

GAO

Testimony

Before the Subcommittee on Technology,  
Information Policy, Intergovernmental  
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House of Representatives

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## FEDERAL GRANTS

# Improvements Needed in Oversight and Accountability Processes

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G A O

Accountability \* Integrity \* Reliability

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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).

June 23, 2011

## 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.

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Mr. Chairman, Ranking Member Connolly, and Other Members of the Subcommittee:

Thank you for the opportunity to be here today to discuss the issues that surround the federal grants management process and the need to improve grants management and oversight to help ensure accountability and the proper use of taxpayer dollars. 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 federal funds are used for their intended purposes and to minimize risks of fraud, waste, and abuse. Today I will highlight a range of reports we have issued that raise concerns about the risks and vulnerabilities related to the grants management and oversight process including the single audit process which is intended to be a key accountability mechanism.<sup>1</sup> The Administration also recognizes these concerns. It included improving grants management as part of its initiative to eliminate waste in the 2010 Financial Report of the U.S. Government and has various efforts underway intended to improve grants oversight and accountability.<sup>2</sup>

Today, I will discuss 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.

In preparing this testimony, we relied on our body of work on federal grants management and oversight, including the single audit process. More detail on our scope and methodology is included in each issued product. We conducted our work in June 2011 in accordance with all sections of GAO's Quality Assurance Framework that are relevant to our objectives.

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<sup>1</sup> The Single Audit Act requires states, local governments, and nonprofit organizations expending \$500,000 or more in federal awards in a year to obtain an audit in accordance with the requirements set forth in the act. A single audit consists of (1) an audit and opinions on the fair presentation of the financial statements and the Schedule of Expenditures of Federal Awards; (2) gaining an understanding of and testing internal control over financial reporting and the entity's compliance with laws, regulations, and contract or grant provisions that have a direct and material effect on certain federal programs (i.e., the program requirements); and (3) an audit and an opinion on compliance with applicable program requirements for certain federal programs.

<sup>2</sup> U.S. Department of the Treasury, management's discussion and analysis section of the *2010 Financial Report of the United States Government*, (Washington, D.C.: December 2010).

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The framework requires that we plan and perform the engagement to meet our stated objectives and that we discuss any limitations in our work. We believe that the information and data obtained, and the analysis conducted, provide a reasonable basis for our findings and conclusions.

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## Grants Play a Significant Role in Implementing and Funding Federal Programs

The federal government's use of grants to achieve national objectives and respond to emerging trends, such as changing demographics and changing threats to homeland security, has grown significantly in the last two decades. According to the Office of Management and Budget (OMB), from fiscal years 1990 to 2010, federal outlays for grants to state and local governments increased from \$135 billion to \$608 billion—almost one-fifth of the federal budget and a 350 percent increase since fiscal year 1990 (see fig. 1).<sup>3</sup> In fiscal year 2010, OMB identified 23 federal grant-making departments and agencies that offered over 1,670 federal grant programs.<sup>4</sup> The top three agencies in terms of grant dollars outlayed during fiscal year 2010 were the Departments of Health and Human Services (HHS), Transportation, and Education.<sup>5</sup>

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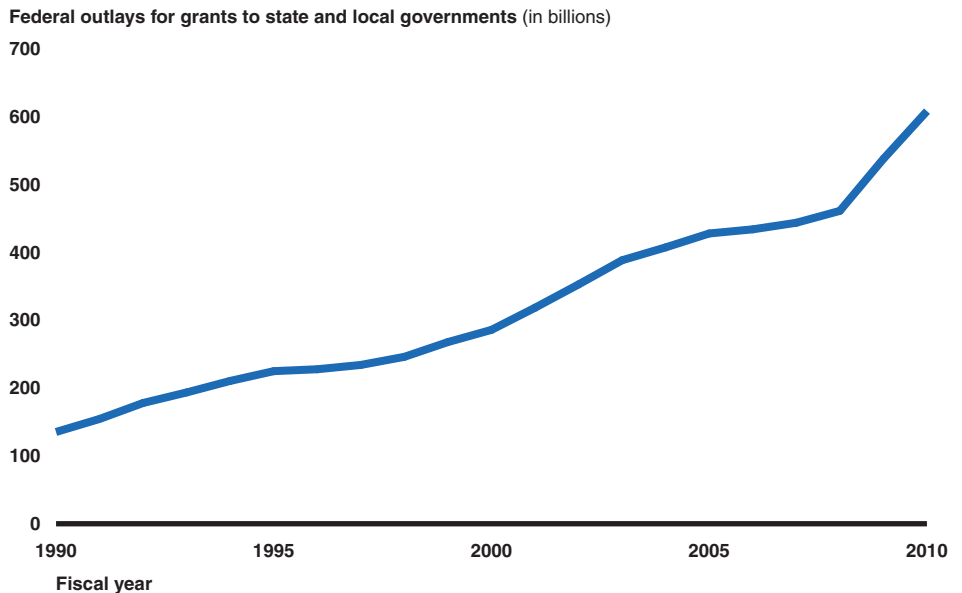
<sup>3</sup> These amounts include Medicaid. According to OMB budgetary guidance and Pub. L. No. 107-300, Medicaid is the largest dollar federal grant program. See OMB Circular A-133 Compliance Supplement 2011.

<sup>4</sup> The 23 listed agencies included a category for "all other agencies."

<sup>5</sup> Outlay is the issuance of checks, disbursement of cash, or electronic transfer of funds made to liquidate a federal obligation. Outlays also occur when interest on Treasury debt held by the public accrues and when the government issues bonds, notes, debentures, monetary credits, or other cash-equivalent instruments in order to liquidate obligations.

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**Figure 1: Total Federal Outlays for Grants to State and Local Governments during Fiscal Years 1990 through 2010**



Source: Table 12.1 of the Historical Tables of the President's fiscal year 2012 budget, [www.whitehouse.gov/omb/budget/Historicals](http://www.whitehouse.gov/omb/budget/Historicals).

The Catalog of Federal Domestic Assistance (CFDA),<sup>6</sup> administered by the General Services Administration, provides information on grant programs within and across agencies. Our analysis of federal assistance data from the CFDA indicates that, as of June 17, 2011, 1,432 project grant programs and 209 formula grant programs were listed.<sup>7</sup> In addition, there were 34 grant programs that are categorized as a combination of both project and formula grants. The top three agencies in terms of number of grant programs on the CFDA Web site were the Departments of HHS, Interior, and Agriculture. The CFDA Web site allows users to search the database for grant programs on the basis of a range of factors, such as the awarding federal agency or the general nature of a grant program, such as health

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<sup>6</sup> The *Catalog of Federal Domestic Assistance* (CFDA) is the single authoritative, governmentwide compendium and source document for descriptions of federal programs that provide assistance or benefits to the American public. The CFDA data are available on the Web at [www.CFDA.gov](http://www.CFDA.gov).

<sup>7</sup> Formula grants allocate funds based on distribution formulas prescribed by legislation or administrative regulation.

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care or environmental quality. For example, our analysis identified 128 grant programs that address environmental quality issues.

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## Risks and Vulnerabilities Exist in Key Controls in the Grant Life Cycle

In awarding federal grants, effective oversight and internal control is of fundamental importance in assuring the proper and effective use of federal funds to achieve program goals. Effective internal control systems provide reasonable assurance to taxpayers that grants are awarded properly, recipients are eligible, and federal funds are used as intended and in accordance with applicable laws and regulations.<sup>8</sup> In authorizing grant programs, federal laws identify the types of activities that can be funded. OMB circulars specify how grants are to be administered and the standards for determining allowable costs.<sup>9</sup>

In addition to the legal and regulatory underpinnings, each grant program has stated purposes that guide what the grant is intended to accomplish. Before awarding any grants, agencies' preaward processes should ensure that potential recipients have the necessary capabilities to effectively implement the program to comply with relevant laws and regulations, and provide the necessary accountability for federal resources. Once the agency has awarded the grants, its monitoring of grantee performance is important to help ensure that grantees are meeting program and accountability requirements. Following grant completion, it is important for agencies to evaluate the goals and measures established at the beginning of the process against actual results, and to make any needed adjustments for future grant efforts. At all stages of the process, it is essential that effective internal control systems are in place. The grant life cycle is shown in figure 2.<sup>10</sup>

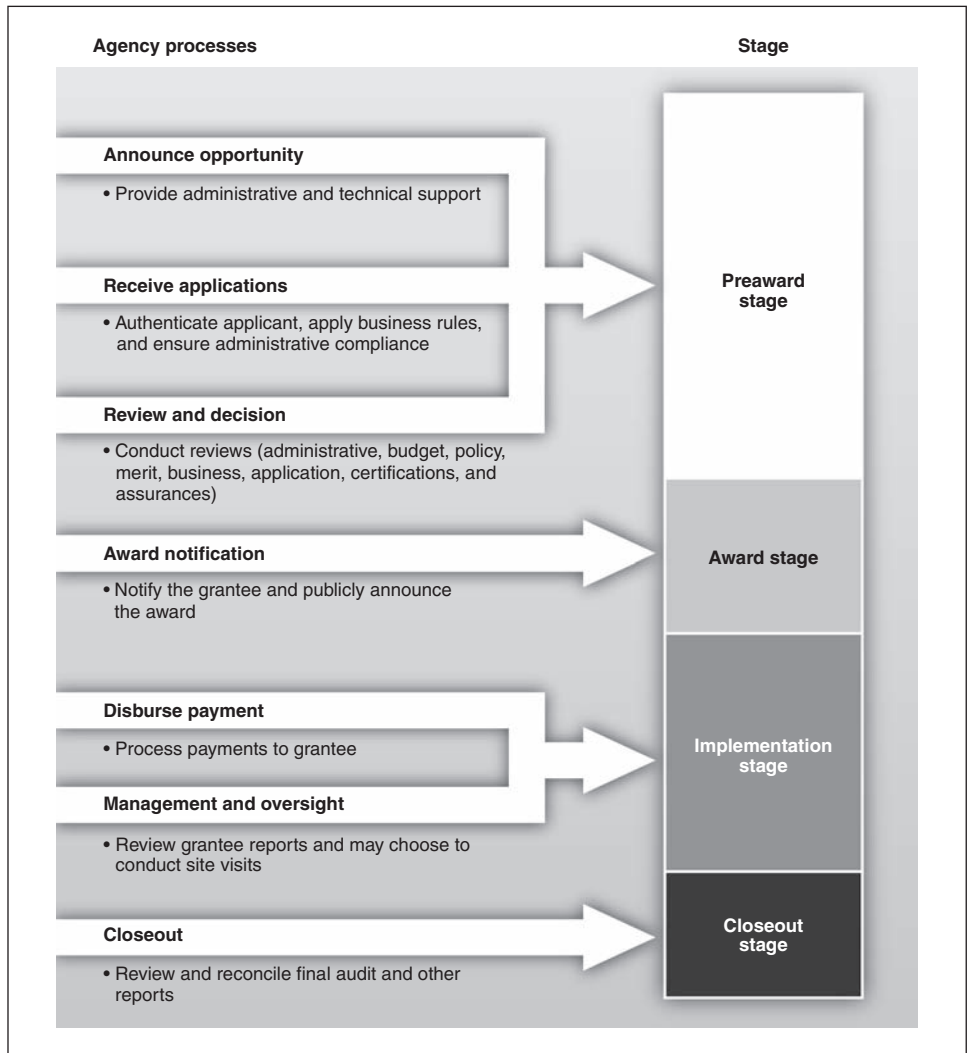
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<sup>8</sup> A Domestic Working Group, *Guide to Opportunities for Improving Grant Accountability* (Oct. 2005), available at <http://www.ignet.gov/randp/rpts1.html>.

<sup>9</sup> Such circulars include OMB Circular A-102, *Grants and Cooperative Agreements With State and Local Governments* (Oct. 7, 1994; further amended Aug. 29, 1997), and OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations* (includes revisions published in the *Federal Register* on June 27, 2003, and June 26, 2007).

<sup>10</sup> GAO, *Grants Management: Enhancing Performance Accountability Provisions Could Lead to Better Results*, [GAO-06-1046](#) (Washington, D.C.; Sept. 29, 2006).

**Figure 2: Grant Life Cycle of Federal Awarding Agency**



Source: GAO.

Overall our work on grant management and oversight issues found weaknesses in the control systems of the stages of the grant life cycle: the

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preaward and award stages, implementation, and close out.<sup>11</sup> We have recommended actions to strengthen the internal control framework for grant accountability in individual programs—including developing and implementing formal and structured approaches to conducting grant monitoring activities, and training grant program staff. While agencies have taken actions to address our recommendations in individual programs, more work is needed across the government as well as from a governmentwide perspective to strengthen internal controls and oversight for federal grant funds.

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## Key Controls in Agencies' Preaward and Award Processes Need Improvement

Our audits found that agencies awarded grants without adequately documenting the grantee selection process.<sup>12</sup> In some instances, we found agencies did not perform preaward reviews until after the grants had been awarded.<sup>13</sup> Preaward reviews are essential to determining that recipients possess, or have the ability to obtain, the necessary competence to plan and carry out the program before awarding a grant, thereby reducing the federal government's risk that money may be wasted or projects may not achieve intended results. For an effective preaward grant process, agencies need effective procedures for:

- assessing applicant capability to account for funds,
- competing grants in a fair and effective manner for grant programs that require competition,
- preparing good work plans to provide the framework for grant accountability, and
- including clear terms and conditions in award documents.

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<sup>11</sup> Despite substantial variation among grants, grants generally follow a similar life cycle and include the preaward stage—potential recipients submit applications for agency review; the award stage—the agency identifies successful applicants or legislatively defined grant recipients and awards funding; the implementation stage—includes payment processing, agency monitoring, and recipient reporting, which may include financial and performance information; and the closeout phase—includes the preparation of final reports, financial reconciliation, and any required accounting for property.

<sup>12</sup> GAO, *Surface Transportation: Competitive Grant Programs Could Benefit from Increased Performance Focus and Better Documentation of Key Decisions*, [GAO-11-234](#) (Washington, D.C.: Mar. 30, 2011), and *Intercity Passenger Rail: Recording Clearer Reasons for Awards Decisions Would Improve Otherwise Good Grantmaking Practices*, [GAO-11-283](#), (Washington, D.C.: Mar. 10, 2011).

<sup>13</sup> GAO, *Foreign Assistance: U.S. Democracy Assistance for Cuba Needs Better Management and Oversight*, [GAO-07-147](#) (Washington, D.C.: Nov. 15, 2006).



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The award stage of grants management includes making award decisions and committing funds. In a competitive award process, agencies can increase assurance that recipients have the systems and resources to efficiently and effectively use funds to meet grant goals. Evaluation criteria, including having sufficient resources and sound management practices, can help an agency focus its review on factors indicative of success and provides information about grant applicants' ability to fulfill grant requirements.

We found weaknesses throughout the award processes used by agencies we reviewed. For example, in one review we found controls over the agency's processes had weaknesses in (1) carrying out and documenting management's review of grant applications, (2) documenting the grant award decisions, and (3) using the automated recipient data available in the agency's grants system. These deficiencies increased the risk that the agency would not consistently consider all relevant information—including key management discussions during evaluation—before making a decision to award. Lack of documentation also limited the agency's ability to explain the results of its award decisions, and resulted in incomplete and inaccurate information in the agency's grants and recipient-application evaluations. At the time of our review, the agency's grant-application evaluation process and the basis for the resulting decisions were not clearly documented.<sup>14</sup>

Another agency's decisions to award grants were based primarily on the results of a peer review process that had weak internal controls for ensuring that applications would be evaluated consistently. We found weaknesses in the procedures the agency relied on to ensure that evaluation criteria were applied consistently across reviewers and across panels when evaluating the grant applications it received.<sup>15</sup>

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<sup>14</sup> GAO, *Legal Services Corporation: Improvements Needed in Controls over Grant Awards and Grantee Program Effectiveness*, [GAO-10-540](#) (Washington, D.C.: June 11, 2010).

<sup>15</sup> GAO, *Runaway and Homeless Youth Grants: Improvements Needed in the Grant Award Process*, [GAO-10-335](#) (Washington, D.C.: May 10, 2010).

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## Weaknesses in the Implementation Stage Expose Funds to the Risk of Waste, Fraud, and Abuse

While federal grant-awarding agencies are responsible for continued oversight of the federal funds they award, grantees or recipients also have key responsibilities to administer, manage, and account for the use of grant funds. Federal agencies are dependent on the design and implementation of recipients' grant management programs to ensure that federal funds are used for their intended purposes and are appropriately safeguarded.

Over the past several years, we have reported that agencies need to improve oversight of grantee activities and management of federal funds.<sup>16</sup> Effective oversight procedures based on internal control standards for monitoring the recipients' use of awarded funds are key to ensuring that waste, fraud, and abuse are not overlooked and that program funds are being spent appropriately. Such procedures include (1) identifying the nature and extent of grant recipients' risks and managing those risks, (2) having skilled staff to oversee recipients to ensure they are using sound financial practices and meeting program objectives and requirements, and (3) using and sharing information about grant recipients throughout the organization. To ensure that grant funds are used for intended purposes, agencies need effective processes for:

- monitoring the financial management of grants,
- ensuring results through performance monitoring,
- using audits to provide valuable information about recipients, and
- monitoring subrecipients as a critical element of grant success.

We have also reported the need for agencies to assist recipients in improving subrecipient monitoring—the process of a recipient assessing its subrecipients' quality of performance over time and ensuring that the findings of audits and other reviews are promptly resolved. It is important that recipients identify, prioritize, and manage potential at-risk subrecipients to ensure that grant goals are reached and resources are used properly. Additionally, recipients should be (1) conducting site visits to subrecipients (early and often); (2) reviewing financial and progress reports for accuracy, completeness, and alignment with program objectives; and (3) strengthening policies and procedures related to

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<sup>16</sup> GAO, *Legal Services Corporation: Improved Internal Controls Needed in Grants Management and Oversight*, [GAO-08-37](#) (Washington, D.C.: Dec. 28, 2007), and GAO, *Grant Monitoring: Department of Education Could Improve Its Processes with Greater Focus on Assessing Risks, Acquiring Financial Skills, and Sharing Information*, [GAO-10-57](#) (Washington, D.C.: Nov. 19, 2009).

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subrecipients. GAO has found that inadequate subrecipient monitoring often leads to the misuse, abuse, and waste of federal funds.

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### Grant Closeout Procedures Represent One of the Final Opportunities to Detect Unallowable Uses of Funds

Past audits of federal agencies by GAO and Inspectors General and annual performance reports by at least eight federal agencies in 2006 and 2007 suggest that grant management challenges, including grant closeout procedures, are a long-standing problem.<sup>17</sup> Closeout processes can be used for detecting problems that have occurred in areas such as recipient financial management and program operations, accounting for any real and personal property acquired with federal funds, making upward or downward adjustments to the federal share of costs, and receiving refunds that the recipient is not authorized to retain. Closeout procedures are intended to ensure that recipients have met all financial requirements, provided final reports, and returned any unused funds. When agencies do not conduct closeout procedures in a timely manner, this prevents unused funds from being used to help address the purpose of the grant and, at the same time, increases risk that records will be lost or officials may leave or not remember sufficient details, making it more difficult for the agency to recoup appropriate funds.

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### Attention Is Needed To Address Governmentwide Issues

Through our work, we found that weaknesses in grant oversight and accountability issues that span the government. Specifically, we identified long-standing challenges in oversight of undisbursed grant award balances, and significant levels of improper payments in grant programs.

### Oversight of Undisbursed Balances in Federal Grant Programs

We have found that undisbursed balances for expired grant accounts can be significant and that agencies needed to improve how they track and report on these funds.<sup>18</sup> For example, in August 2008, we reported that during calendar year 2006 about \$1 billion in undisbursed funding remained in expired grant accounts in the largest civilian grant payment

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<sup>17</sup> GAO, *Grants Management: Attention Needed to Address Undisbursed Balances in Expired Grant Accounts*. [GAO-08-432](#) (Washington, D.C.: Aug. 29, 2008); GAO, *University Research: Policies for the Reimbursement of Indirect Costs Need to Be Updated*. [GAO-10-937](#) (Washington, D.C.: Sept. 8, 2010); *Youthbuild Program: Analysis of Outcome Data Needed to Determine Long-Term Benefits*. [GAO-07-82](#) (Washington, D.C.: Feb. 28, 2007).

<sup>18</sup> GAO, *Grants Management: Attention Needed to Address Undisbursed Balances in Expired Grant Accounts*. [GAO-08-432](#) (Washington, D.C.: Aug. 29, 2008).

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system.<sup>19</sup> The expired but still open grant accounts found were associated with thousands of recipients and over 325 different federal programs. This figure illustrates the potential financial benefits to be gained by improving oversight of undisbursed grant funding, and we are currently starting follow-up work in this area. The existence of undisbursed grant balances in expired grant accounts may hinder the achievement of program objectives, limit deobligating funding for other uses, and expose the funding to improper spending or accounting.

Taken together, dozens of past audit reports we reviewed from multiple agencies suggested that undisbursed balances in expired grant accounts were a long-standing challenge and that these grants shared common grants management problems. The audits generally attributed the problems to inadequacies in the awarding agencies' grant management processes, including closeouts as a low management priority, inconsistent closeout procedures, poorly timed communications with grantees, or insufficient compliance or enforcement. Yet when agencies made concerted efforts to address the problem, Inspectors General and auditors reported that those agencies were able to improve the timeliness of grant closeouts and decrease the amount of undisbursed funding in expired grant accounts. The approaches taken by the agencies administering the grants generally focused on elevating timely grant closeouts to a higher agency management priority and on improving overall closeout processing.

Better tracking of grant accounts maintained in all federal payment systems could identify the expired grants with undisbursed balances and make funds available for other assistance projects or facilitate the return of these funds to the Treasury. We recommended in August 2008 that the Director of OMB instruct executive departments and independent agencies to annually track the amount of undisbursed grant funding remaining in expired grant accounts and report on the status and resolution of such funding in their annual performance plans and Performance and Accountability Reports. As of April 2011, OMB had not issued

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<sup>19</sup> In 2006, the system made grant payments for nine federal departments and three other federal entities, accounting for about 70 percent of all federal grant disbursements.

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Many Grant Programs Have Significant Levels of Improper Payments

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governmentwide guidance regarding undisbursed balances in expired grant accounts.<sup>20</sup>

Federal agencies reported improper payments of an estimated \$125.4 billion in fiscal year 2010. This \$125.4 billion estimate comes from over 70 programs spread among 20 federal agencies. Many of those programs reporting improper payments were federal grant programs. A majority of the \$125.4 billion of reported improper payments is accounted for by 10 programs. The 10 programs account for about \$118 billion, or 94 percent, of the total estimated improper payments reported for fiscal year 2010. Five of those top 10 programs were grant programs, and included improper payment estimates for Medicaid (\$22.5 billion), Unemployment Insurance (\$17.5 billion), Supplemental nutrition assistance programs (\$2.2 billion), the National school lunch program (\$1.5 billion), and Pell Grants (\$1 billion).

Recently, in July 2010, the Improper Payments Elimination and Recovery Act (IPERA)<sup>21</sup> was enacted to enhance reporting and reduction of improper payments. In addition to amending the Improper Payments Information Act's improper payment estimation requirements, IPERA establishes additional requirements related to federal agency management accountability, recovery auditing, and compliance and noncompliance determinations and reporting. In addition, the Administration is taking a number of actions in the area of improper payments.

Establishing effective accountability measures to prevent and reduce improper payments in grant programs becomes an even higher priority in today's fiscal environment. In this regard, identifying and analyzing causes of improper payments will be key to developing effective corrective actions and accountability measures in order to reduce and prevent improper payments in grant programs.

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<sup>20</sup> GAO, *Managing for Results: GPRA Modernization Act Implementation Provides Important Opportunities to Address Government Challenges*, [GAO-11-617T](#) (Washington, D.C.: May 10, 2011).

<sup>21</sup> Pub.L.No. 111-204, 124 Stat. 2224 (July 22, 2010).

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## Improvements Are Needed to Make Single Audits a More Effective Accountability Mechanism over Federal Grant Funding

OMB has indicated that single audits play a key role in the achievement of its accountability over federal grant funding. The Single Audit Act, as amended, was enacted to promote, among other things, sound financial management, including effective internal controls, with respect to federal grant awards administered by nonfederal entities. We 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.<sup>22</sup> Accordingly, we have made several recommendations for improving the Single Audit process. In March 2009, we made recommendations to OMB for improving federal oversight and the single audit process.<sup>23</sup> In April 2009, we started work on American Recovery and Reinvestment Act of 2009 (Recovery Act) programs relating to single audits and issued the first of nine reports related to oversight and accountability mechanisms for Recovery Act funds.<sup>24</sup> <sup>25</sup> We made additional recommendations for improving single audits during the course of that work. A summary of our findings and recommendations follows.

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## The Federal Oversight Structure Is Not Adequate to Monitor the Efficiency and Effectiveness of the Single Audit Process

We found that the federal oversight structure is not adequate to monitor the efficiency and effectiveness of the single audit process. Specifically, federal agencies do not systematically use audit findings to identify and understand emerging and persistent issues related to grant programs and grantee use of funds.<sup>26</sup> We identified variations in the federal oversight process in performing key functions of the single audit process such as quality control reviews by federal cognizant agencies which raised questions about how federal agencies carry out their single audit responsibilities. The federal oversight structure for the single audit

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<sup>22</sup> The President's Council on Integrity and Efficiency (PCIE) issued its *Report on National Single Audit Sampling Project* in June 2007, which raised significant concerns about the quality of single audits and made recommendations aimed at improving the quality of those audits.

<sup>23</sup> GAO, *Single Audit: Opportunities Exist to Improve the Single Audit Process and Oversight*, [GAO-09-307R](#) (Washington, D.C.: Mar. 13, 2009).

<sup>24</sup> GAO, *Recovery Act: As Initial Implementation Unfolds in States and Localities, Continued Attention to Accountability Issues Is Essential*, [GAO-09-580](#) (Washington, D.C. Apr. 23, 2009)

<sup>25</sup> Pub. L. No. 111-5, 123 Stat. 115 (February 17, 2009).

<sup>26</sup> GAO, *Single Audit: Opportunities Exist to Improve the Single Audit Process and Oversight*, [GAO-09-307R](#) (Washington, D.C.: Mar. 13, 2009).

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process does not include a designated function or entity to monitor whether or how well federal awarding agencies are implementing single audit requirements. Without a mechanism in place to monitor on an ongoing basis how the single audit process is implemented governmentwide, OMB and federal stakeholders are unable to measure the efficiency and effectiveness of this process or its usefulness as an accountability tool over federal grant awards. We recommended that OMB designate an entity or group to (1) evaluate and comprehensively monitor the single audit process governmentwide, (2) assess the efficiency and effectiveness of how agencies carry out their single audit responsibilities, and (3) identify additional guidance and resources needed to carry out single audit requirements. OMB has developed workgroups which are currently underway to review ways to improve the single audit process. In June 2010, the Single Audit Workgroup established by OMB pursuant to Executive Order 13520 made recommendations to OMB in four areas to enhance and streamline the single audit process to better support the overall effort to improve federal program accountability and reduce improper payments.<sup>27</sup> However, as discussed in a later section, the related decisions and planning for acting on these recommendations are still in process. The four areas of recommendations included

- (1) instilling federal leadership over the single audit process to improve program accountability and reduce improper payments;
- (2) managing risks by refocusing the single audit to include those nonfederal entities that present the greatest risk of improper payments;
- (3) improving the access to information in single audit reports to enhance federal agency follow-up of audit findings and to coordinate single audit and improper payments analysis and results; and
- (4) amending the stated purposes of the Single Audit Act of 1984, as amended, to emphasize the importance of acting on single audit findings as a way to reduce the risk of improper payments.

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<sup>27</sup>*Executive Order 13520 – Reducing Improper Payments Section 4 (b) Single Audit Workgroup Recommendations, June 4, 2010.*

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## More Timely Single Audit Reporting Is Needed, Especially in Internal Control

Time frames of the single audit process do not facilitate the timely identification and correction of audit findings.<sup>28,29</sup> Under the current time frames for identifying and correcting audit findings provided by the Single Audit Act and OMB Circular No. A-133, it could take years to correct significant deficiencies and material weaknesses that expose federal funds to misuse or fraud. For example, in accordance with current requirements, a material weakness that has been identified by the auditor for an entity that has a June 30, 2010, fiscal year-end can possibly be reported in the Single Audit report to be issued as late as March 31, 2011, along with the auditee's corrective action plan. The federal awarding agency would have 6 months or until September 30, 2011, from receipt of the Single Audit report to communicate a written management decision to the auditee. As a result, it may take 15 months or more since the end of the fiscal year in which the audit finding was initially identified before an auditee's corrective action plan is approved by the federal agency.

Several state auditors have expressed frustration regarding single audit findings that remain open years after they were initially identified, without the auditee or the federal awarding agency taking action. The lack of attention to ensuring prompt corrective action impairs the federal government's ability to ensure that unallowable costs have been repaid or that internal control deficiencies have been corrected. Shortening the time frames required for issuing management decisions by federal agencies, and monitoring the auditee's implementation of timely corrective actions by the federal agency would help to ensure that appropriate audit follow-up and resolution are achieved, and that known internal control weaknesses are corrected.

In our work on Recovery Act funds, we reported our concern that the single audit process would not provide the timely accountability and focus needed to assist recipients in making necessary adjustments to internal controls to provide assurances that the Recovery Act funding was being

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<sup>28</sup> The Single Audit Act requires that recipients submit their financial reporting packages, including the Single Audit report, to the federal government's audit clearinghouse 30 days after receipt of the auditor's report or within 9 months after the end of the period being audited, whichever comes first. As a result, an audited entity may not receive feedback needed to correct an identified internal control deficiency over compliance until the latter part of the subsequent fiscal year.

<sup>29</sup> GAO, *Recovery Act: Opportunities To Improve Management And Strengthen Accountability Over States' And Localities' Uses Of Funds*, GAO-10-999 (Washington, D.C. Sept. 20, 2010).



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spent as effectively as possible to meet program objectives. We also reported that the Single Audit reporting deadline is too late to provide audit results in time for the audited entity to take action on internal control deficiencies noted in Recovery Act programs.

In response to several of our recommendations, in October 2009 OMB implemented the Single Audit Internal Control project to encourage earlier reporting and timely correction of internal control deficiencies identified in single audits that included Recovery Act programs. Although we found that the project met its original objectives of (1) achieving more than 10 volunteer states participating in the project, (2) having the participating auditors issue interim internal control reports for the selected programs at least 3 months earlier, and (3) having auditee management issue corrective action plans to resolve internal control deficiencies at least 2 months earlier than required by OMB Circular No. A-133, the coverage of the project was limited, with 16 of the 50 states participating. Furthermore, because most of the federal awarding agencies did not issue their management decisions in a timely manner, grant recipients were delayed in implementing corrective action plans.

We also identified concerns regarding the need for OMB to issue its annual single audit guidance in a more timely manner. While OMB has committed to issuing its guidance in a timely manner, it has yet to achieve its target for issuance of its guidance. Specifically for 2009, OMB issued the guidance, Circular No. A-133 Compliance Supplement, in two stages, the initial one in May 2009 and an addendum in August 2009, after the single audits for entities with a June 30, 2009, fiscal year end were already under way.<sup>30</sup> An OMB official told us the delays in issuing the 2009 compliance supplement were due to incorporating more specific guidance for Recovery Act programs. For most of the largest nonfederal entities that are subject to the single audit, the fiscal year ends on June 30 and thus the timing of OMB's issuance of the audit guidance has been close to and even after the fiscal year end close. Most of the auditors told us that they needed the information as early as February or at least by April to effectively plan their work for a June 30 year end audit. Some of these auditors stated that the OMB guidance was issued too late, causing inefficiencies and disruptions in the planning of audit procedures. For

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<sup>30</sup>The compliance supplement is issued annually to guide auditors on what program requirements should be tested for programs audited as part of the single audit and has been the primary mechanism that OMB has used to provide Recovery Act requirements to auditors.

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2010, OMB officials told us that they planned to issue the 2010 Compliance Supplement in late May 2010. However, the guidance was not issued until July 29, 2010. We recommended that OMB issue the guidance by March 31st of each year. In January 2011, OMB officials reported that the production of the 2011 Compliance Supplement was on schedule for issuance by March 31, 2011; however, OMB issued the 2011 Compliance Supplement on June 1, 2011. The late guidance impacts the auditors' ability to deliver timely results in what is already a lengthy process.

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### Need to Focus on High-Risk Activities, Programs, and Recipients While Potentially Streamlining, Simplifying, or Reducing Focus on Areas of Low Risk

Single audit stakeholders have raised concerns about the complexity and relative costs and benefits of the audit requirements for single audits, especially at the smaller entities.<sup>31</sup> Specifically, auditors of single audits are subject to similar audit requirements and the same guidance in OMB Circular No. A-133 and the Compliance Supplement when they are auditing an entity that has expended \$500,000 of federal awards as they are when auditing one that expended \$50 million or more. We found that there are opportunities to evaluate the audit procedures being applied and determine whether there is a proper balance between risk and cost-effective accountability from the largest to the smallest of audited entities. Single audits of small entities could be simplified while still meeting the accountability objectives of the Single Audit Act. For audits of large entities, opportunities could be explored to identify best practices and provide guidance for achieving higher-quality single audits. Our analysis shows significant disparities in the number of audits of small entities versus the number of audits of large entities and their respective coverage of federal award expenditures. The current one-size-fits-all approach to single audits, combined with the fact that less than 3 percent of audits cover about 85 percent of federal award expenditures subject to a single audit, presents a convincing case for reexamining the overall approach for performing single audits.<sup>32</sup> Because action had not been taken to address concerns about complexity and the need for streamlining, we further recommended during our Recovery Act work that OMB evaluate options for providing relief related to audit requirements for low-risk programs to balance new audit responsibilities associated with the Recovery Act.

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<sup>31</sup> GAO, *Single Audit: Opportunities Exist to Improve the Single Audit Process and Oversight*, [GAO-09-307R](#) (Washington, D.C.: Mar. 13, 2009).

<sup>32</sup> GAO, *Single Audit: Opportunities Exist to Improve the Single Audit Process and Oversight*, [GAO-09-307R](#) (Washington, D.C.: Mar. 13, 2009).

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## OMB Has Implemented Some Recommendations but More Work Is Needed

OMB has taken initiative and is conducting studies to improve the Single Audit process but time frames for implementing the results of these studies are unclear. OMB officials have created a workgroup that combines two previous workgroups: the Executive Order 13520 – Reducing Improper Payments Section 4 (b) Single Audit Recommendations Workgroup (Single Audit Workgroup), and the Circular No. A-87 - Cost Principles for State, Local, and Indian Tribal Governments Workgroup (Circular No. A-87 Workgroup).

The Single Audit Workgroup comprises representatives from the federal audit community; federal agency management officials involved in overseeing the single audit process and programs subject to that process; representatives from the state audit community; and staff from OMB. OMB officials tasked the Single Audit Workgroup with developing recommendations for improving the effectiveness of single audits of nonfederal entities that expend federal funds to help identify and reduce improper payments. In June 2010, the Single Audit Workgroup developed recommendations, some of which are targeted towards providing relief to auditors who audit recipients and grants under the requirements of the Single Audit Act. OMB officials stated that the recommendations warrant further study and that the workgroup is continuing its work on the recommendations. OMB officials also stated that the Circular No. A-87 Workgroup has also made recommendations that could impact single audits and that the two workgroups have been collaborating to ensure that the recommendations related to single audit improvements are compatible and could improve the single audit process. The combined workgroups plan to issue a report to OMB by August 29, 2011. We will continue to monitor OMB's progress to achieve this objective.

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## Conclusions

With the growth of federal grant funding over the past two decades, the increasing role of grants in achieving national objectives, and constrained resources available to meet diverse needs, attention to improving grants management and oversight can help ensure that resources are targeted to the intended recipients and are used effectively. Because many national objectives are now being carried out through state, local, and nongovernmental organizations, enhancing accountability and oversight at all levels is equally important, and these efforts should be mindful of the scarce oversight and accountability resources and shared responsibilities as improvements are made. Also, the long-standing problems that impeded the effectiveness of the single audit process as a key accountability mechanism for ensuring that federal grant funds are spent appropriately need to be addressed. Looking across the federal grants management and

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oversight processes, there is great potential for streamlining and simplifying while at the same time, improving accountability for how our federal dollars are spent by addressing the issues and weaknesses we have identified. We have been working with OMB to identify specific actions that could help streamline administrative processes and provide more flexibility for states in the audit and cost allocation process. We stand ready to assist the Subcommittee as it focuses attention on addressing these important issues, and to work constructively with OMB and the agencies.

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Mr. Chairman, this concludes my statement. I will be happy to answer any questions you or the Subcommittee Members may have.

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# Related GAO Products

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*Grants.Gov: Additional Action Needed To Address Persistent Governance And Funding Challenges.* [GAO-11-478](#). Washington, D.C.: May 6, 2011.

*Recovery Act: Energy Efficiency and Conservation Block Grant Recipients Face Challenges Meeting Legislative and Program Goals and Requirements.* [GAO-11-379](#). Washington, D.C.: April 7, 2011.

*Opportunities to Reduce Potential Duplication in Government Programs, Save Tax Dollars, and Enhance Revenue.* [GAO-11-318SP](#). Washington, D.C.: March 1, 2011.

*Recovery Act: Department of Justice Could Better Assess Justice Assistance Grant Program Impact.* [GAO-11-87](#). Washington, D.C.: October 15, 2010.

*Iraq and Afghanistan: DOD, State, And USAID Face Continued Challenges In Tracking Contracts, Assistance Instruments, And Associated Personnel.* [GAO-11-1](#). Washington, D.C.: October 1, 2010.

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*University Research: Policies for the Reimbursement of Indirect Costs Need to Be Updated.* [GAO-10-937](#). Washington, D.C.: September 8, 2010.

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*Oversight of DOJ Funds for Recreational Activities.* [GAO-10-661R](#). Washington, D.C.: June 18, 2010.

*U.S. Insular Areas: Interior's Management and Oversight of Insular Area Grants.* [GAO-10-917T](#). Washington, D.C.: July 15, 2010.

*Legal Services Corporation: Improvements Needed in Controls over Grant Awards and Grantee Program Effectiveness.* [GAO-10-540](#). Washington, D.C.: June 11, 2010.

*Low-Income and Minority Serving Institutions: Sustained Attention Needed to Improve Education's Oversight of Grant Programs.* [GAO-10-659T](#). Washington, D.C.: May 27, 2010.

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*Runaway and Homeless Youth Grants: Improvements Needed in the Grant Award Process.* [GAO-10-335](#). Washington, D.C.: May 10, 2010.

*Contingency Contracting: Improvements Needed in Management of Contractors Supporting Contract and Grant Administration in Iraq and Afghanistan.* [GAO-10-357](#). Washington, D.C.: April 12, 2010.

*Vietnam Education Foundation: Recent Improvements Made in Internal Controls, but Weaknesses Persist.* [GAO-10-442](#). Washington, D.C.: April 7, 2010.

*Surface Transportation: Competitive Grant Programs Could Benefit from Increased Performance Focus and Better Documentation of Key Decisions.* [GAO-11-234](#). Washington, D.C.: March 30, 2011.

*Iraq and Afghanistan: Agencies Face Challenges in Tracking Contracts, Grants, Cooperative Agreements, and Associated Personnel.* [GAO-10-509T](#). Washington, D.C.: March 23, 2010.

*Intercity Passenger Rail: Recording Clearer Reasons for Awards Decisions Would Improve Otherwise Good Grantmaking Practices.* [GAO-11-283](#). Washington, D.C.: March 10, 2011.

*Grant Monitoring: Department of Education Could Improve Its Processes with Greater Focus on Assessing Risks, Acquiring Financial Skills, and Sharing Information.* [GAO-10-57](#). Washington, D.C.: November 19, 2009.

*UN Office For Project Services: Management Reforms Proceeding but Effectiveness Not Assessed, and USAID's Oversight of Grants Has Weaknesses.* [GAO-10-168](#). Washington, D.C.: November 19, 2009.

*Fire Grants: FEMA Has Met Most Requirements for Awarding Fire Grants, but Additional Actions Would Improve Its Grant Process.* [GAO-10-64](#). Washington, D.C.: October 30, 2009.

*Transit Security Grant Program: DHS Allocates Grants Based on Risk, but Its Risk Methodology, Management Controls, and Grant Oversight Can Be Strengthened.* [GAO-09-491](#). Washington, D.C.: June 8, 2009.

*Single Audit: Opportunities Exist to Improve the Single Audit Process and Oversight.* [GAO-09-307R](#). Washington, D.C.: March 13, 2009.

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*Healthy Marriage And Responsible Fatherhood Initiative: Further Progress Is Needed in Developing a Risk-Based Monitoring Approach to Help HHS Improve Program Oversight.* [GAO-08-1002](#). Washington, D.C.: September 26, 2008.

*Grants Management: Attention Needed to Address Undisbursed Balances in Expired Grant Accounts.* [GAO-08-432](#). Washington, D.C.: August 29, 2008.

*Afghanistan Security: U.S. Efforts to Develop Capable Afghan Police Forces Face Challenges and Need a Coordinated, Detailed Plan to Help Ensure Accountability.* [GAO-08-883T](#). Washington, D.C.: June 18, 2008.

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*Compacts Of Free Association: Implementation of New Funding and Accountability Requirements Is Well Under Way, but Planning Challenges Remain*. [GAO-05-633](#). Washington, D.C.: July 11, 2005.

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