



FEB 17 2009

TO: Richard E. Besser, M.D.
Acting Director
Centers for Disease Control and Prevention

FROM: Daniel R. Levinson *Daniel R. Levinson*
Inspector General

SUBJECT: Review of Centers for Disease Control and Prevention Grant Closeout Procedures
(A-02-07-02014)

The attached final report provides the results of our review of the Centers for Disease Control and Prevention (CDC) grant closeout procedures. Pursuant to Federal regulations and policy, CDC is required, as a general matter, to close grants within 180 days after the end of the grant period (the cutoff date).

Two CDC components are responsible for administering grants. The Procurement and Grants Office (Grants Office) is responsible for recording grant activity in the Grants Management Information System. The Financial Management Office (FMO) is responsible for tracking and recording grant activity on the CDC general ledger and instructing the Department's Program Support Center, Division of Payment Management (DPM), to close grants in its Payment Management System (payment system). DPM is responsible for recording grant activity in the payment system and closing grants after receiving closeout instructions from FMO. For a grant to be closed in the payment system, the grant award, expenditure, and drawdown amounts must be equal.

From September 1, 2002, through December 31, 2006, the Grants Office contracted out the grant closeout function. Because of budgetary constraints, the Grants Office did not renew the contract for 2007.

Our objective was to determine why CDC grants identified by DPM as eligible for closeout as of March 31, 2007, were not closed in the payment system by the cutoff dates.

The 2,740 grants identified by DPM as eligible for closeout as of March 31, 2007, which had unexpended balances totaling more than \$245 million, were not closed in the payment system by the cutoff dates for several reasons:

- Neither the Grants Office nor its contractor initiated closeout of 2,691 grants because, according to CDC officials, the grants were part of a backlog of grants awaiting closeout. Despite the backlog, the Grants Office suspended closeout actions from January 1 through March 31, 2007, while it was developing closeout policies and procedures.
- Either the Grants Office or its contractor initiated closeout of 49 grants. However, the grants remained open in the payment system beyond the cutoff date because the grant award, expenditure, and drawdown amounts in the payment system differed or because the closeout code was not the final transaction in the payment system.

We recommend that CDC use the information in this report to ensure that grants are closed in a timely manner and to eliminate the backlog of grants eligible for closeout.

In its comments on our draft report, CDC concurred with our recommendation and described actions that it was taking or planned to take.

Pursuant to the Freedom of Information Act, 5 U.S.C. § 552, Office of Inspector General reports generally are made available to the public to the extent that information in the report is not subject to exemptions in the Act. Accordingly, this report will be posted on the Internet at <http://oig.hhs.gov>.

Please send us your final management decision, including any action plan, as appropriate, within 60 days. If you have any questions or comments about this report, please do not hesitate to call me, or your staff may contact Joseph J. Green, Assistant Inspector General for Financial Management and Regional Operations, at (202) 619-1157 or through e-mail at Joe.Green@oig.hhs.gov. Please refer to report number A-02-07-02014 in all correspondence.

Attachment

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**REVIEW OF CENTERS FOR
DISEASE CONTROL AND
PREVENTION GRANT CLOSEOUT
PROCEDURES**



Daniel R. Levinson
Inspector General

February 2009
A-02-07-02014

Office of Inspector General

<http://oig.hhs.gov>

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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.

EXECUTIVE SUMMARY

BACKGROUND

Two components of the Department of Health and Human Services (HHS), Centers for Disease Control and Prevention (CDC), are responsible for administering grants. The Procurement and Grants Office (Grants Office) is responsible for recording grant activity in the Grants Management Information System. The Financial Management Office (FMO) is responsible for tracking and recording grant activity on the CDC general ledger and instructing the HHS Program Support Center, Division of Payment Management (DPM), to close grants in its Payment Management System (payment system). DPM is responsible for recording grant activity in the payment system and closing grants after receiving closeout instructions from FMO.

From September 1, 2002, through December 31, 2006, the Grants Office contracted out the grant closeout function. Because of budgetary constraints, the Grants Office did not renew the contract for 2007.

Pursuant to Federal regulations and policy, CDC is required, as a general matter, to close grants within 180 days after the end of the grant period (the cutoff date). For a grant to be closed in the payment system, the grant award, expenditure, and drawdown amounts must be equal.

OBJECTIVE

Our objective was to determine why CDC grants identified by DPM as eligible for closeout as of March 31, 2007, were not closed in the payment system by the cutoff dates.

SUMMARY OF FINDINGS

The 2,740 grants identified by DPM as eligible for closeout as of March 31, 2007, which had unexpended balances totaling more than \$245 million, were not closed in the payment system by the cutoff dates for several reasons:

- Neither the Grants Office nor its contractor initiated closeout of 2,691 grants because, according to CDC officials, the grants were part of a backlog of grants awaiting closeout. Despite the backlog, the Grants Office suspended closeout actions from January 1 through March 31, 2007, while it was developing closeout policies and procedures.
- Either the Grants Office or its contractor initiated closeout of 49 grants. However, the grants remained open in the payment system beyond the cutoff dates because the grant award, expenditure, and drawdown amounts in the payment system differed or because the closeout code was not the final transaction in the payment system.

RECOMMENDATION

We recommend that CDC use the information in this report to ensure that grants are closed in a timely manner and to eliminate the backlog of grants eligible for closeout.

CENTERS FOR DISEASE CONTROL AND PREVENTION COMMENTS

In its comments on our draft report, CDC concurred with our recommendation and described actions that it was taking or planned to take. CDC's comments are included as Appendix B.

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INTRODUCTION

BACKGROUND

Two components of the Department of Health and Human Services (HHS), Centers for Disease Control and Prevention (CDC), are responsible for administering discretionary grants¹ and mandatory grants.² The Procurement and Grants Office (Grants Office) is responsible for recording grant activity in the Grants Management Information System (grants management system). The Financial Management Office (FMO) is responsible for tracking and recording grant activity on the CDC general ledger and instructing the HHS Program Support Center, Division of Payment Management (DPM), to close grants in its Payment Management System (payment system). DPM is responsible for recording grant activity in the payment system and closing grants after receiving closeout instructions from FMO.

Regulations and Departmental Policies Governing Grant Closeout

Pursuant to 45 CFR § 92.50(a), which applies to most HHS grants to State and local governments, Federal agencies are required to close out the grant award when “all applicable administrative actions and all required work of the grant has been completed.” Under 45 CFR § 92.50(b), grantees are required to submit all financial, performance, and other required reports within 90 days after the expiration or termination of the grant. The Federal agency may extend these reporting deadlines upon request. After receiving these reports, the Federal agency must make all adjustments to allowable costs within 90 days (45 CFR § 92.50(c)). Similar regulatory requirements at 45 CFR § 74.71 apply to the closeout of HHS grants awarded to nonprofit organizations. Therefore, CDC generally must close discretionary and mandatory grants within 180 days after the end of the grant period (referred to as the “cutoff date” in this report).³ We recognize that there may be certain instances in which CDC, in accordance with regulatory requirements or policy guidance, may need to take further administrative actions that would prevent the closing of a specific grant within 180 days.

¹Discretionary grants are awarded under programs that permit CDC, in accordance with legislation, to exercise judgment in approving the project, project period, budget period, grantee, and award amount (HHS Grants Policy Directive (GPD) 1.02). Examples of CDC discretionary grant programs include National Cancer Prevention and Control, System-Based Diabetes Prevention and Control, and State Heart Disease and Stroke Prevention.

²Mandatory grants statutorily require a Federal agency to award funds “if the recipient (usually a State) submits an acceptable State Plan or application and meets the eligibility and compliance requirements of the statutory and regulatory provisions of the grant program. Mandatory grants include open-ended entitlement grants, closed-ended grants, and block grants” (GPD 1.02). An example of a CDC mandatory grant program is Preventative Health and Health Services.

³GPD 4.02.B.1.d interprets 45 CFR §§ 92.50 and 74.71 to require that grants generally be closed within 180 days of the end of grant support. Although the specific closeout process described in this GPD applies only to discretionary grants (and the GPD governing mandatory grants has not yet been issued), the 180-day cutoff date referred to in GPD 4.02.B.1.d is an interpretation of regulations that apply to both mandatory and discretionary grants.

Grant Life Cycle

At the inception of a grant, the Grants Office issues a Notice of Grant Award to the grantee; establishes the grant award in the grants management system; and transmits the grant award information to FMO, which establishes the grant on the CDC general ledger. FMO then transmits the grant award information to DPM, which establishes the grant in the payment system.

The grantee draws down funds from the payment system electronically and reports expenditures to DPM as well as to the Grants Office. Regardless of whether the grantee maintains expenditure data on the cash or accrual basis of accounting, for block grant awards,⁴ DPM automatically records expenditures that equal drawdowns when the grantee requests funds. For non-block-grant awards, the grantee is required to send DPM a quarterly cash-basis report of expenditures, the PSC-272. Pursuant to 45 CFR §§ 74.71 and 92.50, the grantee also must report final grant expenditures to the Grants Office within 90 days after the end of the grant period so that the grant can be closed.

For a grant to be closed in the payment system, the award, expenditure, and drawdown amounts must be equal. After receiving a closeout code, DPM's practice is to leave the grant open for up to one quarter until it receives the final PSC-272 from the grantee. If the grant award, expenditure, and drawdown amounts remain in balance after the grantee submits the PSC-272 and if the closeout code is the final transaction on the grant, the grant automatically closes in the payment system.

Grants Office Closeout Process

Before September 1, 2002, Grants Office personnel periodically initiated the closeout of grants in accordance with general closeout procedures established in the HHS "Departmental Accounting Manual." The Grants Office lacked its own written procedures for closing grants.

From September 1, 2002, through December 31, 2006, the Grants Office contracted with Tessada & Associates, Inc. (the contractor), to handle the grant closeout function. The contractor adjusted grant awards in the grants management system to match final expenditure data received from grantees. If the contractor did not receive final expenditure data from a grantee, the contractor adjusted the grant award in the grants management system to match final expenditure data reported to DPM by the grantee. The contractor then submitted this adjustment to FMO and DPM. Finally, the contractor electronically submitted a closeout code through FMO to DPM so that the grant could be closed on the CDC general ledger and in the payment system. The contractor's closeout procedures did not require the reconciliation of grant activity in the grants management system to grant activity in the payment system before submitting closeout codes or periodically accessing the payment system to determine whether DPM had actually closed grants for which closeout had been initiated. Because of budgetary constraints, the Grants Office did not renew its contractual arrangement with the contractor for 2007.

⁴Block grants are mandatory grants that typically are awarded to States or local governing agencies with minimal Federal administrative restrictions so that grantees are free to target resources to meet the needs of their citizens (GPD 1.02). An example of a block grant is the Healthy Heart Program.

From January 1 through March 31, 2007, the Grants Office suspended closeout actions and focused on developing policies and procedures for reconciling grant activity in the grants management system to grant activity in the payment system before closeout, as well as procedures for following up to ensure that grants were closed in the payment system. As of March 31, 2007, these policies and procedures had not been completed.

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

Our objective was to determine why CDC grants identified by DPM as eligible for closeout as of March 31, 2007, were not closed in the payment system by the cutoff dates.

Scope

Our audit covered 2,740 CDC grants with unexpended balances totaling \$245,097,758 that, as of March 31, 2007, had not been closed in the payment system by the cutoff dates.⁵ We did not perform an indepth review of the internal control structure of the Grants Office, the contractor, FMO, or DPM. Instead, we gained an understanding of Grants Office, FMO, and DPM procedures related to grant closeout. We also did not determine whether grantees had submitted final financial reports to the Grants Office within 90 days after the end of the grant period.

We performed our fieldwork at CDC headquarters in Atlanta, Georgia, and at DPM headquarters in Rockville, Maryland.

Methodology

To accomplish our objective we:

- reviewed relevant Federal laws, regulations, and guidance;
- gained an understanding of the roles of the Grants Office, FMO, and DPM in the grant closeout process;
- obtained a file of 2,797 CDC grants and contracts with unexpended balances totaling \$246,123,229 that DPM had identified as eligible for closeout as of March 31, 2007;
- eliminated from the file 57 contracts that were outside the scope of this review;
- identified a population of 2,740 grants (2,558 discretionary grants and 182 mandatory grants) with unexpended balances totaling \$245,097,758 that, as of March 31, 2007, had not been closed in the payment system by the cutoff dates; and

⁵Unexpended balances represent the difference between the grant award and expenditure amounts in the payment system.

- determined how long each of the 2,740 grants remained open in the payment system after the cutoff date.

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 objective.

FINDINGS AND RECOMMENDATION

The 2,740 grants identified by DPM as eligible for closeout as of March 31, 2007, which had unexpended balances totaling \$245,097,758, were not closed in the payment system by the cutoff dates for several reasons:

- For 2,691 grants, closeout was not initiated because, according to CDC officials, the grants were part of a backlog of grants awaiting closeout by the Grants Office or the contractor. Despite the backlog, the Grants Office suspended closeout actions from January 1 through March 31, 2007, while it was developing closeout policies and procedures.
- For 49 grants, closeout was initiated but not completed because the grant award, expenditure, and drawdown amounts in the payment system differed or because the closeout code was not the final transaction in the payment system.

Appendix A contains details on the number of days that grants remained open after the cutoff dates.

CLOSEOUT OF GRANTS NOT INITIATED

Neither the Grants Office nor the contractor initiated closeout of 2,691 grants with unexpended balances totaling \$243,285,052. According to CDC officials, these grants were part of a backlog of grants awaiting closeout. Also, from January 1 through March 31, 2007, when the contractor was no longer responsible for the closeout function, the Grants Office did not initiate closeout of the grants in the backlog because it was developing grant closeout policies and procedures. As of March 31, 2007, the 2,691 grants had been open in the payment system for an average of 922 days beyond the cutoff dates.

CLOSEOUT OF GRANTS INITIATED BUT NOT COMPLETED

Either the Grants Office (before it contracted with the contractor) or the contractor (before its contract with the Grants Office expired) initiated closeout of 49 grants with unexpended balances totaling \$1,812,706. However, the grants remained open in the payment system for an average of 1,150 days beyond the cutoff dates because neither the Grants Office nor the contractor reconciled grant activity in the grants management system to grant activity in the payment system before submitting closeout codes to DPM. Moreover, because the Grants Office and the

contractor did not periodically access the payment system to follow up on the status of grants for which closeout had been initiated, neither knew whether DPM had actually closed the grants.

- DPM did not close 36 grants with unexpended balances totaling \$1,812,706 because the grant award, expenditure, and drawdown amounts were not equal in the payment system. In some cases, the differences were less than \$1. As of March 31, 2007, these grants had been open in the payment system for an average of 1,212 days beyond the cutoff dates.
- DPM did not close 13 grants with no unexpended balances because the closeout code was not the final transaction in the payment system. As of March 31, 2007, these grants had been open in the payment system for an average of 976 days beyond the cutoff dates.

RECOMMENDATION

We recommend that CDC use the information in this report to ensure that grants are closed in a timely manner and to eliminate the backlog of grants eligible for closeout.

CENTERS FOR DISEASE CONTROL AND PREVENTION COMMENTS

In its comments on our draft report, CDC concurred with our recommendation and described actions that it was taking or planned to take. CDC's comments are included as Appendix B.

APPENDIXES

NUMBER OF DAYS THAT GRANTS REMAINED OPEN AFTER CUTOFF DATES

For the 2,740 grants that should have been closed in the Payment Management System (payment system), we calculated the number of days that the grants remained open from the cutoff dates through March 31, 2007.

As shown in Table 1, the 2,691 grants for which closeout was not initiated remained open in the payment system for an average of 922 days after the cutoff dates.

Table 1: Grants for Which Closeout Was Not Initiated

| No. of Grants | Unexpended Balance Per DPM ¹ | No. of Grants Open After Cutoff Dates for: | | | Average No. of Days Since Cutoff Dates |
|---------------|---|--|--------------|---------------|--|
| | | 1–180 Days | 181–540 Days | Over 540 Days | |
| 2,691 | \$243,285,052 | 67 | 393 | 2,231 | 922 |

As shown in Table 2, the 49 grants for which closeout was initiated but not completed remained open in the payment system for an average of 1,150 days after the cutoff dates.

Table 2: Grants for Which Closeout Was Initiated

| No. of Grants | Unexpended Balance Per DPM | No. of Grants Open After Cutoff Dates for: | | | Average No. of Days Since Cutoff Dates |
|---------------|----------------------------|--|--------------|---------------|--|
| | | 1–180 Days | 181–540 Days | Over 540 Days | |
| 49 | \$1,812,706 | 0 | 1 | 48 | 1,150 |

¹DPM = Division of Payment Management.



DEPARTMENT OF HEALTH & HUMAN SERVICES

Public Health Service
Centers for Disease Control
and Prevention (CDC)**Memorandum**

Date JAN 8 2009

From Director
Centers for Disease Control and Prevention

Subject Office of Inspector General's Draft Report: "Review of Centers for Disease Control and Prevention Grant Closeout Procedures" (A-02-07-02014)."

To Daniel R. Levinson
Inspector General
Department of Health and Human Services

The Centers for Disease Control and Prevention's (CDC) Procurement and Grants Office (PGO) and the CDC Financial Management Office (FMO) appreciated the opportunity to review and comment on the Office of Inspector General's draft report, "Review of Centers for Disease Control and Prevention Grant Closeout Procedures."

As stated in the draft, the objective of the review was to determine why CDC grants identified by the Department of Health and Human Services' (HHS) Program Support Center, Division of Payment Management (DPM), as eligible for closeout as of March 31, 2007, were not closed in the Payment Management System (PMS) by the cutoff dates. The draft identified 2,740 grants eligible for closeout as of March 31, 2007, and also provided the following recommendations to address this finding:

Office of Inspector General (OIG) Recommendation: CDC ensures grants are closed in a timely manner and eliminate the backlog of grants eligible for closeout.

PGO Response: PGO concurs with this recommendation. PGO is currently following the HHS Assistant Secretary for Resources and Technology (ASRT) guidance memorandum dated September 9, 2008, for utilizing expedited procedures under the DPM for closing grant awards in PMS.

Specifically, per the ASRT memorandum, in situations where disbursements equal charging and there is a difference of authorizations (decrease only), the Systems Accounting Branch (SAB) will initiate the decrease closing transaction. Subsequently, those actions will be posted in PMS, with Operating Division (OPDIV) approval, and documents will be closed.

When authorization, disbursement, and charging are equal, but the document is still in open status, the SAB will initiate action for the OPDIV and upload the transactions to PMS to close the documents.

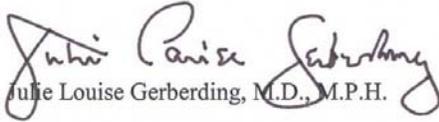
The PSC Liaison Branch will initiate adjust disbursements and post them in PMS and generate the appropriate actions to close the documents.

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PGO, in coordination with FMO, is reviewing grant awards with a project period ending in fiscal year 2004 and prior to determine the validity of these documents. If it is determined that these documents are not valid, appropriate action will be taken to close these documents in the Unified Financial Management System (UFMS) and PMS.

PGO and FMO are reviewing grant awards with a project period ending in fiscal year 2004 and prior to determine the validity of these documents. If it is determined these documents are not valid, appropriate action will be taken to close these documents in UFMS and PMS.

We would appreciate your consideration of the comments contained in this memorandum. We will be happy to discuss these comments with you. Please direct questions regarding these comments to Mr. Shaun Ratliff at (404) 639-2809 or at iggao@cdc.gov.


Julie Louise Gerberding, M.D., M.P.H.