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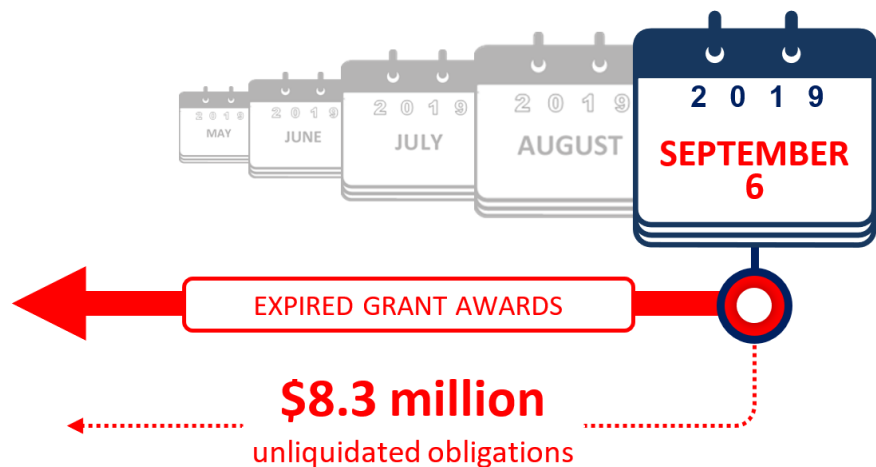
OFFICE OF INSPECTOR GENERAL

Operating efficiently and effectively

EPA Did Not Accurately Report Under the Grants Oversight and New Efficiency Act and Needs to Improve Timeliness of Expired Grant Closeouts

Report No. 20-P-0126

March 31, 2020



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Abbreviations

C.F.R.	Code of Federal Regulations
EPA	U.S. Environmental Protection Agency
Fed. Reg.	Federal Register
FY	Fiscal Year
GAO	U.S. Government Accountability Office
GMO	Grants Management Office
GONE	Grants Oversight and New Efficiency
HQ	Headquarters
NPTCD	National Policy, Training, and Compliance Division
OGD	Office of Grants and Debarment
OIG	Office of Inspector General
OMB	Office of Management and Budget
OMS	Office of Mission Support
Pub. L.	Public Law
ULO	Unliquidated Obligation

Cover Image: As of September 6, 2019, the EPA had approximately \$8.3 million in ULOs (i.e., undisbursed balances) for grant awards that expired more than one year prior to September 1, 2019. (OIG image)

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At a Glance

Why We Did This Project

The U.S. Environmental Protection Agency's Office of Inspector General performed this audit to determine:

- Whether the EPA complied with Grants Oversight and New Efficiency Act requirements (Pub. L. 114-117) by timely submitting information about expired grant awards to Congress and the U.S. Department of Health and Human Services.
- The effectiveness of the EPA's management of and accountability for the timely closeouts of grant awards.

In 2016, Congress enacted the GONE Act to bring greater efficiency, accountability, and oversight to grant award administration. In addition, EPA policy provides that 90 percent of grant awards ending in a fiscal year should be closed by the end of the next fiscal year and 99 percent should be closed by the end of the second fiscal year.

This report addresses the following:

- *Operating efficiently and effectively.*

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[List of OIG reports.](#)

EPA Did Not Accurately Report Under the Grants Oversight and New Efficiency Act and Needs to Improve Timeliness of Expired Grant Closeouts

What We Found

The EPA complied with the GONE Act by timely submitting the required information to Congress and the Department of Health and Human Services. However, the EPA reported a count of expired grant awards that was not accurate. This inaccuracy occurred because the EPA's Office of Grants and Debarment did not follow the cutoff date requirement of September 30, 2017. As a result, the EPA provided Congress with incorrect information that could affect Congress' decision-making.

As of September 2019, the EPA had \$8.3 million in undisbursed balances for grant awards that expired one year or more prior. These funds could have been used to achieve EPA environmental goals.

In addition, the EPA needs to improve the timeliness of its grant closeouts. In fiscal year 2018, the EPA overall did not meet the one-year closeout metric, and not all EPA regions met the two-year closeout metric. The EPA did not enforce its requirement that underperforming regions implement grant closeout strategies, which would help address timeliness issues. Also, EPA regions delayed some grant closeouts for several years because they did not have a specific mechanism to escalate difficult cases to the Office of Grants and Debarment. Because of these closeout challenges, as of September 6, 2019, the EPA's undisbursed balances for grant awards that expired on or before September 1, 2018, totaled approximately \$8.3 million.

Late closeouts diminish the EPA's ability to achieve efficiencies within its grant program, as they require staff's time and effort that could be used to manage active grant awards. In addition, undisbursed balances for expired grant awards represent funds that could be put to better use to achieve environmental and public health goals.

Recommendations and Planned Agency Corrective Actions

We recommend that the assistant administrator for Mission Support (1) submit corrections for the GONE Act reporting, (2) establish controls to verify that accurate information is submitted in future reporting, (3) implement controls to obtain grant closeout strategies when regions are not meeting the Agency's performance metrics, and (4) implement a policy to escalate grant closeouts that have been delayed for one year or longer to the Office of Grants and Debarment.

The EPA agreed with Recommendations 1 and 2 and provided acceptable planned corrective actions. We consider those recommendations resolved with corrective actions pending. The Agency did not provide acceptable corrective actions to address Recommendations 3 and 4, and we consider these recommendations unresolved.



UNITED STATES ENVIRONMENTAL PROTECTION AGENCY
WASHINGTON, D.C. 20460

THE INSPECTOR GENERAL

March 31, 2020

MEMORANDUM

SUBJECT: EPA Did Not Accurately Report Under the Grants Oversight and New Efficiency Act and Needs to Improve Timeliness of Expired Grant Closeouts
Report No. 20-P-0126

FROM: Sean W. O'Donnell

A handwritten signature in blue ink that reads "Sean W O'Donnell".

TO: Donna Vizian, Principal Deputy Assistant Administrator
Office of Mission Support

This is our report on the subject audit conducted by the Office of Inspector General of the U.S. Environmental Protection Agency. The project number for this audit was OA&E-FY18-0250. This report contains findings that describe the problems the OIG has identified and corrective actions the OIG recommends. This report represents the opinion of the OIG and does not necessarily represent the final EPA position. Final determinations on matters in this report will be made by EPA managers in accordance with established audit resolution procedures.

The Office of Mission Support's Office of Grants and Debarment oversees the management of the Agency's grant awards and is responsible for the issues discussed in this report.

We made four recommendations in this report. In accordance with EPA Manual 2750, your Office provided acceptable corrective actions and milestone dates in response to Recommendations 1 and 2. These recommendations are resolved, and no final response is required.

Action Required

For Recommendations 3 and 4, your Office did not provide us with acceptable corrective actions and milestone dates. Therefore, Recommendations 3 and 4 are unresolved. In accordance with EPA Manual 2750, the resolution process begins immediately with the issuance of this report. We are requesting a meeting within 30 days between the assistant administrator for Mission Support and the OIG's assistant inspector general for Audit and Evaluation. If resolution is still not reached, the Office of Mission Support is required to complete and submit a dispute resolution request to the chief financial officer.

We will post this report to our website at www.epa.gov/oig.

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Chapter 1

Introduction

Purpose

The U.S. Environmental Protection Agency’s Office of Inspector General conducted this audit to examine the EPA’s accountability and oversight of expired assistance agreements (hereafter referred to as “grant awards”),¹ with the overall goal of improving grant award management and operational efficiency. The audit objectives were to determine:

- Whether the EPA complied with Grants Oversight and New Efficiency Act requirements by timely submitting the required reporting about expired grant awards to Congress and the Secretary of the U.S. Department of Health and Human Services.
- The effectiveness of the EPA’s management of and accountability for the timely closeouts of grant awards.

Background

The GONE Act

In November 2015, the U.S. Senate reported that a “delay in closing out grants means a higher risk in conducting important financial control steps, decreasing the ability to ensure accountability.” The Senate’s expectation in enacting the GONE Act was to “help lead to a reduction in the number of expired grants that have not been properly closed out from the financial payment systems,” as well as to:

- Hold federal agencies accountable for timely closeout of grant awards.
- Close out expired grant accounts that are incurring administrative service fees.
- Cancel undisbursed funds remaining in expired grant awards, making them available for better use.
- Bring greater efficiency, accountability, and oversight to grant award administration by improving the timeliness of expired grant closeouts and implementing effective internal controls.²

¹ Assistance agreements include grants and cooperative agreements.

² Senate Report No. 114-19, dated November 30, 2015.

To achieve these objectives, the January 2016 GONE Act required that each federal agency submit information about its expired grant awards, which the Act defined as those grant awards for which the period of performance has been expired for more than two years and for which closeout has not occurred. However, the Act did not provide for permanent reporting, requiring only that:

- An initial report be submitted in the first calendar year following the effective date of the Act.
- A one-time update be submitted one year later identifying which grant awards had since been closed out.

In addition to requiring federal agencies to submit a report, the GONE Act required the Office of Management and Budget, in consultation with the Department of Health and Human Services, to provide recommendations to Congress for improving accountability and oversight in grants management based upon the GONE Act reporting. The Act also required inspectors general to perform a risk assessment of their agencies' grant closeout processes in 2020. Based on those risk assessments, inspectors general were to determine whether an audit of their agencies' grant closeout process is warranted. Risk assessments were only required for agencies with more than \$500 million in annual grant funding.

EPA Grant Closeout Policies

EPA Order 5700.6 A2 CHG 2, *Policy on Compliance, Review and Monitoring*, sets forth the requirements for timely grant closeouts. Closeout is the process where the EPA determines that all applicable administrative actions and required work have been completed. Prior to closing out a grant award, EPA Order 5700.6 provides that a project officer must:

- Determine that all applicable administrative actions and required work under a grant award have been completed.
- Provide disposition instructions for property and equipment to the recipients, as necessary.
- Determine whether the recipient achieved the expected environmental and public health outputs or outcomes.

In addition, the project's grant specialist must ensure that all administrative closeout requirements are met.

In Resources Management Directives System No. 2520-03-P1, *Responsibilities for Reviewing Unliquidated Obligations*, dated March 24, 2017, the EPA defines a grant award's unliquidated obligations, or ULO, as the unexpended (that is, undisbursed) balance remaining from the amount of federal funds that the EPA obligated. In other words, a ULO is the amount of awarded funds that the grant recipient has not drawn down. The deobligation of ULOs in expired grant awards

is the cancellation (that is, liquidation) of the undisbursed funds. Resources Management Directives System No. 2520-03-P2, *Deobligating Unliquidated Obligations*, dated April 7, 2017, states that the deobligation of ULOs in expired accounts is based on the review and reconciliation of the recipients' final Federal Financial Reports. The deobligated funds can then be put to better use elsewhere.

Responsible Offices

The Office of Grants and Debarment, within the EPA's Office of Mission Support, oversees the Agency's management of grant awards. The OGD develops national policies, guidance, and training; administers grant awards for headquarters programs; and provides compliance support. However, the OGD does not supervise regional staff, including regional Grants Management Offices responsible for grants oversight.

The National Policy, Training, and Compliance Division within the OGD provides advice and oversight to regional GMOs. The OGD's Suspension and Debarment Division manages the suspension and debarment program, which has the authority to suspend or debar individuals to address waste, fraud, abuse, poor performance, environmental noncompliance, or other misconduct.

Scope and Methodology

We conducted this performance audit from July 2018 through October 2019 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

To answer our objectives, we reviewed the applicable law, as well as regulations and requirements established by the OMB, the GAO, and the EPA, including:

- Pub L. 114-117, Grants Oversight and New Efficiency Act, January 28, 2016.
- *Standards for Internal Control in the Federal Government*, GAO-14-704G, September 2014.
- 2 C.F.R. Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, § 200.343 *Closeout*, effective December 26, 2014.
- OMB Management Procedures Memorandum No. 2016-04, *GONE Act Reporting of Unclosed Grant and Cooperative Agreements Awards for*

Which the Period of Performance Has Expired More Than Two Years, August 15, 2016.

- EPA Order No. 5700.6 A2 CHG 2, *Policy on Compliance, Review and Monitoring*, September 24, 2007.
- EPA Order No. 5700.7A1, *Environmental Results under EPA Assistance Agreements*, January 1, 2005.
- EPA Office of the Chief Financial Officer, Resources Management Directives System No. 2520-03-P1: *Responsibilities for Reviewing Unliquidated Obligations*, March 24, 2017.
- EPA Office of the Chief Financial Officer, Resources Management Directives System No. 2520-03-P2: *Deobligating Unliquidated Obligations*, April 7, 2017.
- EPA post-award monitoring plans guidance for calendar years 2015 through 2018, including EPA Policy Notice No. PN-2017-G01, *Post-Award Monitoring Plan (PAMP) Guidance for FY17 and Beyond*, December 19, 2017.
- EPA online public guidance, *Frequent Questions about Closeouts*.
- EPA guidance, Grants Customer Relations Forum, Part 4, *Award and Post-Award*.

We obtained EPA grant closeout data from the Agency’s Business Objects reporting system—which is one of the EPA’s financial reporting systems—to verify the EPA’s compliance with its Annual Financial Reporting and the GONE Act. We obtained the universe of grant awards expiring on or before September 30, 2016. From this universe, we separated the data for grant awards with and without ULOs. We judgmentally selected a sample of 11 grant awards with delayed closeouts to review. The sample included one grant award from each region and one grant award from HQ. Out of the 11 grant awards in the sample, six had ULOs, and five had no ULOs.

We obtained documents from the EPA’s Compass Data Warehouse, the Integrated Grants Management System, and the GMOs to learn about closeout delays. We interviewed staff within the OGD, the GMOs, and the program offices regarding reasons for delays and actions taken to achieve closeouts.

Prior Reports

The EPA OIG had not audited federal grant closeouts in the five years prior to this audit. However, the U.S. Government Accountability Office issued multiple

reports on the EPA's grants management and the expired grant closeout processes governmentwide:

- **GAO Report No. [GAO-17-144](#), *EPA Partially Follows Leading Practices of Strategic Workforce Planning and Could Take Additional Steps*, issued **January 9, 2017**.** Congress requested that the GAO review how the EPA manages its grants workforce. The GAO reported that while staffing levels for EPA grants management personnel generally declined, the EPA did not have a process for consistently tracking and analyzing key aspects of grants management workload over time. The EPA's regional and national program offices allocate staff to grants management positions using various processes, such as shifting personnel from other groups within a region when needed. The EPA's grants management plan did not contain performance measures to monitor and evaluate grants personnel recruitment and retention efforts. The GAO found that the Agency does not have the information needed to allocate grants management resources effectively and efficiently and made five recommendations. The GAO website shows that all five recommendations were implemented.
- **GAO Report No. [GAO-16-362](#), *Actions Needed to Address Persistent Grant Closeout Timeliness and Undisbursed Balance Issues*, issued **April 14, 2016**.** Congress requested that the GAO update its work on grant closeout issues, and the GAO reported on undisbursed balances in expired grants. While the GAO's audit scope did not include the EPA, this work provided information that contributed to the GONE Act's purpose and objectives. The GAO reported that although the total amount of undisbursed balances increased, the number of expired grants with undisbursed balances decreased. Also, the GAO reported that closeout delays could occur for many reasons, including grantee failure to submit final reports and agency failure to timely review, process, and reconcile grantees' final reporting. The GAO issued recommendations to the OMB, the National Aeronautics and Space Administration, the U.S. Department of Commerce, and the Department of Health and Human Services.
- **GAO Report No. [GAO-12-360](#), *Action Needed to Improve the Timeliness of Grant Closeouts by Federal Agencies*, issued **April 16, 2012**.** The GAO reported that more than \$794 million in funding remained in expired grant accounts, defined by the GAO as accounts for grants more than three months past their end dates that had not shown any activity for nine or more months. Also, \$110.9 million in undisbursed funding was unspent more than five years past the grant end dates, including \$9.5 million that was unspent for ten or more years. The GAO reported that some agencies lacked systems or policies to properly monitor grant closeouts or did not deobligate funds on time. The GAO reported that grant closeouts make funds less susceptible to fraud, waste, and mismanagement and may enable agencies to redirect resources. This work also provided information that contributed to the GONE Act's purpose and objectives.

Chapter 2

EPA Submitted Inaccurate Information to Congress About Unclosed Expired Grant Awards

The EPA complied with the GONE Act in that it submitted the required information about unclosed expired grant awards to Congress and the Department of Health and Human Services. However, the EPA reported incorrect data when it submitted a count of expired grant awards that was not accurate. This inaccurate reporting occurred because the OGD did not follow OMB requirements for GONE Act reporting. As a result, Congress received incorrect expired grant awards information that could affect its decision-making, such as resource allocations and directions for OMB policymaking.

GONE Act Reporting Requirements

The GONE Act required that the director of the OMB instruct each federal agency to submit an initial report not later than December 31 of the first full calendar year after the date of the Act, which was January 28, 2016. The OMB subsequently issued guidance requiring the initial report to be submitted by November 15, 2017. This initial report was to identify grant awards that had been expired for more than two years but that had not yet been closed out. Specifically, the GONE Act required that agencies provide the following data in order of the projects' expiration dates:

- Total number of expired grant awards with zero-dollar balances.
- Total number of expired grant awards with undisbursed balances.

In addition, the GONE Act initial report was to include:

- A description of the challenges leading to delays in grant closeouts.
- An explanation of why agencies have not closed out each of the 30 oldest expired grant awards.

Furthermore, the GONE Act required each agency to provide an update one year after the initial report was submitted. The update was to specify which of the reported expired grant awards had still not been closed.

OMB Provided GONE Act Reporting Instructions

OMB 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*, provided federal agencies with explicit instructions to implement the requirements of the GONE Act. Instead of

requiring one initial “report” as stated in the Act, the OMB memorandum required each agency to provide—no later than November 15, 2017—two separate submissions:

- A detailed list of every expired grant award for which the period of performance ended on or before September 30, 2015, but that had not been closed out. This list, hereafter referred to as the 2017 OMB MAX Report, was to be submitted via the OMB’s MAX.gov website. The MAX.gov website states that it features a “government-wide suite of advanced collaboration, information sharing, data collection, publishing, business intelligence and authentication tools and services used to facilitate cross-government collaboration and knowledge management.”
- “High-level” information within either its fiscal year 2017 Annual Financial Reporting or its Performance and Accountability Report, including:
 - A summary table of the total number of grant awards with zero-dollar and undisbursed balances for which closeout had not occurred but for which the period of performance ended more than two years earlier.
 - A brief narrative describing the challenges leading to delays in grant closeout and the planned corrective actions to address these challenges.

The OMB’s GONE Act *Frequently Asked Questions* document directed that the information in the OMB MAX Report and the Annual Financial Reporting should be aligned. As such, the GONE Act data in both the Annual Financial Reporting and the OMB MAX Report were subject to the September 30, 2015 cutoff date.

OMB Procedures Memorandum No. 2016-04 also directed that each federal agency submit with either its FY 2018 Annual Financial Reporting or its Performance and Accountability Report the required one-year update by November 15, 2018. This update was to be similar in format to the original two submissions, with a discussion including:

- An updated list identifying which grant awards in the 2017 OMB MAX Report had been closed out. This 2018 OMB MAX Report was also to be submitted via the OMB’s MAX.gov website.
- An updated summary table and a statement regarding progress made in closing out grant awards listed in the FY 2017 Annual Financial Reporting or Performance and Accountability Report.

Internal Control Standards Require Quality Information

The GAO's *Standards for Internal Control in the Federal Government*, GAO-14-704G, dated September 2014, states that management should use quality information to achieve objectives and address risks. Management should also identify, analyze, and respond to risks associated with achieving objectives. An effective internal control system enables management to access quality information that is vital for federal agencies to achieve their goals.

EPA Reported Incorrect Expired Grant Awards Data

In both its 2017 OMB MAX Report and its FY 2017 Annual Financial Reporting, the EPA reported incorrect grant award data. Also, the reports did not align. The EPA reported 56 expired grant awards in its 2017 OMB MAX Report. In its FY 2017 Annual Financial Reporting, the EPA reported 58 expired grant awards.

The EPA repeated its incorrect reporting in 2018. The EPA reported 24 expired grant awards in its 2018 OMB MAX Report. In its FY 2018 Annual Financial Reporting, the EPA reported 56 expired grant awards.

The data that the EPA reported and should have reported in the 2017 and 2018 GONE Act submissions are shown in Table 1.

Table 1: Reported and accurate number of unclosed expired grant awards

Year	OMB MAX Report (Inaccurate)	Annual Financial Reporting (Inaccurate)	EPA data (Accurate)
2017	56	58	64
2018	24	58	32

Source: OIG analysis of EPA data.

OGD Did Not Follow OMB Instructions

OGD staff did not follow OMB instructions to use September 30, 2017, as the cutoff date for the 2017 OMB MAX Report submission. Instead, the OGD pulled expired grant award data as of November 1, 2017. However, for the FY 2017 Annual Financial Reporting, the OGD did use September 30, 2017, as the cutoff date. The NPTCD director explained that the 2017 OMB MAX Report data (56 expired grant awards) and the FY 2017 Annual Financial Reporting data (58 unclosed expired grant awards) differed because the status of two grant awards changed between September 30, 2017, and November 1, 2017:

- One grant award was closed after related audit issues were resolved.
- One grant award represented a training test entry in the system that was removed.

When we attempted to validate the GONE Act data reported for 2017 with the data in the Agency's reporting system, we found additional discrepancies. As shown previously in Table 1, the EPA underreported the number of expired grant awards by eight in the 2017 OMB MAX Report and by six in the FY 2017 Annual Financial Reporting. According to the NPTCD director, the discrepancy between the FY 2017 Annual Financial Reporting and the 2017 OMB MAX Report may have occurred because the division assigned the responsibilities for generating the data for each report to two different staff members. By separating these tasks, the division did not verify whether the data generated for submissions were accurate, aligned, and in compliance with the OMB's specific reporting requirements.

We also found discrepancies when we attempted to validate the Agency's 2018 GONE Act reporting. As shown previously in Table 1, the Agency underreported the number of expired grant awards by eight in the 2018 OMB MAX Report because, once again, the OGD did not follow the OMB's GONE Act instructions for the cutoff date. The Agency overreported the expired grants by 26 in the FY 2018 Annual Financial Reporting because, per the NPTCD director, the Office of the Chief Financial Officer requested the expired grant award data for the Annual Financial Reporting during the summer of 2018. Since that information was not finalized until October 2018, the NPTCD director provided the FY 2017 reported data to the Office of the Chief Financial Officer as temporary information. The NPTCD director expressed the belief that this temporary information was ultimately used for reporting in 2018 and was never accurately updated.

Congress Received Incorrect Information

The EPA reported incorrect GONE Act information in both 2017 and 2018. This incorrect information may lead Congress to make decisions based on erroneous data. Also, incorrect information can hinder the EPA's ability to achieve management's environmental protection and public health objectives, as well as to mitigate related internal control risks.

Recommendations

We recommend that the assistant administrator for Mission Support:

1. Correct and resubmit the 2017 and 2018 Grants Oversight and New Efficiency Act reporting to the Office of Management and Budget.
2. Establish internal controls to verify that accurate information on grant awards is submitted in future Annual Financial Reporting.

Agency Response and OIG Assessment

For Recommendation 1, the OMS said in its response to our draft report that it would correct and resubmit the 2017 GONE Act data. In an email dated February 12, 2020, the OMS stated that it would also correct and resubmit the 2018 GONE Act data. In response to Recommendation 2, the OMS said that it would “[d]evelop a standard operating procedure for ensuring accurate data are reported for end-of-year metrics.” The EPA provided an estimated completion date of December 31, 2020, for both recommendations. We consider these recommendations resolved with corrective actions pending. The Agency’s response to our draft report is in Appendix A.

Chapter 3

Not All Regions Met EPA Award Closeout Metrics

The EPA did not meet expired grant closeout performance metrics. Per EPA policy, a grant award should be closed out as soon as possible before the end of the fiscal year following its project end date. Specifically, EPA policy states that 90 percent of grant awards ending in a fiscal year should be closed by the end of the next fiscal year and that 99 percent of grant awards ending in a fiscal year should be closed by the end of the second fiscal year. However, for those grant awards that should have been closed out by the end of FY 2018:

- Six regions and HQ individually met the one-year grant closeout metric, but the EPA overall did not meet this metric.
- The EPA overall met the two-year grant closeout metric, but three regions did not individually meet this metric.

The EPA did not meet its expired grant closeout metrics because the OGD did not require GMOs that did not meet the performance requirements to submit strategies to improve grant closeout performance, as mandated by EPA policy. Also, according to EPA officials, expired grant closeout delays occurred because of workload and staffing issues. Late closeouts of expired grant awards delay the Agency's determinations as to whether taxpayer dollars were spent properly, and the undisbursed funds could be put to better use. As of September 6, 2019, the EPA's ULOs totaled \$8,282,470 for grant awards that expired before September 1, 2018. Those are dollars that could have been used for other, EPA mission-centric purposes.

EPA Policy Establishes Closeout Metric Requirements

EPA Order 5700.6 A2 CHG 2, *Policy on Compliance, Review and Monitoring*, includes two metrics for grant closeouts:

- *One-year closeout metric:* 90 percent of the grant awards ending in a fiscal year should be closed by the end of the next fiscal year.
- *Two-year closeout metric:* 99 percent of the grant awards ending in a fiscal year should be closed by the end of the second fiscal year.

The policy requires any GMO that performs more than 5 percent below these performance measures—i.e., below 85 percent for the first fiscal year or below 94 percent for the second fiscal year—to submit a closeout strategy to the NPTCD director. The strategy must identify problems encountered in the grant closeout process, outline a plan to correct problems, and establish a plan to increase future performance.

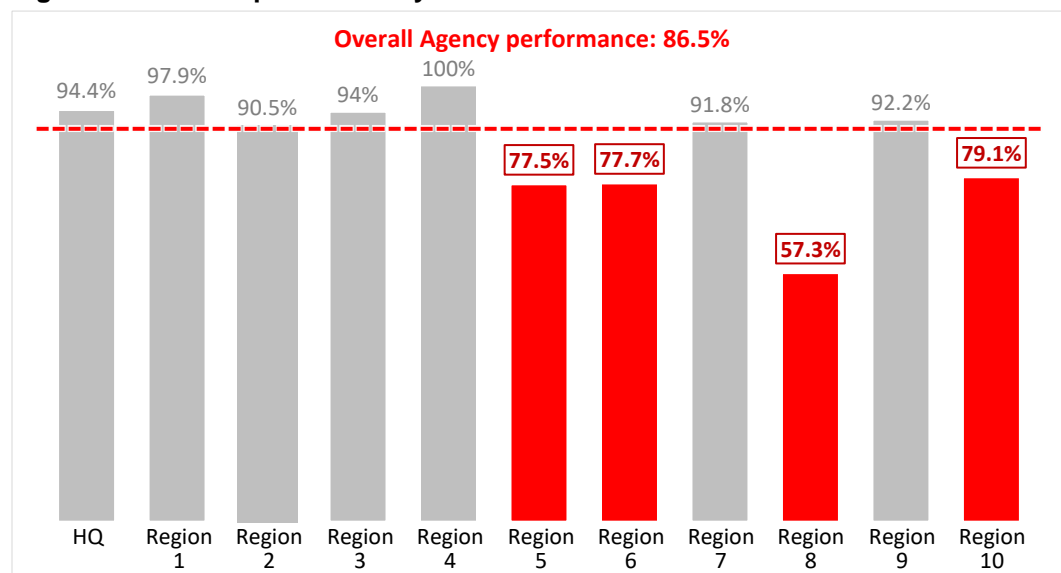
Despite EPA’s Attempt to Improve Grant Closeout Process, Closeout Performance Metrics Were Not Met

In March 2015, as part of an agencywide process-improvement initiative, the EPA examined how to optimize the grant closeout process. Despite the Agency’s efforts, we found that the EPA overall did not meet the one-year metric in FY 2018 for expired grant closeouts. In addition, while the Agency overall met the two-year closeout metric in FY 2018, three regions did not.

One-Year Closeout

As of September 30, 2018, the EPA closed out, on average, 86.5 percent of grant awards that expired in the previous fiscal year. However, this fell short of the goal to close out 90 percent within one year. Figure 1 shows the variation among the regions in meeting the one-year closeout metric. Four of the eleven GMOs—specifically those in Regions 5, 6, 8, and 10—did not meet the one-year closeout metric. These four GMOs were also below the five percent threshold of the metric, so each should have provided a closeout strategy, per EPA policy, but did not.

Figure 1: EPA’s 90 percent one-year closeout metric results

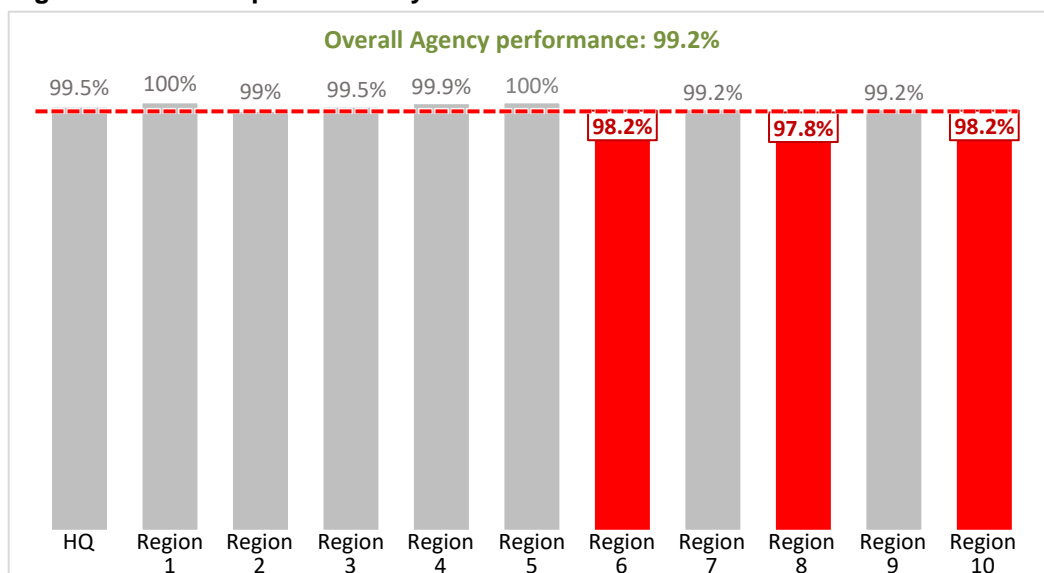


Source: OIG image derived from EPA data.

Two-Year Closeout

As of September 30, 2018, the EPA did—with an agencywide average of 99.2 percent—meet the two-year closeout performance target of 99 percent for expired grant awards. However, as shown in Figure 2, the GMOs in Regions 6, 8, and 10 did not meet the metric. These three regions were within 5 percent of the metric and thus were not required to submit closeout strategies, per EPA policy.

Figure 2: EPA’s 99 percent two-year closeout metric results



Source: OIG image derived from EPA data.

GMOs Said They Faced Difficulties

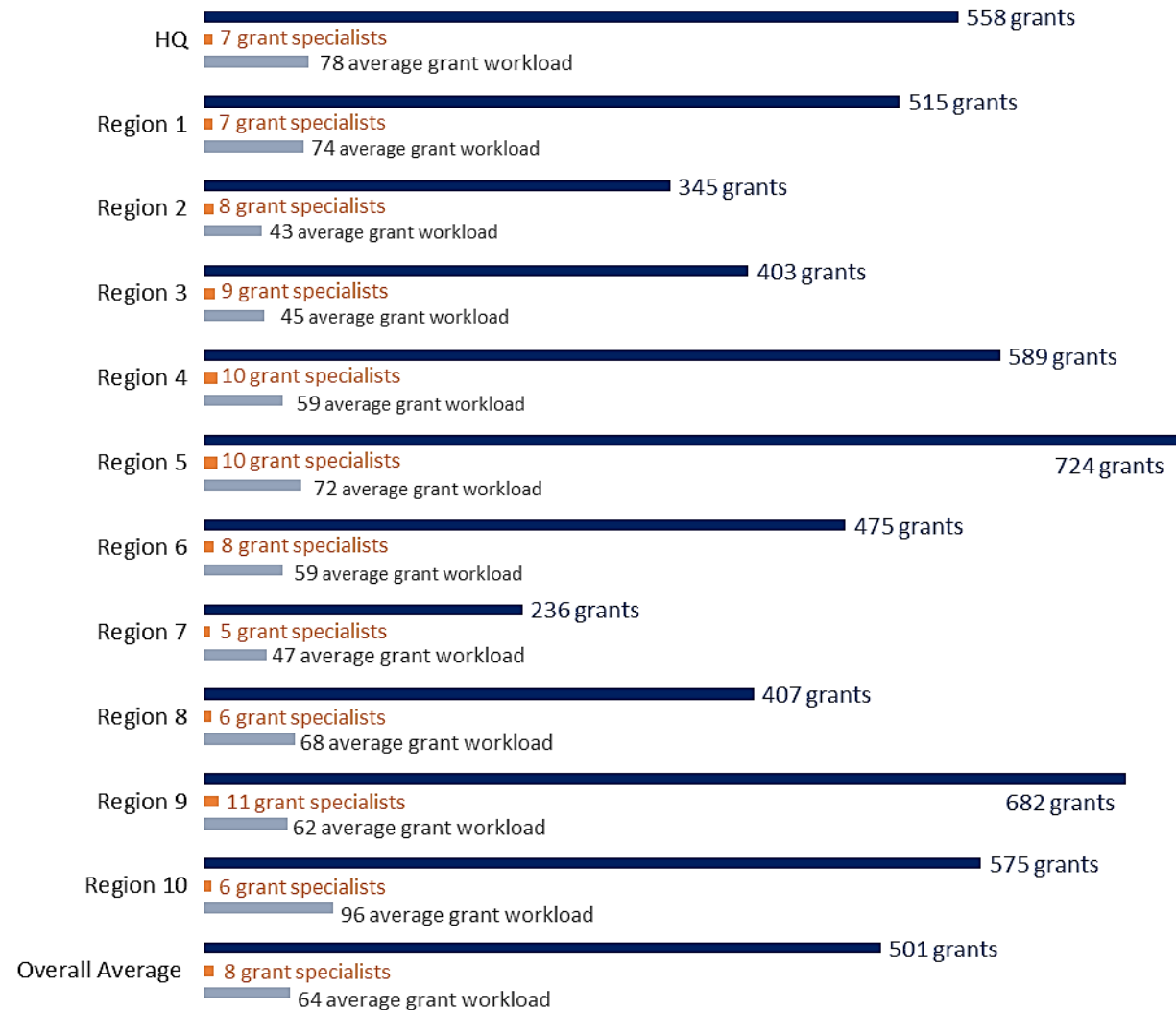
The regional staff we interviewed attributed most of the grant closeout delays to workload and staffing issues. They said that employee shortages increased senior grant specialists’ workload and limited the availability of staff to perform closeouts during periods of high-volume grant awards, such as during the last quarter of the fiscal year, because awarding new grants takes priority. While the hiring of more specialists would have ultimately increased the capacity of the teams to handle more grant awards, the senior specialists would initially have less availability for grant closeouts because they would have been required to review the work performed by newer staff.

From FY 2015 through FY 2019, the OIG identified workload analysis as a [management challenge](#) for the EPA. Also, the GAO audited the EPA’s grants management and made workload recommendations to the EPA to allocate grant resources in an effective and efficient manner.³

The OGD provides advice to the GMOs on optimal staffing levels based on workload; however, the EPA’s regional management makes staffing decisions for the regions. An OGD official stated that the OGD does not control the regional workload. As a result, staffing levels and workloads vary for grant specialists in the regions and HQ. The number of grant specialists ranged from five to 11 per GMO as of August 2018, and the average workload for each grant specialist ranged from 43 to 96 grant awards. Figure 3 shows the Agency breakdown of the number of grant specialists and their workload.

³ GAO, *Grants Management: EPA Partially Follows Leading Practices of Strategic Workforce Planning and Could Take Additional Steps*, [GAO-17-144](#), dated January 9, 2017.

Figure 3: Number of Agency grant specialists and workload, as of August 2018



Source: OIG-produced graphic illustrating data found in the EPA’s Grants Management Workload Update Presentation 080718 (rounded).

The NPTCD director said that the OGD recognizes the staffing issues, namely employee shortages and turnovers. However, according to the NPTCD director, OGD management did not view the underperforming regions as high risk because the Agency overall had been meeting the two-year closeout metric for several years. Additionally, addressing the underperforming regions was not a priority compared to other grants management issues. Therefore, OGD management did not follow up with underperforming regions to improve future grant closeout performance.

The NPTCD director said that the GMOs submit post-award monitoring plans to the OGD each year, and these plans are required to address the timely closeouts of expired grants. However, OGD management did not confirm that these plans

included satisfactory corrective action plans for underperformance issues related to grant closeouts.

For example, Region 10—one of the offices that did not meet either the one-year or two-year closeout metric in FY 2018—submitted a post-award monitoring plan dated March 31, 2017. In the plan, Region 10 stated that it “continues to explore ways to improve our timely close-out metric.” Region 10 provided additional information about the reasons for closeout delays, stating, “Delays are caused by [a] lack of response from project officers,” but did not describe a strategy for meeting the metric or improving future performance. EPA Order 5700.6 A2 CHG 2, *Policy on Compliance, Review and Monitoring*, requires offices that do not come within 5 percent of the one-year or two-year performance metric to submit a closeout strategy to identify problems, outline a plan to correct the problems, and increase future performance. Region 10’s post-award monitoring plan was not sufficient to meet the EPA’s policy requirements because not all closeout strategy requirements were addressed.

According to the OGD, the assistant regional administrators are responsible for overseeing these metrics and deciding how to address grant closeout underperformance in their respective regions. The NPTCD director in HQ is responsible for tracking the one-year and two-year closeout metrics of 90 percent and 99 percent, respectively. The NPTCD director stated that while the metrics are monitored throughout the year, the OGD has the authority to influence how grant closeouts are addressed only in the HQ GMO, not in the regional GMOs.

EPA Recommended Changes to Grant Closeout Process

The EPA’s process improvement initiative, called LEAN, consists of a set of principles and methods to identify and eliminate waste, and it helps organizations improve the speed and quality of their processes by eliminating unnecessary activity. In March 2015, as part of its LEAN initiative, the EPA selected the grant closeout process for a LEAN event, where employees of all levels work together to improve a process. This event led to several recommendations addressing grant closeouts, including:

- Revising EPA Order 5700.6 A2 to update the list of required items to close grant awards and make the 180-day closeout goal explicit.
- Increasing the use of resources from the OGD’s Suspension and Debarment Division in achieving closeouts.

As of December 2019, the EPA had not yet implemented these recommendations.

Closeout Delays Affect EPA's Grants Management

As a congressional report noted,⁴ delays in closing out federal grant awards increase the risk to grants management related to conducting financial control steps and decrease an agency's ability to demonstrate accountability. For example, late closeouts delay the determination as to whether agencies spent taxpayer dollars properly and did not waste funds. In addition, when agencies do not meet grant closeout metrics, closeout tasks require additional attention from grants management staff year after year, detracting from oversight of active grant awards.

Recommendation

We recommend that the assistant administrator for Mission Support:

3. Implement controls as required by EPA Order 5700.6 A2 CHG 2, *Policy on Compliance, Review and Monitoring*, to obtain closeout strategies when Grants Management Offices are not meeting the closeout metrics for grant awards.

Agency Response and OIG Assessment

In response to Recommendation 3, the OMS said that it would begin enforcing the EPA policy to require closeout strategies from underperforming regions. During a meeting with the OIG on November 26, 2019, the OMS clarified that this corrective action would be accomplished through a policy document, such as a memorandum or policy notice. Also, in an email to the OIG on December 3, 2019, the OMS stated that it would highlight this corrective action in the annual post-award monitoring plan guidance. This guidance requires regional and HQ offices to submit corrective action plans for areas in which they did not meet annual grant award management metrics, including closeouts.

We do not agree that a reminder of guidance that is not being followed will be sufficient to implement internal controls required by the policy. Therefore, we determined that the EPA did not provide acceptable corrective actions and milestones for Recommendation 3, which remains unresolved.

The Agency's response to our draft report is in Appendix A.

⁴ Senate Report No. 114-169, dated November 30, 2015.

Chapter 4

Regions Delayed Difficult Closeouts

Regional GMOs delayed some difficult grant closeouts for several years and did not seek help from the OGD. Federal regulation requires (1) grant award recipients to submit final reports within 90 days of end performance dates for grant awards and (2) federal agencies to close out expired grants within one year after receiving the required final reports. Regional GMOs provided a variety of reasons for the delayed closeouts, and the EPA had not implemented a specific mechanism for escalating difficult closeouts to the OGD. Late closeouts require grants staff to spend time and effort that could be used to manage active grant awards. Late closeouts also delay the determination of whether taxpayer dollars were spent properly and environmental goals were achieved.

Federal Regulation and EPA Policy Address Closeout Time Frames

Per 2 C.F.R. § 200.343, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards: Closeout*, federal grant recipients must provide—no later than 90 calendar days after the end date of the performance period—all financial, performance, and other reports that are required by the terms and conditions of the grant. The regulation also requires federal agencies to complete all closeout actions for grant awards no later than one year after receiving and accepting all required final reports.

Also, 2 C.F.R. § 200.344, *Post-closeout adjustments and continuing responsibilities*, states that federal grant closeouts are not affected by:

- The right of the federal agency to disallow costs and recover funds based on a later audit or other review.
- The obligation of the grantee or nonfederal entity to return funds due because of later refunds, corrections, or other transactions.
- Audit requirements.
- Property management and disposition as required by the federal grant regulations.

EPA Order 5700.6 A2 CHG 2, *Policy on Compliance, Review and Monitoring*, states that grants should be closed out as soon as possible before the end of the fiscal year following the performance period end date. In addition, the EPA Resources Management Directives System 2520-03, *Deobligating Unliquidated Obligations*, states that funds deobligation is based on receipt of the final Federal Financial Report from the grant award recipient, which is due to the EPA's Las Vegas Finance Center within 90 days of the performance period end date.

GMOs Delayed Award Closeouts When Difficulties Were Encountered

The EPA regions encountered a variety of issues that prevented the Agency from closing out some expired grants in a timely manner. We examined 11 expired grants and noted that they were all impacted by unusual and difficult circumstances, including:

- High turnover of grant recipient staff.
- EPA enforcement action brought against the grant recipient.
- Several countries involved in the grant.
- Grant recipient not using property for its intended purpose.
- Grant recipient not able to show sufficient progress.
- Grant recipient fraud that ultimately led to a settlement with the EPA.

The OGD provides support and assistance with difficult grants when requested to do so by the regions, and the regions have the option to request support at any time. However, none of the regions escalated the issues related to the grants we examined, even though the closeouts for these grants were often delayed for several years. Table 2 details our sampled grants, their performance period end dates, their associated ULOs, and the years that elapsed between the performance period end date and the grant closeout date.

Table 2: Sampled unclosed grant awards

Region	Grant number	Recipient	ULO	End date	Elapsed years ^a
HQ	83521301	United Nations Environment	\$0	5/31/16	2.2
1	^b 97102601	Passamaquoddy Tribe	0	3/30/11	7.4
2	00221931	Puerto Rico Department of Agriculture	381,000	9/30/14	3.9
3	99357711	Pennsylvania Infrastructure Investment	0	9/30/15	2.9
4	96422405	City of Owenton	423,727	3/1/12	6.5
5	96569701	Town of Madison	135,000	11/30/11	6.7
6	48000212	Texas Water Development Board	0	8/31/16	2.0
7	97744501	Sac & Fox Tribe of Mississippi Iowa	437,557	12/31/15	2.6
8	96821701	Chippewa Cree Tribe/ Rocky Boy	35	9/30/15	2.9
9	^b 00T96701	Moapa Band of Paiutes	20,060	9/30/16	1.9
10	98055708	Lane Regional Air Protection Agency	0	6/30/16	2.1
Total			\$1,397,379		

Source: OIG analysis of EPA records.

^a Elapsed time as of August 13, 2018.

^b Not closed as of the end of our audit fieldwork (September 1, 2019).

EPA Guidance Does Not Include Escalation Process

Although the sampled closeouts presented unusual circumstances, EPA guidance does not include a process to escalate unusual circumstances or a specific mechanism to request the assistance of the OGD, including the Suspension and Debarment Division. When the GMOs encountered difficulties with closeouts, the regions did not have clear guidance about how to resolve difficulties, and the closeout process was prolonged.

Furthermore, the national program manager for the state revolving fund programs supported by two of our sampled grants (Regions 3 and 6) issued guidance that conflicted with federal requirements and EPA policy regarding the timeliness of closeouts. The national program manager guidance asked the GMOs to maintain expired state revolving funds grant awards as “open” until awardees met additional program legislative requirements. The GMOs kept the grant awards open when the legislative requirements were not met. They did not consult with the OGD to verify that the guidance was consistent with grants management requirements.

The NPTCD director said that OGD staff have continually offered support to underperforming regions by:

- Providing help from the HQ Compliance Team within the OGD’s NPTCD.
- Communicating directly with grant award recipients.
- Involving the OGD’s Suspension and Debarment Division.

In fact, the NPTCD director stated that NPTCD staff had, in the past, assisted regions that faced grant closeout challenges, such as unresponsive grant award recipients or recipients’ issues with final reports submission. However, while the OGD provides support to the GMOs, the office has not explicitly required regions to seek the OGD’s support when facing expired grants management difficulties.

Delayed Closeouts Increase Risk to Effective Grants Management

When the EPA closes out expired federal grant awards in a timely manner, federal managers reduce grant management risks. In contrast, when expired grant awards remain open, the EPA’s ability to efficiently manage grant awards is impeded because staff must spend time and effort to address expired grant awards instead of managing active grant awards. Also, late closeouts delay the performance of critical financial and programmatic control steps, thus increasing the EPA’s risk of not achieving its objectives or not detecting fraud. For example, late grant closeouts slow down the EPA’s determination process as to whether taxpayer dollars were spent properly and environmental goals were achieved. In addition, when ULOs remain in accounts for expired grant awards—such as the EPA’s

\$8.3 million ULOs for projects ending more than one year prior, as of September 2019—the EPA misses opportunities to put those funds to better use.

Recommendation

We recommend that the assistant administrator for Mission Support:

4. Develop and implement Office of Grants and Debarment policy specific to grant closeouts that have been delayed one year or longer to escalate such instances to the Office of Grants and Debarment for action in support of closeout efforts (regardless of future collection of funds, audits, or reviews, as well as of property management and disposition processes).

Agency Response and OIG Assessment

The OMS disagreed with Recommendation 4 and said that elevation mechanisms such as biweekly meetings are already in place. According to the OMS, these biweekly meetings provide regular communication and coordination, and GMOs can ask for assistance and support on complex closeout issues. During a November 26, 2019 meeting with the OIG, OGD management said that another layer of oversight would be an administrative burden for the EPA. OGD officials also said that EPA policies require regions to close out grant awards within one year after the grant award has expired. Therefore, these officials said that the requirement to elevate issues to the OGD is implicit in EPA policies.

On December 3, 2019, the OMS said that it would issue a memorandum to GMOs explaining that regions should elevate complex closeout issues to the OGD, as needed, to eliminate potential delays in the closeout process. Further, on December 4, 2019, the OMS added that the memorandum would explain that regions should elevate issues to the OGD when the closeout process is delayed by one year or longer.

We do not believe that issuing a memorandum on what EPA staff “should” do is sufficient, as the Agency would be characterizing closeouts as a goal, rather than an obligation. Therefore, we determined that the EPA did not provide acceptable corrective actions and milestones for Recommendation 4, which remains unresolved.

The Agency’s response to our draft report and additional OIG comments on that response is in Appendix A.

Status of Recommendations and Potential Monetary Benefits

RECOMMENDATIONS

Rec. No.	Page No.	Subject	Status ¹	Action Official	Planned Completion Date	Potential Monetary Benefits (in \$000s)
1	9	Correct and resubmit the 2017 and 2018 Grants Oversight and New Efficiency Act reporting to the Office of Management and Budget.	R	Assistant Administrator for Mission Support	12/31/20	
2	9	Establish internal controls to verify that accurate information on grant awards is submitted in future Annual Financial Reporting.	R	Assistant Administrator for Mission Support	12/31/20	
3	16	Implement controls as required by EPA Order 5700.6 A2 CHG 2, <i>Policy on Compliance, Review and Monitoring</i> , to obtain closeout strategies when Grants Management Offices are not meeting the closeout metrics for grant awards.	U	Assistant Administrator for Mission Support		
4	20	Develop and implement Office of Grants and Debarment policy specific to grant closeouts that have been delayed one year or longer to escalate such instances to the Office of Grants and Debarment for action in support of closeout efforts (regardless of future collection of funds, audits, or reviews, as well as of property management and disposition processes).	U	Assistant Administrator for Mission Support		\$8,282

¹ C = Corrective action completed.

R = Recommendation resolved with corrective action pending.

U = Recommendation unresolved with resolution efforts in progress.

Agency Response to Draft Report and OIG Comments



UNITED STATES ENVIRONMENTAL PROTECTION AGENCY

WASHINGTON, D.C. 20460

NOV 18 2019

OFFICE OF MISSION SUPPORT

MEMORANDUM

SUBJECT: Response to Office of Inspector General Draft Report No. OA&E-FY18-0250 "EPA Did Not Report Accurately Under the Grants Oversight and New Efficiency Act and Needs to Improve Timeliness of Expired Grant closeouts" dated October 15, 2019

FROM: *for Wesley J. Cavante*
Donna J. Vizian, Principal Deputy Assistant Administrator

TO: Michael Petscavage, Director
Contract and Assistance Agreement Directorate
Office of Audit and Evaluation

Thank you for the opportunity to respond to the issues and recommendations in the subject audit report. The following is a summary of the Office of Mission Support's overall position as well as our response on each of the report recommendations. For those report recommendations the agency agrees, we have provided high-level intended corrective actions and estimated completion dates.

AGENCY'S OVERALL POSITION

OMS agrees with the findings and recommendations in the audit report with the exception of recommendation number four. We have provided an explanation and proposed alternative action below.

AGENCY'S RESPONSE TO REPORT RECOMMENDATIONS

Agreements

No.	Recommendation	High-Level Intended Corrective Action(s)	Estimated Completion Date
1	Correct and resubmit the fiscal year 2017 Grants Oversight and New Efficiency Act report.	Correct and resubmit the FY 2017 GONE Act Report.	December 31, 2020
2	Establish internal controls to verify that accurate information on grant awards data is submitted in future Annual Financial Reports.	Develop a standard operating procedure for ensuring accurate data are reported for end-of-year metrics.	December 31, 2020
3	Implement controls as required by EPA Order 5700.6 A2 CHG 2 to obtain closeout strategies when Grants Management Offices are not	Enforce current policy and require corrective strategies from Grants Management Offices who do not meet their annual closeout metrics.	March 31, 2020

	meeting the closeout metrics for grant awards.		
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OIG Response 1: We determined that the EPA’s proposed corrective action for Recommendation 3 does not meet the intent of the recommendation. The recommendation requires implementing internal controls, such as procedures to enforce closeout strategies and obtain closeout strategies from underperforming regions. The proposed corrective action does not indicate what internal controls would be implemented and whether the EPA would obtain closeout strategies from the underperforming regions that we identified in the report.

Disagreement

No.	Recommendation	Agency Explanation/Response	Proposed Alternative
4	Develop and implement Office of Grants and Debarment policy specific to grant closeouts that have been delayed 1 year or longer to escalate such instances to the Office of Grants and Debarment for action in support of closeout efforts (regardless of future collection of funds, audits or reviews; and property management and disposition processes).	OMS provides excellent, regular, and recurring communication and coordination with the GMOs through bi-weekly meetings, which are the ideal platform for such complex close-out issues to be discussed and resolved with OGD.	OMS already has mechanisms in place for promoting and elevating communication between GMOs and OMS, including bi-weekly calls and annual regional visits by OMS’s senior leadership, through which GMOs can raise especially complex close-out issues and ask for assistance and support from OMS.

OIG Response 2: We determined that the EPA’s response and the proposed alternative corrective action are not responsive to Recommendation 4. While we agree that the OMS has mechanisms in place for elevating issues, these mechanisms are optional. We found that regions prolonged difficult closeouts and did not elevate closeout issues to the OGD because there is no clear guidance on how and when closeouts should be escalated. Therefore, we recommended that the OMS develop and implement a policy specific to grant award closeouts requiring elevation.

If you have any questions on this response, please contact Mitchell Hauser, OMS's audit follow-up coordinator, at (202) 564-7636.

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