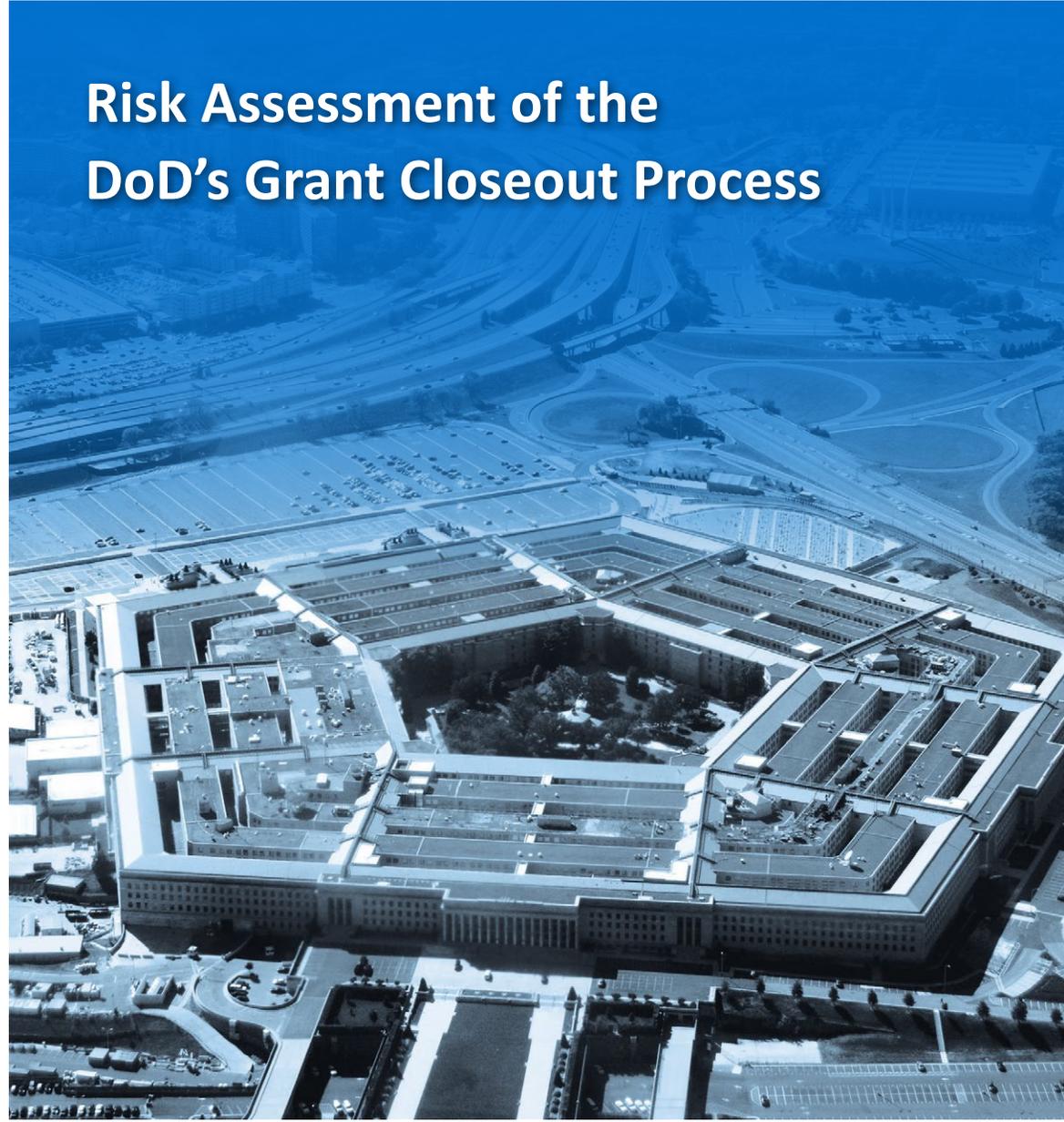




INSPECTOR GENERAL

U.S. Department of Defense

DECEMBER 16, 2019



Risk Assessment of the DoD's Grant Closeout Process

INTEGRITY ★ INDEPENDENCE ★ EXCELLENCE





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MEMORANDUM FOR UNDER SECRETARY OF DEFENSE FOR RESEARCH
AND ENGINEERING
ASSISTANT SECRETARY OF THE AIR FORCE (FINANCIAL
MANAGEMENT AND COMPTROLLER)
AUDITOR GENERAL, DEPARTMENT OF THE NAVY
AUDITOR GENERAL, DEPARTMENT OF THE ARMY
AUDITOR GENERAL, DEPARTMENT OF THE AIR FORCE

SUBJECT: Risk Assessment of the DoD's Grant Closeout Process (Report No. DODIG-2020-041)

Introduction

The DoD Office of Inspector General (DoD OIG) has completed a risk assessment of the DoD's grant closeout process as required by the Grants Oversight and New Efficiency (GONE) Act of 2016, Public Law 114-117. Our objective was to determine whether an audit of the DoD's grant closeout process was warranted. Based on our review of the DoD FYs 2017 and 2018 GONE Act data submissions and 59 grant files, we identified risks associated with the DoD grant closeout process and determined that an audit of the DoD's grant closeout process is warranted. This risk assessment does not contain recommendations.

Background

The DoD grants and cooperative agreements are Federal assistance agreements for specified purposes. The major difference between grants and cooperative agreements is that grants are assistance awards for which no substantial involvement is anticipated between the DoD and the recipient during performance of the contemplated activity, whereas cooperative agreements are awards for which substantial involvement between the DoD and the recipient is anticipated. On January 28, 2016, Congress passed Public Law 114-117, also referred to as the GONE Act, to help Federal agencies identify and close out expired grants. In accordance with the GONE Act, the Office of Management and Budget issued Management Procedures Memorandum No. 2016-04, to require Federal agencies to report open Federal grant and

cooperative agreement awards with periods of performance that had expired before October 1, 2015, and identify the challenges in closing out these awards.¹ The GONE Act requires agencies to:

- submit an initial report to Congress and the Secretary of Health and Human Services no later than December 31, 2017;
- include information that identified grants by period of expiration, with zero dollar balances, and undisbursed dollar balances; and
- submit an updated report to Congress and the Secretary of Health and Human Services 1 year later to present the progress with closing the expired grants identified in the previous year’s report.

The GONE Act also requires that the Inspector General of an agency with more than \$500 million in annual grant funding, such as the DoD, conduct a risk assessment to determine whether an audit of the agency’s grant closeout process was warranted.

In November 2017, the Office of the Under Secretary of Defense for Research and Engineering (OUSD[R&E]) officials submitted the GONE Act data for inclusion in the FY 2017 DoD Agency Financial Report (AFR). The submission included over 5,000 open grants and cooperative agreements issued by 117 DoD awarding offices with expired periods of performance greater than 2 years. Nearly 3,800 of these grants had a zero balance and over 1,200 had undisbursed balances valued at more than \$260 million.

In October 2018, the OUSD(R&E) submitted the GONE Act data to be included in the FY 2018 DoD AFR. Within this submission, OUSD(R&E) stated that the DoD closed 54 percent of the grants reported in the FY 2017 DoD AFR. However, more than 2,300 of those grants and cooperative agreements remained open as of September 30, 2018, with a total undisbursed balance over \$89 million. See Table 1 below for the FYs 2017 and 2018 DoD AFR GONE Act data.

Table 1. DoD AFR GONE Act Data for FYs 2017 and 2018

	FY 2017 DoD AFR	FY 2018 DoD AFR
Grants With Zero Dollar Balances	3,761	1,598
Grants With Undisbursed Balances	1,256	711
Total Amount of Undisbursed Balances (in Millions)	\$263.84	\$89.10

Note: Total amount of undisbursed balances are rounded.

Source: FY 2017 and 2018 DoD AFR.

¹ Office of Management and Budget, Management Procedures Memorandum, No. 2016-04, “GONE Act Reporting of Unclosed Grant and Cooperative Agreement Awards For Which the Period of Performance Has Expired More Than Two Years,” August 15, 2016. Closeout is the process by which the Federal awarding or administering agency determines that all applicable administrative actions and all required work have been completed.

According to Title 2 Code of Federal Regulations (CFR) section 200.343 (revised January 1, 2018), awarding or administering agencies are required to closeout Federal awards once they have determined that the non-federal recipient has completed all applicable administrative actions and required work under the award.² OUSD(R&E) officials collaborated with various DoD offices and created the DoD Grants Closeout Policy working group to improve the closeout process, such as developing standard DoD policy.³

Results

We identified risks associated with the DoD grant closeout process. Specifically, we identified risks associated with the DoD grant data, closeout policy, and grant files.

Unreliable DoD Grant Data

We identified concerns with the reliability of the DoD grant data. Specifically, OUSD(R&E) GONE Act data submissions for the FY 2017 and 2018 DoD AFRs included:

- inaccurate quantities and inaccurate undisbursed amounts,
- grants that did not meet reporting criteria, and
- duplicate grants.

Inaccurate Quantities and Undisbursed Amounts

OUSD(R&E) GONE Act data submissions for the FY 2017 and 2018 DoD AFRs included inaccurate quantities and undisbursed amounts. The DoD does not have a single system to award and maintain grants and cooperative agreements. According to DoD officials, GONE Act reporting required manual compilation from multiple systems.⁴ Therefore, to compile the FY 2017 GONE Act data, OUSD(R&E) officials tasked awarding and administering agencies to use their own grant systems to identify open grants with a period of performance that ended before October 1, 2015.

OUSD(R&E) manual data compilation resulted in errors with the quantity and the dollar values reported in the FY 2017 DoD AFR. Specifically, OUSD(R&E) officials over reported the total quantity of open grants by one and under reported the undisbursed balances by \$192,037. To compile the FY 2018 GONE Act data, OUSD(R&E) officials tasked the awarding and administering agencies to provide an update on the grants previously reported in the FY 2017 DoD AFR. Once again, OUSD(R&E) manual data compilation resulted in errors with the quantities and dollar values reported in the FY 2018 DoD AFR.

² An awarding agency issues grants and may close out the grant or assign that responsibility to an administering agency. An administering agency performs post-award functions related to the administration of grants or cooperative agreements.

³ The DoD Grants Closeout Policy working group is composed of grant officials from OUSD(R&E), Army, Navy, Air Force, Office of Naval Research, Defense Logistics Agency, Defense Procurement and Contracting, and Defense Contract Management Agency.

⁴ The grants systems used to compile the GONE Act information consisted of: User Password Administration and Security System, Paperless Contract Files, Wide Area Workflow, Financial Assistance Award Data Collection System, Mechanization of Contract Administration Services, and Procurement Desktop Defense.

Specifically, OUSD(R&E) officials under reported the total quantity of open grants by 16 and the undisbursed balance by \$128 million. An OUSD(R&E) official acknowledged that the GONE Act information was incorrect in the FYs 2017 and 2018 DoD AFRs. See Table 2 below for the differences in the FYs 2017 and 2018 DoD AFRs and OUSD(R&E) data compilation.

Table 2. Differences Between FYs 2017 and 2018 AFR and OUSD(R&E) Data Compilation

	FY 2017 AFR	FY 2017 Compilation	FY 2017 Difference	FY 2018 AFR	FY 2018 Compilation	FY 2018 Difference
Grants With Zero Dollar Balances	3,761	3,761	0	1,598	1,588	10
Grants With Undisbursed Balances	1,256	1,255	1	711	737	(26)
Total Grants	5,017	5,016	1	2,309	2,325	(16)
Total Amount of Undisbursed Balances (in Millions)	\$263.84	\$264.04	\$(0.19)	\$89.10	\$217.33	\$(128.23)

Note: Figures in parenthesis represent negative amounts. Total amounts of undisbursed balances are rounded.
Source: The DoD OIG.

Reporting Grants Not Meeting GONE Act Criteria

OUSD(R&E) GONE Act data submissions for the FYs 2017 and 2018 DoD AFRs did not meet reporting criteria. Specifically, as the U.S. Army Medical Research Acquisition Activity (USAMRAA) prepared its status update for the FY 2018 DoD AFR, USAMRAA officials identified 415 grants that should not have been included within the FY 2017 DoD AFR GONE Act data submission.

USAMRAA officials identified that 14 grants had been closed before October 1, 2017. USAMRAA officials also identified an additional 401 grants with a period of performance that ended after September 30, 2015, of which 8 were in our review. For example, one USAMRAA grant had an initial period of performance end date of January 31, 2015; however, the grants officer extended the grant’s period of performance through January 31, 2016. USAMRAA grant officers manually update the grant system when grants are modified. Since the grant system was not updated to show the extended period of performance, the system still reported the January 31, 2015 end date. Consequently, these grants were erroneously included in the FY 2017 DoD AFR.

We identified seven additional grants during our review where the grant officer extended the period of performance beyond September 30, 2015, and the grant system did not accurately show the end date. Therefore, the FY 2017 DoD AFR overstated the quantity of open grants meeting the GONE Act requirements by at least 420 grants. Additionally, OUSD(R&E) reported in the FY 2018 DoD AFR that more than 400 of these grants were closed, of which 15 were

in our review. However, during our review, we identified that 12 of 15 (80 percent) grants with extended periods of performance remained open in FY 2018. Therefore, OUSD(R&E) overstated the quantity of grants closed between FYs 2017 and 2018 in the FY 2018 DoD AFR.

Duplicate Grants

OUSD(R&E) GONE Act data submissions for the FYs 2017 and 2018 DoD AFRs included duplicate grants. Specifically, the OUSD(R&E) FY 2017 GONE Act data compilation included 5,016 lines of data that represent grant awards; however, we identified 56 unique grants that had multiple lines of data. For example, the National Guard Bureau included 12 lines of data for one grant in the OUSD(R&E) FY 2017 data compilation. According to OUSD(R&E) officials, they did not verify unique grant award numbers while compiling the data. As a result, OUSD(R&E) overstated the quantity of grants reported in the FY 2017 DoD AFR by 136.

DoD Grant Closeout Policy

OUSD(R&E) has not established policy to standardize grant closeout procedures across the DoD. Title 2 CFR 200.343 states that the Federal awarding or administering agency will closeout the Federal award when it determines that all applicable administrative actions and required work for the Federal award has been completed by the recipient. DoD administering agencies have developed agency specific policy to supplement Title 2 CFR 200.343; however, the grant closeout policies are not consistent. For example, USAMRAA developed a checklist that specifies the documents necessary to close the grant, such as the final federal financial report and the final technical report. Whereas, other DoD administering agencies did not specify which documents were necessary.

Additionally, DoD administering agencies are inconsistent in the timing of grant closeout completion. For instance, the Office of Naval Research (ONR) guidance states that all closeout actions should be completed no later than 1 year after receipt and acceptance of required documentation. However, Defense Contract Management Agency guidance states that grant closeout should occur within 2 years after the end of the period of performance. According to OUSD(R&E), the DoD Grants Closeout Policy working group is developing a grant closeout checklist; however, it has not been implemented across the DoD.

DoD Grant Files

Based on the statistical sample, the overall error rate of the grant files was 65 percent or a projected 2,042 of 3,148 grants.⁵ Specifically, from our review of a sample of 59 grant files, we identified:

- inaccurate grant system data,
- improperly closed grants,

⁵ Our results are based on a stratified statistical sample, at a 90-percent confidence level, for a population of 3,148 for a randomly selected sample of 59 grants.

- untimely deobligation of funds, and
- expired and open grants.

Inaccurate Grant System Data

Based on our statistical sample results, the error rate for inaccurate grant system data was 24 percent or a projected 749 errors. Specifically, we identified that 16 of the 59 grants reviewed were inaccurately included in the FY 2017 DoD AFR because of inaccurate completion dates and inaccurate grant status in the grant systems. The grant officers modified 15 grants to extend the period of performance, but did not enter the extension in the grant system. For example, USAMRAA extended the period of performance on a grant awarded in 2009 until December 31, 2015, but the USAMRAA grant system was not updated and showed a completion date of April 30, 2012. Additionally, grant officers did not accurately update the grant systems to report that 1 grant was closed. For example, the National Guard Bureau closed a grant in July 2015, but the grant system was not updated and reported this grant as open for the FY 2017 DoD AFR. Accurate periods of performance and grant status data are imperative to ensure the administering agency knows the appropriate grant timeframes for close out.

Improperly Closed

Based on our statistical sample results, the error rate was 2 percent or a projected 52 grants were improperly closed. Specifically, we determined that 2 of the 59 grants reviewed were improperly closed. For example, the closeout form for an ONR administered grant contained financial discrepancies with a difference of \$1.6 million in undisbursed amounts. ONR officials closed out the grant without verifying the correct disbursed and deobligated amounts. ONR grant closeout documentation included different unliquidated obligation amounts and identified that the grant was closed based on estimated amounts and had not been verified with official accounting records. According to an ONR official, the grant needed to be re-opened to determine the amount paid to the recipient. Accurate financial data is imperative to ensure that DoD is appropriately accounting for all funding before closing out grants.

Untimely Deobligation of Funds

Based on our statistical sample results, a projected 1,059 grants, or 34 percent, had untimely deobligation of funds. Specifically, we identified untimely deobligation of funds for 24 of the 59 grants reviewed. For example, the Defense Contract Management Agency was responsible for administering a grant awarded by the Air Force Research Laboratory. The funds for that grant were set to cancel on October 1, 2019. However, as of October 23, 2019, the Air Force Research Laboratory had not given the Defense Contract Management Agency permission to deobligate over \$120,000 in excess funds, and these funds had to be returned to the U.S. Treasury. In accordance with the DoD Financial Management Regulation, funds in canceled accounts cannot be used for other obligations

or expenditures.⁶ Timely grant closeout ensures that any excess funds are deobligated and available for the DoD to fund other programs, as appropriate and specified in the DoD Financial Management Regulation.⁷

Expired and Still Open

Based on our statistical sample results, the error rate of grants that are expired and have not been closed out was 35 percent, or a projected 1,096 errors. Specifically, we determined that 20 of the 59 grants reviewed were expired and still open. The administering agencies had not received all required documentation to demonstrate completion of applicable administrative actions and work required by the terms of the grant in order to close the grants. For example, the ONR administered a grant with a period of performance that ended on January 31, 2009; however, the recipient did not provide the required cost report. Therefore, this grant had been expired for over 10 years and was still open. As a result, the recipient had not demonstrated that it met the financial requirements and returned any undisbursed balances. Timely receipt of required grant closeout documentation enables grant officers to perform the closeout and ensure that recipients perform the required work and receive the proper payment.

Scope and Methodology

We conducted this risk assessment from June 2019 through December 2019. This risk assessment was not conducted in accordance with generally accepted government auditing standards.

Review of Documentation and Interviews

We interviewed OUSD(R&E) officials responsible for grant closeout policies and FYs 2017 and 2018 GONE Act reporting for the DoD. We also interviewed USAMRAA, Defense Contract Management Agency, National Guard Bureau, and ONR officials responsible for grant closeout.

We reviewed the following laws and regulations for the grant closeout process.

- Public Law 114-117, “GONE Act,” January 28, 2016
- Title 2 CFR, 200.343, “Closeout,” January 1, 2018
- Title 32 CFR, “National Defense,” July 1, 2018
- DoD Regulation 7000.14-R, “DoD Financial Management Regulation,” volume 3, chapter 10
- DoD Regulation 7000.14-R, “DoD Financial Management Regulation,” volume 12, chapter 5
- DoD Grant and Agreement Regulations, DoD 3210.6R Part 22, “DoD Grants and Agreements – Award and Administration,” August 27, 2007

⁶ DoD Regulation 7000.14-R, “DoD Financial Management Regulation,” volume 3, chapter 10.

⁷ DoD Financial Management Regulation states that expired account balances are no longer available for incurring new obligations but are still available for recording, adjusting, and liquidating valid obligations. The account remains available for such purposes for 5 years after expiration.

- National Guard Regulation 5-1, “National Guard Grants and Cooperative Agreements,” May 28, 2010
- Office of Management and Budget Circular No. A-136, “Financial Reporting Requirements,” August 15, 2017
- ONR University of Business Affairs, Code 24 Guidance, “Closeout of Assistance Awards,” April 10, 2019

Statistical Sample

We obtained a universe of 5,016 grants from the OUSD(R&E) data compilation as required by the GONE Act. We removed duplicate grants and provided the universe of 4,880 grants to the DoD OIG Quantitative Methods Division (QMD). The QMD put six strata on the universe to include four awarding and administering agencies, a certainty strata for a high-dollar value of undisbursed amounts, and a random strata. This process resulted in a strata size of 3,148 grants and a sample of 59 grants across four DoD administering agencies. For the 59 grant files, we reviewed periods of performance, funding status, grant status, and closeout completion documentation, including checklists, financial reports, and performance reports.

Table 3. Summary of Statistical Projections on Grant File Deficiencies

90-Percent Confidence Interval	Lower Bound	Point Estimate	Upper Bound
Inaccurate Grant System Data			
Error Rate	12%	24%	35%
Number Errors	389	749	1,110
Improperly Closed			
Error Rate	See note ¹	2%	5%
Number Errors	2 ²	52	144
Untimely Deobligation			
Error Rate	21%	34%	46%
Number Errors	666	1,059	1,452
Expired and Open			
Error Rate	22%	35%	47%
Number Errors	703	1,096	1,489
Overall Grant File Deficiencies			
Error Rate	52%	65%	78%
Number Errors	1,634	2,042	2,449

Source: The DoD OIG.

¹ Calculated lower bound rate was less than zero due to small number of errors; therefore, the rate was not reported.

² Calculated lower bound number was less than zero due to small number of errors; therefore, actual number of errors found in the sample was reported.

Use of Computer-Processed Data

We obtained the grants universe from the OUSD(R&E) GONE Act data submission. We used the data for background information and to determine whether the FYs 2017 and 2018 DoD AFRs were accurate. To test the data reliability, we conducted analyses to identify duplicate grants. We also selected a sample of grants to compare OUSD(R&E) data compilation to the documentation within the grant files. We determined that there were risk areas associated with the data as identified in our results. However, we found that the data were sufficient to achieve our objective of determining whether a future audit of the grant closeout process was warranted.

Use of Technical Assistance

We obtained support from the DoD OIG QMD in developing a statistical sample of grants to test the reliability of the computer-processed data.

Prior Coverage

During the last 5 years, Army Audit Agency issued one audit report of the oversight and administration of DoD grant awards. Unrestricted Army Audit Agency reports can be accessed from .mil and gao.gov domains at <https://www.army.mil/aaa>.

Report No. A-2018-0054-FMX, "Oversight and Execution of Army Nonmedical Grant Awards," June 12, 2018

The Army Audit Agency determined that administrative grants officers did not always provide sufficient oversight. Army Audit Agency recommended that the Deputy Assistant Secretary of the Army (Procurement) develop policy associated with administrative oversight.

Conclusion

We identified several risks related to the DoD grant closeout process and compliance with the GONE Act. As a result, we plan to use the information from this risk assessment to review the grant closeout process during future grant audits.



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