

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**RISK ASSESSMENT OF HHS
GRANT CLOSEOUT PROCEDURES**

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Office of Inspector General

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OFFICE OF AUDIT SERVICES FINDINGS AND OPINIONS

The designation of financial or management practices as questionable, a recommendation for the disallowance of costs incurred or claimed, and any other conclusions and recommendations in this report represent the findings and opinions of OAS. Authorized officials of the HHS operating divisions will make final determination on these matters.

Report in Brief

Date: March 2020
Report No. A-04-19-08072



Why OIG Did This Audit

The Grants Oversight and New Efficiency (GONE) Act, P.L. 114-117, enacted on January 28, 2016, established mandatory reporting requirements for Federal departments and inspectors general offices related to grant awards and cooperative agreements expired for 2 or more years that have not been closed out. GONE Act section 2(c) requires inspectors general of departments with greater than \$500 million in annual grant funding to conduct a risk assessment of their departments' grant closeout processes.

This risk assessment will fulfill HHS OIG responsibilities under Section 2(c) of the GONE Act. OIGs are required to report on the risk assessment by March 31, 2020.

Our objective was to conduct a risk assessment of the HHS grant closeout process to determine whether an audit of the agency's grant closeout process was warranted; specifically, we assessed the risk that HHS would not meet Federal requirements for grant closeouts.

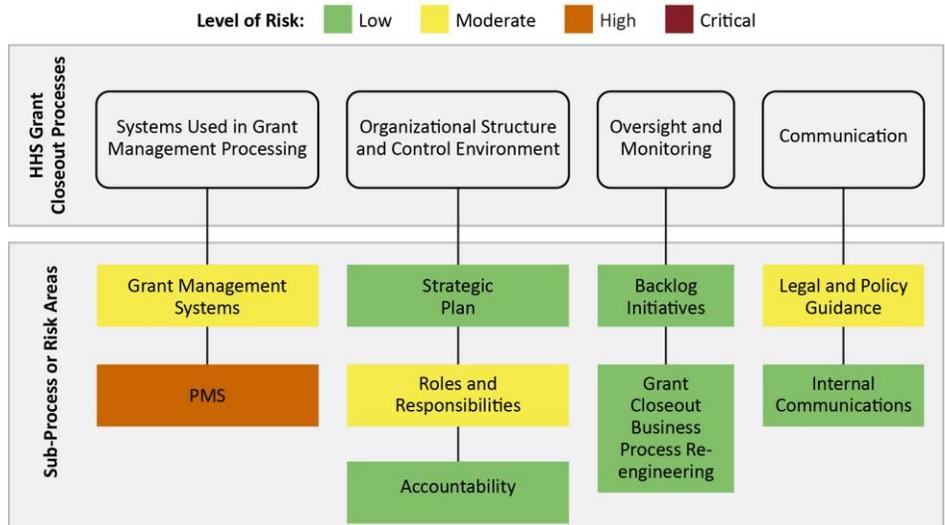
How OIG Did This Audit

We focused our review on HHS's internal controls related to grant closeouts. We interviewed the Office of Assistant Secretary for Financial Resources (ASFR) and Operating Division (OpDiv) officials, reviewed documents, and analyzed the information provided to understand the process used to address the backlog of unclosed grants and identified actions taken and controls implemented at ASFR to prevent a recurrence of the backlog.

Risk Assessment of HHS Grant Closeout Procedures

What OIG Found

An audit of HHS's grant closeout process is not warranted at this time. Overall, the risk that HHS will not meet Federal requirements for grant closeouts is low. ASFR and the OpDivs have responded to the GONE Act requirements by taking significant steps to reduce the HHS-wide backlog of open but expired grants and implementing controls to address the risk of a recurrence of the backlog. Nevertheless, HHS still faces some challenges in mitigating the risks associated with grant closeouts. Overall, we identified five sub-risk areas as low risk, three as moderate risk, one as high risk, and zero as critical, as summarized in the table below.



What OIG Recommends and ASFR Comments

We recommend that ASFR: work with Payment Management System (PMS) personnel to improve HHS OpDiv grant management offices' access to timely data; work with OpDivs to ensure that personnel are trained in how to obtain and interpret the PMS reports available to them; continue the grant remediation process to close remaining pooled accounts in PMS; work with CMS to implement an electronic grant management system for Center for Medicaid and CHIP Services and Center for Clinical Standards and Quality, assign clear roles and responsibilities related to grant closeout activities at CMCS, and clarify CMCS's ability to close out its grants; and consider revising the HHS regulation at 45 CFR § 75.381 and the *HHS Grants Policy Administrative Manual* to align closeout time limits for OpDivs with those specified in 2 CFR § 200.343. ASFR concurred with our recommendations.

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INTRODUCTION

WHY WE DID THIS AUDIT

The Grants Oversight and New Efficiency (GONE) Act, P.L. No. 114-117, enacted on January 28, 2016, established mandatory reporting requirements for Federal departments and inspectors general offices related to grant awards and cooperative agreements¹ expired for 2 or more years that have not been closed out. GONE Act section 2(a)(1) requires that departments provide a report listing each Federal grant award by time period of expiration, with zero-dollar balances and undisbursed balances. GONE Act sections 2(a)(1)(C) and (D) require departments to describe challenges leading to delays in grant closeouts and, for the 30 oldest Federal grant awards, to explain why a grant has not been closed out. GONE Act section 2(c) requires inspectors general of departments with greater than \$500 million in annual grant funding to conduct a risk assessment of their departments' grant closeout process.

This risk assessment will fulfill the U.S. Department of Health and Human Services (HHS), Office of Inspector General (OIG), responsibilities under section 2(c) of the GONE Act. OIGs are required to report on the risk assessment by March 31, 2020.

OBJECTIVE

Our objective was to conduct a risk assessment of the HHS grant closeout process to determine whether an audit of the agency's grant closeout process was warranted; specifically, we assessed the risk that HHS would not meet Federal requirements for grant closeouts.

BACKGROUND

HHS Response to the GONE Act

For fiscal year (FY) 2017, the GONE Act required agencies to submit a report to Congress for grants whose period of performance ended on or before September 30, 2015. Because the GONE Act covered awards that have not been closed out and were expired for 2 or more years, this report would include a detailed list of all awards for which closeout had not yet occurred, but the period of performance had ended as of September 30, 2017. The GONE Act also required additional disclosures in the FY 2017 and FY 2018 agency financial reports. HHS issued its report to Congress in May 2018. For FY 2018, the GONE Act required agencies to submit to Congress an update to the FY 2017 GONE Act submission with a specific reference to which awards are open and closed as of September 30, 2018. HHS issued its report to Congress in September 2019.

¹ Grant awards and cooperative agreements are referred to jointly as awards in this report.

In addition to the reports mentioned above, the Office of Assistant Secretary for Financial Resources (ASFR) created a report² using the same logic and methodology as the GONE Act report to show the continued progress in HHS’s closeout process as of November 30, 2019. Although GONE Act reporting requirements for Federal agencies were complete with the FY 2018 update of the GONE Act submission, HHS continues to prioritize and take action to address longstanding management challenges specifically related to the grant closeout process.

Table 1 lists the number of HHS grants subject to the GONE Act in HHS’s FY 2017 and FY 2018 agency financial reports as of November 30, 2019.

Table 1: Number of HHS Grants Subject to the GONE Act^{3, 4}

HHS OpDiv	Number of 2017 Open but Expired Grants	Number of 2018 Open but Expired Grants	Number of 2019 Open but Expired Grants
Administration for Children and Families (ACF)	10,582	9,615	6,603
Centers for Disease Control and Prevention (CDC)	2,050	1,614	845
Centers for Medicare & Medicaid Services (CMS)	979	606	417
Health Resources and Services Administration (HRSA)	475	321	191
National Institutes of Health (NIH)	4,059	3,120	2,265
All Other	4,970	4,139	2,269
Total	23,115	19,415	12,590

Assistant Secretary for Financial Resources and Operating Division Roles in Grant Closeout

Assistant Secretary for Financial Resources Role in Grant Closeout

HHS’s internal grants policies are developed by ASFR’s Office of Grants in consultation with HHS’s various OpDivs. The primary internal HHS policy guidance governing grant closeouts is the *HHS Grants Policy Administrative Manual (GPAM)*.

² The report that ASFR created as of November 30, 2019, was a one-time report created at OIG’s request to provide comparative numbers as shown in Table 1.

³ Source: 2017 and 2018 Assistant Secretary for Financial Resources (ASFR) Gone Act reports to the Office of Management and Budget (OMB). The 2019 numbers come from a report ASFR created for this risk assessment as of November 30, 2019, using the same methodology.

⁴ We selected ACF, CDC, CMS, HRSA, and NIH for detailed site review. CMS has three components that manage different types of grants: the Office of Acquisition and Grants Management (OAGM), the Center for Clinical Standards and Quality (CCSQ), and the Center for Medicaid and CHIP Services (CMCS). “All other” operating divisions (OpDivs) include the Administration for Community Living, the Agency for Healthcare Research and Quality, the Food and Drug Administration, the Indian Health Service, the Office of the Secretary, and the Substance Abuse and Mental Health Services Administration.

With respect to the GONE Act, ASFR collected and reported to OMB the required listing of HHS's open but expired grants subject to the GONE Act and the reasons those grants remained open. ASFR also took the lead in developing HHS's strategy for reducing the number of open but expired grants,⁵ addressing challenges (discussed below) that spanned multiple OpDivs.

HHS Operating Division Roles in Grant Closeout

Program officials in each of HHS's OpDivs have pre-award, post-award, and closeout responsibilities. Each OpDiv must also have an internal assessment program that annually reviews the OpDiv's grant management.

OpDiv management oversees grant staff who manage all steps of the grant management cycle from planning award programs through the closeout of awards as required by the Uniform Administrative Requirements (45 CFR part 75)⁶ and the GPAM. The grant staff is expected to carry out the closeout process, which includes:

- reviewing and verifying that the Payment Management System (PMS) reconciles with award recipients' Federal financial reports and the grant award requirements while making award adjustments such as de-obligations when applicable,
- closing awards within timeframes provided in guidance and regulations, and
- taking the necessary action to close the award in the PMS and the respective grant system.

HOW WE CONDUCTED THIS AUDIT

We focused our review on HHS's internal controls, including policies and procedures related to grant closeouts.

We interviewed ASFR officials, reviewed documents, and analyzed the information provided by ASFR to understand the process ASFR has used to address the backlog of open grants at HHS. We also identified actions taken and process improvements at ASFR to prevent a recurrence of the backlog.

We then selected five OpDivs on the basis of both the number and dollar amount of grants reported and ASFR's recommendation. We visited these OpDivs to obtain additional documentation and information related to the actions they had taken to address the backlog of open grants in their respective agencies. We also identified actions taken and controls implemented at the OpDivs to prevent a recurrence of the backlog. Once the PMS was

⁵ We use the term "open but expired grants" to refer to all awards that HHS reported in response to the GONE Act.

⁶ HHS implemented OMB's guidance on Uniform Administrative Requirements of 2 CFR part 200 at 45 CFR part 75 (45 CFR § 75.106). Grant closeout requirements for HHS awards can be found at 45 CFR § 75.381.

identified as a risk in our assessment, we also interviewed officials from the Program Support Center, which administers the PMS, to obtain further information on the process and controls available in the PMS.

Based on this information, we identified the following potential risk areas for HHS related to grant closeouts:

1. Systems Used in the Grant Management Process
2. Organizational Structure and Control Environment
3. Oversight and Monitoring
4. Communication

Using the principles established in the Committee of Sponsoring Organizations of the Treadway Commission's (COSO's) *Enterprise Risk Management—Integrating With Strategy and Performance* (June 2017)⁷ and other sources, we conducted a high-level risk assessment of the areas that we identified. On the basis of our review of ASFR and OpDiv processes, we assigned a level of risk (low, moderate, high, or critical) to sub-risk areas by considering the effect an event would have on the process and the likelihood that the event would occur. See Table 2 for the risk ratings.

We conducted this performance audit 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.

Appendix A contains the details of our scope and methodology.

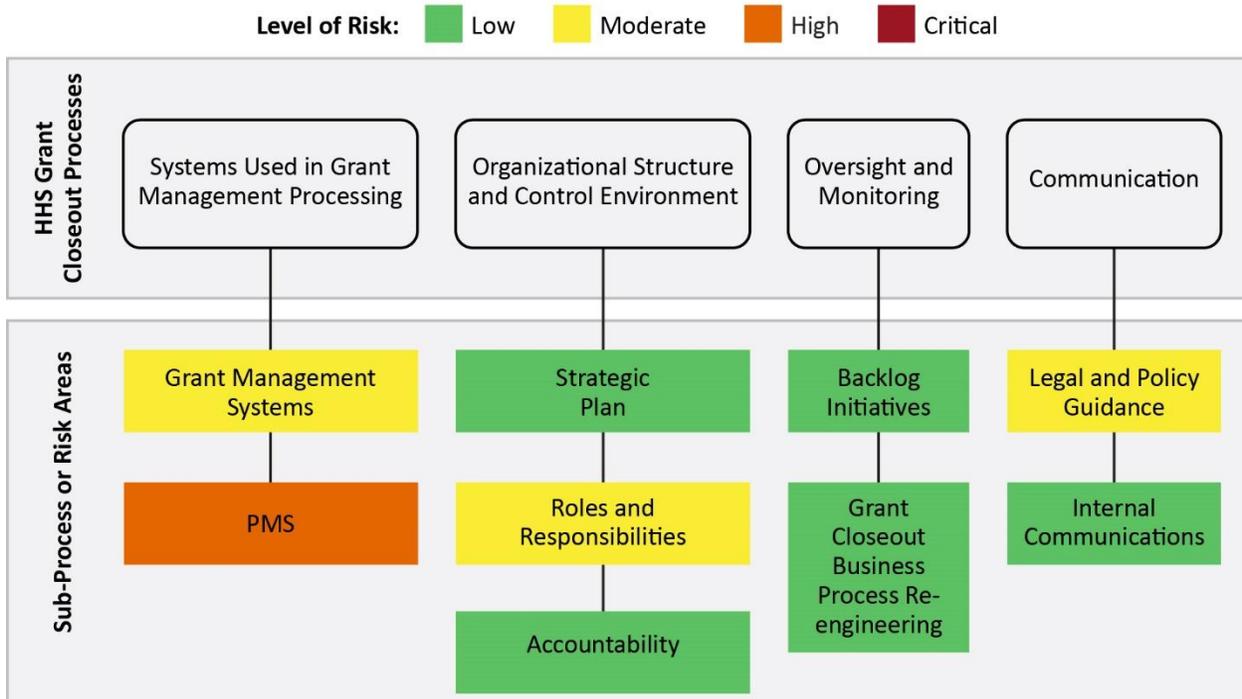
FINDINGS

An audit of HHS's grant closeout process is not warranted at this time. Overall, the risk that HHS will not meet Federal requirements for grant closeouts is low. ASFR and the OpDivs have responded to the GONE Act requirements by taking significant steps to reduce the HHS-wide backlog of open but expired grants and implement controls to address the risk of a recurrence of the backlog. Nevertheless, HHS still faces some challenges in mitigating the risks associated with grant closeouts.

⁷ Federal agencies are required to comply with regulations and OMB guidance governing Federal grants. OMB Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*, updated July 15, 2016, provides guidance to Federal managers and defines management's responsibilities for enterprise risk management and internal control. OMB Circular No. A-123 establishes an assessment framework based on the Government Accountability Office's *Standards for Internal Control in the Federal Government* and COSO's *Enterprise Risk Management—Integrating With Strategy and Performance* (June 2017) standards that managers must integrate into risk management and internal control functions.

In this report, we discuss the sub-risk areas we rated as low, moderate, and high risk.⁸ We rated five sub-risk areas as low risk, three as moderate risk, and one as high risk. Table 2 shows all sub-risk areas that we identified and their respective risk ratings.

Table 2: Grant Closeout Risk Areas



HHS REQUIREMENTS FOR GRANT CLOSEOUT

The HHS requirements for grant closeouts are found at 45 CFR § 75.381 (Closeout).⁹ Specific requirements include:

§ 75.381 Closeout

The HHS awarding agency or pass-through entity will close-out the Federal award when it determines that all applicable administrative actions and all required work of the Federal award have been completed by the non-Federal entity. This section specifies the actions the non-Federal entity and HHS

⁸ We did not identify any sub-risk area as critical.

⁹ *Closeout* means the process by which the Federal awarding agency or pass-through entity determines that all applicable administrative actions and all required work of the Federal award have been completed and takes action as described in § 75.381 “Closeout” (45 CFR § 75.2).

awarding agency or pass-through entity must take to complete this process at the end of the period of performance.

(a) The non-Federal entity must submit, no later than 90 calendar days after the end date of the period of performance, all financial, performance, and other reports as required by or the terms and conditions of the Federal award. The HHS awarding agency or pass-through entity may approve extensions when requested by the non-Federal entity.

(b) Unless the HHS awarding agency or pass-through entity authorizes an extension, a non-Federal entity must liquidate all obligations incurred under the Federal award not later than 90 calendar days after the end date of the period of performance as specified in the terms and conditions of the Federal award.

(c) The HHS awarding agency or pass-through entity must make prompt payments to the non-Federal entity for allowable reimbursable costs under the Federal award being closed out.

(d) The non-Federal entity must promptly refund any balances of unobligated cash that the HHS awarding agency or pass-through entity paid in advance or paid and that are not authorized to be retained by the non-Federal entity for use in other projects. See OMB Circular A–129 and see § 75.391 for requirements regarding unreturned amounts that become delinquent debts

(g) The HHS awarding agency or pass-through entity should complete all closeout actions for Federal awards no later than 180 calendar days after receipt and acceptance of all required final reports.¹⁰

ASSESSMENT OF GRANT CLOSEOUT RISK AREAS

Systems Used in the Grant Management Process

We identified two sub-risk areas related to systems used in HHS’s grant closeout process: grant management systems and the PMS. We assessed the first of these sub-risk areas as moderate risk and the second as high risk.

Grant Management Systems—Moderate Risk

We assessed this sub-risk area as moderate risk because the electronic grant management

¹⁰ OMB’s guidance on Uniform Administrative Requirements require Federal agencies to complete all closeout actions no later than 1 year after receipt and acceptance of all required final reports (2 CFR § 200.343(g)).

systems used by most OpDivs do not interface directly with the PMS, and two components of CMS did not use electronic systems to manage the grant closeout process.

Most OpDivs use one of two electronic grant management systems: the Electronic Research Administration Commons/IMPAC II and GrantSolutions.¹¹ These electronic grant management systems facilitate oversight and monitoring of the grant closeout process through automated controls, such as automatic notification to award recipients of expiring grants, tracking when final closeout documents are received, and automatically populating key fields (minimizing manual entry), and by providing grant management staff with the data needed to close out grants. However, these systems do not interface directly with the PMS, and because the PMS is critical to the grant closeout process, it is more challenging for OpDivs to close out grants.

In addition, CCSQ and CMCS do not use either of these systems. Instead, they rely on a manual process for monitoring, managing, and closing out grants. Unlike the manual process, the electronic systems have added closeout modules that include automated controls to facilitate the closeout process. Therefore, there is a greater risk that grants may not be closed timely when using a manual process.

Payment Management System—High Risk

We assessed this sub-risk area as high risk for three reasons: (1) the PMS closes grants quarterly while HHS OpDiv grant management systems can close grants in real time and does not interface directly with any of the grant management systems that HHS uses, (2) OpDivs identified using the PMS as a significant challenge, and (3) HHS has identified the financial reconciliation of pooled accounts in the PMS as the most pressing challenge to timely grant closeouts.

The PMS is a secure, online grant payment platform that functions as the intermediary between OpDivs and award recipients. The PMS is the system used to disburse Federal funds to award recipients and to monitor disbursements. Although OpDivs are directly responsible for timely grant closeouts, the PMS plays a critical role in the process.

Upon issuing an award, an OpDiv establishes a subaccount from which the PMS issues payments to the award recipient. An OpDiv cannot close the award in PMS until the following three amounts (hereinafter the three amounts) match:

1. the amount authorized by the OpDiv,
2. the amount disbursed through the PMS, and
3. the amount of expenditures the award recipient reports in the PMS.¹²

¹¹ HRSA uses a system called Electronic Handbooks that interfaces with GrantSolutions.

¹² Award recipients also report these amounts on the Federal financial reports.

When the three amounts do not match, an OpDiv can adjust the award amount or ask the award recipient to revise its reported expenditures. After the OpDivs have adjusted the award amount or revised expenditures and the amounts match, the OpDiv submits a closeout request to the PMS. The PMS acts on these requests quarterly by using a batch process. As part of this batch process, the PMS verifies that the authorized, disbursed, and expended amounts match exactly. If these amounts match, the PMS closes the grant. If these amounts do not match, the PMS does not close the grant. Periodically, the PMS sends reports to OpDivs detailing which grants remain open.

The Payment Management System Processes Grant Closeouts on a Quarterly Basis Instead of When Grants Are Closed in the Grant Management Systems

ASFR and some OpDivs indicated that the quarterly batch processing of grant closeouts in the PMS has caused delays in closing out awards. We identified this lack of timely closeouts in the PMS as a contributor to many delays in the grant closeout process. Some issues that arose from only closing grants in the PMS quarterly included:

- amounts not matching at the time the PMS processes the closeout request and
- delayed awareness by OpDivs of issues preventing closeout in the PMS.

Because grants are often closed weeks or months after the OpDiv has reconciled the three amounts, award recipients can draw down additional funds from the PMS after reconciliation. If this happens, the three amounts will not match, and the PMS will not close the grant. Additionally, because PMS uses a quarterly batch process, OpDivs are not able to efficiently monitor which grants have closed, what grants remain open, and why grants did not close. Instead, OpDivs create spreadsheets using data that they extract from the PMS to track grant status manually. OpDiv staff stated that these spreadsheets were burdensome to create, monitor, and update.

Operating Divisions Identified Using the Payment Management System as a Significant Challenge

Many of the grant management officials at the OpDivs we reviewed informed us that they struggle to access and understand PMS data and reports. They stated that they could not obtain clear, current, or understandable data because not all staff members with access knew how to use all of the PMS functions. Some OpDiv staff stated that they had not received training on how to obtain and interpret the PMS reports available to them and didn't know how to request such training.

HHS Identified Pooled Accounts in the Payment Management System as a Significant Challenge

In its FY 2018 Agency Financial Report, HHS said that “HHS’s most pressing challenge is the financial reconciliation of pooled accounts.”

Pooled accounts in the PMS are accounts that contain funds from multiple grants awarded by multiple OpDivs. For example, a single award recipient could receive grant funds from CMS, NIH, and CDC that are pooled in a single account. In addition, pooled accounts can span multiple years and become increasingly difficult to reconcile as they grow older. When the award recipient draws from the pooled account, it is not required to cite the specific project or grant for which the funding will be used. Not identifying the specific project or grant is a problem because OpDivs stated that they could not adjust grant award amounts to close their grants in a pooled account. All OpDivs we visited expressed frustration with their inability to close out “their portion” of pooled accounts.

HHS stopped allowing new pooled accounts in 2013, with some waivers granted until 2015. Thus the risk posed by pooled accounts is limited to grants awarded before 2015.

In addition to prohibiting new pooled accounts, HHS has taken significant action to reduce the number of open but expired grants in pooled accounts. This required extensive analysis and multiple one-time actions. The result of these actions was not fully reflected in HHS’s 2018 Agency Financial Report, but it was reflected in the 2019 data that ASFR provided to us. Column 3 of Table 1 shows the significant reduction in the number of outstanding but expired grants that resulted from these actions. For example, the Grant Closeout Remediation Team (GCRT) performed a one-time action addressing pooled accounts that resulted in 1,148 grants being closed.

Organizational Structure and Control Environment

We identified three sub-risk areas related to HHS’s organizational structure and control environment: strategic plan, roles and responsibilities, and management and staff accountability. We assessed two sub-risk areas as low risk and one as moderate risk.

Strategic Plan—Low Risk

We assessed this sub-risk area as low risk because ASFR developed a strategic plan that:

- included HHS strategies and goals to address GONE Act requirements,
- communicated HHS goals for meeting GONE Act requirements to OpDivs, and
- resulted in significant progress in reducing the number of open but expired grants.

Roles and Responsibilities—Moderate Risk

We assessed this sub-risk area as moderate risk because not all OpDivs assigned clear roles and responsibilities to staff in connection with grant closeout activities. In response to the GONE Act requirements, ASFR created a GCRT, and some OpDivs have taken steps to better assign roles and responsibilities to improve the timeliness of grant closeouts. The GCRT worked to identify the reasons that certain grants remained open and assigned responsibility for actions necessary to close those grants through an expedited process. Examples of OpDiv actions to assign clear roles and responsibilities include:

- ACF’s Office of Grants Management underwent a modernization effort in FY 2019, which improved alignment between financial stewardship and mission outcomes. This new business model and modern approach provides opportunities to gain efficiencies in the grants management life cycle and allow ACF to perform the full range of grants management functions, including closeout responsibilities.
- CDC started preparing closeout reports and established performance targets that it discussed during monthly performance meetings within each branch of its Office of Grants Services. In addition, the Performance Management Team (within the Policy, Risk, Information, and Systems Management Branch) started conducting monthly cross-checks on the closeout status of grants using PMS data, reports from GrantSolutions, and reports from the Unified Financial Management System.
- CMS’s OAGM hired a contract employee who was responsible for initiating action to close out open but expired discretionary grants.

However, CMCS has not assigned clear roles and responsibilities to improve the timeliness of grant closeouts and reduce its backlog of open but expired grants. In addition, CMCS officials stated that they have been unable to dedicate sufficient resources to closing the backlog of open but expired grants.

Accountability—Low Risk

We assessed this sub-risk area as low risk because most of the OpDivs we reviewed included performance elements related to grant management in the performance plans for their grant management staff. HRSA includes the following language in its performance plans: “provides prompt attention to grants needing closeout in accordance with [HRSA’s Division of Grants Management Operations’] standard operating procedures.” Most of the other OpDivs and CMS components that we reviewed included similar language in their performance plans. However, CMCS did not specifically address grant closeouts in its performance plans.

Oversight and Monitoring

We identified two sub-risk areas related to HHS's oversight and monitoring: backlog initiatives and grants closeout business process re-engineering. We assessed both sub-risk areas as low risk. ASFR has taken primary responsibility for oversight and monitoring of HHS's activities under the GONE Act. ASFR has worked in conjunction with grant staff at the OpDivs to implement GONE Act requirements.

Backlog Initiatives—Low Risk

We assessed this sub-risk area as low risk because ASFR created Approved Recommendation Action Plans (ARAPs). These ARAPs identified issues preventing closeouts and detailed the actions approved by the HHS Executive Steering Committee to address them.¹³ The ARAPs further identified the party responsible for completing each action, explained the challenges encountered during implementation, and provided the date each action was completed. The ARAPs resulted in multiple one-time actions to facilitate expedited closeouts for the backlog of open but expired grants.

Grants Closeout Business Process Re-engineering—Low Risk

We assessed this sub-risk area as low risk because HHS created a team to re-engineer the grant closeout process to prevent a future backlog from recurring. This ongoing project includes an analysis of the current grant closeout process across HHS with site visits to each OpDiv/Staff Division. HHS will use this analysis to identify issues that the GCRT can focus on to improve the closeout process.

Communication

We identified two sub-risk areas related to HHS's communication: legal and policy guidance and internal communication. We assessed one risk area as moderate risk and one as low risk.

Legal and Policy Guidance—Moderate Risk

We assessed this sub-risk area as moderate risk because CMCS indicated that it would be working with general counsel to determine whether there would be legal issues with de-obligating grant awards.¹⁴ In addition, some OpDivs were concerned about a potential

¹³ The Executive Steering Committee was composed of volunteers from Finance, Grants, Budget, Office of General Council, Program Support Center, and OpDiv/Staff Division Grants Management Executives. This committee of HHS executive leaders was the approval body for recommendations to improve closeout across the Department.

¹⁴ These grants represented a significant portion of the dollars associated with grants HHS reported in response to the GONE Act. CMS grants represented 35 percent of HHS's undisbursed balances reported under the GONE Act for FY 2018. Medicaid is HHS's largest grant program.

discrepancy between the HHS GPAM, which implements HHS regulation (45 CFR § 75.381), and the Uniform Administrative Guidance (2 CFR § 200.343(g)).

CMCS believed that there may be legal restrictions on its authority that need to be addressed before it can close its grants. CMCS officials indicated that they believed Medicaid and CHIP grants should be handled differently because those grants are open ended and may not be subject to normal closeout or de-obligation requirements. According to CMCS, it is obligated under enabling legislation to provide funds based on expenditures that the respective States (the award recipients) report. However, States do not always draw down all available funds from a Medicaid grant year, which can result in a difference between the drawdowns and the reported expenditures. As long as drawdowns do not match reported expenditures, CMCS is unable to close these grants. CMCS has communicated these issues to ASFR and is willing to work with ASFR and the Office of General Counsel to find a solution.

In addition, some OpDivs raised a concern about a discrepancy between the shortened time frame required to close out grants in HHS regulations (45 CFR § 75.381) and implemented in the HHS GPAM (policy guidance) and the extended time allowed in the Uniform Guidance at 2 CFR § 200.343. According to the GPAM, “Pursuant to the HHS grant rules, 45 CFR § 75.381, *HHS will closeout grants within 270 days of the completion date of the award*. This allows the recipient 90 days to submit its final documents, and 180 days for the awarding agency to complete the closeout process” (emphasis added). However, the time limit for grant closeouts in 2 CFR § 200.343(g) is 1 year after receipt of final documents from award recipients: “The Federal awarding agency or pass-through entity should complete all closeout actions for Federal awards no later than one year after receipt and acceptance of all required final reports.” Although this discrepancy does not increase the risk that a grant will not be closed, OpDivs indicated that it makes the grant closeout process burdensome.

Internal Communication—Low Risk

We assessed this sub-risk area as low risk because, after implementation of the GONE Act, ASFR created a GCRT as the primary vehicle to communicate HHS policy and implement GONE Act requirements. The GCRT is composed of representatives from many OpDivs and created an environment of open communication about grant closeout policy, best practices, and common issues. The GCRT surveyed the various OpDivs regarding key obstacles to grant closeout and provided periodic updates to the OpDivs as it implemented various closeout initiatives. In addition, ASFR provided a point of contact for OpDiv inquiries regarding grant closeout policy. As discussed previously, ASFR expects to maintain this internal communication by having the GCRT focus on grant closeout business process re-engineering.

CONCLUSION

HHS is a large organization and has the challenge of timely closeout for many grants. Nevertheless, HHS has taken significant steps to reduce its backlog of open but expired grants in response to the GONE Act. In addition, individual HHS OpDivs have taken steps to develop

and implement updated standard operating procedures, hold staff accountable, and, in some cases, restructure their operations to better facilitate grant closeouts in the future. This should prevent a recurrence of the backlog.

The highest risk area that we identified was the PMS. Pooled accounts, which we have grouped under the PMS, also remain a challenge, but they are a diminishing risk because HHS has already taken steps to prevent the creation of new pooled accounts and is taking measured steps to close the pooled accounts remaining in the PMS.

RECOMMENDATIONS

We recommend that the U.S. Department of Health and Human Services, Assistant Secretary for Financial Resources:

- work with PMS personnel to improve HHS OpDiv grant management offices' access to timely data;
- work with OpDivs and the PMS to ensure that OpDivs are trained in how to obtain and interpret the PMS reports available to them;
- continue the grant remediation process to close remaining pooled accounts in the PMS;
- work with CMS to:
 - implement an electronic grant management system for CMCS and CCSQ,
 - assign clear roles and responsibilities related to grant closeout activities at CMCS, and
 - clarify CMCS's ability to close out its grants; and
- consider revising the HHS regulation at 45 CFR § 75.381 and the GPAM to align closeout time limits for OpDivs with those specified in 2 CFR § 200.343.

ASSISTANT SECRETARY FOR FINANCIAL RESOURCES COMMENTS

In written comments on our draft report, ASFR concurred with our recommendations.

In addition to providing comments on our findings and recommendations, ASFR also provided technical comments on our draft report, which we incorporated in this final report. ASFR's comments, excluding technical comments, are included as Appendix B.

APPENDIX A: AUDIT SCOPE AND METHODOLOGY

SCOPE

We focused our review on HHS’s internal controls, including policies and procedures, related to grant closeouts in effect at the time of our site visits from May through November 2019.

We interviewed ASFR and individual OpDiv management, reviewed documents, and analyzed the information provided by ASFR and individual HHS OpDivs.¹⁵

Using the principles established in COSO’s *Enterprise Risk Management—Integrating With Strategy and Performance* (June 2017)¹⁶ and other sources, we conducted a high-level risk assessment of the areas that we identified. On the basis of our review of ASFR and OPDIV processes, we assigned a level of risk (low, moderate, high, or critical) to sub-risk areas based on the impact an event would have on the process and the likelihood that the event would occur.

We performed fieldwork at ASFR and at each of the respective OpDivs from May through November 2019.

METHODOLOGY

To accomplish our objective, we:

- reviewed applicable Federal laws, policies, and guidance;
- held discussions with ASFR to obtain an understanding of the grant management process and actions taken by ASFR officials in response to the GONE Act;
- reviewed HHS’s GONE Act submissions from 2017 and 2018;
- developed risk assessment questionnaires that we provided to ASFR and to five separate HHS OpDivs;

¹⁵ The HHS OpDivs reviewed were ACF, CDC, CMS, HRSA, and NIH.

¹⁶ Federal agencies are required to comply with regulations and OMB guidance governing Federal grants. OMB Circular No. A-123, *Management’s Responsibility for Enterprise Risk Management and Internal Control*, updated July 15, 2016, provides guidance to Federal managers and defines management’s responsibilities for enterprise risk management and internal control. OMB Circular No. A-123 establishes an assessment framework based on the Government Accountability Office’s *Standards for Internal Control in the Federal Government* and COSO’s *Enterprise Risk Management—Integrating With Strategy and Performance* (June 2017) standards that managers must integrate into risk management and internal control functions.

- followed up on ASFR and OpDiv responses to the risk-assessment questionnaires with onsite visits;
- identified risk areas and sub-risk areas and assigned a level of risk to each sub-risk area;
- assessed mitigating controls and strategies for reducing identified risks; and
- discussed the results with ASFR officials.

APPENDIX B: ASSISTANT SECRETARY FOR FINANCIAL RESOURCES COMMENTS



DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of the Secretary
Office of the Assistant Secretary
for Financial Resources
Washington, D.C. 20201

MAR 06 2020

Christi A. Grimm
Principal Deputy Inspector General
Department of Health and Human Services
Cohen Building, Room 5700A
330 Independence Ave SW
Washington D.C. 20201

Ms. Grimm,

The Department of Health and Human Services (HHS) appreciates the opportunity to review and comment on the Office of the Inspector General's (OIG) draft report "Risk Assessment of HHS Grant Closeout Procedures," A-04-19-08072. HHS takes seriously its responsibility to meet the requirements mandated by the Grants Oversight and New Efficiency Act (GONE Act; P.L. No. 114-117) and ensure all HHS awards are closed out in accordance with applicable regulations.

We concur with the recommendations in the draft report. As outlined in the draft report, HHS has implemented a number of significant steps in recent years to reduce the grants closeout backlog and prevent future occurrences. Despite these actions, we recognize the need for continuous and focused effort to continue this process.

We will continue to diligently improve our grants closeout efforts, actively engage in effective corrective actions, and monitor remediation efforts to comply with the GONE Act. Improving the grants closeout process across HHS will strengthen our stewardship of taxpayer funds and advance the HHS mission.

We would like to thank OIG for your efforts and continued collaboration in support of the Department's programs. Enclosed is our technical comments on the draft report for your consideration. Should you have any questions about this response or our grants closeout activities, please do not hesitate to contact Alice Bettencourt, Deputy Assistant Secretary for Grants, 202-619-0142, in my office.

Sincerely,

A handwritten signature in black ink, appearing to read "Jen Moughalian".

Jen Moughalian
Principal Deputy Assistant Secretary for
Financial Resources and Chief Financial Officer

Enclosure