

Why GAO Did This Study

In fiscal year 2013, the federal government obligated over \$555 billion for grants. Effective oversight of internal controls is important for providing reasonable assurance that grants are awarded properly, recipients are eligible, and federal grant funds are used as intended.

GAO was asked to review internal control issues over grants. This report (1) examines whether the five largest grant-making agencies' internal control oversight processes for their grant programs were consistent with OMB requirements and (2) describes internal control issues that have been reported related to the grants management process and key grant programs.

To achieve these objectives, GAO reviewed the fiscal year 2012 internal control assessment processes for the five largest grant-making agencies' grants programs, as conducted under OMB Circular No. A-123. GAO reviewed the agencies' assessment documentation and reviewed grants internal control findings reported in other reviews of these agencies for fiscal years 2012 and 2013. GAO did not include Medicaid—the largest federal grant program—which has been well covered in other GAO and HHS OIG reviews.

GAO is not making any recommendations but continues to monitor grants management as part of its work on key issues.

In general, the five agencies concurred with the information in the report. Some agencies also provided technical comments that were incorporated, as appropriate.

View [GAO-14-539](#). For more information, contact Beryl H. Davis at (202) 512-2623 or davisbh@gao.gov.

FEDERAL GRANTS

Agencies Performed Internal Control Assessments Consistent with Guidance and Are Addressing Internal Control Deficiencies

What GAO Found

For fiscal year 2012, the processes used by the five largest grant-making agencies to conduct their internal control assessments were consistent with the requirements of Office of Management and Budget (OMB) Circular No. A-123, which requires that agencies identify significant areas within their operations in which to implement key controls, continuously monitor and test those controls, and report annually on management's judgment regarding the adequacy and effectiveness of internal control. The five largest grant-making agencies by amount of grant obligations are the Departments of Health and Human Services (HHS), Education, Transportation (DOT), Agriculture (USDA), and Housing and Urban Development (HUD). The agencies identified areas of risk, including grants programs and grants management processes, in which to implement key controls and then monitored and tested those controls. The agencies identified deficiencies through control tests, prepared and implemented corrective action plans to address the deficiencies identified, and reported on their internal control through annual management assurance statements. HHS, DOT, and USDA qualified their internal control management assurance statements for fiscal year 2012, in part because of material weaknesses affecting their grant programs. For fiscal year 2013, HHS, USDA, and HUD gave qualified statements of assurance in part because of material weaknesses in their grant programs.

In addition to issues identified through the OMB Circular No. A-123 process, other audits and reviews have reported internal control issues related to the grants management process and grant programs. For example:

- For fiscal years 2012 and 2013, DOT's financial statement auditors reported that DOT did not timely identify and deobligate unused grant obligations. DOT took actions to address the recommendations, resulting in the auditors reducing the issue from a material weakness in fiscal year 2012 to a significant deficiency in fiscal year 2013.
- In July 2013, HUD's Office of Inspector General (OIG) reported that guidance for ensuring whether grantees are carrying out grant activities in a timely manner in compliance with requirements of the Community Development Block Grant program was not always implemented effectively. HUD generally concurred with the recommendations and stated its intent to address them.
- In both fiscal years 2012 and 2013, HHS reported over \$1 billion in estimated improper payments in grant programs. HHS's OIG determined that HHS did not comply with all requirements of the Improper Payments Elimination and Recovery Act of 2010 for certain grant programs. HHS reported that it has steps planned and under way to help prevent and reduce improper payments.

OMB Circular No. A-123 notes that agency managers and staff should be encouraged to identify control deficiencies, as this reflects positively on the agency's commitment to recognizing and addressing management problems. Financial statement auditors, OIGs, and GAO continue to focus on grants internal controls through their audits and reviews, and the agencies continue to use the results of these reviews and their own assessments to develop corrective actions and oversee internal controls of federal grants to ensure that necessary controls are in place and operating effectively.