
This paper will attempt to answer the questions in assignment #2 through evaluation of the grant process, fraud and abuse and comparison of an agency both at the federal and non-profit level.

State level organizations, non-profits, schools, businesses and even students thrive off of federal grant dollars. Americans have become dependent on their government for funding for a variety of reason, but with this has come the fraud and abuse at many levels. This paper will overview the grant making process, using the Health and Human Services Grant Management Process to review the process in detail. It will then go on to discuss the Governmental Accountability Office and other government resources that attempt to reduce fraudulent waste at all levels of the grant. Finally it will examine a non-profits structure and process to prevent fraud and abuse.

The Health and Human Services Grant Management Process (HHS) reflects established policies and regulations designed to ensure that grants serve the American public's interest in well-managed grant programs. The Grant Process begins with planning, followed by announcement, application evaluation, negotiation, award, post-award monitoring, and closeout. Health and Human Services is the largest grant making agency in the Federal Government at \$350+Billion a year. Many of the coordination efforts begin with the program offices on what the funds should go towards and coordinate with the grant management offices. These internal offices handle the individual process of the grant.

The HHS Grant Management process ensures that grants are properly planned and competition is open and fair. That proposed budgets are carefully scrutinized and grant awards are negotiated and structured to protect the interests of the government. Recipients are given assistance and support so the grant can succeed. The HHS also carefully monitors awarded grants making adjustments as needed to solve problems that may arise. They also assist in resolving conflicts.

The Grant Management Process deals with both competitive and noncompetitive grant awards. Most grant awards are noncompetitive; these awards include new awards, extensions, continuations, and supplements. The process for managing noncompetitive grant awards differs in that there is no requirement for an announcement, and the technical evaluation process is either unnecessary or is significantly abbreviated.

The HHS Grants Management Office performs various activities required for implementation of an HHS grant program such as identifying program priorities and timelines in coordination with the respective grants management office. Part of this planning process includes identifying the programs goals, objectives and available resources. The office also determines the grant mechanism best management office, suited to meet program goals, such as discretionary grants, cooperative agreements and mandatory grants. The last part of the planning process develops long-term plans and schedules for announcing and awarding grants such as ensuring awards are phased over the fiscal year instead of surged in the fourth quarter.

After the planning process is established the office develops the Funding Opportunity Announcement and or Request for Assistance that accurately reflects program goals, requirements and timetables. From here the office reviews and approves the FOAs to ensure compliance with laws and regulations, as well as with sound business management practices. Once announced grant proposals are solicited from the public through FOAs and published in the Federal Registrar. If the proposal contains research and research training programs then it is published in the NIH Guide for Grants and Contracts.

After the announcement stage the application evaluation begins. This stage includes the receipt and review of grant applications submitted by potential recipients. The Grants

Management Office oversees the review and evaluation of grant applications to ensure outside reviewers and agency personnel comply with management policies and regulations, and with sound business management practices. Applications are screened using a checklist to ensure they are properly completed. If they are not they are thrown out. Applications are reviewed for completeness and eligibility and then centralized for review.

The independent/objective review stage begins with the evaluation of the technical aspects of grant applications through the application process. After the technical evaluation is completed, a preliminary decision is usually made and documented on a technical merit ranking list. After the review the business management evaluation looks at the information contained in the application, and review of prior performance as a recipient. This step also involves reviewing the application to ensure it complies with the applicable regulatory or statutory requirements.

After evaluation, a cost analysis of the proposed budget submitted by the grant applicant to determine if costs are allowable, allocable, and reasonable. Major cost issues on the technical aspects of the grant and assessing the impact. The negotiation stage involves explaining to the recipient the budget must be changed to comply with regulations. The negotiation stage can also be a give and take negotiation of all aspects of the award, including the scope of work, the budget, and the terms and conditions.

After negotiation the award process prepares the Notice of Award and officially obligates funds for the grants. The NoA describes all terms and conditions of the awards, including reporting requirements. NoAs are usually generated through an automated system and electronically transmitted to the budget office to obligate funds for the grant. A printed copy is then distributed to the recipient. The GMO prepares and signs the grant award, certifying that the

award complies with all legal regulatory and internal policy requirements and that it is a sound business agreement into which the Departments should enter. The NoA is then distributed to appropriate key offices and post-award monitoring begins.

Post-award monitoring of recipient performance begins by tracking receipt of required financial and progress reports. Reviewing these reports to identify performance or financial deficiencies and then maintaining records of all communication with the recipient, including correspondence and telephone or on-site contact. Site visits are conducted to closely investigate problems or deficiencies identified through analysis of reports and responding requests for amendments to the grant.

After the GMO performs post-award monitoring activities formal actions, audit resolutions, conflict resolutions and closeouts begin. Formal actions involve signing and issuing official documents such as time periods, funds and scope, modifying grants, or taking corrective actions, such as suspensions and allowances. The GMO provides appropriate documents including notices of suspending and/or terminating grants, certifies that such actions are in compliance with legal, regulatory and policy requirements. The audit resolution and conflict resolution involves settling disagreements that may occur with recipients including formal appeals. The final phase is the closeout that involves reviewing expiring grants to ensure all requirements are met, obtaining certification from the Program Management Office that programmatic objectives have been met, ensuring that the grant file is complete.

Within the government different agencies take on different grant prospective that each follows the same lifecycle of the grant process. Mr. Carper, Chairman, Homeland Security and Governmental Affairs Subcommittee, discussed the importance of curbing unnecessary grant

spending in the federal government. While unfortunately wasteful spending is part of our federal agencies, waste can be prevented and needs to be addressed. Although even with the process to avoid wasteful grant spending, especially under the HHS, over \$1 billion dollars was wasted in 2011. A goal that the Government Accountability Office (GAO) suggests and I support, is stricter regulation and for the government to “lock-down” on such wasteful spending. In the debt we are currently in as a Nation, cutting the wasteful spending could help us pay off some of our debt.

The GAO identified more than \$794 million in funding remaining in expired grants accounts. (GAO, 2011) These accounts were either fraud accounts that were shut down for wasteful or inappropriate spending or the grant time period had expired and the grants were never closed-out. Of the overall millions, \$110.9 million, \$9.5 million, \$11 million and \$126 million large accounts remained in inactive “waiting to be closed” accounts for more than 10 years. (GAO, 2011)

Roughly three-fourth of all undisbursed balances in expired grant accounts were from grants issued by HHS, the largest grant-making agency in the federal government. In 2011, 8,262 grant accounts were granted by HHS, of those there was an additional \$594.7 million in undisbursed balances. (GAO, 2013) The fraud and abuse that plays a factor here at the over arching level is the cost of monitoring HHS. GAO estimates it costs PMS, \$173,000/month to monitor 28,000 expired grant accounts, totaling \$2 million in fees each year. With some of these accounts being inactive for over 10 years, this creates a waste of \$20,000,000 million as of 2011. (GAO, 2011)

A vital part of the fraud and abuse area at the federal level of government is to have stricter policy on the closeout process, especially involving fraudulent accounts. With these

procedures in place we can avoid paying \$20,000,000 million to “monitor” grants that are not even active but rather in their final closeout stage. By changing regulation to stop departments such as Department of Justice, National Science Foundation, and NASA, we would save \$1.7 billion that sit in leftover grant accounts. Essentially policies and procedures need to be put in place to revise the definition of closeouts and undisbursed balances when it pertains to fraud and abuse of grant funds.

Our reading from class, “Grant Management and Accountability” written by Dr. Raymond Alvarez, DHA, MPA, FACHE, provides valuable resources on procedures of accounting standards within an organization as well as audit standards to prepare you for the process. The text overviews, that while most agencies or non-profit organizations have an accounting system, if they do not one should be developed to avoid any conflict and to cover any question avoiding “guess work.” The accounting manual can serve as a guide on managing special external funding and accounting matters, including: General Terms and Conditions for Grants, the OMB Circulars, Federal and State requirements, financial management, grant management, internal controls, budgeting, etc. (Dr. Raymond Alvarez, class resources)

Within my non-profit agency, the Eastern Panhandle Coalition, I would follow the general guidelines, Dr. Alvarez, provided as:

- Detail grant expenditure records in cost categories
- Prepare monthly/quarterly accounting of actual expenditures compared with budgeted amounts
- Funding for ongoing projects or for multiples grants to the same organization, must be accounted for separately and cannot be combined.
- Incurring costs only during the grant period and recording payments, including funds requested for all obligations such as equipment and supplies and how they are to be paid if they occur after the end of the grant periods.
- Rule of thumb, plan to spend it within the time frame of the grant- use it or lose it.

Most agencies as Dr. Alvarez points out have internal control policies already established. For my non-profit, the Eastern Panhandle Coalition practices will need to be developed and maintained on a current basis and balanced monthly. Policies and procedures to cover not only the cost share area of the foundation but where the cost share funds may come from, such as personnel costs, in-kind contributions, volunteers, or contribution of indirect costs and making sure these correspond with our approved budget.

The policies and procedures would follow the following:

- Records supported by source documentation such as cancelled checks, invoices, contracts, travel reports, donor letters, in-kind contribution reports and personnel activity reports.
- Monitoring that the same cost is not used on more than one Federal grant.
- A record keeping policy – preserving all audit material for 7 years
- For every employee whose salary is charged, in whole or in part, to a grant – personnel reports must be maintained to account for all compensated time, including time spent on other activities.
- Federal grant accounting practices must adhere to OMB cost principles and terms and conditions of the grant.
- Requests for advance payment of Federal funds generally are prior approved and limited to immediate cash needs.
- Contributions such as property, space and or services that are donated to a project shall be valued in accordance with Federal cost principles.

In order to ensure grant funds are being spent appropriate, my organization, the EPC, would put in place the proper documentation and controls to enforce within our organization. One way to prevent fraud is to require documentation of all of our purchases, as stated above, especially those purchased with federal funds that have a life expectancy of more than one year. We would maintain proper documents and inventory records including the purchase cost and date, location and funding used for each piece of inventory. Documentation by the proper sources within the organization is vital; to do this an organizational chart would be followed.



(Example of our Organization's General Meeting of Shareholders to Prevent Fraud and Abuse of Grant funding. Picture shows, organizational chart of reporting at all levels to avoid Audits)

The organizational chart for my organization established the line of command for direct reporting to avoid audits and more so deal with audits appropriately. The documentation first must be collected, maintained and correctly documented at the fiscal agent of the organization. This position needs to be highly trained, trusted and dependable as they are a valuable resource to the organization. The documentation will then go to a supervisor to be signed and reviewed every 3 months. (I would encourage every month, but due to the time sensitivity of conducting this review I will stay with 3 months.)

If there are multiple costs objectives, goals and funding reports, each should be broken down and collected each month for the overall board report every 3 months, where they will be comprised and explained in detail. Monitoring of expenditure reports, budgets, comparison of last year are crucial to prevent fraud. These monitoring reports would include inventory and labeling practices, time records, documentation records, in-kind contributions and volunteer hours, etc. Instead of a semi-quarterly review I would suggest a quarterly review. This will allow for changes that need to be made before it is too late into the fiscal year.

To comply with grant and audit standards it is first important for my organization to understand, and maintain “audit readiness.” As our text describes, this means maintaining the records pertinent to the financial and programmatic aspects of their grant so they are readily accessible for an unexpected audit. If you fail to provide the auditor with the proper documentation then you will have a disallowance in funds, creating the dilemma described above with the loss of closed-out grants and the expenses to maintain them.

The Office of Management and Budget (OMB) Circular A-133, the definitive Federal regulation concerning audits of states, local governments and non-profit organizations, bases the requirements for audits on specific dollar amounts, the requirements are:

- Organizations that expend \$500,000 or more in a year in Federal awards must have an audit conducted for that year in accordance with the provisions of Circular A-133, which requires an independent public accounting firm, engaged by the grantee organizations, to perform the audit.
- Organizations that expend less than \$500,000 in a year in Federal awards are not required to have an A-133 audit for that year but they may be selected by the Office of Inspector General, or by the Government Accountability Office for audits, evaluations or other reviews to be performed by Federal auditors or by public accounting firms under contract to the Government.

With the EPC being a less than \$500,000 organization we will simply need to prepare for the random check audits, the Office of Inspector General, the Government Accountability Office or internal audits. We will avoid common mistakes made in grant administration such as personnel costs charged to grant projects, not supported by adequate documentation, in-kind contributions of goods and services charged to the grant projects were not supported by documentation adequate for establishing valuations of the contribution, no documentation support for indirect costs or audits conducted by OMB Circular A-133 did not show our organization meeting the standards for audits of Federal grants.

To safeguard from the compliancy issues, internal controls need to not lack strength in policy and procedures. With proper segregation of duties to safeguard resources to be able to justify cost, expenditures, process, documentation and overall mission of the funding of the grant. One of the best ways our organization would comply with grant requirements is to develop transparency within the programs activities and compliance expectations. Financial controls of the organization are essential in ensuring that grant funds are being spent appropriately and fraud is being prevented. Unfortunately at all levels of organization, fraud happens, especially when scenarios of personal expenses are used for the business or organization against the grant. This process typically can be very smooth but when costs are expensed against the grant and invoices are charged to “pay-back” personal expenses trouble can happen.

By establishing a transparent but strong communication channel, policy and procedures, standards and expectations and multiple check points of authority, we can ensure everyone is doing their job. Making it easy for employees, volunteers and other members to provide open communication and feel protected can help avoid fraud as well. The Federal Government has attempted this “open communication” route in creating “Recover.GOV –Track the Money.” This Federal website’s core mission is to prevent fraud, waste and mismanagement of Recovery Funds. Recovery.gov gives any person the ability to find Recovery projects in their own neighborhood and if they suspect fraudulent actions related to the project they can report them in one of the several ways provided. The overarching mission of the Recovery Board is to help ensure those funds are spent properly and to provide protection for certain individuals or whistleblowers who make specific disclosures about uses of Recovery Act funds. (Recovery.gov, 2013)

The internal compliance program will host the Whistleblower laws, policy and procedures, the grant application process, expectations, rules and regulations, open communication, the organization chart, as well as an open frame for any grant member to seek additional help if they have questions. This internal compliance program recognizes and reports fraud, abuse and waste within the organization and any project we oversee. The key element that had to be observed is the underlying issues and how to tackle these problems whether they are short term or long term. The program developed a common purpose, goal, mission and timeline to start. The structure of the organization including the organizational chart, positions, employment time, job duties, compliance within the company, reporting actions and the employee reprimand system were mandatory within the organization.

Beyond the internal policies and procedures the expectations of the grant and outside compliances were drafted and included in the employee's policy and procedure book, which all employees are tested on yearly or as changes are made to the handbook. Each new hire has a coach who individually goes over the employee handbook with the new hire to ensure all material is read and understood before their probation period even begins. Internal audits are conducted quarterly to ensure that not only is the paperwork for the grant being processed and collected correctly but more so that the employees are performing at their optimum standards, if not the corrective action program is implemented.

To combat the fraud beyond the internal control, fraud safeguards such as implementation of controls, monitoring and compliancy programs are explained in detailed to all employees and members of the organization. The monthly board meetings that all members of the organization are invited to attend is part of the financial, budgeting and monitoring safe guard. Here the expenditures are reviewed and internally audited for protection. The quarterly

review as mentioned above is conducted by an outside organization to back our internal audit.

With constant open communication and review of not only the expenditures but the process the organization can ensure that even if the measures are not followed, the safeguards will surely catch it at one point or another.

In conclusion, preventing fraud and abuse is critical to the success of the organization, the grant funds and more importantly the trust of the Federal Government. If we can lessen the billions of dollar loss that the government takes because of the fraud of organizations misusing grant dollars, tax payers will be more willing to pay taxes and provide the funding we need at the government level to provide more and more grants. By implementing key controls in management at all levels, accounting principles, purchasing, and communication/training, the likelihood of fraud going undetected is lessened. My organization has illustrated above several techniques that if approached with proper expectations and execution can eliminate fraud and more so the need for wasteful spending to “monitor” dishonest organizations.

References:

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