GAO Highlights

GRANTS MANAGEMENT

GAO's Fraud Risk Framework Could Provide Roadmap for Enhancing States' Subrecipient Oversight

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A report to the Ranking Member, Committee on Homeland Security and Governmental Affairs, U.S. Senate

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What GAO Found

Federal regulations assign most oversight responsibility for grant funds that are passed through as a subaward to prime recipients, such as states. This oversight is essential for reducing the risk of fraud and ensuring program goals are met.

Nonfederal entities, such as states, that expend over $1 million in federal awards during a fiscal year are required to have a single audit. GAO reviewed a nongeneralizable random sample of single audit findings from 2020 through 2024 and identified the four most frequently cited oversight deficiencies related to state oversight of subawards.

- **Evaluating subrecipient risk.** States must assess subrecipients' risk to inform appropriate monitoring. Deficiencies in this area included assessments that were incomplete.
- **Monitoring subrecipients.** States must monitor activities to ensure that subrecipients comply with federal statutes, regulations, and the terms and conditions of the subaward. Deficiencies in this area included not ensuring that subrecipient expenses were supported or allowable and not ensuring subrecipients undergo required single audits.
- **Addressing issues that arise.** States must take action when instances of subrecipient noncompliance are found. Deficiencies in this area included not issuing timely management decisions on reported audit findings and not ensuring that subrecipients resolved issues.
- **Reporting on subawards.** States generally must report subawards of $30,000 or more. Deficiencies in this area included reports that were inaccurate or had not been submitted.

Challenges with capacity, streamlining, transparency, and internal controls and oversight can contribute to these deficiencies. State grant management officials and other knowledgeable entities GAO interviewed made suggestions for addressing some of these challenges.

- **Capacity challenges:** Suggestions included automating oversight steps and conducting more training to mitigate the effects of staff turnover.
- **Streamlining challenges**: Suggestions included standardizing forms and receiving more consistent federal guidance.
- **Transparency challenges**: Suggestions included sharing data between state and federal agencies and collecting additional data on subrecipients.
- **Internal control and oversight challenges**: Suggestions included receiving timely federal guidance on changes and updating grant management systems to expand capabilities.

Statutory and regulatory changes, agency action, and open recommendations could also be opportunities to enhance subaward oversight. Many of these suggestions and opportunities align with practices in GAO's Fraud Risk Framework and could help reduce the risk of fraud. For example, automated data-analytic tests can help manage fraud risk.

Why GAO Did This Study

The federal government obligated over $1.2 trillion in grant awards in fiscal year 2025. The majority of those funds were awarded to states through a variety of grants programs. States can be directly involved in delivering program benefits and services or they can pass a portion of this funding onto other entities in the form of subawards to carry out parts of the work associated with the grant.

Understanding how states address their oversight responsibilities, the challenges they face, and opportunities to improve oversight is important for ensuring federal funds are safeguarded from fraud risks and federal programs are operating efficiently and effectively.

GAO was asked to review various issues related to subaward oversight. This report describes (1) the requirements for states' oversight of subawards most frequently cited in audit report findings and how selected states conduct oversight; and (2) opportunities to address the challenges associated with these requirements to reduce fraud risk.

GAO analyzed findings from a nongeneralizable random sample of 96 single audits reported on the Federal Audit Clearinghouse to identify the most frequently cited oversight requirements related to state subaward oversight. GAO also reviewed inspectors general reports and prior GAO work. GAO met with nine knowledgeable entities and officials from nine state grant offices with experience overseeing subawards to describe how state grant recipients carry out their oversight responsibilities, any challenges they face, and opportunities to address those challenges.