



Testimony

Before the Committee on Homeland
Security and Governmental Affairs, U.S.
Senate

GRANTS MANAGEMENT

Observations on Challenges with Access, Use, and Oversight

Accessible Version

Statement of Jeff Arkin, Director,
Strategic Issues

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Why GAO Did This Study

Federal grants play an important role in funding national priorities. Some examples include increasing student access to higher education and helping to care for the economically disadvantaged by funding nutrition programs and housing assistance. Recently, grants have also provided a key tool for responding to the health and economic crisis caused by the COVID-19 pandemic and rebuilding the country's infrastructure.

Federal grants represent a substantial financial commitment. In fiscal year 2022, federal aid to tribal, state, local, and territorial governments—primarily through grants—was \$1.2 trillion.

GAO has reviewed numerous aspects of federal grants management spanning several decades. A number of common themes have arisen from GAO's work and contribute to observations on long-standing challenges.

This statement is based on GAO's prior reports and testimony related to its body of work on federal grant management and focuses on long-standing challenges in the areas of capacity, streamlining, transparency, and internal control and oversight.

What GAO Recommends

GAO has made many recommendations to improve the management and oversight of federal grants. Agencies have generally agreed with GAO, but work remains to fully implement several recommendations. GAO maintains that implementing the remaining recommendations will help to address grant management challenges.

View [GAO-23-106797](#). For more information, contact Jeff Arkin at (202) 512-6806 or arkinj@gao.gov.

GRANTS MANAGEMENT

Observations on Challenges with Access, Use, and Oversight

What GAO Found

GAO has identified challenges on federal grants management in its work spanning several decades, including in the following areas:

- **Capacity.** A lack of capacity for grant recipients can adversely affect their ability to successfully access, manage, and implement grant programs. For example, GAO's previous work on municipalities in fiscal crisis reported that the City of Flint, Michigan struggled to generate the local resources needed to make the city competitive for some federal grants. Federal agencies can help organizations mitigate capacity limitations through technical assistance and by making available federal or other revenue dedicated to covering the cost of grant administration and oversight.
- **Streamlining.** GAO's work has shown that when grants management requirements are duplicative or overly burdensome, agencies must direct resources toward meeting them. This can make an agency's programs and services less cost effective and increase burden for grant recipients. Addressing these challenges may achieve cost savings and result in greater efficiencies in grant programs. The federal government has continued efforts to examine and implement methods to streamline grants management and reduce recipient burden. For example, GAO recommended that OMB collect and share lessons learned from the use of grant flexibilities related to the COVID-19 pandemic.
- **Transparency.** Greater transparency of grant spending can help Congress and the public understand how and where federal grant funds are spent. However, GAO previously identified challenges related to the timeliness, completeness, and accuracy of grant data on [USAspending.gov](#), the federal government's official source for spending data. Likewise, GAO and other relevant federal entities have identified challenges with the completeness and accuracy of subaward data displayed on [USAspending.gov](#). GAO has made several recommendations to OMB and Treasury to improve the quality of data on [USAspending.gov](#), and they have taken steps toward implementing them.
- **Internal controls and oversight.** GAO's work has shown that 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. In 2021, GAO recommended that OMB incorporate appropriate measures to ensure that single audit guidance is issued timely and is responsive to users' input and needs. OMB stated that it issued its 2022 compliance guidance earlier than it has done in 15 years.

Chairman Peters, Ranking Member Paul, and Members of the Committee:

Thank you for the opportunity to join you today to discuss issues related to federal grants management. Federal grants play an important role in funding national priorities. Some examples include increasing student access to higher education and helping to care for the economically disadvantaged by funding nutrition programs and housing assistance. Recently, grants have also provided a key tool for responding to the health and economic crisis caused by the COVID-19 pandemic and rebuilding the country's infrastructure. Federal grants represent a substantial financial commitment. For example, in fiscal year 2022, federal aid to tribal, state, local, and territorial governments—primarily through grants—was \$1.2 trillion.¹ This amount was equal to approximately 19 percent of total federal spending for that fiscal year.²

The landscape of federal grants continues to change and evolve, but some challenges have persisted over many years. My remarks today will focus on some of these long-standing challenges. My testimony is based on our prior reports and testimony related to our large body of work on federal grants management. A detailed discussion of the prior reports' objectives, scope, and methodologies, including our assessment of data reliability, is available in each of the reports cited throughout this statement.³

The work upon which this testimony is based was conducted 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.

¹Office of Management and Budget, *Analytical Perspectives: Budget of the U.S. Government, Fiscal Year 2024* (online at <https://www.govinfo.gov/app/details/BUDGET-2024-PER>).

²This amount is federal aid to tribal, state, local, and territorial governments as a percentage of total federal outlays.

³See list of Related GAO Products at the end of this statement for specific prior reports.

Observations on Grants Management Challenges

We have reviewed numerous aspects of federal grants management spanning several decades. A number of common themes arise in this work and contribute to observations on long-standing challenges.⁴ These observations include aspects of:

- capacity,
- streamlining,
- transparency, and
- internal control and oversight.

Human Capital, Organizational, and Financial Capacity Are Key to Successful Grants Management

The capacity of both grant-making agencies and grant recipients is a key issue in grants management that can affect program success. A lack of capacity on the part of either of these groups can adversely affect their ability to successfully manage and implement grant programs. Capacity involves both the maintenance of appropriate resources and the ability to effectively manage those resources. In prior work, we have identified challenges within several different types of capacity: human capital, organizational, and financial.

- **Human capital capacity** refers to the extent to which an organization has sufficient staff, knowledge, and technical skills to effectively meet its goals and objectives. An organization's human capital needs can shift over time as programs change or new challenges arise. Human capital challenges can underlie the operational difficulties organizations face during program implementation. For example, in reviewing the Coronavirus State and Local Fiscal Recovery Funds (CSLFRF), provided through the American Rescue Plan Act, we

⁴For previous overviews of grants management challenges, see GAO, *Grants to State and Local Governments: An Overview of Federal Funding Levels and Selected Challenges*, [GAO-12-1016](#) (Washington, D.C.: Sept. 25, 2012); and GAO, *Grants Management: Observations on Challenges and Opportunities for Reform*, [GAO-18-676T](#) (Washington, D.C.: July 25, 2018).

identified potential capacity challenges for smaller local governments.⁵ Officials from three associations representing state and local governments told us that because of the extensive compliance and reporting requirements, smaller localities that do not regularly receive federal funding assistance may face capacity challenges when managing their CSLFRF allocations. Some of the officials said these jurisdictions generally have fewer staff and less institutional knowledge and awareness of federal processes than larger localities. This could limit the smaller localities' ability to fully understand and comply with CSLFRF requirements.⁶

- **Organizational capacity** captures the degree to which a grant-making agency or grant recipient is institutionally prepared to manage and carry out grants. Organizational capacity includes having appropriate leadership, management structure, and size to efficiently and effectively implement the program and adapt as needed. For example, our review of the Department of Education's Race to the Top program found that achieving consistency in leadership within states' educational agencies was a specific aspect of organizational capacity that state education officials found especially challenging.⁷ One state official we spoke with explained that frequent turnover at the superintendent level made implementing its teacher evaluation system difficult because they had to constantly educate new superintendents on how to use the evaluations to improve instruction.
- **Financial capacity** is the ability of grantees or grant applicants to meet financial responsibilities related to federal grants. A lack of financial capacity can reduce an organization's ability to apply for grants that require local resource investments or maintenance of effort

⁵The American Rescue Plan Act of 2021 appropriated \$350 billion through the CSLFRF to tribal governments, states, the District of Columbia, localities, and U.S. territories to cover a broad range of costs stemming from the fiscal effects of the COVID-19 pandemic. Pub. L. No. 117-2, tit. IX, subtit. M, § 9901, 135 Stat. 4, 223 (2020) (codified at 42 U.S.C. §§ 802-803).

⁶GAO, *COVID-19: Additional Actions Needed to Improve Accountability and Program Effectiveness of Federal Response*, [GAO-22-105051](#) (Washington, D.C.: Oct. 27, 2021).

⁷The American Recovery and Reinvestment Act of 2009 required Education to provide grants to states that show promise in meeting the objectives of four broad education reform areas outlined in law. Pub. L. No. 111-5, §§ 14005–14006, 123 Stat. 115, 282–284 (2009). Education subsequently established the Race to the Top grant fund. From 2010 through 2011, Education awarded \$4 billion in competitive grant funds to 19 states to reform core areas of K-12 education. See GAO, *Race to the Top: Education Could Better Support Grantees and Help Them Address Capacity Challenges*, [GAO-15-295](#) (Washington, D.C.: Apr. 13, 2015).

provisions.⁸ For example, through our previous work on municipalities in fiscal crisis we reported that the City of Flint, Michigan, struggled to generate the local resources needed to make the city competitive for some federal grants. Flint also did not apply for competitive federal grants with maintenance of effort requirements, because the city government was unable to ensure that it would maintain nonfederal funding at then current levels.⁹

One way federal agencies can help organizations mitigate capacity limitations is through technical assistance. Such technical assistance can consist of a variety of programs, activities, or services aligned with the requirements of each agency's grant programs and the individual grantee's needs. In 2020, we reported that the types of technical assistance agencies provided varied and included a range of delivery methods, including one-on-one conversations, on-site instruction, live staff or group educational events, or web-based information and guidance.¹⁰

Another way some grant programs assist organizations facing capacity challenges is by making available federal or other nonlocal revenue dedicated to covering the cost of grant administration and oversight. For example, although the City of Camden, New Jersey, laid off a quarter of its workforce in 2011, staffing levels in its Department of Planning and Development did not suffer as severely as other departments. Camden officials attributed this to the Department of Housing and Urban Development (HUD) having provided Camden's Department of Planning and Development with funds for planning and administrative costs related to Community Development Block Grants.¹¹

⁸Under a maintenance of effort provision, the grantee is required, as a condition of eligibility for federal funding, to maintain its financial contribution to the program at not less than a stated percentage (which may be 100 percent or less) of its contribution for a prior time period, usually the previous fiscal year. The purpose of maintenance of effort is to ensure that the federal assistance results in an increased level of program activity, and that the grantee does not simply replace grantee dollars with federal dollars. GAO, *Principles of Federal Appropriations Law*, Vol. 2, 3rd ed., ch.10, § E.4.b, [GAO-06-382SP](#) (Washington, D.C.: Feb 2006).

⁹GAO, *Municipalities in Fiscal Crisis: Federal Agencies Monitored Grants and Assisted Grantees, but More Could Be Done to Share Lessons Learned*, [GAO-15-222](#) (Washington, D.C.: Mar. 20, 2015).

¹⁰GAO, *Grants Management: Agencies Provided Many Types of Technical Assistance and Applied Recipients' Feedback*, [GAO-20-580](#) (Washington, D. C.: Aug. 11, 2020).

¹¹[GAO-15-222](#).

Streamlining Grant Requirements is Critical to Effective Use of Federal Funds

Our work has shown that when grants management requirements are duplicative or overly burdensome, agencies must direct resources toward meeting them. This can make the agency's programs and services less cost effective and increase the burden for grant recipients.

In recent reports, our work has shown that numerous federal grant programs created over time without coordinated purposes and scope can result in grants management challenges. Addressing these challenges may achieve cost savings and result in greater efficiencies in grant programs. Our work has underscored the importance of identifying fragmentation, overlap, or duplication in a number of federal programs, including grants management practices.¹² For example:

- In our review of the expanded need for broadband access across the nation we found that federal broadband efforts are fragmented and overlapping. We identified at least 133 funding programs—including grant programs—that can be used to support broadband access in some way. These programs were administered across 15 agencies. The fragmentation and overlap of such programs can lead to wasteful and duplicative support. We recommended that the Executive Office of the President, through the National Economic Council, develop and implement a national broadband strategy with clear roles, goals, objectives, and performance measures. A national strategy would support better management of fragmented, overlapping federal broadband programs and synchronize coordination efforts.¹³ The National Economic Council is currently taking steps to prioritize broadband coordination. We will continue to monitor their progress.
- We have also found that federal agencies could help their grantees, such as state and local communities, better manage fragmented efforts. For example, we found that the Department of Commerce's Economic Development Administration (EDA), the HUD, and the Department of Agriculture (USDA) could better address economic development needs by incorporating further collaboration practices. These collaboration practices—such as updating written agreements

¹²GAO, *Additional Opportunities to Reduce Fragmentation, Overlap, and Duplication and Achieve Billions of Dollars in Financial Benefits*, [GAO-22-105301](#) (Washington, D.C.: May 11, 2022).

¹³GAO, *Broadband: National Strategy Needed to Guide Federal Efforts to Reduce Digital Divide*, [GAO-22-104611](#) (Washington, D.C.: May 31, 2022).

and monitoring progress toward outcomes—could help grantees and local communities manage fragmented efforts related to federal economic development. We reported that through coordination of strategic planning requirements among the three agencies, the USDA could reduce the administrative and planning burden on grantees receiving economic development grants from all three agencies. Additionally, local planning efforts that integrate goals and programs of the three agencies can help to avoid fragmentation of federal resources for economic development. We made five recommendations, including that EDA and HUD revisit their agreement on economic development planning, determine the extent to which USDA should be included, and monitor progress toward stated outcomes. Agencies are taking steps to implement the recommendations.¹⁴

Both Congress and the executive branch have taken steps to identify ways to reduce the challenges associated with duplication and overly burden grantees encounter throughout the grants lifecycle. For example, in response to a requirement of the Digital Accountability and Transparency Act of 2014 (DATA Act), the Office of Management and Budget (OMB) and the Department of Health and Human Services (HHS) conducted a pilot program to test potential approaches for reducing reporting burden for federal award grantees.¹⁵ This effort resulted in identification of six approaches to successfully reduce grantee reporting burden through a reduction in reporting time or duplication of effort.¹⁶ HHS tests of one of these approaches, the Single Audit Model, documented that streamlining the required transfer of data from the grant recipient to the federal government through a template process of standardized data elements resulted in reductions of time and duplication associated with completing and reviewing audit documentation.

Findings from the pilot program informed OMB's 2017 report to Congress recommending government-wide efforts to streamline reporting and reduce recipient reporting burden. These efforts included eliminating

¹⁴GAO, *Economic Development: Opportunities Exist for Further Collaboration among EDA, HUD, and USDA*, [GAO-21-579](#) (Washington, D.C.: Jul. 30, 2021).

¹⁵Pub. L. No. 113-101, § 3, 128 Stat. 1146, 1149–1151 (2014) *codified at* 31 U.S.C. § 6101 note. The DATA Act amended the Federal Funding Accountability and Transparency Act of 2006 (FFATA). Pub. L. No. 109-282, 120 Stat. 1186 (2006). We refer to language added to FFATA by the DATA Act as DATA Act requirements.

¹⁶GAO, *DATA Act: Pilot Effectively Tested Approaches for Reducing Reporting Burden for Grants but Not for Contracts*, [GAO-19-299](#) (Washington, D.C.: Apr. 30, 2019).

unnecessary duplication by leveraging information technology to auto-populate data from relevant existing federal data sources as well as the standardization of data elements, conditions, and attributes to meet statutory, regulatory, and business needs.¹⁷

The federal government has continued efforts to examine and implement methods to streamline grants management and reduce recipient burden, which include legislation and other actions to continue and expand efforts from the OMB and HHS pilot program. For example, Congress passed the Grant Reporting Efficiency and Agreements Transparency Act of 2019 (GREAT Act), which calls for the reduction of burden and compliance costs faced by recipients of federal grants through the modernization and standardization of grant reporting data and processes.¹⁸ The GREAT Act requires OMB and HHS to create data standards for grantee reporting requirements across the federal government.¹⁹ Under the deadlines established by the GREAT Act, grant issuing agencies must ensure that all federal awards use the data standards for all future information collection requests no later than December 30, 2023, unless otherwise exempted. OMB and HHS have taken some steps to develop the data standards required by the act. We continue to monitor implementation of the GREAT Act and other related efforts.

OMB has also taken action to reduce agencies' reporting requirements during a national emergency. In March and April 2020, OMB identified exceptions to government-wide grants management requirements

¹⁷OMB, *Report to Congress: DATA Act Pilot Program* (Aug. 10, 2017).

¹⁸The Grant Reporting Efficiency and Agreements Transparency Act of 2019 (GREAT Act) was signed into law on Dec. 30, 2019; Pub. L. No. 116-103, § 2, 133 Stat. 3266.

¹⁹See Pub. L. No. 116-103, § 4, 133 Stat. at 3268, *codified at* 31 U.S.C. § 6402(a)(2), (3), (b), (c). Although HHS is not explicitly named in the GREAT Act, its participation in the standard-setting process was required because it is the agency that administers the greatest number of programs under which federal awards are issued in a given year.

agencies could make available to grantees and grant applicants.²⁰ OMB memorandums stated that these flexibilities were intended to help grantees respond to, and address organizational challenges stemming from, the COVID-19 pandemic by reducing administrative burden without compromising accountability. OMB rescinded most flexibilities in June 2020, and all flexibilities expired by the end of December 2020.²¹ Officials from grantee organizations told us that grantees reported using the flexibilities to address unprecedented operational disruptions related to COVID-19, such as having to close offices or laboratories in response to stay-at-home orders early in the pandemic.²² In a March 2021 report, we recommended that OMB collect and share lessons learned from the use of grant flexibilities.²³ OMB does not plan to take action on this recommendation because it does not believe, given currently limited resources, that collecting and sharing lessons learned should be prioritized over other OMB activities.

²⁰OMB issued this guidance in a series of four memorandums. See OMB, *Administrative Relief for Recipients and Applicants of Federal Financial Assistance Directly Impacted by the Novel Coronavirus (COVID-19)*, M-20-11 (Washington, D.C.: Mar. 9, 2020); *Administrative Relief for Recipients and Applicants of Federal Financial Assistance Directly Impacted by the Novel Coronavirus (COVID-19) Due to Loss of Operations*, M-20-17 (Washington, D.C.: Mar. 19, 2020); *Repurposing Existing Federal Financial Assistance Programs and Awards to Support the Emergency Response to the Novel Coronavirus (COVID-19)*, M-20-20 (Washington, D.C.: Apr. 9, 2020). OMB also issued *Extension of Administrative Relief for Recipients and Applicants of Federal Financial Assistance Directly Impacted by the Novel Coronavirus (COVID-19) due to Loss of Operations*, M-20-26 (Washington, D.C.: June 18, 2020).

²¹OMB reissued some of the flexibilities in memorandum M-21-20 in an appendix titled “Disaster Relief Flexibilities to Reduce Burden for Financial Assistance.” OMB reissued the time-limited flexibilities in order to provide administrative relief to recipients of federal financial assistance awards. The exceptions applied to recipients with COVID-19 related federal financial assistance, as well as recipients with assistance awards not related to COVID-19. OMB, *Memorandum M-21-20: Subject: Promoting Public Trust in the Federal Government through Effective Implementation of the American Rescue Plan Act and Stewardship of the Taxpayer Resources*, Memorandum 21-20 (Washington, D.C.: Mar. 19, 2021).

²²For example, research grantees reported using a federal grant funding flexibility to pay salaries of employees during shutdowns. They reported that this flexibility allowed them to retain employees and be prepared to restart grant-funded work when it was safe to do so. See GAO, *Grants Management: OMB Should Collect and Share Lessons Learned from Use of COVID-19 Related Grant Flexibilities*, [GAO-21-318](#) (Washington, D. C.: Mar. 31, 2021).

²³[GAO-21-318](#).

Transparency of Grant Spending Can Inform Decision Making and Help the Public Understand How and Where Federal Grant Funds Are Spent

Greater transparency of how the federal government spends its funds offers many potential benefits, such as enabling data-driven decisions about how to use government resources, opportunities for improving the efficiency and effectiveness of federal spending, and improving government's accountability to the public. In an effort to improve transparency, the DATA Act required OMB and the Department of the Treasury (Treasury) to establish data standards, and other federal agencies to increase the types of information available on federal spending, including spending on grants.

The DATA Act expanded previous federal transparency legislation by requiring the disclosure of federal agency expenditures and linking agency spending information to federal program activities, so that both policymakers and the public can more effectively track federal spending. The DATA Act also calls for improving the quality of data submitted to USAspending.gov—a public-facing website and source of spending data for the federal government—by holding federal agencies accountable for the completeness and accuracy of the data submitted.²⁴

In the nearly nine years since enactment of the DATA Act, federal agencies have continued to refine their implementation efforts. OMB and Treasury established a set of data standards to enable consistent reporting, tracking, and display of federal spending data on USAspending.gov. They also have continued to publish guidance to facilitate the use of these standards and improve the quality and scope of federal spending data made available to the public. Treasury has developed new website features and data displays for USAspending.gov that make use of newly collected data and increase the amount of information available to users.

However, in a 2021 report, we identified challenges related to the timeliness, completeness, and accuracy of the data displayed on

²⁴Pub. L. No. 113-101, 128 Stat. 1146 (2014). Enacted on May 9, 2014, the DATA Act amended the Federal Funding Accountability and Transparency Act of 2006 (FFATA). Pub. L. No. 109-282, 120 Stat. 1186 (2006), *codified at* 31 U.S.C. § 6101 note. We refer to language added to FFATA by the DATA Act as DATA Act requirements.

USAspending.gov.²⁵ For example, we found multiple instances of awards displayed on USAspending.gov with descriptions that were not consistent with established standards because they do not describe the purpose of the award and are not in plain language. We made a number of recommendations to OMB and Treasury intended to further enhance the quality of the data displayed on the website and the business application controls that process the data. OMB and Treasury generally agreed with our recommendations and have taken steps toward implementing them.

Federal regulations also require recipients of federal awards (including contracts, grants and other financial assistance awards) to publicly report spending information on agreements they make with other entities to perform a portion of the work associated with their federal grant award. Award recipients are required to report information about these agreements, also known as subawards, into a data system that feeds into USAspending.gov.²⁶ Ensuring the quality of subaward data, as reported by prime award recipients, is important for fulfilling the DATA Act's promise of enabling the public to track federal spending by providing the public with additional detail on where and how federal grants funds are used. This information is also important for detecting and preventing improper payments, which is especially critical during national emergencies when federal emergency relief funds—such as those appropriated in response to the COVID-19 pandemic—need to be distributed quickly.²⁷

However, GAO and other relevant federal entities have identified challenges with the completeness and accuracy of subaward data displayed on USAspending.gov. For example,

²⁵GAO, *Federal Spending Transparency: Opportunities Exist to Further Improve the Information Available on USAspending.gov*, [GAO-22-104702](#) (Washington, D.C.: Nov. 8, 2021).

²⁶Award recipients are required to report specified information on first-tier subawards—with some exceptions—associated with these awards in the FFATA Subaward Reporting System, which feeds the data to USAspending.gov for public display. USAspending.gov includes data submitted by U.S. agencies and award recipients pursuant to FFATA as amended. 31 U.S.C. § 6101 note; 2 C.F.R. pt. 170; F.A.R. 52.204-10.

²⁷Improper payments are payments that should not have been made or were made in the incorrect amount. For additional information, see GAO, *Improper Payments: Fiscal Year 2022 Estimates and Opportunities for Improvement*, [GAO-23-106285](#) (Washington, D.C.: March 29, 2023), and GAO, *Emergency Relief Funds: Significant Improvements Are Needed to Ensure Transparency and Accountability for COVID-19 and Beyond*, [GAO-22-105715](#) (Thursday, March 17, 2022).

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- GAO's recent work examining U.S. funding to entities located in China found that the full extent of subawards to entities located in the China is unknown because of limitations with the subaward data quality on USAspending.gov.²⁸
 - Treasury has disclosed multiple instances of duplicate subaward transactions displayed on USAspending.gov.
 - In 2021, the Pandemic Response Accountability Committee reported that USAspending.gov does not definitively track COVID-19 supplemental funding at the sub-recipient level, providing little transparency into how COVID-19 funding flows down to local projects.²⁹

Given these and other known data quality challenges associated with subaward data, we are examining the quality of subaward data displayed on USAspending.gov.

If the accuracy of data available on USAspending.gov can be improved, policy makers should be better able to make data-driven decisions to address ongoing government management challenges and improve the effectiveness and efficiency of government programs. Similarly, additional efforts to disclose known data limitations can help users of the data on USAspending.gov understand the extent to which the data are timely, complete, accurate, and comparable over time.

Effective Oversight and Internal Control Needed for Grants

Our prior work has shown that when awarding and managing federal grants, effective oversight and internal control are 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, we and agency inspectors general identified weaknesses in agencies' internal controls for managing and

²⁸GAO, *Federal Spending: Information on U.S. Funding to Entities Located in China*, GAO-23-105538 (Washington, D.C.: Apr. 12, 2023).

²⁹Pandemic Recovery Accountability Committee, *Increasing Transparency Into COVID-19 Spending* (Oct. 20, 2021).

overseeing grants. Specifically, we found that 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 to help avoid improper payments.³⁰

One key way that federal agencies oversee nonfederal grantees is through an audit of their expenditures of federal awards, which is an important component of a single audit. The single audit is an audit of the award recipient's expenditure of federal awards and of its financial statements.³¹ Single audits help determine, among other things, whether recipients have complied with the provisions of laws, regulations, and contracts or grant agreements that may have a direct and material effect on each of the recipients' major programs.

Auditors have expressed a need for the single audit guidance (issued annually by OMB in the Compliance Supplement) by no later than April of each year to effectively plan their audits and conduct interim testing for entities with June 30 fiscal year-ends. Timely preparation and provision of the guidance contained in the annual Compliance Supplement to auditors is essential to help ensure that single audits can be performed timely and enhance the federal government's ability to help safeguard billions of dollars in federal funds, including those provided under COVID-19 relief laws.

In 2021, we recommended that OMB incorporate appropriate measures to ensure that single audit guidance is issued timely and is responsive to users' input and needs.³² OMB published the 2022 Compliance

³⁰[GAO-18-676T](#).

³¹The Single Audit Act requires all non-federal entities that expend a certain amount of federal awards, including grants and other assistance, in a fiscal year to obtain a single audit of the entity's financial statements and federal awards (or program-specific audit, in limited circumstances) by an independent auditor in accordance with generally accepted government auditing standards. 31 U.S.C. §§ 7501-7506. Under OMB's implementing Uniform Guidance, the threshold requiring a single audit is \$750,000. 2 C.F.R. § 200.501. Single audit reports provide information about the reliability of the financial statements and of the schedule of grant expenditures; adequacy of internal controls over financial reporting; compliance with relevant grant laws and regulations, and awards terms for each major program; and findings and questioned amounts. 2 C.F.R. § 200.515. Single audits are an important mechanism that federal agencies use to help ensure the accountability of federal funds.

³²GAO, *COVID-19: Sustained Federal Action Is Crucial as Pandemic Enters Its Second Year*, [GAO-21-387](#) (Washington, D.C.: Mar. 31, 2021) and GAO, *Priority Open Recommendations: Office of Management and Budget*, [GAO-22-105582](#) (Washington, D.C.: Jul. 15, 2022).

Supplement in May 2022 (according to OMB, the earliest issuance in the past 15 years). However, to fully address the recommendation, OMB should incorporate appropriate measures, such as establishing formal written policies and procedures, for ensuring timely issuance of future Compliance Supplements and other single audit guidance that is responsive to users' input and needs.

Another example of the importance of oversight involves improper payments—payments that should not have been made or that were made in an incorrect amount.³³ As we have previously reported, improper payments have consistently been a government-wide issue. For example, in March 2023 we found that for fiscal year 2022, 18 agencies reported improper payment estimates totaling \$247 billion across 82 programs and activities.³⁴ Our reviews of Medicaid, a joint federal-state health care program and significant source of federal grant funding to state governments, have shown that the program is particularly vulnerable to improper payments, given its size, diversity, and complexity.³⁵ Medicaid accounted for the largest amount—\$81 billion—of reported improper payments for fiscal year 2022. We have also reported that spending for federal health care programs, including Medicaid, is expected to increase over the long term, so it is critical that appropriate measures be taken to reduce improper payments in this program.³⁶

³³As the term is used in executive agency reporting, improper payments include both overpayments and underpayments. 31 U.S.C. § 3351(4). Also, in assessing risk and reporting on improper payments, agencies treat as improper any payment whose propriety cannot be determined due to insufficient documentation. 31 U.S.C. § 3352(a)(3)(A), (c)(2).

³⁴The \$247 billion estimate does not include estimates for certain risk-susceptible programs, such as the Department of Labor's Pandemic Unemployment Assistance Program and the Department of Agriculture's Supplemental Nutrition Assistance Program. See GAO, *Improper Payments: Fiscal Year 2022 Estimates and Opportunities for Improvement*, [GAO-23-106285](#), (Washington, D.C.: Mar. 29, 2023)

³⁵ Since 2003, Medicaid has been on our High-Risk List, in part, because of concerns about the adequacy of fiscal oversight and the program's improper payments—including payments made for people not eligible for Medicaid or services not actually provided. For additional information, see GAO, *High-Risk Series: Efforts Made to Achieve Progress Need to Be Maintained and Expanded to Fully Address All Areas*, [GAO-23-106203](#) (Washington, D.C.: Apr. 20, 2023).

³⁶GAO, *The Nation's Fiscal Health: Federal Action Critical to Pivot toward Fiscal Sustainability*, [GAO-22-105376](#) (Washington, D.C.: May 5, 2022).

Chairman Peters, Ranking Member Paul, and members of the Committee, this concludes my prepared remarks. I look forward to answering any questions you may have.

GAO Contact and Staff Acknowledgments

If you or your staff have questions about this statement, please contact me at (202) 512-6806 or arkinj@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this statement.

GAO staff who made key contributions to this testimony were Michelle Sager (Managing Director), Peter Del Toro and Thomas James (Assistant Directors), Kari Terrio (Analyst in Charge), Kathleen Drennan, Isaac Fifelski, Shannon Finnegan, Sam Gaffigan, Vivian Ly, Keith O'Brien, Benjamin Paff, Michelle Philpott, Andrew J. Stephens, and Chris Woika. Additional contributors are listed in the products on which this statement is based.

Related GAO Products

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