



UNITED STATES DEPARTMENT OF STATE  
AND THE BROADCASTING BOARD OF GOVERNORS  
*OFFICE OF INSPECTOR GENERAL*

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AUD-CG-13-31

Office of Audits

June 2013

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## **Audit of Grant Closeout Processes for Selected Department of State Bureaus**

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United States Department of State  
and the Broadcasting Board of Governors

*Office of Inspector General*

PREFACE

This report was prepared by the Office of Inspector General (OIG) pursuant to the Inspector General Act of 1978, as amended, and Section 209 of the Foreign Service Act of 1980, as amended. It is one of a series of audit, inspection, investigative, and special reports prepared by OIG periodically as part of its responsibility to promote effective management, accountability and positive change in the Department of State and the Broadcasting Board of Governors.

This report is the result of an assessment of the strengths and weaknesses of the office, post, or function under review. It is based on interviews with employees and officials of relevant agencies and institutions, direct observation, and a review of applicable documents.

The recommendations therein have been developed on the basis of the best knowledge available to the OIG and, as appropriate, have been discussed in draft with those responsible for implementation. It is my hope that these recommendations will result in more effective, efficient, and/or economical operations.

I express my appreciation to all of those who contributed to the preparation of this report.

A handwritten signature in black ink, appearing to read "H. W. Geisel", written in a cursive style.

Harold W. Geisel  
Deputy Inspector General

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**Acronyms**

|           |   |
|-----------|---|
| A/LM/AQM  | Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management   |
| A/OPE     | Bureau of Administration, Office of the Procurement Executive   |
| A/OPE/FA  | Bureau of Administration, Office of the Procurement Executive, Federal Assistance Division  |
| CFO       | Chief Financial Officer   |
| CGFS      | Bureau of the Comptroller and Global Financial Services   |
| DCFO/FAFM | Bureau of the Comptroller and Global Financial Services, Deputy Chief Financial Office, Financial Policy, Reporting and Analysis, Office of Federal Assistance Financial Management |
| ECA       | Bureau of Educational and Cultural Affairs  |
| FAH       | <i>Foreign Affairs Handbook</i>   |
| GAO       | Government Accountability Office  |
| GFMS      | Global Financial Management System  |
| GOR       | grants officer representative   |
| GPD       | Grants Policy Directive   |
| HHS       | Department of Health and Human Services   |
| NICRA     | Negotiated Indirect Cost Rate Agreement   |
| OIG       | Office of Inspector General   |
| OMB       | Office of Management and Budget   |
| PMS       | Payment Management System   |
| PRM       | Bureau of Population, Refugees and Migration  |

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### **Executive Summary**

As of March 1, 2012,<sup>1</sup> the Department of State (Department) had approximately \$81.9 million in unspent funds linked to 955 expired grant accounts, as recorded in the Payment Management System (PMS).<sup>2</sup> PMS is a grants payment system owned and operated by the Department of Health and Human Services (HHS) and used by Federal agencies to provide grants officers and grant recipients the capability to manage payment requests, edit them for accuracy and content, and transmit payments to the Federal Reserve Bank or the U.S. Treasury for deposit into the grantee's bank account. The Global Financial Management System (GFMS) is the Department's financial system used by domestic offices. The Office of Inspector General (OIG) defines unspent funding as an obligation through a grant agreement that has yet to be disbursed to the grant recipient, while OIG defines expired grant accounts as those for which 120 calendar days have elapsed since the end of a grant's period of performance.

OIG audited the grant closeout processes of three bureaus: the Bureau of Educational and Cultural Affairs (ECA); the Bureau of Population, Refugees and Migration (PRM); and the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management (A/LM/AQM). These three bureaus were selected because, according to PMS, they collectively accounted for approximately \$67.4 million (82 percent) of \$81.9 million of the Department's total unspent funds as of March 1, 2012.

The primary objectives of this audit were to identify grant agreements that were more than 120 days past a grant's period of performance end date and to determine whether any associated funds could be put to better use. OIG also reviewed the adequacy of official grant files, which, if not accurate and complete, could negatively affect the ability of the Department to properly close out grants. OIG's original sampling plan called for a total sample of 60 grants from the three bureaus (10 grants with unspent funds and 10 grants with zero balances from each bureau). However, due to data limitations, OIG was only able to test 51 of the 60 grants<sup>3</sup> using the PMS account data for the largest amount of unspent balances<sup>4</sup> and the oldest expired grants with zero balances. Of the 60 grants to be tested against the official grants file, 10 files were destroyed, three files were missing, and one grant file provided by the Department had the wrong grant number and could not be appropriately reviewed. Therefore, only 46 grants could be reviewed. Of those 46 grant files, only 37 of those files could be tested for compliance with applicable Department policies and procedures in place at the time.

As of March 1, 2012, OIG analysis of PMS data determined that ECA, PRM, and A/LM/AQM were responsible for 865 of 955 expired grants that had not been closed. The 865

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<sup>1</sup> For the purposes of this report, OIG's analysis of Payment Management System (PMS) data as of March 1, 2012, also included a 120-day closure period that is allotted to grants officials for grant closeout.

<sup>2</sup> As a result of the data deficiencies detailed in this report, the number and amount of expired grants that had not yet been closed may be over or understated, and these grants may be attributed to entities other than the responsible bureaus. Additional information on data limitations is included in Appendix A.

<sup>3</sup> After OIG selected its sample of 60 expired grants, OIG determined that nine grants were still active.

<sup>4</sup> During our initial analysis, OIG treated each of the 60 sampled lines from the database as grants. However, OIG later determined the database listed transaction lines rather than grants. Therefore, OIG combined lines with the same grant number to ultimately select 60 grants, which did not always result in the 10 grants with the largest amount of unspent balances being chosen for each of the three bureaus.

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expired grants totaled approximately \$67.4 million in unspent funds. OIG also determined that ECA, PRM, and A/LM/AQM were responsible for 1,155 (81 percent) of the Department's additional 1,421 expired grants with zero balances. Of the 60 grants in OIG's sample as of March 1, 2012, OIG determined that 22 grants had expired with unspent funds totaling approximately \$26.6 million, 29 grants had expired with zero balances that had not been closed and deleted from PMS, and nine grants were still active.

OIG found that expired grants with unspent funds and zero balances existed in PMS because bureau officials and grants officers had not adequately complied with the Department's existing closeout policies and procedures to ensure that grants were properly closed out after their periods of performance had ended. For the 22 expired grants with unspent funds totaling \$26.6 million reviewed by OIG, the appropriation periods determined whether associated funds could be deobligated and used for other authorized purposes or if the funds were no longer available for use. In addition, the Department had not established procedures for the periodic review and reporting of expired grants; therefore, expired grants with zero balances had not been properly closed and deleted from PMS, costing the three bureaus a combined total of approximately \$79,000 in unnecessary administrative fees in 2011.

OIG also found that grants management personnel had not always adequately maintained official grant files and that documents required for grant closeout were often missing, incomplete, or inaccurate. OIG further determined that financial information in the official grant files was not always consistent with the financial information recorded in PMS. This occurred because grants officers and other responsible program and financial officials did not always fully execute their responsibilities during the grant life cycle. Specifically, the grants officers did not always maintain obligating documents, include grants officer representative (GOR) designation memorandums in the files, obtain final financial reports, or reconcile grant funds during the grant performance period. The lack of accurate and complete documentation during a grant's life cycle negatively affects the ability of the Department to properly close out grants.

Based on OIG's findings and an OIG inspection<sup>5</sup> of ECA, Department officials took immediate action to update and reinforce grant closeout policies and procedures and to close expired grants in PMS. Specifically, the Bureau of Administration, Office of the Procurement Executive, Federal Assistance Division (A/OPE/FA), proposed revisions to existing policy, which included procedures to close an award when the recipient had not fully complied with the final reporting terms and conditions of the award,<sup>6</sup> and procedures for closing an award when the recipient organization did not have its final Negotiated Indirect Cost Rate Agreements (NICRA)<sup>7</sup>

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<sup>5</sup> *Inspection of the Bureau of Educational and Cultural Affairs* (ISP-I-12-15, Feb. 2012).

<sup>6</sup> Examples of noncompliance with the final reporting terms and conditions of a grant award would include a recipient not providing a final program report to determine if the award objectives were achieved or a recipient not reconciling its expenditures under the award, making it impossible to determine if a refund is owed to the Department.

<sup>7</sup> GPD 41 states, "Organizations (usually U.S.-based organizations, although this can also apply to large non-U.S. (foreign) organizations) whose funding is derived from federal assistance have the option of establishing indirect cost rate agreements to capture 'overhead' or other administrative indirect costs. These rates are negotiated between the organization and the 'cognizant' federal agency. Commonly, the cognizant federal agency is the agency that provides the largest dollar volume of federal assistance funds to the organization. The resulting NICRA is binding on the entire U.S. government."

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within 24 months after the end of the project period end date or before the cancellation of the appropriation used to fund the award, whichever came first. These proposed revisions became effective with the issuance of the latest version of Grants Policy Directive (GPD) 41, Revision 2, "Close-Out of Federal Assistance Awards," dated January 2, 2013. Additionally, the three bureaus reviewed by OIG took action to close expired grants in PMS. Specifically, as of December 2012, 22 of 51 expired grants, which included 6 with unspent funds and 16 with zero balances, that were included in OIG's original sample and that were eligible for closeout in PMS had been closed by bureau officials. Therefore, available funds could potentially be put to better use and unnecessary administrative fees would no longer be paid.

OIG recommended that ECA, PRM, and A/LM/AQM continue to work to close the remaining 16 expired grants from OIG's original sample in PMS – with total unspent balances in GFMS of approximately \$9.4 million – and close the remaining 1,139 zero balance grants in PMS, which includes 13 from OIG's sample. According to PMS, the three bureaus have approximately \$40.5 million in unspent funds associated with additional expired grants that should also be reviewed and closed as part of this effort. Prioritizing the closeout of expired grant accounts could allow the bureaus to identify and redirect unused funds to other projects and priorities, as authorized. OIG also recommended that the three bureaus, in cooperation with the Bureau of Administration, Office of the Procurement Executive (A/OPE), (1) develop performance metrics for bureau grants officers and GORs that will provide for timely grant closeout of expired grants while reducing the current backlog and (2) establish specific procedures that require grants officers and GORs to periodically report to their respective bureaus on the progress for timely closeout of expired grants. Finally, OIG recommended that the three bureaus develop procedures to periodically review respective official grant files to determine compliance with Department policies.

OIG provided ECA, PRM, and the Bureau of Administration a draft of this report on May 6, 2013. ECA, in its May 31, 2013, response (see Appendix E) to the draft report, concurred with five recommendations but did not concur with one recommendation (No. 11); PRM, in its May 31, 2013, response (see Appendix F), concurred with six recommendations; and A/LM/AQM, in its May 29, 2013, response (see Appendix G), concurred with six recommendations.

Based on management's responses, OIG considers Recommendations 1–10 and 12 resolved. However, each recommendation will remain open until documentation is provided showing that the recommendations have been fully implemented. OIG considers Recommendation 11 unresolved, but this recommendation can also be closed when OIG reviews and accepts documentation showing the actions taken to implement the recommendation or an acceptable alternative action is offered. Management's responses to the recommendations and OIG's replies are presented after each recommendation.

Although OIG did not address any recommendations to the Bureau of the Comptroller and Global Financial Services (CGFS), OIG did provide a draft of this report to that bureau on May 6, 2013. On June 3, 2013, CGFS provided comments (see Appendix H), stating that the Department would continue its efforts to put emphasis on closeouts and on improving the internal controls in GFMS and PMS for the closeout process. CGFS further stated that it was

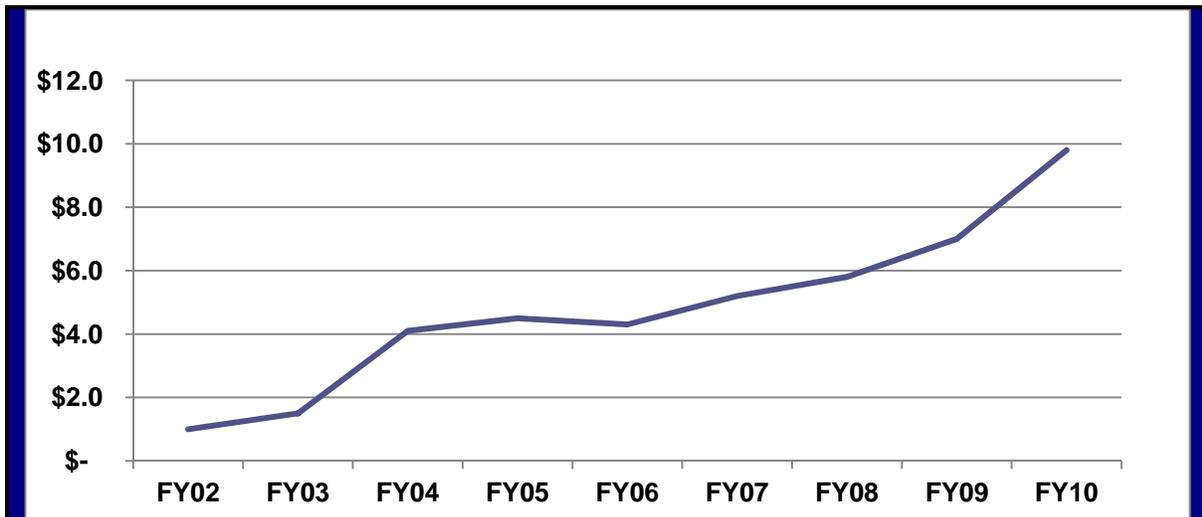
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able to verify that 28 of 29 zero balance grants from OIG’s March 1, 2012, sample for ECA, PRM, and A/LM/AQM would be reflected as closed in July 2013. CGFS concluded that it remained committed to working with the bureaus to resolve, close, and deobligate funds for the remaining grants and to actively monitor those grants that were eligible for closeout.

**Background**

Federal agencies provide grants, direct services, and loans through nongovernmental organizations to accomplish a public purpose. Federal financial assistance can be provided to eligible recipients through grants and cooperative agreements.<sup>8</sup> As shown in Figure 1, the Department has experienced significant growth in the amount of financial assistance it allocated from FY 2002 to FY 2010. According to the Department, about one third of its budget was devoted to providing financial assistance, which was generally equivalent to the amount the Department spent on acquisitions.

**Figure 1. Department of State Assistance Funding - FYs 2002–2010  
(amounts in billions)**



Source: Bureau of the Comptroller and Global Financial Services, Office of Federal Assistance Financial Management (DCFO/FAFM).

**Grant Closeout Process**

The grant closeout process was succinctly described in an April 2012 Government Accountability Office (GAO) report, *Grants Management: Action Needed to Improve the Timeliness of Grant Closeouts by Federal Agencies* (GAO-12-360). Specifically, the report states:

Agency regulations issued under [Office of Management and Budget (OMB) Circular A-110] typically impose closeout procedures upon both the awarding

<sup>8</sup> Cooperative agreements are managed using grants-related policies.

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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. 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. 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.

### **Department of State Policies for Grant Closeout**

The Department's Federal Assistance Policy Handbook<sup>9</sup> contains internal guidance, policies, and standards for the distribution and management of Department assistance awards. Specifically, it states, "A/OPE/FA develops policy and provides training and career development for personnel involved with the award and management of federal assistance through the Department." It also states that the DCFO/FAFM provides leadership on the financial management of grants and other types of financial assistance through policy development and oversight. In addition, DCFO/FAFM is the Department's liaison with HHS regarding PMS, which is the electronic payment system used by most domestic/U.S.-based grant recipients.

According to its Web site,<sup>10</sup> A/OPE/FA "prescribes policies, procedures, and standards regarding the solicitation, award, and administration of all Departmental Federal assistance programs," including grants and cooperative agreements. This is often accomplished through the issuance of policy directives, such as the following:

GPD 28, "Roles and Responsibilities for the Award and Administration of Federal Assistance," Revision 1, dated September 21, 2010, "establishes the roles and responsibilities of the offices and personnel involved in the announcement, evaluation, award, and administration of assistance awards through the Department of State." Specifically, it states that "the grants officer exercises prudent management over assistance funds...[and] carries out all other responsibilities, including closeout, as required."

GPD 16, "Designation of Grants Officer Representatives," Revision 3, dated January 2, 2013, designates the responsibilities of a GOR. In addition to stating that a GOR must be designated in writing, GPD 16 requires GORs to do the following:

- Oversee certain aspects of a specific assistance agreement from the award inception through closeout.
- Understand the terms and provisions of the assistance award.
- Ensure compliance with all terms and conditions of the award.

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<sup>9</sup> Department of State, Federal Assistance Policy Handbook, Version 1.2, March 2011.

<sup>10</sup> <http://aopefa.a.state.gov>, accessed on June 19, 2012.

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- Work collaboratively with the grants officer, budget officer, and program officer to approve payments.
- Assist the grants officer in project closeout review.
- Evaluate final recipient progress and financial reports.<sup>11</sup>

GPD 41, “Close-Out of Federal Assistance Awards,” Revision 2, dated January 2, 2013, outlines the Department’s procedures for closing out domestic and overseas grants. GPD 41 states, “The closeout procedure is the critical final step in the award life cycle that is required when the activity or activities have been completed, and/or the award period of performance has ended. It is an essential and integral part of the grants officer’s responsibility that, when taken in a timely manner, positively affects the Department’s overall federal assistance management.” While the grantees are given a 90-day period to execute their remaining responsibilities, GPD 41 further prescribes that the grants officer complete the closeout of an award within 30 days of receipt of the final report from the recipient (or within 120 days after the end of the award period of performance).

### **Financial Management of Grants**

Grants officers and grant recipients manage domestic grant payment requests and disbursement activities through PMS. PMS, administered by HHS and used by other Federal agencies, provides the grants officer and the grant recipient the capability to manage payment requests, edit them for accuracy and content, and transmit payments to the Federal Reserve Bank or the U.S. Treasury for deposit into the grantee’s bank account. During FY 2011, HHS charged the Department an annual fee of \$68.31 per grant in PMS.

GFMS is the Department’s financial system used by domestic offices. When the Department awards a grant, the responsible bureau enters the award information into GFMS and creates the official obligation.<sup>12</sup> According to the Foreign Affairs Handbook,<sup>13</sup> when a bureau obligates funds for grants or cooperative agreements that will be paid using PMS, the bureau must request that HHS create a subaccount for the grant, and the bureau then enters the award authorization amount in PMS. Grants with payments processed through PMS must complete a reconciliation between PMS and GFMS before continuing with the final closeout.

The Department issues grants with annual budget authority that lasts for up to one fiscal year, multi-year authority that lasts for longer periods, and no-year authority that remains available for obligation until the funds are entirely expended for designated purposes. As illustrated in Figure 2, the grant closeout process can result in the redirection of unspent funds<sup>14</sup>

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<sup>11</sup> Within 90 days after the end of the award, the grant recipient is required to submit final financial and program reports so proper closeout procedures can be applied.

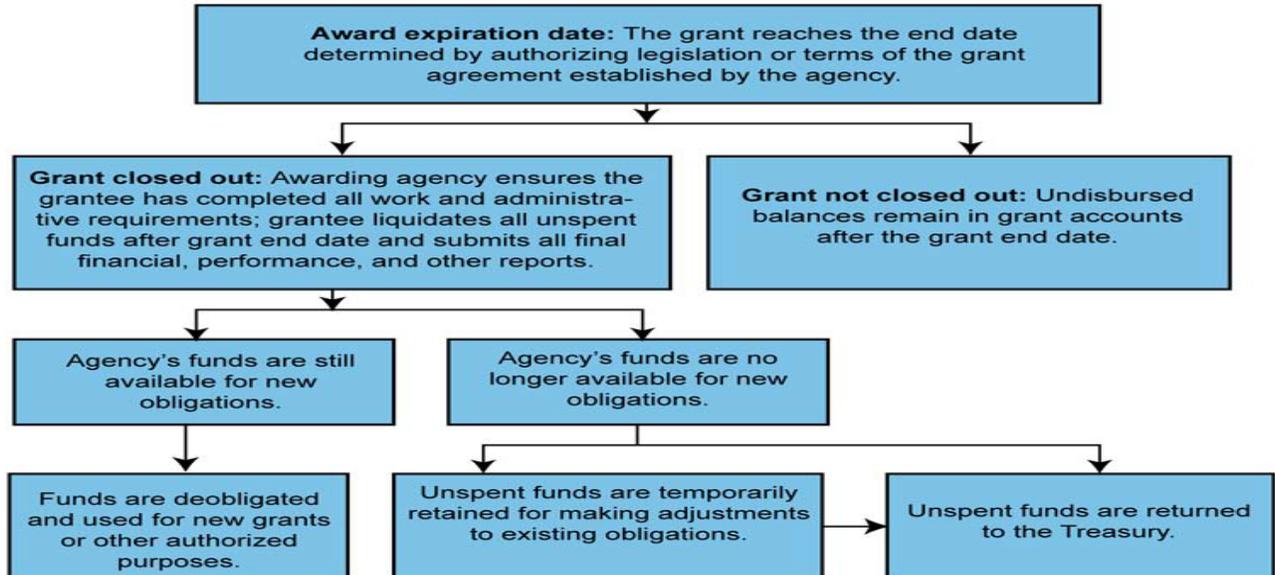
<sup>12</sup> An obligation is a definite commitment that creates a legal liability of the government to the grantee.

<sup>13</sup> 4 FAH-3H-653.2, “Establish Payment Authorization in PMS.”

<sup>14</sup> OIG defines unspent funding as an obligation through a grant agreement that has yet to be disbursed to the grant recipient, while OIG defines expired grant accounts as those for which 120 calendar days have elapsed since the end of a grant’s period of performance.

to other Department projects and activities, depending on a grant’s period of availability and budget authority.<sup>15</sup>

**Figure 2. Deobligating Undisbursed Balances in Expired Grant Accounts**



Source: GAO-12-360, Apr. 2012.

## Objectives

The primary objectives of this audit were to identify grant agreements that were more than 120 days past a grant’s period of performance end date and to determine whether any associated funds could be put to better use. OIG also reviewed the accuracy and completeness of official grant files, which are critical elements in achieving timely grant closeout.

OIG’s ability to obtain a reliable database of expired grants was impacted by questionable data, resulting in the data deficiencies detailed in this report. Specifically, the number and amount of expired grants that had not yet been closed may be either over or understated, and these grants may be attributed to entities other than the responsible bureaus. OIG took steps to mitigate the data shortcomings, although deficiencies remain. Nevertheless, OIG believes that the problems concerning grants management identified during this audit are noteworthy to warrant the issuance of this formal report; however, OIG advises that the figures should be interpreted and used cautiously because of the noted data limitations. Additional information on the data limitations is included in Appendix A.

<sup>15</sup> 31 U.S.C. § 1552, “Procedure for appropriation accounts available for definite periods,” states that “[o]n September 30th of the 5th fiscal year after the period of availability for obligation of a fixed appropriation account ends, the account shall be closed and any remaining balance (whether obligated or unobligated) in the account shall be canceled and thereafter shall not be available for obligation or expenditure for any purpose” and that “[c]ollections authorized or required to be credited to an appropriation account, but not received before closing of the account under subsection (a) or under section 1555 of this title, “Closing of appropriation accounts available for indefinite periods,” shall be deposited in the Treasury as miscellaneous receipts.”

**Audit Results**

**Finding A. Expired Grant Funds May Be Deobligated and Used for Other Purposes**

OIG analysis of PMS data as of March 1, 2012,<sup>16</sup> found that ECA, PRM, and A/LM/AQM had 865 expired<sup>17</sup> grants<sup>18</sup> with unspent funds totaling approximately \$67.4 million that had not been closed. PMS also reported that ECA, PRM, and A/LM/AQM had 1,155 expired grants that had zero<sup>19</sup> balances. OIG selected 60 expired grants in its sample for review, but subsequently learned that nine of those grants were still active and not eligible for closeout procedures.<sup>20</sup> According to PMS, of the 51 expired grants that OIG reviewed, 22 had unspent funds totaling approximately \$26.6 million and 29 expired grants had zero balances that had not been closed and deleted from PMS. However, according to GFMS, those same 22 grants as of March 1, 2012, had unspent funds of approximately \$15.6 million that had not been deobligated.

Expired grants with unspent funds and zero balances existed in PMS because ECA, PRM, and A/LM/AQM officials and grants officers had not always complied with the Department's closeout policies and procedures to ensure that grants were properly closed after performance periods had ended. Specifically, bureau officials had not always obtained final financial reports or final NICRAs from their recipients, were not always able to get all accounts to balance in PMS,<sup>21</sup> and had not always maintained proper oversight of grants to ensure timely closeout. In addition, the Department had not established procedures for the periodic review and reporting of expired grants; therefore, expired grants with zero balances had not been properly closed and deleted from PMS, costing the three bureaus a combined total of approximately \$79,000 in unnecessary administrative fees in 2011.

As a result, according to GFMS as of March 1, 2012, the 22 expired grants with unspent funds totaling approximately \$15.6 million had not been deobligated and used for other authorized purposes. In addition, according to PMS data as of March 1, 2012, ECA, PRM, and A/LM/AQM, had additional expired grants with approximately \$40.8 million in associated unspent funds that may also be deobligated and redirected for other authorized purposes.

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<sup>16</sup> For the purposes of this report, OIG's analysis of PMS data as of March 1, 2012, also included a 120-day closure period that is allotted to grants officials for grant closeout.

<sup>17</sup> OIG defines expired grant accounts as those for which 120 calendar days have elapsed since the end of a grant's period of performance.

<sup>18</sup> During initial analysis, OIG treated each of the 60 sampled lines from the PMS database as individual grants. However, OIG later determined that each line of PMS data reflected grant transaction lines rather than individual grants. As a result, OIG combined multiple transaction lines (by grant number) to form a comprehensive picture of the grants represented in the sample. Additional information on data limitations is included in Appendix A.

<sup>19</sup> For purposes of this report, zero balances also include negative balances. Negative balances are caused by funds being overdrawn on a transaction line. However, negative balances occurring in this audit's universe were negligible, so negative balances were not addressed.

<sup>20</sup> Of the nine active grants, six grants had extended periods of performance that the bureaus had not entered in the PMS database and three grants were mistakenly chosen by OIG.

<sup>21</sup> The accounts that must balance in PMS are the authorization account, the disbursement account, and the drawdown account.

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**Universe of Expired Grants With Unspent Funds**

As of March 1, 2012, PMS data, as analyzed by OIG, indicated that the Department had 955 expired grants with unspent funds totaling approximately \$81.9 million. From that universe, ECA, PRM, and A/LM/AQM had a total of 865 expired grants with unspent balances totaling approximately \$67.4 million, which represented 82 percent of all unspent funds associated with the Department's grants. In addition, the three bureaus had a total of 1,155 (81 percent) of the Department's 1,421 expired grants with zero balances recorded in PMS, as shown in Table 1.

**Table 1. Expired Grants With and Without Unspent Balances  
(as of March 1, 2012)**

| <b>Bureau</b>   | <b>Number of Grants With Unspent Amounts</b> | <b>Unspent Amounts</b> | <b>Percentage of Total of Unspent Amount</b> | <b>Number of Zero Balance Grants</b> |
|---|--|------------------------|--|--------------------------------------|
| Bureau of Educational and Cultural Affairs  | 402  | \$29,173,274           | 35.61  | 365                                  |
| Bureau of Population, Refugees and Migration  | 212  | \$21,549,321           | 26.30  | 436                                  |
| Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management | 251  | \$16,691,532           | 20.37  | 354                                  |
| Bureau of Near Eastern Affairs  | 21   | \$5,970,684            | 7.29   | 27                                   |
| Bureau of Diplomatic Security   | 4  | \$4,560,301            | 5.57   | 9                                    |
| Bureau of International Narcotics and Law Enforcement Affairs                               | 12   | \$2,556,659            | 3.12   | 13                                   |
| Bureau of Political-Military Affairs  | 28   | \$933,346              | 1.14   | 168                                  |
| Office to Monitor and Combat Trafficking in Persons   | 23   | \$400,929              | .49  | 45                                   |
| Bureau of African Affairs   | 1  | \$96,546               | .12  | 1                                    |
| Bureau of Oceans and International Environmental and Scientific Affairs                     | 1  | \$2,334                | .00  | 3                                    |
| <b>Total</b>  | <b>955</b>                                   | <b>\$81,934,926</b>    | <b>100</b>                                   | <b>1,421</b>                         |

Source: OIG analysis of PMS account data, as of March 1, 2012.

From the PMS database, OIG judgmentally selected for review a total of 60 expired grants, or 20 expired grants each from ECA, PRM, and A/LM/AQM. At each bureau, 10 grants with unspent balances and 10 grants with zero balances were chosen. OIG requested official grant files for the 10 grants with the highest unspent balances and for the 10 grants with zero balances that had the oldest performance period end dates. During OIG's review of the official grant files, OIG learned that nine of 60 grants selected were active. Therefore, OIG's review of a sample of expired grants in PMS was limited to 51 expired grants. The 60 grants selected for review for ECA, PRM, and A/LM/AQM are summarized in Appendices B, C, and D, respectively.

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**Closeout of Expired Grants With Unspent Funds**

OIG reviewed a sample of 51 ECA, PRM, and A/LM/AQM expired grants from the PMS database and found 22 grants that had unspent funds of \$26.6 million. However, according to GFMS, those same 22 grants had approximately \$15.6 million in unspent funds as of March 1, 2012. Of the 22 grants, depending on the appropriation period, associated funds may be deobligated in GFMS and used for other authorized purposes. If closeout action is not initiated as soon as possible, the three bureaus could lose the opportunity to use the remaining unspent funds in GFMS that are available to the Department for other authorized program activities.

**ECA Grants With Unspent Funds**

In OIG's sample of 10 ECA expired grants with unspent funds, OIG found that nine grants, according to PMS, totaling approximately \$10.4 million in unspent funds, should have been closed. However, according to GFMS, those same nine ECA grants had approximately \$5.3 million in unspent funds as of March 1, 2012. Before continuing with the final closeout of these nine grants, ECA should reconcile the PMS database with GFMS to determine the exact amount that could be deobligated and used for other purposes.

As shown in Table 2, the nine grants included six grants with no-year funds and three grants which could not be determined. The appropriation periods for the six grants with no-year funds were still available and funds totaling \$4.7 million in GFMS should be deobligated and used for other designated purposes. For the three grants with undetermined appropriation periods, ECA needs to identify whether the \$619,850 in unspent funds could be deobligated and used for other authorized purposes. The remaining grant (No. SECAAL09CA176) of the 10 selected grants with unspent funds was still active.

**Table 2. Expired ECA Grants With Unspent Funds**

| <b>Grant Number</b> | <b>Type of Funds</b> | <b>Unspent Funds in PMS</b> | <b>Unspent Funds in GFMS</b> | <b>Difference</b>  |
|---------------------|----------------------|-----------------------------|------------------------------|--------------------|
| SECAPV09CA006       | No-year              | \$776,719                   | \$776,719                    | \$0                |
| SECAPY08GR196       | No-year              | \$763,650                   | \$763,650                    | \$0                |
| SECAPV10CA016       | No-year              | \$1,053,748                 | \$1,053,748                  | \$0                |
| SECAPV08CA011       | No-year              | \$752,896                   | \$752,896                    | \$0                |
| SECAPY07GR152       | No-year              | \$681,459                   | \$681,459                    | \$0                |
| SECAAS07CA039       | No-year              | \$641,576                   | \$641,576                    | \$0                |
|                     |                      | <b>\$4,670,048</b>          | <b>\$4,670,048</b>           | <b>\$0</b>         |
| PYCS0341            | Undetermined         | \$3,985,485                 | \$0                          | \$3,985,485        |
| SECAAE05CA021       | Undetermined         | \$936,568                   | \$4,514                      | \$932,054          |
| SECAPV08CA017       | Undetermined         | \$760,040                   | \$615,336                    | \$144,704          |
|                     |                      | <b>\$5,682,093</b>          | <b>\$619,850</b>             | <b>\$5,062,243</b> |
| <b>Totals*</b>      |                      | <b>\$10,352,141</b>         | <b>\$5,289,898</b>           | <b>\$5,062,243</b> |

Source: OIG analysis of PMS and GFMS account data as of March 1, 2012, and ECA grant files.

\*During this audit, ECA reduced the total amount of unspent funds that could be closed in PMS from \$10.4 million to \$9.6 million. ECA also reduced the total amount of unspent funds in GFMS from \$5.3 million to \$3.3 million.

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As of March 1, 2012, OIG analysis of PMS data determined that ECA had an additional 393 expired grants, with unspent funds totaling approximately \$18.8 million, beyond what was included in OIG's sample. These additional expired grants should be reviewed to determine whether those funds can also be deobligated and used for other purposes.

A February 2012 OIG Office of Inspections report<sup>22</sup> on ECA recommended that ECA implement a plan to close out outstanding grants that were more than 24 months past their end date. In response to the recommendations, ECA identified about 500 outstanding grants that were more than 24 months past their end date. In ECA's compliance response to the report, ECA stated that most awards remained open because of outstanding NICRA issues. The response further stated that the ECA Grants Division had hired grants specialists who would place a high priority on closing out these older grants.

**PRM Grants With Unspent Funds**

In OIG's sample of 10 PRM expired grants with unspent funds, OIG found that according to PMS, approximately \$13.4 million in funds had not been expended. However, according to GFMS as of March 1, 2012, those same 10 PRM grants had approximately \$10.3 million in unspent funds. Before continuing with the final closeout of these 10 grants, PRM should reconcile the PMS database with GFMS to determine the exact amount that could be deobligated and used for other purposes.

As shown in Table 3, the appropriation periods for the 10 PRM grants had not expired because they were no-year funds, and as a result, the Department could use the \$10.3 million in unspent funds for other authorized purposes. However, as of December 2012, PRM closed four of these grants in PMS reducing the amount to be closed to \$8.4 million, and showed zero balances for five of these grants in GFMS, reducing the unspent funds in GFMS to \$6.1 million.

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<sup>22</sup> ISP-I-12-15.

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**Table 3. Expired PRM Grants With Unspent Funds**

| <b>Grant Number</b> | <b>Type of Funds</b> | <b>Unspent Funds in PMS</b> | <b>Unspent Funds in GFMS</b> | <b>Difference</b>  |
|---------------------|----------------------|-----------------------------|------------------------------|--------------------|
| SPRMCO09CA018       | No-year              | \$3,083,124                 | \$0                          | \$3,083,124        |
| SPRMCO10CA040       | No-year              | \$2,242,029                 | \$2,242,029                  | \$0                |
| SPRMCO09CA012       | No-year              | \$1,580,485                 | \$1,580,485                  | \$0                |
| SPRMCO08CA008       | No-year              | \$1,443,786                 | \$1,443,786                  | \$0                |
| SPRMCO10CA018       | No-year              | \$1,147,779                 | \$1,147,779                  | \$0                |
| SPRMCO09CA022       | No-year              | \$1,138,686                 | \$1,138,686                  | \$0                |
| SPRMCO10CA020       | No-year              | \$905,882                   | \$905,882                    | \$0                |
| SPRMCO09CA017       | No-year              | \$807,308                   | \$807,308                    | \$0                |
| SPRMCO08CA016       | No-year              | \$576,781                   | \$576,781                    | \$0                |
| SPRMCO09CA011       | No-year              | \$436,865                   | \$436,865                    | \$0                |
| <b>*Totals</b>      |                      | <b>\$13,362,725</b>         | <b>\$10,279,601</b>          | <b>\$3,083,124</b> |

Source: OIG analysis of PMS and GFMS account data as of March 1, 2012, and PRM grant files.

\*During this audit, PRM reduced the total amount of unspent funds that could be closed in PMS from \$13.4 million to \$8.4 million. PRM also reduced the total amount of unspent funds in GFMS from \$10.3 million to \$6.1 million.

As of March 1, 2012, OIG analysis of PMS data determined that PRM had an additional 202 expired grants, with unspent funds totaling approximately \$8.2 million, beyond what was included in OIG's sample. These additional expired grants should be reviewed to determine whether funds associated with these grants can also be deobligated and used for other purposes.

Prior to OIG's commencement of audit fieldwork, PRM engaged the services of a public accounting firm to assist in closing out more than 500 expired grants. Based on the accounting firm's results, PRM notified the grant recipient as to whether the recipient was owed or owed money to the Department, and PRM subsequently deobligated any remaining unspent funds. Prior to March 1, 2012, timely grant closeouts allowed PRM to potentially reprogram unspent funds for other authorized purposes. In total, as of January 2012, unspent funds of about \$16 million were deobligated as a result of this effort.

### **A/LM/AQM Grants With Unspent Funds**

OIG selected a sample of 10 A/LM/AQM expired grants in PMS with unspent funds for review. However, OIG subsequently learned that one of the 10 A/LM/AQM grants with zero balances selected for review actually had unspent funds.<sup>23</sup> Therefore, OIG sampled 11 A/LM/AQM grants from the PMS database with unspent funds and found that eight of the 11 sampled grants were active. Of the eight active grants, six were erroneously listed in PMS as "inactive" and the other two grants were mistakenly added into OIG's sample. The remaining three expired grants had unspent funds totaling approximately \$2.9 million in PMS that should be closed. However, those same three expired grants had no unspent funds (zero balances) in GFMS. Before continuing with the final closeout of those three grants, A/LM/AQM should

<sup>23</sup> The error in OIG's sample selection was due to data limitations that were later identified during OIG's review of PMS data and individual grant files. Additional information is included in Appendix A.

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reconcile the PMS database with GFMS to determine why PMS does not reflect zero balances for the three grants.

As shown in Table 4, the three expired grants with unspent funds included one grant with multi-year funds, one grant with one-year funds, and one where the type of funds could not be determined. For the two grants with multi- and one-year funds, the appropriation periods for these grants had ended and GFMS showed a zero balance as of March 1, 2012, signifying that those funds were no longer available for use. The grant for which funds could not be determined was closed by A/LM/AQM in December 2012.

**Table 4. Expired A/LM/AQM Grants With Unspent Funds**

| <b>Grant Number</b> | <b>Type of Funds</b> | <b>Unspent Funds in PMS</b> | <b>Unspent Funds in GFMS</b> | <b>Difference</b>  |
|---------------------|----------------------|-----------------------------|------------------------------|--------------------|
| SLMAQM04GR038       | Multi-year           | \$2,226,594                 | \$0                          | \$2,226,594        |
| SLMAQM03H0048       | One-year             | \$217,626                   | \$0                          | \$217,626          |
| SLMAQM06GR045*      | Undetermined         | \$416,772                   | \$0                          | \$416,772          |
| <b>Totals</b>       |                      | <b>\$2,860,992</b>          | <b>\$0</b>                   | <b>\$2,860,992</b> |

Source: OIG analysis of PMS and GFMS account data as of March 1, 2012, and AQM grant files.

\*During this audit, A/LM/AQM reduced the total amount of unspent funds that could be closed in PMS from \$2.9 million to \$2.4 million (difference due to rounding).

As of March 1, 2012, OIG analysis of PMS data determined that A/LM/AQM had an additional 248 expired grants with unspent funds totaling approximately \$13.8 million beyond what was included in OIG's sample. These additional expired grants should be reviewed to determine whether funds associated with those grants can also be deobligated and used for other purposes.

### **Closeout of Expired Grants With Zero Balances**

As of March 1, 2012, PMS data as analyzed by OIG reported that 1,421 Department grants were expired with zero balances. Of the 1,421 grants, 1,155 grants belonged to ECA (365), PRM (436), and A/LM/AQM (354).<sup>24</sup> PMS showed that, for OIG's sample, the periods of performance for these associated grants had been expired from 8 to 20 years. The total of 1,155 expired grants with zero balances for ECA, PRM, and A/LM/AQM is significant because these inactive grant accounts continued to incur annual PMS account fees of approximately \$68.31 per account, or approximately \$79,000 annually<sup>25</sup> for the three bureaus.

### **Management Emphasis Needed for Timely Grant Closeout and Grants Officer Accountability**

ECA, PRM, and A/LM/AQM officials and bureau grants officers did not always comply with Department closeout policies and procedures to ensure that grants were closed after their

<sup>24</sup> As of December 2012, ECA closed six grants, PRM closed three grants, and AQM closed seven grants from OIG's sample, resulting in remaining zero balance grants of 359, 433, and 347 for the three bureaus, respectively.

<sup>25</sup> The \$68.31 individual grant fee and the \$79,000 total were the fees charged for grants in PMS in 2011.

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performance periods had ended. The *Foreign Affairs Handbook*<sup>26</sup> (FAH) requires bureaus to make prompt payment to the grant recipient for allowable and reasonable costs still owed under the award being closed out. Conversely, the Department should collect all funds owed by the grant recipient at the end of a grant's period of performance. GPD 41, Revision 2, dated January 2, 2013, requires the grant recipient to submit all final financial and program reports required by a grant's terms and conditions within 90 calendar days after the end of the grant's period of performance.<sup>27</sup> Once the grants officer receives these documents, the grants officer has 30 calendar days to do the following:

- Reconcile any cost or expenditure discrepancies.
- Pay any allowable costs.
- Collect any unexpended funds or disallowed costs.
- Request that the bureau financial management officer or budget officer deobligate any excess funds.

However, ECA, PRM, and A/LM/AQM officials stated that grant closeout had been difficult because of limited staff and troubles encountered with obtaining the proper documents from the grantee. For example, an A/LM/AQM grants officer stated that at one time he was responsible for the administration and oversight of over 500 grants. In another instance, an ECA official stated that when the U.S. Information Agency merged with the Department, the Department did not have the expertise to manage such a dramatic increase in new grant awards while continuing to administer the expiring grants. Therefore, without proper oversight and a prompt review of grant costs, the Department could not be assured that recipients used grant funds for authorized purchases or program activities. In addition, the grant recipient may not have spent the full amount advanced to the project, or the award activities may have cost less than what was anticipated. In those cases, the Department is required to collect all unused funds.

Although the Department had procedures for closing out grants, the Department had not established specific procedures for the periodic review and reporting of expired grant accounts. The Department's grants officers and GORs did not periodically query available PMS reports on expired funds as part of the grant closure process. Therefore, without periodic queries, the bureaus that administer grants cannot ensure that PMS accounts are accurate and up to date. In addition, this weakness may expose the Department to waste, fraud, and mismanagement.

To improve the financial management of grant funds, a metrics program for grant closure could provide focus in improving performance. The metrics to be developed by bureau supervisors for grants officers and GORs should draw attention to this financial management problem by setting performance goals and encouraging staff to be innovative in attaining the overall goal of providing timely closeout of expired grants while reducing the current backlog. For a metrics program to be effective, the metrics should be well defined, capable of being properly measured, and able to be verified.

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<sup>26</sup> 4 FAH-3 H-680, "Closeout," and 4 FAH-3 H-682, "Procedures."

<sup>27</sup> Reporting requirements are also required by the Code of Federal Regulations, Title 22, "Foreign Relations," pt. 145, sbpt. D, §145.71, "Closeout procedures," and 4 FAH-3 H-682, "Procedures," both of which also state that extensions may be approved when requested by the recipient.

## **Management Action Taken To Prioritize the Closing of Grants**

Since OIG began this audit, the Department had taken action to close out expired grants in PMS. Specifically, as of December 2012, according to bureau officials, the bureaus had closed 22 of 51 grants selected by the OIG for review that were eligible for closeout. (The dispositions of the grants in OIG's sample, as of December 2012, are provided in Appendices B, C, and D.) The bureaus also attempted to close other expired grants that were unsuccessful because of reasons outside of the Department's control. For example, the grant recipient is required to submit its final NICRA and final financial and progress reports before grants officers can properly close a grant. If these documents are not received in a timely manner, the grants officer cannot ensure that costs and payments are finalized or that the program was conducted in accordance with the goals of the award and therefore cannot properly close the grant.

Further, the grants officer must also review the amounts in PMS (the authorized, disbursed, and drawdown amounts) and ensure that all three amounts agree before closeout procedures can be applied. The three amounts in PMS for a particular grant do not always agree for various reasons. For example, for Grant SPRMCO03CA101, the authorized amount and drawdown accounts balanced, but the disbursement account was understated by 25 cents. PRM contacted the grant recipient to request that it make an adjustment in PMS, but the recipient had been nonresponsive. PRM subsequently requested that HHS manually adjust the disbursement amount so the grant could be closed, but as of December 2012, the adjustment had not been made.

When attempts to close grants were unsuccessful, expired grants continued to age and expired grant funds remained inactive. Further, unnecessary administrative fees continued to be charged for open grants in PMS on an annual basis. In times of fiscal austerity, the opportunity to make expired grant funds available for other authorized uses is significant for ECA, PRM, and A/LM/AQM. Elevating the priority of closing out expired grant accounts could allow the bureaus to identify and redirect unused funds, as authorized, or to ensure unspent balances are properly deposited with the U.S. Treasury.

**Recommendation 1.** OIG recommends that the Bureau of Educational and Cultural Affairs review the remaining eight expired grants from the March 1, 2012, OIG sample and (a) reconcile the approximately \$9.6 million in the Payment Management System (PMS) to the approximately \$3.3 million recorded in the Global Financial Management System to appropriately deobligate and potentially use available funds for other designated purposes and (b) subsequently close those grants in PMS to avoid unnecessary administrative fees.

**ECA Response:** ECA concurred with the recommendation, stating that it had tasked its Grants and Budget Division with immediate reconciliation and closeout of grants consistent with the requirements imposed in GPD 41. In an attachment to its response, ECA provided the statuses of the eight expired grants from OIG's March 1, 2012, sample that were discussed in Recommendation 1. Of the eight awards, three were closed in PMS, two were in the closeout process, one was partially closed, and two remained open. ECA also noted the additional steps it had taken to reduce the total number of outstanding

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awards, to include performing final reconciliations, matching the funds in GFMS with funds in PMS and with financial reports, and moving awards to final deobligation.

**OIG Reply:** OIG considers the recommendation resolved. This recommendation can be closed when OIG reviews and accepts documentation showing, for the five expired grants from OIG's sample that were either closed or were in the closeout process, that ECA has reconciled the remaining funds in PMS to the remaining funds in GFMS and has appropriately deobligated associated funds and that ECA has also closed those five grants in PMS. OIG also requests, for the remaining three expired grants from OIG's sample that were either partially closed or open, documentation showing that ECA has reconciled the remaining funds in PMS to the remaining funds in GFMS and has appropriately deobligated associated funds and that ECA has also closed those three grants in PMS once those actions have been taken.

**Recommendation 2.** OIG recommends that the Bureau of Educational and Cultural Affairs (a) review the remaining 393 expired grants, totaling approximately \$18.8 million, in the Payment Management System (PMS) as of March 1, 2012, to determine whether the funds associated with those grants can be deobligated in the Global Financial Management System and used for other purposes and (b) subsequently close those grants in PMS to avoid unnecessary administrative fees.

**ECA Response:** ECA concurred with the recommendation, stating that it had tasked its Grants and Budget Division with immediate reconciliation and closeout of grants consistent with the requirements imposed in GPD 41. ECA specifically stated that through mitigating steps implemented throughout 2012, it had reduced the reported number of expired and/or inactive grants from this recommendation, 393 grants, by more than 170 grants subsequent to OIG's audit.

**OIG Reply:** OIG considers the recommendation resolved. This recommendation can be closed when OIG reviews and accepts documentation showing, for the more than 170 grants closed in PMS subsequent to OIG's audit, that funds associated with those grants were deobligated in GFMS and that those grants were closed in PMS. For the remaining grants, OIG needs to review and accept documentation showing ECA's ongoing efforts to review, reconcile, and close those grants accordingly.

**Recommendation 3.** OIG recommends that the Bureau of Educational and Cultural Affairs close the remaining 359 zero balance grants that have expired in the Payment Management System as of March 1, 2012, to avoid unnecessary administrative fees.

**ECA Response:** ECA concurred with the recommendation, stating that it had tasked its Grants and Budget Division with immediate reconciliation and closeout of grants consistent with the requirements imposed in GPD 41.

**OIG Reply:** OIG considers the recommendation resolved. This recommendation can be closed when OIG reviews and accepts documentation showing that the remaining 359 zero balance grants as of March 1, 2012, have been closed in PMS.

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**Recommendation 4.** OIG recommends that the Bureau of Population, Refugees and Migration review the remaining six expired grants from the March 1, 2012, OIG sample and (a) reconcile the approximately \$8.4 million in the Payment Management System (PMS) to the approximately \$6.1 million recorded in the Global Financial Management System to appropriately deobligate and potentially use available funds for other designated purposes and (b) subsequently close those grants in PMS to avoid unnecessary administrative fees.

**PRM Response:** PRM concurred with the recommendation, stating that it had reconciled the PMS records to the GFMS records for the awards in question and had made the appropriate adjustments. Specifically, PRM stated that for the 10 awards listed in Table 3 of OIG's report, five had final closeout amendments issued and accepted. PRM further stated that for the remaining five awards, three involved one organization that was working with PRM to submit final financial reports based on final audits and that those three awards would be closed upon receipt of the final financial reports. PRM explained that the remaining two awards involved one organization that was working to receive its final NICRAs, which would enable the organization to submit its final financial reports, and that these two awards would be closed upon receipt of the final financial reports. PRM concluded that for the five remaining awards, it had received or anticipated receiving refunds and that maintaining the open PMS accounts associated with these awards was a useful tool and reminder to both the grantee and PRM that closeout work remains to be accomplished.

**OIG Reply:** OIG considers the recommendation resolved. This recommendation can be closed when OIG reviews and accepts documentation showing, for the one award that was closed in PMS after December 2012, that PRM has reconciled the remaining funds in PMS with the remaining funds in GFMS and has appropriately deobligated associated funds and that PRM has also closed that grant in PMS. For the remaining five expired grants from OIG's sample that PRM is working to close, OIG needs to review and accept documentation showing that PRM has reconciled the remaining funds in PMS with the remaining funds in GFMS and has appropriately deobligated associated funds and that PRM has also closed those five grants in PMS once those actions have been taken.

**Recommendation 5.** OIG recommends that the Bureau of Population, Refugees and Migration (a) review the remaining 202 expired grants, totaling approximately \$8.2 million, in the Payment Management System (PMS) as of March 1, 2012, to determine whether the funds associated with those grants can be deobligated in the Global Financial Management System and used for other purposes and (b) subsequently close those grants in PMS to avoid unnecessary administrative fees.

**PRM Response:** PRM concurred with the recommendation, stating that it continued to prioritize the closing of prior year awards with in-house grants and financial officer staff augmented by contractor support. PRM further stated that it could not use available PMS reports to reconcile to the 202 grants attributed to PRM in the recommendation but that the PMS Close-Out Special Audit Report dated April 1, 2013, for the quarter ending March 31, 2013, listed 211 subaccounts that were coded as open, of which 17

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subaccounts had been closed by PRM. PRM concluded that for the remaining open grants in PMS, issues preventing closeouts varied from not having final reports to not having NICRAs or other technical issues and that the closeouts required involvement by multiple Department and HHS staff. PRM stated that each of the associated awards and accounts was being worked to allow final closeout for subaccounts associated with these awards.

**OIG Reply:** OIG considers the recommendation resolved. This recommendation can be closed when OIG reviews and accepts documentation showing, for the 17 grants that PRM closed in PMS subsequent to OIG's audit, that funds associated with those grants were deobligated in GFMS and those grants were closed in PMS. In addition, for the remaining grants, OIG needs to review and accept documentation showing PRM's ongoing efforts to review, reconcile, and close those grants accordingly.

**Recommendation 6.** OIG recommends that the Bureau of Population, Refugees and Migration close the remaining 433 zero balance grants that have expired in the Payment Management System as of March 1, 2012, to avoid unnecessary administrative fees.

**PRM Response:** PRM concurred with the recommendation, stating that it had adjusted its closeout process to incorporate PMS closeout transactions as part of the formal closeout of the award. PRM further stated that it could not use available PMS reports to reconcile to the 433 grants attributed to PRM in the recommendation but that the PMS Close-Out Special Audit Report dated April 1, 2013, for the quarter ending March 31, 2013, listed 248 subaccounts that were coded with the authorized, disbursed, and charged amounts being equal. PRM concluded that of these 248 subaccounts, 235 subaccounts were closed and 13 remained open because closing the account was not supported by the status of the underlying assistance award.

**OIG Reply:** OIG considers the recommendation resolved. This recommendation can be closed when OIG reviews and accepts documentation showing that the 235 zero balance subaccounts from the PMS Close-Out Special Audit Report cited were closed in PMS. In addition, for the remaining 13 open grants, OIG needs to review and accept documentation showing PRM's ongoing efforts to review, reconcile, and close those grants accordingly.

**Recommendation 7.** OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, review the remaining two expired grants from the March 1, 2012, OIG sample and (a) reconcile the approximately \$2.4 million in the Payment Management System (PMS) to the zero balances recorded in the Global Financial Management System and (b) subsequently close those grants in PMS to avoid unnecessary administrative fees.

**A/LM/AQM Response:** A/LM/AQM concurred with this recommendation, stating that it had reconciled the remaining two grants from OIG's sample and that both grants reflected a zero balance in PMS and in GFMS. A/LM/AQM further stated that Grant SLMAQM04GR038 had been closed in PMS but that Grant SLMAQM03H0048 was still

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being shown as “pending” in PMS. A/LM/AQM concluded that the responsible grants officer was working with officials from the applicable bureau and HHS to correct the problem.

**OIG Reply:** OIG considers the recommendation resolved. This recommendation can be closed when OIG reviews and accepts documentation showing, for the two remaining grants from OIG’s sample, that A/LM/AQM has reconciled the remaining funds in PMS with the remaining funds in GFMS and has appropriately deobligated associated funds and that A/LM/AQM has closed those two grants in PMS.

**Recommendation 8.** OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, (a) review the remaining 248 expired grants, totaling approximately \$13.8 million, in the Payment Management System (PMS) as of March 1, 2012, to determine whether the funds associated with those grants can be deobligated in the Global Financial Management System and used for other purposes and (b) subsequently close those grants in PMS to avoid unnecessary administrative fees.

**A/LM/AQM Response:** A/LM/AQM concurred with this recommendation, stating that it had closed “hundreds of grants” through administrative and regular closeout procedures, would continue to prioritize closeout actions, and would review all expired grants with the goal of deobligating and recovering as much funding as possible.

**OIG Reply:** OIG considers the recommendation resolved. This recommendation can be closed when OIG reviews and accepts documentation showing A/LM/AQM’s ongoing efforts to ensure that funds associated with A/LM/AQM grants are deobligated in GFMS and that A/LM/AQM grants are closed in PMS.

**Recommendation 9.** OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, close the remaining 347 zero balance grants as of March 1, 2012, that have expired in the Payment Management System to avoid unnecessary administrative fees.

**A/LM/AQM Response:** A/LM/AQM concurred with this recommendation, stating that it had closed “hundreds of grants” through administrative and regular closeout procedures and that it would continue to prioritize closeout actions in order to reduce administrative fees in PMS.

**OIG Reply:** OIG considers the recommendation resolved. This recommendation can be closed when OIG reviews and accepts documentation showing A/LM/AQM’s ongoing efforts to review, reconcile, and close zero balance grants accordingly.

**Recommendation 10.** OIG recommends that the Bureau of Educational and Cultural Affairs; the Bureau of Population, Refugees and Migration; and the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, in coordination with the Office of the Procurement Executive, establish specific procedures

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that require grants officers and grants officer representatives to periodically report to their respective bureau on the progress of completing timely closeout of expired grants.

**Management Responses:** ECA, PRM, and A/LM/AQM concurred with the recommendation. ECA stated that it had tasked the immediate reconciliation and closeout with the Grants and Budget Division consistent with the requirements imposed in GPD 41. ECA further stated that it was taking proactive steps, including the use of ECA-specific guidance, to report metrics associated with the closeout of expired and/or inactive but open awards. PRM stated that its Office of Comptroller would implement procedures to report, on a quarterly basis to the PRM Assistant Secretary, the status of prior year awards, including awards closed, amounts recovered, and awards eligible for closure. A/LM/AQM stated that it would work with the Office of the Procurement Executive on establishing specific procedures.

**OIG Reply:** OIG considers the recommendation resolved. This recommendation can be closed when OIG reviews and accepts documentation showing that the three bureaus have established specific procedures that require grants officers and GORs to periodically report to their respective bureaus their progress in closing out expired grants in a timely manner.

**Recommendation 11.** OIG recommends that the Bureau of Educational and Cultural Affairs; the Bureau of Population, Refugees and Migration; and the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, in coordination with the Office of the Procurement Executive, develop performance metrics for bureau grants officers and grants officer representatives that will provide for timely grant closeout of expired grants while reducing the current backlog.

**Management Responses:** PRM concurred with the recommendation, stating that performance plans for personnel within its Office of Comptroller already included closeout requirements but that these plans would be adjusted appropriately to enhance the metrics for timely closeout. A/LM/AQM also concurred with the recommendation, stating that it would work with A/OPE to establish performance metrics. However, ECA did not concur with the recommendation, stating that since grant awards are “inherently different” based on amount, budget, program, scope, purpose, length, and duration of performance, adopting a singular performance metric for closeout would be “administratively burdensome” and would “frustrate the process both in theory and application.” ECA further stated that applying one standard performance-based metric and applying this standard between the various lines of the business process “is not feasible given the current climate of the grants management line of business.”

**OIG Reply:** OIG considers the recommendation unresolved because of ECA’s nonconcurrence. OIG recognizes ECA’s concerns presented in its response but maintains that holding grants officers and GORs accountable for the timely closeout of grants through their performance standards would be an effective and necessary way to improve the overall financial management of grant funds. Further, OIG would like to note that both PRM and A/LM/AQM concurred with the recommendation and PRM had already

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included closeout requirements in performance plans for personnel within its Office of Comptroller. Therefore, we request that ECA reconsider its response to the recommendation or provide an acceptable alternative action.

This recommendation can be closed for PRM and A/LM/AQM when OIG reviews and accepts documentation showing that each bureau has developed and/or updated performance metrics for their respective grants officers and GORs that will provide for expired grants to be closed out in a timely manner while reducing the current backlog.

### **Finding B. Maintenance of Official Grant Files Needs Improvement**

OIG found that ECA, PRM, and A/LM/AQM grants management personnel had not always adequately maintained official grant files and that documents required for grant closeout were often missing, incomplete, or inaccurate. OIG also found that financial information in the official grant files was not always consistent with the financial information recorded in PMS. This occurred because ECA, PRM, and A/LM/AQM grants officers and other responsible program and financial officials did not always fully execute their responsibilities during the grant life cycle. Specifically, the grants officers did not always maintain obligating documents, include GOR designation memorandums in the files, obtain final financial reports, or reconcile grant funds during the grant performance period. In some instances, grants officers were not assigned continuous responsibility for administration and monitoring of these grants. The lack of accurate and complete documentation during a grant's life cycle negatively affects the ability of the Department to properly close out grants.

#### **Documentation Required for Complete and Timely Closeout**

OIG reviewed 37<sup>28</sup> grant files that were eligible for closeout procedures. OIG found that only six of 37 official grant files reviewed were properly documented for grant closeout as required by applicable policies. In addition, OIG found that the data in PMS accounts was not always up to date and accurate. Authorizations were often inaccurate because grants officers focused on other priorities. Therefore, the PMS system did not always reflect the current financial status as documented in the grant files.

On April 16, 2003, the Department issued GPD 23, "Federal Assistance File Folder – Form DS-4012," which requires the use of a standardized form for all Federal assistance actions, regardless of size, scope, or cost. This requirement became mandatory for all Department grants, cooperative agreements, and other Federal assistance actions on October 1, 2003. This GPD states that the use of the DS-4012 form would "ensure that the required documentation supporting the issuance and management of each assistance award is present and complete, and provide the Department with a standardized, user-friendly system of keeping track of assistance activities." Required documentation included, but was not limited to, the signed Federal agreement and any amendments; the GOR designation memorandum; and significant reports, including financial, performance, and site visit reports. Revision 2 of this GPD, effective

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<sup>28</sup> Only 37 of the original sample of 60 grant files could be tested for compliance with Department policies and procedures for various reasons, which are detailed in Appendix A.

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March 2008,<sup>29</sup> further requires that the file folder maintain “final financial reports and documents pertaining to the closure of the award obligation” for purposes of financial reconciliations.

The initial issuance of GPD 41, “Close-out of Federal Assistance Awards,” effective April 2010,<sup>30</sup> established the procedures for closing out Federal assistance instruments. The policy states that final financial reports should be reviewed by grants officers “to verify accuracy and compliance with the budget and Terms and Conditions of the award.” This policy also details the series of steps that are required for the financial review and reconciliation of funds before closeout can occur, including reviewing amounts (authorized, disbursed, and advanced charged) documented in PMS in order to ensure that all three amounts agree.

### **Documentation Required for the Federal Assistance File Folder**

OIG found that grants officers and program officials for 14 (38 percent) of 37 grants reviewed had attempted to complete the closeout process. Nevertheless, the documents needed to ensure a complete Federal assistance file and to properly close the grants were often missing, were never prepared, or had not been submitted by the recipient.

For example, OIG reviewed 36 grants that were active during or after October 2003 and found that three grants (8 percent) did not have all obligating documents, such as amendments, as required by GPD 23 mandated for all grants October 1, 2003. Further, OIG found that 29 (81 percent) of 36 grants reviewed did not have a GOR designation memorandum in the file, also required by GPD 23, Revision 2, effective March 2008. According to officials at the three bureaus included in OIG’s audit, grants officers and GORs were not always assigned continuous responsibility for administration and monitoring of these grants, and this omission may have contributed to the lack of complete and accurate documents in the official grant files throughout the grant life cycle.

OIG also found that grants officers did not always have the final financial report in the grant files, pursuant to GPD 23, which states that the final financial reports should be maintained in the grants file. OIG found that only eight (44 percent) of 18 grants reviewed that were active during or after March 2008 had final financial reports in the grant files. Final financial reports are used by grants officers to verify that the amount of Government funds expended on the project was in accordance with the budget and terms of the award and to verify that all expenses incurred were properly reported. An A/LM/AQM official stated that some grant recipients whose grants had expired may no longer be associated with the Department and that they therefore may not have been motivated to provide the bureaus with final reports.

### **Documentation Required for Financial Management**

OIG found that grant files did not always contain complete and accurate reconciliations, as required by GPD 41, which was effective April 2010. Specifically, only one (14 percent) of

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<sup>29</sup> As of February 2013, GPD 23, Revision 2, “Federal Assistance File Folder – Form DS-4012,” dated March 2008, is the most current version of this policy.

<sup>30</sup> As of February 2013, GPD 41, Revision 2, “Close-Out of Federal Assistance Awards,” dated January 2, 2013, is the most current version of this policy.

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seven grant files reviewed that were active during or after April 2010 had a PMS print-out, an important document for grants officers when they close out a grant serviced through PMS. Specifically, when grants paid through PMS are closed out, special steps must be taken to include reviewing amounts (authorized, disbursed, and advanced charged) in PMS to ensure that all three amounts agree.

Further, OIG occasionally found significant inconsistencies and variances between PMS accounts and other obligating documents. Examples of significant inconsistencies and variances between PMS accounts and supporting grant documents that OIG found in reviewing the sample of files are as follows:

- Grant SLMAQM04GR038, which had a performance period ended March 2009, had PMS authorizations of \$93.3 million. However, the obligating documents in the grant file showed an original award amount of \$25.0 million, with four amendments that increased the total obligations to \$70.8 million. The unspent balance for this grant in PMS was \$2.2 million.
- In February 2012, an ECA official sent a grant recipient a pre-closeout memorandum informing the recipient that Grant SECAPV08CA011, which was valued at \$18,895,294 and which ended in January 2009, should be closed. There was no drawdown information in the file to support ECA's reconciliation, and PMS indicated that this grant had an unspent balance of \$752,896.
- PRM issued Grant SPRMCO09CA012 in November 2008 for \$5,393,623 according to the obligating document. From March to September 2009, three amendments were issued, adjusting the total funding to \$24,643,000. The fourth amendment for this award signed by the grants officer on February 25, 2010, deobligated \$1,130,400, adjusting the total amount of the award to \$23,512,600. However, as of March 1, 2012, PMS still showed an authorized amount of \$24,643,000, leaving more than \$1.0 million in unauthorized funds in PMS.

### **Retention of Records**

From OIG's original request to the three bureaus for 60 grant files to review, 13 grant files (22 percent) were not available, since they either had been destroyed or could not be located.

Specifically, OIG found that ECA had destroyed all 10 grant files for grants that had zero balances in PMS that OIG had selected for review. These grants had total obligations of \$46.4 million. For these grants, the end dates for the periods of performance ranged from 1991 to 1998. An ECA grants officer stated that the files for these 10 grants were destroyed primarily because of ECA's policy on record retention for closed awards. OIG found that the grants had not been closed in PMS and that all 10 grants were accruing PMS service fees; however, ECA was taking action to close the grants and limit the amount of administrative costs.

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Of the other three missing grant files, two were A/LM/AQM grants and one was an ECA  
an unspent balance of \$936,568 in PMS and had expired in 2007.

GPD 45, “Retention, Retrieval, and Disposal of Records,” states that Department officials must retain “documentation supporting the obligation, certification, and disbursement of assistance funds” for 6 years and 3 months after the final payment to the recipient. While the periods of performance for all 13 grants had ended 5 years ago or more, all 13 grants were still open in PMS and therefore were accruing annual PMS service fees. Applying complete closeout procedures as described in GPD 41, to include completely closing out grants in the PMS system, will stop the service fees for each award and ensure effective management of the Department’s resources.

OIG’s February 2012 inspection report of ECA<sup>31</sup> recommended that the Bureau of Administration issue guidance on how to implement the closeout requirements for grants when the grantee fails to provide all required documents. In response, A/OPE/FA stated that grant recipient noncompliance was not applicable only to ECA but that it affected all Department Federal assistance programs. As a result, A/OPE/FA proposed revisions to GPD 41, including procedures for the grants officer to take action when an award had to be closed for noncompliance, to include the recipient not providing a final report or reconciling expenditures under the award. Further, A/OPE/FA proposed revisions to GPD 41 for closing an award when the recipient organization did not have its final NICRA within 24 months after the end of the project period end date or before the cancellation of the appropriation used to fund the award, whichever came first. These proposed revisions became effective with the issuance of the latest version of GPD 41, Revision 2, “Close-Out of Federal Assistance Awards,” on January 2, 2013.

While this policy update is commendable, the Department needs to continuously enhance internal controls for grants management to ensure that transactions are properly recorded and accounted for and that related grant laws and regulations and other compliance requirements are followed. Closing out expired grants in a timely, efficient manner is paramount to the best use of Department financial resources. Additionally, to close expired grants, the use of required, standardized forms would save time and effort and would provide evidence that the grants officer had attempted to comply with established guidance. Therefore, program bureaus issuing grants, in cooperation with A/OPE and DCFO/FAFM, need to build on current Department-wide grant coordination and oversight activities and ensure that there is an adequate number of well-trained personnel to carry out grant administration within a grant’s life cycle, including the final step of grant closeout.

**Recommendation 12.** OIG recommends that the Bureau of Educational and Cultural Affairs; the Bureau of Population, Refugees and Migration; and the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, each develop procedures to periodically review respective official grant files to determine

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<sup>31</sup> ISP-I-12-15, Feb. 2012.

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bureau compliance with Grants Policy Directive (GPD) 23, Revision 2, “Federal Assistance File Folder – Form DS-4012,” March 2008, and GPD 41, Revision 2, “Close-Out of Federal Assistance Awards,” January 2, 2013, to ensure that timely, complete, and accurate grant closeout procedures can be applied as required.

**Management Responses:** ECA, PRM, and A/LM/AQM concurred with the recommendation. ECA stated that it had tasked its staff to perform periodic reviews to ensure adherence to the applicable policy, and PRM stated that it would continue to comply with GPDs as they are implemented and revised. All three bureaus specifically mentioned how implementation of the State Assistance Management System, the Department’s comprehensive grants management system for the full lifecycle of the Federal assistance process, to include closeout, would ensure procedural and managerial oversight of the official grant award file and would prohibit processing actions in the System when the grant file was incomplete.

**OIG Reply:** OIG considers the recommendation resolved. This recommendation can be closed when OIG reviews and accepts documentation from the three bureaus showing that each bureau has developed procedures to periodically review respective official grant files to determine bureau compliance with GPDs 23 and 41 that will ensure that timely, complete, and accurate grant closeout procedures can be applied as required.

## **List of Recommendations**

**Recommendation 1.** OIG recommends that the Bureau of Educational and Cultural Affairs review the remaining eight expired grants from the March 1, 2012, OIG sample and (a) reconcile the approximately \$9.6 million in the Payment Management System (PMS) to the approximately \$3.3 million recorded in the Global Financial Management System to appropriately deobligate and potentially use available funds for other designated purposes and (b) subsequently close those grants in PMS to avoid unnecessary administrative fees.

**Recommendation 2.** OIG recommends that the Bureau of Educational and Cultural Affairs (a) review the remaining 393 expired grants, totaling approximately \$18.8 million, in the Payment Management System (PMS) as of March 1, 2012, to determine whether the funds associated with those grants can be deobligated in the Global Financial Management System and used for other purposes and (b) subsequently close those grants in PMS to avoid unnecessary administrative fees.

**Recommendation 3.** OIG recommends that the Bureau of Educational and Cultural Affairs close the remaining 359 zero balance grants that have expired in the Payment Management System as of March 1, 2012, to avoid unnecessary administrative fees.

**Recommendation 4.** OIG recommends that the Bureau of Population, Refugees and Migration review the remaining six expired grants from the March 1, 2012, OIG sample and (a) reconcile the approximately \$8.4 million in the Payment Management System (PMS) to the approximately \$6.1 million recorded in the Global Financial Management System to appropriately deobligate and potentially use available funds for other designated purposes and (b) subsequently close those grants in PMS to avoid unnecessary administrative fees.

**Recommendation 5.** OIG recommends that the Bureau of Population, Refugees and Migration (a) review the remaining 202 expired grants, totaling approximately \$8.2 million, in the Payment Management System (PMS) as of March 1, 2012, to determine whether the funds associated with those grants can be deobligated in the Global Financial Management System and used for other purposes and (b) subsequently close those grants in PMS to avoid unnecessary administrative fees.

**Recommendation 6.** OIG recommends that the Bureau of Population, Refugees and Migration close the remaining 433 zero balance grants that have expired in the Payment Management System as of March 1, 2012, to avoid unnecessary administrative fees.

**Recommendation 7.** OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, review the remaining two expired grants from the March 1, 2012, OIG sample and (a) reconcile the approximately \$2.4 million in the Payment Management System (PMS) to the zero balances recorded in the Global Financial Management System and (b) subsequently close those grants in PMS to avoid unnecessary administrative fees.

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**Recommendation 8.** OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, (a) review the remaining 248 expired grants, totaling approximately \$13.8 million, in the Payment Management System (PMS) as of March 1, 2012, to determine whether the funds associated with those grants can be deobligated in the Global Financial Management System and used for other purposes and (b) subsequently close those grants in PMS to avoid unnecessary administrative fees.

**Recommendation 9.** OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, close the remaining 347 zero balance grants as of March 1, 2012, that have expired in the Payment Management System to avoid unnecessary administrative fees.

**Recommendation 10.** OIG recommends that the Bureau of Educational and Cultural Affairs; the Bureau of Population, Refugees and Migration; and the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, in coordination with the Office of the Procurement Executive, establish specific procedures that require grants officers and grants officer representatives to periodically report to their respective bureau on the progress of completing timely closeout of expired grants.

**Recommendation 11.** OIG recommends that the Bureau of Educational and Cultural Affairs; the Bureau of Population, Refugees and Migration; and the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, in coordination with the Office of the Procurement Executive, develop performance metrics for bureau grants officers and grants officer representatives that will provide for timely grant closeout of expired grants while reducing the current backlog.

**Recommendation 12.** OIG recommends that the Bureau of Educational and Cultural Affairs; the Bureau of Population, Refugees and Migration; and the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, each develop procedures to periodically review respective official grant files to determine bureau compliance with Grants Policy Directive (GPD) 23, Revision 2, "Federal Assistance File Folder – Form DS-4012," March 2008, and GPD 41, Revision 2, "Close-Out of Federal Assistance Awards," January 2, 2013, to ensure that timely, complete, and accurate grant closeout procedures can be applied as required.

## **Scope and Methodology**

The Department of State (Department), Office of Inspector General (OIG), Office of Audits, conducted this performance audit to identify grant agreements that were more than 120 days past a grant's period of performance end date and to determine whether any associated funds could be put to better use. OIG also reviewed the accuracy and completeness of official grant files, which are critical elements in achieving timely grant closeout.

OIG conducted this performance audit from February 2012 to January 2013 in accordance with generally accepted government auditing standards. Those standards require that OIG plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for the findings and conclusions based on the audit objective. OIG identified data problems, which are noted throughout this report, and took measures to mitigate them. Despite these data problems, OIG believes that the data is sufficient to support the two salient deficiencies identified during the audit – expired yet unclosed grants with unspent funds or zero balances that require closeout and required documentation for grants administration and closeout often missing from the official grant files. OIG therefore believes that the evidence obtained provides a reasonable basis for determining these deficiencies based on the audit objective.

To obtain background for this audit, OIG researched and reviewed Federal laws and regulations and Department policies and procedures related to the closeout of grants and cooperative agreements. Specifically, OIG reviewed the Code of Federal Regulations, Office of Management and Budget (OMB) circulars,<sup>1</sup> the *Foreign Affairs Handbook*, and multiple Grants Policy Directives issued by the Department. In addition, OIG reviewed the Federal Assistance Policy Handbook, which provides comprehensive guidance regarding all aspects of assistance for grants officers, grants officer representatives, program officers, and financial management officers.

To gain an understanding of the guidance, policies, and procedures on the administration, oversight, reporting, and closeout requirements for grant awards, OIG interviewed officials from the Bureau of Administration, Office of the Procurement Executive (A/OPE), and the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management (A/LM/AQM). OIG also interviewed the grants officer in A/LM/AQM's International Programs Division, which provides assistance to bureaus and posts in instances where offices do not have their own grants officers and in instances in which a planned grant award would exceed that office's grants officer's warrant authority. Within A/OPE, OIG met with the Director from the Federal Assistance Division, which establishes reporting requirements and standard policies and procedures to comply with the governing OMB circulars and other Federal regulations. In addition, OIG met with staff in the Bureau of the Comptroller and Global Financial Services, Deputy Chief Financial Officer, Financial Policy, Reporting and Analysis, Office of Federal

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<sup>1</sup> Circular A-110, *Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations*; Circular A-122, *Cost Principles for Non-Profit Organizations*; and Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

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Assistance Financial Management (DCFO/FAFM), which develops financial policies for grants and cooperative agreements and is the Department's liaison with the Department of Health and Human Services (HHS) Payment Management System (PMS),<sup>2</sup> which is the electronic payment system used by most domestic/U.S.-based grant recipients.

### **Prior Reports**

From 2008 to 2012, the Government Accountability Office (GAO) issued two reports and two testimonies related to grants management and the need for greater attention to address growing unspent balances in expired grant accounts. For example, GAO reported that grant closeout was considered a low priority, which contributed to delays in timely grant closeout, and that staff turnover led to lapses in grant supervision and the transfer of grant-specific information to new staff. Also, GAO reported that as more time lapsed in closing out expired grants, the grant closure process became more difficult for responsible grant personnel.

Based on the April 2012 GAO report *Grants Management: Action Needed to Improve the Timeliness of Grant Closeouts by Federal Agencies* (GAO-12-360), OMB issued a July 2012 Controller Alert to the Chief Financial Officer (CFO) community noting the report's potential consequences of not closing out grants in a timely manner:

- Grant funds could be more susceptible to fraud, waste, and mismanagement;
- Potential costs in fees related to maintaining grants could increase; and
- The ability to redirect resources to other projects may be negatively impacted.

OMB concurred with GAO that the timely closeout of grants is an area of financial management that can be improved, stating that agencies should take appropriate action to close out grants in a timely manner. To achieve this objective, OMB noted that the following strategies should be considered:

- Establish strong program/CFO linkages to determine what timely closeout means for your programs and how to achieve it.
- Focus first on closing out expired grants that are several years past their end dates or have no remaining funds.
- Establish policy and procedures describing when it is appropriate for the agency to unilaterally closeout grants.
- Establish annual or semiannual performance targets for timely grant closeout.
- Leverage internal control procedures per OMB Circular A-123, *Management's Responsibility for Internal Control*, to mitigate risk associated with not closing out grants in a timely manner.
- Monitor closeout activity and track progress in reducing closeout backlog, if any.

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<sup>2</sup> PMS is a grants payment system operated and maintained by HHS and used by Federal agencies to provide grants officers and grant recipients the capability to manage payment requests, edit them for accuracy and content, and transmit payments to the Federal Reserve Bank or the U.S. Treasury for deposit into the grantee's bank account.

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OIG used information from a February 2012 OIG inspection report, *Inspection of the Bureau of Educational and Cultural Affairs (ISP-I-12-15)*, which covered program and financial activities for the bureau. The inspection reviewed aspects within the grant life cycle and addressed issues relevant to this audit. Namely, recommendations were made to the Bureau of Educational and Cultural Affairs (ECA) to develop and execute a plan to close out expired grants that were more than 24 months past their end date.

### **Use of Computer-Processed Data**

OIG used computer-generated data obtained from the Department. To test the reliability of the database, OIG also used information found in the official grant files. As noted throughout this report, OIG found significant inconsistencies and variances between the data contained in the database provided by the Department and documents in the official grant files. OIG used financial documents from official grant files and attempted to identify differences with the information found in the database listing, such as differing unspent balances between the documents and the database, but this effort was generally unsuccessful.

OIG's ability to obtain a reliable database with expired grants was impacted by questionable data, resulting in the data deficiencies detailed in this report. Specifically, the number and amount of expired grants that had not yet been closed may be either over or understated, and these grants may be attributed to entities other than the responsible bureaus. OIG took steps to mitigate the data shortcomings, although deficiencies remain. Nevertheless, OIG believed that the problems identified during this audit concerning grants management were noteworthy to warrant the issuance of this formal report; however, OIG advises that the figures need to be interpreted and used cautiously because of the noted data limitations.

### **Work Related to Internal Controls**

To assess the adequacy of internal controls related to the policies, procedures, and processes used for closing out expired Department grants and compliance with related Federal and Department regulations, OIG took the following actions:

- Obtained an understanding of the policies, procedures, and processes.
- Reviewed source documentation and other types of evidence to confirm the adequacy of controls.
- Compared PMS account balances with documentation obtained from other sources, including information found in the official grant files.
- Verified proper approval over PMS account transactions.

As stated in the report, the lack of documentation supporting grants management for the entire grant life cycle process is an internal control weakness that inhibits the timely closure of expired grants.

## **Detailed Sampling Methodology**

OIG's sampling objective was to determine whether Department bureaus complied with Department closeout policies and procedures and Federal regulations to ensure that grants are closed after performance periods end and the Department and the U.S. Treasury are properly reimbursed for the unused funds. This work was conducted in three bureaus: ECA; the Bureau of Population, Refugees and Migration (PRM); and A/LM/AQM. However, this should not preclude further efforts by other Department bureaus to ensure timely grant closeout of expired grants.

As indicated throughout this report, OIG frequently encountered data problems during this audit. Primarily, OIG often found data discrepancies between PMS, the grants management system maintained by HHS and used by Federal agencies, and the Global Financial Management System (GFMS), the Department's financial system used by domestic offices. Consequently, OIG used GFMS, the official financial system, to quantify certain amounts identified from the OIG sample, such as recommended monetary recoveries.

## **Identification of the Universe**

OIG requested that the Department provide a list of all expired grants as of March 1, 2012. A DCFO/FAFM official provided OIG a list on March 2, 2012, and indicated that it was obtained from PMS. After performing preliminary work of eliminating wire transfers<sup>3</sup> from the database to obtain a universe (or population) of grant lines and removing any grant lines that were not over 120 days past the grant's expiration date to give the Department ample time to close grants after the expiration dates, OIG encountered difficulties with the list. These difficulties hampered OIG's ability to identify the exact universe of expired yet unclosed grants and the associated dollar balances of these grants.

Specifically, OIG eventually ascertained that the Department had provided a database of the entire Department's inactive but open grants rather than just expired grants. There is a significant difference between expired and inactive grants. An expired grant is a grant that has passed its performance date and would be listed as inactive but open in the PMS database. The provided database included active grants<sup>4</sup> that had been deemed inactive but open for reasons other than having reached expiration dates. For instance, OIG found that the database included active grants that were deemed inactive but open because a no-charge grant extension had been given by the grants officer but was not entered into the PMS system. GAO's April 2012 report, *Grants Management: Action Needed to Improve the Timeliness of Grant Closeouts by Federal Agencies* (GAO-12-360) also found that, "PMS closeout reports may include grants that have received an extension and are therefore not eligible for closeout."

OIG also found that multiple lines in the database that seemingly referred to one grant were apparently not always treated consistently. In essence, OIG was informed that sometimes multiple lines should be combined into one grant, while in other instances multiple lines should

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<sup>3</sup> A wire transfer is a "same day" direct deposit used for an emergency and is not part of the grants universe.

<sup>4</sup> An active grant is a grant that has not reached its end of performance period.

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be treated as duplicates and therefore should not be added to yield one grant. OIG was not provided a method for determining when which conclusion was appropriate.

For example, Grant AE02CA016 appeared on two lines of the database in the amounts of \$2,845,808 and \$1,969,379 for a total authorization of \$4,815,187. However, Grant SDSASD92CA001 was handled differently; it appeared on six lines, namely – the first line with an authorized amount of \$25,576,490 followed by five more lines each with the same amount of \$25,576,490. If combined, the total authorization would have been \$153,458,940, but HHS staff confirmed that the true authorization amount was \$25,576,490 in this instance. The handling of the latter grant (i.e., the elimination of the five lines that duplicated the \$25,576,490 of the first line) led OIG to erroneously conclude that if all the information in the grant line was the same, except for the document number, then the line would be deemed a duplicate and would be removed from the calculation of the grant total.

Upon further review of the data, however, OIG ascertained that using this assumption in all instances of apparently duplicate lines was unsound. For example, Grant SINLEC06CA0005 had grant lines that were all the same except for two amounts. In the order of appearance in the database, these amounts were \$500,000, \$500,000, \$2,625,885, \$2,930,184, and \$500,000, and all these items had the same budget end date. Responding to a request from OIG to clarify the total amount of this grant, HHS explained that the \$500,000 lines for this grant were not duplicates and that all five lines should be summed. Consequently, the total authorization for grant SINLEC06CA0005 was \$7,056,069.

Multiple lines also exacerbated the problem of trying to differentiate between expired and active grants. One grant line may have expired but another grant line for that same grant may have been active, thereby causing the entire grant to be classified as active and increasing the likelihood that an active grant may have been erroneously included with expired grants.

Finally, OIG experienced difficulty in identifying the grant number, which can be defined as the constant identifier of a grant. Some grants, such as SPRMCO09CA022, were easy to identify because they had the abbreviation for the bureau issuing the grant embedded within the number (in this case PRM). On the other hand, difficulty arose for grants where a grant number such as SPRMCO09CA022 was not present and where the identifiers (the subaccount and document numbers) were interspersed between the columns of the database. In such situations, one may not be able to combine lines, resulting in the overstatement of the total number of grants in the universe. Moreover, identifying the responsible bureau was very difficult in these older grants because the abbreviation for the bureau was not embedded in the grant number.

The previously discussed database problems impacted OIG's ability to obtain a reliable database with expired grants, resulting in the data deficiencies detailed in this report. Problems such as the inclusion of nonexpired grants in the database, the inconsistent treatment of multiple lines, and problems identifying the grant number clearly bring into question the adequacy of the data. As a result of these limitations, the number of grants and unspent funds may be either over or understated and grants may be attributed to other than the responsible bureaus. Consequently, OIG had to proceed cautiously in using the data. Moreover, all the figures in this report are based on a consistent methodology in an effort to mitigate the data problems to the extent

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possible. For example, OIG only eliminated apparently duplicate lines when the amounts and dates were exactly the same and there were no other lines on the same date for a different amount. OIG believes that such efforts mitigated the data problems sufficiently to report important grants management concerns identified during this audit. However, OIG advises that because of the data limitations, the figures need to be interpreted and used cautiously.

### **Selection of Bureaus and Grants for Testing**

OIG selected the bureaus and the grants of these bureaus for testing via judgmental sampling. Because this method uses discretionary criteria to effect sample selection, the audit team was able to use information garnered during its preliminary work to aid in making informed selections. The primary criterion used to select the bureaus was the amount of unspent funds remaining on expired grants that had not been closed.

Before identifying the previously enumerated problems with the database provided by the Department, OIG sorted and tallied the various data in it to aid in selecting the bureaus and grants in the selected bureaus for review. Additional OIG analysis concluded that the database listed 2,376 Department grants expired over 120 days with an unspent balance of \$81,934,926. The three bureaus selected for review and the amount of unspent funds associated with each bureau were ECA (\$29,173,274); PRM (\$21,549,321); and A/LM/AQM (\$16,691,531). The combined unspent balances for these three bureaus totaled \$67,414,126, which represented 82 percent of the unspent balances for all of the Department's expired grants, according to the OIG analysis of the database provided by the Department.

Specifically, OIG selected 10 grants with the largest amount of unspent balances<sup>5</sup> from each of the 3 bureaus. In addition, OIG selected the 10 oldest grants with zero balances<sup>6</sup> for each of the 3 bureaus.<sup>7</sup> In total, the OIG judgmentally sampled 60 grants. OIG originally envisioned using the sample of 60 to review both expired grants with the largest amount of unspent balances and the oldest expired grants with zero balances as well as to test for compliance with Department closeout and other grant policies and procedures. However, OIG encountered problems that prevented it from using all 60 of these grants for testing.

Using the database to sample expired grants with the largest amount of unspent balances and the oldest expired grants with zero balances, OIG was only able to test 51 of the original sample of 60 grants. This occurred because of data limitations encountered – specifically, that active grants were included in the database provided by the Department. Consequently, OIG ultimately tested 19 grants (9 grants with unspent funds and 10 with zero balances) at ECA, 20

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<sup>5</sup> During our initial analysis, OIG treated each of the 60 sampled lines from the database as grants. However, OIG later determined the database listed transaction lines rather than grants. Therefore, OIG combined lines with the same grant number as previously explained to ultimately select 60 grants, which did not always result in the 10 grants with the largest amount of unspent balances being chosen for each of the three bureaus.

<sup>6</sup> OIG defines a zero balance grant as a grant that does not have any associated unspent funds yet has expired.

<sup>7</sup> For A/LM/AQM, OIG originally selected the 10 oldest grants with zero balances. However, during fieldwork, OIG found that one of the zero balance grants contained a balance. Therefore, for A/LM/AQM, only nine zero balance grants were tested.

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grants (10 grants with unspent funds and 10 with zero balances) at PRM, and 12 grants (3 grants with unspent funds and 9 with zero balances) at A/LM/AQM.

OIG also attempted to use the entire sample of 60 grants chosen to review the grant files of the three selected bureaus. However, OIG encountered various problems that precluded the use of all 60 of the grants in testing. Of the 60 grants to be tested against the official grants file, 10 files were destroyed, 3 files were missing, and one grant file provided by the Department had the wrong grant number and could not be appropriately reviewed. Therefore, only 46 grants could be reviewed. Of those 46 grant files, only 37 of those files could be tested for compliance with applicable Department policies and procedures in place at the time, including a check for the presence of closeout documentation.

Detailed information regarding the grants OIG reviewed at ECA, PRM, and A/LM/AQM is listed in Appendices B, C, and D, respectively. OIG discussed findings at the three bureaus with grants officers, bureau executive staff, and financial managers.

**Grants Selected for Review–Bureau of Educational and Cultural Affairs**

**Table 1. Selected Grants With Unspent Balances per PMS**

| <b>Grant</b>     | <b>Award Amount</b> | <b>Balance</b>      | <b>Disposition as of December 2012</b> |
|------------------|---------------------|---------------------|--|
| PYCS0341         | \$6,365,317         | \$3,985,485         | Open                                   |
| SECAAL-09-CA-176 | NA                  | NA                  | Active                                 |
| SECAAE-05-CA-021 | \$9,317,851         | \$936,568           | Open                                   |
| SECAPV-09-CA-006 | \$8,557,363         | \$776,719           | Open                                   |
| SECAPY-08-GR-196 | \$7,400,000         | \$763,650           | Open                                   |
| SECAPV-08-CA-017 | \$5,831,044         | \$760,040           | Closed                                 |
| SECAPV-08-CA-011 | \$18,895,294        | \$752,896           | Open                                   |
| SECAPV-10-CA-016 | \$23,598,378        | \$1,053,748         | Open                                   |
| SECAPY-07-GR-152 | \$7,182,200         | \$681,459           | Open                                   |
| SECAAS-07-CA-039 | \$11,049,823        | <u>\$641,576</u>    | Open                                   |
|                  |                     | <u>\$10,352,141</u> |  |

Source: OIG analysis of PMS account data as of March 1, 2012, plus 120-day closure period, and ECA official grant files and responses.

**Table 2. Selected Grants Without Unspent Balances per PMS**

| <b>Grant</b> | <b>Award Amount</b> | <b>Balance</b> | <b>Disposition as of December 2012</b> |
|--------------|---------------------|----------------|--|
| G1190036     | \$24,655,366        | \$0            | Closed                                 |
| G0190036     | \$3,887,390         | \$0            | Cannot be determined                   |
| G4190014     | \$13,415,096        | \$0            | Closed                                 |
| G5190011     | \$1,772,950         | \$0            | Open                                   |
| G5190511     | \$63,243            | \$0            | Closed                                 |
| G6190004     | \$1,359,092         | \$0            | Closed                                 |
| G5190304     | \$324,527           | \$0            | Closed                                 |
| G5190189     | \$417,375           | \$0            | Cannot be determined                   |
| G7190060     | \$465,492           | \$0            | Closed                                 |
| G4190565     | \$42,555            | <u>\$0</u>     | Cannot be determined                   |
|              |                     | <u>\$0</u>     |  |

Source: OIG analysis of PMS account data as of March 1, 2012, plus 120-day closure period, and ECA official grant files and responses.

**Grants Selected for Review—Bureau of Population, Refugees and Migration**

**Table 1. Selected Grants With Unspent Balances per PMS**

| <b>Grant</b>     | <b>Award Amount</b> | <b>Balance</b>      | <b>Disposition as of December 2012</b> |
|------------------|---------------------|---------------------|--|
| SPRMCO-09-CA-018 | \$10,040,650        | \$3,083,124         | Closed                                 |
| SPRMCO-10-CA-040 | \$31,615,620        | \$2,242,029         | Open                                   |
| SPRMCO-09-CA-012 | \$24,643,000        | \$1,580,485         | Open                                   |
| SPRMCO-08-CA-008 | \$18,041,400        | \$1,443,786         | Open                                   |
| SPRMCO-10-CA-018 | \$12,701,511        | \$1,147,779         | Open                                   |
| SPRMCO-09-CA-022 | \$7,950,138         | \$1,138,686         | Open                                   |
| SPRMCO-10-CA-020 | \$4,096,379         | \$905,882           | Closed                                 |
| SPRMCO-09-CA-017 | \$9,395,568         | \$807,308           | Open                                   |
| SPRMCO-08-CA-016 | \$6,497,402         | \$576,781           | Closed                                 |
| SPRMCO-09-CA-011 | \$8,398,050         | <u>\$436,865</u>    | Closed                                 |
|                  |                     | <u>\$13,362,725</u> |  |

Source: OIG analysis of PMS account data as of March 1, 2012, plus 120-day closure period, and PRM official grant files and responses.

**Table 2. Selected Grants Without Unspent Balances per PMS**

| <b>Grant</b>     | <b>Award Amount</b> | <b>Balance</b> | <b>Disposition as of December 2012</b> |
|------------------|---------------------|----------------|--|
| SPRMCO-03-CA-045 | \$1,194,534         | \$0            | Closed                                 |
| SPRMCO-03-CA-101 | \$238,597           | \$0            | Open                                   |
| SPRMCO-03-CA-041 | \$999,791           | \$0            | Closed                                 |
| SPRMCO-03-CA-047 | \$826,579           | \$0            | Open                                   |
| SPRMCO-03-CA-048 | \$15,162            | \$0            | Open                                   |
| SPRMCO-03-CA-113 | \$63,115            | \$0            | Open                                   |
| SPRMCO-03-CA-050 | \$593,874           | \$0            | Open                                   |
| SPRMCO-03-CA-049 | \$998,860           | \$0            | Open                                   |
| SPRMCO-03-CA-052 | \$300,195           | \$0            | Closed                                 |
| SPRMCO-03-CA-058 | \$797,361           | <u>\$0</u>     | Open                                   |
|                  |                     | <u>\$0</u>     |  |

Source: OIG analysis of PMS account data as of March 1, 2012, plus 120-day closure period, and PRM official grant files and responses.

**Grants Selected for Review—Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management**

**Table 1. Selected Grants With Unspent Balances per PMS**

| <b>Grant</b>     | <b>Award Amount</b> | <b>Balance</b>     | <b>Disposition as of December 2012</b> |
|------------------|---------------------|--------------------|--|
| SLMAQM-10-GR-501 | NA                  | NA                 | Active                                 |
| SLMAQM-08-GR-071 | NA                  | NA                 | Active                                 |
| SLMAQM-07-GR-206 | NA                  | NA                 | Active                                 |
| SLMAQM-09-CA-005 | NA                  | NA                 | Active                                 |
| SLMAQM-04-GR-038 | \$93,000,000        | \$2,226,594        | Open                                   |
| SLMAQM-10-GR-020 | NA                  | NA                 | Active                                 |
| SLMAQM-08-GR-568 | NA                  | NA                 | Active                                 |
| SLMAQM-08-GR-144 | NA                  | NA                 | Active                                 |
| SLMAQM-05-GR-074 | NA                  | NA                 | Open                                   |
| SLMAQM-06-GR-045 | \$891,807           | \$416,772          | Closed                                 |
| SLMAQM-03-H-0048 | \$500,000           | \$217,626          | Open                                   |
|                  |                     | <u>\$2,860,992</u> |  |

Source: OIG analysis of PMS account data as of March 1, 2012, plus 120-day closure period, and A/LM/AQM official grant files and responses.

**Table 2. Selected Grants Without Unspent Balances per PMS**

| <b>Grant</b>     | <b>Award Amount</b> | <b>Balance</b> | <b>Disposition as of December 2012</b> |
|------------------|---------------------|----------------|--|
| SLMAQM-03-H-0006 | \$200,000           | \$0            | Closed                                 |
| SLMAQM-03-H-0012 | \$1,000,000         | \$0            | Closed                                 |
| SLMAQM-03-H-0209 | \$30,000            | \$0            | Closed                                 |
| SLMAQM-03-H-0009 | \$297,000           | \$0            | Closed                                 |
| SLMAQM-03-H-0040 | \$64,975            | \$0            | Open                                   |
| SLMAQM-03-H-0041 | \$139,879           | \$0            | Open                                   |
| SLMAQM-03-H-0014 | \$300,000           | \$0            | Closed                                 |
| SLMAQM-03-H-0079 | \$100,000           | \$0            | Closed                                 |
| SLMAQM-03-H-0070 | \$310,000           | <u>\$0</u>     | Closed                                 |
|                  |                     | <u>\$0</u>     |  |

Source: OIG analysis of PMS account data as of March 1, 2012, plus 120-day closure period, and A/LM/AQM official grant files and responses.



**United States Department of State**  
*Bureau of Educational and Cultural Affairs*  
Washington, D.C. 20547  
[www.state.gov](http://www.state.gov)

May 31, 2013

**MEMORANDUM**

**TO:** OIG – Harold W. Geisel

**FROM:** ECA – Ann Stock *A.S.*

**SUBJECT:** ECA response to *Draft Report on Audit of Grant Closeout Processes for Selected Department of State Bureaus.*

**REF:** Recommendations 1-3; 10-12

Thank you for your letter of May 6, 2013 in which the above-referenced draft report was submitted for review and comment. The following constitutes the responses requested of the Bureau of Educational and Cultural Affairs (ECA) to your recommendations, and an update on the current status of ECA action on this audit.

Preface: The scope of this audit was a sample set of ECA financial assistance awards (Grants and/or Cooperative Agreements) which were classified as either expired or inactive but remain open in the Health and Human Services Payment Management System (PMS). Such 'open' status result in both unliquidated obligations (ULOs) as well as the assessment of monthly maintenance commissions (hereinafter referred to as administrative fees) assessed to the Bureau of Educational and Cultural Affairs.

Response Summary: Due to the various complexities associated with closure of these awards, which range from lack of receipt of final reporting to failure of responses from grantees, to changes of ECA grants and program office staff (minimal continuity within the process) and lastly, lack of final Negotiated Indirect Cost Rate Agreements (NICRA), meeting the applicable DoS policy on grants closeout is, at times, uniquely challenging. This is made evermore difficult in cases where time has elapsed between expiration of the award performance period and initiation of closeout procedures. To this end, while the Bureau has made substantial progress on grant closeouts – closing in excess of 400 grant awards in calendar year 2012 alone – we understand the importance and critical compliance requirement of timely closeout of grant awards. The closure of awards has also resulted in a savings in excess of six million dollars in liquidated obligations and reduction of administrative fees to maintain open awards in PMS.

The Bureau of Educational and Cultural Affairs has taken active steps to prioritize timely closeout of awards within is 24 months after grant performance. These remedial actions include tasking specified personnel with the project of closing out expired awards as a core component of their responsibility and reporting closeout metrics on a monthly basis to ECA management. Also, this team serves as the primary interface between ECA Grants and ECA Budget offices to facilitate the timely processing of the '059' closeout action in PMS and associated deobligation

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processes. While ECA continues to make steady progress we are appreciably aware of the work that yet remains. We are committed to making timely grant close outs a priority.

**Recommendation 1:** OIG recommends that the Bureau of Educational and Cultural Affairs review the remaining eight expired grants from the March 1, 2012, OIG sample and (a) reconcile the approximately \$9.6 million in the Payment Management System (PMS) to the approximately \$3.3 million recorded in the Global Financial Management System to appropriately deobligate and potentially use available funds for other designated purposes and (b) subsequently close those grants in PMS to avoid unnecessary administrative fees.

**ECA Response:** ECA agrees with this recommendation and has tasked the immediate reconciliation and closeout with the Grants and Budget Division consistent with the requirements imposed in Grants Policy Directive (GPD) 41. Additional steps have been taken within ECA-IIP/EX/G to reduce the total number of outstanding awards by first performing final reconciliations, matching GFMS with PMS and with financial reports, and moving these to final deobligation (059 action). Please see response summary and addenda #1 (OIG Research – Reisig) for details of additional mitigation efforts.

**Recommendation 2:** OIG recommends that the Bureau of Educational and Cultural Affairs (a) review the remaining 393 expired grants totaling approximately \$18.8 million in the Payment Management System (PMS) as of March 1, 2012, to determine whether the funds associated with those grants can be deobligated in the Global Financial Management System and used for other purposes and (b) subsequently close those grants in PMS to avoid unnecessary administrative fees.

**ECA Response:** ECA agrees with this recommendation and has tasked the immediate reconciliation and closeout with the Grants and Budget Division consistent with the requirements imposed in Grants Policy Directive (GPD) 41. Further, such steps in mitigation and reduction of this reported number (393) has been done throughout the 2012 year. Thus, the total number of grants which are either expired and/or inactive has been reduced by more than 170 subsequent to this OIG audit.

**Recommendation 3:** OIG recommends that the Bureau of Educational and Cultural Affairs close the remaining 359 zero balance grants that have expired in the Payment Management System as of March 1, 2012, to avoid unnecessary administrative fees.

**ECA Response:** ECA agrees with this recommendation and has tasked the immediate reconciliation and closeout with the Grants and Budget Division consistent with the requirements imposed in Grants Policy Directive (GPD) 41.

**Recommendation 10:** OIG recommends that the Bureau of Educational and Cultural Affairs; the Bureau of Population, Refugees and Migration; and the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, in coordination with the Office of the Procurement Executive, establish specific procedures that require grants officers and grants officer representatives to periodically report to their respective bureau on the progress of completing timely closeout of expired grants.

**ECA Response:** ECA agrees with this recommendation and has tasked the immediate reconciliation and closeout with the Grants and Budget Division consistent with the requirements imposed in Grants Policy Directive (GPD) 41. Furthermore, ECA is taking proactive steps, including the use of ECA specific guidance including the ECA grants closeout checklist and reporting matrix to report metrics associated with the closeout of expired and/or inactive but open awards. Additional steps have been taken, including dedicated personnel to monitor and track the closeout action between EX/G (Grants) and EX/BF (Budget and Finance) for the purpose of providing communication and feedback looping and maintaining awareness of progress/process status.

**Recommendation 11:** OIG recommends that the Bureau of Educational and Cultural Affairs; the Bureau of Population, Refugees and Migration; and the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, in coordination with the Office of the Procurement Executive, establish performance metrics for bureau grants officers and grants officer representatives that will provide for timely grant closeout of expired grants while reducing the current backlog.

**ECA Response:** ECA does not agree with this recommendation insofar as the development of performance-based metrics is difficult given the complexities and variables from one award to another. Since grant awards are inherently different based on amount, budget, program, scope, purpose, length and duration of performance, cooperation of program office and grant recipient (including sub-recipients), etc., to adapt a singular performance metric for closeout would be administratively burdensome and would frustrate the process both in theory and application. While some variables can be assumed at the onset of awards, as awards ‘age’ other unforeseen circumstances arise which create uncertainty and lack of uniformity in *how* closeouts are to occur and *what* kinds of resources are required to complete them. Simply put, some grants (and associated grant recipients) are able to be closed without issue while others require weeks of work to perform final request for production of documentation, final reconciliation and DoS deobligation processes. Therefore, applying one standard performance-based metric and applying this standard between the various lines of the business process is not feasible given the current climate of the grants management line of business.

**Recommendation 10:** OIG recommends that the Bureau of Educational and Cultural Affairs; the Bureau of Population, Refugees and Migration; and the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, each develop procedures to periodically review respective official grant files to determine bureau compliance with Grants Policy Directive (GPD) 23, Revision 2, “Federal Assistance File Folder – Form DS-4012,” March 2008, and GPD 41, Revision 2, “Close-Out of Federal Assistance Awards,” January 2, 2013, to ensure that timely, complete, and accurate grant closeout procedures can be applied as required.

**ECA Response:** ECA agrees with this recommendation and has tasked staff with performing periodic reviews to ensure the adherence to above-stated policy. Furthermore, there are key periods where the official grant file is subject to routine review. Such instances include grant modifications, Federal Financial Report (FFR) (SF-425) review, inclusion of the Program Performance Report (PPR) into the file, amendments, and finally, preparation of the file for closeout. Such grant files will be reviewed in accordance with GPD 23 and immediate steps will be taken to complete any deficiencies to the file. It should be noted that this requirement will be

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met upon full and final integration of GrantSolutions (SAMS) into the Bureau of Educational and Cultural Affairs. As SAMS systems will be integrated into ECA June 1, 2013 and will be the system of record, to include procedural and managerial oversight of the official grant award file and hard-stop system requirements will prohibit the grant file from processing actions when incomplete. Therefore, this recommendation will resolve as the bureau moves to SAMS only grant award administration.

If you have any questions or would like additional information, please contact [REDACTED] at 202-632-[REDACTED].<sup>(b) (2)</sup>

Approved: Assistant Secretary Ann Stock

Drafted: ECA-IIP/EX/G – [REDACTED] X2-[REDACTED] 5/21/2013 (OK)<sup>(b) (2)</sup>

Clearance: ECA/FO (Ruth, Rick) ok  
ECA-IIP/EX/BF (Robinson) ok  
ECA-IIP/EX (Jones, Cantor) ok



United States Department of State

*Bureau of Population, Refugees,  
and Migration*

*Washington, D.C. 20520*

May 31, 2013

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MEMORANDUM

**TO:** OIG/AUD – Evelyn Klemstine  
**FROM:** PRM – Kelly T. Clements (KC)  
**SUBJECT:** Draft Report on *Audit of Grant Closeout Processes for Selected Department of State Bureaus*

Thank you for the opportunity to provide comments on the subject draft audit report. The report highlights aspects of the Federal assistance process that present challenges to the Department's grant making bureaus and also references the changes that the Department, including PRM, has implemented over a period of years to improve the management and performance of the grant closeout process. We hope that our comments will also help to provide a context for the audit findings as well as serve to document our continued commitment to meeting this important imperative of Federal assistance management.

As the audit team is aware, PRM has implemented processes and dedicated resources to improve the grant closeout performance. Since 2008, PRM has engaged the services of a public accounting firm to work with our grants and financial management team. Working together, this team has closed out more than 500 grants and recovered more than \$49 million that has then been reapplied to PRM's humanitarian assistance programs since 2008. During this same period, the amount of Federal assistance that PRM has managed has increased from \$1.1 billion in FY 2007 to \$1.9 billion in FY 2012 with corresponding workload increases for these same grants and financial officers including increases in the numbers of assistance awards, amendments, payment actions, and grantees managed.

The Department and PRM have long recognized the complexity of and the impediments to grant closeouts and have worked to streamline procedures while still meeting regulatory requirements and adhering to the terms and conditions that were in place at the time of each assistance award. We have concentrated our closeout improvement efforts on ensuring the timely submission and evaluation of final reports (including the receipt of final Negotiated Indirect Cost Rate Agreements (NICRAs)); financial reconciliation between grant, financial and payment systems; and validating the grantee's final audit results and incorporating them into the closeout actions. However, we still have a number of issues that can delay individual grant closeouts including receiving timely NICRAs for our grantees from other cognizant Federal agencies, reconciling grant amounts between financial and payment management systems that have evolved or been replaced during the period of the life of a grant, and the flood of available grant closeout opportunities from recent systems and process improvements by the Department (e.g., the Department's reduction in its own NICRA backlog).

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We have addressed each of the specific audit recommendations in the attachment to this letter. PRM remains committed to the award closeout process including closing out expired assistance awards, closing out applicable Payment Management System accounts, reporting to management on PRM's grant closeout status, and holding grants officers and managers accountable for grant closeout performance.

Attachment:

1. PRM Specific Recommendations and Responses.

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**Response to the Report, *Audit of Grant Closeout Processes for Selected Department of State Bureaus***

**PRM Specific Recommendations and Responses**

**Recommendation 4.** OIG recommends that the Bureau of Population, Refugees and Migration review the remaining six expired grants from the March 1, 2012, OIG sample and (a) reconcile the approximately \$8.4 million in the Payment Management System (PMS) to the approximately \$6.1 million recorded in the Global Financial Management System to appropriately deobligate and potentially use available funds for other designated purposes and (b) subsequently close those grants in PMS to avoid unnecessary administrative fees.

**PRM Response:** Concur. PRM has reconciled the PMS record to the GFMS record for the award in question and made the appropriate adjustment so that PMS records now conform with the GFMS records. In accordance with PRM closeout procedures and each award's terms and conditions, PRM continues to prioritize the closeout of these and other prior year awards. For the 10 awards listed in Table 3, five awards have had final closeout amendments issued and accepted. For the remaining five awards, three awards involve one organization that is working with PRM to submit final financial reports based on final audits. These awards will be closed out upon receipt of final financial reports. The remaining two awards involve one organization that must submit additional information to the National Business Center in order to receive the applicable final NICRAs that will enable the organization to submit its final financial reports. These awards will be closed upon receipt of the final financial reports. For each of these five remaining awards, PRM either has received or anticipates receiving refunds based on the final audits and final reports. Maintaining the open PMS accounts associated with these awards is a useful tool and reminder to both the grantee and PRM that closeout work remains to be accomplished. PRM already takes into account estimates for recoveries from prior year awards when developing annual budget and financial plan estimates for the refugee admissions program that these awards serve.

**Recommendation 5.** OIG recommends that the Bureau of Population, Refugees and Migration (a) review the remaining 202 expired grants totaling approximately \$8.2 million in the Payment Management System (PMS) as of March 1, 2012, to determine whether the funds associated with those grants can be deobligated in the Global Financial Management System and used for other purposes and (b) subsequently close those grants in PMS to avoid unnecessary administrative fees.

**PRM Response:** Concur. PRM continues to put priority on closing out prior year awards including through the use of contractor support to augment our in-house grants and financial officer staff. PRM appreciates that the audit report states that the number and amount of expired grants that had not yet been closed may be over or understated. PRM could not use the PMS reports that are available to PRM to tie to the exact numbers attributed to PRM in the report. This may be because the static numbers generated quarterly by PMS do not reflect the dynamic nature of the grants processes where grant accounts are continually being adjusted by grantees and PRM staff working the accounts. We can state that the PMS Close-Out Special Audit Report (COSAR) dated April 1, 2013 for the quarter ending March 31, 2013 listed 211 sub accounts that were coded as open. Of those, 17 have since been closed. For the remaining, each of the

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associated awards and accounts are being worked to allow final closeout for subaccounts associated with these awards. The issues preventing closeouts can vary from not having final reports to not having final NICRAs to systems and other technical issues and can require involvement by grants officer, financial officer, HHS PMS staff, grantee staff and management, and accounting system staff.

**Recommendation 6.** OIG recommends that the Bureau of Population, Refugees and Migration close the remaining 433 zero balance grants that have expired in the Payment Management System as of March 1, 2012, to avoid unnecessary administrative fees.

**PRM Response:** Concur. PRM has adjusted its closeout process to incorporate the PMS closeout transaction as part of the formal closeout of the award. PRM appreciates that the audit report states that the number and amount of expired grants that had not yet been closed may be over or understated. PRM could not use the PMS reports that are available to PRM to tie to the exact numbers attributed to PRM in the report. This may be because the static numbers generated quarterly by PMS do not reflect the dynamic nature of the grants processes where grant accounts are continually being adjusted by grantees and PRM staff working the accounts. We can state that the PMS Close-Out Special Audit Report (COSAR) dated April 1, 2013 for the quarter ending March 31, 2013 listed 248 subaccounts that were coded with the Authorized, Disbursed, and Charged amounts being equal. Of these 248 subaccounts, 235 subaccounts have been closed and 13 remain open because closing the account is not supported by the status of the underlying assistance award.

**Recommendation 10.** OIG recommends that the Bureau of Educational and Cultural Affairs; the Bureau of Population, Refugees and Migration; and the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, in coordination with the Office of the Procurement Executive, establish specific procedures that require grants officers and grants officer representatives to periodically report to their respective bureau on the progress of completing timely closeout of expired grants.

**PRM Response:** Concur. PRM's Office of Comptroller will implement procedures to report quarterly to the Assistant Secretary the status of prior year awards including awards closed, amounts recovered, and awards eligible for closure that remain to be closed.

**Recommendation 11.** OIG recommends that the Bureau of Educational and Cultural Affairs; the Bureau of Population, Refugees and Migration; and the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, in coordination with the Office of the Procurement Executive, develop performance metrics for bureau grants officers and grants officer representatives that will provide for timely grant closeout of expired grants while reducing the current backlog..

**PRM Response:** Concur. PRM Office of Comptroller personnel performance plans include closeout requirements. These plans will be adjusted appropriately to enhance the metrics for timely grant closeout.

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**Recommendation 12.** OIG recommends that the Bureau of Educational and Cultural Affairs; the Bureau of Population, Refugees and Migration; and the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, each develop procedures to periodically review respective official grant files to determine bureau compliance with Grants Policy Directive (GPD) 23, Revision 2, "Federal Assistance File Folder – Form DS-4012," March 2008, and GPD 41, Revision 2, "Close-Out of Federal Assistance Awards," January 2, 2013, to ensure that timely, complete, and accurate grant closeout procedures can be applied as required.

**PRM Response:** Concur. PRM will continue to comply with Grants Policy Directives as they are implemented and revised. PRM also looks forward to the Department's full implementation of the GrantSolutions system so that mandated grant file documentation requirements and tools are incorporated within the GrantSolutions functionality.

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United States Department of State

Washington, D.C. 20520

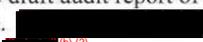
May 29, 2013

**UNCLASSIFIED**  
**MEMORANDUM**

TO: OIG/AUD – Evelyn Klemstine

FROM: A/LM – Catherine I. Ebert-Gray 

SUBJECT: A/LM/AQM response to *Draft Report on Audit of Grant Closeout Processes for Selected Department of State Bureaus.*

Thank you for the opportunity to address the draft audit report of Grant Closeout Processes for Selected Department of State Bureaus.  is the point of contact on this response and he can be reached at (703) 875- (b)(4)

As you are aware, over the past two years the Office of Acquisitions Management (AQM) has closed hundreds of grants through administrative and regular closeout procedures to address the back log of grants not closed within 120 days. AQM provides cradle to grave grant management services for 16 bureaus. In 2011, AQM began a weekly process (every Wednesday in October thru June) where the Grants Branch performs only closeout duties. There are many challenges/issues that AQM Grants Officers (GO) face when closing out grants. For example, over the past several years there has been a turnover of GOs in AQM. AQM currently has five GOs that, in addition to closing out grants, are responsible for providing daily grants management service which includes pre-award, award and post-award activities, all of which are extremely demanding of the GO's time. On average, AQM GOs processes/issues 200 new grants and amends 500 grants annually. Additionally, each GO has approximately 200-250 open grants to monitor, manage and administer in their portfolio.

The closeout process of a grant is extremely complex and a good understanding has to be had for a clear and succinct assessment and evaluation of the closeout process. It is important to note that the funds do not belong to AQM, the bureaus obligate the funds. Therefore, the GO must work closely with each bureau Program Officer (PO)/Grants Officer Representative (GOR) and Budget Officer (BO) to de-obligate funds, and obtain final documents, which include: program evaluations, the SF-425 financial report, the Negotiated Indirect Cost Rate Agreement (NICRA) and then the bureau process a 059 in the Payment Management System (PMS) to close the sub-account. Attachment 1 contains examples of some of the challenges/issues that AQM GOs face during the closeout of a grant.

As highlighted above, AQM GOs make closing out grants a priority. Now that grants are processed in the department's automated grants management system State Assistance Management System (SAMS), AQM GOs will be able to utilize enhanced tools to assist in performing grants closeout duties in a timely manner.

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Below you will find AQM's specific responses to the recommendations.

**Recommendation 7:** OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management review the remaining two expired grants from the March 1, 2012, OIG sample and (a) reconcile the approximately \$2.4 million in the Payment Management System (PMS) to the zero balances recorded in the Global Financial Management System and (b) subsequently close those grants in PMS to avoid unnecessary administrative fees.

**A/LM/AQM Response:** The Office of Acquisitions Management agrees with this recommendation. AQM has reconciled the above two grants. Currently, both grants reflect a zero balance in PMS and GFMS. In addition, grant SLMAQM04GR038 was not expired when the audit was being conducted; however, expired during the course of the audit. AQM notes that this grant has been closed. During the reconciliation process, AQM has discovered a problem in PMS concerning grant SLMAQM03H0048. Even though all three columns match and the 059 is entered, the current status still shows as a "Pending". The responsible AQM GO is working with the bureau and PMS to correct the problem.

**Recommendation 8:** OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management (a) review the remaining 248 expired grants totaling approximately \$13.8 million in the Payment Management System (PMS) as of March 1, 2012, to determine whether the funds associated with those grants can be deobligated in the Global Financial Management System and used for other purposes and (b) subsequently close those grants in PMS to avoid unnecessary administrative fees.

**A/LM/AQM Response:** The Office of Acquisitions Management agrees with this recommendation. AQM has closed hundreds of grants through administrative and regular closeout procedures and will continue to prioritize closeout actions and will review all expired grants with the goal of de-obligating and recovering as much funding as possible.

**Recommendation 9:** OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, close the remaining 347 zero balance grants as of March 1, 2012, that have expired in the Payment Management System to avoid unnecessary administrative fees.

**A/LM/AQM Response:** The Office of Acquisitions Management agrees with this recommendation. AQM closed hundreds of grants through administrative and regular closeout procedures and will continue to prioritize closeout actions in order to reduce administrative fees in PMS.

**Recommendation 10:** OIG recommends that the Bureau of Educational and Cultural Affairs; the Bureau of Population, Refugees and Migration; and the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, in coordination with the Office of the Procurement Executive, establish specific procedures that require grants officers and grants

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officer representatives to periodically report to their respective bureau on the progress of completing timely closeout of expired grants.

**A/LM/AQM Response:** AQM agrees with this recommendation, will work with the Office of Procurement Executive (A/OPE) on establishing specific procedures.

**Recommendation 11:** OIG recommends that the Bureau of Educational and Cultural Affairs; the Bureau of Population, Refugees and Migration; and the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, in coordination with the Office of the Procurement Executive, establish performance metrics for bureau grants officers and grants officer representatives that will provide for timely grant closeout of expired grants while reducing the current backlog.

**A/LM/AQM Response:** AQM agrees with this recommendation and will work with the Office of Procurement Executive (A/OPE) to establish performance metrics.

**Recommendation 12:** OIG recommends that the Bureau of Educational and Cultural Affairs; the Bureau of Population, Refugees and Migration; and the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, each develop procedures to periodically review respective official grant files to determine bureau compliance with Grants Policy Directive (GPD) 23, Revision 2, "Federal Assistance File Folder – Form DS-4012," March 2008, and GPD 41, Revision 2, "Close-Out of Federal Assistance Awards," January 2, 2013, to ensure that timely, complete, and accurate grant closeout procedures can be applied as required.

**A/LM/AQM Response:** AQM agrees with this recommendation. SAMS is the Department's system of record. By using SAMS, there will be procedural and managerial oversight of the official grant award file and system requirements will prohibit the grant file from processing actions when incomplete. .

Attachments:  
As stated.

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United States Department of State  
*Comptroller*  
P.O. Box 150008  
Charleston, SC 29415-5008

**JUN 03 2013**

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**MEMORANDUM**

TO:           OIG – Harold W. Geisel

FROM:       CGFS–James L. Millette 

SUBJECT:   Draft Report on Audit of Grant Closeout Processes for Selected  
Department of State Bureaus (AUD-CG-13-XX, May 2013)

The Bureau of the Comptroller and Global Financial Services (CGFS) Office of Federal Assistance Financial Management (FAFM) has reviewed the subject draft report and we concur and support the recommendations in the report. While there are no specific recommendations for CGFS, we are providing the following comments with the hope that our comments will help to present a context for the findings. They also serve to document our past and continued commitment to meeting this critical aspect of managing Department of State's (Department) federal assistance management. We appreciate the opportunity to provide comments on the draft report.

In 2008, the Management Controls Steering Committee (MCSC), with OIG concurrence, closed the Significant Deficiency on the Department's management of federal financial assistance, which had been established in 2005. By taking this action, the MCSC acknowledged the significant progress made in three of the four areas identified in the Corrective Action Plan (CAP): Leadership, Policy Framework, and Training and Outreach. The management of unliquidated obligations (ULOs) and closeout of federal assistance awards was part of these efforts and continues to be one of our top priorities. The attached presentation (see Attachment 1), which was provided to your staff in the entrance conference along with supporting documentation, reflects the CGFS bureau's on-going outreach and programmatic efforts, both formal and informal, to raise awareness of the grant closeout process across the Department. Our concerted efforts, supports our strong belief that the grant closeout is an important and critical final part of the grant life cycle and grant accountability and allows the Department to identify and

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redirect any unused funds to other projects or return funds to the Treasury. As a result of these efforts, thousands of items totaling over \$54 million have been deobligated to date.

The Department has a large, complex and diversified grants portfolio across many bureaus. In FY 2012, the Department disbursed over \$8.78 million in federal assistance payments, with the majority being made domestically. Most of our domestic grant payments are processed in the Department of Health and Human Service's Payment

Management System (HHS/PMS) which interfaces with the Department's Global Financial Management Systems (GFMS). The Department installed these interfaces to ensure the timely and consistent update of grant related financial information to facilitate their management, and the combination of these two systems provides complementary functionality necessary for grant and financial management accountability. Despite these improvements, the inherent nature and regulatory requirements surrounding grants management renders the grants closeout process subject to substantial labor hours to research, analyze, communicate and reconcile each of the required elements of the closeout process.

The Department's federal financial assistance funding (See Figure 1 of your report) has grown over the last few years, with little or no increase in staffing in the bureaus to manage these grants. Regardless, the Department has still made substantial improvements in grants management and closeouts across the bureaus. The Department will continue its efforts to put emphasis on closeouts and on improving the internal controls in GFMS and PMS for the closeout process.

The PMS produces a Close-Out Special Audit Report (COSAR) on a quarterly basis. The COSAR provides a list of accounts for awards that have ended based on the award end date as indicated in PMS and codes the accounts for when the Authorized, Disbursed, and Charged amounts are all equal and/or represent final amounts. This report provides Department bureau personnel with a basis for confirming the status of awards received by the bureaus' PMS users as well as the ability to routinely review zero balance accounts.

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Following is a summary from the COSAR Report.

| <b><u>Balance</u></b>                       | <b><u>10-1-2011</u></b> | <b><u>1-1-2013</u></b> |
|---|-------------------------|------------------------|
| Total, Open Grants with a Balance of "Zero" | 861                     | 617                    |
| Total, PMS Monthly Service Charges          | \$ 4,665                | \$ 3,343               |

It should be noted that the numbers reflected in the COSAR report are not static numbers, but rather a snapshot in time as new grants are constantly added and existing grants are constantly closed out. These zero balance accounts are often times kept open past the award end date to ensure that funds can be adjusted as final administrative requirements pertaining to the grants are met by grantees. The most common of these are the submission of final reports, reconciliation of grant, reported, and payment amounts and other financial details, and review of requests for extension. The number of open accounts above reflect the results of our concerted efforts to closeout thousands of grants amounting to more than \$54 million dollars and our belief that bureau personnel across the Department continue to make grants close out a major component of their daily work.

Additionally, we are pleased to report that after receipt of your initial draft report, our staff was also able to verify with the cognizant Bureaus that 28 out of 29 zero dollar grants for ECA, PRM, AQM will be reflected in the July PMS COSAR report as closed. We remain committed to continue to work with bureaus and where necessary with PMS staff to resolve and close out and deobligate the remaining grants, and to actively monitor those that would indicate the need for closeout.

We want to highlight a very important point that was raised in your report because of the data limitations - the figures in the report need to be analyzed and interpreted cautiously. In addition, for the Department, a major inhibitor of prompt closeout is the lack of a final indirect cost rate by non-Department recipient organizations. More often than not, these other federal agencies have cognizance and are behind (we have seen up to *ten years* behind) in the determination/issuance of final rates. Missing final rates is unfair to recipients and creates potential financial issues for agencies. Over the years, bureaus have left grants open for years while waiting for a final indirect cost rate to be obtained by a recipient. This not only resulted in

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high levels of unliquidated obligations, but potentially created situations where a final claim needed to be covered by the increasingly scarce resources of current fiscal years if the final rate came in higher than what was originally budgeted.

Our team collaboratively worked with the Bureau of Administration's Office of the Procurement Executive (A/OPE) and the bureaus to develop GPD 41<sup>1</sup>, which notifies the award recipients of a time certain closeout process and requires the closeout of grants within an established timeframe after the award period of performance ends – regardless of whether or not a final rate has been received. This policy, as it stands, can have the potential to hurt recipients as they remain out-of-pocket if the final rate eventually comes in higher than the provisional rate used in the award budget and closeout. We believe that this is a critical government-wide issue that must be addressed by OMB. We have strongly and continually urged OMB to include requirements and penalties for cognizant agencies that fail to issue indirect cost rates in a timely manner. The same requirements and penalties should apply to recipient organizations that fail to submit in a timely, accurate manner the needed documentation for cost rate determination. We appeal to your office to join us in supporting the need for strict requirements from OMB to force consistent, timely processing of indirect cost rates by federal cognizant agencies, as well as the timely and accurate submission of rate documentation by federal grant recipients.

My staff recently completed their work with the Bureau of Administration's State Assistance Management System (SAMS) Project Management Team and with the Office of the Procurement Executive for Federal Assistance (A/OPE/FA) on the development of close-out functionality within the Grants solutions grant management system which is completing domestic deployment. This functionality includes a checklist of required actions Grants Officers (GO) must take prior to closing awards and de-obligating unused funds in SAMS. The functionality requires GO acknowledgement that (1) required reports have been received and (2) they are compliant with guidance stated in Grants Policy Directive (GPD) #41. This functionality is operational and will provide better accountability and, further streamline the grants close out process.

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<sup>1</sup> GPD 41, "Closeout of Federal Assistance Awards"

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In terms of management controls, as a direct result of this audit, in March 2012, we took a fresh look at existing controls in PMS and identified improvements in management controls over payments made through the PMS, to prevent erroneous payments, and to assist in the timely closeout of grants. PMS Officials, at the Department's request, developed and implemented new payment processing procedures for expired grants following 90-days after the end of an award's period of performance. This new PMS functionality is currently being tested at PRM and DRL. It is anticipated that PMS will roll out this vital change in August to its other serviced agencies and the rest of the Department's bureaus. (Please see attachment 2 for details)

Again, we appreciate the opportunity to provide comments on this report and look forward to working collaboratively with your staff, A/OPE/FA, our grants community, and HHS to continue to build on current Department-wide grant coordination and oversight activities and to improve the grant close out process in the Department. If you have any questions or need additional information about our response, please contact Mazhar Ahson, Director, Federal Assistance Financial Management CGFS/DCFO/FPRA/FAFM) on 703-875-██████████<sup>(b)(2)</sup> or 202-261-██████████<sup>(b)(2)</sup>

Attachments: as stated.

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