United States Government Accountability Office

GAO

Report to the Subcommittee on Federal Financial Management, Government Information, Federal Services, and International Security, Committee on Homeland Security and Governmental Affairs, U.S. Senate

August 2008

GRANTS MANAGEMENT

Attention Needed to Address Undisbursed Balances in Expired Grant Accounts

G A O

Accountability ★ Integrity ★ Reliability

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Why GAO Did This Study

In 2006, the subcommittee concluded there was a need for increased accountability and transparency for unspent funds in federal programs and agencies, and requested GAO review the status of balances not drawn down by grantees by the time the grants' period of availability had ended. GAO was asked to answer these questions: (1) to what extent are there undisbursed grant balances in expired grant accounts and do they share any program characteristics?; and (2) do these expired grants share grant management challenges and how have federal agencies improved grant closeout and diminished undisbursed balances? To do this, GAO analyzed grant balance data from the largest federal grant payment system; reviewed grant management problems and corrective actions from more than 150 audit reports; and reviewed guidance from the Office of Management and Budget (OMB) and the Code of Federal Regulations.

What GAO Recommends

GAO recommends OMB instruct all executive departments and independent agencies to track undisbursed balances in expired grant accounts and report on the resolution of this funding in their annual performance plan and Performance and Accountability Reports. OMB said it supported the intent of our recommendations but did not specify whether it would implement them.

What GAO Found

During calendar year 2006, about $1 billion in undisbursed funding remained in expired grant accounts in the largest civilian payment system for grants—the Payment Management System (PMS). PMS is administered by the Department of Health and Human Services and makes payments for about 70 percent of grants and for 12 federal entities. Undisbursed funding is funding the federal government has obligated through a grant agreement, but which the grantee has not entirely spent. Among all of the expired grant accounts in PMS that remained open, these undisbursed funds typically represented about 1 percent of the total funds originally made available for these grants—meaning grantees had spent most of their available funds. However, when expired grant accounts with no funds remaining were excluded and the focus was narrowed to just expired grant accounts with undisbursed balances, GAO found the amount of undisbursed funding represented, on average, about 26 percent of the original funding made available. The expired but still open grant accounts were associated with thousands of grantees and over 325 different federal programs. GAO also found that expired grant accounts with the largest undisbursed balances in PMS for calendar years 2003 through 2006 shared a few common program characteristics. However, the results could not be compared to program characteristics for all closed federal grants or all closed grants using PMS, during this period, due to the burden of collecting comparable data for all closed federal grants from eight other federal civilian payments systems or for all closed grants from PMS.

Past audits of federal agencies by GAO and Inspectors General and annual performance reports by at least 8 federal agencies in 2006 and 2007 suggested that grant management challenges including grant closeouts and undisbursed balances are a long-standing problem. Closeout procedures ensure grantees have met all financial requirements, provided final reports, and that unused funds are deobligated. The audits generally attributed the problems to inadequacies in awarding agencies' grant management processes, including closeouts as a low management priority, inconsistent closeout procedures, poorly timed communications with grantees, or insufficient compliance or enforcement. However, when federal agencies, such as the Departments of Health and Human Services and Justice, and the Environmental Protection Agency, took corrective actions, there were improvements in grant closeouts and resolution of undisbursed funding. The actions taken by these three agencies generally focused on making grant closeouts a higher agency management priority, as noted in their recent performance reports, and on improving overall closeout processing. Using federal payment systems to track undisbursed funding in expired grant accounts and including the status of grant closeouts in annual performance reports could raise the visibility of the problem both within the agency and governmentwide, and lead to improvements in grant closeouts and minimize undisbursed balances. OMB circulars do not currently require federal agencies to track and report on undisbursed funding in expired grant accounts.

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Abbreviations

AHRQ	Agency for Healthcare Research and Quality, Department of Health and Human Services
CFDA	*Catalog of Federal Domestic Assistance*
CFR	Code of Federal Regulations
CMIA	Cash Management Improvement Act
CNS	Corporation for National and Community Service
DHS	Department of Homeland Security
DOE	Department of Energy
DOI	Department of the Interior
DOJ	Department of Justice
DOL	Department of Labor
DOS	Department of State

DOT	Department of Transportation
DPM	Division of Payment Management, Department of Health and Human Services
EOP	Executive Office of the President
EPA	Environmental Protection Agency
GAN	Grant Adjustment Notice
GMS	Grants Management System
GOALS	Government On-Line Accounting Link System
GPRA	Government Performance and Results Act of 1993
GSA	General Services Administration
HHS	Department of Health and Human Service
HRSA	Health Resources and Services Administration, Department of Health and Human Service
HUD	Department of Housing and Urban Development
IG	Inspector General
NASA	National Aeronautics and Space Administration
NASACT	National Association of State Auditors, Comptrollers and Treasurers
NGMA	National Grants Management Association
NIH	National Institutes of Health, Department of Health and Human Service
OIG	Office of the Inspector General
OJP	Office of Justice Program, Department of Justice
OMB	Office of Management and Budget, Executive Office of the President
ONDCP	Office of National Drug Control Policy, Executive Office of the President
PAR	Performance and Accountability Report
PMS	Payment Management System
SSA	Social Security Administration
TANF	Temporary Assistance for Needy Families
USAID	The United States Agency for International Development, Department of State
U.S.C.	United States Code
USDA	Department of Agriculture
VA	Department of Veterans Affairs

G A O
Accountability * Integrity * Reliability

United States Government Accountability Office
Washington, DC 20548

August 29, 2008

The Honorable Tom Carper
Chairman
The Honorable Tom Coburn, M.D.
Ranking Member
Subcommittee on Federal Financial Management, Government
  Information, Federal Services, and International Security
Committee on Homeland Security and Governmental Affairs
United States Senate

The federal government's reliance on grants to achieve national objectives
and respond to significant trends, such as an aging population and
changing threats to national security, has grown significantly. According to
Office of Management and Budget (OMB) estimates, from 2000 through
2006, federal grant awards to nonfederal entities, such as states and
nonprofit organizations, increased from $300 billion to over $450 billion.[1]
Grants now represent about one-sixth of the federal budget. If even a small
fraction of total grant funding is not spent in a prudent and timely fashion,
it can create potential problems for the federal government. The existence
of unspent funds can hinder the achievement of national objectives in
various ways, such as leaving projects incomplete, preventing the
reallocation of scarce resources to address other needs, or making federal
funds more susceptible to improper spending or accounting as monitoring
diminishes over time. In times of constrained resources, it is vital for
federal agencies to maximize the performance of their programs in order
to meet long-term goals.

In the spring of 2006, your subcommittee concluded there was a need for
increased accountability and transparency for unspent funds in federal
programs and agencies. You requested that we review the status of grant
funds that grantees had not drawn down by the time the grants' period of
availability had ended (i.e., "expired"). To respond to your request, we
identified and analyzed data from the largest federal civilian grant payment
management system—accounting for about 70 percent of federal
disbursements to grantees in 2006—to focus on agency-level grant
accounts that remained open after their expiration date (hereafter,

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[1]Office of Management and Budget, *2000 Federal Financial Management Report*
(Washington, D.C., 2000); *2007 Federal Financial Management Report* (Washington, D.C.,
2007).

referred to as "expired grant accounts") and had unspent funds in the form of undisbursed balances. Undisbursed balances are funds that the federal government has obligated by entering into a grant agreement, but the grantee has not drawn down ("disbursed"). These funds were obligated from the federal perspective. However, once the grant's period of availability to the grantee has expired, the grant could be closed out and the funds deobligated by the awarding agency. Grant closeout procedures ensure that grantees have met all financial requirements, provided their final reports, and returned any undisbursed balances.

Based on your request, this report answers these questions: (1) to what extent are there undisbursed grant balances in expired grant accounts and do they share any program characteristics?; and (2) do these expired grants share grant management challenges and what actions have federal agencies taken to improve grant closeout and diminish undisbursed balances?

To address our objectives, we analyzed data on undisbursed balances in expired agency grant accounts and reviewed federal regulations, audit reports, and annual performance reports relating to grant closeouts. To identify the status of undisbursed balances in expired grant accounts, we collected and analyzed 4 calendar years (from 2003 through 2006) of quarterly payment data for grants with defined spending periods that executed payments through the Department of Health and Human Services' (HHS) Payment Management System (PMS). PMS is the largest of the nine civilian federal payment systems. In 2006, it handled about 70 percent of all federal grant disbursements. As of August 2007, PMS provided payment services to nine federal departments, an independent agency, a government corporation, and the Office of National Drug Control Policy (ONDCP) within the Executive Office of the President.[2] We used program information from the Catalog of Federal Domestic Assistance (CFDA) to identify key program characteristics that were associated with the expired grant accounts in PMS. We analyzed payment data for expired grant accounts in PMS, from 2003 through 2006, as a

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[2]As of August 2007, PMS served grant-administering offices from the Departments of Health and Human Services (HHS); Agriculture (USDA); Energy (DOE); Homeland Security (DHS); the Interior (DOI); Labor (DOL); State (State); the Treasury (Treasury); and Veterans Affairs (VA). PMS also served the Office of National Drug Control Policy (ONDCP) within the Executive Office of the President, the Corporation on National Community Service, and the National Aeronautics and Space Administration. See app. II for further detail.

complete set of current PMS customers, rather than analyzing specific federal agencies or grant programs. To identify federal guidelines on grant closeouts, we reviewed related OMB circulars and agency regulations. To identify federal guidelines on performance reporting we reviewed related OMB circulars. To identify what other auditors found and recommended as strategies to diminish unspent funds in expired grant accounts, we conducted a Web-based literature search for related audit reports and reviewed over 150 reports that we and various federal Inspectors General (IG) issued from 2000 through 2007, and contacted officials from several federal IG offices.[3] In addition, we reviewed the 2006 and 2007 Performance and Accountability Reports (PAR) for 15 cabinet-level executive departments and the Environmental Protection Agency (EPA).[4] Appendix I provides more information on our methodology and on PMS and CFDA. We conducted this performance audit from October 2006 to June 2008, 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.

Results in Brief

During calendar year 2006, about $1 billion in undisbursed funding remained in expired grant accounts in the largest of the nine federal civilian payment systems—HHS's Payment Management System (PMS), which serves offices from 12 federal departments and agencies and accounts for about 70 percent of all federal grant disbursements.[5] While this was a significant amount of undisbursed funding, it did not mean grantees using PMS were not spending most of their grant funding. This balance represented about 1 percent of the total funds made available for all expired grant accounts in PMS during 2006. When we excluded the expired grant accounts with no funds remaining from our data analysis

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[3]The Offices of Inspector General we contacted for this review included HHS; the U.S. Department of Justice (DOJ); DOI; USDA; DOE; and DOL.

[4]We reviewed the 2006 and 2007 PARs for USDA, the Department of Commerce (DOC), the Department of Defense (DOD), the Department of Education (Education), DOE, HHS, DHS, the Department of Housing and Urban Development (HUD), DOI, DOJ, DOL, the Department of State (DOS), the Department of Transportation, Treasury, and VA.

[5]All dollar figures throughout the report are in nominal "then-year" dollars and were not adjusted for inflation.

and narrowed our focus just to those accounts with remaining undisbursed balances, we found that, in 2006, the amount of undisbursed funding represented, on average, about 26 percent of the original funding made available.[6] Expired grant accounts with undisbursed funds were not confined to a few federal awarding agencies, grant programs, or grantees. Rather these accounts were associated with thousands of grantees in over 325 different federal grant programs. We also found that expired grant accounts with the largest undisbursed balances in PMS for calendar years 2003 through 2006 shared a few common program characteristics. However, the results could not be compared to program characteristics for all closed federal grants or all closed grants using PMS, during this period, due to the burden of collecting comparable data for all closed federal grants from eight other federal civilian payments systems or for all closed grants from PMS.

Taken together, dozens of past audit reports we reviewed from multiple agencies[7] and the 2006 and 2007 Performance and Accountability Reports for at least three federal agencies—EPA, HHS, and DOJ—suggested that undisbursed balances in expired grant accounts were a long-standing challenge and that these grants shared common grants management problems. The audits generally attributed the problems to inadequacies in the awarding agencies' grant management processes, including closeouts as a low management priority, inconsistent closeout procedures, poorly timed communications with grantees, or insufficient compliance or enforcement. Yet when agencies such as HHS, DOJ, and EPA made concerted efforts to address the problem, IGs and auditors reported the agencies were able to improve the timeliness of grant closeouts and decrease the amount of undisbursed funding in expired grant accounts. The approaches taken by the agencies administering the grants generally focused on elevating timely grant closeouts to a higher agency management priority and on improving overall closeout processing.

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[6]These results exclude PMS accounts associated with grant programs for which the duration of the grant is not limited to a specified time period, such as Temporary Assistance for Needy Families (TANF) and Medicaid grants to states (see app. I). Some grant-authorizing statutes limit the duration of grants, once awarded, to a specific time period (e.g., grants may be made for a period not to exceed 5 years). In some grant programs, agency implementing regulations restrict the duration of grants. Other grant programs do not limit the duration of a grant. For example, TANF grants have no specified duration, once awarded.

[7]We reviewed audit reports from the following agencies covering the period from 2000 through 2006: DOE, DOJ, DOL, Education, EPA, HHS, HUD, the Social Security Administration (SSA), DOS, and USDA.

Recognizing the potential effect on performance in the area of financial management, several federal agencies have elevated this issue as a management challenge in their annual performance plans and PARs. Current OMB circulars do not instruct federal departments and agencies to track and report on expired grants and undisbursed grant funding.

Given the federal government's constrained fiscal position, it seems appropriate to minimize the amount of undisbursed funding remaining in expired grant accounts. Our analysis of the PMS data showed that a federal payment data system can track undisbursed funding and the amounts of undisbursed funding can be substantial. In addition, our analysis of audit reports and agency PARs showed that when agencies paid attention to grant closeouts, improvements were made and undisbursed balances were reduced. All federal civilian departments and agencies could annually track and report this information, if OMB provided governmentwide instructions. Therefore, we recommend that the Director, OMB, instruct all executive departments and independent agencies to take the following two actions: (1) annually track the amount of undisbursed grant funding remaining in expired grant accounts; and (2) report on the status and resolution of the undisbursed funding in their annual performance plan and in their annual PAR.

In commenting on our draft report, OMB said it supported the intent of our recommendations but did not commit to implementing them through its grants management guidance. OMB did not favor requiring agencies to report these balances in their PARs. Given that such reporting has raised the internal and external visibility of the issue of undisbursed balances in expired grant accounts and agencies have improved their performance, we continue to believe that the PARs would be appropriate vehicles to address the issue on a governmentwide basis.

Background

The federal government uses grants, along with other policy tools, such as direct services and loans, to achieve national priorities through nonfederal parties, including state and local governments, educational institutions,

and nonprofit organizations. The federal government uses grants[8] to implement over 1,200 different programs through over 28 federal departments and agencies. These programs awarded funding to over 60,000 grantees. The Catalog of Federal Domestic Assistance (CFDA) provides descriptions of these grant programs, as well as other domestic assistance programs.[9]

The design and implementation of federal grants varies. For example, grant programs generally use one of three ways to award funding to grantees. Formula grants award funds based on distribution formulas prescribed by legislation or regulation. Project grants generally award funding for specific periods or specific projects, products, or services. As a third method, some grant programs award funds using a hybrid of formula and project-based awarding methods. In addition, federal agencies use a variety of organizational approaches to implement grant programs. Some agencies administer many grants through multiple, decentralized components, while other agencies have small, centralized grant-making offices that administer only a few grant programs.

Federal grants are typically subject to a wide range of requirements derived from a combination of program statutes, agency regulations, and other guidance. They are also subject to many crosscutting requirements that apply to most federal assistance programs, including statutory provisions applicable to recipients of federal funds and administrative requirements such as audit and record keeping and the allowability of costs.

As a general rule, grant programs are governed by detailed legislation as well as implementing regulations issued by the responsible agency. Prior to 1988, each agency issued regulations to govern its grant management, and OMB Circular No. A-102, *Grants and Cooperative Agreements With*

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[8]Federal grants and cooperative agreements are forms of assistance authorized by statute in which a federal agency transfers something of value, such as money, to a party for a purpose, undertaking, or activity of the grantee that the government has chosen to assist. The distinction between these two forms of assistance is that substantial involvement is expected between the executive agency and the state, local government, or other recipient when carrying out the activity contemplated in a cooperative agreement, whereas such involvement is not expected in carrying out a grant agreement (see 31 U.S.C. 6304 and 31 U.S.C. 6305). Given the similarity between these two forms of assistance, we refer to grants and cooperative agreements as grants in the remainder of this report.

[9]For more information about the CFDA, see app. I.

State and Local Governments, also provided some governmentwide guidance for grants to state and local governments. OMB Circular No. A-110, *Uniform Administrative Requirements for Grants and Agreements With Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations*, provided some guidance for grants to other types of grantees like hospitals and other nonprofit institutions. In 1987, a memorandum from the President directed OMB to revise Circular No. A-102 to specify uniform, governmentwide terms and conditions for grants to state and local governments, and directed executive branch departments and agencies to propose and issue common regulations adopting these terms and conditions verbatim, modified where necessary to reflect inconsistent statutory requirements. Pursuant to this direction, the first iteration of what has come to be known as the "common rule" system was published on June 9, 1987.

There are currently a number of OMB circulars on grants, which provide guidance only to federal (grantor) agencies; they do not apply directly to grantees. Therefore, each federal agency has issued largely identical sets of regulations that prescribe requirements that are binding on their grantees. These regulations are referred to as the "common rules." Each agency's common rule regulations are codified in the Code of Federal Regulations.

Grant programs also share a common life cycle for administering the grants: announcement of grant opportunity, application, award, postaward, and closeout. During the award stage, the federal awarding agency enters into an agreement with the grantee. The grant agreement stipulates the terms and conditions for the use of grant funds such as the period of time funds are available for the grantee's use, as noted by a start and end date. In addition, the awarding agency establishes an account in a federal payment system to execute payments to the grantee.[10]

During the postaward stage, the grantee carries out the requirements of the agreement and requests payments, while the awarding agency approves payments and oversees the grantee. The Payment Management

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[10]Grant payments to states are generally made in accordance with the Cash Management Improvement Act (CMIA) of 1990 (P.L. 101-453), as amended. CMIA is intended to ensure greater efficiency, effectiveness, and equity in the exchange of funds between the federal government and the states. The CMIA requires, among other things, that federal agencies and the states minimize the time that elapses between transfers of funds to the states and payments for federal grant program purposes.

System (PMS), operated by HHS, went online in 1984 and, as of 2006, was the largest of the nine civilian federal payment systems. The system, which handled about 70 percent of all federal grant disbursements in 2006, serves nine federal departments, an independent agency, a government corporation, and ONDCP. Appendix I provides a description of PMS and appendix II provides a recent list of department- and agency-level PMS customers. According to HHS, PMS is a full-service centralized grants payment and cash management system. The system is fully automated to receive payment requests, edit them for accuracy and content, transmit the payment to either the Federal Reserve Bank or the U.S. Treasury for deposit into the grantee's bank account, and record the payment transactions and corresponding disbursements to the appropriate accounts. Federal agencies pay HHS a service fee for maintaining accounts and executing payments through PMS. PMS continues to charge agency customers a servicing fee until an account is closed.

When the grantee has completed all the work associated with a grant agreement or the end date for the grant has arrived, or both, the awarding agency and grantee close out the grant. Closeout procedures ensure that grantees have met all financial requirements, provided their final reports, and returned any unexpended balances. To close out a grant, federal regulations generally require that the

- awarding agency ensures the grantee has completed all work and administrative requirements;
- grantee settles (liquidates) all obligations 90 days after grant end date;
- grantee submits all final financial, performance, and other reports within 90 days of grant end date; and
- grantee requests an extension of the reporting deadline from the awarding agency, if required.

These requirements apply when the awarding agency has specified a funding period for the grant (a start and end date) and has prohibited the grantee from having carryover balances. In this report, we refer to grants that were not closed after their end date as "expired" grants and PMS grant accounts that remained open after the grant's end date as "expired grant accounts."

PMS issues a quarterly report to its customers, referred to as the "closeout report," listing expired grant accounts that remain open, and for each account includes data on the funds made available and the amount of

funds disbursed (i.e., "drawn down" or "charged"). GAO recommended HHS develop and distribute this type of report in 1987.[11] HHS lists an account on a quarterly PMS closeout report if the end date for the account was 3 months old and there was no disbursement in the preceding 9 months.

The closeout is an important grant management procedure because it is the final point of accountability for grantees. An undisbursed balance in an expired grant account can be an indication of a potential grant management problem. Grantees that do not expend their funding may not be meeting the program objectives for the intended beneficiaries. These balances may also suggest that awarding agencies or grantees, or both, may not be managing the funding efficiently or effectively. Effective grants management, including the completion of grant closeout, increases the likelihood that awarded grants contribute to agency goals.

An agency or grant program office can track its performance in closing grants and other grant management procedures using a variety of measures. In this report, we use the amount of undisbursed funding to assess one aspect of the performance of the expired grants—their financial status. Other types of measures track other aspects of performance, such as the grants' service quality and customer satisfaction. The amount of undisbursed funding measures the amount of funds remaining potentially available for deobligation.

Agencies report to the President and Congress regarding their strategic plans and actual program performance, including, among other things, progress on improving grants management and other management initiatives under the auspices of the Government Performance and Results Act of 1993 (GPRA). GPRA is part of a statutory framework that seeks to create a more focused, results-oriented management and decision-making process within both Congress and the executive branch. The act requires federal agencies to develop strategic plans with long-term strategic goals, annual goals linked to achieving the long-term goals, and annual reports on the results achieved. An agency's annual performance plan contains the annual performance goals and associated measures for its programs, as well as mission-critical management problems identified by the

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[11]See GAO, *Accounting Systems: HHS Grant Payment Operation Has Improved and Additional Corrective Actions Are Underway*, GAO/AFMD-88-18 (Washington, D.C.: Dec. 30, 1987), 11.

administration, the agency's financial audit, and other agency assessments. An agency's annual performance report compares its performance against its goals, summarizes the findings of program evaluations completed during the year, and describes the actions needed to address any unmet goals. OMB is responsible for providing guidelines to agencies on preparing their plans and reports, and for receiving and reviewing agencies' strategic plans, annual performance plans, and annual performance reports. Currently, most agencies report on their annual performance in their PAR. OMB Circular No. A-11, *Preparation, Submission and Execution of the Budget*, provides guidelines on the content of the performance accountability portion of the PAR, while Circular No. A-136, *Financial Reporting Requirements*, provides guidance on the content of the financial accountability portion of the PAR.

Undisbursed Balances in Expired Grant Accounts in PMS Were about $1 Billion during 2006

In our review of the closeout data for expired grants that executed payments through HHS's PMS, we found the quarterly amount of undisbursed funding reported as remaining in expired grant accounts increased from about $600 million in 2003 to about $1 billion during 2006.[12] These balances typically represented about 1 percent of the total funds made available for all expired grants in PMS during this period. This proportion included expired grant accounts with a zero undisbursed balance (no undisbursed funding) and expired grant accounts with a positive undisbursed balance (undisbursed funds remaining). Once we excluded expired grant accounts with a zero balance from the calculation and narrowed our focus solely to expired grant accounts with undisbursed balances, the proportion of undisbursed funding relative to total funds made available increased substantially. Among this smaller set of expired grant accounts, we found the undisbursed funding ranged between an average of 14 and 26 percent of the total funds made available for these grants. We found that, among PMS customers, numerous federal agencies and grant programs had expired grant accounts containing undisbursed funds.

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[12]All dollar figures throughout the report are in nominal "then-year" dollars (not adjusted for inflation) because funds made available for federal grants are not indexed to inflation. Therefore, over the performance period of the grant, and into the postexpiration period, there are no increases in funding to account for the effects of inflation.

Expired Grant Accounts with Undisbursed Balances Had Not Spent between an Average of 14 and 26 Percent of Funds Made Available

When we analyzed the quarterly PMS closeout data for 2003 through 2006, we identified two sets of expired grants accounts. One set consisted of expired grant accounts for which all of the funds made available had been disbursed, but still had not been closed. As stated earlier, grant accounts remain open in PMS, and HHS continues to charge service fees to the awarding agencies for maintaining accounts and executing payments, until the awarding agencies indicate to HHS that the account can be closed. Thus, even though all grant funds have been disbursed, these grant accounts are continuing to cost the awarding agency through accumulated PMS service fees.[13] Moreover, the presence of expired grant accounts at the awarding agency suggests more than a minor administrative oversight. It suggests that the final point of accountability for these grants, which includes such important tasks as the submission of financial and performance reports, was not completed.

We identified a second set of accounts that included those expired accounts reported as still having an undisbursed balance.[14] On the basis of our review of expired grant accounts with undisbursed balances, we found that, from March 2003 through March 2005, the quarterly totals of undisbursed funding ranged between an average of 14 and 16 percent of the funding made available for the grants. However, from June 2005 through December 2006, the quarterly balances of undisbursed funding for these expired grants was near $1 billion, ranging between an average of 24 and 26 percent of the funds made available. These results are for grant accounts with specific time limits and do not include grant accounts that do not have specific time limits, such as TANF or Medicaid, because without a specific time limit, the grants, once awarded, do not expire. The PMS closeout data results described in the remainder of this report only pertain to the set of expired grant accounts with undisbursed balances, unless otherwise noted.

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[13]Because of the data processing required to identify the expired grant accounts in PMS, as described in app. I, we could not readily calculate the fees PMS charged its client agencies for continuing to service these expired accounts.

[14]To be included in these analyses, each expired grant account had to have a positive balance of undisbursed funding (see app. I for details).

Numerous Grant Programs Had Expired Grant Accounts Containing Undisbursed Funds

As stated previously, in 2006 PMS was the largest of the nine federal payment systems, handled about 70 percent of federal grant disbursements, and served nine federal civilian departments, an independent agency, a government corporation, and ONDCP. In analyzing the expired grant accounts with undisbursed balances in the PMS closeout data from 2003 through 2006, we found these accounts were not confined to a few federal awarding agencies, grant programs, or grantees. Instead we found, in 15 of the 16 quarters, at least four of the federal departments using PMS had over 100 expired grant accounts with undisbursed funding. Lastly, we found that over 325 different programs administered the expired grant accounts with undisbursed funding and that thousands of grantees were associated with these grants.[15]

We analyzed the quarterly balances of undisbursed funding over 4 calendar years, from 2003 through 2006, according to four program characteristics: size of the funding originally made available to the grantee; whether program funding was awarded based on a formula or on a project basis; the grantee organization (entity) receiving the grant; and whether the program required the grantee to make a contribution to support the grant activity. We selected these four characteristics because they are fundamental elements of grant design that could be readily analyzed using the information from the PMS and the CFDA data sets.

When we compared the undisbursed balances among the types within each of the four program characteristic categories, we found, for the first three characteristics, certain types of grants consistently had the largest quarterly balances. We found the largest quarterly balances of undisbursed funding to be consistently among expired grant accounts that had neither the smallest nor the largest funding awards, but rather in the mid-range of funding awards—that is, with funding awards from over $100,000 to $100 million. We found accounts with program funding awarded on a project basis had the largest undisbursed balances compared to those awarded on a formula basis. Lastly, we also found accounts with grants awarded to a state organization consistently had the largest undisbursed balances compared to other types of grantees. However, these results cannot be compared to the program characteristics of all closed federal grants or closed grants with payments processed through PMS from 2003

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[15]As of June 2007, there were over 45,000 grantees in PMS with grants posted to their organization. This count includes all grantees that had a grant posted in PMS, at some time. The grantee may or may not have had an active account, as of that date.

through 2006, due to the burden of collecting comparable data from eight other federal civilian payments systems or for all closed grants in PMS. Without comparative data, we cannot know whether the program characteristics for these expired grant accounts represented a disproportionate share, compared to all closed federal grants or all closed grants in PMS. Appendix I provides further information on our methodology and program characteristics findings.

Grant Closeout Problems Attributed to Several Causes but Can Be Mitigated

In our review of past audit reports, we observed that the reports generally focused on expired grants in specific agencies or grant programs. We also found that, when taken together, they suggested the presence of undisbursed balances in expired grant accounts was a long-standing problem. We and agency Inspectors General (IG) have reported for years that specific grant programs or awarding agencies have had expired grant accounts with undisbursed funding. Moreover, by synthesizing the observations from these reports, we found that these grants shared common grants management problems. In recent years, three federal agencies, the Department of Justice's (DOJ) Office of Justice Programs (OJP), HHS's National Institutes of Health (NIH), and the Environmental Protection Agency (EPA), have made concerted efforts to improve their grant closeout processes. In 2006 and 2007, several auditors highlighted grants management problems as mission critical in their agency's Performance Accountability Report (PAR). In 2006, EPA went further and reported a financial performance measure to track the agency's progress in closing grants.

Several Grant Management Issues Contribute to Closeout Problems

We have reported that the timely closeout of expired grants was a problem at various agencies over the past three decades.[16] In two recent examples, we reported that the State Department's (DOS) United States Agency for International Development (a PMS customer) did not routinely follow prescribed closeout processes to identify and recover inappropriate expenditures or undisbursed funds[17] and that EPA (an agency that does

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[16]See GAO, *HEW Must Improve Control Over Billions in Cash Advances*, FGMSD-80-6 (Washington, D.C.: Dec. 28, 1979); *Accounting Systems: HHS Grant Payment Operation Has Improved and Additional Corrective Actions Are Underway*, GAO/AFMD-88-18 (Washington, D.C.: Dec. 30, 1987); and *Environmental Protection: EPA's Progress in Closing Completed Grants and Contracts*, GAO/RCED-99-27 (Washington, D.C.: Nov. 20, 1998).

[17]See GAO, *Foreign Assistance: U.S. Democracy Assistance for Cuba Needs Better Management and Oversight*, GAO-07-147 (Washington, D.C.: Nov. 15, 2006).

not use PMS) closed out only 37 percent of grants in fiscal year 2005 within 180 days after the grant project ended as required by its own policy.[18] IG reports identified a variety of awarding agencies or programs with closeout problems dating back to 2000. Maintaining undisbursed balances in expired grant accounts may prevent the deobligation of funding or expose the funding to improper spending or accounting. For example, the DOJ Office of Inspector General (OIG) reported in 2006 that $172 million in undisbursed funding could have been deobligated and that several million dollars in funding used from expired grant accounts was either unallowable or unsupportable.

Audit reports identified several awarding agencies or programs with closeout problems. They generally attributed the problems to inadequacies in awarding agencies' grant management processes, including closeouts as a low management priority, inconsistent closeout procedures, poorly timed communications with grantees, or insufficient compliance or enforcement. While we reviewed several audit reports examining closeout problems, this section summarizes examples from an HHS OIG and DOJ OIG report, and a GAO report on EPA—all issued within the last 3 years.

Auditors indicated that grant closeouts were a low priority, at either the grantee organization or federal agency, which contributed to delays in grant closeouts. The audit reports described closeouts as a low priority in the context of staff-related issues. NIH and EPA reported that grantee staff resources were limited, staff were overburdened with other responsibilities, and staff considered grant closeout a low priority. NIH, DOJ, and EPA officials reported similar problems among agency grant staff. Staff turnover, at either the agency or the grantee organization, also led to lapses in the supervision of grants and the transfer of grant-specific information to new staff. Agency staff also reported that delaying grant closeout added to staff workload. For instance, NIH and EPA reported that as time elapsed it became more burdensome for staff to close out an expired account.

Auditors noted that grant offices did not always have consistent grant closeout procedures, such as due dates for closeout completion. For example, we reported that EPA used closeouts to ensure that grant

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[18]See GAO, *Grants Management: EPA Has Made Progress in Grant Reforms but Needs to Address Weaknesses in Implementation and Accountability*, GAO-06-625 (Washington, D.C.: May 12, 2006).

recipients had met all financial requirements and had provided final reports, and that any unexpended balances were returned to the agency. EPA's policy stated that closeouts should occur within 180 days after the grant's project end date. However, agency officials did not always comply with this policy—in fiscal year 2005 EPA closed out only 37 percent of the grants within 180 days. In its 2006 report, the DOJ OIG reported that two of the three DOJ grant offices had a deadline for closing out grants, while the third office did not; that each of the three DOJ grant offices conducted the closeouts process differently; and that each office had undefined and undocumented "workarounds" that had evolved over time.

Auditors reported that agency communication with grantees, either the content or the timing of the communication, also delayed grant closeouts. The communication of inconsistent policies and procedures contributed to grantee confusion, especially for grantees who work with multiple federal programs of offices. For instance, DOJ reported OJP grantees, especially those who dealt with multiple offices, were confused by the variation in language, time frames, requirements, and communications. Auditors found the mistiming of the agency closeout reminders, or the lack of such reminders, also contributed to delays in report submissions. For example, NIH reminded its grantees about their closeout reporting a year ahead of time, too far ahead to serve as a timely reminder.

Lastly, auditors also noted awarding agencies were not enforcing their closeout requirements through the application of controls, corrective actions, or penalties. For example, EPA grant officials told GAO they had no realistic options for taking strong action against grantees, usually state governments, for submitting late reports because the states had continuing grants for environmental programs. The HHS OIG found NIH program guidelines provided few specifics about what type of corrective actions were appropriate and when the grant office should apply the actions. The OIG noted that NIH grant offices could impose special award conditions on the grantees, such as additional monitoring or withhold future funding. However, the OIG found that grant officials rarely resorted to withholding future funding from a grantee due to late closeout because agency officials thought this penalty too severe and would slow down future project development.

Three Agencies Took Action to Improve Grant Closeouts

In response to auditors' concerns, three federal agencies, DOJ's OJP, HHS's NIH, and EPA, undertook actions to improve their grant closeout processes. To varying degrees, the agencies' actions included elevating grant closeouts to a higher agency priority in order to improve monitoring,

standardization of procedures, communications with grantees, compliance, or enforcement, or a combination of the above. Auditors reported that when federal grant managers took these actions, agencies generally improved the timeliness of grant closeouts, reduced grant closeout backlogs, or improved their ability to identify and deobligate unspent funds from expired grants, or a combination of the above.

In 2000, DOJ's OJP initiated a pilot project called "Operation Closeout" to deal with grant closeout backlogs. The agency reported that this initiative accelerated the grant closeout process through revised closeout guidelines and elevated the importance of the closeout function as a required procedure in the administration of grants. Over a period of 6 months, "Operation Closeout" closed 4,136 grants, resulting in over $30 million in deobligated funds.[19] In 2006, the DOJ OIG reported that since 2002 grant closeout was a higher priority within DOJ and that its awarding agencies made improvements in the timeliness of grant closeouts.[20] For example, from 2001 to 2005, OJP reduced its backlog of expired grants from 11,356 to 6,237. The report also indicated that OJP was recommending, among several recommendations, establishing a performance measure to monitor efficiency and compliance with its closeout process. In 2006, the DOJ OIG also reported that OJP updated the grant monitoring requirements in its Grant Manager's Manual, automated its Grant Adjustment Notice (GAN) process, shortened its timeline for closeouts from 180 days to 120 days, and addressed the backlog of grants overdue for closure. By automating the GAN process, auditors reported that OJP reduced the time to respond to grant adjustment requests by 10 days and planned to notify grantees of decisions regarding grant adjustment requests through the Grants Management System (GMS). OJP required that its grant staff conduct and document all its programmatic monitoring efforts in GMS.[21]

To address its grant closeout problems, NIH undertook several corrective actions in 2002 and 2003. The agency stated that it continued to emphasize to grantees that the submission of final closeout reports was an agency priority and improve agency monitoring. To address its backlog of expired

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[19]GAO, *Office of Justice Programs: Problems with Grant Monitoring and Concerns about Evaluation Studies*, GAO-02-507T (Washington, D.C.: Mar. 7, 2002).

[20]Department of Justice, Office of the Inspector General, *The Department of Justice's Grant Closeout Process*, Audit Report 07-05 (Washington, D.C., December 2006).

[21]Department of Justice, *FY 2006 Performance and Accountability Report* (Washington, D.C., 2006).

accounts and reduce the burden on monitoring staff, NIH management assigned dedicated staff to resolving the backlog of accounts. Corrective actions included creating a database to track receipt of final reports, which allowed NIH to send individualized reminders to grantees of outstanding reports. Another planned action was to provide technical assistance to grantees through general outreach efforts or through targeted follow-up with individual grantees. NIH also established a workgroup and a reminder system to improve grantee compliance with its closeout guidelines.[22]

Between 1995 and 2005, EPA efforts led to substantial progress in resolving its backlog of expired grants. By 2005, the agency nearly eliminated its backlog of over 23,000 expired grants accumulated between 1999 and 2003. To continue its efforts and to hold program managers more accountable for grants management, EPA developed a corrective action plan. EPA planned to require all managers and supervisors to complete online grants management training; require baseline monitoring for all grants documented in the agency's Integrated Grants Management System; and integrate grants with financial data and eliminate duplicate data entry. This plan also included incorporating grants management performance measures into the performance standards of project officers, supervisors, and managers with grants management responsibilities.[23]

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[22]Department of Health and Human Services, Office of Inspector General, *NIH Grants Management: Late Closeouts Audit Report*, OEI-01-03-00021 (Washington, D.C., 2004).

[23]Environmental Protection Agency, *FY 2006 Performance and Accountability Report* (Washington, D.C., 2006).

Agencies' Performance and Accountability Reports Address Grant Closeouts

In 2006 and 2007, eight agencies highlighted grants management problems as a management challenge or concern in their agency's PAR to the President and Congress.[24] Moreover, DOJ, HHS, and EPA reported to the President and Congress that timely grant closeout was a long-standing grants management challenge.[25] In the 2006 DOJ and HHS PARs, both the IG and the independent auditor[26] specifically addressed grant closeout problems and agency progress in addressing the problems. In each case, the IG listed grant closeouts as contributing to the department's difficulties with grants management at several of its agencies. In response, the departments described both agency-level and departmentwide initiatives to address the problems. In HHS's 2006 PAR, the independent auditors reported the department had more than 64,000 grants, with a remaining balance of $1.6 billion, eligible for closeout, and that 75 percent of these grants had been expired for more than 2 years. In the HHS 2007 Agency Financial Report,[27] the HHS Inspector General continued to cite grant management, and specifically grant closeouts, as a management challenge. In DOJ's 2006 and 2007 PAR, the independent auditors highlighted the IGs findings and explained that the closeout delays contributed to misstatements in the department's financial statements. In

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[24]In 2006, PARs from the following departments or agencies listed grants management as a management challenge or concern: USDA, DOI, DOC, Education, EPA, HHS, DHS, and DOJ. In 2007, PARs from the following departments or agencies listed grants management as a management challenge or concern: DOI, DOC, Education, EPA, HHS, DHS, DOJ, and DOL.

[25]Department of Health and Human Services, *FY 2006 Performance and Accountability Report* (Washington, D.C., 2006). Department of Justice, *FY 2006 Performance and Accountability Report* (Washington, D.C., 2006). Environmental Protection Agency, *FY 2006 Performance and Accountability Report* (Washington, D.C., 2006). Department of Health and Human Services, *FY 2007 Agency Financial Report* (Washington, D.C., 2007). Department of Justice, *FY 2007 Performance and Accountability Report* (Washington, D.C., 2007). EPA, *FY 2007 Performance and Accountability Report* (Washington, D.C., 2007).

[26]Independent auditors are independent accounting experts who conduct impartial audits of the financial statements of public and private organizations to ensure there are no misstatements and assess whether the organization's systems to detect and prevent fraud (internal controls) are effective.

[27]In fiscal year 2007 OMB initiated a pilot alternative to the annual PAR. The goal of the pilot is to allow agencies different formats to present financial and performance information that is more meaningful and transparent to the public. The pilot includes three components: (1) the Agency Financial Report (AFR); (2) the Annual Performance Report (APR); and (3) Highlights. The pilot requires the AFR to be published by November 15, 2007, and the other two reports by February 2008. HHS is one of the agencies participating in this pilot.

its 2007 PAR, DOJ cited grant management process improvements by several of its program offices but also stated that grant management and closeout continued to be a major challenge.

In our review of the 2006 EPA PAR, we found that EPA had a financial performance measure—the percentage of eligible grants closed out—specifically to track the agency's progress in closing grants. The EPA assessed its performance by calculating the percent of grants closed out in the current year that had a "project end date" in the previous year. In 2005, EPA had goal of 90 percent grant closure, and it reported in its 2006 PAR achieving a 95 percent grant closure rate. In 2006, we concluded that, while EPA's performance measure did not assess compliance since it did not reflect the 180-day closeout standard, the measure was a valuable tool for determining if grants were ultimately closed.[28] As indicated earlier, EPA also planned to incorporate its grant performance measures into performance standards for its grants professionals.

EPA's 2007 PAR reported that the agency had successfully put into place grant management process improvements to correct long-standing problems identified by GAO and the OIG. EPA is also developing a new Grants Management Plan that will go into effect in 2008 to replace and update the plan established in 2003. Also in 2007, the EPA OIG removed the agency's use of assistance agreements, including grants, from its list of EPA's management challenges. The OIG attributed the removal of these agreements from its list of management challenges to the substantial actions EPA had taken to improve its management of these agreements. The OIG noted that EPA planned to evaluate implementation of its new policies and the OIG would continue to monitor the agency's corrective actions in this management area.

As previously discussed, OMB Circulars No. A-102 and No. A-110 establish standards for consistency and uniformity among federal agencies in the administration of grants through the preaward, postaward, and closeout phases of the grant life cycle, and Circulars No. A-11 and No. A-136 provide agencies with guidance on preparing and submitting their PARs in terms of performance and financial accountability. However, in our review

[28]GAO-06-625.

of these circulars as well as selected agency regulations,[29] we found no explicit instruction to agencies to track or report on undisbursed balances remaining in expired grant accounts.

Although not explicitly directed to do so by the OMB circulars, we found that the inclusion of undisbursed balances in expired grant accounts in a department or agency's GPRA documents—as has been done by DOJ, HHS, and EPA—has the potential to raise the internal and external visibility of the problem. As we reported in 2004, developing strategic plans and reporting on progress toward performance goals can lead to cultural changes within an agency.[30] The focus on results can also stimulate internal problem solving and discussions about performance. Externally, OMB and Congress use GPRA documents, like the PAR, in discussions of agency performance and resource allocation.

Conclusion

The existence of undisbursed grant balances in expired grant accounts may hinder the achievement of program objectives, limit deobligating funding for other uses, and expose the funding to improper spending or accounting. Our analysis showed that, taken together, quarterly undisbursed balances for expired grant accounts in HHS's Payment Management System—which in 2006 handled about 70 percent of all federal grant disbursements—can be significant. Audit reports from agencies not participating in PMS indicate they also have expired grants with undisbursed balances. Data analysis of grant accounts in other federal payment systems may reveal additional expired grants with undisbursed balances.

In reviewing audit reports for three agencies, we found that grant closeouts processes can improve when given a high priority and the agency addresses the multiple causes in a concerted fashion. The financial status of long-expired grant accounts is one aspect of agency performance that has implications for broader program and agency-level performance. By elevating this issue as a management priority in their annual

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[29]We reviewed the applicable regulations for eight executive departments (USDA, Education, DOE, HHS, HUD, DOJ, DOL, and DOS), SSA, and EPA to identify any differences in grant closeout guidelines between the OMB circulars and the agency regulations.

[30]See GAO, *Results-Oriented Government: GPRA Has Established a Solid Foundation for Achieving Greater Results*, GAO-04-38 (Washington, D.C.: Mar. 10, 2004).

performance plans and PARs, the three agencies made grant closeouts a priority for improving program and agency-wide performance. However, OMB circulars relating to grants management and performance reporting do not currently instruct federal agencies to track and annually report on undisbursed funding in expired grant accounts. Given the federal government's constrained fiscal position, the executive branch could minimize undisbursed funding in expired grant accounts if OMB instructed federal awarding agencies to use its federal financial information systems and GPRA's performance-reporting infrastructure to track and annually report this information.

Recommendations for Executive Action

We recommend that the Director, OMB, instruct all executive departments and independent agencies to take the following two actions: (1) annually track the amount of undisbursed grant funding remaining in expired grant accounts; and (2) report on the status and resolution of the undisbursed funding in their annual performance plan and report in their annual PAR on

- the amount of undisbursed grant funding in expired grant accounts,
- why these funds were undisbursed,
- the actions taken to resolve the undisbursed funding and close the expired grants and related accounts, and
- outcomes associated with these actions.

Agency Comments and Our Evaluation

We provided a draft of this report to OMB and HHS for review and comment. HHS replied via e-mail and had no substantive comments. OMB responded with written comments, which we have reprinted in appendix III.

OMB said it supported the intent of our recommendations to strengthen grants management by explicitly requiring federal agencies to track and report the amount of undisbursed grant funding remaining in expired grant accounts and that it believes agencies should design processes with strong internal controls to promote effective funds management for all types of obligations. OMB's comments did not indicate a commitment to implement our recommendations. OMB stated that, during its regular review, it would consider revising its grants management guidance, Circulars A-102, *Grants and Cooperative Agreements with State and Local Government*, and A-110, *Uniform Administrative Requirements for Grants and Other Agreements with Institutions of Higher Education, Hospitals, and Other Nonprofit Organizations*, to include instructions for

agency grant managers to track and report this information. OMB added that it does not favor having agencies report on these balances in their PARs and so would not offer instructions under its performance reporting guidance, Circular A-136, *Financial Reporting Requirements*.

We agree that OMB should have discretion in instructing departments and agencies on how to track and report undisbursed balances in expired grant accounts. Our draft report recommended OMB instruct agencies to annually track and report in their PARs the amount of undisbursed expired grant balances. As we reported, some federal agencies such as EPA, HHS, and DOJ have already voluntarily included in their annual PARs their actions to track and reduce undisbursed balances in expired grant accounts. We found that such reporting had raised the internal and external visibility of the challenge and that these agencies had improved their performance. Accordingly, we continue to believe that the PARs would be appropriate vehicles to address on a governmentwide basis the issue of undisbursed balances in expired grant accounts. Such reporting may not be necessary for every department or agency, every year. Should it choose, OMB could always attenuate its requirements by setting a threshold as part of its instructions for reporting these balances in the PARs.

We will send copies of this report to the congressional committees with jurisdiction over HHS and its activities, the Secretary of HHS, and the Director of OMB. We will also make copies available to others upon request. In addition, the report will be available at no charge on the GAO Web site at http://www.gao.gov.

If you have any questions about this report, please contact me at (202) 512-6806 or czerwinskis@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. Key contributors to this report are listed in appendix IV.

Stanley J. Czerwinski
Director, Strategic Issues

Appendix I: Objectives, Scope, Methodology, and Additional Information on Program Characteristics

Our objectives were to address the following: (1) to what extent are there undisbursed grant balances in expired grant accounts and do they share any program characteristics?; and (2) do these expired grants share grant management challenges and what actions have federal agencies taken to improve grant closeout and diminish undisbursed balances? In the course of our work, we did not evaluate the implementation of closeout procedures for any specific grant program or awarding agency. The following describes the various procedures we undertook to answer these objectives.

Review of Relevant OMB Circulars and Federal Regulations

We began our study by reviewing the key federal guidelines on grant closeouts: Office of Management and Budget (OMB) Circulars No. A-102, *Grants and Cooperative Agreements with State and Local Governments*, and No. A-110, *Uniform Administrative Requirements for Grants and Other Agreements With Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations*. Since the President directed executive branch departments to adopt these OMB circulars in their regulations, we also reviewed applicable regulations for eight executive departments (the Departments of Agriculture [USDA], Education (Education), Energy [DOE]), Health and Human Services [HHS], Housing and Urban Development [HUD], Justice [DOJ], Labor [DOL], and State [DOS]), the Social Security Administration (SSA), and the Environmental Protection Agency (EPA) to identify any differences in grant closeout guidelines between the OMB circulars and the agency regulations. We selected these agency regulations for review because a recent audit had indicated that either a grantee or program had problems with grant closeouts. To identify federal governmentwide guidance relating to federal agency performance reporting, we reviewed OMB Circular No. A-11, *Preparation, Submission and Execution of the Budget* and Circular No. A-136, *Financial Reporting Requirements*.

Collection and Review of Related Audit Reports and PARs

To identify what other auditors found and recommended as strategies to diminish unspent funds in expired grant accounts, we interviewed various grant program experts from GAO and federal Offices of Inspectors General (OIG),[1] as well as experts from the National Grants Management Association (NGMA), and the National Association of State Auditors, Comptrollers and Treasurers (NASACT). We also conducted a Web-based literature search for related audit reports and reviewed over 150 reports issued by GAO and various federal OIGs and independent agencies from 2000 to 2006 to identify some common grants management problems related to closing expired grants. During the 2000 to 2006 period, auditors issued reports to the following departments or independent agencies regarding either a grantee or program with grant management problems relating to closing expired grants: USDA, Education, DOE, HHS, HUD, DOJ, DOL, DOS, SSA, and EPA. We reviewed the 2006 and 2007 Performance and Accountability Reports (PAR) from EPA and the 15 cabinet-level executive departments[2] to determine whether grant management, specifically timely grant closeouts and undisbursed balances from expired grants, were identified as a problem, and strategies agencies were employing to address the problem.

Analysis of Expired Grant Account Data from PMS

To identify the amount of undisbursed funding remaining in expired grants, we collected and analyzed data from HHS's Payment Management System (PMS) and the U.S. General Services Administration (GSA) Catalog of Federal Domestic Assistance (CFDA). This section describes these two data systems, our collection of selected data from each system, our analysis of the data collected, and the results for the program characteristics analysis.

Description of Payment Management System

PMS is a centralized grants payment and cash management system, operated by HHS's Program Support Center (PSC) in the Division of Payment Management (DPM). According to DPM, the main purpose of PMS is to serve as the fiscal intermediary between awarding agencies and the recipients of grants and contracts. Its main objectives are to expedite

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[1]The OIGs we contacted for this review included those of HHS; DOJ; DOI; USDA; DOE; and DOL.

[2]USDA, the departments of Commerce and Defense, Education, DOE, HHS, the Department of Homeland Security, HUD, the Department of the Interior, DOJ, DOL, DOS, and the Departments of Transportation, the Treasury, and Veterans Affairs.

the flow of cash between the federal government and recipients; transmit recipient disbursement data back to the awarding agencies; and manage cash flow advances to grant recipients.

PMS is the largest of the nine civilian federal payment systems and executes payments for nine federal departments, one independent agency, a government corporation and the Office of National Drug Control Policy (ONDCP), which, in 2006, represented about 70 percent of all federal grant disbursements. According to HHS, PMS is a full-service centralized grants payment and cash management system. The system is fully automated to receive payment requests, edit them for accuracy and content, transmit the payment to either the Federal Reserve Bank or the U.S. Treasury for deposit into the grantee's bank account, and record the payment transactions and corresponding disbursements to the appropriate account(s).

Appendix II lists the current PMS customers. A few statistics help to illustrate the volume of PMS's payment processing. In 2006, PMS processed over $320 billion in payments to grant recipients. As of June 2007, according to an HHS official, PMS contained over 200,000 open grants. Cumulatively, the grants executing payments through PMS represent a significant amount of funding—open grants in PMS, as of May 2007, represented over $1.3 trillion in total funding. Over the years, PMS has executed payments for tens of thousands of grantees.

The DPM described its role, in operating the PMS, as an intermediary between awarding agencies and grant recipients. DPM personnel operate PMS, making payments to grant recipients, maintaining user/recipient liaison, and reporting disbursement data to awarding agencies. Awarding agencies' responsibilities include PMS registration of grant recipients (DPM personnel perform this function for cross-serviced agencies), entry of authorization data into PMS, programs and grants monitoring, grant closeout, and reconciliation of their accounting records to the PMS information. Awarding agencies pay HHS a service fee for maintaining accounts and executing payments through PMS. PMS continues to charge agency customers a servicing fee until an account is closed.

Several federal agencies collaborate with HHS in executing grant payments including the U.S. Treasury and Federal Reserve Bank. According to DPM, the U.S. Department of the Treasury is responsible for establishing cash management policies, operating the Government On-Line Accounting Link System and the electronic system for processing of payments, check payments, and certain transactions. The Federal Reserve

Bank's responsibilities include direct deposit payments to
payees'/recipients' bank accounts.

HHS documentation indicated that other public and private organizations
also have roles in executing payments, including the grant recipients and
their financial institutions. Grantee responsibilities include executing
grants, reporting cash disbursements to PMS, and maintaining their own
accounting records. The grantee's financial institutions are responsible for
receiving payments for credit to recipient accounts, and maintaining
recipient bank accounts.

An independent auditor assessed PMS in 2006. The auditor reported that
DPM's internal controls were suitably designed and tested to provide
reasonable assurance that control objectives, including proper payments
and remittances, and accurate reporting, were met.[3]

Collection and Reliability Testing of PMS Closeout Data

To identify the status of undisbursed balances in expired grant accounts,
we narrowed our focus to grants executing their payments through PMS.
The awarding agencies provide the descriptive information for each grant
account to PMS. The data set for each grant account contains over 900
unique data fields. One of the required data fields in each PMS account
record is the CFDA number for the assistance program that is associated
with each account.

Each quarter, PMS distributes to its customers a "closeout" report listing
the expired grant accounts that, according to the data system, have not
completed all of their closeout procedures. HHS listed an account on a
quarterly PMS closeout report if both the latest end date for the account
was 3 months old and the latest date of disbursement was 9 months old.
PMS does not close a grant account until instructed to do so by the
awarding agency. For each grant account, the report includes such
information as the identification number, the amount of funding
authorized for the grant, the amount charged, and the beginning and end
dates for the grant.

[3]Department of Health & Human Services, Division of Payment Management, *Report of
Independent Auditor on Controls Placed in Operation and Tests of Operating
Effectiveness for the Payment Management System (PMS), for the Period October 1, 2005
to June 30, 2006* (Washington, D.C., August 2006).

We initially requested that HHS provide PMS quarterly closeout reports for the period 2000 through 2006, then narrowed our focus to the 2003 through 2006 period. As part of the data request, we requested that HHS append to the closeout data additional information available in PMS for each grant account: the CFDA numbers and the type of grantee organization. Having the associated CFDA number for each grant account enabled us to link the grant account information in the closeout report with the associated program information as listed in the catalog.

To test the reliability of PMS closeout data, we (1) reviewed existing documentation related to PMS, including the most recent system audit by the independent auditor, (2) interviewed officials responsible for administration of the database on data entry and editing procedures and the production of closeout reports, and (3) conducted electronic testing for obvious errors in completeness and accuracy. We worked closely with HHS officials responsible for the administration of the database and the production of the closeout reports. When we found discrepancies, we brought them to the attention of the agency officials and worked with them to make corrections before the analyses began. For example, our testing revealed that there were accounts in the PMS closeout data sets that: had CFDA numbers that did not match existing CFDA numbers; were for nongrant programs that were not intended to be entered into the grant payment system; and were for grants that did not have a defined expiration date. We excluded these extraneous entries from our analysis. After conducting these assessment steps, we found that the closeout data were sufficiently reliable for the purposes of this report.

Description of *Catalog of Federal Domestic Assistance*

The *Catalog of Federal Domestic Assistance* (CFDA) is the single authoritative, governmentwide compendium and source document for descriptions of federal programs that provide assistance or benefits to the American public. According to GSA, the catalog does not include solicited contracts; foreign activities that do not benefit the domestic economy; personnel recruitment programs; benefits or assistance only available for federal employees; new programs that do not have enacted appropriations; or inactive programs with expired authorization or appropriation.

OMB created the catalog pursuant to the Federal Program Information Act[4] to ensure that comprehensive information on federal assistance

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[4]Pub. L. No. 95-220.

programs was readily available to the public and interested parties. Later amended in November 1983,[5] revised guidelines transferred the responsibilities of the Federal Program Information Act from OMB to GSA. OMB serves as an intermediary agent between federal agencies and GSA, with oversight responsibility for the necessary collection of program data.

OMB Circular No. A-89 provides the federal guidelines for the collection and dissemination of the program information. GSA is responsible for maintaining and distributing CFDA information. By law, federal agencies submit program data to OMB for review. OMB reviews the information and provides any comments to and obtains updates and clarifications from the agency. OMB then submits each program description to GSA, which incorporates these submissions into the CFDA. According to a GSA official, GSA does not verify the accuracy of the information that the federal agencies provide for the program description. Each federal agency is responsible for assuring, among other things, the adequacy and timeliness of program information submitted to OMB.

The law authorizing CFDA required that GSA establish and maintain a computerized retrieval system capable of identifying all existing federal domestic assistance programs. GSA now maintains the comprehensive database information on all federal domestic assistance programs. Information about these programs is made available to the public through periodic update and annual issuance of the catalog. Until 2006, GSA distributed printed copies of the CFDA for free. GSA's free CFDA Web site (http://www.cfda.gov) is now the principal means of distributing the catalog. This Web site enables users to download an electronic file of the catalog or search its contents online. CFDA program description contains a wealth of financial and nonfinancial information, including program objectives, type of programs assistance provided, applicant eligibility requirements, and guidance on how to apply for assistance.

Collection and Reliability Testing of CFDA Data

To identify expired grants in PMS and two of the four program characteristics analyzed—funding award method and the contribution requirement—we obtained the October 2006 CFDA as an electronic data file from the GSA. We were able to crosswalk the CFDA program data to the PMS data using the CFDA number. The CFDA number is a five-digit number assigned to each assistance program listed in the catalog. In

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[5]Pub. L. No. 98-169.

creating a grant account in PMS, HHS requires the awarding agencies to enter the CFDA number for the assistance program that is funding the grant. At our request, HHS appended the CFDA number to each of the accounts listed in the quarterly PMS closeout data given to GAO. We used information from the catalog to identify those grants that had specific time limits, and thus, that we could consider "expired" once the period of availability had ended. We also used CFDA program information to identify the type of funding award method (project or formula-based), and whether a grantee was required to contribute resources, such as matching funds, to the grant project.

According to a GSA official, GSA does not verify the accuracy of the program description information submitted by the awarding agency for the catalog. To test the reliability of CFDA data, we selected a random sample of 25 CFDA program descriptions and compared selected information from the CFDA program description to the same program information from other federal sources. Specifically, we checked the reliability of six data fields: the CFDA number, awarding agency, program name, funding award method, contribution requirement and the period of availability of the grant. As we found only one discrepancy for one of six data fields, we can be 95 percent confident that fewer than 17.6 percent of cases in the catalog contain discrepancies between the electronic catalog and information available from other federal sources for these fields. We thus determined the selected CFDA data used in our analyses were sufficiently reliable for the purposes of this report.

Expired Grant Accounts Included in and Excluded from Analyses

Prior to conducting the analysis of the 2003 through 2006 expired grants in PMS, we excluded extraneous accounts that appeared in the closeout data. The purpose of these exclusions was to avoid including accounts that might unduly distort the results on undisbursed funds in expired PMS grant accounts.

We included accounts that were associated with grants or cooperative agreements. We excluded accounts if we could not associate them with a grant program. For instance, we found some PMS accounts were for nongrants. We also decided to exclude accounts that lacked a CFDA number, since without this number we could not verify that the account was for a grant or obtain other information used in our analyses.

We included grant accounts that had a time limit for spending the funds made available and a zero or positive undisbursed balance. As described by HHS staff, the purpose of the PMS closeout report is to alert awarding

agencies of accounts in PMS that remain open after their posted end date.
If a grant does not have a defined end date, such as the Temporary
Assistance for Needy Families (TANF), then HHS staff consider the PMS
closeout report merely as a reminder to the awarding agency of the open
account and that PMS continues to charge fees on this open account. We
identified "expired" grants, grants that had defined end dates, by
conducting a content analysis of their associated CFDA program
descriptions. Through the content analysis we identified 26 grant
programs (HHS and non-HHS), and associated PMS grant accounts, where
the CFDA program description indicated no time limit on the availability
of grant funding, and excluded these grant accounts from our analysis.

We included grant accounts that met the previous criteria and also had a
readily identifiable CFDA number. We found well over 100 CFDA numbers
listed for grant accounts in PMS that did not have a program description in
the October 2006 edition of the CFDA. We searched the 1999 to 2005
editions of the CFDA and the catalog's historical index to find the program
descriptions for these CFDA numbers. We excluded an account if we
could not find any information on the CFDA number either in the CFDA or
in the CFDA Historical Index, or if the CFDA number and program
description had been deleted from the catalog before the 1999 edition of
the CFDA. We excluded these grant accounts associated with very old
CFDA numbers because pre-1999 catalogs are not readily available,
making it unduly burdensome to obtain program information. We also
excluded accounts in the 2003 through 2004 PMS closeout data if their
associated CFDA numbers (1) were not in the 1999 through 2006 CFDAs,
and (2) the accounts associated with the CFDA number did not have a
cumulative undisbursed balance of greater than $100,000 for two
consecutive quarters. We felt that, where the cumulative amounts of
undisbursed funding for the accounts associated with these CFDA
numbers were less than 0.1 percent of the quarterly totals and, by 2005,
were at or near zero, it was unduly burdensome to collect the CFDA
program information that was more than 7 years out of date.

We also excluded expired accounts for several block grants in keeping
with the 2006 independent audit of PMS which stated that (1) the funds for
these block grants continued to be available to the grantees until the
obligation/expenditure period expired, and (2) traditional financial
reporting requirements do not apply to these programs. We excluded
expired grant accounts associated with the following HHS block grant
programs from our analysis based on this audit: Community Mental Health
Services Block Grant, Preventive Health and Health Services Block Grant,
Substance Abuse and Preventive Treatment Block Grant, Maternal and

Child Health Services Block Grant, Social Services Block Grant, Low Income Housing Energy Assistance Block Grant, and Community Services Block Grant.

To summarize, our reported results describe accounts listed in PMS's quarterly closeout reports from 2003 through 2006, that

- were grants or cooperative agreements;
- had a time limit for spending;
- had a zero or positive undisbursed balance;
- had a readily identifiable CFDA number;
- had a program description in the 1999 through 2006 CFDAs; and
- did not have special financial reporting procedures.

Analysis of the PMS and CFDA Data to Quantify Undisbursed Funding in Expired Grant Accounts and Related Program Characteristics

Having excluded the extraneous accounts, we analyzed the 2003 through 2006 payment closeout data as a complete set of current PMS customers, rather than analyzing specific federal agencies or grant programs. When we analyzed the quarterly PMS closeout data for the 2003 through 2006 period, we identified two sets of expired grants accounts. One set consisted of expired accounts for which all of the funds made available had been disbursed, but still had not been closed. We identified a second set of accounts that included those expired accounts reported with a positive undisbursed balance. Most of our analysis focused on those expired accounts with undisbursed balances. For each quarter we totaled the amount of undisbursed funding in the expired grant accounts, without adjusting the amounts for inflation.

To identify common program characteristics of the expired grants with undisbursed balances, we conducted further analysis by linking data from the PMS closeout reports to selected program information from the CFDA. We identified four program characteristics for analysis: size of the funding award originally made available to the grantee; whether program funding was awarded based on a formula or on a competitive, project-by-project basis; the grantee organization (entity) receiving the grant; and whether the program required the grantee to make a contribution to support the grant activity. We selected these four characteristics because they are fundamental elements of grant design that could be readily analyzed using the information from the PMS and the CFDA data sets. While grant programs have other fundamental design characteristics such as the purpose of the program (e.g., grant funds are to be used for construction or providing services), they could not be as readily analyzed. PMS grant closeout data provided the data on grant funding size and grantee

organization. The CFDA data provided information for the funding award method and the contribution requirement.

We began our analyses by sorting the expired grants with undisbursed balances into 13 ranges of funding award size. These ranges were used because the average percentage of funds undisbursed were similar from quarter to quarter and minimally overlapped with the average percent for an adjacent range, reflecting natural breaks in the data analysis. The ranges varied from relatively small grants of under $25,000 to very large grants of up to $1 billion. For each funding range, we identified the quarterly balances of undisbursed funds for each of the 16 quarters from 2003 through 2006.

We next sorted the expired grants with undisbursed balances according to the method used to award the funds to grantees. As described earlier, federal awarding agencies typically award their grant funding using a formula or on a project basis, or by using a hybrid of both methods. Our guideline in sorting by funding award method was that if a program description had more than one allocation method, we sorted the grant according to the first allocation method listed in the CFDA program description. Using this information, we found that of 328 unique grant programs in the 2003 through 2006 PMS closeout data with positive undisbursed balances, 54 were awarded on a formula basis and 274 were awarded on a project basis.

Next, we analyzed the expired grants with undisbursed balances according to the type of grantee organization receiving the grant. For the grant organization characteristic, we collapsed the organization types used in PMS into six types (state, county, city, domestic nonprofit, domestic for-profit, and other).

Lastly, we compared the quarterly undisbursed funding balances for those expired grants that required some form of grantee contribution to those that did not. As described in the CFDA, grant program regulations can require grantees to contribute some form of resources to support grant-related activities, such as requiring the grantee to provide matching funds, share in the costs, or provide in-kind contributions. We sorted grants as having required contribution if the CFDA program description indicated grantees were required to contribute some form of resources to support grant-related activities, such as requiring the grantee to provide matching funds, share in the costs, or provide in-kind contributions.

For each program characteristic, we totaled the undisbursed funding according to the various types within each characteristic category. For example, for the method of funding award characteristic there were two types, project or formula-based. All of the program characteristic results are in comparison to other types of grants in the same characteristic category, such as sizes of grant authorizations or type of funding award method.

Expired Grant Accounts with Largest Undisbursed Balances Share Program Characteristics

When we compared the undisbursed balances among the types within each of the four program characteristic categories, we found certain types of grants consistently had the largest quarterly balances. Among the 13 funding award ranges, we found the largest quarterly balances of undisbursed funds in midsize grants, that had original funding awards ranging from over $100,000 to $100 million (in nominal dollars) for expired grants from 2003 through 2006. We also found that, between the two funding awards methods, grants awarded on a project basis consistently had the largest quarterly balances of undisbursed funding and that, among the six types of grantees, state grantees had the largest quarterly amounts of undisbursed funding, followed distantly by nonprofit organizations. When comparing grants requiring a grantee contribution and those grants that did not have this requirement—the fourth characteristic examined—we found that neither type had consistently larger quarterly amounts of undisbursed funding.

Our analysis has several limitations. First, each analysis of the quarterly undisbursed funding by program characteristic was an independent assessment of the variation in undisbursed funding among expired grant accounts. Consequently, the results for each program characteristic cannot be combined into a general statement about the four characteristics. Second, the results are limited to the expired grant accounts with undisbursed grants balances listed in the PMS closeout report from 2003 through 2006. We were not able to compare these results to all closed federal grants or all closed grants in PMS due to the burden of collecting comparable data for all closed federal grants from the eight other federal civilian payments systems or for all closed grants from PMS. Lastly, we did not interview policy experts or agency grant managers to explore why expired grants with different program characteristics might have larger undisbursed balances.

Appendix II: Federal Agencies Using PMS

The following is a list of the nine federal departments, one office within the Executive Office of the President, the independent agency, and the government corporation served by the Department of Health and Human Services' (HHS) Division of Payment Management, Payment Management System (PMS), as of August 2007:

Department of Health and Human Services
* Administration for Children and Families
* Administration on Aging
* Agency for Healthcare Research and Quality
* Centers for Disease Control and Prevention
* Centers for Medicare & Medicaid Services, legacy Health Care Financing Administration
* Food and Drug Administration
* Health Resources and Services Administration
* Indian Health Service
* National Institutes of Health
* Substance Abuse and Mental Health Services Administration

Department of Agriculture
* Agricultural Research Service
* Cooperative State Research, Education and Extension Service
* Food Safety and Inspection Service
* Forest Service

Department of Energy
* Schenectady Naval Reactors Office

Department of Homeland Security
* Customs and Border Protection, legacy Customs
* Emergency Preparedness and Response, legacy Federal Emergency Management Agency
* Immigration and Customs Enforcement

Department of the Interior
* National Park Service
* U.S. Fish and Wildlife Service
* U.S. Geological Survey

Department of Labor
* Bureau of Labor Statistics
* Employment and Training Administration
* Mine Safety and Health Administration
* Occupational Safety and Health Administration

- Veterans' Employment and Training Service

Department of State
- Bureau of Administration, Office of Overseas Schools)
- Bureau of African Affairs
- Bureau of Democracy, Human Rights and Labor
- Bureau of Diplomatic Security
- Bureau of East Asian and Pacific Affairs
- Bureau of Economic and Business Affairs
- Bureau of Educational and Cultural Affairs, Fulbright Commission, Europe
- Bureau of Educational and Cultural Affairs, Fulbright Commission, Western Hemisphere
- Bureau of Educational and Cultural Affairs, Fulbright Commission, East Asia
- Bureau of Educational and Cultural Affairs, Fulbright Commission, Near East/South Asia
- Bureau of Educational and Cultural Affairs, legacy U.S. Information Agency
- Bureau of European and Eurasian Affairs
- Bureau of Human Resources
- Bureau of Intelligence and Research
- Bureau of International Narcotics and Law Enforcement Affairs
- Bureau of Near Eastern Affairs
- Bureau of Nonproliferation
- Bureau of Nonproliferation, Office of Export Control Cooperation
- Bureau of Oceans and International Environmental Scientific Affairs
- Bureau of Political-Military Affairs, Office of Humanitarian Demining Programs
- Bureau of Population, Refugees and Migration
- Bureau of South Asian Affairs
- The United States Agency for International Development

Department of the Treasury
- Community Development Financial Institution Fund
- Internal Revenue Service
- Office of Financial Institutions

Department of Veterans Affairs
- Health Care for Homeless Veterans
- National Cemetery Administration
- Veterans Health Administration

Executive Office of the President
• Office of National Drug Control Policy

Independent federal agencies
• National Aeronautics and Space Administration
  • Ames Research Center
  • Dryden Flight Research Center
  • Goddard Space Flight Center
  • Johnson Space Center
  • Kennedy Space Center
  • Langley Research Center
  • Marshall Space Flight Center
  • Stennis Space Center

Government corporations
  • Corporation for National and Community Service

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

AUG – 8 2008

Mr. Thomas M. James
Assistant Director, Strategic Issues
United States Government Accountability Office
441 G Street, NW
Washington, DC 20548

Dear Mr. James:

Thank you for the opportunity to review, and provide you with the comments of the Office of Management and Budget (OMB) regarding, the draft GAO report entitled, *Attention Needed to Address Undisbursed Balances In Expired Grant Accounts*. We appreciate GAO's focus on this issue.

OMB supports the intent of GAO's recommendation to strengthen grants management by explicitly requiring Federal agencies to track and report the amount of undisbursed grant funding that remains in expired grant accounts. In the draft report, GAO recommends that OMB include such instructions for agency grant managers in OMB Grant Circulars A-110 (2 CFR Part 115), *Uniform Administrative Requirements for Grants and Other Agreements with Institutions of Higher Education, Hospitals and Other Non-Profit Organizations,* and A-102, *Grants and Cooperative Agreements With State and Local Government.* OMB will take this recommendation into consideration during our regular review of these circulars.
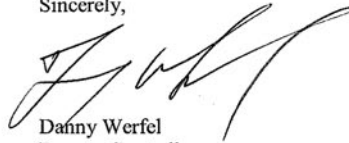
The draft report also recommends that OMB revise Circular A-136, *Financial Reporting Requirements*, to mandate on the agencies prescriptive reporting requirements that would capture undisbursed grants obligation amounts in an agency's Performance and Accountability Report (PAR). We do not believe that such prescriptive reporting is the optimal way to achieve the desired results. Instead, we believe that agencies should design processes with strong internal controls to promote effective funds management for all types of obligations.

Given its government-wide application, Circular A-136 is designed to address all aspects of financial management for a multitude of agencies with very diverse missions and practices. For this reason, rather than providing agencies with prescriptive, rule-based guidance, the Circular sets forth principle-based guidance that gives each agency the necessary flexibility to tailor its implementation of these principles so as to meet the agency's unique situations. If, by contrast, OMB required all agencies to follow prescriptive guidance that addresses issues that are of relevance only for certain agencies, the Federal Government would have a financial reporting environment that is overly complex and that would impose additional burdens and costs on agencies that would not be justified in terms of benefits from improved financial reporting .

Again, we appreciate the opportunity to review the draft report and provide you with our comments. If you have any additional questions or comments, please feel free to contact Ms. Carrie Hug, Chief, Financial Standards and Grants Branch, Office of Federal Financial Management at 202-395-3993.

Sincerely,

Danny Werfel
Deputy Controller

Appendix IV: GAO Contact and Staff Acknowledgments

GAO Contact

Stanley J. Czerwinski, (202) 512-6806 or czerwinskis@gao.gov

Acknowledgments

In addition to the contact named above, Thomas James, Assistant Director; Patricia Farrell Donahue, Analyst-in-Charge; Carlos Diz; Wesley Dunn; Sharon Hogan; Elizabeth Hosler; Susan Mak; Anna Maria Ortiz; Neill Martin-Rolsky; Minette Richardson; Jay Smale; and William Trancucci made key contributions to this report.

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