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Need for Increased Emphasis on Timely Contract and Grant Closeout Activities. HRD-78-142; B-16 22. September 21, 1978. 8 pp. + appendix (2 pp.).

Report to Secretary, Department of Labor; by Gregory J. Ahart, Director, Human Resources Div.

Issue Area: Federally Sponsored or Assisted Employment and Training Programs (3200); Federal Procurement of Goods and Services (1900).

Contact: Human Resources Div.

Budget Function: Education, Manpower, and Social Services: Training and Employment (50%).

Organization Concerned: Employment and Training Administration.

Congressional Relevance: House Committee on Education and Labor; Senate Committee on Human Resources.

Authority: Comprehensive Employment and Training Act of 1973 (29 U.S.C. 801). Manpower Development and Training Act (42 U.S.C. 2571). OMB Circular A-102. OMB Circular A-110.

In October 1975, GAO reported that the Department of Labor's (DOL's) Employment and Training Administration had a large backlog of expired contracts and grants which had not been closed out. That report recommended that DOL close out completed contracts and grants and reduce associated advances outstanding and unliquidated obligations more promptly to improve the accuracy of quarterly closeout reports. This followup survey examined the progress DOL had made through March 31, 1978. Findings/Conclusions: Although the number of contracts and grants awaiting closeout had decreased about 19% to 3,563, as of March 31, 1978, the amount of obligations had increased more than 100% to \$8.6 billion. It was estimated that about 22% of the contracts and grants awaiting closeout in March 1978 had terminated on or before June 30, 1975. The Employment and Training Administration's closeouts have decreased significantly from more than 5,650 contract and grant closeouts during fiscal year 1975 to about 2,100 and 2,600 in calendar years 1976 and 1977, respectively. Analysis of 110 of the quarterly reports submitted to headquarters by the regional offices during the period June 30, 1975, through March 31, 1978, demonstrated inconsistencies in the preparation of these reports providing statistical and financial information on contract and grant closeouts. Written instructions for regional office use in preparing the quarterly closeout report were found to be inadequate in addressing several problems. Recommendations: The Secretary of Labor should establish specific criteria which can be used to measure the timeliness of closeout actions on expired contracts and grants, establish goals and allocate the resources necessary to eliminate the closeout backlog, and improve the closeout reports' consistency and accuracy by seeing that persons responsible for preparing the reports receive and follow

proper instructions. (SC)

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REPORT BY THE U.S.

General Accounting Office

Need For Increased Emphasis On Timely Contract And Grant Closeout Activities

In October 1975, GAO reported that the Department of Labor's Employment and Training Administration had a large backlog of expired contracts and grants which had not been closed out. In this followup survey, GAO found that little improvement had been made through March 31, 1978.

Labor needs to place increased emphasis on timely closeout activities to help assure that Federal funds are fully accounted for.

GAO recommends that Labor

- establish specific criteria to measure closeout timeliness,
- establish goals and allocate resources necessary to eliminate the backlog, and
- improve the consistency and accuracy of quarterly closeout reports.



HRD-78-142

SEPTEMBER 21, 1978



UNITED STATES GENERAL ACCOUNTING OFFICE

WASHINGTON, D.C. 20548

HUMAN RESOURCES
DIVISION

B-163922

The Honorable
The Secretary of Labor

Dear Mr. Secretary:

This report is the result of our followup survey of the Employment and Training Administration's action in closing out expired contracts and grants. In an October 7, 1975, letter to the Assistant Secretary for Administration and Management, we reported a large backlog of expired contracts and grants awaiting closeout. We recommended that Labor close out completed contracts and grants and reduce associated advances outstanding and unliquidated obligations more promptly. In addition, we recommended that Labor improve the accuracy of quarterly closeout reports.

During this survey, we interviewed officials in the Employment and Training Administration and in the Audit Division, Office of Special Investigations (formerly the Office of Audit Operations, Directorate of Audit and Investigations). We also analyzed and reviewed pertinent reports and documents at Employment and Training Administration offices in Washington, D.C., and Atlanta, Georgia.

LITTLE IMPROVEMENT
IN CLOSEOUT STATUS

In 1975 we reported that there were about 4,400 contracts and grants--about \$4.2 billion in obligations--awaiting closeout on June 30, 1975. Most of these were for programs funded under the Manpower Development and Training Act (42 U.S.C. 2571) and other authority that had expired or was superseded by the Comprehensive Employment and Training Act (29 U.S.C. 801).

As of March 31, 1978, the number of contracts and grants awaiting closeout had decreased to 3,563 (almost 19 percent); however, the amount of obligations had increased to \$8.6 billion (more than 100 percent). In addition, we estimate that 800 (22 percent) of the contracts and grants awaiting closeout in March had terminated on or before June 30, 1975.

The following table shows selected fiscal data for, and the number of, contracts and grants awaiting closeout.

	Contracts and grants awaiting closeout as of			
	June 30, 1975	June 30, 1976	June 30, 1977	March 31, 1978
Number of contracts and grants	4,385	3,440	3,320	3,563
	----- (millions) -----			
Unliquidated obligations (note a)	\$325.4	\$123.5	\$497.6	\$517.1
Advances outstanding (note b)	\$294.2	\$179.5	\$166.1	\$206.3

a/Labor obligations on contracts and grants in excess of payments made to contractors and grantees.

b/Labor payments to contractors and grantees in excess of their reported costs.

In response to our October 7, 1975, report, the Assistant Secretary for Administration and Management stated that the Employment and Training Administration should be able to reduce the June 30, 1975, inventory of expired contracts and grants by about 50 percent during fiscal year 1976. This reduction was expected to be accomplished by placing a high priority on this effort.

As evidenced by the above table, however, the number of contracts and grants awaiting closeout decreased by only 22 percent by the end of fiscal year 1976. An

Employment and Training Administration official told us that the 50-percent reduction was not met because other priority work was given greater emphasis. He also told us that the Employment and Training Administration greatly underestimated the number of contracts and grants that would expire under the Comprehensive Employment and Training Act.

Although the number of contracts and grants awaiting closeout at March 31, 1978, was only about 4 percent more than at the end of fiscal year 1976, unliquidated obligations increased by \$393.6 million (319 percent) and advances outstanding increased by \$26.8 million (15 percent). An Employment and Training Administration official attributed the latter increases to higher funding under the Comprehensive Employment and Training Act, but he also told us that larger contracts and grants should not take longer or be more difficult to close out.

Between June 30, 1975, and March 31, 1978, contracts and grants awaiting closeout at Employment and Training Administration headquarters increased by 45 percent (330) while those at the Labor regions declined by about 32 percent (1,150). Yet, between December 31, 1973, and December 31, 1974, the regional offices had an increase of 48 percent while headquarters had a decrease of about 12 percent. Employment and Training Administration officials attributed this change to the implementation of the Comprehensive Employment and Training Act, which has resulted in a significant decrease in the number of contracts and grants administered by regions and an increase in those administered by headquarters.

Increased closeout
emphasis needed

The Employment and Training Administration's closeouts have decreased significantly since fiscal year 1975. While more than 5,650 contracts and grants were closed out during fiscal year 1975, in calendar years 1976 and 1977 closeouts decreased sharply to about 2,100 and 2,600, respectively. If emphasis on closeouts had been continued by maintaining the fiscal year 1975 number of closeouts, we estimate that the backlog would have been virtually eliminated by the end of fiscal year 1976.

The Employment and Training Administration's management information system did not enable us to readily obtain complete information to age expired contracts and grants. However, we did obtain information to age the headquarters contracts and grants awaiting closeout as of March 31, 1978, as shown below.

<u>Expired</u>	<u>Number</u>	<u>Percent</u>
More than 4 years	110	10
3 to 4 years	83	8
2 to 3 years	216	20
1 to 2 years	303	29
Less than 1 year	<u>347</u>	<u>33</u>
Total	<u>1,059</u>	<u>100</u>

As shown, 38 percent of headquarters contracts and grants had been awaiting closeout for more than 2 years, a slight improvement over the 42 percent reported previously.

Employment and Training Administration policy is to close out all expired contracts and grants promptly. Prompt closeouts help assure that Federal funds are properly accounted for. While the Employment and Training Administration does have requirements for some partial closeout actions, such as the submission by contractors of final invoices within a specified time, there is no time standard by which a completed closeout can be measured. An Employment and Training Administration official told us that, in his opinion, any contract or grant not closed within 1 year of expiration would be untimely.

Timely closeouts can expedite the return of funds to the Federal Treasury. As a result of a special effort to reduce the closeout backlog in one Labor region, almost \$1.9 million was returned to the Treasury between July 1975 and November 1976. Closeout activity in another region resulted in the return of more than \$1.8 million during fiscal year 1977. These figures represent Federal funds that would have remained in the contractors' and grantees' bank accounts if closeout action had not taken place.

Labor officials have blamed the backlog on such things as lack of personnel and the low priority placed on closeouts. We were told that the emphasis has been on awarding,

not closing, contracts and grants. An internal report on Employment and Training Administration closeouts during 1976 recognized closeouts' very low priority and noted that Comprehensive Employment and Training Act grants were starting to terminate with very little action being taken to close them out. It was also noted that new programs would aggravate the closeout problem.

In an August 8, 1978, memorandum to the heads of various Federal agencies, the Director, Office of Management and Budget, stated that if closeout procedures cannot be put on a timely basis, then the recovery of Federal funds should precede closeout. In this regard, he cited Office of Management and Budget Circulars No. A-102 and A-110 which require the immediate recovery of funds from grantees.

On August 29, 1978, Employment and Training Administration officials told us they had not yet formulated plans concerning the memorandum. They agreed, however, that excess funds should be recovered as soon as possible.

INCONSISTENT CLOSEOUT REPORTS

Each Labor regional office submits to headquarters a quarterly report providing statistical and financial information on contract and grant closeouts. The Division of Accounting, Employment and Training Administration, consolidates this data with that of headquarters to produce a consolidated closeout report for use by top-level Employment and Training Administration and other Labor staff to analyze closeout status. This report is the only source of such comprehensive data for use by management.

We analyzed 110 quarterly reports for the period June 30, 1975, through March 31, 1978, and found inconsistencies in report preparation. In 50, or 45 percent, of them, the number of contracts and grants "pending closeout" at the end of a quarter differed from the number reported at the beginning of the next quarter. Some of these differences were substantial; however, only 15 (30 percent) of them were explained. According to Employment and Training Administration officials, headquarters checks these reports only for obvious addition and subtraction errors. Inconsistent closeout reports are not new. The

Employment and Training Administration was aware of them prior to our October 1975 report; however, the differences are still not adequately explained in most cases.

We visited Labor's Atlanta regional office to determine the accuracy of its quarterly closeout reports. We found that the reported 480 contracts and grants awaiting closeout as of September 30, 1977, were overstated by about 20 percent. The overstatement occurred because some contracts and grants that had more than one funding authorization, such as two or more titles of the Comprehensive Employment and Training Act, were counted more than once. Also, purchase orders were incorrectly included in the count.

Written instructions for regional office use in preparing the quarterly closeout report are inadequate in addressing the problems we identified. The instructions do not provide sufficient guidance for handling contracts and grants which have more than one funding authorization. In addition, the instructions do not indicate that purchase orders should not be included in the count of contracts and grants awaiting closeout. An Employment and Training Administration official told us that supplemental oral instructions regarding these matters had been given to Labor regions. However, in view of the report errors found in Atlanta, we believe that more comprehensive written instructions could improve the accuracy of closeout reports.

Since we did not visit each Labor regional office during this followup survey, we do not know whether reports from other regions reflect similar problems. Atlanta's problems do illustrate, however, that management is receiving questionable information on closeout status because reports are not prepared properly.

CONCLUSIONS AND RECOMMENDATIONS

Overall, there has been little improvement since we last reported on contract and grant closeout problems in 1975. Some initial progress in reducing the backlog of contracts and grants awaiting closeout was made, but recent figures indicate that the problem is becoming more severe. We are particularly concerned with the increased amounts of unliquidated obligations and advances outstanding associated with the backlog. The Federal Government does

not have complete assurance that funds have been fully accounted for until closeout action is taken. In addition, the older that completed contracts and grants become, the more difficult they are to close out.

Labor needs to increase its emphasis on closeout timeliness without sacrificing the quality of closeout actions. It needs to assure that quarterly closeout reports are consistent and accurate. Accordingly, we recommend that the Secretary of Labor

- establish specific criteria which can be used to measure the timeliness of closeout actions on expired contracts and grants,
- establish goals and allocate the resources necessary to eliminate the closeout backlog, and
- improve the closeout reports' consistency and accuracy by seeing that persons responsible for preparing the reports receive and follow proper instructions.

AGENCY COMMENTS AND OUR EVALUATION

In a letter dated August 18, 1978, Labor agreed with our recommendations and said that it would implement them. (See app. I.)

Concerning our first recommendation to establish criteria for measuring closeout timeliness, Labor said that the Employment and Training Administration's Office of Field Operations had issued a memorandum on closeouts establishing timeframes for each regional office. We reviewed this memorandum and found that the action taken falls short of implementing the recommendation. The memorandum establishes procedures and timeframes only for resolving audit report findings. This is only a part of the grant closeout process. Labor needs to take additional steps to establish a basis for measuring the timeliness of final closeout action. In addition, the criteria established should apply not only to the regional offices but also to the headquarters offices having closeout responsibilities.

Regarding our second recommendation, Labor said that the Office of Field Operations plans to review each contracting office's management plan to assure that goals are established for closeouts. Since certain headquarters offices also have closeout responsibilities, Labor needs to establish goals for these offices as well. In addition to hiring accounting firms to participate in reducing backlogs, Labor said that it will attempt to reduce the backlog with available resources by placing renewed priority attention on closeouts and improving procedures.

Labor also agreed with our last recommendation and said that it will make a special effort to provide adequate written instructions on the preparation of the quarterly closeout report.

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As you know, section 236 of the Legislative Reorganization Act of 1970 requires the head of a Federal agency to submit a written statement on actions taken on our recommendations to the Senate Committee on Governmental Affairs and the House Committee on Government Operations not later than 30 days after the date of the report and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report.

Copies of this report are being sent today to the Senate Committee on Governmental Affairs, the House Committee on Government Operations, the House and Senate Committees on Appropriations, other interested committees, and the Director, Office of Management and Budget.

We appreciate the courtesy and cooperation of your staff during this survey.

Sincerely yours,


Gregory J. Ahart
Director

(20472)

U.S. DEPARTMENT OF LABOR
OFFICE OF THE SECRETARY
OFFICE OF SPECIAL INVESTIGATIONS
WASHINGTON, D.C. 20210



AUG 18 1978

Mr. Gregory J. Ahart
Director
Human Resources Division
United States General
Accounting Office
Washington, D.C. 20548

Dear Mr. Ahart:

This is in response to your letter of June 29, 1978, to the Secretary of Labor concerning a report on the Employment and Training Administration's (ETA) contract and grant closeout activities.

The following replies are presented on each of the GAO recommendations:

1. Establish criteria to measure the timeliness of closeouts

We concur in this recommendation and ETA's Office of Field Operations (OFO) has been making efforts to have all contracts closed within a reasonable time after termination. OFO has issued an ETA Field Memorandum which deals directly with closeouts, and it established time frames for each contracting office. Once a quarter, OFO reviews the progress of closeouts at each regional office based upon the ETA Comptroller's Status of Contracts/Grants Closeout Report. In addition, during the period July 31 to August 11, 1978, OFO conducted a training program for Grant Managers at which special emphasis was placed on contract/grant closeout and debt collection.

2. Establish goals and allocate resources

With regard to this recommendation, OFO plans to review each contracting office's Internal Management Plan to determine if they have an established goal for contract closeouts. If they do not, OFO will work to establish one. Some offices have already hired accounting firms to

participate in reducing backlogs. The ETA's Office of National Programs has recently signed a contract with a firm which will collaborate with the present ETA staff assigned to this task.

As noted in the GAO report, various reasons have been cited for the backlog problem including the lack of personnel and the low priority placed on closeouts. ETA management studies support the position that staff resources are inadequate to perform all activities of the organization. With renewed priority attention to closeouts and to improved procedures, ETA will attempt to reduce the backlog within available resources.

3. Improve the consistency and accuracy of quarterly closeout reports

It is recognized by the ETA Comptroller that the Status of Contracts/Grant Closeout Report is not always 100 percent perfect, but at least it does serve the purpose of alerting the ETA National Office of what is happening to closeouts. Since the GAO report notes that ETA's written instructions for preparing the quarterly closeout report are inadequate, a special effort will be made to correct this situation. An ETA Comptroller's representative will review the system in Atlanta as a pilot project to be used by the other contracting offices.

The Employment and Training Administration views the GAO report with serious concern; it will take steps to reduce the inventory of contracts/grants to be closed. If I can be of any further assistance to you on this matter, please do not hesitate to call me.

Sincerely,


R. C. DeMarco
Director