

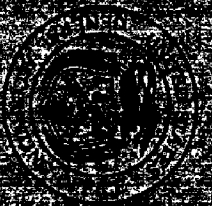
GAO

REPORT TO THE Chairman, Committee on
Governmental Affairs, U.S. Senate

June 1991

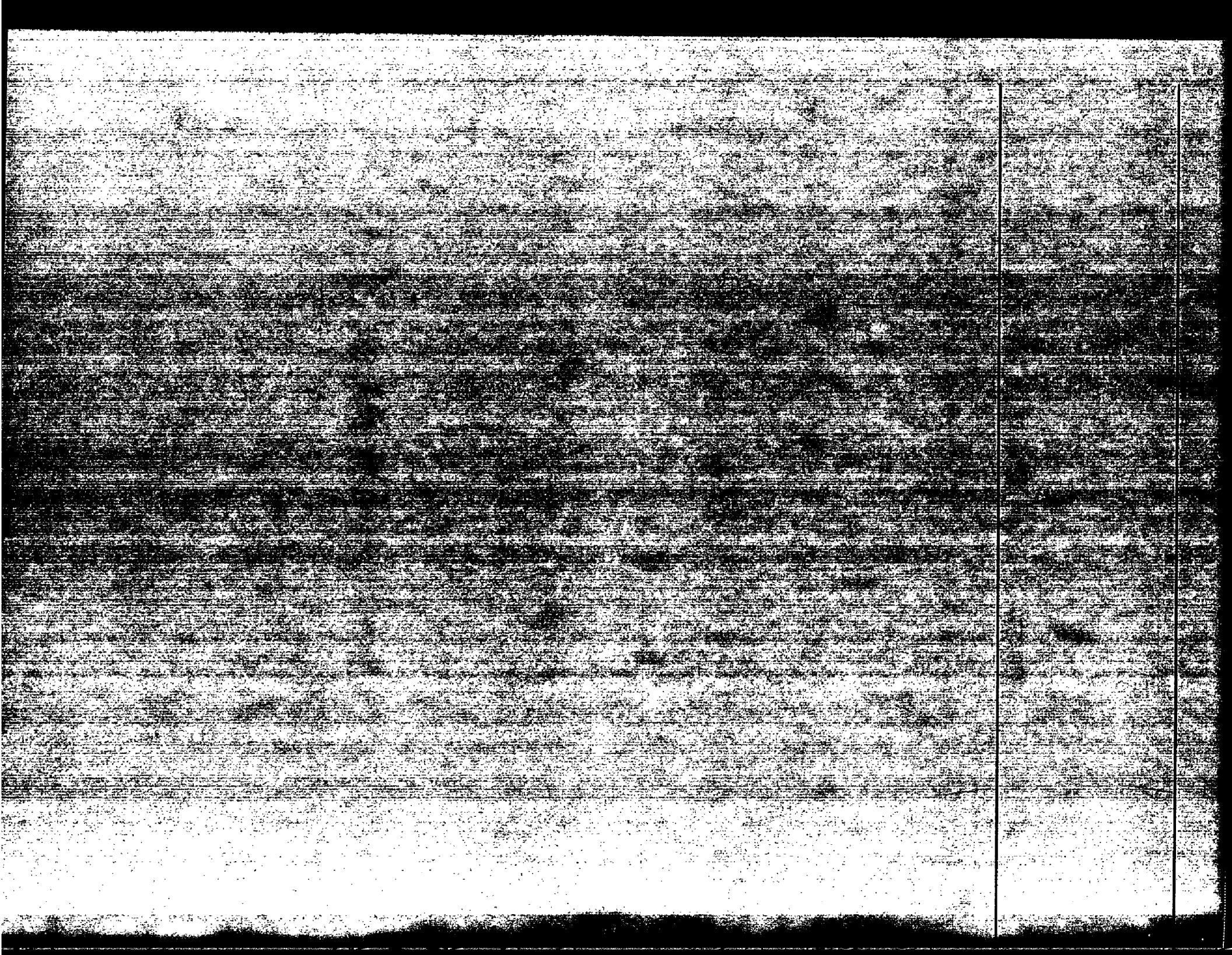
EDUCATION GRANTS MANAGEMENT

Actions Initiated to Correct Material Weaknesses



GAO/HHD-91-72

OSI-1991-1417-002



Human Resources Division

B-244310

June 26, 1991

The Honorable John Glenn
Chairman, Committee on
Governmental Affairs
United States Senate

Dear Mr. Chairman:

In a July 18, 1990, letter you asked us to review the Department of Education's actions to correct weaknesses in its management of discretionary grants programs.¹ The Office of Management and Budget (OMB) cited these weaknesses in its June 1989 High Risk List, which identified areas in the federal government vulnerable to fraud, waste, and abuse. In discussions with your office, we agreed to review Education's actions to correct the following weaknesses noted by OMB:

- awarding unnecessary and poorly defined grants,
- monitoring that is not comprehensive enough to assure that recipients comply with grant terms and conditions, and
- failing to close out expired grants in a timely and proper manner so as to prevent the possibility of unauthorized use of unexpended funds by grant recipients.²

In compiling its 1989 list, OMB also identified Education's lack of suspension and debarment procedures as a high-risk area after Education could not agree to suspension and debarment regulations as proposed for other federal departments and agencies.³ Later, however, Education adopted amended regulations, and OMB no longer considers this area a high risk.

You asked that we confine our work to discretionary grants in elementary and secondary education programs. This report summarizes the results of our review.

¹Grants for developing classroom programs, research, training, pilot projects, and other purposes awarded through a competitive selection process among applicants (e.g., school districts).

²Grant closeout is the process by which Education determines that all applicable administrative actions and all required work of the grant have been completed by the grantee and Education.

³These procedures represent an administrative process in which a grantee may be excluded—generally for no more than 3 years—from all federal financial and nonfinancial assistance and benefits because it has committed crimes, such as embezzlement, theft, forgery, or bribery, or other improper acts.

Background

The Federal Managers' Financial Integrity Act (FMFIA) of 1982 requires executive departments and agencies to report annually to the President and the Congress on material internal control weaknesses and plans to correct them. Since 1989, OMB has published an annual High Risk List, which identifies federal programs it believes are most vulnerable to fraud, waste, and abuse. Each agency, in turn, submits a midyear report to OMB that explains progress made to correct weaknesses found. Several aspects of Education's discretionary grants management were identified as high-risk areas in 1989.

In fiscal year 1991, Education will award about \$1.7 billion in discretionary grants. Each grant program conducts its own competition where field readers—qualified federal and nonfederal experts—review and rank applications submitted by potential grantees. Grant awards are based on field readers' evaluations. Once grants are awarded, program offices are supposed to monitor grantees to assure that they are meeting the financial and program conditions specified in the grant application.

The entire process—publishing regulations, publicizing the grant competition, identifying and selecting field readers, processing grant applications, and conducting each grant award competition—takes several months. To avoid wasteful expenditures, which may result from awarding too many grants in a short time period, Education has stressed the need to award these grants throughout the fiscal year rather than waiting until the last few months of it.

Regulations require Education to close out expired discretionary grants⁴ in a timely and proper fashion to assure that grantees have complied with grant terms and conditions and to recover unexpended funds. Before a closeout, each grantee must submit to Education final expenditure and performance reports for review, respectively, by Education's Financial Management Service and the responsible program office. Expenditure reports are used to monitor cash disbursements to grantees and aid in closing out individual grants. Performance reports compare the grantee's accomplishments to planned objectives.

⁴Expired grants are those that have reached the end of their funding period.

Scope and Methodology

We examined Education's FMFIA documentation relating to its management of discretionary grants. We interviewed OMB officials as well as Education officials who had knowledge of or responsibility for the discretionary grant process, including staff of Education's Office of Inspector General.

To obtain information on monitoring of discretionary grants, we reviewed program monitoring instruments and documentation on monitoring visits and spoke with officials of the largest funded grant programs in each of Education's four major operating components for elementary and secondary education programs. These programs were the Transitional Bilingual Education Program, Office of Bilingual Education and Minority Languages Affairs; the Magnet Schools Program, Office of Elementary and Secondary Education; the Indian Vocational Education Program, Office of Vocational and Adult Education; and the Centers for Independent Living Program, Office of Special Education and Rehabilitative Services.

Our review was conducted from July 1990 through March 1991 in accordance with generally accepted government auditing standards.

Results in Brief

In fiscal year 1991, Education acted or plans to act to correct the weaknesses noted in OMB's June 1989 High Risk List. For example, Education

- rescheduled its grant competitions to avoid awarding too many grants in the last quarter of the fiscal year and streamlined grant application and review procedures;
- increased travel funds to provide more on-site monitoring of grantees and planned to revise a departmentwide directive to provide monitoring guidance to program offices; and
- increased efforts to close out a significant backlog of long-expired but unclosed grants, and developed computer systems to (1) notify program managers of grants ready for closing, (2) remind grantees to provide overdue performance reports, and (3) accelerate closure of expired grants with unspent funds.

These actions seem appropriate to us, but whether they will correct Education's grant management problems remains to be determined.⁵

⁵GAO is further addressing the effectiveness of Education's actions through a review of the Department's overall management. A report on the review's findings is expected to be issued in 1992.

Actions to Correct Improper Grant Awards

Despite overall improvement in its scheduling of grant competitions from fiscal years 1986 through 1990, more than 40 percent of Education's new discretionary grants were awarded during the final quarter of fiscal year 1990. Education's inability to more evenly award these grants throughout the fiscal year continued to make the Department vulnerable to funding unnecessary or poorly defined grants.

Education began to take corrective action on scheduling problems in 1986, when nearly two-thirds of the year's new grant awards were made in the last fiscal year quarter. Education recognized that awarding so many grants in so short a time could lead to poor award decisions—particularly for new grant applicants, who require a comprehensive and time-consuming review of their grant applications. Consequently, Education adopted an approach to make it less vulnerable to awarding unnecessary or poorly defined grants before the authority to obligate funds expires at the end of each fiscal year.

In this regard, Education made a commitment in 1987 to OMB to increase annually by 5 percentage points the number of new discretionary grants it awards before the last fiscal year quarter. As table 1 shows, Education has surpassed its goal each year since 1988; however, 41 percent of its new discretionary grants were awarded in the last quarter of fiscal year 1990. An Education official told us that the Department generally is unable to award these grants in the first fiscal year quarter when there are congressional delays in appropriating program funds. When this occurs, the grants competition must be compressed into the remaining months.

Table 1: Percentage of New Discretionary Grants Awarded Before the Final Fiscal Quarter

Figures in percent		
Fiscal year	Goal	Actual
1986	75	35
1987	41	37
1988	46	59
1989	51	55
1990	56	59

Despite its 1987 commitment to correct problems in the grants award process, Education continued to identify the process as a material weakness in its 1989 and 1990 FMFIA reports. An Education official cited a lack of staff as the primary cause for the continued weakness. For example, he told us that, compared to 5 years ago, Education's Grants

and Contracts Service administers significantly more grants—with less staff.

Since fiscal year 1989, Education has taken several actions to save time in the grants award process, including: (1) publishing, in the Federal Register, a notice of all grant competitions for the new fiscal year rather than announcing them separately, (2) expediting procedures to process grant regulations, and (3) requiring program offices to develop program funding priorities earlier in the fiscal year.

Education plans to save further time and make better use of available staffing resources in the grant awards process by:

- implementing improvements in the field reader process, including (1) advertising the need for qualified nonfederal field readers through the Federal Register, (2) assessing the need for a centralized data bank of Education employees qualified to serve as federal readers, and (3) providing additional training for first-time readers. Most of the improvements are scheduled for completion in fiscal year 1992.
- combining three Education directives on grant application review procedures into one to eliminate duplicative or overlapping requirements. A draft of the consolidated directive was internally distributed for comment in June 1991 and is expected to be issued by the end of fiscal year 1991.

Efforts to Improve Grants Monitoring

In recent years, Education has increased its program travel budgets to allow more on-site monitoring visits to grantees. However, in the programs we examined, monitoring instruments lacked specific guidance on assessing fiscal accountability during site visits. In fact, Education officials told us that they did not test grantee internal controls. To improve monitoring, Education expects to issue in fiscal year 1991 departmentwide monitoring guidelines for discretionary grants.

The increased program offices' travel budgets are intended to cover travel expenses needed to monitor grantee performance. Such site visits are essential for ensuring that grantees spend their grant funds properly. The amount and percentage of Education's total program administration budget (salaries and expenses, exclusive of grant funds) spent by its program offices on travel have increased significantly since fiscal year 1989 (see table 2).

Table 2: Travel Budget Compared With Program Administration Budget
(Fiscal Years 1987-91)

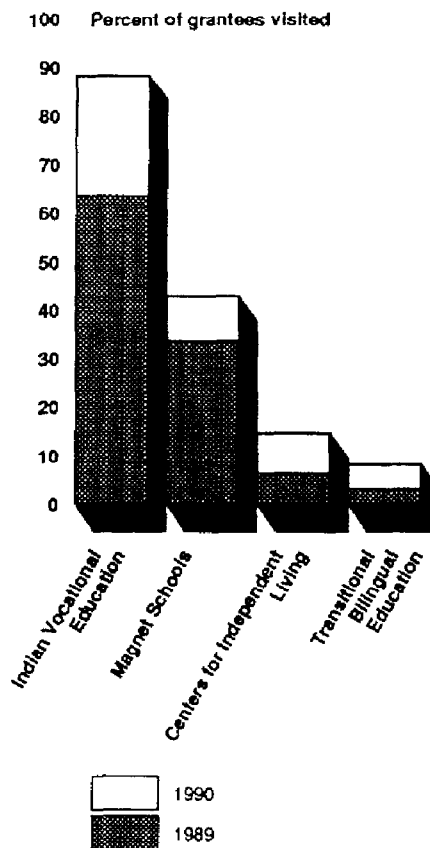
Dollars in thousands			
Fiscal year	Program administration budget	Travel budget ^a	Travel as percentage of program administration
1987	\$234,692	\$3,243	1.38
1988	241,028	3,431	1.42
1989	250,464	3,721	1.49
1990	273,303	4,596	1.68
1991	319,266	6,376	2.00

^aPrimarily for monitoring purposes, but also includes travel funds to attend conferences and provide technical assistance.

The number of grantee monitoring visits to be made annually is determined by program officials within resource constraints. The number of visits varied for the four programs in fiscal year 1990. For example, 88 percent (36 of 41) of the Indian Vocational Education grantees were visited in fiscal year 1990 compared with 8 percent (40 of 512) of the Transitional Bilingual Education grantees.

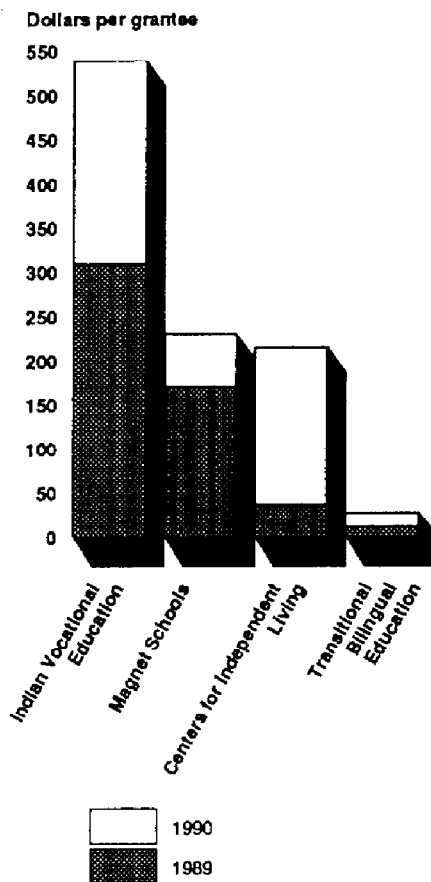
As figure 1 shows, each program office visited a higher percentage of its grantees in fiscal year 1990 than in fiscal year 1989.

Figure 1: Percentage of On-Site Grantee Visits Among Program Offices Reviewed
(Fiscal Years 1989 and 1990)



In addition, in 1990 the average amount of money spent on monitoring ranged from \$26 per grantee in the Transitional Bilingual Education Program to \$537 per grantee in the Indian Vocational Education Program. Each of the four program offices spent considerably more per grantee on monitoring in fiscal year 1990 than in fiscal year 1989. (See fig. 2.)

Figure 2: Program Dollars Spent Per Grantee on Monitoring
(Fiscal Years 1989 and 1990)



Monitoring instruments differed substantially among program offices, especially in terms of the monitored activities. However, none of the four program instruments contained any requirement for testing to determine whether adequate internal controls were in place. Officials of the programs confirmed that their site monitoring activities included no testing of internal controls. An Education official said that most program staff lack the expertise to assess the effectiveness of internal controls.

To strengthen program monitoring, Education plans to issue, in fiscal year 1991, a revision of a 1985 directive that provided guidance to program offices on discretionary grants monitoring. That guidance required

(1) a departmentwide advisory group to be formed and (2) program offices to develop annual monitoring plans and standardized monitoring programs for approval by the advisory group. But, Education officials told us that the Department never enforced compliance with the 1985 directive and, consequently, it was not consistently followed.

Effects of Actions to Improve Grant Closeouts Not Yet Known

Education has taken several actions to prevent delays in closing out discretionary grants. These actions include improved communications with program offices and grantees and implementation of a system to automatically deobligate funds from expired grants. However, a large backlog of expired but unclosed grants remains. Because these corrective actions were implemented recently or are still being planned, it is too early to determine their effectiveness.

Education's 1990 FMFLA report noted that without regular and timely grant closeouts, the Department risks losing millions of dollars through improper drawdowns of grantee account funds. Monetary losses are possible because under a statute of limitations, the Secretary of Education is barred from recovering funds that are improperly drawn more than 5 years before the Department notifies the grantee of the violation. Education's Inspector General March 1991 report on discretionary grants stated that as of June 30, 1990, there were 119 expired grants that were 5 or more years old, with unexpended funds totaling \$4.5 million; 45 expired grants between 4 and 5 years old, with unexpended funds totaling \$2.3 million; and 86 expired grants 3 to 4 years old, with unexpended funds totaling \$4.4 million.⁶

During fiscal year 1991, Education plans to implement three actions to help assure the proper and timely closeout of grants that have expired. These include (1) development of a mechanism to notify grantees who are tardy in submitting final performance reports to program offices, (2) early notification of the responsible program office regarding expired grants ready for deobligation of available program funds, and (3) automatic deobligation of grants that remain open for more than 18 months after their expiration date.

⁶Department of Education Office of Inspector General, Expired Grants Allowed to Remain Open for Years, Audit Control Number 11-90760, March 1991.

Reminders to Grantees to Submit Performance Reports

Education has been unable to readily extract information on expired grants due to problems in its computerized system. These problems have caused it to postpone until fiscal year 1992 its implementation of an automated system to remind grantees to promptly submit their overdue performance reports to Education program offices. These reports are essential for program offices to determine whether grantees complied with the grant terms and conditions. Meanwhile, Education is manually notifying grantees at 30-day intervals to send in overdue final performance reports.

Early Notification of Grants in Need of Deobligation

In January 1991, Education began to implement an early notification system to inform the appropriate program office when a grant expires and deobligation of unspent funds is required. Such notification is made after Education receives a grantee's expenditure report that indicates it expects no further expenditure of funds for that grant. Once notified, the program office can recommend reducing the grant authorization by the amount of unspent funds remaining in the expired grant. This action removes expired funds from vulnerability to improper expenditure. Education expects procedures for this early notification system to be fully implemented by summer 1991.

Automatic Deobligation of Grantee Funds Implemented

In January 1991, Education implemented a procedure to automatically begin deobligating any funds in a discretionary grant that remains open 18 months after its expiration date. This new procedure acts as a safety net to prevent an expired grant from remaining open longer than necessary with unspent funds. Before the procedure's implementation, some grants stayed open more than 5 years after their expiration. As a result, funds in an expired grant account remained vulnerable to improper use, and the recovery of misspent funds would be subject to the statute of limitations.

After an expired discretionary grant has remained open 18 months, the new procedure allows up to 9 months more to complete deobligation procedures, including resolving any account discrepancies. As a result, it could take as long as 27 months after a discretionary grant expires for its unspent funds to be deobligated. An Education official told us that the Department established a 27-month time frame to deobligate discretionary grant funds in order to coincide with the legislatively required time frame for closing out nondiscretionary grants (i.e., formula grants established by statute).

Education's Office of the Inspector General noted in its March 1991 report that the 27-month time frame allowed expired discretionary grants to remain open too long. An Education official said that after the Department has experience with the new procedure, it may be able to reduce substantially the number of months needed to close out discretionary grants.

Current Efforts to Reduce the Number of Unclosed Grants

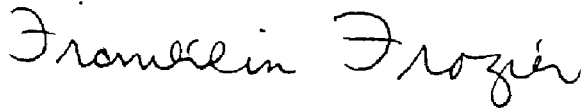
As of March 1991, Education had about 12,000 discretionary grants that were expired and in need of closeout. The 12,000 grants included 4,000 that had expired between January 1990 and March 1991, an additional 4,000 that expired between January 1, 1988, and December 31, 1989, and a backlog of 4,000 that expired before 1988.

Education expects to have the 4,000 grants that expired in 1988 and 1989 closed by March 1992. As of March 1, 1991, Education personnel had reviewed files of more than 2,600 of these 4,000 grants to determine if final financial and performance reports were received. About 1,200 performance reports and 76 final expenditure reports were on file.

Because many of the 4,000 grants that expired before calendar year 1988 are considerably older than 3 years, it is likely to be difficult to obtain the required performance reports. If program offices are not able to provide performance reports, Education plans to close grants without these documents. However, final expenditure reports reflecting actual expenditures by the grantee will be required for each grant before it is closed out.

As agreed with your office, we did not obtain written comments on the report. However, we discussed its contents with Education officials and incorporated their views where appropriate. We are sending copies of this report to the Secretary of Education, the Director of OMB, and other interested parties. Please call me on (202) 275-1793 if you or your staff have any questions. Major contributors to this report are listed in appendix I.

Sincerely yours,



Franklin Frazier
Director, Education and
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