

Highlights of [GAO-11-773T](#), a testimony before the Subcommittee on Technology, Information Policy, Intergovernmental Relations and Procurement Reform, House of Representatives

## Why GAO Did This Study

While federal grant funding has been increasing, long-standing concerns remain about the federal government's grants management and the lack of effective oversight tools to reasonably assure that grants are used for their intended purposes and that risks of fraud, waste, and abuse are minimized. GAO has issued a range of reports raising concerns about the risks and vulnerabilities related to grants management and oversight. The Administration recognizes these concerns. It included improving grants management as a part of its initiative to eliminate waste in the U.S. government and has various efforts underway to improve grants oversight and accountability.

This testimony addresses the (1) significance of federal grant funding, (2) risks and vulnerabilities in key controls in the federal grant life cycle, and (3) improvements needed to make the single audit process an effective accountability mechanism. This testimony is primarily based on prior GAO work that reviewed grant accountability and the single audit process.

## What GAO Recommends

Through our body of work on federal grant accountability, GAO has made numerous recommendations directed at improving management and oversight. Our recommendations include a range of actions at the agency and governmentwide levels.

View [GAO-11-773T](#) or key components. For more information, contact Jeanette Franzel at (202) 512-9471 or [franzelj@gao.gov](mailto:franzelj@gao.gov).

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## FEDERAL GRANTS

# Improvements Needed in Oversight and Accountability Processes

## What GAO Found

**Grants Play a Significant Role in Implementing and Funding Federal Programs.** The federal government's use of grants to achieve national objectives and to respond to emerging trends, such as changing demographics and changing threats to homeland security, has grown significantly in the last two decades. From fiscal years 1990 to 2010, federal grant outlays to states and local governments, increased from about \$135 billion to over \$600 billion—almost one-fifth of the fiscal year 2010 federal budget, according to the Office of Management and Budget (OMB). In fiscal year 2010, over 1,670 federal grant programs were offered by 23 federal grant-making departments and agencies.

**Risks and Vulnerabilities Exist in Key Controls in the Grant Life Cycle.** Organizations that award and receive grants need effective internal control over the processes and funds involved. These controls are fundamental in assuring the proper and effective use of federal funds to achieve program goals and to ensure that funds are used for their intended purposes. Overall, our work on grant management has found weaknesses in the control systems of federal awarding agencies. We found vulnerabilities at different points in the grant life cycle: in the preaward, award, implementation, and closeout stages. Furthermore, we observed oversight issues that exist across the government. For example, in 2008 we reported that in 2006 about \$1 billion remained in undisbursed funding in expired grant accounts in the largest civilian grant payment system, which was associated with thousands of grantees and over 325 different federal programs and could have been identified through improved oversight and grant tracking. In addition, federal agencies reported an estimated \$125.4 billion in improper payments for fiscal year 2010. This estimate was attributable to over 70 programs spread across 20 agencies. Many of those programs reporting improper payments were federal grant programs, including Medicaid.

**Improvements Are Needed to Make Single Audits a More Effective Accountability Mechanism Over Grant Funding.** The single audit process for organizations spending \$500,000 or more in federal grant awards in a year is intended to play a key role in achieving accountability over federal grant resources. These audits report on the financial statements and internal controls over compliance with laws and grant provisions, among other things. GAO and others have identified and reported on significant concerns with the single audit process that diminish its effectiveness as an oversight accountability mechanism and concluded that improvements are needed. Through our work we found that (1) the federal oversight structure is not adequate to monitor the efficiency and effectiveness of the single audit process; (2) time frames of the single audit process do not facilitate the timely identification and correction of audit findings; and (3) single audit stakeholders have raised concerns about the complexity and relative costs and benefits of the single audit requirements, especially at smaller entities. Currently, OMB is conducting initiatives looking to improve the process, but time frames for implementing the results of ongoing studies are unclear.