

Highlights of [GAO-12-704T](#), a testimony before the Subcommittee on Federal Financial Management, Government Information, Federal Services, and International Security, Committee on Homeland Security and Governmental Affairs, U.S. Senate

## Why GAO Did This Study

As the federal government confronts long-term fiscal challenges, it is critical to improve the efficiency of federal grants processes, such as grant closeout procedures that allow for the return of unspent balances to the Treasury. In 2008, GAO reported that about \$1 billion in undisbursed funding remained in expired grant accounts in the largest civilian payment system for grants—PMS. For this statement, GAO provides information from its April 2012 report updating its 2008 analysis. GAO also describes federal grant spending over the last three decades and discusses other grant management challenges identified in its past work and that of others.

This testimony addresses (1) the amount of undisbursed funding remaining in expired grant accounts; (2) actions OMB and agencies have taken to track undisbursed balances; (3) GAO recommendations to improve grant closeout; (4) recent and historical funding levels for federal grants; and (5) GAO's ongoing and future work on grants management issues.

## What GAO Recommends

For grant closeout, GAO's April 2012 report recommended OMB revise future guidance to better target undisbursed balances and instruct agencies to take action to close out grants that are past their end date or have no undisbursed balances remaining. OMB staff said they generally agreed with and will consider the recommendations.

View [GAO-12-704T](#). For more information, contact Stanley J. Czerwinski at (202) 512-6806 or [czerwinskis@gao.gov](mailto:czerwinskis@gao.gov) or Beryl H. Davis at (202) 512-2623 or [davisbh@gao.gov](mailto:davisbh@gao.gov).

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## GRANTS MANAGEMENT

### Improving the Timeliness of Grant Closeouts by Federal Agencies and Other Grants Management Challenges

## What GAO Found

Closeout is an important final point of grants accountability. It helps to ensure that grantees have met all financial and reporting requirements. It also allows federal agencies to identify and redirect unused funds to other projects and priorities as authorized or to return unspent balances to the Department of the Treasury (Treasury). At the end of fiscal year 2011, GAO identified more than \$794 million in funding remaining in expired grant accounts (accounts that were more than 3 months past the grant end date and had no activity for 9 months or more) in the Payment Management System (PMS). GAO found that undisbursed balances remained in some grant accounts several years past their expiration date: \$110.9 million in undisbursed funding remained unspent more than 5 years past the grant end date, including \$9.5 million that remained unspent for 10 years or more. Nevertheless, the more than \$794 million in undisbursed balances remaining in PMS represents an improvement in closing out expired grant accounts with undisbursed balances in PMS compared to the approximately \$1 billion GAO found in 2008. This improvement is notable given that the overall amount of grant disbursements through PMS increased by about 23 percent from 2006 to 2011.

When agencies made concerted efforts to address timely grant closeout, they and their inspectors general and auditors reported that they were able to improve the timeliness of grant closeouts and decrease the amount of undisbursed funding in expired grant accounts. GAO found that raising the visibility of the problem within federal agencies can also lead to improvements in grant closeouts. However, GAO's review of agencies' annual performance reports for fiscal years 2009 to 2011 found that systematic, agencywide information on undisbursed balances in grant accounts eligible for closeout is still largely lacking.

The challenge presented by undisbursed balances in expired grant accounts is just one of a number of grants management challenges identified in past GAO work. Addressing these challenges is critical to increasing the efficient and effective use of federal grant funds, which represent a significant component of overall federal spending. According to the Office of Management and Budget (OMB), federal outlays for grants to state and local governments, including Medicaid, increased from \$91 billion in fiscal year 1980 (about \$221 billion in 2011 constant dollars) to more than \$606 billion in fiscal year 2011, accounting for approximately 17 percent of total federal outlays. During this 30-year period there has been a shift in grant spending, increasing the percentage of grant funding of Medicaid while decreasing the percentage of funding of non-Medicaid-related grant programs.

GAO work on grants over the last decade has identified a range of issues related to the management of grant programs, including the streamlining of grants management processes, the measurement of grant performance, grant lessons learned from implementing the American Recovery and Reinvestment Act of 2009, and internal control weaknesses. GAO will be looking at each of these grants management issue areas in future work for this Subcommittee.