GRANTS TO STATE AND LOCAL GOVERNMENTS
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.

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