

## Why GAO Did This Study

Similar to the federal and state sectors, local governments are facing long-term fiscal pressures. In cases of fiscal crisis, municipalities may be required to make significant cuts to personnel that may impact their oversight of federal grants. GAO was asked to review the oversight of federal grants received by municipalities in fiscal crisis. This report (1) identifies challenges that selected municipalities in fiscal crisis experienced when managing federal grants and steps taken by those municipalities; (2) reviews the monitoring processes that federal agencies used to oversee selected grants to selected municipalities; and (3) examines actions the White House Working Group on Detroit and selected federal agencies took to assist municipalities in fiscal crisis.

For this review, GAO conducted site visits to four municipalities in fiscal crisis: Detroit, Michigan; Flint, Michigan; Camden, New Jersey; and Stockton, California. GAO focused on eight grant programs administered by DHS, HUD, Justice, and DOT. The basis for selecting these grant programs included dollar amount and grant type. GAO reviewed grant oversight policies and actions for fiscal years 2009-2013 and interviewed local, state, and federal officials, including those at Treasury and OMB.

## What GAO Recommends

GAO recommends that OMB direct federal agencies involved in the White House Working Group on Detroit to document and share lessons learned from federal efforts to assist Detroit. OMB neither agreed nor disagreed with this recommendation.

View [GAO-15-222](#). For more information, contact J. Christopher Mihm at (202) 512-6806 or [mihmj@gao.gov](mailto:mihmj@gao.gov) and Robert J. Cramer at (202)-512-7227 or [cramerr@gao.gov](mailto:cramerr@gao.gov).

## MUNICIPALITIES IN FISCAL CRISIS

### Federal Agencies Monitored Grants and Assisted Grantees, but More Could Be Done to Share Lessons Learned

## What GAO Found

**Grant management challenges experienced by municipalities in fiscal crisis.** The diminished capacity of selected municipalities in fiscal crisis hindered their ability to manage federal grants in several ways. First, reductions in human capital capacity through the loss of staff greatly reduced the ability of some cities to carry out grant compliance and oversight responsibilities. Second, the loss of human capital capacity also led to grant management skills gaps. For example, in Detroit, Michigan, loss and turnover of staff with the skills to properly draw down funds caused some grant funds to remain unspent. Third, decreased financial capacity reduced some municipalities' ability to obtain federal grants. For example, both Flint, Michigan, and Stockton, California, did not apply for competitive federal grants with maintenance of effort requirements because their city governments were unable to ensure that they would maintain non-federal funding at current levels. Fourth, outdated information technology (IT) systems hampered municipalities' ability to oversee and report on federal grants. For example, Detroit's 2011 and 2012 single audits identified IT deficiencies in every federal grant program reviewed, which led to the city having to pay back some federal grant funds. In response to these challenges, the four municipalities GAO reviewed have taken a number of actions to improve their management of federal grants including centralizing their grant management processes and partnering with local nonprofits to apply for grants.

**Federal grant monitoring and oversight processes.** The eight grant programs GAO reviewed used, or had recently implemented, a risk-based approach to grant monitoring and oversight. These approaches applied to all grantees not just those in fiscal crisis. The grant programs administered by the Department of Housing and Urban Development (HUD) and the Department of Justice (Justice) consistently assessed grantees against a variety of risk factors to help program officials determine the need for more in-depth monitoring actions such as onsite monitoring visits. When program officials at HUD, Justice, the Department of Transportation (DOT), and the Department of Homeland Security (DHS) found deficiencies through monitoring actions, they required corrective actions from their grantees. However, in some cases, local grantees did not implement these corrective actions, resulting in continued grant management problems. In such cases, federal program officials took actions such as increasing the level of financial oversight or withholding grant funds until the grantee improved its grant management processes.

**Actions taken to assist municipalities in fiscal crisis.** The White House Working Group on Detroit—an interagency group assembled by the White House to assist Detroit—as well as selected agencies took a variety of actions to aid municipalities in fiscal crisis. These actions included improving collaboration between selected municipalities and federal agencies, providing flexibilities to help grantees meet grant requirements, and offering direct technical assistance. However, neither individual agencies nor the Office of Management and Budget (OMB), which was involved in the working group and has an interagency leadership role in achieving administration policy, have formal plans to document and share lessons learned from the efforts to assist Detroit with other federal agencies and local governments.