



DEPARTMENT OF VETERANS AFFAIRS
OFFICE OF INSPECTOR GENERAL

Office of Audits and Evaluations

DEPARTMENT OF VETERANS AFFAIRS

Risk Assessment of VA's Grant Closeout Process

REVIEW

REPORT #19-09126-115

MARCH 25, 2020



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DEPARTMENT OF VETERANS AFFAIRS
OFFICE OF INSPECTOR GENERAL
WASHINGTON, DC 20001



March 23, 2020

MEMORANDUM

TO: Inspector General (50)

FROM: Assistant Inspector General for Audits and Evaluations (52)

SUBJECT: Risk Assessment of VA's Grant Closeout Process

Summary

As required by the Grants Oversight and New Efficiency (GONE) Act of 2016, Public Law 114-117, the Office of Inspector General (OIG), Office of Audits and Evaluations performed a risk assessment of VA's grant closeout process to determine if an audit or review of that process was warranted. The GONE Act also requires agencies to report on grants that were expired for more than two years for which closeout had not occurred, and to report challenges leading to delays in closing such grants. Given these requirements, the OIG team focused this risk assessment on the timeliness of grant closeouts at VA. Timely closeouts provide a final point of accountability and allow agencies to make better use of unspent funds or return these funds to the Department of the Treasury. Delayed closeouts risk undermining these objectives.

VA reported 34 expired grants more than two years old with undisbursed balances as of the end of 2019.¹ The reported undisbursed balances for these open but expired grants totaled approximately \$14.8 million, but this balance was reduced to less than \$500,000 when the team adjusted for system discrepancies associated with the State Home Construction and Veterans Cemetery Grants Programs.

For fiscal year (FY) 2020, the estimated budgets for the grant programs covered in this risk assessment totaled approximately \$2.27 billion, or only about 1.03 percent of VA's overall budget estimate of \$221 billion. Moreover, VA's largest grant program, State Home Per Diem,

¹ In the guidance for the Act, two years was the threshold used by the Office of Management and Budget (OMB) for agencies to report expired grants. Data used was as of December 31, 2019, except for two grant programs. Data for the State Home Per Diem Program and the per diem portion of the Homeless Providers Grant and Per Diem Program were as of January 15, 2020.

obligates funds at the time an invoice is paid. As a result, for about 67 percent of the \$2.27 billion grant budget, VA has implemented a process to mitigate the risk of undisbursed balances that can tie up funds for other uses.

Therefore, the team has concluded that an overall audit or review of the timely closeout of grants is not warranted at this time.

Background

The purpose of the GONE Act, enacted on January 28, 2016, was to identify certain grants held by specified federal agencies that have expired. To achieve this objective, the act placed reporting requirements on agencies and their respective inspectors general regarding the closeout of grants. Inspectors general of agencies with more than \$500 million in annual grant funding are required to conduct a risk assessment to determine if an audit or review of the agency's grant closeout process is warranted. The chair of the Council of the Inspectors General on Integrity and Efficiency (CIGIE) issued a letter to the Senate Committee on Homeland Security and Governmental Affairs and the House Committee on Oversight and Government Reform communicating the plan to conduct the required OIG risk assessments no later than March 31, 2020. A copy of the CIGIE letter can be found in Appendix B.

The grant closeout process is specified in 2 C.F.R. § 200.343 and requires grantees to

- Submit financial, performance, and other required reports and liquidate all obligations incurred under the award within 90 calendar days after the period of performance end date;
- Promptly refund any unobligated cash the grantee is not authorized to retain; and
- Account for any real and personal property acquired with federal funds or received from the federal government.

The federal awarding agency must make prompt payments to the grantee for allowable reimbursable costs, make a settlement for any upward or downward adjustments to the federal share of costs, and should complete all closeout actions within one year after receipt and acceptance of all required final reports. According to the Government Accountability Office (GAO), "Closeout procedures ensure that the grantee has met all financial requirements, provided all final reports, and returned any unspent balances."²

Grant closeouts are important because an agency may be able to deobligate undisbursed grant funds to use for other projects, if authorized, or return unspent funds to the Department of the

² Government Accountability Office, Grants Management: Actions Needed to Address Persistent Grant Closeout Timeliness and Undisbursed Balance Issues, GAO 16-362, April 14, 2016.

Treasury. GAO describes undisbursed balances as occurring “when the grant recipient has not drawn down or the awarding agency has not disbursed all the authorized federal grant funds by the period of performance end date.”³ GAO also defines a deobligation as a “cancellation or downward adjustment of previously incurred obligations. Deobligated funds may be reobligated within the period of availability of the appropriation.”⁴

The GONE Act defined a federal grant award using the definition found in 2 C.F.R. § 200.38(a)(1), which states that a federal award is “the Federal financial assistance that a non-Federal entity receives directly from a Federal awarding agency or indirectly from a pass-through entity....” A non-federal entity is defined in 2 C.F.R. § 200.69 as “a state, local government, Indian tribe, institution of higher education, or nonprofit organization....” Additionally, the GONE Act limited its scope to only federal grant awards in an agency cash payment management system held by the United States Government that were expired for more than two years past the period of performance (including any extensions) and closeout had not yet occurred in accordance with 2 C.F.R. § 200.343. The GONE Act was therefore focused on monetary grants that were still open but expired more than two years.

The GONE Act mandated certain agency reporting requirements with respect to federal grant awards. The OMB guidance required agencies to report in their FY 2017 Agency Financial Report (AFR) “the total number of Federal grant and cooperative agreement awards and balances for which closeout has not yet occurred but for which the period of performance has elapsed more than two years with zero dollar balances and undisbursed balances,” with a follow-up in the FY 2018 AFR.⁵ OMB provided a reporting template for agencies to use in their FY 2017 and 2018 AFRs.

VA officials confirmed the following grant programs:

- State Home Per Diem
- Grants to States for Construction of State Home Facilities⁶
- Supportive Services for Veteran Families
- Homeless Providers Grant and Per Diem

³ Government Accountability Office, Grants Management: Actions Needed to Address Persistent Grant Closeout Timeliness and Undisbursed Balance Issues, GAO 16-362, April 14, 2016.

⁴ Government Accountability Office, *A Glossary of Terms Used in the Federal Budget Process*, GAO-05-734SP, September 2005.

⁵ OMB issued Management Procedures Memorandum Number 2016-04, GONE Act Reporting of Unclosed Grant and Cooperative Agreement Awards for Which the Period of Performance Has Expired More than Two Years that set forth agency reporting requirements under the GONE Act.

⁶ Referred to as the State Home Construction Program in this report.

- Veterans Cemetery Grants
- Grants for Adaptive Sports Programs for Disabled Veterans and Disabled Members of the Armed Forces⁷
- Grants for Transportation of Veterans in Highly Rural Areas
- Specially Adapted Housing Assistive Technology

Appendix C provides a brief description of each program.

VA also confirmed that there were three additional VA grant programs as listed in the Catalog of Federal Domestic Assistance (CFDA) published by the General Services Administration.⁸ However, when the team inquired about them, management personnel reported minimal or no activity. Briefly, program officials told the team the status of these programs as follows:

- Grants for the Rural Veterans Coordination Pilot—The program was closed in 2015 and the final obligation was closed at the start of FY 2016.
- Payments to States for Programs to Promote the Hiring and Retention of Nurses at State Veterans Homes—The program did not approve any applications or send funds to any state for FY 2018. For FY 2019, the program approved two grants totaling approximately \$241,000, but only \$2,000 was used and the program closed the grants. For FY 2020, the program approved two grants and sent the states approximately \$178,000, which are the only open grants.
- Veterans Employment Pay for Success—One grant was awarded on September 30, 2016, for \$3 million by VA and the Corporation for National and Community Service, with each responsible for funding \$1.5 million. The period of performance is five years, and the grantee submitted its first invoice for \$450,000, paid in November 2019. This program has not received additional funding beyond this amount.

The team excluded these programs from the remainder of the risk assessment because the few reported grants were still within the period of performance and the programs lacked ongoing, recurring, or substantive activity, according to program officials.

Additionally, although the CFDA lists the Research and Development Program as a VA grant program, it is an intramural program and only VA employees are eligible for those grants. Therefore, it is not covered within the GONE Act's definition of a federal grant award.

⁷ Referred to as the Adaptive Sports Grant Program in this report.

⁸ 2 C.F.R. § 200.202(a)(1) states, "The CFDA, or any OMB-designated replacement, is the single, authoritative, governmentwide comprehensive source of Federal financial assistance program information produced by the executive branch of the Federal Government."

To determine if an audit or review was warranted based on the risk assessment, the team considered the number of open grants expired for more than two years, the relative size of their undisbursed balances compared to their respective grant programs, and the relative size of these grant programs to VA's overall budget. The team noted that within VA's Office of Management, the Office of Financial Policy has issued a grant closeout policy and the Office of Business Oversight performed an analysis of control risk pertaining to grants management for several VA programs.

Scope and Methodology

This risk assessment was conducted to determine if an audit or review of VA's grant closeout process is warranted. To accomplish this purpose, the team focused on the timeliness of grant closeouts. The scope included VA grant programs as identified above. Please see Appendix A for a description of the scope and methodology for this risk assessment.

Results of Assessment

As required by the GONE Act of 2016, Public Law 114-117, the team performed a risk assessment of VA's grant closeout process to determine if an audit or review of VA's grant closeout process is warranted. This risk assessment discusses

- The number of expired grants VA reported as more than two years old with undisbursed balances,
- The size of VA's grant program funding in comparison to VA's budget, and
- VA's grants policy and oversight.

VA Reported 34 Expired Grants More Than Two Years Old with Undisbursed Balances

VA reported 34 expired grants more than two years old with undisbursed balances, according to data provided by VA's Financial Services Center as of the end of 2019.⁹ These expired grants totaled approximately \$14.8 million in reported undisbursed funds, or less than one percent of total authorized amounts for open grants as shown in Table 1. Two programs—State Home Construction and Veterans Cemetery Grants—accounted for \$14.3 million. However, program officials said these grants were closed and VA's financial management system showed no

⁹ The Financial Services Center is part of VA's Office of Management. The count of 34 grants excluded the State Home Per Diem Program and the per diem portion of the Homeless Providers Grant and Per Diem Program. As described in the report, the Financial Services Center could not provide information by individual grant for these two programs. Instead, it provided the team information on individual open obligations. As of January 15, 2020, only two obligations with undisbursed balances of \$12,143 were more than two years past their end dates according to data from the Financial Services Center.

outstanding amounts for the relevant obligations. Further, a Financial Services Center official said that these two programs use a grant payment system that is not fully interfaced with VA's financial management system, so discrepancies could result. Without the \$14.3 million, the ratio of undisbursed funds to total authorized amounts for open grants is reduced to about 0.02 percent. Another 36 grants were also expired more than two years, but they were fully disbursed according to information provided by the Financial Services Center.¹⁰ See Table 2 for information on the number of expired grants.

The Financial Services Center reported it obtained the data used for Tables 1 and 2 from the Department of Health and Human Services' (HHS) Payment Management System (PMS) and VA's Financial Management System (FMS).¹¹ Most VA grant programs use PMS to disburse funds to grantees, including the State Home Construction and Veterans Cemetery Grants Programs. The two per diem programs—that is, the State Home Per Diem Program and per diem portion of the Homeless Providers Grant and Per Diem Program—do not use PMS and process payment claims as invoices, so the Financial Services Center used a query of VA's FMS to obtain obligation data. Due to FMS limitations, the Financial Services Center could not provide information by individual grant, unlike PMS, according to the accountant assisting. Instead, the Financial Services Center provided the team information on individual open obligations for the per diem programs. As a result, the data from PMS and FMS in Tables 1 and 2 are not fully comparable, but both systems provide information on undisbursed balances.

As already mentioned, the State Home Construction and Veterans Cemetery Grants Programs showed \$14.3 million in grants expired more than two years with undisbursed balances in PMS. Of the \$14.3 million, about \$4.9 million was associated with the State Home Construction Program. The program manager said program staff had closed the grants in FMS but not in PMS, as entries to both systems are required. She recognized the program needed to correct this weakness in its closeout process. The Chief of Accounting Processing at the Financial Services Center said center staff have brought forward the lack of a fully automated two-way interface between FMS and PMS as an issue to be addressed in VA's implementation of a new financial management system. Overall, the State Home Construction program manager said the program needed to close all 43 grants in PMS showing as open and in Table 2; that is, 13 grants showing undisbursed balances and 30 grants showing no undisbursed balances. The Financial Services Center confirmed that obligations were closed in FMS for all 13 grants showing undisbursed

¹⁰ The authorized amounts for these 36 fully disbursed grants was approximately \$83 million based on information provided by the Financial Services Center.

¹¹ The team did not test the reliability of these two data sources as this was not within the scope of the risk assessment. However, HHS' PMS is a third-party system that is widely accepted and used within the federal government. Also, the Financial Services Center is not a grant program office. It resides in a separate organization, the Office of Management, and provides accounting services that support grant programs. The Office of Management is responsible for maintaining FMS.

balances in PMS. Regarding the Veterans Cemetery Grants Program, a program official said the two expired grants identified by the team for approximately \$9.4 million were closed, and the Financial Services Center confirmed they were closed in FMS. Tables 1 and 2 show unadjusted information from PMS. Table 3 compares the undisbursed funds shown in PMS to open obligation amounts in FMS.

When the State Home Construction and Veterans Cemetery Grants Programs are excluded, Table 1 shows that undisbursed balances of \$337,947 for the Adaptive Sports Grant and \$139,273 for the Specially Adapted Housing Assistive Technology Programs accounted for virtually all other old undisbursed funds, totaling \$477,220 in PMS. The small undisbursed balance of \$12,143 for the per diem portion of the Homeless Providers Grant and Per Diem Program is considered insignificant. The rest of the grant programs did not have any undisbursed balances for grants expired for more than two years per the information provided by the Financial Services Center.

Table 1. Balances for Open Grants as of December 31, 2019*

Grant Program	Open Grants**— Total Authorized Amount***	GRANTS EXPIRED > 2 YEARS	
		Undisbursed Balance	Authorized Open
State Home Construction	\$1,289,347,344	\$4,944,829	0.38%
Supportive Services for Veteran Families	\$479,374,540	\$0	0.00%
Homeless Providers Grant and Per Diem— Non-Per Diem grants	\$60,462,751	\$0	0.00%
Veterans Cemetery Grants	\$232,628,538	\$9,382,141	4.03%
Adaptive Sports Grant	\$26,966,642	\$337,947	1.25%
Grants for Transportation of Veterans in Highly Rural Areas	\$3,866,485	\$0	0.00%
Specially Adapted Housing Assistive Technology	\$5,852,421	\$139,273	2.38%
<i>Subtotal from PMS (Grants)</i>	<i>\$2,098,498,721</i>	<i>\$14,804,190</i>	<i>0.71%</i>
State Home Per Diem****	NA****	\$0	0.00%
Homeless Providers Grant and Per Diem— Per Diem portion	\$124,048,326	\$12,143	0.01%
<i>Subtotal from FMS (Obligations)</i>	<i>\$124,048,326</i>	<i>\$12,143</i>	<i>0.01%</i>
TOTAL	\$2,222,547,047	\$14,816,333	0.67%

Source: OIG analysis of HHS PMS and VA FMS data as provided by VA's Financial Services Center

*Data are as of January 15, 2020, for the State Home Per Diem Program and the per diem portion of the Homeless Providers Grant and Per Diem Program. Data for these programs come from FMS and are for individual open obligations associated with grants. Data for all other programs are from PMS, which provided data by individual grant.

**For PMS data, open grants are those not designated as closed in PMS. This includes grants that PMS shows as having undisbursed and fully disbursed balances. For FMS data, open grants are obligations with undisbursed balances only, as the Financial Services Center considers fully liquidated obligations to be closed.

***For PMS data, authorized amount is the amount PMS shows as obligated. Authorized amounts for fully disbursed grants in PMS approximated \$83 million. For FMS data, authorized amount is the original obligation amount plus upward adjustments to cover actual invoiced payments.

****Starting in FY 2019, the State Home Per Diem Program began recording obligations only at the time of payment rather than before. Because of this significant difference in obligation methodology from the other grant programs, the team has not included authorized amounts in the table for this program.

Table 2 shows 34 grants reported in PMS that were expired for more than two years with undisbursed balances. For PMS-reported grants, the number of such expired grants to total open grants is 3.23 percent, and for the two per diem programs reported by FMS, the percentage was insignificant. When State Home Construction and Veterans Cemetery Grants Program grants are removed, as previously discussed, this drops to less than 2 percent for the PMS-reported grants.

Table 2. Number of Open Grants as of December 31, 2019*

Grant Program	Grants Total Open**	GRANTS EXPIRED > 2 YEARS		
		Total	Number with Expired Balances	Number with Expired Balances to Total Open Grants
State Home Construction	209	43	13	6.22%
Supportive Services for Veteran Families	311	0	0	0.0%
Homeless Providers Grant and Per Diem—Non-Per Diem grants	170	1	0	0.0%
Veterans Cemetery Grants	59	4	2	3.39%
Adaptive Sports Grant	268	18	16	6.0%
Grants for Transportation of Veterans in Highly Rural Areas	22	0	0	0.0%
Specially Adapted Housing Assistive Technology	15	4	3	20.0%
Total Grants from PMS	1,054	70	34	3.23%
State Home Per Diem***	NA***	0	0	NA
Homeless Providers Grant and Per Diem—Per Diem portion	800	2	2	0.25%
Total Obligations from FMS	NA	2	2	NA

Source: OIG analysis of HHS PMS and VA FMS data as provided by VA's Financial Services Center

*Data are as of January 15, 2020, for the State Home Per Diem Program and the per diem portion of the Homeless Providers Grant and Per Diem Program. Data for these programs come from FMS and are for individual open obligations associated with grants. Data for all other programs are from PMS, which provided data by individual grant.

**For PMS data, open grants are those not designated as closed in PMS. This includes grants that PMS shows as having undisbursed and fully disbursed balances. For FMS data, open grants are obligations with undisbursed balances only, as the Financial Services Center considers fully liquidated obligations to be closed.

***Starting in FY 2019, the State Home Per Diem Program began recording obligations only at the time of payment rather than before. Because of this significant difference in obligation methodology from the other grant programs, the team has not included this program in the overall count of open grants in this table.

Table 3 provides additional analyses, whereby undisbursed balances greater than two years old (shown in Table 1) are taken as a percentage of the authorized amounts for those respective

grants. It also shows the corresponding undisbursed funds in FMS for those grants. The Financial Services Center provided a report or system screenshots for the grants from the State Home Construction, the Veterans Cemetery Grants, and the Specially Adapted Housing Assistive Technology Programs showing no open obligations in FMS. Regarding the Specially Adapted Housing Assistive Technology Program, the program official said that he made an error in PMS when closing the grants but they are now closed in PMS. Regarding programs with undisbursed balances still in FMS, the director for the Adaptive Sports Grants Program said that the program has been working to close a backlog of open grants. With respect to the per diem portion of the Homeless Providers Grant and Per Diem Program, the program's deputy director said the two responsible medical centers indicated they had closed the two obligations.

Table 3. Undisbursed Balances for Grants Expired More Than Two Years as of December 31, 2019*

Grant Program	Grants with Undisbursed Balances—Expired More than Two Years		Relative Amount	Undisbursed Balances in FMS as of 12/31/19
	Total Authorized**	Undisbursed Balance		
State Home Construction	\$175,446,949	\$4,944,829	2.8%	\$0
Veterans Cemetery Grants	\$18,228,912	\$9,382,141	51.5%	\$0
Adaptive Sports Grant	\$1,296,294	\$337,947	26.1%	\$216,187
Specially Adapted Housing Assistive Technology	\$653,057	\$139,273	21.3%	\$0
Homeless Providers Grant and Per Diem—Per Diem portion*	\$260,657	\$12,143	4.7%	\$12,143
TOTAL	\$195,885,869	\$14,816,333	7.6%	\$228,330

Source: *OIG analysis of HHS PMS and VA FMS data as provided by the Financial Services Center*

*For the per diem portion of the Homeless Providers Grant and Per Diem Program, data are as of January 15, 2020, and come from FMS. FMS data are for individual open obligations associated with grants. Data for all other programs in Table 3, except for the last column, are from PMS, which provided data by individual grant. The last column of data, “Undisbursed Balances in FMS as of 12/31/19,” comes from FMS.

** For PMS data, authorized amount is the amount PMS shows as obligated. For FMS data, authorized amount is the original obligation amount plus upward adjustments to cover actual invoiced payments.

Additionally, the team reviewed documentation provided by the Financial Services Center to determine if expired grants as shown in Table 4 and reported in VA’s FY 2018 AFR were closed. OMB required agencies to report in their FY 2017 and 2018 AFRs information on expired grants more than two years old for which closeout had not yet occurred. For FY 2017, VA reported 46 such expired grants. For FY 2018, VA showed 16 grants remained open from the FY 2017 report.

Table 4. Summary of VA's GONE Act Reporting*

Category	Fiscal Year	Expired 2–3 Years	Expired 3–5 Years	Expired More than Five Years	Total
Number of Grants with Zero Dollar Balances	FY 2017 AFR	13	14	4	31
	FY 2018 AFR	0	1	0	1
<hr/>					
Number of Grants with Undisbursed Balances	FY 2017	0	3	12	15
	FY 2018	0	3	12	15
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Total Amount of Undisbursed Balance	FY 2017	\$0	\$1,707,912	\$2,018,230	\$3,726,142
	FY 2018	\$0	\$1,695,224	\$2,018,230	\$3,713,454

Source: VA's FY 2017 and 2018 AFRs

* For FY 2018, VA showed grants that remained open from the FY 2017 report.

The team reviewed the list of 16 grants reported in VA's FY 2018 AFR, as provided by the Financial Services Center, to determine if these grants were closed out in FY 2019. The Financial Services Center's list of 16 grants included those with expiration dates ranging from August 2008 to November 2014. As of December 31, 2019, the team did not identify any of these grants in the HHS PMS data that the Financial Services Center provided. Further, the chief of accounting processing at the Financial Services Center said that the 16 grants reported in FY 2018 were closed out in FY 2019.

The OIG will consider the information from the tables in planning potential future audits; however, undisbursed balances for grants expired more than two years were approximately \$14.8 million and represented only 0.67 percent of authorized amounts for reported open grants. This balance is reduced to less than \$500,000, or about .02 percent, when adjusted for system discrepancies associated with two large programs. These figures do not indicate the need for an overall audit or review of the timeliness of VA's grant closeout process.

VA's Grant Program Funding Is Less than 2 Percent of VA's Budget

VA's FY 2020 budget is approximately \$221 billion, whereas the combined FY 2020 budget estimate for VA's grant programs is about \$2.27 billion, or 1.03 percent of VA's overall budget. Table 5 shows the estimated budgets for individual grant programs.

Table 5. Size of VA Grant Programs as a Percentage of Overall Budget

Grant Program	FY 2020 Budget Estimate	Overall Grants Budget
State Home Per Diem	\$1,513,921,000	66.6%
State Home Construction	\$90,000,000	4.0%
Supportive Services for Veteran Families	\$380,000,000	16.7%
Homeless Providers Grant and Per Diem	\$226,068,000	9.9%
Veterans Cemetery Grants	\$45,000,000	2.0%
Adaptive Sports Grant	\$15,000,000	0.7%
Grants for Transportation of Veterans in Highly Rural Areas	\$3,000,000	0.1%
Specially Adapted Housing Assistive Technology	\$1,000,000	0.0%
TOTAL	\$2,273,989,000	100.0%

Source: FY 2020 Budget Submission for VA as confirmed or provided by budget or program officials for their respective programs.

As Table 5 indicates, the budget estimate for the State Home Per Diem Program is approximately 67 percent of the grants budget. In FY 2019, the financial reporting process for the State Home Per Diem Program changed, reducing the risk of undisbursed balances for this program's grants. As of October 1, 2018, the program reported that it began using an "obligation at payment" process, whereby it recorded obligations at the time it paid an invoice.¹² According to a management official, the program records obligations at the time of payment and in amounts that match the approved invoices. Thus, for VA's largest grant program, VA has established a process to mitigate the risk of old undisbursed balances that tie up funds that could be put to other use.

In addition to the data presented in Table 5, the team also noted that in FY 2018, the State Home Construction Program had a significant increase in funding to \$685 million, whereas in the prior year it had been \$90 million. This is a potential area to consider reviewing for timely closeout in the future—after time has elapsed for projects to be awarded, completed, and closed out.

¹² The "obligation at payment" process was established for all Community Care Programs and implemented starting in FY 2019.

Grants Policy and Oversight

Although not a focus of the risk assessment, the team noted that the VA Office of Management has issued grant closeout policy and performed an analysis of control risk pertaining to grants management for several VA programs. As stated in VA policy issued by the Office of Management, program offices are required to be responsible for dedicating the resources and management attention to ensure that grant closeout activities are performed within established timeframes and in accordance with due process requirements.¹³ Although VA does not have a grants management office that provides oversight of the closeout process, VA's Office of Management provides some support. For example, it issued VA's overall grants management policy, including the policy for closeouts. The Financial Services Center within the Office of Management plays a key role in ensuring that payments from HHS's PMS system are entered into VA's FMS and performing reconciliations.

The Office of Business Oversight, also within the Office of Management, has responsibilities that include performing assessments of VA's internal controls over financial reporting and supporting VA's internal controls program. With respect to grants management, the executive director of Office of Business Oversight said staff performed an internal control analysis in FY 2017 that looked at the design of internal controls and updated the grants business cycle memorandum. She said Office of Business Oversight documented its analysis in a control evaluation matrix, which identified risks and associated controls. The team noted the business cycle memorandum covered the larger grant programs. The executive director said they have an update for the cycle memorandum scheduled for FY 2020.

Based on the control evaluation matrix, the team prepared a template of risks associated with the grant closeout process and requested program offices identify internal controls that addressed those risks. Overall, the program offices provided responses with respect to those controls. The team neither assessed the control evaluation matrix nor the adequacy of the controls described by the program offices, as this was beyond the scope of the risk assessment.

Conclusion

The team concluded that an overall audit or review of the timely closeout of grants is not warranted at this time.

¹³ VA Financial Policy, vol. X, chap. 6, "Grant Closeout and Post Closeout Activities," June 26, 2019.

Appendix A: Scope and Methodology

Scope

The team performed this risk assessment to determine if an audit or review of VA's grant closeout process was warranted, as required by the GONE Act. To accomplish this purpose, the team focused on the timeliness of grant closeouts. The team made inquiries of management personnel and used the CFDA to identify VA grant programs. The team excluded the Research and Development Program as it is an intramural program and only VA employees are eligible for these grants. Therefore, it is not covered within the GONE Act's definition of a federal grant award. The team conducted this risk assessment from August 2019 through February 2020.

The team's focus on the timeliness of grant closeouts was based on the GONE Act, the required reporting requirements for agencies, and the legislative history. The GONE Act limited its definition of federal grant awards to those in an agency cash payment management system held by the United States Government that have been expired for more than two years past the period of performance (including extensions) and closeout has not yet occurred in accordance with 2 C.F.R. § 200.343. The GONE Act was therefore focused on monetary grants that were still open but expired more than two years. Also, OMB's Management Procedures Memorandum Number 2016-04 required agencies to report information on expired grants more than two years old. Additionally, House Report 114-264, *Grants Oversight and New Efficiency Act*, states, "...the Committee's performance goal or objective of the bill is to close out expired grants." Senate Report 114-169, *Grants Oversight and New Efficiency Act*, states

The purpose of S. 1115, the Grants Oversight and New Efficiency Act (or "GONE Act"), is to identify certain expired grants....The expectation is that this identification will help lead to a reduction in the number of expired grants that have not been properly closed out from the financial payment systems. This will improve financial accountability over grant programs, and save taxpayer money on costs associated with maintaining the grants in an open status.

As such, the team focused its work on the timeliness of grant closeouts. The team did not perform a risk assessment of VA's compliance with other grant closeout requirements or other grant-related matters.

As a timeliness indicator, the team used the threshold of two years past the grant's expiration date for identifying open grants at higher risk of untimely closeouts, consistent with the focus of the GONE Act and OMB's guidance. Although not a focus of its risk assessment, the team noted that VA had established policy to support timely closeouts.

Methodology

In order to perform this risk assessment, the team

- Reviewed the GONE Act, OMB Management Procedures Memorandum Number 2016-04, and 2 C.F.R. § 200.343 for reporting and grant closeout requirements;
- Identified VA grant programs;
- Reviewed prior OIG audit reports issued within the past five years;
- Identified whether VA had policies in place for grant closeouts;
- Reviewed VA's GONE Act submissions for November 2017 and 2018;
- Reviewed reports on open and expired grants;
- Made inquiries of VA officials pertaining to expired grants that were still open; and
- Obtained budgetary information for grant programs.

Data Sources and Reliability

The team reviewed information provided by VA's Financial Services Center from HHS' PMS and VA's FMS. VA uses PMS to manage grant payment requests and disbursement reporting activities for its grant programs, except for the State Home Per Diem Program and the per diem portion of the Homeless Providers Grant and Per Diem Program. For these two programs, VA processes payment claims as invoices. The team obtained budget information from VA's FY 2020 Budget Submission and budget or program officials. It was not within the scope of the risk assessment to test the reliability of these data sources. However, PMS is a third-party system that is widely accepted and used within the federal government. Also, the Financial Services Center is not a grant program office—it resides in a separate organization, the Office of Management, and provides accounting services that support grant programs. The Office of Management is responsible for maintaining FMS.

Scope Limitations

A risk assessment is not an engagement defined by Government Auditing Standards issued by the Comptroller General of the United States, and therefore the team did not conduct this risk assessment according to those standards. As such, the team used its judgment in selecting procedures to determine whether an audit of grant closeouts was warranted and limited its procedures to the steps listed under "Methodology" and as discussed under "Data Sources and Reliability."

Appendix B: CIGIE Letter

November 29, 2017

The Honorable Ron Johnson
Chairman
The Honorable Claire McCaskill
Ranking Member
Committee on Homeland Security and
Governmental Affairs
United States Senate

The Honorable Trey Gowdy
Chairman
The Honorable Elijah Cummings
Ranking Member
Committee on Oversight and
Government Reform
U.S. House of Representatives

Dear Mr. Chairmen and Ranking Members,

This letter serves to document a discussion with your respective staffs on October 31, 2017, regarding how Offices of Inspectors General (OIGs) plan to provide the effective oversight envisioned in the Grants Oversight and New Efficiency Act (GONE Act). In short, the OIGs that are required by the GONE Act to conduct a risk assessment of their respective agency's grant closeout process will do so by March 31, 2020.

CIGIE understands that the goal of the GONE Act is for federal agencies to identify and close certain expired grants that have not been properly closed out from the federal financial payment systems. This process will improve financial accountability over grant programs. The GONE Act mandates certain reporting and notices by agency heads to both Congress and the Secretary of Health and Human Services (HHS). The law also mandates that the Secretary of HHS report on such notices to Congress. Finally, the GONE Act mandates that IGs at agencies with more than \$500 million in annual grant funding conduct a risk assessment of their respective agency's grant closeout process.

As we discussed with your respective staffs, we are concerned that the GONE Act lacks clarity regarding the date by which IGs must conduct this risk assessment. More specifically, we agreed that section 2 of the GONE Act, when read literally, contains what appears to be a "mismatch" in subsections 2(b)(1), 2(b)(2) and 2(c).

The ambiguous timing of the statutorily-mandated risk assessment stems from the requirement in subsection 2(c), which requires certain IGs to conduct a risk assessment 1 year after the head of each agency provides notice to Congress under subsection (b)(2); however, (b)(2) requires the Secretary of HHS, not agency heads, to provide Congress with a report, not a notice. This

statutory discrepancy can be best demonstrated by laying out the reporting and notification requirements in the order in which the requirements appear in the statute.

- Section 2(a)(1) requires agency heads to provide a report to Congress and the Secretary of HHS by December 31, 2017, listing all grant awards that have not been closed.¹⁴
- Section 2(b)(1) requires agency heads to provide a notice to the Secretary of HHS by December 31, 2018, specifying which grant awards listed in the prior year's section 2(a)(1) report have not yet been closed.
- Section 2(b)(2) requires the Secretary of HHS to compile the section 2(b)(1) notices and provide a consolidated report to Congress of all of the notices by March 31, 2019.
- Section 2(c) requires each IG of an agency with more than \$500 million in annual grant funding to conduct a risk assessment to determine if an audit or review of the agency's grant closeout process is warranted. The risk assessment must be conducted "1 year after the date on which the head of an agency provides notice to Congress under subsection (b)(2)." (Emphasis added).

The cross-reference in subsection 2(c) to subsection (b)(2) is incorrectly expressed in the law. Under section 2(b)(2), the agency heads do not provide notice or otherwise report to Congress. Rather, under section 2(b)(2), the Secretary of HHS reports to Congress, based on the agency heads' notices provided 90 days earlier. The cross-reference in 2(c) cannot simply be understood as a mere typographical error intended to refer to subsection 2(b)(1), because in subsection 2(b)(1) the agency heads provide notice to the Secretary of HHS, but not Congress.

The only two logical dates for conducting the IG risk assessments would be either by December 31, 2019, or by March 31, 2020. As we discussed with your staff, subsection 2(d) mandates that OMB submit a report to Congress. In that report, due no later than September 30, 2019, OMB shall report on recommendations, if any, for legislation to improve accountability and oversight in grants management. Once this report is submitted to Congress, it will also become available to the IG community. Access to the information in that report, we all agreed, will enhance the IGs' respective risk assessments. Given all of these considerations, the more reasonable interpretation of subsection 2(c) is that the IG risk assessment would be due no later than March 31, 2020, which is 1 year after the HHS report is submitted to Congress on March 31, 2019.

In keeping with the above summary, the IGs covered by this provision intend to conduct the requisite risk assessments no later than March 31, 2020.

Should you or any of your staff members have further questions about how the IG community will approach the GONE Act requirement, please do not hesitate me at (202) 514-3435 or Christopher Fontanesi, of the CIGIE Legislation Committee at (202) 692-2900.

¹⁴ Section 2(a)(1) required OMB to instruct the head of each agency to make its report no later than December 31 of the calendar year following the enactment of the GONE Act. As the GONE Act was enacted on January 28, 2016, the deadline for the initial agency report is December 31, 2017. Substantively, the report functions as an inventory of grants, including their respective balances and expiration dates. Subsequent notices and reports build upon this initial report in 2017.

Sincerely,

/s/

Michael E. Horowitz
Chair, Council of the Inspectors General on the Integrity and Efficiency
Inspector General, U.S. Department of Justice

cc: The Honorable Deb Fischer
United States Senate

The Honorable Joe Manchin
United States Senate

This letter has been transcribed from the original signed document for accessibility and modified to fit in this report. The original document can be found at
<https://www.ignet.gov/sites/default/files/files/GONE%20Act%20letter%20to%20Congress.docx.pdf>

Appendix C: Program Descriptions for Grants Included in VA OIG Risk Assessment

Program	Program Purpose
State Home Per Diem	Provides grant funding on a per diem basis to reimburse State Veterans Homes for eligible veteran care.
State Home Construction	Provides federal grant funding to construct or acquire State home facilities for furnishing domiciliary or nursing home care to veterans and to expand, remodel, or alter existing buildings for furnishing domiciliary, nursing home, or hospital care to veterans in State homes.
Supportive Services for Veteran Families	Funds are granted to private non-profit organizations and consumer cooperatives that will assist very low-income veteran families by providing a range of supportive services designed to promote housing stability.
Homeless Providers Grant and Per Diem	Funds are granted to promote the development and provision of supportive housing and/or supportive services with the goal of helping homeless veterans achieve residential stability, increase their skill levels and/or income, and obtain greater self-determination. The per diem portion of the program reimburses eligible providers for costs of care and supportive services on a per diem basis.
Veterans Cemetery Grants	Provides for the purpose of establishing, expanding or improving veteran cemeteries that are owned and operated by a state, federally recognized tribal government, or U.S. territory.
Adaptive Sports Grant	VA awards grants to qualifying organizations to plan, develop, manage, and implement programs to provide adaptive sports opportunities for disabled veterans and disabled members of the Armed Forces
Grants for Transportation of Veterans in Highly Rural Areas	Provides grants to Veteran Service Organizations and State Veteran Service Agencies to provide transportation services to veterans seeking VA and Non-VA approved care in highly rural areas. These grants are available in counties that have fewer than seven people per square mile.
Specially Adapted Housing Assistive Technology	Provides grants of financial assistance to develop new assistive technology for adapted housing. VA has defined "new assistive technology" as an advancement that could aid or enhance the ability of a veteran or servicemember to live in an adapted home.

Source: The Catalog of Federal Domestic Assistance and information published on the Internet by VA