September 2012

GRANTS TO STATE AND LOCAL GOVERNMENTS

An Overview of Federal Funding Levels and Selected Challenges

GAO

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An Overview of Federal Funding Levels and Selected Challenges

Why GAO Did This Study

Grants are a form of federal assistance consisting of payments in cash or in kind for a specified purpose and they represent an important tool for achieving national objectives. They vary greatly, including in the types of programs they fund, the methods they use to allocate funds to recipients, and the amount of discretion they give to the grant recipient on how the funds are spent. The Office of Management and Budget (OMB) has previously estimated that grants to state and local governments represent roughly 80 percent of all federal grant funding, with the balance going to recipients such as nonprofit organizations, research institutions, or individuals. In a time of fiscal constraint, continuing to support the current scope and breadth of federal grants to state and local governments will be a challenge.

In response to a request, this report (1) provides information regarding the amount of grant funding to state and local governments for fiscal year 2011, how such funding has changed over the last three decades, and difficulties related to identifying the exact number of such grant programs; and (2) identifies selected grants management challenges that have been identified in previous work by GAO and federal IGs over the last several years. Towards this end, GAO analyzed data from OMB and the Catalog of Federal Domestic Assistance and conducted a review of previous reports from GAO and federal IGs.

What GAO Recommends

GAO is not making any recommendations in this report

What GAO Found

Federal outlays for grants to state and local governments totaled more than $606 billion in fiscal year 2011. Over the last three decades, these grants have consistently been a significant component of federal spending, but the focus of this spending has changed over time. For example, during this period the proportion of federal outlays to state and local governments dedicated to Medicaid grants more than tripled, rising from 2.4 percent of total federal government outlays in 1980 to 7.6 percent in 2011. The increase in federal outlays for Medicaid and other health-related grant programs was offset by an approximately equivalent decrease in grants to state and local governments targeted for other areas such as transportation, education, and regional development.

GAO's prior work and the work of others have also shown that the number of federal grant programs directed to state and local governments has generally increased over the last three decades. However, definitively determining the number of such grant programs presents difficulties. The lack of consensus on a methodology for how to define and count grant programs and data limitations in the Catalog of Federal Domestic Assistance further complicates this effort.

GAO and federal inspectors general (IG) have previously reported on a variety of management challenges involving federal grants to state and local governments, many of which can be grouped into the following five topic areas:

- **Challenges related to effectively measuring grant performance:** A lack of appropriate performance measures and accurate data can limit agencies' ability to effectively measure grant program performance. This can affect the ability of federal agencies to ensure that grant funds are effectively spent.

- **Uncoordinated grant program creation:** Numerous federal grant programs have been created over time without coordinated purposes or scope. This can result in grants management challenges such as unnecessary duplication across grant programs and unnecessary overlap in funding.

- **Need for better collaboration:** A lack of collaboration among grant program participants can impede effective grant implementation in areas such as knowledge sharing and defining clear leadership roles.

- **Internal control weaknesses:** When internal controls in grants management and oversight are weak, federal grant-making agencies face challenges in achieving program goals and assuring the proper and effective use of federal funds. Effective controls can help to avoid improper grant payments.

- **Lack of agency or recipient capacity:** Capacity reflects the organizational, financial, and human capital resources available for the implementation of grant programs. A lack of capacity can adversely impact an agency's or recipient's ability to manage and implement grant programs.

_____ **United States Government Accountability Office**

Contents

Abbreviations

ACIR	U.S. Advisory Commission on Intergovernmental Relations
CFDA	Catalog of Federal Domestic Assistance
CFFR	Consolidated Federal Funds Report
CMS	Centers for Medicare & Medicaid Services
COFAR	Council on Financial Assistance Reform
CRS	Congressional Research Service
DHS	Department of Homeland Security
DOE	Department of Energy
Education	Department of Education
EECBG	Energy Efficiency and Conservation Block Grant
FAADS	Federal Assistance Awards Data System
FFATA	Federal Funding Accountability and Transparency Act
FEMA	Federal Emergency Management Agency
GDP	gross domestic product
GSA	General Services Administration
HHS	Department of Health and Human Services
HUD	Department of Housing and Urban Development
IG	Inspector General
JAG	Justice Assistance Grant
Justice	Department of Justice
NARA	National Archives and Records Administration
OMB	Office of Management and Budget
Recovery Act	American Recovery and Reinvestment Act of 2009
SHSP	State Homeland Security Program
UASI	Urban Areas Security Initiative

September 25, 2012

Congressional Requesters

Federal grants fund a wide array of activities. They help build and
maintain our nation's infrastructure by funding highways, bridges, and
mass transit systems. Grants help educate young people by supporting
the construction of school buildings, the hiring of teachers, and increasing
student access to higher education. They also help care for the sick and
economically disadvantaged by funding medical services, nutrition
programs, and housing assistance. Federal grants are diverse, varying
greatly in both size and the grantees who receive them. Some can be
small, such as a research grant from the National Science Foundation for
less than a couple of thousand dollars, or they can be very large, such as
Medicaid grants to individual states, which are worth billions of dollars.
Grant recipients may include states and their agencies, local
governments, tribal governments, nonprofit organizations, research
institutions, or individuals. Regardless of these differences, Congress
created the many varieties of grants to help meet national objectives.
However, as the federal government faces deepening, long-term fiscal
challenges, its ability to continue to support the current scope and breadth
of federal grants will be a challenge.

In response to your request regarding the operation of federal grants,
funding levels, and the challenges grant programs have faced, in this
report we provide information on (1) the amount of grant funding to state
and local governments for fiscal year 2011, how such funding has
changed over the last three decades, difficulties related to identifying the
number of such grant programs; and (2) selected grant challenges
involving federal grants to state and local governments that have been
identified in our previous work and that of federal inspectors general (IG)
over the last several years. In scoping the research objectives for this
work we limited our review to federal grants involving state and local
governments because reliable historical data exist for this group of grants
and according to the Office of Management and Budget (OMB) they
represent roughly 80 percent of all federal grant funding. We could not
identify a similarly reliable data source for the wider universe of all federal
grants.

To determine key information regarding grant funding for fiscal year 2011, the growth in grant funding over the last three decades, and shifts in the focus of grant funding during that time, we used data from OMB.[1] We obtained the data for fiscal years 1980 through 2011 and converted them to 2011 constant dollars for a more accurate comparison of grant spending from year to year. We determined the data were sufficiently reliable for the purposes of this report. In addition to OMB, we identified other sources of data on federal grant funding, and then analyzed and described how the data in each source differs. In an effort to identify the number of grant programs, we looked at the Catalog of Federal Domestic Assistance (CFDA), a data base containing information on federal assistance programs. We also reviewed our prior work, and the work of others, on federal grants in the CFDA, reviewed studies by the Congressional Research Service, and discussed the issue with OMB and the General Services Administration (GSA). To identify key issues and challenges related to the structure and operation of grants management, we reviewed our previous reports and audits as well as those from federal IGs and others. We also searched various federal, public policy, and research organizations' websites to identify relevant reports and other literature regarding federal grant programs and how they are structured and managed. Finally, we discussed various issues related to federal grants and data on grant funding and programs with OMB and GSA, as these agencies have government-wide responsibilities related to grants, grants management, and grants data. Appendix I contains further information on our scope and methodology.

We conducted this performance audit from March 2012 to September 2012 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 objectives.

Background

Grants constitute one form of federal assistance consisting of payments in cash or in kind to a state or local government or a nongovernmental

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[1] See Office of Management and Budget, *Fiscal Year 2013, Historical Tables, Budget of the U.S. Government*. Specifically, Table 12.3, Federal Outlays for Grants to State and Local Governments, by Function, Agency, and Program: 1940–2013.

recipient for a specified purpose.[2] Taken as a whole, federal grant programs are extremely diverse. They can vary greatly in numerous ways including size, the nature of their recipients, and the type of programs they fund. Grant programs can also vary in two important dimensions—the amount of discretion they give to the recipient in how the funds will be used, and the way they are allocated or awarded. Typically, grants are grouped into three types based on the amount of discretion given to the recipient for the use of funds: categorical grants, block grants, and general purpose grants.

- *Categorical grants* are the most restricted, permitting funds to be used only for specific activities related to their purpose, such as funding for the narrowly defined purpose of nutrition for the elderly.

- *Block grants* are less restrictive, funding broader categories of activities, such as community development or public health, and generally give greater discretion to recipients in identifying problems and designing programs to address those problems.

- *General purpose grants*, such as revenue sharing, offer the greatest amount of discretion to the recipient, as they require only that the funds be spent for government purposes.

However, grant categories with regard to categorical grants and block grants are not rigid and sometimes overlap occurs.[3] Each of these grants strikes a different balance between the interests of the federal grant-making agency that funds be used efficiently and effectively to meet national objectives, and the interests of the recipient to use the funds to meet local priorities and to minimize the administrative burdens associated with accepting the grant.

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[2] GAO, *A Glossary of Terms Used in the Federal Budget Process,* GAO-05-734SP (Washington, D.C.: September 2005) and "Chapter 10, Federal Assistance: Grants and Cooperative Agreements" in GAO, *Principles of Federal Appropriations Law,* Third Edition, Volume II, GAO-06-382SP (February 2006).

[3] For example, some block grants have characteristics normally associated with categorical grants. This type of variation in the characteristics of specific block grants explains why there is some disagreement concerning precisely what constitutes a block grant and how many of them exist.
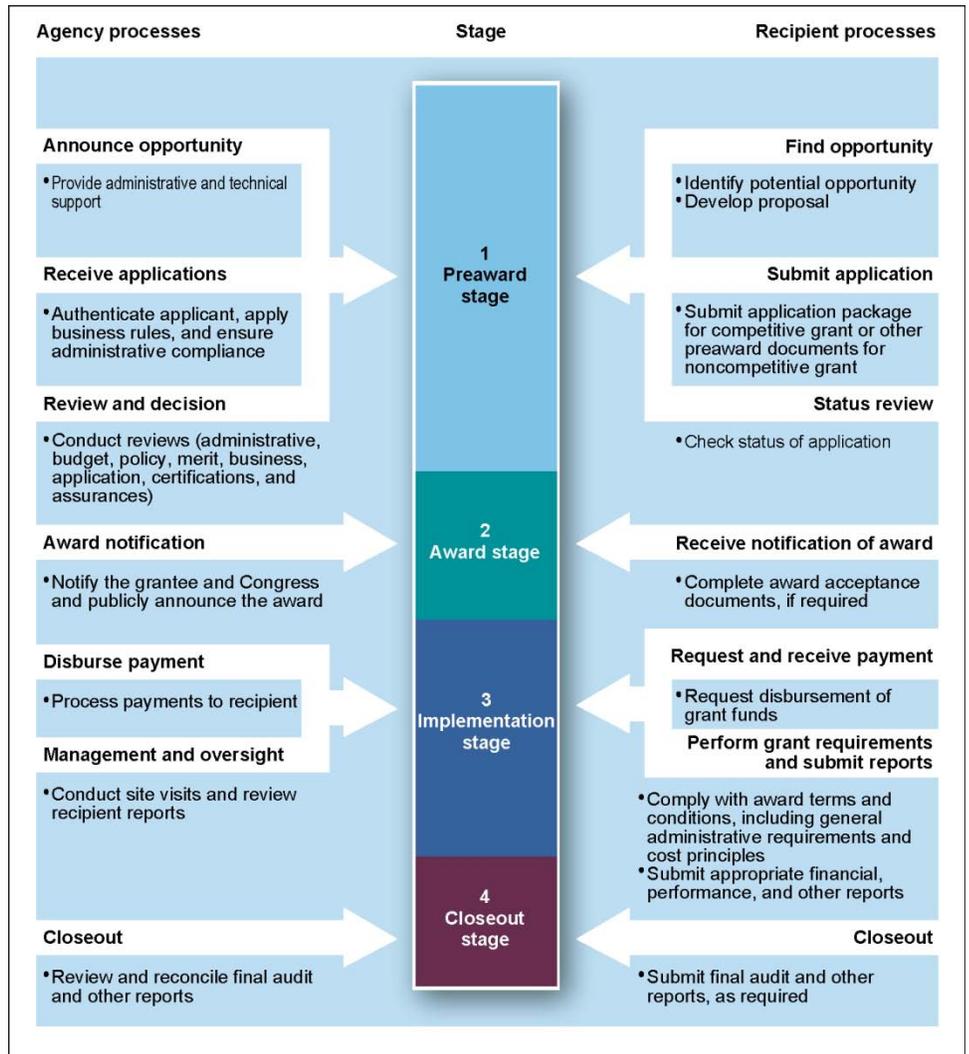
Grant programs also vary in the methods they use to allocate or award funds, that is, by formula or through discretionary project grants.

- *Formula grants* allocate funds based on distribution formulas prescribed by legislation or administrative regulation.

- *Project grants* are generally awarded on a competitive basis to eligible applicants for specific projects. OMB has emphasized the use of competitive grants as a means of increasing innovation in grant proposals.

While these labels help classify grants based on prominent characteristics, they should not be understood to be mutually exclusive definitions, as more than one can apply to a given grant program. For example, the federal government distributes Community Development Block Grant funds to states using a formula, but states redistribute the funds to localities, sometimes as project grants.

While there is substantial variation among grant types, competitive grants generally follow a life cycle that includes announcement, application, award, post-award, and closeout, as seen in figure 1. Once a grant program is established through legislation, which may specify particular objectives, eligibility, and other requirements, a grant-making agency may impose additional requirements on it. For competitive grant programs, the public is notified of the grant opportunity through an announcement, and potential recipients must submit applications for agency review. In the award stage, the agency identifies successful applicants or legislatively defined grant recipients and awards funding. The implementation stage includes payment processing, agency monitoring, and recipient reporting, which may include financial and performance information. The closeout phase includes preparation of final reports, financial reconciliation, and any required accounting for property. Audits may occur multiple times during the life cycle of the grant and after closeout.

Figure 1: Grant Life Cycle of Federal Grant-making Agency and Grant Recipient

Agency processes	Stage	Recipient processes
Announce opportunity • Provide administrative and technical support	**1 Preaward stage**	**Find opportunity** • Identify potential opportunity • Develop proposal
Receive applications • Authenticate applicant, apply business rules, and ensure administrative compliance		**Submit application** • Submit application package for competitive grant or other preaward documents for noncompetitive grant
Review and decision • Conduct reviews (administrative, budget, policy, merit, business, application, certifications, and assurances)		**Status review** • Check status of application
Award notification • Notify the grantee and Congress and publicly announce the award	**2 Award stage**	**Receive notification of award** • Complete award acceptance documents, if required
Disburse payment • Process payments to recipient	**3 Implementation stage**	**Request and receive payment** • Request disbursement of grant funds
Management and oversight • Conduct site visits and review recipient reports		**Perform grant requirements and submit reports** • Comply with award terms and conditions, including general administrative requirements and cost principles • Submit appropriate financial, performance, and other reports
Closeout • Review and reconcile final audit and other reports	**4 Closeout stage**	**Closeout** • Submit final audit and other reports, as required

Source: GAO.

Federal Grant Programs Are Established by Law and Subject to Many Different Legal Requirements

Federal agencies do not have inherent authority to enter into grant agreements without affirmative legislative authorization. In authorizing grant programs, federal laws identify the types of activities that can be funded and the purposes to be accomplished through the funding. Legislation establishing a grant program frequently will define the program objectives and leave the administering agency to fill in the details by regulation.

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Grant programs are typically subject to a wide range of accountability requirements under their authorizing legislation or appropriation and implementing regulations so that funding is spent for its intended purpose. For example, the Department of Housing and Urban Development (HUD) administers grants to aid states and localities in providing affordable housing for low-income families. Congress mandated that HUD administer these grant programs in a manner that furthers fair housing. HUD regulations direct grant recipients to prepare planning documents and maintain certain records proving the legislation's fair housing requirements as a condition to receiving funds. Congress may also impose requirements on specific funding for grant programs. The American Recovery and Reinvestment Act of 2009 (Recovery Act) required increased reporting and oversight on both grant-making agencies and recipients for many different grant programs receiving additional funding under the Recovery Act.

In addition, grant programs are also subject to cross-cutting requirements applicable to most assistance programs (see table 1 for more information). For example, recipients of grant funds are prohibited from using those funds to lobby members and employees of Congress and executive agency employees. OMB is responsible for developing government-wide policies to ensure that grants are managed properly and that grant funds are spent in accordance with applicable laws and regulations. For many decades, OMB has published guidance in various circulars to aid grant-making agencies with such subjects as audit and record keeping and the allowability of costs. For a detailed discussion of grants management legislation and OMB's role in developing grants policy, see appendix III.

Table 1: Government-wide and Program-Specific Grant Requirements

|	Grant-making Agency	Grant Recipient
Specific to individual grant programs	Grant program's authorizing statute	Grant program regulations issued by grant-making agency
	Appropriation act providing funding for grant program	Grant agreement (terms and conditions)
Applicable to all grant programs	Government-wide funding requirements	Government-wide grant regulations:
	Executive orders and OMB circulars on grants management	(1) Administrative requirements ("common rule")
		(2) Cost principles
		(3) Drug-free workplace
		(4) Suspension and debarment
		(5) Anti-lobbying requirements
		(6) Audit and reporting requirements

Source: GAO.

Grants to State and Local Governments Have Consistently Been a Significant Component of Federal Spending but the Focus of Grant Spending Has Changed Over the Last Three Decades

Grants are an important tool used by the federal government to provide program funding to state and local governments. OMB has previously estimated that grants to state and local governments represent roughly 80 percent of all federal grant funding, with the remaining approximately 20 percent going to recipients such as nonprofit organizations, research institutions, or individuals. Federal outlays for grants to state and local governments totaled more than $606 billion in fiscal year 2011, equivalent to 4.1 percent of the gross domestic product (GDP) in that year. For comparison, federal outlays for national defense were 4.7 percent of GDP during the same period.

With outlays of $275 billion in fiscal year 2011, Medicaid is by far the federal government's largest single grant program and by itself accounted for 45 percent of federal grant outlays to state and local governments in that year. The Department of Health and Human Services (HHS), which administers the Medicaid program, is the largest grant-making agency, with grant outlays of almost $348 billion in fiscal year 2011, or about 57 percent of the total federal grant outlays to state and local governments. However, even when Medicaid is excluded, HHS remains the largest federal grant-making agency. While many federal agencies award grants, the large majority of grant outlays to state and local governments are made by just a few agencies, with the top five accounting for more than 90 percent of those grant outlays in fiscal year 2011. Following HHS, the next four agencies with the largest amount of grant outlays to state and local governments in fiscal year 2011 were the Departments of Education (Education), Transportation, HUD, and Agriculture. Figure 2 shows the

amount of, and percentage of, grant outlays to state and local governments for the top 5 grant-making agencies.

Figure 2: Amount and Percentage of Federal Outlays for Grants to State and Local Governments by Top Five Agencies, Fiscal Year 2011 (Dollars in Billions)
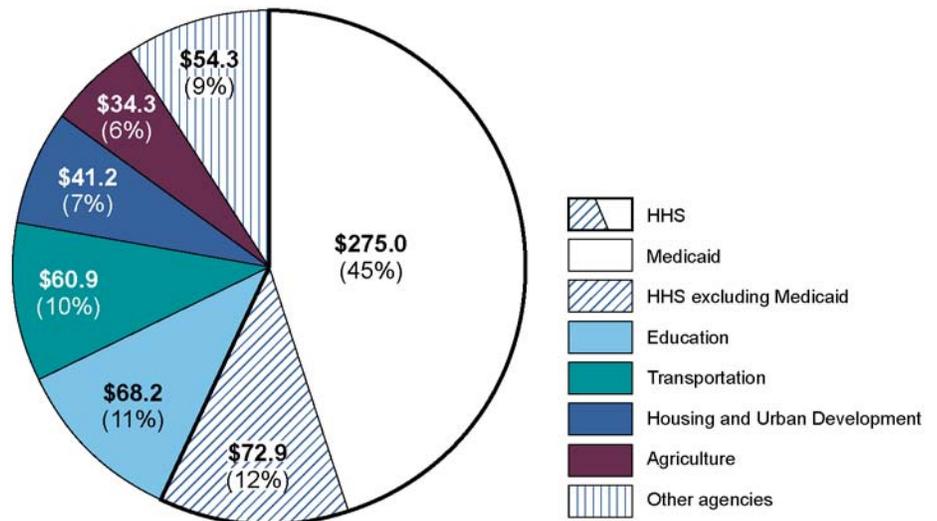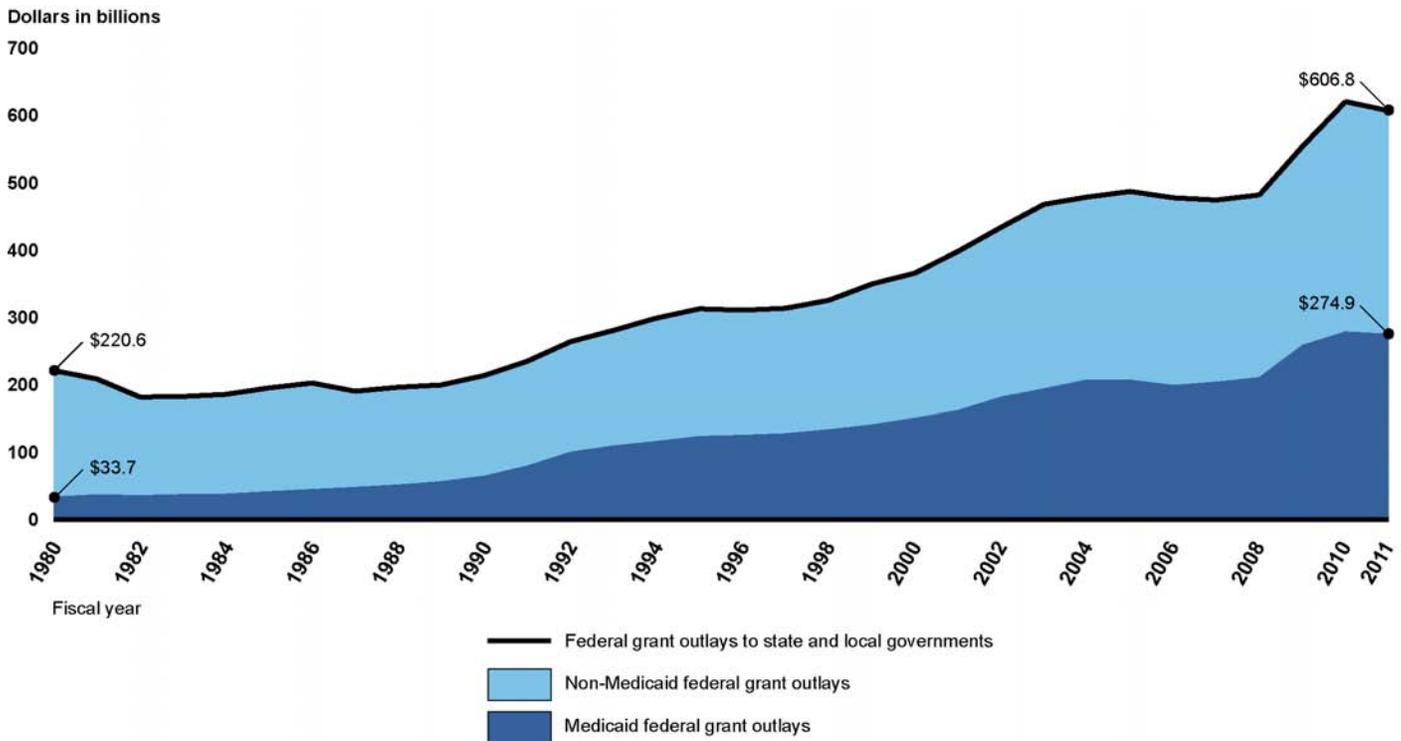

Source: GAO analysis of OMB data.

Federal outlays for grants to state and local governments increased from $91 billion in fiscal year 1980 (about $221 billion in 2011 constant dollars) to more than $606 billion in fiscal year 2011.[4] Figure 3 shows the total federal outlays for grants to state and local governments over the period from fiscal years 1980 to 2011, in constant dollars, and the increasing amount of this total that went to Medicaid over time.

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[4] Constant dollar amounts reflect adjustments for inflation (e.g., the purchasing power of the $91 billion spent in 1980 represents about $221 billion in fiscal year 2011 dollars).

Figure 3: Federal Outlays for Grants to State and Local Governments and Medicaid, in 2011 Constant Dollars, Fiscal Years 1980 to 2011
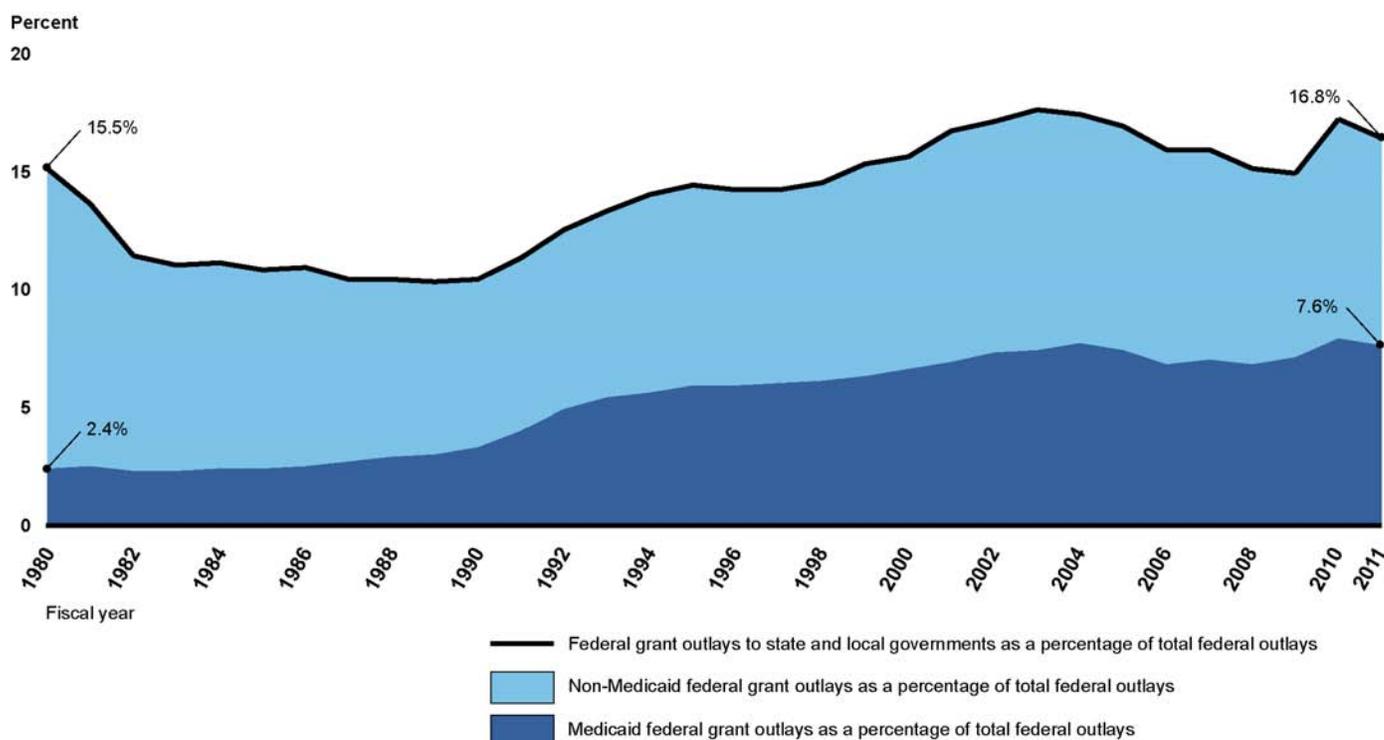

Source: GAO analysis of OMB data.

While the past three decades have witnessed a dramatic growth in federal grants to state and local governments in absolute dollar terms, the same is not true when one considers these grant outlays as a proportion of total federal spending. As shown in figure 4, grant outlays to state and local governments as a percentage of total federal outlays in fiscal year 2011 were at a roughly comparable level to what they were more than 30 years earlier (16.8 percent versus 15.5 percent).[5] However, during this period the proportion of federal grant outlays to state and local

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[5] Another way to understand federal grant outlays during this period is to consider them as a percentage of the nation's GDP. Federal grants to state and local governments were equivalent to 3.4 percent of GDP in 1980 and 4.1 percent of GDP in 2011. While this figure has fluctuated somewhat over the last 30 years, it has not demonstrated the dramatic growth seen in federal grant outlays when viewed in constant dollar terms that is shown in figure 3.

governments dedicated to Medicaid more than tripled, rising from 2.4 percent of all federal outlays in 1980 to 7.6 percent in 2011. The increase in outlays for Medicaid and other health-related grant programs was offset by an approximately equivalent decrease in the share of outlays for other grants to state and local governments.

Figure 4: Federal Outlays for Grants to State and Local Governments and Medicaid as a Percentage of Total Federal Outlays, Fiscal Years 1980 to 2011

Legend:
— Federal grant outlays to state and local governments as a percentage of total federal outlays

Non-Medicaid federal grant outlays as a percentage of total federal outlays

Medicaid federal grant outlays as a percentage of total federal outlays

Source: GAO analysis of OMB data.

The dip in federal grant outlays to state and local governments as a percentage of total outlays during the 1980s, seen in figure 4, was likely due to a variety of factors, including efforts undertaken at the time to merge categorical grant programs in several functional areas into block grants and also reduce funding levels. For example, as part of the Omnibus Budget Reconciliation Act of 1981, nine block grants were created from about 50 of the 534 categorical programs in effect at that time. Overall, funding for the categorical grants bundled into these block grants was reduced 12 percent, about $1 billion, from their combined funding level the previous year. State officials believed that funding

reductions would not result in the loss of services for recipients because the reductions would be offset by administrative efficiencies, although in our subsequent work we found that the administrative cost savings were difficult to quantify.[6] Figure 4 also shows the upturn in federal grant outlays in 2009 and 2010 that were the result of the Recovery Act.

Grant outlays can also be analyzed historically using OMB's grant programs' functional categories. In fiscal year 2011, the five largest grant program categories by government function were health; income security; education, training, employment, and social services; transportation; and community and regional development. Figure 5 shows federal grant outlays to state and local governments broken out by these five governmental functions, from fiscal year 1980 to fiscal year 2011.

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[6] GAO, *Block Grants: Characteristics, Experience, and Lessons Learned*, GAO/HEHS-95-74 (Washington, D.C.: Feb. 9, 1995).

Figure 5: Federal Outlays for Grants to State and Local Governments by Top Five Functions as a Percentage of Total Federal Grants Outlays, Fiscal Years 1980 to 2011
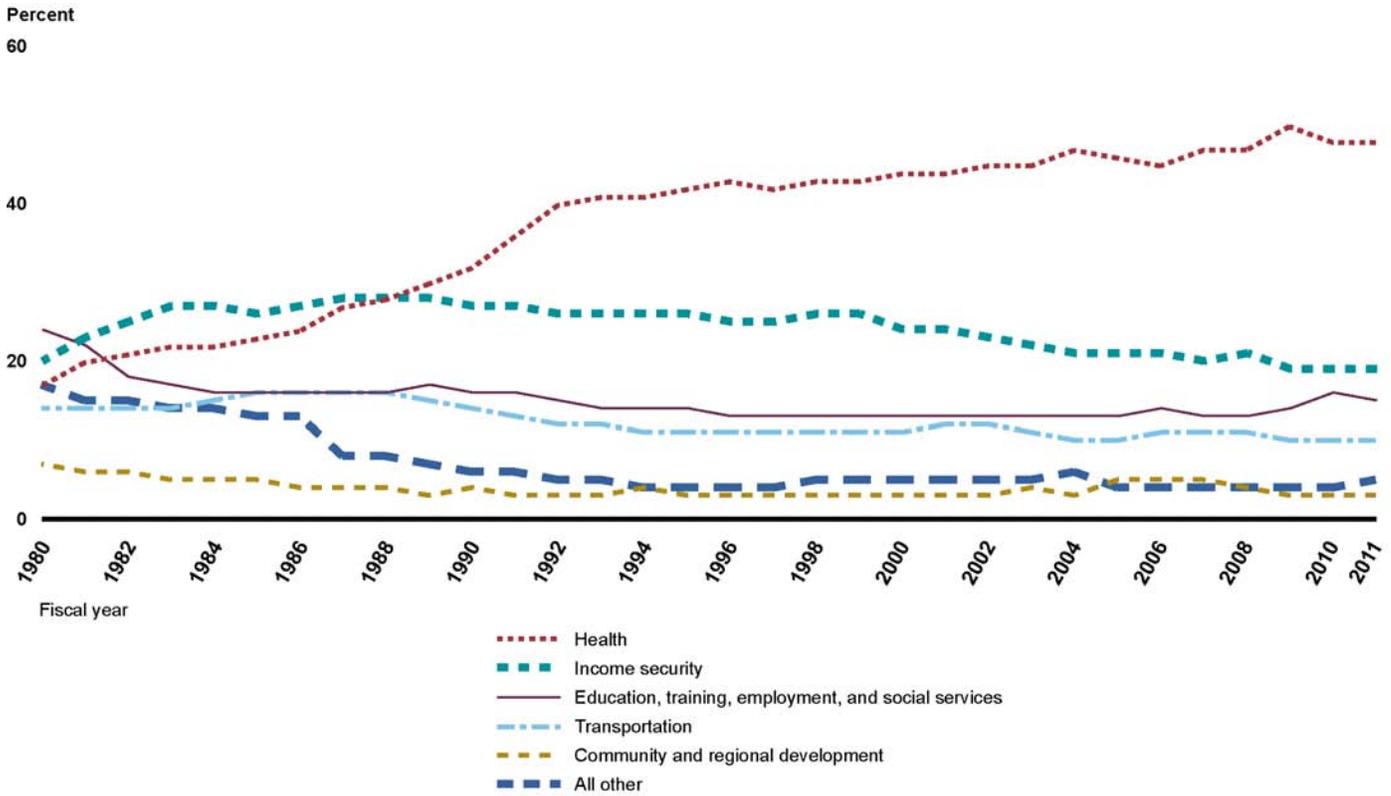
Source: GAO analysis of OMB data.

Health function grant outlays were 17 percent of total grant outlays to state and local governments in fiscal year 1980—lower than either income security or education.[7] By fiscal year 2011, outlays for health-related grant functions increased to almost 50 percent of these total grant outlays. While outlays for health-related grants experienced a relatively steady increase in the last three decades—more than doubling in 30 years—outlays for other grant functions generally decreased relative to the total of all federal grants to state and local governments during the same period.

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[7] The government function grant program categories do not necessarily overlap with program groupings by grant-making agency.

OMB and others have noted that the relative growth and contraction of grant outlays for different purposes reflects a broader shift in the focus of federal outlays for grant programs. According to OMB data, since the 1980s, funding has shifted from providing grants to state and local governments for physical capital and societal activities (e.g., highways, mass transit, sewage treatment plants, public education, government administration and community development), toward grants for payments for the benefit of individuals or families. These grants benefitting individuals are primarily entitlement programs such as Medicaid, Temporary Assistance for Needy Families, child nutrition programs, and housing assistance. In fiscal year 1980, the percentage of grant outlays for the benefit of individuals and families was just under 36 percent. By fiscal year 2011, federal outlays for grants benefitting individuals and families, a major component of which is Medicaid, had grown to almost two-thirds (64 percent) of all grant outlays to state and local governments.

There are various sources for data on the amount the federal government spends on grants, including OMB budget data, USAspending.gov, and Census Bureau surveys of state and local governments. See appendix II for more detail about these data sources and their differences. The various differences in each data source can create challenges for those examining federal grants management issues and for congressional oversight of grants administration.

While the Number of Federal Grant Programs Has Generally Increased over the Last Three Decades, a Definitive Figure Is Not Available

Our prior work and the work of others have shown that the number of federal grant programs to state and local governments has generally increased over the last three decades. However, determining a definitive number of federal grant programs presents certain difficulties. Efforts to accurately track the number of federal grant programs over time have been complicated by the fact that different entities have counted grant programs differently for decades. Both OMB and the former U.S. Advisory Commission on Intergovernmental Relations (ACIR) periodically published counts of the total number of federally funded grant programs during the 1980s and 1990s, but because they used different methodologies to determine which grant programs to include, they came up with different results. For example, in 1995 OMB identified 608

federally funded grant programs compared to ACIR's count of 633.[8] OMB no longer issues formal counts of federally funded grant programs and there is no current consensus on the methodology used to count federal grant programs.

Although the CFDA is the single authoritative, government-wide compendium and source document for descriptions of federal programs that provide assistance or benefits to the public, as the experiences of OMB and ACIR suggest, a simple tally of the CFDA database will not provide an accurate count of the number of federally funded grant programs.[9] This is due to a number of reasons. First, according to GSA officials, there is not a one-to-one relationship between individual grant program opportunities and overarching CFDA programs. Multiple grant programs can trace their legal authority back to a single CFDA program description and CFDA number. CFDA programs contain broader objectives than individual grant opportunities. Second, not all of the programs listed in the CFDA have current appropriations. CFDA is a catalog containing active funded and inactive non-funded programs which have been archived at an agency's request. Third, officials from GSA told us that each agency determines how to organize and describe their programs for publication in the CFDA, as long as the agency adheres to the underlying requirement to describe the program's legal authority, administering office, funding, purpose, benefits, and beneficiaries. These are among the many factors that complicate efforts to accurately count

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[8] As another example of different methodologies, ACIR included in its counts all direct cash grants to state or local governmental units, other public bodies established under state or local law, or their designee; payments for grants-in-kind, such as purchases of commodities distributed to state or local governmental institutions; payments to nongovernmental entities when such payments result in cash or in-kind services or products that are passed on to state or local governments; payments to state and local governments for research and development that is an integral part of their provision of services; and payments to regional commissions and organizations that are redistributed at the state or local level to provide public services. In contrast, OMB counted only those federal grants for traditional governmental operations, as defined in OMB Circular A-11. The definition covered only grants that "support state or local programs of government operations or provision of services to the public." Accordingly, it excluded federal grants that went directly to individuals, fellowships, most grants to nongovernmental entities, and technical research grants.

[9] As of the end of May 2012, the CFDA listed a total of 2,240 federal assistance programs, including 239 items under a search for formula grants and 1,530 items under a search for project grants. CFDA data are available on the Web at http://www.CFDA.gov.

the number of federal grant programs using the information included in the CFDA database.

Grants Challenges Reflect the Diversity and Complexity of Grants Management for State and Local Governments

Over time, growth of both the numbers of grant programs for state and local governments and their level of funding has created greater diversity and complexity in federal grants management. Substantial variation in the way federal agencies administer these programs has further increased their complexity. As a result, the management of grants to state and local governments presents both grant-making agencies and grant recipients with a variety of challenges. We and others have previously reported on many of these issues which can be grouped into the following broad themes: (1) challenges related to effectively measuring grant performance; (2) uncoordinated program creation; (3) need for better collaboration; (4) internal control weaknesses in grants management and oversight; and (5) lack of agency or recipient capacity.

Lack of Appropriate Performance Measures and Accurate Data Limit Agencies' Ability to Effectively Measure Grant Program Performance

In our past work, we have reported that effective performance accountability provisions are of fundamental importance in assuring the proper and effective use of federal funds and determining if grant program goals are met. Two issues that we have previously identified as important for effectively reporting on grant performance are having appropriate, high-quality performance measures and accurate performance data.[10]

Lack of Appropriate Performance Measures. While the principles of good governance indicate that agencies should establish performance measures to demonstrate how they intend to achieve their program goals and measure the extent to which they have done so, selecting the measures by which a grant program's performance is assessed can be challenging.[11] We have previously reported on the general attributes of appropriate grant performance measures, noting that measures should be linked to agency goals and missions; be clearly stated; include

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[10] GAO, *Grants Management: Enhancing Performance Accountability Provisions Could Lead to Better Results,* GAO-06-1046 (Washington, D.C.: Sept. 29, 2006).

[11] GAO, *Agencies' Annual Performance Plans under the Results Act: An Assessment Guide to Facilitate Congressional Decisionmaking*, GAO/GGD/AIMD-10.1.18 (Washington, D.C.: February 1998); and *The Results Act: An Evaluator's Guide to Assessing Agency Annual Performance Plans,* GAO/GGD-10.1.20 (Washington, D.C.: April 1998).

measurable targets; and be objective, reliable, and balanced. However, we have found that while agencies may implement measures with some of these attributes, other key attributes may not be incorporated. For example, the Department of Justice (Justice) developed and implemented 86 new performance measures for the Edward Byrne Memorial Justice Assistance Grant (JAG) funds to state and local governments for criminal justice activities in 2009. While Justice continued to make efforts to improve these measures in 2009, we reported that 19 of the JAG performance measures we reviewed generally lacked, in varying degrees, several key attributes of successful performance measurement systems, including clarity, linkages with strategic or programmatic goals, objectivity, reliability, and the measurability of targets.[12] Specifically, we found that 14 of the 19 measures were not clearly defined; 14 of the 19 measures were not linked to Justice's strategic or programmatic goals; 13 of the 19 measures were not reliable; and 17 of the 19 measures did not have measurable targets. Our report noted that by more fully incorporating such attributes of effective performance measures into its performance measurement and reporting system, Justice could facilitate accountability, be better positioned to monitor and assess results, and subsequently improve its grants management. We recommended that Justice should, in revising its performance measures, consider incorporating key attributes of successful performance measurement systems, such as clarity, reliability, linkage, objectivity, and measurable targets. Justice concurred with the recommendations in our report and they have actions underway that address the recommendations.

In another example of an agency's publishing measures that do not necessarily contribute to its ability to assess grant program effectiveness, Department of Homeland Security (DHS) implemented some performance measures for the State Homeland Security Program (SHSP) and Urban Areas Security Initiative (UASI) in the fiscal year 2011 grant guidance. However, the type of measures DHS published in the SHSP and UASI guidance did not contribute to DHS's ability to assess the effectiveness of these grant programs, but instead provided DHS with information to help it measure completion of tasks or activities. We recommended, among other things, that DHS revise its plan to ensure the timely implementation of performance measures to assess the

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[12] GAO, *Recovery Act: Department of Justice Could Better Assess Justice Assistance Grant Program Impact*, GAO-11-87 (Washington, D.C.: Oct. 15, 2010).

effectiveness of these grants. According to DHS, it has efforts under way to develop additional measures to help it assess grant program effectiveness; however, until these measures are implemented, it will be difficult for DHS to determine the effectiveness of these grant-funded projects, which totaled $20.3 billion from fiscal years 2002 through 2011.[13] As we have previously reported, performance measures that evaluate program results can help Congress make more informed policy decisions regarding program achievements and performance. Agencies could facilitate accountability, be better positioned to monitor and assess results, and subsequently improve their grants management by including key attributes of successful performance measurement systems in their performance measure revisions.

Data Collection and Validation Challenges. Grant programs often rely on recipients' administrative systems to provide performance information. Our prior work has shown that agencies relying on third parties for performance data can have difficulty collecting the data as well as ascertaining its accuracy and quality. In past work, we have also found that the availability and credibility of performance data has been a long-standing weakness. An example of this can be seen in our November 2011 report on federal "green building" initiatives that foster—in part through the use of grant funds—construction and maintenance practices designed to make efficient use of resources, reduce environmental problems, and provide long-term financial and health benefits in the nonfederal sector. Eleven agencies implemented 94 federal initiatives, 47 of which were funded by grants. Agency officials reported that they may not have had information on the results of green building initiatives for the nonfederal sector, in part because they faced several challenges in gathering appropriate and reliable performance data, such as utility usage data for multifamily properties. These difficulties included obtaining the resources necessary to develop systems for accurate data collection, a lack of industry standards for performance data collection, third party utility companies' diverse policies governing data sharing, as well as the utility companies' wide-ranging capacities to collect data. In particular, HUD officials told us the quality of utility data can vary by utility company,

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[13] GAO, *Homeland Security: DHS Needs Better Project Information and Coordination among Four Overlapping Grant Programs*, GAO-12-303 (Washington, D.C.: Feb. 28, 2012).

especially for water consumption data—which can be incomplete and inaccurate and is often not available in electronic form.[14]

In other instances, actual performance data may not be available until after the completion of the grant project. For example, Department of Energy (DOE) officials said that for the Energy Efficiency and Conservation Block Grant program (EECBG) actual energy savings data are generally available only after a project is completed; therefore, to comply with the program's reporting requirements, most recipients reported estimates calculated using the Environmental Protection Agency's Portfolio Manager tool. While DOE officials said they had anecdotal examples of program successes, DOE had experienced challenges in assessing the reasonableness of the energy-savings estimates provided by recipients because DOE did not require recipients to use the most up-to-date estimating tool when calculating and reporting energy-savings estimates. Consequently, DOE could not identify instances where recipients' estimates may need to be more carefully reviewed.[15] We recommended, among other things, that DOE should solicit information on recipients' methods for estimating energy savings and verify that recipients use the most recent version of the estimating tool. To address our recommendation, DOE issued guidance effective June 23, 2011, that eliminates the requirement for grant recipients to calculate and report estimated energy savings. DOE officials said the calculation of estimated impact metrics will now be performed centrally by DOE by applying known national standards to existing grantee-reported performance metrics. Based on DOE's action, we concluded that DOE has addressed the intent of this recommendation. Even in federal grants with designs that favor performance accountability, challenges related to collecting and reporting performance data can affect the extent to which performance accountability can be achieved.

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[14] GAO, *Green Building: Federal Initiatives for the Nonfederal Sector Could Benefit from More Interagency Collaboration*, GAO-12-79 (Washington, D.C.: Nov. 2, 2011).

[15] GAO-11-379.

Numerous Federal Grant Programs, Created over Time without Coordinated Purposes and Scopes, Can Result in Grants Management Challenges

In our *2012 Annual Report: Opportunities to Reduce Duplication, Overlap and Fragmentation, Achieve Savings, and Enhance Revenue*, we reported on examples of how multiple federal grant programs, created without coordinated purposes and scopes, can result in structural grants management challenges.[16] One example involved four DHS grant programs—the State Homeland Security Program, the Urban Areas Security Initiative, the Port Security Grant Program, and the Transit Security Grant Program. DHS's Federal Emergency Management Agency (FEMA) allocated about $20.3 billion to recipients through the four programs from fiscal years 2002 through 2011. These four grant programs have similar goals and fund similar activities in overlapping jurisdictions. For instance, many jurisdictions within designated Urban Areas Security Initiative regions also apply for and receive State Homeland Security Program funding. Similarly, port stakeholders in urban areas could receive funding for equipment such as patrol boats through both the Port Security Grant Program and the Urban Areas Security Initiative, and a transit agency could purchase surveillance equipment with Transit Security Grant Program or Urban Areas Security Initiative funding. We, as well as DHS's IG, concluded that FEMA should use more specific project-level data in making grant award decisions in order to identify and mitigate potential duplication. Our work, and the work of the DHS IG, concluded that coordinating the review of grant projects internally would give FEMA more complete information about applications across the four grant programs that could help FEMA identify and mitigate the risk of unnecessary duplication across grant applications.[17] We recommended in February 2012, among other things, that FEMA take steps to ensure that it collects project information with the level of detail needed to better position the agency to identify any potential unnecessary duplication within and across the four grant programs. DHS concurred with our recommendation in this area.

In another example of this challenge, we found instances where Justice could improve how it targets nearly $3.9 billion to reduce the risk of potentially unnecessary duplication across more than 11,000 grant awards it makes annually. Justice's grant-making agencies had awarded

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[16] GAO, *2012 Annual Report: Opportunities to Reduce Duplication, Overlap and Fragmentation, Achieve Savings, and Enhance Revenue*, GAO-12-342SP (Washington, D.C.: Feb. 28, 2012).

[17] GAO-12-342SP.

funds from different grant programs to the same applicants whose applications described similar—and in some cases, the same—purposes for using the grant funds. While we acknowledged that there may be times when Justice's decision to fund recipients in this manner is warranted, our work found that Justice made grant award decisions without visibility over whether the funds supported similar or the same purposes, thus potentially resulting in unintended, and unnecessary, duplication. We found that Justice had not assessed its grant programs to determine the extent to which they may overlap with one another and determine if consolidation of grant programs may be appropriate. Further, Justice's grant-making agencies had not established consistent policies and procedures for sharing grant application information that could help them identify and mitigate unnecessary duplication in how recipients intend to use their grant awards.[18] We recommended that Justice should conduct an assessment to better understand the extent to which the department's grant programs overlap with one another and determine if grant programs may be consolidated to mitigate the risk of unnecessary duplication. To the extent that Justice identifies any statutory obstacles to consolidating its grant programs, it should work with Congress to address them, as needed. Justice concurred with our recommendations in this area. Addressing structural challenges such as these may achieve cost savings, enhance revenue, and could result in greater efficiencies in grant programs.

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[18] GAO, *Justice Grant Programs: DOJ Should Do More to Reduce the Risk of Unnecessary Duplication and Enhance Program Assessment*, GAO-12-517 (Washington, D.C.: July 12, 2012).

Because of Its Complexity, Grants Management Benefits from Effective Collaboration among Intergovernmental and Nongovernmental Participants

The process of distributing federal assistance through grants is complicated and involves many different parties—both public and private—with different organizational structures, sizes, and missions. In previous work, we have identified lack of collaboration among and between federal agencies, state and local governments, and nongovernmental grant participants as a challenge to effective grant implementation.[19] Because grants management can be complex, collaboration among the grant participants, particularly with regard to information sharing, is important. With this in mind, we have identified key practices to enhance and sustain collaboration among federal agencies.[20] We have also recommended these same key practices to strengthen partnerships between government and nongovernmental entities, such as nonprofit organizations.[21] In that same report, we describe an example related to hurricane recovery that involves difficulties in collaboration between federal agencies and state and local case management providers. Disaster case management is a process that assists people in identifying their service needs, locating and arranging services, and coordinating the services of multiple providers to help people recover from a disaster. State and local agencies providing federally funded disaster case management services faced challenges in, among other things, obtaining timely and accurate information from the federal agencies overseeing the disaster case management programs. While FEMA had a lead role in coordinating other types of disaster assistance after Hurricanes Katrina and Rita, its role for coordinating disaster case management was not explicit. Initial coordination activities among federal agencies and case management providers were minimal following the

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[19] For the purpose of this report we use the term "collaboration" broadly to include interagency activities that others have variously defined as "coordination," "cooperation," "integration," or "networking." We have done so since there are no commonly accepted definitions for these terms and we are unable to make definitive distinctions between these different types of interagency activities. See GAO, *Results Oriented Government: Practices That Can Help Enhance and Sustain Collaboration among Federal Agencies,* GAO-06-15 (Washington, D.C.: Oct. 21, 2005). Here, we use this definition to describe collaboration among intergovernmental participants as well as between nongovernmental grant stakeholders.

[20] Examples of key practices for collaboration include establishing mutually reinforcing or joint strategies, and establishing compatible policies, procedures, and other means of operating across agency boundaries. For additional details, see GAO-06-15.

[21] GAO, *Disaster Assistance: Greater Coordination and an Evaluation of Programs' Outcomes Could Improve Disaster Case Management*, GAO-09-561, (Washington, D.C.: July 8, 2009).

hurricanes. As a result, we found that some victims may not have received case management services while others may have received services from multiple providers.[22] We recommended, among other things, that FEMA establish a time line for developing a disaster case management program that includes practices to enhance coordination among stakeholders involved in this program. FEMA agreed with our recommendations in this area and reported that it would take steps to coordinate with stakeholders. Among other actions, FEMA has since held a disaster case management summit, and participants made recommendations for improving coordination among federal and nonfederal stakeholders that will be included in the disaster case management program guidance.

In another example of collaboration challenges, 80 federal grant programs are authorized to provide funding for transportation for disadvantaged populations and involve several federal agencies, including the Departments of Agriculture, Education, HHS, HUD, Interior, Labor, Transportation, and Veterans Affairs.[23] These grantors may provide funds to state and local agencies that can be used for transportation expenses to help individuals access federal programs, including education, employment, medical care, or other human services.[24] To improve the efficiency and effectiveness of human services transportation by coordinating related programs at the federal level and promoting the maximum feasible coordination at the state and local levels, the federal grant-making agencies collaborate through an Interagency Transportation Coordinating Council on Access and Mobility (Coordinating Council). In our past work we have reported that while some collaboration efforts have shown promising results, obstacles continued to impede other attempts at collaboration between grant participants.[25] In 2011, we reported that while some federal agencies

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[22] GAO-09-561.

[23] GAO, *Transportation-Disadvantaged Populations: Federal Coordination Efforts Could Be Further Strengthened*, GAO-12-647, (Washington, D.C.: June 20, 2012).

[24] Some federal programs, such as those administered by Veterans Affairs, may provide direct transportation services to beneficiaries, as opposed to funds to state and local agencies to provide these services.

[25] GAO, *Transportation-Disadvantaged Populations: Some Coordination Efforts Among Programs Providing Transportation Services, but Obstacles Persist*, GAO-03-697 (Washington, D.C.: June 30, 2003).

were developing guidance and technical assistance for transportation coordination, other federal departments still had more work to do in identifying and assessing their transportation programs, working with other federal departments to identify opportunities for additional collaboration, and developing and disseminating policies and recipient guidance for coordinating transportation services.[26] In June 2012, we reported that several state and local officials told us that there was not sufficient federal leadership and guidance on how to coordinate transportation services for the disadvantaged and that varying federal program requirements may hinder coordination of transportation services, acting as barriers to collaboration. In that report, we recommended that in order to promote and enhance federal, state, and local coordination activities, the Secretary of Transportation as the chair of the Coordinating Council, as well as the member agencies of the Coordinating Council, should complete and publish a strategic plan and report on their progress in implementing their recommendations. Education and Veterans Affairs generally agreed with our report, while HHS, HUD, and the Department of Transportation neither agreed nor disagreed.

Internal Control Weaknesses in Grants Management and Oversight Processes Affect Federal Agencies' Ability to Ensure Grant Funds Are Spent Effectively

When awarding and managing federal grants, effective oversight and internal control is important to provide reasonable assurance to federal managers and taxpayers that grants are awarded properly, recipients are eligible, and federal grant funds are used as intended and in accordance with applicable laws and regulations. Internal control comprises the plans, methods, and procedures agencies use to be reasonably assured that their missions, goals, and objectives can be met. In numerous reviews over the years, we and agency IGs have identified weaknesses in agencies' internal controls for managing and overseeing grants. When such controls are weak, federal grant-making agencies face challenges in achieving grant program goals and assuring the proper and effective use of federal funds which can help avoid improper payments.

Control Weaknesses in Monitoring and Overseeing Grant Programs. Agencies are responsible for overseeing and monitoring implementation of their grant programs to help ensure that recipients are meeting program and accountability requirements. Oversight procedures for

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[26] GAO, *Opportunities to Reduce Potential Duplication in Government Programs, Save Tax Dollars, and Enhance Revenue,* GAO-11-318SP (Washington, D.C.: Mar. 1, 2011)

monitoring the recipients' use of awarded funds, including site visits and review of recipient reports, can help agencies determine whether recipients are operating efficiently and effectively and whether program funds are being spent appropriately. Risk-based monitoring programs can help identify those areas in need of oversight resources. When agencies do not consider certain risk factors when selecting recipients for site visits, they may not know where to focus their monitoring resources. For example, in February 2011, the IG at the National Archives and Records Administration (NARA) reported that NARA, among other things, had not developed a risk-based process for monitoring and determining which grants to review.[27] The IG found that NARA did not consider relevant factors, such as a program's age or size, or the experience of the recipient. The IG concluded that without a more structured process for determining and assessing risk, NARA could not provide adequate assurance that risks associated with its grant programs are properly addressed and mitigated. According to the IG, NARA subsequently took corrective actions, including developing selection criteria for grantee site visits and desk audits and determining their frequency.

Federal agencies award grant funds to recipients, often states and local governments, and then those grant recipients may award, or pass through, subgrants to subrecipients.[28] It is important that grant recipients identify, prioritize, and manage potential at-risk subrecipients to ensure that grant goals are reached and funds are used properly. In April 2011, we reported on DOE's use of Recovery Act funds for the EECBG program.[29] We found that EECBG recipients used various methods to monitor sub-recipients, with some recipients providing more rigorous monitoring than others. DOE officials acknowledged that many recipients are resource constrained, limiting their ability to monitor subrecipients and ensure compliance with applicable federal requirements. DOE gathered specific information on recipient monitoring practices during on-site visits.

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[27] NARA/OIG Audit Report No. 11-03, *Audit of NARA's Oversight of Selected Grantees' Use of Grant Funds*, Feb. 16, 2011.

[28] A subrecipient is an entity that receives a grant award from the prime recipient of an award and is accountable to the prime recipient for the use of the federal funds provided by the subaward.

[29] GAO, *Recovery Act: Energy Efficiency and Conservation Block Grant Recipients Face Challenges Meeting Legislative and Program Goals and Requirements*, GAO-11-379 (Washington, D.C.: Apr. 7, 2011).

However, because not all recipients were to receive site visits, DOE did not have specific information on monitoring for many recipients, and therefore, did not know whether those monitoring activities were sufficiently rigorous to ensure compliance with federal requirements. We recommended that DOE explore a means to capture information on the monitoring processes of all recipients to make certain that recipients have effective monitoring practices. DOE has taken some actions to increase their monitoring efforts; however, the actions may not result in capturing information on the monitoring practices of all recipients.

Medicaid, the largest federal grant program, has also been the subject of numerous reviews. The challenges faced by HHS's Centers for Medicare & Medicaid Services (CMS) in overseeing fiscal management of the Medicaid program have been well-documented in our past work.[30] Because of concerns about the program's fiscal management, size, growth, and diversity, Medicaid has been on our list of high-risk programs. Areas of concern in the Medicaid program include improper payments and inconsistent reviews of managed care rate setting by CMS.

Government-wide Issues. Our work has identified weaknesses in grant oversight and accountability issues that span the government, including challenges in oversight of undisbursed grant award balances and significant levels of improper payments in grant programs.

We have found issues and raised concerns about timely grant closeouts, including undisbursed funds remaining in grant accounts, across the federal government. For grant programs with a defined end date, closeout procedures help ensure that grant recipients have met all financial requirements, provided final reports, and returned any unused funds. We have reported that some agencies lack adequate systems or policies to properly monitor grant closeouts or did not deobligate funds from grants eligible for closeout in a timely manner.[31] When agencies do not conduct closeout procedures in a timely manner, unused funds can be prevented from being used to help address the purpose of the grant. Further, failure to close out a grant and deobligate any unspent balances can allow

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[30] GAO, *Medicaid: Federal Oversight of Payments and Program Integrity Needs Improvement*, GAO-12-674T (Washington, D.C.: Apr. 25, 2012).

[31] GAO, *Grants Management: Action Needed to Improve the Timeliness of Grant Closeouts by Federal Agencies,* GAO-12-360 (Washington, D.C.: Apr. 16, 2012).

recipients to continue to draw down federal funds even after the grant's period of availability to the recipient has ended, making these funds more susceptible to waste, fraud, or mismanagement. In April 2012, we reported that, as of September 30, 2011, more than $794 million remained in expired grant accounts in the Payment Management System, the largest civilian federal payment system which made 68 percent of all federal grant disbursements in fiscal year 2010.[32] These accounts were more than 3 months past the grant end date and had no activity for 9 months or more, with some balances remaining in grant accounts several years past their expiration date. Subsequently, OMB issued guidance instructing federal agencies to take appropriate action to close out grants in a timely manner.

Federal agencies reported an estimated $115.3 billion in improper payments in fiscal year 2011. Many of the programs reporting improper payments were federal grant programs, including Medicaid and the National School Lunch program. Strong preventive controls are important as they serve as the front-line defense against improper payments, and effective monitoring and reporting are important to help detect emerging improper payment issues. In March 2012, we reported that many agencies and programs are in the process of implementing preventive controls that involve activities such as training, which can be a key element in any effort to prevent improper payments from occurring.[33] For example, CMS's Medicaid Integrity Group trains state-level staff and sponsors education programs for beneficiaries and providers. Along with strong preventive controls, effective detection techniques, such as data mining and recovery auditing to quickly identify and recover improper payments, are important for reducing improper payments.

In addition to weaknesses and issues found in our and IG reviews of agencies' grants-related controls and individual grant programs, we identified grants management as a significant deficiency in internal control in our fiscal year 2011 audit of the consolidated financial statements for

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[32] GAO-12-360.

[33] GAO, *Improper Payments: Remaining Challenges and Strategies for Government-wide Reduction Efforts*, GAO-12-573T (Washington, D.C.: Mar. 28, 2012).

the U.S. Government.[34] A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis.[35] We reported that these internal control deficiencies could adversely affect the federal government's ability to ensure that grant funds are being spent in accordance with applicable program laws and regulations. We based our finding on audits of agencies' fiscal year 2011 financial statements, where auditors at several federal agencies found grants management internal control deficiencies, primarily regarding inadequate monitoring and oversight of grant programs. For example, the auditor at HUD reported issues regarding timely action and follow-up with noncompliant recipients, as well as inadequate procedures to identify noncompliant recipients. We reported that these internal control deficiencies could adversely affect the federal government's ability to ensure that grant funds are being spent in accordance with applicable program laws and regulations.

A Lack of Organizational, Financial, or Human Capital Capacity Impacts the Ability of Grant-making Agencies and Recipients to Effectively Manage Grant Programs

The capacity of grant-making agencies and recipients is a key issue in grants management which can impact program success. Capacity involves both the maintenance of appropriate resources and the ability to effectively manage those resources. Building sufficient capacity is a challenge that may involve significant costs or tradeoffs. Three relevant types of capacity are organizational, human capital, and financial.

Organizational capacity captures the degree to which the grant-making agency or recipient is institutionally prepared for grants management and implementation. This may include having appropriate leadership, management structure, and size to efficiently and effectively implement the program and adapt as needed. For example, we recently reported that capacity was a concern for states, school districts, and schools in the

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[34] The *2011 Financial Report of the United States Government* includes our report and was issued by the Department of the Treasury on December 23, 2011, and is available through GAO's website at http://www.gao.gov/financial.html and Treasury's website at http://www.fms.treas.gov/fr/index.html.

[35] A deficiency is categorized as a material weakness or a significant deficiency. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

School Improvement Grant program.[36] States and districts both struggled to develop the necessary staff capacity to successfully support and oversee the program implementation because of resource constraints. Officials from Education and several states told us that the grant required states to support local reform efforts to a much greater extent than they had in the past, and staff in some states had not yet developed the knowledge base to fulfill these responsibilities. Some states noted that such capacity limitations meant that time staff could devote to administering the program and monitoring district implementation was significantly limited.

Human capital capacity measures the extent to which an organization has sufficient staff, knowledge, and technical skills to effectively meet its program goals. Human capital needs shift over time as programs change and face new challenges. Human capital needs also shift as new technology is implemented and the organization finds new ways to leverage expertise. Human capital challenges at the federal, state, and local level can underlie the operational difficulties faced during program implementation. For example, we have previously reported that during the initial phases of Gulf Coast rebuilding following the hurricanes in 2005, officials at both the federal and state level initially lacked the human capital capacity to administer the public assistance grant program.[37] In addition, local applicants initially lacked the staff to fully participate as partners in the program. Shortages of staff with the right skills and abilities, as well as the lack of continuity among rotating FEMA staff, contributed to delays in developing public assistance projects in Louisiana and Mississippi.

Insufficient financial resources at the grant-making agency or recipient to administer or implement the grant can also limit the effectiveness of a grant in a number of ways. Financial capacity constraints may lead some recipients, such as nonprofits, to reduce the population served, the scope of services offered, and possibly forgo or delay physical infrastructure and technology improvements and staffing needs. We have previously

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[36] GAO, *School Improvement Grants: Education Should Take Additional Steps to Enhance Accountability for Schools and Contractors,* GAO-12-373 (Washington, D.C.: Apr.11, 2012).

[37] GAO, *Disaster Recovery: FEMA's Public Assistance Grant Program Experienced Challenges with Gulf Coast Rebuilding*, GAO-09-129 (Washington, D.C.: Dec. 18, 2008).

reported that because many nonprofits view cuts in clients served or services offered as unpalatable, they have reported that they often compromise vital "back-office" functions, which over time can affect their ability to meet their missions.[38] Further, nonprofits' strained resources limit their ability to build a financial safety net, which can create a precarious financial situation for them. Absent a sufficient safety net, nonprofits that experience delays in receiving their federal funding may be inhibited in their ability to bridge funding gaps. When funding is delayed, some nonprofits have reported that they either borrow funds on a line of credit or use cash reserves to provide services and pay bills until their grant awards are received. Collectively, these issues place stress on the nonprofit sector, diminishing its ability to continue to effectively partner with the federal government to provide services to vulnerable populations.

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[38] GAO, *Nonprofit Sector: Treatment and Reimbursement of Indirect Costs Vary among Grants, and Depend Significantly on Federal, State, and Local Government Practices,* GAO-10-477 (Washington, D.C.: May 18, 2010).

Since this report does not contain any new audit work that evaluates the policies or operations of any federal agency in this report, we did not seek agency comments. However, because of the role of OMB and GSA in producing or managing data on grant outlays and the number of grant programs, we shared drafts of relevant excerpts of this report with cognizant officials at these agencies and we made technical clarifications where appropriate.

We are sending copies of this report to other interested congressional committees, the Acting Director of OMB, and the Acting Administrator of GSA. This report is available at no charge on the GAO website at http://www.gao.gov. If you have any questions about this report, please contact Stanley J. Czerwinski at (202) 512-6806 or czerwinskis@gao.gov, or Beryl H. Davis at (202) 512-2623 or davisbh@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. Key contributors to this report are listed in appendix IV.

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Appendix I: Objectives, Scope, and Methodology

Our objectives were to describe (1) the amount of grant funding to state and local governments for fiscal year 2011, how grant funding to state and local governments has changed over the last three decades, and difficulties related to identifying the number of such grant programs; and (2) selected grant challenges involving federal grants to state and local governments that have been identified in our previous work and that of federal inspectors general (IG) over the last several years. In scoping the research objectives for this work we decided to limit our review to federal grants involving state and local governments because reliable historical data exist for this group of grants and, according to the Office of Management and Budget (OMB), such grants represent roughly 80 percent of all federal grant funding. We could not identify a similarly-reliable data source for the wider universe of all federal grants. To do this work we took the actions described below and we discussed various issues related to federal grants and data on grants funding and programs with officials at the OMB and the General Services Administration (GSA), as these agencies have government-wide responsibilities related to grants, grants management, and grants data.

To determine key information regarding grant funding for fiscal year 2011, the growth in grant funding over the last three decades, and shifts in the focus of grant funding during that time, we used OMB data, specifically, OMB's Historical Table 12.3, *Total Outlays for Grants to State and Local Governments, by Function, Agency, and Program: 1940 – 2013* and Table 12.2, *Total Outlays for Grants to State and Local Governments, by Function and Fund Group: 1940 – 2017*. We extracted the data for fiscal years 1980 through 2011 and converted each fiscal year's outlay amount to 2011 constant dollars which reflect adjustments for inflation. We sorted the data by agency and budget function (i.e., purpose of the spending) to identify the top five grant-making agencies and the top five functions for which grants were awarded. To determine grant outlays as a percentage of total outlays, we also used OMB's Historical Table 6.1, *Composition of Outlays: 1940-2017*. As these are budget data that has undergone rigorous review by OMB, they are generally considered sufficiently reliable for most of our purposes. Therefore, we determined the data were sufficiently reliable for the purposes of this report.

To describe issues related to identifying the number of grant programs, we reviewed our prior work and the work of others on federal grants and the Catalog of Federal Domestic Assistance (CFDA), the single authoritative, government-wide compendium and source for descriptions of federal programs that provide assistance or benefits to the American public. We reviewed research regarding methodologies used to count

grant programs published by the Congressional Research Service (CRS).
We discussed issues related to CFDA numbers and their relationship to
the number of grant programs with GSA, the agency responsible for
maintaining CFDA. We also inquired into issues regarding counting the
number of grant programs with OMB. The on-line version,
www.CFDA.gov, allows one to search for assistance programs using a
number of search options, including the federal agency providing the
assistance, program name, and assistance type.[1]

In addition to the OMB data described above, we identified other sources
of data for information on the amounts of federal grants funding, including
USASpending.gov and Census Bureau data. We analyzed and compared
the different sources and describe how the data elements in each source
differ. We discussed issues relating to USASpending.gov, including the
reliability of the data, with GSA, the agency responsible for maintaining it.
See appendix II for details about the data sources we identified and how
they differ.

To identify key issues and challenges related to the structure and
operation of grants management, we reviewed previous relevant reports
and audits by us, federal inspectors general (IG), and others. We
searched GAO's online database for grants management-related reports
from 1995 to the present, and reviewed selected relevant reports. To
identify more recent issues and challenges for the examples in this report,
we reviewed selected GAO reports from 2006 to 2012. For IG reports, we
searched websites for IGs of large and small grant-making agencies for
reports related to grants management and financial statement audit
reports where internal control weaknesses are identified. We determined
whether the issues and challenges we identified still existed by reviewing
our recommendation follow up work. For reports by others, we
researched follow up work by the applicable IGs. We also searched
various federal, public policy, and research organizations' websites,
including those for the CRS and OMB, to identify relevant reports and
other literature regarding federal grant programs and how they are
structured and managed.

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[1] The CFDA can be downloaded in a printable version. We used the online version
(CFDA.gov) so we could conduct various searches more easily.

We shared drafts of the relevant sections of this report with cognizant officials at OMB and GSA. They generally agreed with the contents of this report and we incorporated their technical clarifications where appropriate.

Appendix II: Sources of Information on Grants

Various sources exist for data on the amount the federal government spends on grants, including Office of Management and Budget (OMB) budget data, USASpending.gov, and Census Bureau surveys of state and local governments. Each source was established and is used for slightly different purposes and contains different data elements. The various differences in each data source can create challenges for those examining federal grants management issues when trying to identify the scope of federal spending on grants. This appendix explains the purposes for and the differences in data contained in each source.

OMB Budget Data. OMB collects data from federal agencies each year to prepare the President's budget. OMB uses this data for a number of purposes related to the budget, including producing *Historical Tables* and *Analytical Perspectives*. One series of *Historical Tables* contains information on federal outlays for grants to state and local governments. According to OMB, the purpose of this series of *Historical Tables* is to identify federal government outlays that constitute income to state and local governments to help finance their services. *Analytical Perspectives*, according to OMB, is designed to highlight specific subject areas or provide other presentations of budget data that put the budget in context.

USASpending.gov. In response to the Federal Funding Accountability and Transparency Act (FFATA), OMB established USASpending.gov in December 2007 to enhance the transparency of government expenditures.[1] FFATA required that OMB establish a publicly available online database that would allow users to search for detailed information about entities that are awarded federal grants, loans, contracts, and other forms of financial assistance. The Congressional Research Service (CRS) reported that the premise of the law was that by making details of federal spending available to the public, government officials would be less likely to fund projects that might be perceived as wasteful. In addition, the new database required by the law would also help citizens better understand how the government distributes funds.[2] For grant awards, federal agencies report the amount of obligations they incur and information on the recipients of those awards, starting in fiscal year 2007,

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[1] The General Services Administration now oversees and administers USASpending.gov.

[2] CRS, *The Federal Funding Accountability and Transparency Act: Background, Overview, and Implementation Issues*. RL33680 (Washington, D.C.: Jan. 31, 2008).

in accordance with OMB guidance for agency data submissions.[3] Over 490,000 grant-related transactions were reported by federal agencies for fiscal year 2011.

Census Bureau Surveys. The Census Bureau collects data from state and local governments, including data on grants provided by the federal government. This census of governments is one component of the nation's economic census required by law,[4] and provides, among other things, periodic and comprehensive statistics about governments and their financial activities.

Consolidated Federal Funds Report. Prior to fiscal year 2011, the annual Consolidated Federal Funds Report (CFFR) was prepared by the Census Bureau from data submitted by federal agencies to the Federal Assistance Awards Data System (FAADS) and other selected agency data. With the enactment of FFATA, which required agencies to report data elements in addition to those that were captured by FAADS, and due to funding issues, the Census Bureau stopped publishing the CFFR after the fiscal year 2010 report. The information is now available for the public to review on USASpending.gov.

Table 2 summarizes data elements included and not included in these data sources and provides more information about them.

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[3] OMB Memorandum M-09-19, *Guidance on Data Submission under the Federal Funding Accountability and Transparency Act (FFATA)* (Washington, D.C.: June 1, 2009).

[4] 13 U.S.C. § 161.

Table 2: Information about the Sources for Data on Federal Spending on Grants

Data source	Data elements included	Data elements not included	Time period covered
OMB budget data: *Historical Tables* (specifically, *Table 12.3 and other series 12 tables)*	Outlays[a] for grants to state and local governments "Grants" includes cooperative agreements[b]	Outlays for grants to some nonprofit organizations, for profit institutions, and individuals Outlays for some basic research awarded by competitive grants (Note: Data for those grants are included in other tables or categories of OMB data, but they are combined with nongrant outlays, so just the grants portion cannot be isolated) Detailed information on recipients Information on the number of individual grant programs	1940 through the current budget period
USASpending.gov	Obligations[c] incurred by federal agencies for grant awards and other types of financial assistance (e.g., loans, cooperative agreements) (Note: Data for grants can be separated from that for other assistance types) Each obligation transaction has associated information including the name of the federal agency making the award, information about the recipient, and CFDA number Recipient information includes type (government, nonprofit or for profit organization, individual); name; and address	Some grant awards less than $25,000[d] Grants awarded by the Legal Services Corporation and the Corporation for Public Broadcasting	Fiscal year 2000 through present
Census Bureau Surveys	Intergovernmental revenue to state and local governments which includes grants, taxes, and loans (Note: Data for grants cannot be separated out of the revenue amounts)	Grants to nongovernmental recipients	1951 through present

Source: GAO analysis.

[a]Outlay means a payment to liquidate an obligation (other than the repayment of debt principal or other disbursements that are "means of financing" transactions). Outlays generally are equal to cash disbursements, but also are recorded for cash-equivalent transactions, such as the issuance of debentures to pay insurance claims, and in a few cases are recorded on an accrual basis such as interest on public issues of the public debt. Outlays are the measure of government spending.

[b]Cooperative agreements are another form of financial assistance similar to grants, but where the federal agency is more involved with the recipient in implementing the program.

[c]An obligation is a definite commitment that creates a legal liability of the government for payment of goods and services ordered or received. An agency incurs an obligation, for example, when it awards a grant.

[d]OMB's guidance for submitting data to USASpending.gov states that, under the Recovery Act, agencies are required to report all transactions, but can aggregate amounts under $25,000, and that agencies should begin to include aggregate information for all funding types. GSA officials told us agencies are not required by FFATA to include awards under $25,000 related to non-Recovery Act spending.

Appendix III: Cross-cutting Grants Legislation and OMB Circulars/Agency Grants Regulations

Federal grants are typically subject to a wide range of substantive and other requirements under the particular program statutes as well as implementing agency regulations and other guidance that applies to them. They are also governed by many additional cross-cutting requirements that are common to most federal assistance programs.[1] Figure 6 shows the relevant grant-related public laws that are discussed below.

Figure 6: Selected Federal Grants-Related Legislation Timeline
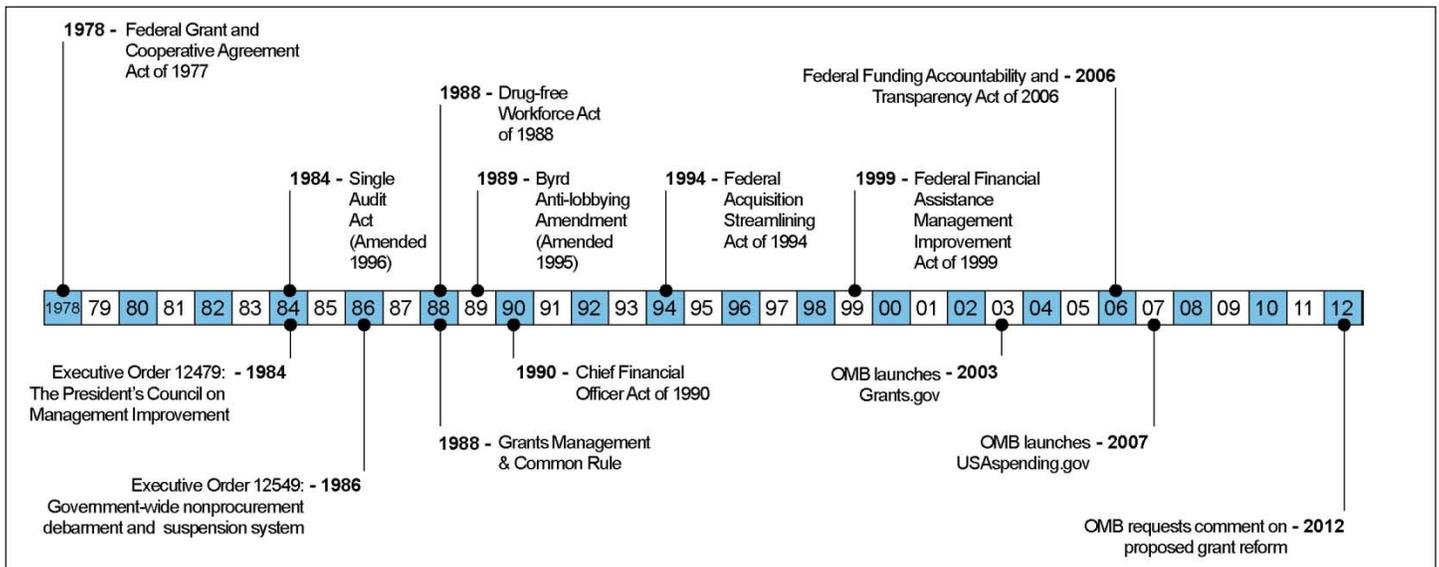
Source: GAO analysis of relevant grant related public laws.

The Office of Management and Budget (OMB) has long been involved in grants management in the executive branch since its reorganization within the Executive Office of the President in 1970.[2] In 1971, OMB published standards for establishing consistency and uniformity in the administration of grants and other types of financial assistance to state

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[1] We focus this discussion on the history and current status of government-wide grants management. While we focus exclusively on grants, many of the legal requirements and guidance discussed also apply to other forms of federal assistance.

[2] OMB was previously the Bureau of the Budget, which was established within the Department of the Treasury in 1921 but transferred to the Executive Office of the President in 1939.

and local governments and certain Indian tribunals.[3] However, even with the publication of OMB's circular for grant administration, the Commission on Government Procurement studying federal spending practices in the early 1970s found that "federal grant-type activities are a vast and complex collection of assistance programs, functioning with little central guidance in a variety of ways that are often inconsistent even for similar programs and projects."[4] The Commission also found that because there were no statutory guidelines for executive agencies to distinguish between assistance relationships, such as grants and procurement relationships with nonfederal entities, agencies were inappropriately using grants to avoid competition and certain requirements that apply to the procurement system.[5] Thereafter, Congress enacted the Federal Grant and Cooperative Agreement Act of 1977[6] to establish standards for executive agencies in selecting the most appropriate funding vehicle. The act directed OMB to provide guidance to executive agencies to promote consistent and efficient use of funding vehicles, and in 1978, OMB issued supplementary interpretive guidelines to help agencies distinguish between assistance programs and procurement relationships.[7]

In 1984, the Administration created the President's Council on Management Improvement, assigning the Deputy Director of OMB as Chairman of the Council.[8] While the Council's role was to review overall

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[3] The first Circular was A-102, "Uniform Administrative Requirements for Grants-In-Aid to State and Local Governments." In 1976, OMB published Circular No. A-110, "Grants and Agreements with Institutions of Higher Education, Hospitals and Other Nonprofit Organizations." 41 Fed. Reg. 32,016 (July 30, 1976).

[4] See S. Rep. No. 95-449 (Sept. 27, 1977), citing The Report of the Commission on Government Procurement, Vol. I, pp. VII-VIII, December 1972.

[5] S. Rep. No. 95-449.

[6] Pub. L. No. 95-224, 92 Stat. 3 (Feb. 3, 1978), *codified, as amended, at* 31 U.S.C. §§ 6301-6308. The act directs executive agencies to use grant agreements or cooperative agreements when the principal purpose of the relationship between the Federal government and the nonfederal entity is to transfer a thing of value to the nonfederal entity to carry out a public purpose of support or stimulation. The law further states that "substantial involvement is not expected between the executive agency and the [grantee] when carrying out the activity contemplated in the agreement." Substantial involvement refers to performance of the funded activity rather than oversight of the grant use.

[7] 43 Fed. Reg. 36,860 (Aug. 18, 1978).

[8] Executive Order 12479, Management Reform in the Federal Government, 49 Fed. Reg. 22,243 (May 29, 1984).

management of government programs, several interagency task forces
were created under the Council to review various aspects of grants
management. Based on recommendations of one task force, the
President issued Executive Order No. 12549 in 1986 requiring agencies
to participate in a government-wide nonprocurement debarment and
suspension system. Thereafter, OMB issued guidelines prescribing the
program coverage, government-wide criteria, minimum due process
procedures, and other guidance for the system.[9] Another interagency task
force explored streamlining the existing guidance for managing federal
aid programs, and based on that review, in 1987, the President directed
OMB to revise Circular No. A-102, "Grants and Cooperative Agreements
with State and Local Governments" to specify uniform, government-wide
terms and conditions for grants to state and local governments.[10] The
President further directed executive agencies to propose and issue
common regulations adopting the terms and conditions set out by OMB
verbatim, modified where necessary to reflect inconsistent statutory
requirements.[11]

OMB circulars on grants provide policies to be followed by the grant-
making agencies, not the grantees. Therefore, prior to the publication of
the first grants management common rule in 1988, executive agencies
themselves issued regulations to govern their own grant requirements for
grantees. Subsequently, each grant-making agency issued four common
rules for grants: two are modeled after OMB's grants management
circulars covering cost principles, administrative requirements, and audit;
a third common rule deals with the prohibition on using grant funds to
lobby; and a fourth common rule covers suspension and debarment[12] and
drug-free workplace requirements. The federal grant-making agencies'

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[9] 52 Fed. Reg. 20,360 (May 29, 1987). Executive Order No. 12689, (54 Fed. Reg. 34,131
(Aug. 18, 1989)) and section 2455 of the Federal Acquisition Streamlining Act of 1994,
(Pub. L. No. 103-355), established government-wide effect for debarment, suspension, or
other exclusions for participants in both procurement and nonprocurement activities.

[10] See 53 Fed. Reg. 8028 (Mar. 11, 1988) (OMB final revisions to Circular No. A-102).

[11] *Memorandum on Grants to State and Local Governments*, President Ronald Reagan
(March 12, 1987).

[12] In Executive Order No. 12549 (51 Fed. Reg. 6370 (Feb. 21, 1986)), the President
directed the establishment of a common system for debarment and suspension for
assistance programs.

common rules are largely identical regulations that are binding on their grantees.

There were several grant-related laws enacted during the 1980s that focused on promoting accountability and transparency, and preventing abuse, within federal assistance programs. The Single Audit Act, as amended,[13] provides uniform requirements for annual audits of nonfederal entities that expend more than $500,000 in federal awards annually. Prior to this act's enactment, there were no uniform audit requirements for state and local government grantees, and these grantees were often subject to overlapping and conflicting audit requirements associated with each of the assistance programs in which they participated. Congress enacted other federal statutory provisions applicable to all recipients of federal funds, including the prohibition against lobbying with grant funds under the "Byrd Amendment"[14] and the requirement to maintain a drug-free workplace as a precondition of receiving grant funding.[15] Subsequent to the enactment of each of these acts, OMB issued guidance for agencies to implement the requirements of the acts.[16]

One of the key efforts to make government operations more efficient and effective and to prevent waste, fraud, abuse, and financial mismanagement came with the passage of the Chief Financial Officers Act of 1990.[17] The act builds off other legislative initiatives, such as the Single Audit Act, to improve financial management practices in the federal government.[18] The Chief Financial Officers Act created within OMB the Office of Federal Financial Management with specific statutory

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[13] 31 U.S.C. §§ 7501-7507. The Single Audit Act was enacted in 1982, and substantially amended in 1996. OMB's implementing guidance is contained in Circular No. A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

[14] 31 U.S.C § 1352.

[15] Drug-Free Workplace Act of 1988, Pub. L. No. 100-690, Title V, Subtitle D, § 5153, 102 Stat. 4181 (Nov. 18,1988), codified at 41 U.S.C. § 8103.

[16] Both the Single Audit Act of 1984 (Pub. L. No. 98-502) and the Byrd Amendment (Section 319 of Pub. L. No. 101-121), included a requirement OMB to issue guidance for the agency implementation of, and compliance with, the requirements of the act.

[17] Pub. L. No. 101-576, 104 Stat. 2838 (Nov. 15, 1990).

[18] See H.R. Rep. No. 101-818(I) (Oct. 6, 1990).

responsibility for financial management policy, including grants management, for the federal government.[19] While OMB had long taken the lead role in financial management, no entity had been statutorily vested with the responsibility to coordinate financial management practices in the federal government.

Along with the executive branch's efforts to streamline and simplify grants management in the 1980s and 1990s, Congress enacted the Federal Financial Assistance Management Improvement Act of 1999, commonly known as "Public Law 106-107," which required each federal grant-making agency to develop and implement a plan that simplifies the application, administration, and reporting procedures for financial assistance programs.[20] OMB was directed to coordinate this effort by coming up with a common application and reporting system. Following Public Law 106-107 and the President's announcement of the E-government initiative in his 2002 Fiscal Year Management Agenda, OMB established Grants.gov as a central storehouse for information on thousands of grant. To further improve transparency and provide the public with information on federal spending, Congress enacted the Federal Funding Accountability and Transparency Act of 2006.[21] The Act directed OMB to ensure the existence and operation of a single searchable website to be used by the public that shows the name of the entity receiving a federal award, the amount of the award, information on the award, and other information.[22] OMB launched USAspending.gov in 2007 to fulfill the Act's requirements.

The executive branch's recent efforts focus on streamlining administrative requirements and improving the effectiveness of single audits. In furtherance of Public Law 106-107's requirements (discussed above),

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[19] 31 U.S.C. § 504.

[20] Pub. L. No. 106-107, 113 Stat. 1486 (Nov. 20, 1999).

[21] Pub. L. No. 109-282, 120 Stat. 1186 (Sept. 26, 2006).

[22] Currently pending before Congress is a bill that would expand the scope of spending transparency currently required under the Federal Funding Accountability and Transparency Act of 2006. Among other things, the Digital Accountability and Transparency Act of 2012 (DATA Act), H.R. 2146, 112th Cong. (2012) would establish a new Federal Accountability and Spending Transparency Board charged with collecting spending information and publishing that information in formats that make it easy to search, sort, and download, thus removing OMB's responsibility over spending transparency.

OMB consolidated its grants-related circulars[23] as well as the agency common rules into Title 2 of the Code of Federal Regulations. Currently, OMB is in the process of re-issuing guidance for each of the common rules under Title 2, allowing federal grant-making agencies to simply adopt the regulations and thereby create a central point for all grantees to locate all grant government-wide requirements. Concurrent to the streamlining effort, OMB is also working with other stakeholders to evaluate potential reforms in federal grant policies.[24] In an effort to reduce improper payments, OMB created the Single Audit Workgroup with federal and state members who studied a variety of options for improving the effectiveness of single audits. In February 2012, OMB published an advanced notice of proposed guidance detailing a series of reform ideas that would standardize information collection across agencies, adopt a risk-based model for single audits, and provide new administrative approaches for determining and monitoring the allocation of federal funds.[25] The comment period closed at the end of March 2012; OMB has not yet issued proposed guidance based on comments received.

Until the fall of 2011, OMB coordinated grants management policy through two federal boards: the Grants Policy Committee, which was established in 1999, and the Grants Executive Board, which was established in 2004. The Grants Executive Board oversaw the implementation work groups and the Grants.gov initiative while the Grants Policy Committee was composed of grants policy experts from across the federal government whose mission it was to simplify and streamline grant administration policies. In October 2011, OMB announced the creation of the Council on Financial Assistance Reform (COFAR) which replaced these two federal grant bodies. The COFAR is charged with identifying

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[23] There are currently a total of six OMB circulars on grants, but only three apply to any one type of grantee. Grantees are grouped by (1) states, local governments, and Indian tribes, (2) educational institutions, and (3) nonprofit organizations. OMB published three different circulars on cost principles for each group, published two circulars on administrative requirements (one for states, local governments, and Indian tribes and another for educational institutions and nonprofit organizations combined), and one circular on audit requirements covering all three groups. Circular No. A-133, covering audit requirements, has not been codified into Title 2.

[24] See Exec. Order No. 13520, Reducing Improper Payments and Eliminating Waste in Federal Programs, 74 Fed. Reg. 62,201 (Nov. 25, 2009).

[25] Reform of Federal Policies Relating to Grants and Cooperative Agreements: Cost Principles and Administrative Requirements (including Single Audit Act), Advance Notice of Proposed Guidance, 77 Fed. Reg. 11,778 (Feb. 28, 2012).

emerging issues, challenges, and opportunities in grants management and policy and providing recommendations to OMB on policies and actions to improve grants administration. According to OMB officials, the COFAR is also expected to serve as a clearinghouse of information on innovations and best practices in grants management. In contrast to the Grants Policy Committee and the Grants Executive Board, which together included members from 26 agencies, the COFAR is made up of the OMB Controller, representatives from the largest eight grant-making agencies, and a representative from one of the smaller federal grant-making agencies. The latter serves a rotating two-year term. Also unlike the Grants Policy Committee, which largely consisted of program level grants staff, the membership of the COFAR is at a higher level, being made up of the Chief Financial Officers of participating agencies. OMB officials told us that the COFAR is now working toward identifying priorities in grants management that may include various initiatives that were started by the defunct Grants Policy Committee and Grants Executive Board. Details on these have yet to be decided.

Appendix IV: GAO Contact and Staff Acknowledgments

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In addition to the individuals named above, Peter Del Toro, Assistant Director, Kimberly A. McGatlin, Assistant Director, Laura M. Bednar, Maria C. Belaval, Anthony M. Bova, Amy R. Bowser, Melissa L. King, and Diane N. Morris were the major contributors to this report. Additionally, Virginia A. Chanley, Jason Kelly, and Robert Robinson also made key contributions.

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