had an increased number of grants that they could close without a decision or audit by the Office of Inspector General.

In June 1997, EPA issued a second closeout strategy, which recognized that all construction grants would not be closed out by the end of fiscal year 1997 for a variety of reasons. The plan stated that 497 of the 5,860 original remaining construction grants would not be closed out by the end of fiscal year 1997 and that a concerted effort would be required to close out these grants to prevent additional delays after fiscal year 1997. This closeout strategy also called for several initiatives, including reviewing the workload for grants in each region and identifying impediments to closing grants. Following the assessments, agreements were to be made between headquarters and the regions on plans to complete the closeouts and address the identified impediments. While EPA headquarters officials discussed impediments with EPA regional personnel, the actions to address impediments were not documented in regional agreements, and all of the impediments were not resolved. The plan also called for an assessment of key headquarters processes affecting the regional closeouts, but this too was not performed.

EPA Has Taken Efforts to Reduce the Number of Inactive Contracts Needing Closeout

EPA took several actions to reduce the number of contracts that require closeout after we and the Office of Inspector General reported on the number of contracts that required closeout.[5] In 1994, EPA officials distributed a memorandum instructing contracting offices to place special emphasis on decreasing the closeout backlog and closing out the older

[4]EPA's Office of Inspector General may decide to audit any construction grant.

[5]EPA's Contract Management: Audit Backlogs and Audit Follow-Up Problems Undermine EPA's Contract Management (GAO/T-RCED-91-5, Dec. 11, 1990).

contracts. EPA also required contracting offices to establish annual goals for the number of contracts to be closed. For example, each contracting office submitted its closeout goals to the Office of Acquisition Management for fiscal year 1998. These goals were broken out by the age of the contracts—those that were more than 10 years old, from 5 to 10 years old, and less than 5 years old. In total, all locations planned to close out 347 contracts during fiscal year 1998. As of October 1998, EPA did not know if this goal had been attained.

During our review, EPA also took several other actions to help reduce the inventory of inactive contracts. First, EPA verified and is correcting the information in its automated database on the status of contracts, which supports its closeout activities. As a result, officials believe they have more accurate management information on the remaining contracts to be closed. Second, EPA established goals for a "reasonable number" of contracts to be closed at each contracting location and is establishing expectations for when each location should reach these levels. Third, EPA is revising its closeout procedures, which the agency hopes will make it easier to close out more low-dollar-value contracts without a detailed audit. Audits can add significant time to the closeout process, and because the audits are generally conducted by other agencies, EPA has limited control to accelerate the audit process. EPA's acquisition regulations now allow a quick closeout—without a detailed audit—for contracts with total costs of $2 million or less. By contrast, the Federal Acquisition Regulation generally allows for quick closeouts if a contract's indirect costs are $1 million or less, regardless of the contract's total costs.[6] EPA plans to eliminate the $2 million criterion in its regulation and use the $1 million indirect cost criterion specified in the general Federal Acquisition Regulation. Once the change is implemented, EPA officials believe that it should reduce the number of required external audits and expedite the closeout of some contracts.

Inactive Grants and Contracts and Expected Closeout Time Frames

EPA has made significant reductions in the number of inactive grants and contracts. For nonconstruction grants, the backlog was reduced from approximately 18,000 in 1996 to approximately 4,100 as of June 30, 1998, and the number of inactive construction grants was about 500 as of March 1998—reduced from about 5,900 at the end of fiscal year 1990. Inactive contracts were reduced from 2,000 in 1993 to about 1,000 as of August 1998. The backlog of inactive nonconstruction grants will likely be

[6]Indirect costs are costs not directly identified with a final cost objective, such as a contract.

eliminated by 2000, but it is uncertain when the backlogs of construction grants and contracts will be eliminated.

Current Status of Nonconstruction Grants Requiring Closeout

EPA has made significant progress in reducing the backlog of nonconstruction grants, and, as of June 30, 1998, had reduced the initial backlog of nearly 18,000 identified in 1996 to approximately 4,100. EPA management's attention was focused on the issue in July 1996, when the backlog was reported to be nearly 18,000 by the Office of Inspector General and determined to be a material weakness. From 1996 through June 30, 1998, 15,548 grants in this backlog were closed out. Many of these grants had expired over 5 years before they were closed out. Table 1 displays the progress EPA has made, by grant expiration date.

Table 1: Number of Nonconstruction Grants Still Requiring Closeout Action, by Grant Expiration Date, as of June 30, 1998

Status of grants	Grants expiring prior to Oct. 1,1990	Grants expiring from Oct. 1, 1990, to Sept. 30, 1995	Grants expiring from Oct. 1, 1995, to Sept. 30, 1997	Grants expiring from Oct. 1, 1997, to June 30, 1998	Total
Total grants needing closeout	5,873	7,103	6,183	541	19,700
Grants already closed	5,258	5,878	4,159	253	15,548
Remaining grants to be closed	615	1,225	2,024	288	4,152

Source: GAO's presentation of data from EPA's Grants Administration Division.

In addition to the 4,152 grants remaining to be closed out as of June 30, 1998, there were 1,134 grants that had been completed, but 180 days had not elapsed for them to be classified as inactive. If these grants are not closed within 180 days after completion, they too will become a part of the backlog and will increase the number of grants requiring closeout.

In July 1996, EPA proposed 2000 as the date for eliminating the backlog of nearly 18,000 nonconstruction grants. If the agency maintains its current progress and closure rate, the goal may be achieved earlier. In 1996, the agency also committed itself to closing out all grants ending after October 1, 1995, within the 180 days allowed after completion. However, as of

June 30, 1998, more than 2,300 grants that ended from October 1, 1995, through June 30, 1998, remained in the backlog.

Status of Construction Grants to Be Closed

The inventory of construction grants needing closeout action has been reduced considerably. As of March 1998, 598 construction grants awarded prior to September 30, 1991, remained open. This represented a reduction from 5,860 grants that remained open at the end of fiscal year 1990. Of these 598 grants, 476 were for completed wastewater treatment projects that had begun operations; therefore, EPA could begin the closeout process.

EPA's initial plan was to close out all construction grants awarded prior to September 30, 1990, by September 30, 1997. That goal was not met, and in a 1996 report to the President and the Congress, EPA indicated that all pre-1991 construction grant projects will be closed out by September 2002. It is unlikely, however, that this goal will be met either. Estimates from EPA's regional offices that are responsible for closing out grants indicate that not all projects will be closed out by that date. Several wastewater treatment construction grants that remain to be closed out involve disputes between the agency and the grantee regarding whether certain project costs may be reimbursed with grant funds. These disputes may result in lengthy administrative appeals. Additionally, while the remaining grants have been put on firm schedules for completion, the schedules have been affected by impediments such as the untimely resolution of grantees' disputes at the regional offices. Some of these impediments are beyond the control of the regional offices.

Status of Contracts Requiring Closeout

EPA has also made significant progress in reducing the backlog of contracts needing closeout action, but many of the contracts that remain will probably be more difficult to close. In 1990, we testified that EPA had almost 2,400 inactive contracts that needed to be closed,[7] and in 1994, the Office of Inspector General reported that almost 2,000 needed to be closed.[8] By August 1998, EPA had reduced that number to 1,028. The closeout process had started for 599 contracts but had not yet begun for 429.

[7]EPA's Contract Management: Audit Backlogs and Audit Follow-Up Problems Undermine EPA's Contract Management (GAO/T-RCED-91-5, Dec. 11, 1990).

[8]Final Report of Audit on Contracts Not Closed, EPA/OIG (July 1994).

The contracts remaining in EPA's inventory will likely be more difficult to close because most are cost-reimbursement contracts.[9] Cost-reimbursement contracts of over $2 million are generally subject to an audit by an outside agency. This requirement adds time to the closeout process. For contract audits received in 1997, the average time between the dates when the audit was requested and received was 869 days. Adding to the closeout difficulty, cost reimbursement contracts are generally more complex than fixed-price contracts and require more closing documents. In reducing the number of contracts to be closed out, EPA has focused more on the fixed-price contracts, which are easier to close out because they do not require detailed audits and involve less documentation. From October 1993 through August 1998, EPA closed out 1,165 fixed-price contracts and 949 cost-reimbursement contracts.

A second source of difficulty is the age of the remaining contracts, 37 percent of which have been inactive for over 5 years. The Federal Acquisition Regulation provides that once a contracting officer receives evidence of physical completion, an agency should close out a cost-reimbursement contract within 36 months and a fixed-price contract within 6 months. Because the inactive contracts were not closed out within these required time frames, EPA and contractor personnel are likely to be less knowledgeable about the contracts, and records are less likely to be readily available than if the contracts had been closed out on time.

The type and age of the inactive contracts remaining to be closed out are shown in tables 2 and 3.

Table 2: Type of Inactive Contracts to Be Closed, as of August 1998

Type of contract	Number of inactive contracts
Cost-reimbursement	718
Fixed-price	205
Other	105
Total	**1,028**

Source: GAO's analysis of data from EPA's Contract Information System, as of August 24, 1998. The data reflect corrections based on reviews by EPA's contract personnel.

[9]Under cost-reimbursement types of contracts, the government reimburses contractors for allowable incurred costs. Fixed-price contracts generally provide for a firm price.

Table 3: Age of Inactive Contracts to Be Closed, as of August 1998

Age of contract[a]	Number of inactive contracts
Less than 5 years	649
5 to 10 years	295
More than 10 years	84
Total	**1,028**

[a]Includes contracts that were inactive as of June 30, 1998.

Source: GAO's analysis of data from EPA's Contract Information System, as of August 24, 1998. The data reflect corrections based on reviews by EPA's contract personnel.

Besides the audit delays for cost-reimbursement contracts, EPA officials attributed the size of the inventory to the low priority that was placed on closing out contracts because of limited staff resources. EPA has not set a specific date for closing out the contract inventory; however, the agency determined that an inventory of about 620 inactive contracts for all contracting locations would be reasonable—a level requiring a reduction of 40 percent. According to EPA officials, by maintaining this inventory level, they will be complying with the Federal Acquisition Regulation's time frame requirements for closing out contracts. All contracting locations were required to estimate an inventory level and a date by which they would attain this level. As of August 1998, all but one location had provided a range of estimates. In some cases, locations had already achieved the target inventory level, while others will not attain it until fiscal year 2001.

Unliquidated Obligation Amounts

Significant amounts of unliquidated moneys remain available for grants and contracts that are awaiting closeout. Using EPA's data systems and information from the agency's regional offices, we identified inactive grants and contracts with unliquidated obligations of approximately $612.1 million that may no longer be needed for the intended purposes. Of the total unliquidated amount, $469.8 million represents funds whose use is not subject to statutory time limits and may therefore be available for deobligation and reuse for similar program activities if additional funds are not required to satisfy outstanding project or contract obligations.

As of June 30, 1998, approximately $354.5 million in unliquidated obligations remained for nonconstruction grants, and of this amount, approximately $240.1 million was for funds whose obligation authority did not have a time limit. For construction grants, approximately $183.2 million remained available as of March 1998. These funds represent

construction grants that were made prior to fiscal year 1992. The projects are complete, and the grants are in the process of being closed out. The remaining funds may be used for ongoing projects, may be used for new projects, or may be transferred into the appropriate state revolving fund. The amounts that are ultimately available depend on the grantees' final claims and audits that may disallow claimed amounts. Therefore, the available amounts may increase or decrease prior to the final closeout.

In addition to grants, inactive contracts that required closeout as of June 1998 had unliquidated obligated funds of approximately $74.4 million. EPA reserved an additional $141.2 million of unliquidated obligated funds for these inactive contracts to cover final expenditures or additional costs. The amount reserved is 10 percent of the contracts' total expenditures. Approximately $46.5 million of the $74.4 million is for funds whose obligation authority did not have a time limit, and the majority of these funds are for EPA's Superfund program. These funds may be recovered and used for similar program purposes as allowed by statute.

EPA headquarters routinely requests that the agency's regional and contracting offices identify funds from grants and contracts that are available for deobligation. For example, each year, headquarters requests the contracting offices to identify contracts that have funds available for deobligation and report whether action is planned to deobligate the funds. One special effort that we reported on previously was EPA's concentrated effort to recover unliquidated funds for work orders and assistance agreements for Superfund contracts and grants that were completed before 1997.[10] Prior to 1997, EPA experienced continuing problems in recovering unliquidated funds for inactive Superfund contract work orders and assistance agreements. We reported that EPA has opportunities to recover $125 million by deobligating Superfund contracts and grants that expired in 1997.

EPA has concentrated its efforts on Superfund contracts and grants. For other contracts and grants, headquarters policies encouraging regional and contracting offices to identify funds available for deobligation were not effective in the past until the agency made special efforts to reduce the backlogs.

[10]Environmental Protection: Funds Obligated for Completed Superfund Projects (GAO/RCED-98-232, July 21, 1998).

Agency Comments

We provided EPA with a draft of this report for review and comment. The agency generally agreed with the findings in the report and suggested several technical comments, which we incorporated into the report. EPA also suggested that information be added to the methodology section on the time period for liquidating nonconstruction grant balances. We added the information EPA suggested and included an additional note to the table in appendix II to further clarify the time period.

We conducted our review from December 1997 through November 1998 in accordance with generally accepted government auditing standards. Our scope and methodology are presented in appendix III. We are sending copies of this report to appropriate congressional committees; interested Members of Congress; the Administrator, EPA; and other interested parties. We will make copies available upon request.

Major contributors to this report were Roger Bothun, Jimmie Gilbert, James Hayward, and John A. Wanska. Please call me at (202) 512-6111 if you or your staff have any questions.

Sincerely yours,

Peter F. Guerrero
Director, Environmental
Protection Issues

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Abbreviations

EPA	Environmental Protection Agency
FMO	Financial Management Office
FSR	Financial Status Report
GAO	General Accounting Office
GMO	Grants Management Office
IFMS	Integrated Financial Management System
PO	Project Office

Grant Closeout Procedures and Implementation Plans

We examined the implementation of the Environmental Protection Agency's (EPA) Final Closeout Policy for Assistance Agreements and national strategy to prevent a future backlog. On the basis of a review of the randomly selected files and other documentation gathered, we found that the requirements for closing out grants were not always followed and that actions to prevent a future backlog of grants requiring closeout were not always taken. Some grants were closed out without the required basic financial and project documents, and actions that were to be taken by EPA, as called for in its national strategy, were not performed.

Grants Closed Without Required Documentation

EPA's Final Closeout Policy for Assistance Agreements requires that nonconstruction grant projects be closed within 180 days after EPA receives the required reports. To ensure the timely receipt of the required reports, EPA is required to alert grant recipients by a notification letter 90 days before the scheduled end of the grant project period. The notification letter provides instructions and identifies documents that a recipient must submit as a part of the closeout process. If required, subsequent notification letters must be sent at 30-, 90-, and 120-day intervals after the project's completion to request that the recipient submit the required closeout documents. In addition, an EPA grant specialist is to track and record on a checklist the closeout action milestones as they occur and make updates to the Grant Information Control System, which tracks individual grants. This checklist is to be included in the official grant file.

Within 90 days of a project's completion date, a grant recipient is to submit to EPA the required closeout reports unless EPA waives the requirement. The following are among the reports required:

- Final progress (technical) report (covering progress made for the entire project).
- Final financial status report (showing the project's expenditures and unliquidated balances, if any).
- Federally owned property reports (listing nonexpendable personal property owned by the government, if applicable).
- Invention disclosure reports (showing inventions developed under the project, if applicable).
- Final minority business enterprise/women business enterprise report (showing the utilization of disadvantaged businesses, if applicable).
- Final request for payment and/or final EPA automated clearing house payment request (showing that all payments have been made and accounts settled, if applicable).

In addition to these reports, a recipient must submit other data, manuals, specifications, and products required in the grant agreement, if applicable.

The responsibility for closing out an individual grant is shared by the grant project officer, Grants Management Office personnel, and Financial Management Office personnel. The project officer is required to review and approve the technical reports related to the grant, ensure that all grant activities have been accomplished, and certify to the Grants Management Office within 90 days of the project's completion that the work was performed satisfactorily and that all technical requirements related to the grant have been met.

The Grants Management Office is required to ensure that the final certification of the project's completion has been received from the project officer and that the required reports, including the one certifying compliance with all terms and conditions of the grant, have been received. The Grants Management Office is also required to review and analyze the financial status report. As part of its review and analysis, the office (1) determines the allowability of reported indirect costs, (2) reconciles the financial data in the report with the Integrated Financial Management System's data, (3) determines whether any unliquidated obligations and/or funds are owed to EPA and provides the Financial Management Office with instructions for disposing of the funds, (4) requests a final audit (if applicable), (5) prepares the closeout amendments and letters, and (6) retires the file.

The Financial Management Office is required to assist the Grants Management Office in reconciling a recipient's reported financial data. The Financial Management Office is also responsible for reviewing closeout amendments, deobligating unliquidated funds, billing the recipient for funds owed to EPA, establishing accounts receivable, and conducting follow-up collection efforts when applicable. In addition, the Financial Management Office is responsible for making entries to the automated financial system for any deobligations and collections of funds and for approving and processing the recipient's final payment request.

The basic documentation required for closing out a nonconstruction assistance agreement includes the final financial status report, the final progress (technical) reports, and the project officer's certification. Our review of 15 randomly selected grant files disclosed that many of the required documents were not present, as indicated in table I.1.

Table I.1: Compliance With Closeout Requirements for 15 Randomly Selected Grant Files

Issue	Criterion/policy	Number of files showing evidence of compliance	Number of files showing no evidence of compliance	Number of files noted as not applicable
Was the grant and/or cooperative agreement closed no later than 180 days after the project ended?	EPA should close out a nonconstruction grant project within 180 days after receiving all required reports and deliverables.	3	12	0
Did the closeout process start prior to the last 3 months of the budget/project period?	Closeout policy requires that the grant specialist prepare a "completion alert" letter 90 days before the project ends.	0	14	1
Was a copy of the letter sent to the PO?	Closeout policy requires that the grant specialist send a copy of the completion alert letter to the PO.	0	3	12
Was an interim alert notification letter mailed to the grant recipient within 30 days after completion?	Closeout policy requires that within 30 days after completion, a follow-up letter be sent to the grant recipient about the required closeout reports.	0	5	10
Was a copy of the 30-day notification letter sent to the PO?	Closeout policy requires that the grant specialist send a copy of the 30-day notification letter to the PO.	0	3	12
Was a follow-up letter sent to the grant recipient after 90 days if the overdue reports were not received?	Closeout policy requires that after 90 days following completion, a follow-up letter be sent to a grant recipient with overdue reports.	1	11	3
Were copies of the 90-day letter sent to the PO and the FMO?	Closeout policy requires that copies of the 90-day letter be sent to the PO and the FMO.	1	7	7
Was a final demand closeout letter sent to the grantee after 120 days if the required reports were not received?	Closeout policy requires that after 120 days following completion, a follow-up letter be sent to a grant recipient with overdue reports.	1	5	9

(continued)

Issue	Criterion/policy	Number of files showing evidence of compliance	Number of files showing no evidence of compliance	Number of files noted as not applicable
Were copies of the 120-day follow-up letter sent to the PO and FMO?	Closeout policy requires that copies of the 120-day follow-up letter be sent to the PO and FMO.	0	3	12
Did the GMO receive the final certification for the project's completion from the PO?	Closeout policy requires the GMO to ensure receipt of the final certification.	2	9	4
Did the file contain the final progress (technical) report?	Closeout policy requires the PO to review and approve the final progress report.	2	8	5
Did the GMO reconcile the FSR's financial data with the IFMS' data?	Closeout policy requires that the GMO ensure that the FSR's financial data are reconciled with the IFMS' data.	7	5	3
Did the GMO determine the allowability of the reported indirect costs (on the basis of the assistance agreement's provisions and the final negotiated indirect cost rate)?	Closeout policy requires that the GMO determine allowability of the reported indirect costs on the basis of the assistance agreement's provisions and the final negotiated indirect cost rate.	1	7	7
Did the file have a closeout checklist?	Closeout policy requires that the GMO record milestone events as they occur on a locally prepared checklist for inclusion in the official agreement file.	4	11	0
Did the PO assess the grantee's compliance with the work plan?	Closeout policy requires that the PO ensure that all deliverables required under the award are received and are acceptable.	5	8	2
Did the PO approve the final progress (technical) report?	Closeout policy requires that the PO review and approve all technical reports in accordance with the requirements of the award and statement of work.	5	5	5

(continued)

Issue	Criterion/policy	Number of files showing evidence of compliance	Number of files showing no evidence of compliance	Number of files noted as not applicable
Did the PO review and reconcile the FSR with the award document?	Policy requires that the PO and FMO share responsibility for reconciling differences in billing and payments and for determining the final payment due the recipient.	0	12	3

Legend

FMO Financial Management Office

FSR Financial status report

GMO Grants Management Office

IFMS Integrated Financial Management System

PO Project officer

Actions Not Taken to Prevent Future Backlogs

EPA did not take specific actions identified in the agency's national strategy to avert a future backlog of assistance agreements. EPA's national strategy policy applies to nonconstruction grants that were awarded after October 1, 1995. The national strategy primarily addresses the following five issues and the actions to address the issues:

- Identifying closeout reports prior to an award. For grants awarded after October 1, 1997, the Grants Management Office, in conjunction with the project officer, is to identify the required closeout reports in the file at least 30 days before or at the time of the award. To facilitate the closeout process and avoid waiting for unnecessary closeout reports, the Grants Management Office, in conjunction with the project officer, is required to document the reports that the recipient will need to close out the inactive project.
- Streamlining the number of closeout procedures. To expedite the closeout process and prevent another backlog, the Grants Administration Division streamlined two procedures involving the property and invention reports.
- Requiring Grants Management Offices to develop a closeout strategy. Grants Management Offices were to develop a closeout strategy and certify to the Grants Administration Division by April 1, 1998, that a plan had been implemented to prevent another backlog. Revised strategies are

to be developed and provided for the Grants Administration Division by January 1 for subsequent years.

- Analyzing the efficacy of the closeout strategies. The Grants Administration Division will periodically assess the strategies and provide the Grants Management Offices with the results.
- Testing Region VI's notification system in headquarters. The Grants Administration Division will test the system and determine whether to make the system available to regional Grants Management Offices in fiscal year 1999.

Our review of 15 files for grants that had recently been awarded showed that none of the files included or identified the data needed before an award is made. In addition, the files showed no evidence that the Grants Management Offices are identifying and documenting the closeout reports that recipients need to expeditiously close out inactive grants. Moreover, as previously noted, some of the Grants Management Offices' strategic plans to avert a future backlog did not identify a specific strategy or methodology that would meet the goals identified in the plan. On the basis of the conditions we observed, we concluded that the Grants Management Offices' strategies do not ensure that a future backlog will be averted.

Unliquidated Amounts for Inactive Grants by Appropriation Category, as of June 30, 1998

Dollars in millions

	Appropriation time period[a]		
Appropriation category	**No-year**	**2-year**	**1-year**
Wastewater treatment (pre-1992)	$183.2[b]	$0	$0
State revolving funds	60.8	0	0
State and tribal assistance grants	91.4	0	0
Superfund grants	26.7	0	0
Leaking Underground Storage Tank Trust Fund	35.9	0	0
Oil Pollution Act Trust Fund	0.1	0	0
Environmental program management and abatement control and compliance	0	100.7	0
Science and technology, and research and development[c]	17.4	6.9	0
Other, including reimbursables	7.8	6.3	0.5
Total[d]	$423.3	$113.9	$0.5

[a]No-year authority is budget authority that remains available for obligation for an indefinite period of time. One-year and 2-year authority is available for obligation during only one or two specific fiscal years, respectively, and expires, if not obligated, at the end of that time.

[b]As of March 31, 1998.

[c]Includes Superfund moneys transferred to science and technology.

[d]Total amount includes $14.4 million for completed nonconstruction grants that were within the 180-day closeout period and were not classified as inactive as of June 30, 1998.

Scope and Methodology

To review EPA's efforts to reduce the number of completed grants and contracts that should be closed out, we interviewed EPA officials at selected locations to discuss the initiatives taken and planned to reduce the number of completed contracts and grants. We reviewed documents related to EPA's efforts, including regulations, policies, and closeout strategy plans. We also reviewed 15 closed out grant files and 5 closed out contract files that were randomly selected to assess EPA's compliance with established closeout requirements. The grant files were reviewed at EPA headquarters and at the agency's regional offices in Atlanta, Georgia, and Chicago, Illinois. The contract files were selected and reviewed at the Contracts Management Division in Research Triangle Park, North Carolina. For wastewater treatment construction grants, we interviewed officials and reviewed documents from EPA's regional offices in New York, New York; Boston, Massachusetts; Philadelphia, Pennsylvania; and EPA headquarters. To assess the implementation of EPA's strategy to prevent a future backlog of grants, we reviewed the national strategy plan and regional implementation plans. We also randomly selected 15 files of recently awarded grants to determine if the strategy's measures had been implemented. These files were located at the same offices as those for the grant selections previously mentioned.

To identify the number of completed grants and contracts that should be closed, we obtained data from EPA headquarters and analyzed the data to determine the status of grants and contracts closed and remaining to be closed as of June 30, 1998. For wastewater treatment construction grants, we requested that EPA obtain information on the number of inactive grants as of March 1998. To determine when completed grants and contracts are expected to be closed, we reviewed EPA's closeout strategies that contained expected completion dates and discussed these dates with EPA officials. We also discussed with EPA officials the impediments to closing grants and contracts.

To determine the amount of unliquidated obligations for completed grants and contracts that should be closed, we developed data from EPA's financial databases, which included the Integrated Financial Management System, the Contract Information System, and the Grants Information Control System. Unliquidated obligations are associated with grants completed between October 31, 1991, and June 30, 1998. These dollars also include amounts not in the closeout backlog (i.e., within 180 days of the completion date). For wastewater treatment construction grants, we obtained unobligated amounts as part of EPA headquarters' March 1998 request to EPA's regional offices. To verify these automated data, we

randomly selected 15 grant files and 5 contract files and verified selected financial information against data contained in the automated systems. We found no significant differences in the data. We conducted our review from December 1997 to November 1998 in accordance with generally accepted government auditing standards.

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