

GAO

Report to the Chairman, Committee on
Governmental Affairs
United States Senate

September 1986

DISCRETIONARY GRANTS

Opportunities to Improve Federal Discretionary Award Practices



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Human Resources Division

B-223281

September 15, 1986

The Honorable William V. Roth, Jr.
Chairman, Committee on Governmental
Affairs
United States Senate

Dear Mr. Chairman:

This report responds to your request that we review the federal management of discretionary assistance programs. In discussions with committee staff, we agreed to focus our review on federal policies and practices for awarding discretionary assistance. You, and some eligible applicants and federal officials, expressed concern about the extent to which discretionary programs award assistance through competitive processes that are open and fair.

Discretionary assistance programs are those in which federal agency officials have the authority to decide (1) which eligible applicants will receive awards and (2) how much will be awarded. The Federal Grant and Cooperative Agreement Act (31 U.S.C. 6301 et seq.) states that competition in assistance programs should be encouraged, where appropriate. The reason for promoting competition in discretionary programs is to identify and fund the best possible projects proposed by applicants, thereby more effectively achieving program objectives.

To assess the extent of competition among federal programs, we identified three major elements in the award cycle for discretionary assistance programs that collectively promote competition. These elements came primarily from an interagency study group that was convened in 1979 by the Office of Management and Budget (OMB) to study competition in grants. The elements call for

- widespread solicitation of eligible applicants and disclosure of essential application and program information in written solicitations,
- independent application reviews that consistently apply written program evaluation criteria, and
- written justification for award decisions that deviate from recommendations made by application reviewers.

In addition to reviewing OMB's June 1980 report Managing Federal Assistance in the 1980's and the working papers compiled during the OMB-led study, we examined other studies of competition issued by the Administrative Conference of the United States, the Advisory Commission on

Intergovernmental Relations, and other organizations. We discussed these issues with members of the study group that examined competition and other experts in the field of assistance management.

Results in Brief

Most federal discretionary grant programs have competitive processes to solicit and review applications. Nearly two-thirds attempt to solicit applications from all eligible applicants, and over three-fourths use persons from outside the program office to provide an independent perspective in the review of applications.

However, several aspects of the discretionary grant process should be strengthened in many programs to enhance competition and promote accountability for award decisions. For instance, 106 of the 355 discretionary programs reported awarding \$1.4 billion—or 12 percent of total discretionary assistance dollars—for unsolicited applications. The unsolicited application process is more vulnerable to abuse since officials have a greater opportunity to choose preselected applicants.

In addition to accepting unsolicited applications, other departures from the competitive process included restricting the scope of applicant solicitation, not using independent reviews, and deviating from reviewers' recommendations in the award decision process. While such departures may be necessary, justification or internal agency review of these decisions would promote greater consideration of the trade-off between competition and other legitimate objectives.

We are recommending to OMB that the President's Council on Management Improvement (PCMI) work with the agencies in a government-wide project to improve managerial accountability for the discretionary grant process. A common federal effort under the PCMI rubric would provide evidence of a fair and open decision-making process for applicants while permitting individual agencies to implement different approaches. In commenting on a draft of this report, OMB supported the recommendation that PCMI serve as a forum to oversee improvements in agency discretionary award processes. Once it begins this project, PCMI will consider the specific measures we recommended for improving competition.

Scope and Methodology

As part of our review, we sent a questionnaire to administrators of 589 federal financial assistance programs listed in the Catalog of Federal

Domestic Assistance. The questionnaire asked for information on program policies that promoted or restricted competition in fiscal year 1984. Of the 589 administrators, 545 (93 percent) responded. Of the 545, 190 reported that their programs did not distribute funds on a discretionary basis as we defined it or were not funded in 1984. Thus, 355 programs distributed funds on a discretionary basis and made about 98,000 awards to state and local governments and other organizations or individuals, totaling \$12 billion.

We reviewed 26 programs, identified by their administrators as making discretionary awards, to assess actual award practices. These programs are located in eight federal agencies. (See app. VI, p. 29, for a list of the programs.) These programs had differing funding levels and supported a wide variety of services, such as education, construction, and technical assistance. The 26 programs made 10,205 awards, totaling \$2.8 billion. This represented about 10 percent of the discretionary awards and 23 percent of the funds awarded in fiscal year 1984. We discussed discretionary award procedures with public interest groups and associations representing applicants for many of the 26 programs. We examined whether internal review processes in the eight agencies were used to periodically assess the degree of competition in agency award practices. We also reviewed prior GAO reports that addressed federal agency practices for awarding discretionary assistance. (See app. VII, p. 30, for a list and description of relevant GAO reports.)

Discretionary Programs Met Most Elements of a Competitive Award Process

Most of the 355 administrators reported that their programs had policies that promoted competitive processes for both the solicitation and review of applications.

Solicitation

Competition in discretionary assistance programs begins with widespread solicitation of eligible applicants. This helps ensure that federal programs receive enough applications responsive to program objectives and provides potential applicants with an open opportunity to apply for assistance. According to federal agency officials, 225 of the 355 programs (63 percent) tried to solicit applications from all eligible applicants. Public interest groups we contacted expressed overall satisfaction

with agency solicitation practices. (See app. II, p. 22, for a tabulation of the solicitation methods used by federal discretionary assistance programs.)

Statutory requirements and programmatic considerations prompted 112 of the 355 programs (32 percent) to restrict solicitation to selected portions of their applicant pools for all or part of the program funds during fiscal year 1984.¹

Legislation required officials in 34 of the 112 programs to solicit applications from a preselected group of eligible applicants to provide designated populations with program services. In the other cases, programmatic considerations, such as the desire to target funds for geographic areas, caused officials to restrict solicitation. For example, officials in the Urban Mass Transportation Technical Studies Grants program sought to provide about 50 percent of the available program funds to small urbanized areas.

The resulting absence of a broad range of applications for programs with restricted solicitation limits the number of qualified proposals that could fulfill these federal program goals and objectives. Officials with the Environmental Protection Agency's (EPA's) Pesticides Control Research Grants Program, for example, solicited applications only from its seven current recipients to maintain program continuity. We found that the program was experiencing management problems with one of the seven recipients, but program administrators nevertheless discouraged another eligible university from applying for funds.

Federal discretionary assistance programs can also help ensure a sufficient number of responsive applications by providing eligible applicants with both informative solicitations and meaningful explanations for not funding applicants. Regarding the content of agency solicitation announcements, federal administrators reported that 7 of 11 key application or program features were included about 90 percent of the time. The announcements most frequently contained information on submission location, eligibility criteria, and application deadlines. Of the other four features, two that could help applicants prepare realistic project budgets—the amount of funds available and the number of anticipated awards—appeared together in 43 percent of the 341 programs that

¹Fourteen other programs did not solicit applications from any eligible applicants but, rather, relied on unsolicited applications. Four additional programs solicited applications but did not answer the applicable questions on solicitation. Therefore, the total number of programs that solicited applications was 341.

solicited applications. (See app. II, p. 22, for a tabulation of the application and program features frequently contained in solicitation announcements.)

Federal administrators also reported that 92 percent of the discretionary programs notified unsuccessful applicants of award declinations. Further, 93 percent of these programs provided unsuccessful applicants with an explanation of the award decision either routinely or upon request of the applicant. These explanations give unsuccessful applicants information to correct application weaknesses and improve future applications. In a previous study, we concluded that informative explanations can be useful to researchers in conducting research or improving declined proposals for resubmission and reevaluation.²

Reviews

The use of knowledgeable reviewers outside the program office or the agency to evaluate applications provides an independent perspective. Of the 341 programs that solicited applications, 77 percent used at least some technical reviewers from outside the program office, and more than half included reviewers outside the agency.

Agency officials can further achieve an independent review process by requiring that application reviewers be approved at levels higher than program staff or project officers. In an earlier report that addressed application review procedures, we concluded that approval of reviewers by project officers promotes the appearance of a less than objective review process.³ Of the federal programs, 89 percent required approval of outside reviewers by officials at levels higher than program staff or project officers, and 80 percent required higher level approval of internal reviewers.

While most of the programs used reviewers from outside the agency, some programs relied exclusively on internal program staff for their reviews. For example, reviews for the Public Works and Development Facilities program in the Department of Commerce are done by regional project review committees consisting of regional program staff and

²Better Accountability Procedures Needed in NSF and NIH Research Grant Systems (PAD-81-29, Sept. 30, 1981).

³Promising Changes Improve EPA's Extramural Research; More Changes Needed (CED-81-6, Oct. 28, 1980).

chaired by the regional director. Several programs pointed to the difficulty in obtaining outside reviewers due to the narrowness of their subject areas or heavy application workloads.

The consistent application of specific program evaluation criteria during application reviews promotes a fair and equal review of all proposals. Of the 341 programs that solicited applications, 85 percent had written program evaluation criteria. However, some variation existed in how consistently these criteria were applied. Among the 26 programs we reviewed in detail, 20 required reviewers to address specific criteria when rating applications, assign points for each criterion, and add these points to determine a total score. The other programs, however, required reviewers to provide an overall rating without a mechanism to assure that each criterion was consistently considered in reviewing all applications. (See app. III, pp. 23-25, for tabulations of the application review procedures used by federal discretionary assistance programs.)

Improvements Needed in Award Elements

Although most discretionary programs had the elements that promote open and fair competitive processes for soliciting and reviewing applications, several areas could be improved. Program practices in these areas often lacked managerial controls to ensure adequate competition. We have found similar problems in our prior reviews of individual federal programs. (See app. VII, p. 30, for a list of these reports.)

Solicitation Methods Should Be More Targeted

About one-third of the 225 discretionary programs that tried to reach their entire applicant pool may not have been effective because agency officials did not choose solicitation methods tailored to reach their eligible applicant populations. For small, well-defined applicant pools, a single targeted method, such as specialized periodicals or notices sent to each eligible entity, should be sufficient to reach all eligible applicants. Alternatively, for large, less-defined applicant pools, a broad-based solicitation method, such as the Federal Register, coupled with at least one other more targeted method, would tend to reach a significant portion of the eligible community. The use of multiple methods is important for large, diverse applicant pools since they may not have easy access to a single information source. Among the 225 discretionary programs that tried to reach all eligible applicants, 200 had a relatively large, undefined eligible applicant community. However, officials with 72 of the 200 programs (36 percent) said they used only a single method to solicit applications, most often the Federal Register.

Of the 26 programs we reviewed in detail, 16 tried to reach all eligible applicants. Table 1 shows that five of six programs with well-defined applicant pools selected a single solicitation method. Six of the 10 programs with a relatively large, undefined pool of applicants chose a strategy tailored to reach their applicant population by selecting a broad-based method and at least one other approach.

Table 1: Match of Solicitation Methods With Applicant Pools for 16 Programs Examined

	Well-defined applicant pool	Undefined applicant pool
Single solicitation method	5	4
Broad-based/multiple solicitation methods	1	6
	6	10

Of the six programs seeking applications from a well-defined applicant pool, one selected methods designed more to reach an undefined applicant population. In this case—Commerce’s Public Works and Development Facilities program—officials used the Federal Register and contacted selected eligible applicants about program requirements. This approach may not have effectively reached the eligible applicants in the program’s well-defined universe of 314 economic development districts. Eligible applicants generally do not rely on the Federal Register as a primary source of program information, according to a program official. Alternatively, public interest group representatives suggested that eligible applicants would more effectively be notified by sending targeted program announcements directly to each of the 314 districts.

Of the 10 programs that tried to reach a large, relatively undefined applicant pool, 6 used a broad-based solicitation method along with other methods to reach the entire eligible applicant community. Under EPA’s Consolidated Research Program, for example, agency officials received a greater number of high-quality applications after shifting from exclusive reliance on a narrow-based method to the additional use of a broader based method of solicitation—the National Institute of Health’s Guide to Grants and Contracts.

However, 4 of the 10 programs with large, undefined applicant pools relied on a single, broad-based solicitation method—the Federal Register—that may not, by itself, effectively reach segments of eligible applicants. According to a bilingual education interest group, for example, exclusive reliance on the Federal Register limits the Bilingual

Education program's ability to find qualified applicants who could provide services to the most needy jurisdictions. This interest group believes that smaller organizations serving limited English proficient students in jurisdictions with unmet program needs often do not have access to the Federal Register and would more effectively be reached through other notification methods.

In an earlier report on the Department of Housing and Urban Development's (HUD's) Urban Development Action Grant program, we concluded that the program's reliance on a single solicitation method—a one-page flyer—seriously limited the number of applications received from eligible local governments, particularly small cities.⁴ Accordingly, HUD undertook an outreach effort to obtain a broader spectrum of applicants.

Unsolicited Application Subject to Less Rigorous Competitive Review

Although most discretionary grants were awarded through formal solicitation of applicants and an independent review of each competing application, about 12 percent of the dollars and 19 percent of the awards were provided to unsolicited applicants.⁵ These applications are typically submitted outside the scope of normal program solicitation announcements and cycles, and they tend to be reviewed singularly without comparison to other competing applicants.

Of the 355 discretionary programs, 106 awarded some or all of their funds based on unsolicited applications. In fiscal year 1984, 90 of these programs reported awarding \$1.4 billion, or 12 percent of total discretionary assistance funds, in this manner. The most frequent reasons offered by federal program officials for accepting unsolicited proposals were to fund projects of outstanding merit and continuations of existing grants.

Unsolicited proposals tend to be subject to a less rigorous review process than solicited applications are. In our 26-program sample, unsolicited proposals received between funding cycles were typically considered on an individual basis rather than holding them to compete with other applications in the next cycle. As a result, the relative merits of unsolicited proposals versus other applications were not considered in the

⁴Insights Into Major Urban Development Action Grant Issues (GAO/RCED-84-55, Mar. 5, 1984).

⁵In our questionnaire we defined an unsolicited application as one that was not orally requested or is not within the scope of any current or soon-to-be-published announcement of the availability of funds.

application review. Further, federal officials report they are less likely to use reviewers outside the program office and written evaluation criteria for reviewing unsolicited proposals.

These less rigorous review procedures could provide greater opportunities for awarding officials to improperly influence the technical review process. One case that came to our attention involved the program director in the Department of Education's Bilingual Education program. The director used the unsolicited, out-of-cycle process to advance a proposal that was previously rejected four times in the program's normal competitive review process. Unlike normal competitive procedures where review panels are randomly selected from lists of experts, this official selected the review panel himself, which provided a favorable score to permit funding.

Agencies that accepted unsolicited proposals generally did not use a certification, which could help control weaknesses in the review process. Specifically, only 20 percent of the 106 programs required program staff to certify that unsolicited proposals are not within the scope of any current or soon-to-be-issued program announcement. This requirement places the burden on the program staff to show that the unsolicited application cannot be reviewed on a competitive basis with other related applications.

Unsolicited proposals are closely related to "sole-source" applications in that they are both generally reviewed singularly, without being compared to other applications. However, unlike unsolicited applications, sole-source applicants are specifically requested by federal officials to apply for funds. Programs allowing for the singular review of applications can potentially provide a greater opportunity for agency officials to solicit and fund preselected or sole-source applicants without being subject to the discipline of the competitive review process.

Only 18 percent of the programs permitting unsolicited applications, however, have a certification that could minimize the potential for using the singular review process to fund sole-source applications. This certification requires applicants to certify that no federal official specifically solicited their application and is intended to assure that applications submitted outside the normal competitive process were not developed in cooperation with agency officials serving in a review or award capacity. (See app. V, pp. 27-28, for tables on agencies' processes for accepting and funding unsolicited applications.)

Deviations From Competitive Award Process Often Not Subject to Internal Review

Deviations from key competitive processes may be necessitated by legitimate managerial or legislative requirements. However, because such deviations may constrain the degree of competition for program funds, justification or review of these decisions by higher level agency officials provides for consideration of the trade-off between competition and other potentially conflicting objectives.

Agencies' decisions to depart from the competitive elements, however, were sometimes not subject to internal justification or review. Of the 106 programs accepting unsolicited applications, about 26 percent did not have policies requiring written justification of the decision to accept or fund these applications. Further, agencies differed over whether prior approval is required at a higher level before funding an unsolicited application. For example, the Department of Commerce requires secretarial approval before funding each unsolicited application, while HUD does not require approval outside the relevant program office.

Awarding officials may also find it necessary to depart from reviewers' recommendations in making individual award decisions. Managerial accountability for these award decisions is promoted when departures from reviewers' recommendations are justified in writing. This preserves the discretion of awarding officials while assuring that the reviewers' recommendations are recognized in the decision-making process. Of the 341 discretionary programs that solicited applications, 111 (33 percent) did not require written justifications for award deviations from reviewers' recommendations. Similarly, in an earlier report we found that all deviations from reviewer recommendations were not justified in writing in Education's Women's Educational Equity Act program.⁶

In 1984, 137 programs (40 percent) reported deviating from reviewers' recommendations, most often to correct panel review oversights, improve the mix of recipients receiving funds, and improve the geographic distribution of awards. Of these 137 programs, 24 did not require written justification for the deviations. (See app. IV, p. 26, for tabulations by agency of the numbers of programs that deviated from reviewers' recommendations and the numbers of programs requiring written justifications for these deviations.)

⁶Procedures for Making Grant Awards Under Three Department of Education Discretionary Grant Programs (GAO/HRD-83-68, July 26, 1983).

Systematic Oversight of Award Process Controls Needed

Internal reviews required by the Federal Managers' Financial Integrity Act (FMFIA) can help ensure accountability and competition in discretionary assistance programs. Under OMB guidance, agencies are to evaluate their vulnerability to mismanagement and assess their internal controls to promote managerial improvements.

Agency implementing guidance for FMFIA, however, varied in its coverage of discretionary award practices as a potentially vulnerable area. Only two of the eight agencies responsible for the 26 programs we reviewed in detail—Education and EPA—had departmental policies that required program officials to review grants management issues in their vulnerability assessments and internal control reviews. The other six agencies gave operating units discretion to identify areas that should be assessed for vulnerability to mismanagement. None of these six agencies identified the grants management area as potentially vulnerable.

Of the two agencies providing departmental guidance on grants management, only Education included discretionary award processes in its guidance. Although not addressing every competitive element discussed in this report, the guidance did require program managers to examine procedures for soliciting and reviewing applications and notifying unsuccessful applicants. Unlike Education, EPA did not require its program managers to review the discretionary award process, nor did it provide guidance on the award process for program managers choosing to assess this issue.

Guidance specifying FMFIA coverage of award procedures provides opportunities to improve the discretionary grant award process. As we previously reported,⁷ a Department of Education internal control review covering activities of educational laboratories and centers found that about \$30 million in noncompetitive grant funds was provided to 17 laboratories and centers in 1984, and this activity was identified as highly vulnerable to mismanagement and abuse. After identifying this issue, officials began converting to a competitive selection process for providing federal assistance.

Conclusions

Competition in the discretionary grant process helps assure that the best possible projects will be funded. Full solicitation through informative program announcements increases the potential for federal agencies to

⁷Second-Year Implementation of the Federal Managers' Financial Integrity Act in the Department of Education (GAO/HRD-85-78, Sept. 26, 1985).

receive the strongest proposals responsive to program objectives. The review of applications by persons independent of awarding officials helps assure an impartial assessment of the relative technical merits of each proposal. Requiring awarding officials to justify deviations from reviewer recommendations promotes managerial accountability for award decisions.

Most discretionary grant programs have policies promoting competitive systems for soliciting and reviewing applications. Nearly two-thirds of the discretionary programs sought to achieve widespread solicitation by soliciting applications from all eligible applicants, although some programs could better select solicitation methods more appropriate for the size and type of their eligible applicant pools. Moreover, 77 percent of the programs selected application reviewers from outside the program office or agency, and 85 percent used written evaluation criteria to assess proposed projects.

Other programs, however, departed from key elements of the competitive process. These deviations were prompted by legislative or program management considerations. We recognize that legitimate program management considerations may necessitate a departure from a fully competitive approach, particularly regarding solicitation practices and final award selections. Thus, a trade-off may sometimes exist between achieving the goals and benefits of a competitive award system and meeting specific program requirements.

In our opinion, these trade-offs should be fully considered and justified within the agency to promote accountability. Specifically, program officials should justify these departures internally in a manner reviewable at a higher level. Because unsolicited applications are vulnerable to abuse, we further believe that program officials should be required to obtain approval at a higher level for accepting and funding these applications outside normal award cycles.

Managerial accountability for individual award decisions also could be strengthened. Agencies should require all programs to fully justify award decisions that deviate from reviewers' recommendations. This would preserve the discretion of award officials while providing recognition of technical reviewers' input in the decision-making process.

Federal agencies can further promote accountability by including the award process in agency guidance implementing the Federal Managers' Financial Integrity Act. Some agencies or their component bureaus or

divisions responsible for conducting FMFIA reviews did not identify the award process as a potentially vulnerable area for assessment purposes. FMFIA's potential role as a check on agency award practices could be enhanced if more agencies or component units responsible for these reviews identified the award process as a potentially vulnerable area, using the elements of competition discussed in this report as a guide for FMFIA coverage.

The strengthening of managerial accountability for discretionary grants can be best undertaken as a government-wide project. A common effort among the many agencies and programs providing discretionary grants would provide evidence of a fair, open decision-making process to organizations applying for federal assistance. However, since agencies' grant decision-making processes differ considerably, this effort should be implemented within the context of the different agency processes with only broad central management guidance.

We believe that the President's Council on Management Improvement, under the guidance of OMB, could be an effective forum to oversee and coordinate these improvements in federal discretionary award processes. PCMI membership consists of senior management officials from each federal agency and department. Among its responsibilities, PCMI formulates long-range plans for improved management and ensures timely implementation of new policies. In previous years, representatives developed comprehensive federal guidance and standards for a broad range of issues, including personnel and financial management. PCMI members, recognizing programmatic differences among federal agencies and departments, could work with program managers to develop procedures that would promote both accountability and competition in each agency's discretionary grant process.

Recommendations to the Director, OMB

We recommend that OMB—through PCMI—work with federal agencies to implement the following objectives:

- Require written justification reviewable by high-level agency officials for grant award practices that restrict widespread solicitation of all eligible applicants and that do not use at least some independent officials outside the program office to review applications.
- Require program managers to provide written justification for award decisions that deviate from reviewers' recommendations.
- Require approval, at a level higher than the program managers, for funding unsolicited applications.

-
- Recognize the discretionary grant award process as a potentially vulnerable area for review under FMFIA.

Agency Comments and Our Evaluation

In commenting on a draft of this report, OMB supported our recommendation that PCMI serve as a forum to oversee improvements in agency discretionary award processes. OMB agreed that PCMI is particularly well suited to develop any needed procedures for accountability and competition in the award processes of each federal department or agency. Once it begins this project, PCMI will consider the specific measures we recommended for improving competition.

As arranged with your office, unless you publicly announce its contents earlier, we plan no further distribution of this report until 30 days from its issue date. At that time, we will send copies to other interested congressional committees and members, the Director of OMB, and other interested parties.

Sincerely yours,



Richard L. Fogel
Assistant Comptroller General

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Abbreviations

DOT	Department of Transportation
EPA	Environmental Protection Agency
FMFLA	Federal Managers' Financial Integrity Act
GAO	General Accounting Office
HHS	Department of Health and Human Services
HUD	Department of Housing and Urban Development
NSF	National Science Foundation
OMB	Office of Management and Budget
PCMI	President's Council on Management Improvement

Request Letter

WILLIAM V. ROTH, JR., DEL., CHAIRMAN
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United States Senate

COMMITTEE ON
GOVERNMENTAL AFFAIRS
WASHINGTON, D.C. 20510

January 10, 1984

The Honorable Charles Bowsher
Comptroller General of the United States
U.S. General Accounting Office
441 G Street, N.W.
Washington, D.C. 20548

Dear Mr. Bowsher:

Recently, the Inspector General for the Department of Health and Human Services completed a report which reviewed the management practices used by one of the Department's agencies (the Office of Human Development Services or HDS) for awarding and overseeing project grants. In general, the Inspector General found numerous weaknesses in the management of discretionary grant programs by HDS including a complete lack of competition in the awarding of project grants and inadequate oversight of the performance of grantees. In light of the fact that the agency reviewed by the Inspector General administers more than \$100 million in project grants and given the fact that numerous federal agencies are responsible for project grant programs, I believe that a broad study by the General Accounting Office of the management of discretionary project grants would be worthwhile and am requesting that such a study be conducted.

The HHS Inspector General found some serious problems with the way in which project grants are being managed in HDS. Among the findings of the Inspector General are the following:

- o Grant awards are being made to applicants whose proposals are rated lower than those of other applicants. In some instances, recommendations were made by the agency for improvements in a grantee's proposal that were never implemented. Accordingly, the agency's ability to enforce corrective measures and avoid possible problems is limited. In one case, the IG found that a \$500,000 grant was awarded for a project even though 14 other proposals were rated technically superior by the expert committee that reviewed applications.
- o Competition was not used on a regular basis for awarding grants. The IG found that "non-competitive awards were the rule rather than the exception" in the agency. The IG also noted that "most of the grants reviewed resulted from

The Honorable Charles Bowsher
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unsolicited applications" and he further reported that announcements alerting potential grantees about the existence of grant funding were not published in the Federal Register so that all interested grantees could submit applications. Of 13 grant awards tested by the IG, 8 were awarded without competition.

o Because project grants are awarded to researchers or institutions with the express purpose of obtaining useful research data or reports, careful oversight of grantee use of funds is necessary. The IG found that more than 65 percent of the grants reviewed contained no evidence that federal project managers had made any attempt to review the performance of their grantees. Some grantees were never visited by federal officials or asked to file performance reports. However, certain grantees in foreign countries, such as one grant recipient located in Egypt, were visited numerous times. These trips made by federal officials to the office of this grantee cost the federal government over \$20,000 over a three-year period.

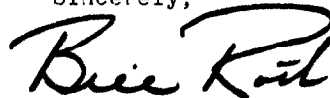
o In many cases, grantees were never asked to file required financial management reports at the conclusion of their work and in some instances, even technical reports describing the results of the grant funded work were never submitted.

I believe the IG's report raises fundamental questions concerning the management of discretionary project grants which should be reviewed by the General Accounting Office. The issues examined by the Inspector General in HDS, as noted above, could be reviewed in a broad cross-section of other agencies having responsibility for discretionary project grants.

I appreciate your attention to this request. There may be other matters which should be reviewed in the study I am requesting and I would ask that staff from your office contact Mr. Link Hoewing at 224-4751 before beginning their work.

I look forward to working with you in the future.

Sincerely,



William V. Roth, Jr.
Chairman

WVR/kkp

Federal Discretionary Program Solicitation Methods and Features

Table II.1 shows the solicitation methods used by the 225 programs that tried to reach all eligible applicants. The totals are not additive because some programs required more than one method.

Table II.1: Number and Percentage of Discretionary Programs That Required Various Solicitation Methods to Reach All Eligible Applicants

Solicitation method	Number and percentage of programs that required the method	
	Number	Percentage
Program mailing list	104	46
Federal Register	103	46
Program brochure/catalogs	103	46
Notice to national organizations	68	30
Specialized periodicals	41	18
Commerce Business Daily	22	10
Newspapers of general circulation	5	2
No method required	6	3

Table II.2 shows the frequency each feature appeared in application solicitations for the 341 discretionary programs that solicited applications.

Table II.2: Number and Percentage of Programs That Published Each of 11 Solicitation Features

Solicitation feature	Number and percentage of programs that required each feature	
	Number	Percentage
Submission location	319	94
Eligible applicants	311	91
Submission deadline	310	91
Agency contact person	309	91
Required forms	300	88
Program priorities	299	88
Evaluation method	240	70
Amount of funds available	212	62
Number of awards anticipated	166	49
Written evaluation criteria ^a	264	91
Evaluation criteria weights ^a	92	65

^aThese two elements were not used in all 341 programs. Of the 341 programs, 290 had written evaluation criteria; thus, 264 of these 290 programs published them in solicitations. Of the 290 programs with criteria, 141 used weighted criteria; thus, 92 of these 141 programs published their criteria weights.

Federal Discretionary Program Application Review Procedures

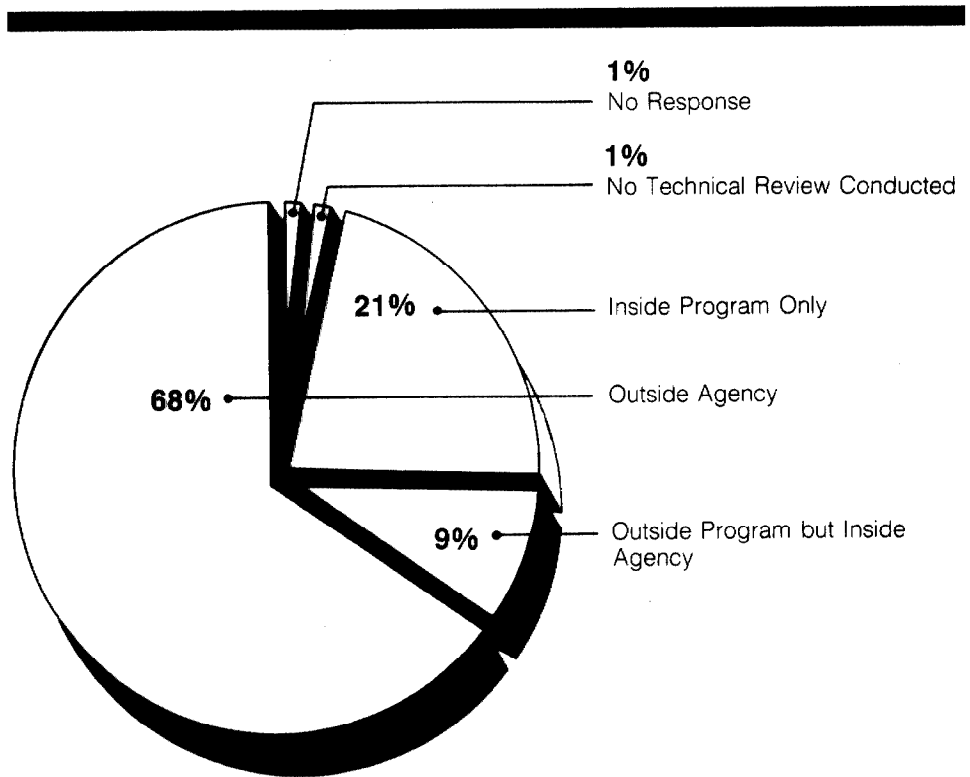
Table III.1 shows the organizational levels that approved external and internal application reviewers serving on technical review panels and the number of programs that gave approval at each level for each of the two types of reviewers.

Table III.1: Organizational Levels Responsible for Approving Internal and External Application Reviewers

Organizational level responsible for approving application reviewers	Number of programs	
	With external reviewers	With internal reviewers
Agency head	31	7
Assistant Secretary (or equivalent)	77	46
Program directorate	82	41
Program staff	19	19
Grants management staff	3	3
Other	6	3

Figure III.1 shows the percentage of the 341 programs that used at least some reviewers from outside the agency, outside the program but inside the agency, and inside the program exclusively.

Figure III.1: Percentage of Programs That Used Outside Reviewers or Relied Exclusively on Internal Program Staff to Evaluate Applications



**Appendix III
Federal Discretionary Program Application
Review Procedures**

Figure III.2 shows the percentage of discretionary programs that used at least some application reviewers from outside the program office for selected program types.

Figure III.2: Use of Application Reviewers Outside the Program Office for Selected Program Types

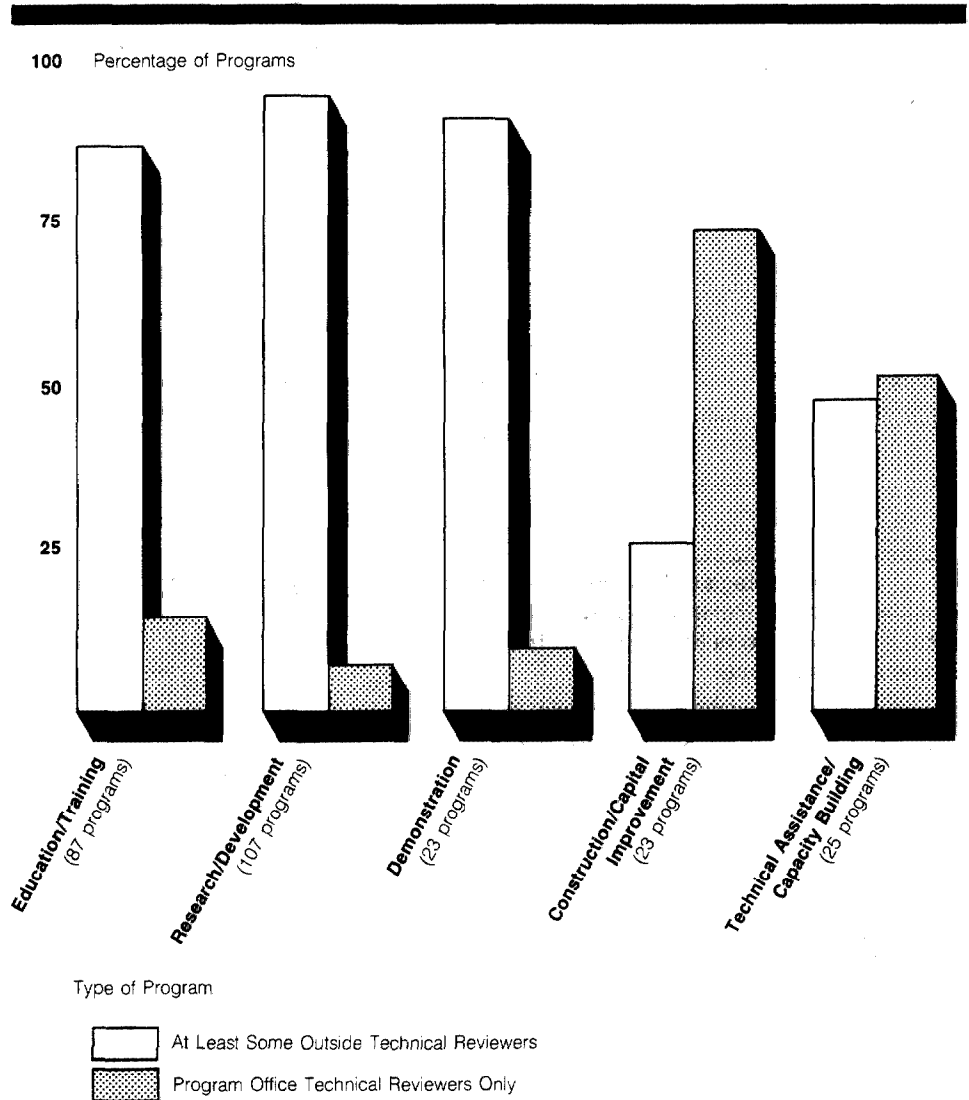
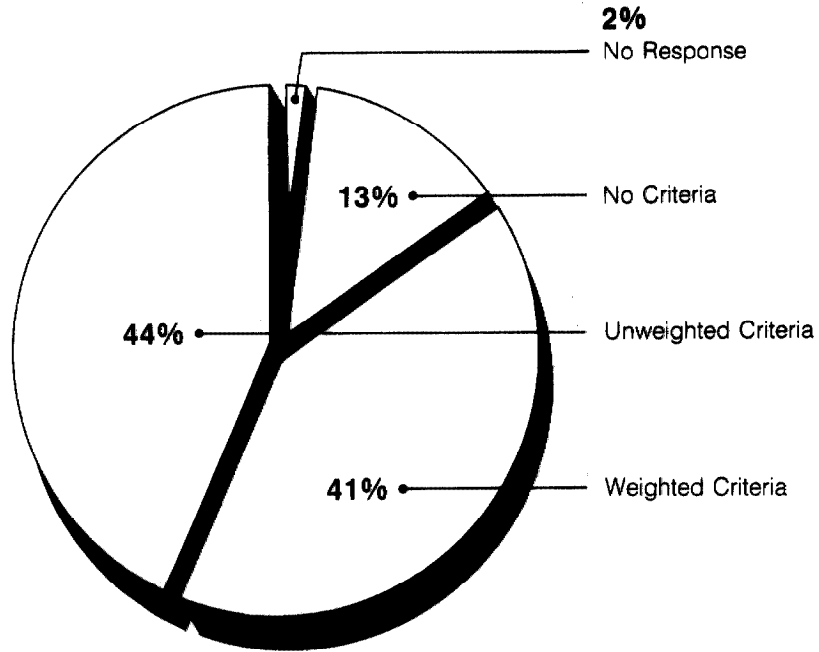


Figure III.3 shows the percentage of the 341 programs with and without written evaluation criteria and further identifies those programs with weighted or unweighted criteria.

Figure III.3: Percentage of Discretionary Programs With Weighted/Unweighted Written Evaluation Criteria and No Written Criteria



Federal Procedures for Selecting Discretionary Award Recipients

Table IV.1 shows the number of discretionary programs that deviated from reviewer recommendations with or without written justification in each of the eight agencies we selected for detailed field work.¹

Table IV.1: Number of Discretionary Programs That Deviated From Reviewer Recommendations With or Without Any Required Written Justification

Agency	Total programs	Number of programs that			
		Required justification	Deviated	Did not require justification	Deviated
Commerce	11	2	1	9	0
HHS	108	97	60	11	8
HUD	8	3	1	5	0
Interior	8	4	0	4	1
Transportation	7	1	0	6	2
NSF	11	9	5	2	1
EPA	3	1	1	2	0
Education	44	38	14	6	0
Total	200	155	82	45	12

Table IV.2 shows the reasons most frequently cited for deviating among all 137 programs reporting deviations from application reviewer recommendations.

Table IV.2: Reasons Frequently Cited for Deviating From Application Reviewer Recommendations

Reason for deviating	Number of programs	Percentage of programs
Adjust for panel review oversights	63	46
Improve the mix of awards based on recipient features identified by the awarding official	48	35
Improve the geographic distribution of awards	45	33
Provide funds to new recipients	32	23
Meet statutory requirements mandated by the Congress	22	16
Provide funds to experienced recipients	16	12
Meet regulatory requirements mandated by the federal agency	13	9

¹Programs in the eight agencies accounted for 94 of the 137 programs in which awarding officials deviated from reviewers' recommendations. Further, these programs accounted for 45 of the 111 programs that did not require written justifications for deviations.

Federal Procedures for Accepting and Funding Unsolicited Applications

Table V.1 shows the frequency with which discretionary programs required a written justification for accepting and funding unsolicited applications in the eight agencies we selected for detailed review.¹

Table V.1: Number of Discretionary Programs in Each Federal Agency That Required or Did Not Require Written Justification for Funding Unsolicited Applications

Agency	Programs that required written justification	Programs that did not require written justification
Commerce	1	2
HHS	58	0
HUD	2	1
Interior	0	3
Transportation	1	3
NSF	0	2
EPA	6	1
Education	4	0
Total	72	12

Table V.2 shows the reasons frequently cited by 106 programs for accepting and funding unsolicited applications.

Table V.2: Reasons Frequently Cited for Accepting and Funding Unsolicited Applications

Reasons for accepting and funding unsolicited applications	Number of programs	Percentage of programs
Proposal is of outstanding merit	80	75
Continuation awards	65	61
Award without competition is authorized by federal law or executive order	48	45
It is impracticable to secure competition	23	22
Awards cannot be delayed due to a compelling and unusual urgency involving a national emergency or a substantial danger to health or safety	13	12
Preference for funding on a first-come, first-served basis	8	8
Awarded to all of a certain type of applicant	8	8
Congressional preference for awardees	7	7

¹The eight agencies accounted for 84 of the 106 programs that awarded some or all of their program funds for unsolicited applications.

**Appendix V
Federal Procedures for Accepting and
Funding Unsolicited Applications**

Table V.3 shows the number and percentage of programs that used at least some application reviewers from outside the program office and required written evaluation criteria for both solicited and unsolicited applications.²

Table V.3: Differences in Review Processes Between Solicited and Unsolicited Applications

Review/criteria requirements	Solicited applications		Unsolicited applications	
	Number of programs	Percentage of programs	Number of programs	Percentage of programs
Required to use reviewers outside the program office	79	86	69	75
Required to use written evaluation criteria	80	87	68	74

²Total number of programs are the 92 programs that funded both solicited and unsolicited applications.

List of 26 Programs Reviewed in Detail

CFDA^a number	Program name	Agency
11.300	Economic Development-Grants for Public Works and Development Facilities	Commerce
11.303	Economic Development-Technical Assistance	Commerce
11.800	Minority Business Development- Management and Technical Assistance	Commerce
13.110	Maternal and Child Health Federal Consolidated Programs	HHS
13.217	Family Planning-Services	HHS
13.224	Community Health Centers	HHS
13.246	Migrant Health Centers Grants	HHS
13.837	Heart and Vascular Diseases Research	HHS
13.995	Adolescent Family Life-Demonstration Projects	HHS
14.164	Operating Assistance for Troubled Multifamily Housing Projects	HUD
14.223	Indian Community Development Block Grant Program	HUD
14.403	Community Housing Resource Board Program	HUD
15.144	Indian Child Welfare Act-Title II Grants	Interior
15.600	Anadromous Fish Conservation	Interior
15.919	Urban Park and Recreation Recovery Program	Interior
20.500	Urban Mass Transportation Capital Improvement Grants	DOT
47.009	Graduate Research Fellowships	NSF
47.049	Mathematical and Physical Sciences	NSF
47.050	Astronomical, Atmospheric, Earth and Ocean Sciences	NSF
66.001	Air Pollution Control Program Grants	EPA
66.500	Environmental Protection-Consolidated Research Grants	EPA
66.502	Pesticides Control Research Grants	EPA
66.505	Water Pollution Control-Research, Development, and Demonstration Grants	EPA
66.700	Pesticides Enforcement Program Grants	EPA
84.003	Bilingual Education	Education
84.042	Special Services for Disadvantaged Students	Education

^aCatalog of Federal Domestic Assistance.

Prior GAO Reports on Discretionary Award Practices

Report title	Description
Promising Changes Improve EPA's Extramural Research; More Changes Needed (CED-81-6, Oct. 28, 1980)	Restricted solicitation practices limited the numbers of qualified applicants, and approval of application reviewers by program staff reduced the potential for objective reviews.
Labor Needs to Better Select, Monitor, and Evaluate Its Employment and Training Awardees (HRD-81-111, Aug. 28, 1981)	The Department of Labor relied on sole-source awards without justification.
Better Accountability Procedures Needed in NSF and NIH Research Grant Systems (PAD-81-29, Sept. 30, 1981)	Inconsistent methods were used to record deliberations conducted by application reviewers and to notify unsuccessful applicants.
Procedures for Making Grant Awards Under Three Department of Education Discretionary Grant Programs (GAO/HRD-83-68, July 26, 1983)	Program administrators did not provide written justifications for award selections that deviated from reviewer recommendations.
Insights Into Major Urban Development Action Grant Issues (GAO/RCED-84-55, Mar. 5, 1984)	Program managers used an inappropriate solicitation method to reach a relatively large, undefined eligible applicant pool.
Federal Aviation Administration's System for Prioritizing Airport Grants (GAO/RCED-84-124, Apr. 13, 1984)	Federal program officials did not comply with requirements to justify funding projects from a low priority category.
Competitive and Noncompetitive Grant Awards Made by the Office of Juvenile Justice and Delinquency Prevention (GAO/ GGD-85-6, Oct. 26, 1984)	The Office relied heavily on program staff, rather than external reviewers, for application reviewers.
Second-Year Implementation of the Federal Managers' Financial Integrity Act in the Department of Education (GAO/HRD-85-78, Sept. 26, 1985)	Competition improved after an internal control review identified noncompetitive practices.

Comments From the Office of Management and Budget



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

JUL 15 1986

Mr. William J. Anderson
Director
General Government Division
General Accounting Office
Washington, D.C. 20548

Dear Mr. Anderson:

This is in reply to your letter of July 1, 1986, requesting comments on the draft report, "DISCRETIONARY GRANTS: Opportunities Exist to Improve Federal Discretionary Award Practices."

The report concludes that competition in the discretionary grant process helps assure that the best possible projects will be funded. The report also urges strengthening managerial accountability for discretionary grants to provide evidence of a fair and open decisionmaking process to those organizations applying for Federal assistance.

We support the recommendation that the President's Council on Management Improvement (PCMI) serve as a forum to oversee improvements in agency discretionary award processes. The PCMI, which consists of senior management officials from the major Departments and agencies, is particularly well suited to develop any needed procedures for accountability and competition in each agency's discretionary grant process.

Thank you for the opportunity to review the draft report.

Sincerely,

Carole J. Dineen
Associate Director
for Management



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