

April 2013

GRANTS MANAGEMENT

Oversight of Selected States' Disbursement of Federal Funds Addresses Timeliness and Administrative Allowances



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Why GAO Did This Study

Grant programs in which states are awarded federal grants but then pass funds on to subrecipients—entities within states’ jurisdiction—are referred to as “pass-through grants.” These relationships pose challenges for the management of grant programs, as the multiple levels add complexity to the flow of funds, administration, and oversight.

As requested, GAO examined management and oversight of pass-through grants. This report addresses (1) requirements and oversight related to the timeliness of federal grant funds from states to subrecipients and the portion states may withhold for their administration, (2) select states’ practices in disbursing federal grant funds to subrecipients and the extent to which select federal granting agencies have identified compliance issues with these requirements, and (3) the views of subrecipients on the impact of selected states’ practices in disbursing grant funds. To conduct this study, GAO selected states and programs based on characteristics affecting pass-through grants management. GAO reviewed documentation on government-wide regulations and selected federal pass-through grant programs; reviewed monitoring reports and audits of state pass-through entities; and interviewed federal and state officials, as well as subrecipients and others with relevant expertise. Findings cannot be generalized to all states and programs, but our work provides insights related to pass-through grants management.

GAO makes no recommendations in this report. OMB and selected federal granting agencies provided technical comments, which were incorporated as appropriate

View [GAO-13-392](#). For more information, contact Stanley J. Czerwinski at (202) 512-6806 or czerwinkis@gao.gov.

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What GAO Found

As pass-through grant funds flow to subrecipients, they are subject to government-wide and program-specific policies, two of which are particularly relevant to disbursement issues for states as they pass funds on to subrecipients. As shown below, pass-through grants are typically first awarded to states, local governments, or other entities and then further awarded to subrecipients. The Cash Management Improvement Act governs the exchange of funds between the federal government and the states and is applicable to timeliness in the grant disbursement process. In addition, the Office of Management and Budget’s (OMB) Circular No. A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, provides general guidance on the roles and responsibilities of the federal awarding agencies and primary recipients of government funds regarding audit requirements of grantees. Specific program policies can provide additional requirements for individual grant programs related to disbursement of funds. For example, as with the programs we reviewed, authorizing legislation may contain statutory limits on the amount of funds that states and local governments can withhold from the grant awards for their own administrative expenses. To ensure states comply with federal requirements and agency regulations for disbursing federal grant funds, federal agencies monitor aspects of pass-through grants related to administrative costs that states withhold and timeliness of reimbursement. According to their monitoring procedures, selected federal agencies also review the results of states’ “single audits”—annual audits performed on many recipients of federal funds.

Examples of How Federal Funds Flow through Primary Grant Recipients to Subrecipients



Source: GAO analysis of grant processes; and Art Explosion clip-art.

Selected states’ pass-through grant disbursement practices varied for the three programs GAO reviewed, but generally complied with federal requirements. For example, states had some flexibility in determining whether a grant would be distributed on a reimbursement basis or through a cash advance. For the programs and states GAO reviewed, GAO found that states generally worked within the federal parameters of their grant programs and reimbursed the subrecipients within the time allowed in their grant agreements.

Subrecipients in GAO focus groups reported minimal issues with timeliness of federal funds’ reimbursement and administrative funds that states withheld. In addition, these subrecipients did not report instances in which federal requirements related to reimbursement timeliness or administrative funds withheld were not followed and therefore were not impacted by these requirements not being met.

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Abbreviations

Byrne JAG	Edward Byrne Memorial Justice Assistance Grant
CDBG	Community Development Block Grant
CMIA	Cash Management Improvement Act
CSBG	Community Services Block Grant
DOJ	Department of Justice
FFATA	Federal Funding Accountability and Transparency Act of 2006
GSA	General Services Administration
HHS	Department of Health and Human Services
HUD	Department of Housing and Urban Development
OMB	Office of Management and Budget
Treasury	Department of the Treasury

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Accountability * Integrity * Reliability

United States Government Accountability Office
Washington, DC 20548

April 16, 2013

The Honorable Tom Coburn, M.D.
Ranking Member
Committee on Homeland Security and Governmental Affairs
United States Senate

The Honorable Susan M. Collins
United States Senate

The Honorable Mark Kirk
United States Senate

Federal grant programs are delivered through a complex set of mechanisms and often involve multiple layers of government and nonprofit entities. In fiscal year 2012, at least \$79.6 billion¹ in federal grant funding was passed through states to local governments and nonprofit organizations that partner with the federal government to deliver services, such as improving local infrastructure, providing community job training, or running drug treatment programs. This network of grantors and grantees provides many services critical to the nation's interest, and by leveraging the funds and expertise of entities within the granting network, these services can be delivered more efficiently. Over the last several years, current economic conditions have placed financial strain on all governmental sectors—federal, state, and local—as well as nonprofit organizations, and the efficient management of these grant programs at all levels is critical. Further, for grant programs to be successful it is important to ensure financial and programmatic controls are implemented while maintaining the viability of the entities within the granting network.

Grant programs in which states are awarded federal grants but then pass funds on to one or more levels of recipients—referred to as “pass-through grants”—provide a useful approach to involving key partners, but they also present administration challenges. These pass-through grants use entities such as local governments and nonprofit organizations that are

¹As of February 14, 2013, based on data reported by federal agencies and available on USASpending.gov. This estimate represents the total amount of federal funds spent on grants greater than or equal to \$25,000 to subawardees in fiscal year 2012, as reported by prime awardees.

located where services are needed to deliver the services and allow states flexibility to determine the specific purposes and needs to which grant funds should be directed. With these grant programs, federal agencies partner with grantees not solely to deliver services, but also to determine which subrecipients receive funds and aid in program administration. With multiple levels involved, administrative challenges can include transfer of funds, funding of grant administration at various levels, and oversight of the subrecipients to which funds are passed. Further, subrecipients are to address both state and federal requirements of grant programs.

You raised questions related to pass-through grants management, particularly the disbursement of federal funds to subrecipients, and asked us to review the issue. As a result, we are reporting on (1) government-wide and select agencies' requirements and oversight related to the timeliness of federal grant funds from states to subrecipients and the portion of funds states may withhold for their own administration, (2) select states' practices in disbursing federal grant funds to subrecipients and the extent to which select federal granting agencies have identified compliance issues with these requirements, and (3) the views of subrecipients on the impact of selected states' practices in disbursing grant funds.

To achieve our objectives, we identified, reviewed, and discussed with the Office of Management and Budget (OMB) federal government-wide regulations or efforts related to cash disbursement and program administrative allowances. We selected three federal granting agencies—the Department of Justice (DOJ), the Department of Health and Human Services (HHS), and the Department of Housing and Urban Development (HUD)—to obtain information on the extent to which they identified compliance issues with federal requirements. We selected these granting agencies because they provide a range of grant funding, including significant pass-through grant programs. We then selected three federal pass-through programs to gain information on the federal pass-through grant process, reviewed documentation on the selected programs, such as program and monitoring guidance, and discussed application of this guidance with agency officials. We selected programs within these agencies that were of a typical size for that agency. We also selected programs about which we have reported previously to leverage resources and use existing information in program descriptions and information on administration of these grant programs. Table 1 identifies the grant programs and provides additional information on these programs.

Table 1: Information on Grant Programs Selected for Review

Program	Agency and administering component	Amount allocated to states (fiscal year 2012)	Purpose	Eligible Subrecipients
Edward Byrne Memorial Justice Assistance Grant	Department of Justice, Bureau of Justice Assistance	\$193.3 million	Supports a range of program areas, including law enforcement; prosecution and courts; prevention and education; corrections and community corrections; drug treatment and enforcement; planning, evaluation and technology improvement; and crime victim and witness initiatives.	Local governments are required by the law to receive a portion of the states' grant amount; nonprofit organizations may also receive funds.
Community Services Block Grant	Department of Health and Human Services, Administration for Children and Families, Office of Community Services	\$658.1 million	Supports a variety of programs to reduce poverty, revitalize low-income communities, and empower low-income families and individuals in rural and urban areas to become self-sufficient.	Typically community action agencies (nonprofit or governmental organizations) with the goal of alleviating poverty, but can include other organizations, such as migrant worker organizations.
State-Administered Community Development Block Grant	Department of Housing and Urban Development, Office of Community Planning and Development	\$882.3 million	Supports development of viable communities by providing decent housing and a suitable living environment and by expanding economic opportunities, principally for persons of low- and moderate-income.	Units of local government that do not receive Community Development Block Grant funds directly from the Department of Housing and Urban Development.

Source: GAO summary of data from above agencies.

We selected three states for review—Illinois, Massachusetts, and Tennessee—to maximize the likelihood of presenting diversity in how the grant programs were administered. These states were selected based on criteria including geographic location, per capita granting amount, population, and recommendations from experts such as specialists in grant administration. Illinois is an example of a large state in the Midwest Census region that has a relatively low per capita granting amount. Massachusetts is a medium-sized commonwealth in the Northeast Census region that has a relatively high per capita granting amount. Tennessee is a medium-sized state in the South Census region with an average per capita granting amount. In addition to the recommendations, we reviewed survey data from the Urban Institute's 2010 study on

nonprofits' perception of grant and contract administration, which included rankings of the quality of states' grant administration based on survey responses.² We conducted site visits to each of these states to review documentation and speak with granting and financial control officials to determine their policies and procedures for distributing grant funds. We also conducted focus groups of nonprofit and local government subrecipients to aid in identifying concerns with the granting process. While the programs and states we reviewed present differences in the management of pass-through grants, they do not represent a generalizable sample, thus information we obtained from them cannot be generalized to all federal agencies and related grant programs or state recipients. However, they provided insights and examples related to pass-through grants management. Appendix I contains more details on our scope and methodology, including how we selected focus group participants.

We conducted this performance audit from May 2012 to April 2013 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.

Background

Some federal grant programs—referred to as pass-through grants—are awarded with a specific requirement that a portion of grant funds be distributed by the initial grant recipient (such as a state or local government) to entities within that grantee's jurisdiction to carry out services.³ The initial recipients of the funds, known as prime recipients, distribute funds to entities within the jurisdiction, known as subrecipients. For purposes of this report, we focus on grants where state agencies are the prime recipient. Congress may establish a grant program as a pass-

²Urban Institute. *Human Services Nonprofits and Government Collaboration: Findings from the 2010 National Survey of Nonprofit Government Contracting and Grants* (Washington, D.C.: Oct. 2010).

³While the term "program" does not have a well-defined, standard meaning in the legislative process, it is generally defined as an organized set of activities directed toward a common purpose or goal that an agency undertakes or proposes to carry out its responsibilities.

through program in its authorizing legislation and there can be multiple benefits to this structure. Pass-through grants can balance federal interests with state flexibility, as well as leverage the financial and program resources of prime recipients and subrecipients.

Pass-through grant funds flow to subrecipients in various ways. Pass-through grants are first awarded to prime recipients, such as states, local governments, or other entities, and then awarded to subrecipients. In some cases, entities that are subrecipients for certain grant programs can be prime recipients for other grant programs. Figure 1 broadly illustrates the flow of pass-through funds and shows how different types of entities can be the prime recipient.

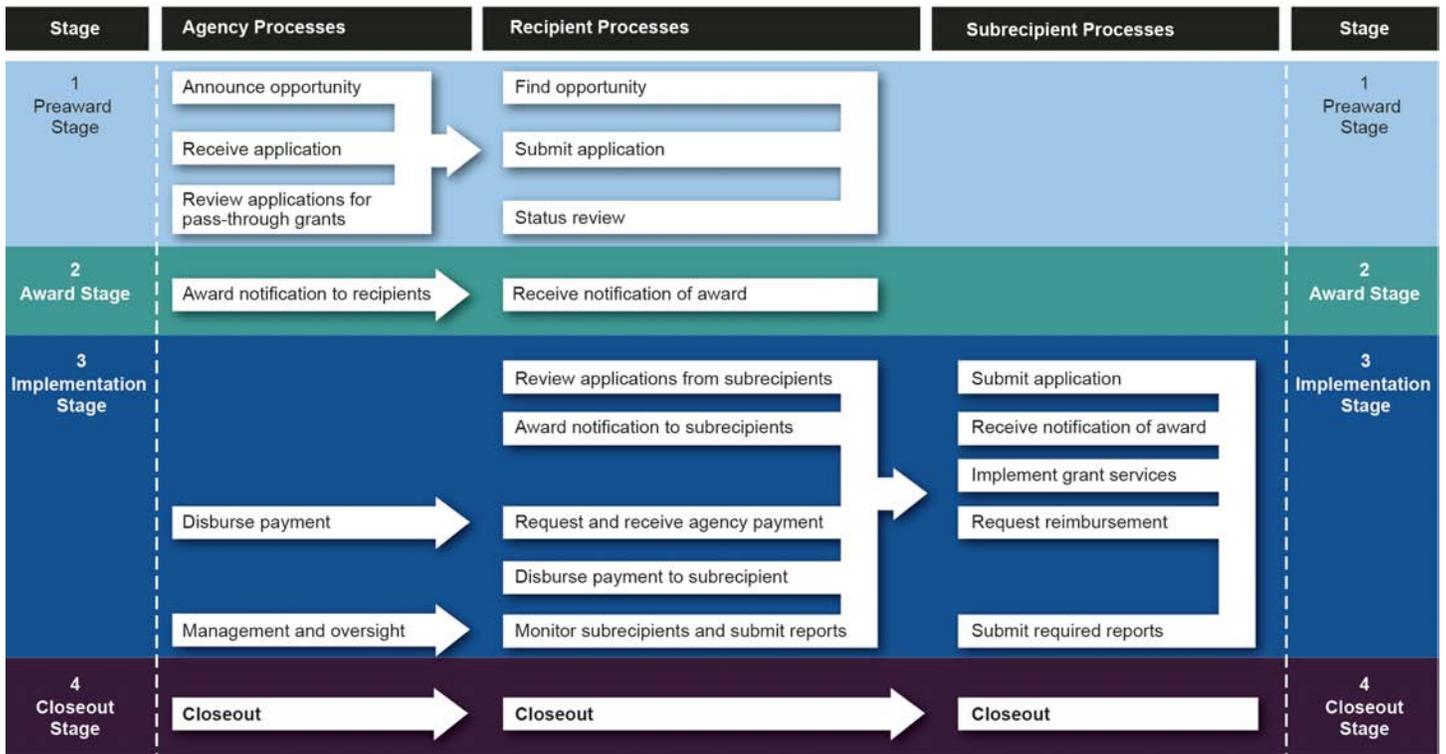
Figure 1: Examples of How Federal Funds Flow through Primary Grant Recipients to Subrecipients



Source: GAO analysis of grant processes; and Art Explosion clip-art.

Federal grants passed through prime recipients are to complete the normal steps in a grant life cycle (see figure 2). In addition, prime recipients conduct their own granting process to award funds to subrecipients, mirroring many of the same steps as in the federal agency's grant life cycle. This process typically involves subrecipients applying for grant funds and, if grant funds are awarded, entering into a grant agreement with the prime recipient. After prime recipients enter into agreements with subrecipients, funds may be distributed to the subrecipient. Funds for many grants to subrecipients are distributed on a reimbursable basis, with the subrecipient incurring an expense and then reporting that expense to the prime recipient who then reimburses the subrecipient. Significant gaps in the time or amount of funding provided could lead to financial instability of the subrecipient.

Figure 2: Typical Grant Life Cycle for Pass-Through Grants



Source: GAO analysis of grant processes.

States, as prime recipients, may exercise flexibility in many aspects of pass-through grant administration. In many cases, states are able to determine the funding priorities and set the award process. States may also set their own monitoring plans and schedules within federal requirements. Broadly, a subrecipient is accountable to the prime recipient for use of the federal funds provided by the pass-through grant, and therefore subrecipients send much of the reporting information to states. In general, federal agencies have requirements to monitor how the prime recipient monitors its subrecipients.

There is no comprehensive estimate of the amount of federal grant funds awarded from prime recipients to subrecipients. USASpending.gov provides information reported by recipients on funds they awarded to subrecipients for grants greater than or equal to \$25,000, but grants of

less than \$25,000 are not required to be included. According to USASpending.gov data for fiscal year 2012, \$79.6 billion⁴ was reported as being redistributed to subrecipients.

Both Government-wide Policies and Specific Program Policies Govern Distribution of Pass-Through Grant Funds

All federal grant programs are subject to a common foundation of governing rules and government-wide requirements, and two are particularly relevant to entities that pass funds on to subrecipients. The Cash Management Improvement Act (CMIA) governs the exchange of funds between the federal government and the states, and is applicable to timeliness in the grant disbursement process, while OMB's Circular No. A-133, *Audits of States, Local Governments and Non-Profit Organizations*, outlines the requirements for an annual audit in accordance with the Single Audit Act; such an audit encompasses compliance with requirements such as determining the extent of compliance with CMIA and policies on allowances for administrative expenses.⁵

CMIA provides the general rules for efficient transfer of federal financial assistance between the federal government and states. CMIA requires that state and federal granting agencies minimize the time elapsing between the transfer of funds from the U.S. Treasury and the state's payout of funds for federal assistance program purposes. For pass-

⁴According to USASpending.gov as of February 14, 2013. This estimate represents the total amount of federal funds spent on grants greater than or equal to \$25,000 to subawardees in fiscal year 2012, as reported by prime awardees. USASpending.gov was first launched in December 2007 to meet requirements of the Federal Funding Accountability and Transparency Act (FFATA) of 2006. Among other things, FFATA required OMB to establish a free, publicly accessible website containing data on federal awards, including subawards. All subawardee data are based on prime awardee submissions to the FFATA Subaward Reporting System, which is operated by the General Services Administration (GSA). GSA officials noted that the system may not include all funds spent in a particular fiscal year. In addition, in 2012 we reported finding data errors and missing data on the site; however, OMB and agencies have taken steps to improve the site and quality of its data. While discrepancies in data do not allow for direct comparison of prime award data and subaward data, as of February 15, 2013, USASpending.gov reported that \$536.5 billion in grants were awarded to states in fiscal year 2012, but the data did not indicate how much of that \$536.5 billion was for direct grants versus pass-through grants. While we have evaluated USASpending.gov data in the past and identified concerns with the data reliability, we have not released any new evaluations of the data since GSA changed its processes in response to our findings, and we have not performed tests specific to the reliability of the data for this report.

⁵The Single Audit Act is codified, as amended, at 31 U.S.C. §§ 7501-7507.

through grants, this means that the prime recipient is generally not allowed to draw down its grant funds and retain these funds. Rather, the grant funds must be drawn when a distribution to subrecipients is needed. States may enter into a “Treasury-State Agreement” with the Department of the Treasury (Treasury). This agreement outlines the draw-down and distribution practices for the states for selected large grant programs.⁶

OMB’s Circular No. A-133 provides general guidance on the roles and responsibilities of the federal awarding agencies and primary recipients of government funds regarding audit requirements of grantees and subrecipients.⁷ The circular sets forth guidance implementing the Single Audit Act, which requires certain entities receiving federal awards under more than one federal program to undergo a single audit, which is intended to promote the efficient and effective use of audit resources. Additionally, the circular sets forth standards for obtaining consistency and uniformity among federal agencies for the audits of states, local governments, and nonprofit organizations expending federal awards totaling \$500,000 or more annually. Among other responsibilities, the circular gives:

- federal awarding agencies the responsibility to advise recipients of requirements imposed on them by federal laws, regulations, and the provisions of contracts or grants, and
- primary recipients the responsibility to identify subrecipient awards; advise subrecipients of requirements imposed on them by federal laws, regulations, and the provisions of contracts or grant agreements as well as any supplemental requirements; and monitor the implementation of the grants.

Similarly, federal agencies monitor and oversee certain aspects of pass-through grants as part of their monitoring procedures.

⁶31 C.F.R. §§205.01 – 205.35.

⁷OMB is responsible for developing government-wide guidance to help ensure that grants are managed properly and that the funds are spent in accordance with applicable laws and regulations. OMB instructions or information issued to federal agencies are referred to as “circulars.” These circulars apply to recipients of federal pass-through awards and they give instructions to federal agencies on implementing policies within their purview, including those that apply to grant programs. In addition, these circulars lay out guidance applicable to grants management in the areas of administration, audits, and cost principles.

As part of an entity's single audit, the independent auditor is to test compliance with CMIA. The auditor examines compliance in areas such as whether the state minimized the time between receipt of federal funds and expenditure, whether there are internal controls in place to help ensure that timely payments are made, and whether any interest earned by the state was reported and remitted.⁸ The auditor is to test compliance by comparing a sample of the state's reimbursement requests to determine if they conform to the procedures in the state's Treasury-State Agreement.⁹

The independent auditors performing single audits may also review the allowances states withhold for administrative costs before passing funds on to subrecipients. OMB's Circular A-133 single audit compliance supplement states that for programs where a maximum percentage or amount is allowed for the grantees' administrative costs (such as the three programs we reviewed), auditors are to verify that administrative costs were accurately recorded and that these costs do not exceed the allowed amount. As a result of their work, auditors can identify issues with excess administrative funds withheld; however, generally, auditors do not test all transactions or programs, as they use a risk-based approach in their testing.

Federal Agencies Vary In Certain Pass-Through Grant Management Requirements

In addition to government-wide requirements, program-specific requirements—found in a grant program's authorizing legislation, appropriation, or implementing regulations—can provide specific requirements for individual grant programs related to disbursement of funds. For example, as with the three programs we reviewed, the authorizing legislation may contain statutory limits on the amount of administrative funds that states and local governments are allowed to withhold from the grant awards for their own administrative expenses. The three programs we reviewed did not set specific requirements for the timing of payments from prime recipients to subrecipients. OMB guidance

⁸CMIA requires that states pay interest to the federal government if they draw down funds in advance of need and requires the federal government to pay interest to states if federal program agencies do not make program payments in a timely manner when states use their own funds.

⁹Office of Management and Budget. Circular A-133 Compliance Supplement. June 2012.

states that the CMIA and Treasury-State Agreements would set these policies.

The three programs we reviewed varied in the amount of grant funds the authorizing statute permits a prime recipient to use for its own administrative expenses prior to distributing funds to subrecipients:

- The Edward Byrne Memorial Justice Assistance Grant (Byrne JAG) program allows the prime recipient to withhold up to 10 percent for administrative expenses without regards to the award amount.
- The Community Services Block Grant (CSBG) program allows the prime recipient to withhold up to 5 percent—or \$55,000, whichever is greater—for administrative expenses. The grant program also allows for an additional amount to be withheld for special projects, which the state may retain for activities such as training and technical assistance, but the state may also distribute these funds to existing recipients or other recipients to meet state goals, so long as the combined administrative expenses and special project funds do not exceed 10 percent of the total funds made available to the state.
- The state-administered Community Development Block Grant (CDBG) allows the prime recipient to withhold \$100,000 plus 3 percent of the state’s CDBG grant plus program income for administrative expenses. The program requires that any funds spent for administration in excess of \$100,000 must be matched by the state. The state may also opt to use up to 3 percent of the grant plus program income for technical assistance, but the combination of administrative and technical assistance cannot exceed \$100,000 plus 3 percent of the amount granted to the state plus program income.

Federal Monitoring Efforts Include Methods to Identify Issues of Distributing Funds to Subrecipients

As part of program monitoring procedures to help ensure states comply with federal requirements and agency regulations, federal agencies oversee aspects of pass-through grants related to the administrative funds states withhold and the timeliness of reimbursement practices. Federal agencies can establish their own monitoring procedures and develop their own monitoring tools, and our review of the three selected agencies’ procedures indicated the agencies address both of these issues in their monitoring tools and guidance:

- At HHS, monitoring plans allow for on-site monitoring to occur for the CSBG grant at approximately five states each year. Additional monitoring visits may be conducted if problems are identified during the course of program administration. Monitors review compliance with CMIA as well as the amount of administrative fees withheld.

-
- At HUD, grantees may receive on-site monitoring or desk reviews, off-site agency reviews of documents submitted by the grantee. Some states receive on-site monitoring annually, while other states have a longer gap between these site visits, determined by a risk-based scoring method. CDBG program monitoring protocols include requirements for reviewing the amount of administrative funds withheld. HUD also requires grantees to submit an annual performance report, including financial information, which is used to aid in identifying any potential payment issues.
 - At DOJ, monitoring procedures provide for some on-site monitoring reviews in addition to annual desk reviews of its grantees. The frequency of on-site monitoring reviews is based on several factors, including risk assessment, resource availability, and whether the state has had a recent audit. DOJ monitoring reviews are to look at the states' timing of its fund distributions, which is generally done by reviewing a sample of drawdown transactions.

The three selected federal agencies also include a review of the results of states' single audits as part of their monitoring procedures for periodic reviews. Reviewing single audit reports can help identify potential internal control issues or any program-specific issues from past audits. For example, DOJ financial monitoring protocols require the monitoring staff to review the most recent single audit to determine if there are findings related to department programs, which could identify cash disbursement delays or excess administrative funds withheld. Protocols specific to the CSBG program require monitoring staff to review the single audit report as well as financial documentation used to support that audit and documentation of any actions taken to resolve audit findings. Agency officials we spoke with said that reviews of single audits are helpful parts of the monitoring process, but they rarely see specific issues with delayed reimbursement or excess administrative funds withheld by the state identified in the single audit. Circular A-133 requires audited entities to respond to findings with actions they plan to take and deadlines for completing these actions.¹⁰

¹⁰Each state has a cognizant agency for its single audit that, among other tasks, coordinates management decisions for audit findings.

Selected States' Pass-Through Grant Disbursement Practices Vary, but Generally Comply with Federal Requirements

While states are required to meet the government-wide requirements and specific program requirements, they can set their own practices for distributing funds to subrecipients. For example, the reimbursement cycle—how frequently states reimburse subrecipients for grant expenses—can vary across and within states. States have some flexibility in determining whether a grant will be distributed on a reimbursement basis or through a cash advance. For the selected programs in the selected states, the frequency with which subrecipients were allowed to request a reimbursement ranged from whenever the subrecipient needed funds to once a quarter. For example, in Tennessee, all selected grant programs allowed subrecipients to request reimbursements once a month. In Massachusetts, CSBG subrecipients received a portion of their grant on a monthly basis, while recipients of the Byrne JAG program were generally allowed to request reimbursements once a quarter. Table 2 shows this variation across the selected states and grant programs we reviewed.

Table 2: Frequency of Subrecipient Reimbursement across Selected States and Federal Grant Programs

Selected states	Selected Federal Grant Programs		
	Byrne JAG	CSBG	State-administered CDBG
Illinois	Upfront advance and then a schedule as agreed upon between state and subrecipient	Reimbursed as frequently as the subrecipient requests, up to once per week	Reimbursed as frequently as the subrecipient requests, up to once per week
Massachusetts	Quarterly reimbursement (subrecipients demonstrating need may be reimbursed more frequently)	Monthly advance	Monthly reimbursement or advance, depending on subrecipient preference
Tennessee	Monthly reimbursement (subrecipient can opt for less frequently)	Monthly reimbursement	Monthly reimbursement (subrecipient can opt for less frequently)

Source: GAO summary of state agency information.

The states' procedures allow for subrecipients to receive grant reimbursements once an approved receipt of invoice or payment request is received. According to state officials we interviewed, subrecipients generally receive payment within 30 days, particularly since the payments are delivered through electronic fund transfer. However, according to these state officials, if reimbursement delays occur, they are generally related to a lack of documentation required for approval.

States may withhold a portion of a grant to help defray the costs of managing the grant, and the states we reviewed exercised some flexibility in their use of these funds. Allowable administrative costs can generally

include areas such as personnel or accounting costs. For pass-through grants, the state may be able to use these funds for expenses related to monitoring subrecipients. States may specify how they intend to use administrative funds in documents submitted to the granting agency. The states and programs we reviewed varied in how they described their use of administrative funds. For example, as noted earlier, according to HHS documents, up to 5 percent of a state's CSBG funds can be reserved for administrative expenses, including monitoring activities. Furthermore, state plans may provide more specific information regarding the use of administrative funds. For instance, in the CSBG program for Massachusetts, a portion of the 5 percent allocated for CSBG administrative expenses and monitoring activities is earmarked for staff salaries and associated fringe benefits. Another portion is earmarked for direct administrative expenditures, such as office supplies, travel, and state overhead.

Federal program officials we spoke with said most states use the maximum administrative funds allowed. They noted that they had seen some states in the past use less than the maximum—using these funds for service delivery instead—but they have seen these states begin to withhold the maximum amount. Most state program officials we spoke with said that they did withhold the full amount allowed for these costs. However, in Tennessee, CSBG granting officials said they did not always use the 5 percent allowed for special projects, but they plan to use the full 5 percent in the future.

For the selected programs and states we reviewed, we found that states worked within the federal requirements of their grant programs and reimbursed the subrecipients within the time allowed in their grant agreements. State agency officials for the selected federal programs in each of the three selected states told us they had not received any complaints from their subrecipients regarding timeliness of grant reimbursements. Each of the three states had established procedures and used automated systems to reimburse its subrecipients. In addition, we learned that the states withheld administrative funds for federal grant programs appropriately, in accordance with the amounts set by the programs.

Our review of the most recent federal agency monitoring reports for the three programs reviewed in Illinois, Massachusetts, and Tennessee showed that monitors found no issues related to excessive administrative allowances or delays in fund disbursement. Monitoring reports were completed for all selected states between 2008 through 2012. For the

Byrne JAG and state-administered CDBG program, all selected states had at least one on-site review during this time period. For the CSBG program, HHS conducted one on-site review of our selected states and is currently drafting a report of the review. In addition, recent single audit results for these three states do not indicate significant noncompliance related to administrative allowances or fund disbursements. We reviewed single audit reports for fiscal years 2009 through 2011 and identified one finding where a state (Illinois) took longer to reimburse a subrecipient than allowed—the auditor identified three reimbursement payments that were three or fewer days late. We found no instances of excess administrative funds being withheld.¹¹

In addition, single audit reports may identify noncompliance related to other aspects of the pass-through grants process, such as reporting and subrecipient monitoring. For example, concerning reporting, in Tennessee’s 2010 Single Audit report, the state’s Department of Human Services—the state agency that administers the CSBG program for HHS—either did not submit federally required financial reports or did not submit them on a timely basis. The federal government requires these financial reports to be filed as one method to monitor the programs funded by the CSBG program. Similarly, in the same report, for the state-administered CDBG program, the state’s Department of Economic and Community Development did not file quarterly reports to HUD in a timely manner. Concerning subrecipient monitoring, Tennessee’s 2011 Single Audit report indicated that the Department of Human Services did not have procedures in place to ensure that subrecipients were audited when required.¹²

¹¹We reviewed selected states’ single audit reports from fiscal years 2009 through 2011 to identify any findings related to late reimbursements or excess administrative funds withheld. In addition, we reviewed these reports for any issues related to our three selected programs.

¹²According to these single audit reports, Tennessee made changes or plans to make changes to address these findings. They agreed to submit additional reports to HHS to meet program requirements, implement new business practices to improve the timeliness of report submittal to HUD, and improve the oversight process of subrecipient audits.

Subrecipients in Focus Groups Reported Minimal Issues with Timeliness of Federal Funds' Reimbursement and Administrative Funds that States Withheld

Subrecipients in our focus groups did not report instances in which federal requirements related to reimbursement timeliness or administrative funds withheld were not followed, and therefore were not impacted by these requirements not being met; however, they did identify other grant management issues. Some subrecipients who commented on the timeliness of reimbursement said they were reimbursed in a timely manner. Other subrecipients we interviewed said they were aware of the requirements for administrative funds withheld by states for their pass-through grant program. Nevertheless, even though their states generally complied with federal regulations, some subrecipients we interviewed expressed concerns related to reimbursement timeliness and administrative funds withheld. While these concerns generally did not identify instances of noncompliance with federal requirements, they did illustrate how the pass-through grant process, subrecipients' perceptions of the process, and state practices can potentially impact subrecipients. For instance, although their states withheld administrative funds within federal law, a few subrecipients we spoke with expressed frustration over the amounts withheld because they did not feel their organizations were being adequately reimbursed for their own administrative expenses. In 2010, we reported finding differences in the rate at which state and local governments reimburse nonprofit organizations in select states.¹³ In particular, we found that these differences, including whether nonprofit organizations are reimbursed at all, depend largely on the policies and procedures of the state and local governments that award federal funds to nonprofit organizations.

In addition, states may have their own processes to manage the disbursement of state grant funds, which can affect subrecipients. For example, subrecipients we spoke to in Illinois cited a delay in receiving reimbursements of grant funds from their state general fund, which some subrecipients said negatively affected the services they provide. According to Illinois state officials, because the state has insufficient cash to meet all obligations and has set priorities for paying monies from the Illinois general fund, there can be up to a 9-month delay in disbursing state grant funds that originate from the state's general fund. According to a quarterly report issued by the Illinois Comptroller's Office, as of December 31, 2012, pending vouchers from the state's general fund

¹³GAO, *Nonprofit Sector: Treatment and Reimbursement of Indirect Costs Vary Among Grants, and Depend Significantly on Federal, State, and Local Government Practices*, GAO-10-477 (Washington, D.C.: May 18, 2010).

dated back to August 2012. While these funds are not federal grant funds, delays of this nature could affect a subrecipient's ability to deliver services, particularly if the subrecipient is a smaller organization. As subrecipients, nonprofit organizations often receive grants from multiple sources to fund their services, and absent a sufficient safety net, such delays in funding could hinder a nonprofit organization's ability to continue to effectively partner with the federal government to provide services to vulnerable populations. According to one subrecipient we interviewed, despite having foundation funds to help mitigate cash flow issues, his organization had to cut programs that served vulnerable populations—programs funded, in part, by pass-through grants—because of issues with the state funding for these services.

In focus groups we held with subrecipients, several other concerns were raised that can be linked to the multiple layers involved in managing pass-through grants. For example, the award process for pass-through grants involves two steps—allocating funding to states and awarding funds to subrecipients—which subrecipients said could extend the time it takes to receive a grant and cause funding uncertainty for a subrecipient. Furthermore, although monitoring serves as an important tool for internal control, distinct federal and state monitoring requirements may lead to additional responsibilities for subrecipients.¹⁴ For example, some subrecipients we interviewed said they may have to report the same or similar information to multiple granting entities, resulting in duplicative or redundant reporting. Federal agencies may require states, as part of their responsibilities as pass-through entities, to conduct monitoring site visits of subrecipients; however, the three federal agencies we selected may also conduct site visits to select subrecipients. Some subrecipients in our focus groups that are required to have a single audit expressed frustration that state monitors are looking at much of the same information contained in the single audit. Some subrecipients in our focus groups said they dedicate a significant amount of time to each step of the monitoring process, so duplicative or redundant reporting may reduce the amount of time they can devote to service delivery. We have additional work under way for the Senate Committee on Homeland Security and Governmental Affairs that looks more closely at federal grants management reform efforts, including what actions have been taken to address challenges

¹⁴GAO, *Standards for Internal Control in the Federal Government*, [GAO/AIMD-00-21.3.1](#) (Washington, D.C.: November 1999).

such as communicating with grantee recipients. We plan to issue the results from this work later this spring.

Agency Comments and Our Evaluation

We provided a draft of this report to the Secretaries of HHS and HUD, the Attorney General, and the Director of OMB for review and comment. Each agency provided technical comments, which were incorporated as appropriate.

We are sending copies of this report to the appropriate congressional committees and the Secretaries of HHS and HUD, the Attorney General, and the Director of OMB. The report also is available at no charge on the GAO website at <http://www.gao.gov>.

If you or your staff has any questions concerning this report, please contact me at (202) 512-6806 or czerwinski@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. Key contributors are listed in appendix II.



Stanley J. Czerwinski
Director, Strategic Issues

Appendix I: Objectives, Scope, and Methodology

Our objectives were to report on (1) government-wide and select agencies' requirements and oversight related to the timeliness of federal grant funds from states to subrecipients and the portion of funds states may withhold for their own administration, (2) select states' practices in disbursing federal grant funds to subrecipients and the extent to which select federal granting agencies have identified compliance issues with these requirements, and (3) the views of subrecipients on the impact of selected states' practices in disbursing grant funds.

To determine the government-wide and select agencies' requirements governing the timeliness of federal grant funds from states to subrecipients and the portion of funds states may withhold for their own administration, we identified Office of Management and Budget's (OMB) circulars related to grants management and reviewed these circulars to determine the extent that they related to pass-through grants. We discussed these circulars with OMB officials. We selected three federal pass-through grant programs to illustrate how federal agencies manage pass-through grant programs, including requirements for distribution and monitoring practices. To select these programs, we examined data on grant programs from USASpending.gov to determine the amount federal agencies awarded in grant funds across the agency and the amount of grant funds awarded by grant program. We identified programs that had significant pass-through requirements with a range of subrecipients. We also identified programs in which we had conducted past work in order to leverage resources. Table 3 presents the programs we selected and the criteria for this selection.

Table 3: Information on Grant Programs Selected for Review and Criteria Used to Select Them

Program	Agency and administering component	Amount program allocated to states (fiscal year 2012) (dollars in millions)	Amount agency allocated to states (fiscal year 2011) (dollars in millions)	Report number of select GAO work
Edward Byrne Memorial Justice Assistance Grant	Department of Justice, Bureau of Justice Assistance	\$193.3	\$1,358	GAO-12-517 GAO-11-87
Community Services Block Grant	Department of Health and Human Services, Administration for Children and Families, Office of Community Services	\$658.1	\$338,791	GAO-06-627
State-administered Community Development Block Grant	Department of Housing and Urban Development, Office of Community Planning and Development	\$882.3	\$3,150	GAO-12-575R GAO-10-1011

Source: GAO summary of data from above agencies and USASpending.gov.

To determine states' practices in disbursing federal grant funds to subrecipients, we identified three states to illustrate variation in states' management of pass-through grants. We based the decision on state population, the amount of federal grants awarded to the state, and the census region (as shown in table 4). We also considered the per capita grant amount for each state, recommendations of subject matter experts and stakeholders in the field of grant administration, and results from a 2010 Urban Institute study on nonprofit organizations' perceptions of states' grant administration practices.¹ With the subject matter expert recommendation and the survey results, we identified states with a range of reputations in grant administration.

¹We assessed the reliability of the survey data in the Urban Institute report and found it to be reliable for the purposes of this report.

Table 4: Information on States Selected for Review and Criteria Used to Select Them

State	Population (2010 census)	Census region	Federal grants awarded (fiscal year 2011) (dollars in billions)
Illinois	12,830,632	Midwest	\$15.63
Massachusetts	6,547,629	Northeast	\$10.95
Tennessee	6,346,105	South	\$8.98

Source: GAO summary of Census and USASpending.gov information.

We conducted site visits at each of these three states, interviewing state financial control officials, such as staff from the state auditor or state comptroller office, to identify state procedures for managing grant funds. We also interviewed administrators of the three selected programs to determine their procedures for administering the selected grant programs. We reviewed monitoring reports for select states' administration of the selected programs. We also reviewed 3 years worth of single audit reports for the select states to identify potential cash management issues. While the programs and states we reviewed present differences in the management of pass-through grants, they do not represent a generalizable sample, thus information we obtained from them cannot be generalized to all federal agencies and related grant programs or state recipients. However, they provide insights and examples related to pass-through grants management.

To determine the impact on recipients of state practices in disbursing grant funds, we convened focus groups of subrecipients in each of the three states we visited. In each state, we conducted two focus groups: one of subrecipients from local governments and one of subrecipients from nonprofit organizations. The primary criterion for selecting participants was that they were subrecipients of federal grants. To identify these subrecipients, we used sources including the Single Audit Clearinghouse, referrals from state agency officials or nonprofit organizations, and state-specific sources of information on grantees. Each focus group had from 4 to 8 participants and there were a total of 34 participants across the three states. At these focus groups, we discussed how federal and state management of pass-through grants positively impacted their organizations as well as suggestions for improvement. We also reviewed external literature and discussed concerns with stakeholder groups including the National Council of Nonprofits and the National Association of State Auditors, Comptrollers, and Treasurers.

We conducted this performance audit from May 2012 to April 2013 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.

Appendix II: GAO Contact and Staff Acknowledgments

GAO Contact

Stanley J. Czerwinski, (202) 512-6806 or czerwinskis@gao.gov

Acknowledgments

In addition to the contact named above, Carol Patey, Assistant Director; Veronica Mayhand; Sarah McGrath; Jeffrey Niblack; Robert Robinson; Cynthia Saunders; Albert Sim; Sabrina Streagle; and Michelle Wong made key contributions to this report.

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