IMPROVING OVERSIGHT AND ACCOUNTABILITY IN FEDERAL GRANT PROGRAMS

HEARING

BEFORE THE

SUBCOMMITTEE ON TECHNOLOGY, INFORMATION
POLICY, INTERGOVERNMENTAL RELATIONS AND
PROCUREMENT REFORM

OF THE

COMMITTEE ON OVERSIGHT
AND GOVERNMENT REFORM

HOUSE OF REPRESENTATIVES

ONE HUNDRED TWELFTH CONGRESS

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IMPROVING OVERSIGHT AND ACCOUNTABILITY IN FEDERAL GRANT PROGRAMS

THURSDAY, JUNE 23, 2011

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON TECHNOLOGY, INFORMATION POLICY,
INTERGOVERNMENTAL RELATIONS AND PROCUREMENT
REFORM,
COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM,
Washington, DC.

The subcommittee met, pursuant to notice, at 10:32 a.m., in room 2154, Rayburn House Office Building, Hon. James Lankford (chairman of the subcommittee) presiding.

Present: Representatives Lankford, Kelly, Meehan, Connolly, Murphy, and Lynch.

Also present: Representative Cummings.

Staff present: Richard A. Beutel, senior counsel; Molly Boyl, parliamentarian; John Cuaderes, deputy staff director; Gwen D'Luzansky, assistant clerk; Linda Good, chief clerk; Hudson T. Hollister, counsel; Mark D. Marin, senior professional staff member; Peter Warren, legislative policy director; Michael Whatley and Sang H. Yi, professional staff members; Ronald Allen, minority staff assistant; Jaron Bourke, minority director of administration; Adam Miles, minority professional staff member; Mark Stephenson, minority senior policy advisor/legislative director.

Mr. LANKFORD. The committee will come to order. This is a hearing on Improving Oversight and Accountability in Federal Grant Programs from the Oversight and Government Reform subcommittee.

We exist to secure two fundamental principles: First, Americans have the right to know that the money Washington takes from them is well spent. Second, Americans deserve an efficient, effective government that works for them. Our duty on the Oversight and Government Reform Committee is to protect these rights. Our solemn responsibility is to hold Government accountable to taxpayers because taxpayers have a right to know what they get from their Government. We will work tirelessly in partnership with citizen watchdogs to deliver the facts to the American people and bring genuine reform to the Federal bureaucracy. This the mission of the Oversight and Government Reform Committee.

In a time of growing Federal debt, it is essential that every area of Government spending is fully transparent and beneficial to the Nation. Executive branch agencies are estimated to spend more than $50 billion annually on discretionary grants.

As overall grant spending has continued to increase, Federal agencies have worked to find ways to minimize opportunities for waste, fraud, and abuse in the discretionary grant programs. They are commended for that.

This hearing will initiate a series of hearings related to transparency and the effectiveness of the grant process.

The subcommittee recognizes that grants are distributed based upon authorizing legislation to advance a public purpose, not to directly benefit the agency that is awarding the grant. Thus an open contract model may not be appropriate. But the grantee selection process must be transparent and consistent in the pre-award and post-award phases.

According to 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.

In fiscal year 2010, OMB identified 23 Federal grantmaking departments in agencies that offered over 1,670 Federal grant programs. The top three agencies in terms of grant dollars outlaid during fiscal year 2010 were the Departments of Health and Human Services, Transportation, and Education. But it appears that there is a void of consistent grant guidelines across all agencies beyond OMB circulars.

Currently agencies do not typically disclose to grant applicants the criteria or factors they will use in deciding how to distribute grant funding. When agencies do disclose the criteria, they may not disclose the weighting of the various criteria.

Because of the discretionary grant process, it is impenetrably opaque. It is difficult, if not impossible, for the public or oversight bodies to determine whether a Federal grant award was based on merit, the discretion of the department or agency, past or future employment, or political or financial interest. Any of those areas we can't determine.

GAO and IG audits have examined discretionary grant awards decisions. Typically they reveal that in financial selection the decision was not documented and one cannot ascertain why some grant applications were funded while others were not.

During this hearing we plan to ask many questions. After the funds have been distributed to grantees, do agencies have effective oversight and monitoring tools? Are there vulnerabilities in the system and ways to ensure that the Government's limited discretionary grant resources are used effectively? If public funds are used to pay for research, is the research deliverable publically available?

Should grants release the funds as the work is completed in multiple stages, pay at the start, or pay at the end of a project? Are there ways to protect against fraud, waste, and abuse like inappropriate pay scales, ghost employees, work that was never complete, etc.? How do we ensure that grant funding is released to entities with the greatest need and ability rather than simply the best grant writing skills?

Is there a way to see the successful and not successful grant requests so future grant writers can see what was contained in a successful grant application? Can we improve communication through-

out the grant process between the agencies and the grant request-
ers?

Are grants being written in instances when it would be more ap-
propriate to use a contract? Is there a need to increase recipient
reporting requirements to allow more transparency?

This hearing will focus on asking the questions to determine if
there are new ideas that exist to help all entities involved in the
grant process accomplish their goals. I look forward to discovering
with all parties the ideas that will help us in the future manage
our Federal tax dollars the best way possible. With that, I now rec-
ognize the distinguished ranking member, Mr. Connolly, for his
opening statement.

Mr. CONNOLLY. Thank you, Mr. Chairman. Thank you for hold-
ing this hearing which might at first glance appear relatively mun-
dane but actually raises some important questions about the dis-
bursement of Federal funding.

First, what is the relationship between transparency of grant dis-
bursement, auditing of grant recipients, and the efficient allocation
of resources to grantees who can make the most of the funding?
There may be a point at which additional and especially duplicative
reporting requirements constrain grantees' ability to fulfil their
own mission. There may be a point at which additional reporting
requirements frankly discourage participation by smaller entities.

Finally, if we are disbursing discretionary grants to many very
small entities which require labor-intensive audits then perhaps it
is more efficient to spend the money directly through the Federal
agency itself. We should not leave unexamined the assumption that
grants necessarily represent the best way to fund a particular pro-
gram.

Second, what is the Federal Government doing to ensure equi-
table distribution of grant moneys? I represent two counties in Vir-
ginia, for example, of which one has a very sophisticated grant ap-
plication staff and one that is less so. Both of these counties de-
serve fair, merit-based consideration of their grant applications but
one starts out with a distinct advantage. Lest grant moneys flow
disproportionately to wealthy urban counties, agencies must go out
of their way to ensure that less sophisticated but equally deserving
jurisdictions receive fair consideration of their applications.

This kind of equitable process requires proactive outreach just as
selective colleges proactively reach out to underrepresented com-
munities which certainly contain talent but do not always possess
the familiarity or expertise with college application processes.

I am interested in hearing more about the administration's ef-
forts to strengthen www.grants.gov and whether these efforts in-
clude reforms that will make the platform more accessible to all
grant seekers.

Third, what is the Federal Government doing to avoid the impo-
sition of unfunded mandates and to reduce the reporting burden on
states, localities, and universities? I indicated yesterday that I do
have some queasiness about the legislation this committee marked
up with respect to that subject.

According to the American Association of Universities, for exam-
ple, fulfilling ARRA reporting requirements alone costs $7,900 per
grant award. That would translate to hundreds of millions of dol-

lars, potentially, in cost if ARRA-type reporting requirements were established across the board for all Federal spending.

At a time when states, localities, and universities are facing dire fiscal challenges, we need to be cognizant to ensure that any additional reporting requirements—for good reasons, for transparency—avoid the imposition, however, of an unfunded mandate and protect those entities' abilities to deliver the services that our constituents need.

The efficiency and transparency of grant delivery is a complex topic. I hope that as we develop legislation on this topic we have additional hearings to consider the questions I have raised. In a cost constrained environment, it is imperative that we consider the efficient delivery of services, which must be balanced against the need for transparency, and include consideration of all of the tools beyond grants to accomplish a given objective.

We say we are concerned about the burden of unfunded mandates. We have had a number of hearings in this subcommittee about them. We must make sure we do not even unwittingly add to them.

I look forward to hearing the testimony this morning, Mr. Chairman. Again, thank you for holding this hearing.

[The prepared statement of Hon. Gerald E. Connolly follows:]

Opening Statement of Congressman Gerald E. Connolly
Subcommittee on Technology, Procurement, and Intergovernmental Relations
June 23rd, 2011

Chairman Lankford, this hearing might at first glance appear mundane but it actually raises some important questions about disbursement of federal funds.

First, what is the relationship between transparency of grant disbursement, auditing of grant recipients, and the efficient allocation of resources to grantees who can make the most of the funding? There may be a point at which additional, and especially duplicative, reporting requirements constrain grantees' ability to fulfill their mission, and there may be a point at which additional reporting requirements discourage participation by smaller entities. Finally, if we are disbursing discretionary grants to many very small entities which require labor intensive audits, then perhaps it is more efficient to spend the money directly through a federal agency. We should not leave unexamined the assumption that grants necessarily represent the best way to fund a particular federal program.

Second, what is the federal government doing to ensure equitable distribution of grant monies? I represent two counties in Virginia, one of which has a very sophisticated grant application staff and one that doesn't. Both of these counties deserve fair, merit-based consideration of their grant applications but one starts out with a distinct advantage. Lest grant monies flow disproportionately to wealthy, urban counties, agencies must go out of their way to ensure that less sophisticated but equally deserving jurisdictions receive fair consideration of grant requests. This kind of equitable process requires proactive outreach to less sophisticated jurisdictions, just as selective colleges proactively reach out to underrepresented communities of people which certainly contain talent but which do not possess familiarity with the college application process. I am interested in hearing more about the administration's efforts to strengthen Grants.gov, and whether these efforts include reforms that will make the platform more accessible to all grant-seekers.

Third, what is the federal government doing to avoid the imposition of unfunded mandates and reduce the reporting burden on states, localities, and universities? According to the American Association of Universities, fulfilling ARRA reporting requirements cost $7,900 per grant award, which would translate to hundreds of millions of dollars in costs if ARRA-type reporting requirements were established for federal spending generally. At a time when states, localities, and universities are facing dire fiscal challenges, we need to be very careful to ensure that any additional reporting requirements avoid the imposition of an unfunded mandate and protect those entities' ability to deliver services that our constituents need.

The efficiency and transparency of grant delivery is a complex topic, and I hope that if the majority intends to develop legislation on this topic we have additional hearings to consider the questions I have raised. In a cost-constrained environment it is imperative that we consider the efficient delivery of services, which must be balanced against transparency and include consideration of other tools (i.e. beyond grants) to accomplish a given objective. I appreciate the Subcommittee's consideration in sharing materials prior to the hearing and look forward to further collaboration on this subject.

Mr. LANKFORD. I agree with what you were saying on the additional unfunded mandates. I completely agree on that.

Members have 7 days to submit opening statements and extraneous material for the record. I will now welcome our first panel.

Ms. Jeanette Franzel is the Managing Director of the Financial Management and Assurance Team at GAO. Ms. Natalie Keegan an Analyst at the Congressional Research Service specializing in American Federalism and Emergency Management Policy. Ms. Cynthia Schnedar is the Acting Inspector General at the Department of Justice. The Honorable Danny Werfel is the Controller at OMB's Office of Federal Financial Management.

I thank you all for being here. Pursuant to committee rules, all witnesses are sworn in for the Oversight and Government Reform Committee so I would ask you all to stand and raise your right hands.

[Witnesses sworn.]

Mr. LANKFORD. Let the record reflect all witnesses answered in the affirmative.

Thank you. You may be seated.

In order to allow time for discussion, I would ask that each of you limit your testimony to 5 minutes. Your entire written statement will of course be made part of the record. We would like to recognize you for 5 minutes.

I know all of you have been around the hearings before at different times and that you are familiar with your red, yellow, and green lights there in front of you.

We would be very honored to receive your testimony.

Ms. Franzel.

STATEMENTS OF JEANETTE FRANZEL, MANAGING DIRECTOR, FINANCIAL MANAGEMENT ASSURANCE TEAM, GOVERNMENT ACCOUNTABILITY OFFICE; NATALIE KEEGAN, ANALYST, AMERICAN FEDERALISM AND EMERGENCY MANAGEMENT POLICY, CONGRESSIONAL RESEARCH SERVICE; CYNTHIA SCHNEDAR, ACTING INSPECTOR GENERAL, DEPARTMENT OF JUSTICE; AND DANNY WERFEL, CONTROLLER, OFFICE OF FEDERAL FINANCIAL MANAGEMENT, OFFICE OF MANAGEMENT AND BUDGET

STATEMENT OF JEANETTE FRANZEL

Ms. FRANZEL. Thank you. Good morning, Chairman Lankford, Ranking Member Connolly, and members of the subcommittee. Thank you for the opportunity to be here to discuss issues related to improving Federal grants processes.

Today I will highlight the results from a range of reports that we have issued regarding weaknesses in Federal grants management and accountability, including the single audit process. The administration also recognizes concerns with these processes and has included improving grants management as part of its initiative to eliminate waste. It has various related efforts underway.

Today I will discuss the significance of Federal grant funding, the related risks and vulnerabilities, and improvements needed to make the single audit process an effective accountability mechanism.

The Federal Government's use of grants to achieve national objectives and to respond to emerging trends in demographics and threats to homeland security has grown significantly in the last two decades. In fiscal year 2010, Federal grant awards to states and local governments totaled over $600 billion according to historical data from the President's budget. Also in fiscal year 2010, over 1,670 grant programs were offered by at least 23 Federal grantmaking departments and agencies. As you mentioned, Mr. Chairman, the top three agencies in terms of grant dollars are the Departments of Health and Human Services, Transportation, and Education.

Our work over a number of years has pointed out risks and vulnerabilities that exist in the Federal grants process. We found weaknesses in the control systems of Federal awarding agencies at all points in the grant life cycle.

Specifically, in the pre-award and award processes, our audits found that agencies awarded grants without adequately documenting the selection process. In some instances, we found agencies did not perform pre-award reviews until after the grants had been awarded. In other cases, the documentation was not sufficient to show key decisions that were made in the competitive award process, including decisions about evaluation criteria and selection.

In the implementation phase, we found weaknesses in agency monitoring of recipients' use of funds, including identifying and managing grantee risks and properly overseeing grantee financial practices and program management. We have also reported the need for agencies to assist recipients in improving sub-recipient monitoring when Federal funds are passed through one entity to another.

Grant closeout procedures have also been a longstanding problem. These procedures are used for detecting problems that have occurred in recipient financial management and program operations. Closeout procedures are intended to ensure that recipients have met all financial requirements, provided financial reports, and returned any unused funds to the Federal Government.

We have also reported on Government-wide issues related to grants, including undisbursed Federal funding in expired grant accounts and improper payments in Federal grant programs.

Finally, I will discuss the audit mechanism for grants, which is the single audit. Over the past several years we have reported significant concerns with the single audit process and have called for improvements to make single audits a more effective accountability mechanism over Federal grant funding while possibly simplifying and streamlining the process.

Single audit reports are on the financial statements and internal controls over compliance with laws and grant provisions for grantees that spend more than $500,000 of Federal funding in a given year. The largest grantees subject to these requirements are state and local governments.

Through our work we found that the Federal oversight structure is not adequate to monitor the single audit process and results and that the timeframes do not facilitate timely correction of audit findings by grantees. In addition, single audit stakeholders, including the states, have raised concerns about the complexity and relative

costs and benefits of the single audit requirements as currently designed.

We also found that Federal agencies do not systematically use audit findings to identify risks related to grant programs and individual grantees.

We also identified concerns regarding the need for OMB to issue its single audit guidance in a more timely manner in order to help facilitate audit planning for the many states and local governments that have fiscal year ends of June 30th.

It is important to note that complexities and weaknesses in the Federal grant management and single audit processes have a serious impact on state and local governments in addition to presenting risks over the effective and efficient use of Federal funding. Enhancing accountability and oversight at all levels is important. Improvement and modernization efforts should also be mindful of the scarce resources at all levels of government and the shared intergovernmental responsibilities that we have.

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

[The prepared statement of Ms. Franzel follows:]

United States Government Accountability Office

GAO

Testimony

Before the Subcommittee on Technology, Information Policy, Intergovernmental Relations and Procurement Reform, House of Representatives

For Release on Delivery
Expected at 10:30 a.m. EDT
Thursday, June 23, 2011

FEDERAL GRANTS

Improvements Needed in Oversight and Accountability Processes

Statement of Jeanette M. Franzel
Managing Director
Financial Management and Assurance

G A O
Accountability * Integrity * Reliability

GAO-11-773T

FEDERAL GRANTS

Improvements Needed in Oversight and Accountability Processes

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.

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.

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.[1] 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.[2]

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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[1] 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.

[2] 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).

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.

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 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).[3] In fiscal year 2010, OMB identified 23 federal grant-making departments and agencies that offered over 1,670 federal grant programs.[4] 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.[5]

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[3] 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.

[4] The 23 listed agencies included a category for "all other agencies."

[5] 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.

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

Federal outlays for grants to state and local governments (in billions)
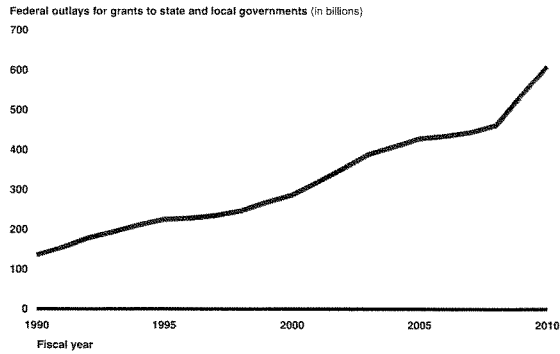
Fiscal year

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

The Catalog of Federal Domestic Assistance (CFDA),[6] 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.[7] 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 CDFA 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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[6] 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.

[7] Formula grants allocate funds based on distribution formulas prescribed by legislation or administrative regulation.

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

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.[8] 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.[9]

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.[10]

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

[9] 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).

[10] 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

Agency processes | Stage

Announce opportunity
• Provide administrative and technical support

Receive applications
• Authenticate applicant, apply business rules, and ensure administrative compliance

Review and decision
• Conduct reviews (administrative, budget, policy, merit, business, application, certifications, and assurances)

Preaward stage

Award notification
• Notify the grantee and publicly announce the award

Award stage

Disburse payment
• Process payments to grantee

Management and oversight
• Review grantee reports and may choose to conduct site visits

Implementation stage

Closeout
• Review and reconcile final audit and other reports

Closeout stage

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

preaward and award stages, implementation, and close out.[11] 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.

Key Controls in Agencies' Preaward and Award Processes Need Improvement

Our audits found that agencies awarded grants without adequately documenting the grantee selection process.[12] In some instances, we found agencies did not perform preaward reviews until after the grants had been awarded.[13] 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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[11]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.

[12] 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).

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

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.[14]

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.[15]

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

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

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.[16] 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) and strengthening policies and procedures related to

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[16] 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).

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

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.[17] 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.

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.[18] 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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[17] 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).

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

system. [19] 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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[19] 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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governmentwide guidance regarding undisbursed balances in expired grant accounts.[20]

Many Grant Programs Have Significant Levels of Improper Payments

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)[21] 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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[20] GAO, *Managing for Results: GPRA Modernization Act Implementation Provides Important Opportunities to Address Government Challenges*, GAO-11-617T (Washington, D.C.: May 10, 2011).

[21] Pub.L.No. 111-204, 124 Stat. 2224 (July 22, 2010).

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.[22] 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.[23] 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.[24] [25] We made additional recommendations for improving single audits during the course of that work. A summary of our findings and recommendations follows.

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.[26] 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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[22] 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.

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

[24] 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)

[25] Pub. L. No. 111-5, 123 Stat. 115 (February 17, 2009).

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

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.[27] 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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[27]*Executive Order 13520 – Reducing Improper Payments Section 4 (b) Single Audit Workgroup Recommendations, June 4, 2010.*

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.[28][29] 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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[28] 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.

[29] 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).

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.[30] 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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[30]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.

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.

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.[31] 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.[32] 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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[31] GAO, *Single Audit: Opportunities Exist to Improve the Single Audit Process and Oversight*, GAO-09-307R (Washington, D.C.: Mar. 13, 2009).

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

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.

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

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.

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

Mr. LANKFORD. Thank you very much.

Ms. Keegan.

STATEMENT OF NATALIE KEEGAN

Ms. KEEGAN. Good morning, Chairman Lankford, Ranking Member Connolly, and members of the committee.

My name is Natalie Keegan and I am an analyst in American Federalism and Emergency Management Policy at the Congressional Research Service. Thank you for the opportunity to testify this morning on improving oversight and accountability in Federal grant programs. I have submitted my full statement for the record.

I have three observations about how agency discretion influences transparency at the pre-award phase of Federal grants. Federal grantor agencies have the discretion to disclose information about the grants administration process yet for most Federal agencies and most grants there isn't a clear picture of how grants are selected, the specific details of grants applications are not disclosed, and it is unclear exactly what is contained in grant formulas used to distribute funds.

For grant applications and grant applicants, lack of transparency may result in the inability to direct resources in the most efficient manner when seeking Federal grants. For Congress, lack of transparency makes it difficult to measure grant program efficiency, effectiveness, and economy.

Let me expand on these observations. Pre-award oversight activities include congressional grant program authorizations and appropriations, determinations of eligibility and eligible activities, review of announcements of funding availability, and reviewing of panel scorings of eligible applications. While recent congressional debate has involved post-award activities, particularly recipient and agency reporting requirements, consideration of agency discretion for the pre-award activities may provide insight into improving oversight and accountability in Federal grants.

My first observation is that there isn't a clear picture of how grants are selected. Federal agencies generally have the authority to establish the criteria for evaluating discretionary grant applications. There appears to be no consistency in the criteria within and across agencies. Agencies are required to provide criteria when they publish the notice of funds availability in the Federal Register, however the information provided generally does not include a concise list of evaluation factors and specifically how those factors will be weighted during the scoring of the application.

In some cases, grant applications are reviewed by a panel and scored on a scale of zero to 100. The scores are then used to prioritize applications for funding. The agencies, however, are not bound by the review panel's scores and the scores generally are not disclosed to either the grant applicants or the public.

My second observation is that the specific details of grant applications are not disclosed. Almost always, grantor agencies consider some of the information in the grant applications to be proprietary information. As a result, generally agencies will not disclose details in the grant applications without the permission of the applicant. This applies to both funded and unfunded applications.

My final observation is that it is unclear exactly what is included in the grant formulas used to distribute funds. There is currently no single source providing information on grant formulas used to distribute funds, including information about the formula factors and how they are weighted. This was not always the case.

The General Services Administration is responsible for maintaining and providing access to information on Federal grants through a computerized information system. This access is through www.cfda.gov.

At one time, the GSA Administrator was also required to provide to Congress specific information on each grant distribution formula in a report titled Formula Report to the Congress. This report is no longer available. The report was discontinued under the Federal Reports Elimination and Sunset Act of 1995. There is no other comparable Federal report that provides this level of detail on Federal grant formulas.

In conclusion, a closer examination of agency pre-award grant activities and the amount of agency discretion in these activities may assist in the determination of whether increased agency discretion warrants increased transparency.

I thank you for the opportunity to testify and would be happy to answer any questions the committee may have.

[The prepared statement of Ms. Keegan follows:]

TESTIMONY OF NATALIE M. KEEGAN
ANALYST IN AMERICAN FEDERALISM AND EMERGENCY
MANAGEMENT POLICY, CONGRESSIONAL RESEARCH SERVICE
BEFORE THE HOUSE SUBCOMMITTEE ON TECHNOLOGY,
INFORMATION POLICY, INTERGOVERNMENTAL RELATIONS,
AND PROCUREMENT REFORM
JUNE 23, 2011

Good morning Chairman Lankford, Ranking Member Connolly, and members of the Committee. My name is Natalie Keegan and I am an analyst in American federalism and emergency management policy with the Congressional Research Service. Thank you for the opportunity to testify this morning on improving oversight and accountability in federal grant programs.

Federal grant-in-aid programs, also commonly referred to as "federal grant programs" or "federal domestic assistance programs," transfer money, property, services, or other items of value to assist eligible recipients accomplish purposes authorized by Congress. For the purposes of my testimony today, federal grant programs include entitlement grants, formula grants, and discretionary grants. Entitlement grants provide funding for grantees who meet specific statutory requirements. Formula grants use allocation formulas established in statute to award funds. Discretionary grants are awarded through a competitive process administered by the federal grantor agencies. My testimony will include general observations concerning agency activities in the administration of federal grants. Specifically, I will discuss challenges to transparency in the pre-award phase of grants administration and whether the level of agency discretion influences the need for transparency.

Congressional Oversight of Federal Grants

Congress often pursues oversight of federal grants through the authorization and appropriations processes, and through investigative oversight to gather information on the administration and effectiveness of a federal grant program. Congress also exercises oversight through the federal grant application process. It is useful to view Congressional oversight of grants in two overarching phases; pre-award and post-award.

Pre-award oversight activities may include grant program authorizations and appropriations, determinations of eligibility and eligible activities, review of announcements of funding availability, and review of panel scorings of eligible applications. Post-award oversight activities may include audits, reporting requirements, and prevention and investigation of waste, fraud, and abuse.

While recent Congressional debate has involved post-award activities, particularly recipient and agency reporting requirements, consideration of congressional oversight of pre-award activities may provide insight into improving oversight and accountability in federal grants.

Pre-Award Oversight of Federal Grants

Congressional authorization of federal grant programs began in 1862 with the authorization of The Morrill Land Grant Act of July 2, 1862, to establish land-grant colleges.[1] Since that time,

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[1] U.S. Congress, House Committee on Post Office and Civil Service, Subcommittee on Census and Population, *Federal*

there has been dramatic growth in federal assistance programs.[2] Currently, there are 2,123 congressionally authorized federal domestic assistance programs.[3] Five federal agencies administer 1,165 of these programs. Federal outlays for grants to state and local governments have grown from $136 billion in constant (FY2010) dollars in 1940 to $608 billion in 2010.[4]

Congress exercises control over federal grants through the authorization process which generally establishes key components of the grant program, including the funding allocation methodology, program eligibility, and congressional objectives. The allocation of federal grant funds is typically based on either statutory formula, agency discretion, or a combination of the two. In some cases, Congress establishes a formula for distributing funds that provides minimum allocations to primary grant recipients. In other cases, the formula establishes the percentage of funds that go to each grant recipient. The authorizing statute establishes the terms and conditions for the particular grant program. Federal agencies implement the statutory requirements in their regulations and incorporate them in grant agreements. A grant program may authorize a range of eligible activities. Congress may limit the grant project eligibility by narrowing the range of activities to address specific categories of projects. These types of grants are known as categorical grants. Congress may also choose to provide greater flexibility in the range of eligible grant activities by authorizing a block grant. Block grants allow recipients, predominately states, to fund a broad range of activities within more general policy areas such as community development or law enforcement.

The authorizing legislation also determines the level of federal agency discretion in administering the grant program. Federal agency discretion plays a critical role in the degree of transparency in federal grant program administration.

Mechanisms for Achieving Transparency: Pre-Award Process

For the purposes of this testimony, transparency is defined as the availability of information captured or created during the administration of the grant program. For some grant administration activities, transparency is analyzed from the perspective of the grant applicant and is measured by the clarity and conciseness of the information. In other cases, transparency is analyzed from the congressional perspective and is measured by the ability of Congress to conduct oversight. For grant applicants, lack of transparency may result in wasted resources pursing a federal grant. For agencies, lack of transparency may result in an inability to assess internal controls. For Congress, lack of transparency may result in the inability to measure the efficiency, effectiveness, and economy of federal grant programs.

Establishing and Defining Criteria for Evaluation: What Information is Available

Federal agencies have discretion in determining the evaluation criteria for discretionary grants. Discretionary grants are awarded through a competitive process. The evaluation criteria used to prioritize the grant applications varies across programs and agencies. While agencies are required to provide evaluation criteria in the Notice of Funds Availability (NOFA) published in the Federal

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Formula Grants-In-Aid Programs That Use Population As A Factor In Allocating Funds, committee print, 94th Congress, 1st Sess., 94-6 (Washington: GPO, 1975), p. 4.

[2] U.S. Office of Management and Budget, *Managing Federal Assistance in the 1980s*, Mar. 1980, p. 18.

[3] Catalog of Federal Domestic Assistance, April 11, 2011, at www.cfda.gov.

[4] U.S. Office of Management and Budget, *Total Outlays for Grants to State and Local Governments by Function, Agency, and Program: 1940 – 2010*, (Washington: GPO, 2012), at http://www.whitehouse.gov/omb/budget/Historicals.

Register, the description generally does not include a concise list of the factors, and the weighted values of the factors, in the evaluation criteria.

Announcement of Funding Availability

The grantor agency publishes a NOFA in the Federal Register for each grant program. The NOFA provides application deadlines, eligibility information and grant evaluation criteria. Transparency in the award process begins with the clarity and conciseness of the information in the NOFA. Lack of clarity in the evaluation criteria may cause some applicants to provide insufficient information in the grant application, which would reduce the likelihood of the application receiving a grant award. Yet some agencies do not provide the evaluation information in a clear and concise manner.[5]

Establishing and Defining Formulas: Determining How Much is Awarded

Congress establishes the allocation methodology in the authorizing legislation for entitlement and formula grants. While the allocation methodology may provide the factors to be included in the formula, the agencies have discretion in determining what sources of information are used to assign a value to the factor. There is currently no single source providing information on the factors, weight of the factors in the overall formula, and acceptable sources of information for each factor. This was not always the case.

Impact of the Discontinuation of the Formula Report to the Congress

The Administrator of GSA is responsible for maintaining and providing wide access to a computerized information system on domestic assistance programs, and preparing, publishing, and distributing the most current information available through the catalog of federal domestic assistance programs each year.[6] GSA currently maintains the federal assistance information database that is publically accessible through www.cfda.gov. At one time, the GSA Administrator was also required to transmit to specified congressional committees the following information:

- Specification of each formula governing eligibility for assistance or the distribution of assistance under each program;

- Description of all data and statistical estimates used to carry out each formula; and

- Identification of the sources of such data and estimates.

In response to this mandate, GSA developed a report, *Formula Report to the Congress*, which it provided to Congress on an annual basis. GSA defined formula as, "any prescribed method employing objective data or statistical estimates for making individual determinations among recipients of federal funds either in terms of eligibility or actual funding allocations that can be written in the form of either a closed mathematical statement, or an iterative procedure or algorithm which can be written as a computer program."[7]

The report was discontinued as a result of the Federal Reports Elimination and Sunset Act of 1995.[8] The *1999 Formula Reports to the Congress* was the final report provided to Congress.

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[5] U.S. Government Accountability Office, *Runaway and Homeless Youth Grants: Improvements Needed in the Grant Award Process*, GAO-10-335, May 2010, at http://www.gao.gov/new.items/d10335.pdf.

[6] P.L. 98-169.

[7] U.S. General Services Administration, *1999 Formula Report to the Congress*. This report is no longer in print but is available from CRS upon request.

[8] P.L. 104-66. Federal reports that were not specifically identified as exempted from the provisions of the act were discontinued.

The *Formula Report to the Congress* was a potentially useful grants oversight tool because it could be used to conduct policy analysis such as evaluating the use of population factors in federal grant programs.[9] There is no other comparable federal report that provides this level of detail on federal grant formulas.

Establishing and Defining Eligible Activities: What Gets Funded

The degree to which federal agency discretion influences eligible activities varies depending on the type of grant program. As mentioned earlier, when Congress authorizes a federal grant program, the eligible activities may be broad or specific depending on the statutory language in the grant authorization. When grant funds are distributed through a competitive process, the administering federal agency officials exercise discretion in the selection of grant projects to be awarded funding within the range of eligible activities set forth by Congress.

Reviewing Applications: Determining Who and What Gets Funded

Grantor agencies have discretion in determining what information obtained during the screening and peer review process is disclosed. Grant applications are screened for eligibility, completeness, and timely submission. Grant applications that meet all of these requirements are then given further consideration. For some agencies, this may include a peer review. Some federal agencies utilize a panel of experts to review and score grant applications based on established criteria published in the NOFA. Some agencies contract out the review panel process, while others utilize internal program specialists. Potential criticism of review panels include a possible conflict of interest when a member of the panel has a professional or financial interest in selecting one grant project over another, ineffective implementation of the panel recommendations when projects are selected by agency officials regardless of the panel scores, and lack of uniformity in the procedures used to establish and implement review panels.

The disclosure of information obtained during the screening and review process varies from agency to agency. For example, some agencies provide the number of applicants and number of applications awarded on the agency website. Other agencies do not. Most agencies do not publish the review panel scores used to make final award decisions. Additionally, agency officials have discretion to make award decisions that do not exactly align with the review panel scores. While agency officials often must provide written justification when deviating from the review panel scores when making award decisions, the justification is an internal control and is seldom made publically available.

Oversight of federal agency grants administration activities is limited by the lack of transparency in the award process. Without knowledge of the individual application scores, it is impossible to determine the appropriateness of award decisions. When specific programs are investigated by the Government Accountability Office (GAO) or the agency's Office of Inspector General, the scores can be ascertained. However, on occasion, these investigations have found that grant award decisions were not predicated on the review panel scores. The following IG findings provide examples of discretion in the peer review process.

Department of Justice, Juvenile Justice Grants

In September 2009, the Inspector General of DOJ reported on an investigation into the awarding of juvenile justice grants.[10] There was media and congressional interest in the awarding of these

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[9] CRS Report RL30358, *Population Factors Used in Federal Assistance Programs*, by James R. Riehl.

[10] U.S. Department of Justice, Office of Inspector General, *Procedures Used by the Office of Juvenile Justice and Delinquency Prevention to Award Discretionary Grants in Fiscal Year 2007*, Audit Report 09-24, April 2009.

grants prior to the IG involvement. In January 2008, a trade journal, *Youth Today*, reported that grants awarded under the National Juvenile Justice Program were not awarded competitively and that the administrator of the Office of Juvenile Justice and Delinquency Prevention (OJJDP), J. Robert Flores, had hand-picked the grant recipients.[11] On June 19, 2008, the House Committee on Oversight and Government Reform held a hearing titled, *Examining Grantmaking Practices at the Department of Justice*.[12] In his opening statement, then Chairman Henry A.Waxman indicated that while the Committee acknowledges that Administrator Flores has discretion in awarding federal grants, "he has an obligation to make these decisions based on merit, facts, and fairness."[13] The DOJ IG findings concurred with the discretion held by the administrator to select the grant award recipients, but stated that by not taking the review board recommendations into consideration, the administrator wasted agency resources.[14] Further, the IG found that, "the absence of earmarks in FY2007, coupled with a lack of applicable grant selection rules, gave the Office of Justice Programs considerable latitude in determining the organizations that should receive awards."[15] The IG recommended that DOJ implement peer review protocols that include consensus calls to discuss and mediate disparate peer review results and require at least three peer reviewers on each panel.[16]

Department of Education

In September 2006, the ED IG presented a report of the investigation of the composition of expert review panels utilized in awarding the Reading First grant to determine whether the panels were selected in accordance with the No Child Left Behind Act (NCLB), whether the panel members were screened for conflict of interest, whether the panel appropriately documented its decisions, and whether the panel reviewed the applications in accordance with established criteria. The IG concluded that ED did not select the review panel in compliance with the requirements in NCLB, the screening process for panel members to evaluate the risk of conflict of interest was not effective, that ED awarded grants without documentation, that the panel approved the selection criteria, and that ED did not follow its own guidance for a peer review process.[17] The IG recommended that the agency develop internal management policies and procedures that address when legal advice will be sought from the Office of General Counsel (OGC). Further, the IG recommended that the agency rely on an internal advisory committee to determine whether the implementation of the Reading First program harmed the federal interest and assess a course of action to resolve the issues identified. The IG recommended that the internal advisory committee be comprised of representatives from other ED programs, the OGC, and the Department's Risk Management Team.

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[11] Patrick Boyle, "For Juvenile Justice, A Panel of One," *Youth Today: The Newspaper on Youth Work*, December/January 2008, p.6.

[12] U.S. Congress, House Committee on Oversight and Government Reform, *Examining Grantmaking Practices at the Department of Justice*, 110th Cong., 2nd session, June 19, 2008 (Washington: GPO, 2008).

[13] Ibid, p. 3.

[14] U.S. Department of Justice, Office of Inspector General, *Procedures Used by the Office of Juvenile Justice and Delinquency Prevention to Award Discretionary Grants in Fiscal Year 2007*, Audit Report 09-24, April 2009, p. v. According to the IG report, DOJ paid a contractor more than $500,000 to oversee and conduct peer reviews of grant proposals.

[15] Ibid, p. iv.

[16] Ibid, p. 42.

[17] U.S. Department of Education, Office of Inspector General, *Final Inspection Report*, ED-OIG/I13-F0017, Sept. 2006.

Disclosing Proprietary or Confidential Information: What Will Be Disclosed

Disclosure is a key element of transparency. Disclosing information obtained by the agency in the screening and evaluation phase of grants administration, is tempered by the limitations some agencies impose on the disclosure of propriety information. This is particularly true for applications that were unsuccessful in seeking federal funding. Some agencies have established policies and procedures that will allow disclosure of information contained in a proposal that was not selected for funding only with the consent of the grant application.[18] Even when funds have been awarded, there are safeguards to protect proprietary or privileged information, including patentable ideas, trade secrets, or privileged or confidential information where the disclosure of which may harm the grant recipient.[19] Additionally, some grant programs may fund projects that require a degree of confidentiality. For example, the preparedness grants administered by the Department of Homeland Security fund homeland security prevention and protection activities. Disclosure of the nature of terrorist preparedness activities may pose a threat to national security since it would also provide insight into what types of activities are currently not being undertaken. Disclosure of grant application information must be balanced with measures to ensure protection of proprietary or privileged information while still achieving the goals of transparency.

Concluding Observations

Federal agencies exercise discretion in a variety of ways when selecting recipients of federal grants. While there is general guidance in the OMB Circulars such as Circular A-110 which contain language that certain federal grants should be awarded on a competitive basis, this guidance is superseded by the statutory language in the authorizing legislation. Further, the interpretation of what constitutes "competitive" is often left to the federal administering agencies, as highlighted in the IG report concerning Administrator Flores and the DOJ Juvenile Justice grants. At times, the statutory language concerning allocation of federal grants creates tension by requiring the timely distribution of grant funds while also requiring selection of projects in a competitive manner.

Some agencies resolve this tension by using language in the regulations or the grant program guidance that gives priority consideration to projects that are able to be undertaken within a short period of time. This regulatory or guidance language may result in projects that may be more competitive to be passed over in favor of projects that are less competitive but more developed at the time applications are accepted. As highlighted by the examples above, the award process for federal grants lacks uniformity within and across federal agencies. This is due, in part, to the complexity and variation of the statutory language in grant authorizations. The variation may also be due to the uniqueness of the objectives of the grant programs.

An examination of the activities agencies undertake in the administration of federal grants, and the level of discretion exercised during those activities, can inform the oversight decisions. Further examination may be necessary to determine whether increased agency discretion warrants increased transparency.

I thank you for the opportunity to testify and would be happy to answer any questions the committee may have.

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18 The National Science Foundation, Proposal and Award Policies and Procedures Guide, October 2010, p. I-4.
19 Ibid.

Mr. LANKFORD. Thank you.
Ms. Schnedar.

STATEMENT OF CYNTHIA SCHNEDAR

Ms. SCHNEDAR. Mr. Chairman, Congressman Connolly, and members of the subcommittee, thank you for inviting me to testify today about improving oversight and accountability in Federal grant programs. I will focus my remarks on the Department of Justice but the findings we have made concerning the Department of Justice are typical of those that are described by the other panel members that are found across the Government.

Grants management has long been a challenge for the Department of Justice and the Department has faced heightened challenges since 2009 because of the increase in grant funding that it received under the Recovery Act. Given the large volume of grant funding traditionally awarded by the Department, the Department of Justice Office of the Inspector General has long focused on providing oversight of the Department's activities in this area.

Our audits have found that the Department has made a concerted effort in the past 3 years to improve its regular grant management practices. The Department has responded positively to recommendations we have made in our audits and in a best practices guide that we provided them called Improving the Grants Management Process.

In particular, the Department made significant improvements in its monitoring and oversight of grants particularly due to its staffing of its Office of Audit, Assessment, and Management. While OAAM was created by statute in 2005 to improve the Department's oversight of its grants programs, we reported in 2008 that the Department had not devoted sufficient effort to staffing this Office so that it could perform its mission. However, we found in an audit issued in March of this year that they have made significant progress since 2008. That Office is now fully staffed and it has implemented a reasonable process for monitoring the high volume of grants that it is responsible for monitoring.

While we believe that the Department has taken positive steps toward improving its grants management practices, these changes will take time to fully implement and to incorporate into the Department's regular practices.

Our work has continued to identify areas where the Department could further improve its management of grants, particularly in terms of its process for awarding grants and its oversight. For example, in recent audit reports we found instances where the Department either used incorrect scoring formulas or made scoring errors while reviewing grant applications. We also found instances where the Department treated applicants inconsistently, allowing some grant applications to be given further consideration for awards even though they were missing key documentation while denying other applicants further consideration for the same deficiencies.

Our recent audits also found that some Department agencies do not consistently document the rationale for discretionary awards despite recommendations that they should do so and, in some instances, do not explain why applications ranked lower by peer re-

viewers received grants over those that were ranked higher. We found that the Department should be taking additional steps to ensure adequate screening for conflicts of interest on the part of peer reviewers who are assessing the grant applications.

The Department has agreed with the recommendations we made and is working to implement procedures to help ensure these issues do not reoccur.

In addition, our audits of individual grant recipients have found deficiencies such as failing to segregate payroll duties and failure to employ sufficient staff with the training and experience to properly manage the grants. We have recommended that the Department provide additional training and oversight of these grant recipients.

We also believe that the Department should take further action to address outstanding recommendations to resolve questioned costs from our audits of grantees. While the Department frequently is able to implement our audit recommendations within a year or two, some of our audit recommendations have lingered for years without being resolved, despite our frequent reminders for the Department to do so.

While the Department works to improve its grant management processes, we will continue with our important mission of providing oversight of the Department's efforts in this area. We also will continue with our leadership of the Grant Fraud Committee, which is part of the Financial Fraud Enforcement Taskforce.

Through the Grant Fraud Committee, we have issued a best practices guide for all Federal grants managers. We also have developed and are continuing to develop additional training courses for agents, auditors, grant managers, and grantees.

In conclusion, we will continue to work with the Department and external agencies to help reduce risks associated with Federal grants. We believe the Department is demonstrating a commitment to improving its grants management process and we have seen significant signs of improvement in this area. However, further improvements are needed and considerable work remains to be done before managing the billions of dollars that the Department awards annually in grants is no longer a top challenge for the Department.

This concludes my prepared statement and I would be pleased to answer any questions.

[The prepared statement of Ms. Schnedar follows:]

Statement of Cynthia A. Schnedar
Acting Inspector General, U.S. Department of Justice

before the
U.S. House of Representatives
Committee on Oversight and Government Reform
Subcommittee on Technology, Information Policy,
Intergovernmental Relations and Procurement Reform

On

"Improving Oversight and Accountability
in Federal Grant Programs"

June 23, 2011

Mr. Chairman, Congressman Connolly, and Members of the Subcommittee:

Thank you for inviting me to testify about improving oversight and accountability in federal grant programs.

Grants management has long been a challenge for the Department of Justice (Department or DOJ). The Department has three major grant-awarding agencies, the Office of Justice Programs (OJP), Office on Violence Against Women (OVW), and the Office of Community Oriented Policing Services (COPS). These agencies provide grants to state, local, tribal, and private organizations to conduct research, support law enforcement activities, provide training and technical assistance, and implement criminal justice-related programs.

Beginning in 2009, the Department faced heightened challenges in grant management because it had to award $4 billion in grants under the *American Recovery and Reinvestment Act of 2009* (Recovery Act) Act at the same time that it had to award the $3 billion in grant funding contained in the Department's annual FY 2009 appropriations. In addition, the Department received over $4 billion in FY 2010 grant funds to award, and another $4 billion in 2011. Through May 2011, the Department has obligated more than 99 percent of its Recovery Act funds and the grantees have received approximately 67 percent of the Recovery Act funds that have been obligated.

Given the large volume of grant funding traditionally awarded by the Department, the Department of Justice Office of the Inspector General (DOJ-OIG) has long focused its attention on overseeing the Department's efforts at grants management. We have conducted numerous audits and investigated a variety of fraud allegations involving Department grant funds. In FY 2010 we issued more than 60 audit reports of the Department's management of various

grant programs and of the grant recipients and other agencies that conduct business with the Department. In addition, since 2009, we have initiated 63 grant fraud investigations, 16 of which relate to Recovery Act cases.

In my remarks this morning, I will first discuss some of the significant improvements that the Department has made in recent years in improving its grants management process. I will then discuss the challenges that we have identified that the Department faces in awarding grants and in providing adequate oversight after grant funds are awarded. I will then review the DOJ-OIG's efforts to provide training and other assistance to the government and Department in an effort to enhance the government's grants management capabilities.

The Department's Recent Improvements to Its Grants Management Practices

We have found that the Department has made a concerted effort in recent years to improve its regular grant management practices. In 2009, shortly after the passage of the Recovery Act, the OIG developed a document, entitled *Improving the Grants Management Process* (http://www.justice.gov/oig/special/s0903/final.pdf), which contains a series of recommendations and best practices in grant management that federal agencies should consider implementing. The Department responded positively to the recommendations in this document and has implemented changes in its grant management practices, including expanding the use of online training opportunities among grant recipients and assisting grantees in determining the appropriate performance information to collect.

In March 2011, we released a report examining the Department's efforts for monitoring and overseeing Recovery Act and non-Recovery Act grants awarded through its OJP. Our report found that OJP had made significant improvements in its monitoring and oversight of grants, primarily due to the establishment of its Office of Audit, Assessment and Management (OAAM).

OAAM was created in January 2006 to conduct and coordinate program assessments of grants awarded by OJP and COPS. Our audit found that initially after OAAM's creation, OJP made slow progress in staffing OAAM and in ensuring that OAAM's monitoring efforts were effective. In an assessment we made in 2008, two years after the passage of the statute creating OAAM, we found that OJP had not devoted sufficient effort to ensuring that OAAM was adequately staffed to oversee and monitor OJP grants, despite the congressional directive and the importance of OAAM's mission.

However, our March 2011 audit found that since January 2008, OAAM has made significant progress. Although OJP did not hire a permanent OAAM director until January 2009, OAAM had filled its allotted positions as of May

2009 with 49 federal and contractor positions. We found that OJP and OAAM have developed a reasonable process for providing monitoring to a high volume of grants, which have allowed them to monitor grants totaling almost four times the award amount required to be monitored by law. Other improvements included the establishment of a working group to review existing monitoring practices and develop standard monitoring approaches and procedures; the use of grant tools such as the Grants Management System, Grant Monitoring Tool, and the Grant Assessment Tool; updates to the Grant Manager's Manual; and revisions to site visit documentation and the quality of site visit reports.

Despite OJP's improvements in monitoring and oversight of grants, we found that the OVW and COPS perform certain monitoring and oversight services that are duplicative of the services available through OJP. To eliminate such duplication and provide uniformity in oversight among Department granting agencies, we recommended that the Department should standardize the oversight services provided to the OVW and COPS.

Challenges Facing the Department in Grants Management

While we believe the Department has taken positive steps toward improving its grants management practices, these changes will take time to fully implement and to incorporate into the Department's regular practices. As a result, the DOJ-OIG has continued to include grants management in its annual list of Top Management and Performance Challenges for the Department of Justice. Our work has continued to identify areas where the Department could further improve its management of grants, particularly in terms of the Department's processes for awarding grants and its oversight of grantees' internal controls.

Department's Process of Awarding Grants

Overall, the DOJ-OIG has found that the Department has strived to conduct the grant awarding process in a timely and fair manner, and in recent years, it has implemented policies to enhance transparency. However, our audits found that the Department's program offices and bureaus did not always assess the programmatic, financial, and administrative areas of the grants before making awards, and they also did not retain adequate documentation to support their review work. Therefore, we believe that the Department still needs to make improvements in the following areas: (i) ranking of grant applications; (ii) consistent treatment of applicants; (iii) documentation and justification of award decisions; and (iv) procedures to reduce the risk of conflicts of interest in the awarding process.

Ranking Applications. Some of our reviews have found that the Department should implement better controls to ensure that it correctly scores grant applications. For example, in May 2010, we issued an audit report on

the selection process for the $1 billion COPS Hiring Recovery Program, which awards grants to state and local entities for the hiring, rehiring, and retention of career law enforcement officers. Our audit determined that COPS used inaccurate formulas in developing the scores and ranks of applicants, which resulted in the allocation of grants to 45 entities that should not have received grants, while another 34 entities that should have received grants did not. In response to our audit, COPS informed us that it has corrected the formulas for future use and modified its FY 2010 hiring grant allocation process.

We found a similar calculation error in our July 2010 audit of the OVW administration of $225 million in grant funding, where we found several instances where OVW internal peer reviewers incorrectly tabulated individual application scores and thus incorrectly ranked some applications higher than others. The OVW concurred with our recommendation to implement better internal controls that will check for scoring errors and verify the accuracy of future final peer review scores.

Consistent Treatment of Applicants. Our reviews have found instances where the Department was not treating grant applications in a consistent manner. For example, we found instances where the Department allowed some grant applications to continue through the competitive process for a grant award even though they were missing key documentation, while denying other applicants further consideration for the same deficiencies. We also found differences in the processes OJP's Bureau of Justice Assistance (BJA) and its Office of Juvenile Justice and Delinquency Prevention (OJJDP) used for computing final scores for applications. Having OJP bureaus and program offices use different methodologies for calculating peer review scores for similar Recovery Act programs may raise an appearance of inequitable treatment of applicants. As a result of the audit, OJP issued guidance to its bureaus and program offices implementing a standard approach with respect to normalization of peer review scoring.

Documentation of Award Decisions. Our recent audits also found some Department agencies do not consistently document the rationale for discretionary awards, and in some instances, do not explain why some applications ranked lower by peer reviewers received grants over higher-ranked applications. Although the Department is not required to award grants based solely on peer reviewer rankings, we believe that it should document the rationale for award decisions that deviate from peer review results.

Conflicts of Interest. Our recent audits reported concerns regarding procedures used to mitigate the risk of conflicts of interest in the award selection process. For example, our July 2010 audit of the OVW revealed in at least 23 instances, peer reviewers signed forms indicating they had no conflict of interest with the grant applicants before the peer reviewers knew who the grant applicants were that they would be reviewing.

In addition, our February 2011 audit of the BJA's Recovery Act Correctional Facilities on Tribal Lands Grant Program revealed that an internal BJA peer reviewer had significant involvement with an applicant that received an award. Specifically, the peer reviewer had participated in the applicant's Advisory Committee, but still certified that he had no conflicts of interest while reviewing program applications. As a result of these issues, the OJP and OVW agreed to implement corrections to strengthen conflict of interest procedures.

Department's Oversight of Grantees to Ensure Proper Internal Controls

In addition, our audits of individual grantees have found deficiencies in the grantees' use of grant awards. For example, in August 2010, we reported on our individual audits of 12 Byrne Justice Assistance Grant (JAG) grantees. In that report, we identified the following deficiencies among some of the grantees: (1) not segregating duties over payroll functions; (2) not employing sufficient staff with the training and experience to properly manage the grants; (3) not placing equipment items purchased with grant funds into operation until years after purchase; (4) not maintaining property disposal records; (5) not having sufficient staff to adequately manage and oversee subrecipients of Byrne JAG funds; and (6) not submitting timely and accurate financial, progress, and Recovery Act reports. Based on these grantee audit results, we recommended that the Office of Justice Programs provide additional training and oversight. As of June 2011, corrective action was still in progress.

Outstanding Recommendations to the Department

We also believe that the Department can take further action to address outstanding recommendations to resolve questioned costs from our audits of grantees. Every year we issue hundreds of audit recommendations to the Department's grant-awarding components to help enhance grants management and ensure the remedy of mismanaged and unsupported grant funds. For example, in FY 2010, we issued over 300 internal and external audit recommendations to OJP, COPS, and the OVW. Frequently, the agencies are able to implement the recommendations within a year or two. However, in some instances the Department takes several years to implement an audit recommendation. For example, grant audit recommendations we issued in 1999 for OJP to remedy over $160,000 in questioned costs remain open. In addition, grant audit recommendations we made in 2003 will remain open until COPS remedies almost $1 million in questioned costs and provides documentation that a key grant requirement was fulfilled.

In addition, we released an audit report in 2006 on the Department's grant closeout process in which we recommended that OVW resolve $37 million in questioned costs related to grant drawdowns occurring more than 90 days

past the grant end date and de-obligate and put to better use over $14 million obligated to expired grants that were already 90 days past the grant end date in 2006. We have had multiple communications with OVW about these issues since we issued our report in 2006, but OVW has yet to fully resolve these recommendations.

DOJ-OIG Initiatives to Enhance Grants Management Capabilities

We recognize that Inspectors General also play an important role in improving oversight and accountability in federal grant programs. In light of this, the DOJ OIG has a multidisciplinary effort to provide advice to the DOJ grant-awarding components, train grant managers on fraud risks, proactively reach out to state and local agencies receiving funding from DOJ, perform audits and evaluations of the DOJ's use of funding, and perform any necessary investigative activity.

We also have been an active participant in the grant fraud efforts of the inter-agency National Procurement Fraud Task Force (NPFTF) since its inception, and it has now been consolidated into the Recovery Act, Procurement and Grant Fraud Working Group of the President's Financial Fraud Enforcement Task Force (FFETF). In 2009, as the Chair of the Grant Fraud Committee of the NPFTF, the DOJ-OIG published a document entitled, "*A Guide to Grant Oversight and Best Practices for Combating Grant Fraud*" (which can be found at: http://www.justice.gov/oig/special/s0902a/index.htm). This document was developed with several other Departments' input and presents broad recommendations for enhancing grant oversight.

Currently, the Grant Fraud Committee, which I chair, is working on several training and outreach initiatives, including developing an interactive online grant fraud training program for grantees regarding grant management and a video training program for federal attorneys regarding both criminal and civil enforcement tools that can be used to combat grant fraud. The Grant Fraud Committee also played a key role in developing the grant fraud training course for agents and auditors that has been offered for the past three years at the Federal Law Enforcement Training Center (FLETC).

In addition, the DOJ-OIG has provided extensive training on prevention and deterrence of grant fraud to DOJ grant recipients. Since the enactment of the Recovery Act in February 2009, the DOJ-OIG has trained more than 5,800 federal, state, and local program managers and participants on Recovery Act fraud awareness and conducted 105 outreach sessions with state and local agencies. We also are continuing with our extensive auditing of DOJ grants and with our vigorous investigations of any allegations of fraud in DOJ grant programs.

Conclusion

We will continue to work with Department components and external agencies to help reduce risks associated with federal grants. We believe the Department is demonstrating a commitment to improving its grants management process, and we have seen significant signs of improvement in this area. However, further improvements are needed, and considerable work remains before managing the billions of dollars the Department awards annually in grants is no longer a top challenge for the Department.

This concludes my prepared statement, and I would be pleased to answer any questions.

Mr. LANKFORD. Thank you.
Mr. Werfel.

STATEMENT OF DANNY WERFEL

Mr. WERFEL. Thank you, Chairman Lankford, Ranking Member Connolly, and members of the subcommittee for the invitation to discuss with you today the Federal grant management process and how the Federal Government can improve its oversight and accountability in Federal grant programs.

The Federal Government annually awards grants totaling roughly $600 billion, which is one sixth of the total Federal budget. The Federal Government therefore has a fundamental responsibility to be effective stewards of these dollars.

The Office of Management and Budget, working with Federal grantmaking agencies and non-Federal stakeholders, establishes policies and initiates reforms to ensure that relevant program requirements are being met; that strong internal controls for reducing waste, fraud, and error are in place; and that grantees are meeting their responsibilities for performance and accountability for grant awards.

My written testimony provides background on relevant policies such as cost allocation, single audit, improper payment review, and Transparency Act reporting, all of which are intended to drive accountability, integrity, and transparency in the use of Federal grant dollars.

For example, when single audits are conducted effectively, the audit results, which are available on a public Web site, are instrumental in identifying and correcting noncompliance with laws and regulations, including improper payments and other financial management deficiencies. A good example of this is in the Medicaid program where more than a billion dollars in disallowed costs have been identified for recovery over the past several years as a result of single audit activities.

In each of the areas I have identified, we have initiatives in place to improve the overall impact of these policies. I would like to highlight a few of these areas where, in some cases, recent successes provided a critical foundation for sustained progress moving forward.

First, in the area of improper payments prevention and recapture, the Federal Government's error rate declined in fiscal year 2010, helping agencies avoid roughly $4 billion in improper payments. An important factor in this reduction was improvement in the Medicaid error rate, the Government's largest grant program.

Since the President took Office, eliminating improper payments has been a major focus of his administration. In November 2009, the President issued an executive order that initiated a comprehensive approach to improving results in this area, including transparency through a new Web site, www.paymentaccuracy.gov, and the appointment of senior accountable officials responsible for coordinating improper payment efforts at their agencies.

A subsequent Presidential directive called for an increase in improper payment recoveries from contractors. Federal agencies responded by recovering $687 million in improper payments, more than three times the amount from the previous year.

In 2010, the recently enacted Improper Payments Elimination and Recovery Act further strengthened accountability on all aspects of improper payments and provided new authorities, in particular providing Federal agencies new authorities to recover improper grant payments. We are now working with agencies to make sure they leverage these new authorities to recover payments that have been improperly paid to grantees.

Second, though related to improper payments, OMB is working with the Recovery Board and Federal agencies to utilize cutting edge fraud detection capabilities to enhance accountability and eliminate fraud in Federal award spending. As you know, the Recovery Board has initiated very successful and effective solutions for tracking fraud and error. We have initiated pilots of these tools with other agencies.

I would like to highlight that the President recently signed an executive order called Delivering an Efficient, Effective, and Accountable Government which establishes a new oversight and accountability board, the Government Accountability and Transparency Board. This Board will help us make sure that the tools and lessons learned from the Recovery Board in areas such as fraud detection and transparency are effectively carried forward to the rest of Government.

Last, in an area of transparency bolstered by the successful transparency initiatives in the Recovery Act, OMB has initiated requirements for the reporting of sub-award information on all Federal spending. Www.usaspending.gov provides the public with increased visibility into Federal spending beyond the prime recipient level.

As I noted earlier, this is just a highlight of some of our work to improve results in Federal grants. We look forward to working closely with this committee to ensure the effective implementation of current and future transparency and accountability efforts to ensure that Federal grant programs are accountable for taxpayer dollars.

Thank you again for the opportunity to testify today. I look forward to answering your questions.

[The prepared statement of Mr. Werfel follows:]

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Testimony of Danny I. Werfel

Controller, Office of Federal Financial Management

Before the Subcommittee on Technology, Information Policy, Intergovernmental Relations and Procurement Reform Committee on Oversight and Government Reform

June 23, 2011

Thank you Chairman Lankford, Ranking Member Connolly, and members of the Subcommittee, for the invitation to discuss with you today the Federal grant management process and how the Federal Government can improve oversight and accountability in federal grant programs.

The Federal Government has a fundamental responsibility to be an effective steward of taxpayers' money. This requires Federal agencies to implement rigorous financial management policies and controls to ensure that Federal funds are appropriately accounted for and wisely spent in accordance with laws and regulation. The Office of Management and Budget (OMB), working with Federal grant-making agencies and non-Federal stakeholders, has established policies and guidelines through OMB's grant management circulars and government–wide administrative common rules, codified by each grant-making agency. These policies and guidelines provide Federal agencies a solid framework to ensure that relevant program requirements are being met; that strong internal controls for reducing waste, fraud, and error are in place; and that grantees are meeting their responsibility for performance and accountability for the grant awards.

A substantial amount of Federal funding is obligated each year through the awarding of grants. The Federal Government annually awards grants totaling more than $500 billion, one-

sixth of the total Federal budget. In 2010, total grant awards were $572 billion, including grants funded under the American Recovery and Reinvestment Act of 2009 (Recovery Act) as compared to $309 billion in awards granted in 2000. Thus within 10 years, grant awards have grown by 85%. The Catalog of Federal Domestic Assistance lists more 2,000 Federal assistance programs, including both formula and competitive grant programs administered by more than 30 Federal agencies. State and local governments and Indian tribes received 83% of the grant awards in 2010, while other grantees (colleges, universities, non-profit organizations, for-profit organizations) received 17% of the grant awards.

Over the last decade and commensurate with the substantial increase in the volume of grant awards, there has also been an increase in the efforts improve management of grants by making easier for applicants to find and apply for grant opportunities. The Federal Financial Assistance Management Improvement Act of 1999 required the development of an electronic solution to support the grants management process. The Grants.gov solution was developed in response to this law, providing a central portal for applicants to find and apply for grant opportunities. Although the deployment of this solution represents a major milestone in the streamlining and modernization of the grant application process, Grants.gov has historically experienced system outages and slow processing times, the most pronounced occurring in the months leading up to the passage of the Recovery Act. Due to these technical difficulties, and the anticipated spike in application volume expected when the Recovery Act awards would be made available, OMB directed Federal agencies to begin accepting applications through alternative electronic means to reduce the strain on Grants.gov. This decision proved effective as the Federal grant application process worked smoothly even with the increased activity spurred by the Recovery Act. At that time, additional funding was provided to stabilize the system, which resulted in the purchase of additional servers. Today, all Federal agencies are back to using Grants.gov and the solution has a quicker response time and can process more simultaneous applications than in previous years. We are currently exploring ways to further improve the platform to further simplify the grant application process, especially for applicants with multiple grants at different agencies.

To ensure proper grant management and the accountability of Federal grant dollars, OMB has issued grant management circulars and other policies and guidelines for Federal agencies to apply throughout the life cycle of a grant, including pre-award requirements, post-award requirements, guidelines for determining allowable and unallowable costs by grantees, and audit requirements for grantees. The circulars, policies, and guidelines provide a solid foundation for mitigating waste, fraud, and abuse, such as unallowable or unallocable costs charged to Federal programs. Furthermore, in order to improve transparency regarding government-wide grant policy for the grantees, OMB established a new title in the Code of Federal Regulations – Title 2, Grants and Agreements, that include both OMB guidance and agency implementation regulations. Title 2 ensures greater uniformity and standardization in grant processes, reducing the potential for waste, fraud and abuse.

In particular, the Single Audit is the primary tool that Federal agencies use for overseeing their grant programs. The Single Audit Act of 1984 (further amended in 1996, 31 U.S.C. 7501) provides for a cost-effective audit in lieu of multiple audits and for combining the annual financial statement audit with the review and testing of the grantee's internal controls and compliance with requirements of major programs. Under OMB's implementing guidance of OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations," grantees with $500,000 expenditures or more in Federal awards in a given year must obtain an annual audit of their activities. Under these requirements, more than 40,000 grantees (covering over 95% of all Federal grant expenditures) are audited annually. The audit results, including an opinion on the reviewed Federal programs, are available on a public website maintained by the Federal Audit Clearinghouse[1].

When Single Audits are conducted effectively and Federal agencies require prompt corrective action, the audit results are instrumental in identifying and correcting any non-

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[1] The Federal Audit Clearinghouse (FAC), operated by the Bureau of Census, serves as the central collection point, repository, and distribution center for single audit reports. See http://harvester.census.gov/fac/. Single audit results are entered into this national database so that audit findings can be tracked by program, State, or grantee. The FAC database is on-line, fully automated, assessable by the public for information from single audit reports and findings nationwide, and provides a cost-effective way for grantees to submit reports to the Federal government as required by law.

compliance with laws and regulations (including improper payments), lack of internal controls, adequacy of drawdown and reimbursement requests, compliance with financial and program reporting, adequacy of subgrantee oversight, and other financial management deficiencies. A good example is in the Medicaid program, where more than a billion dollars in disallowed costs have been identified for recovery over the past several years as a result of Single Audit activities.

While progress has been made in grants management, there remain further opportunities to standardize and streamline the management process and enhance efforts to mitigate waste, fraud, and abuse. In particular, we will build on a foundation of progress being achieved under the Administration's Accountable Government Initiative (AGI) as well as the lessons learned from the successful execution of Recovery Act awards.

Through the AGI, the Federal Government is eliminating inefficient and duplicative programs, cutting contracting costs, eliminating improper payments, improving investments in information technology, and disposing of unneeded Federal real estate. These efforts have led to billions of dollars in savings and efficiencies to date, and in each area, Federal agencies are executing on plans to achieve additional savings in the short term. Further, as noted by a broad array of government leaders, Congressional stakeholders, and external observers, Recovery Act funds were awarded on a timely basis, with low levels of fraud and error, and with unprecedented transparency.

Building on these various successes, the President recently signed the Executive Order, "Delivering an Efficient, Effective, and Accountable Government." Among other provisions, the Order announced the establishment of a new accountability board, the Government Accountability and Transparency Board (GATB), to help federal agencies improve their performance and reduce waste, fraud and abuse across government. Bringing the tools and very successful efforts of the Recovery Accountability and Transparency Board (RATB) to the rest of government spending, the GATB will:

- Provide oversight and strategic direction to enhance the transparency of Federal spending, including the collection, display, and reliability of government spending data; and

- Advance efforts to detect and remediate fraud and waste in Federal programs, including the deployment of fraud detection technologies that proved successful during the implementation of the Recovery Act.

The GATB will jointly engage both agencies and Inspectors General on these efforts toward the common goal of enhanced transparency and accountability. In addition, the creation of the GATB provides an opportunity to help drive a new and more robust governance structure for the grants community. Specifically, there are currently numerous boards, councils, and committees with current responsibilities for providing strategic direction to the grants community. With the GATB in place, there is an opportunity to coordinate these activities and pursue a more singular vision toward effective accountability of Federal grant awards. In the near term, we hope to achieve a new and unified grants governance framework, aligned and coordinated with the GATB.

Fortunately, and as noted above, ongoing activities under the AGI and the Recovery Act provide a strong foundation for reform and improvement in the area of grants management. I would like to spend the remainder of my testimony highlighting three of these areas.

Improper Payments Prevention and Recapture. The Federal Government's payment error rate declined in FY 2010, helping Federal agencies avoid roughly $4 billion in improper payments. Eliminating improper payments has been a major focus of this Administration. In November, 2009, the President issued an Executive Order that initiated a comprehensive approach to improving results in this area, including improved transparency through a new improper payment website, PaymentAccuracy.gov, and the appointment of senior accountable officials responsible for coordinating improper payment efforts at agencies with high incidences of payment errors. Following the Executive Order, the President issued a directive requiring Federal agencies to increase recoveries of erroneous Federal payments to contractors. As a result of this directive, Federal agencies recovered $687 million in improper payments to contractors,

triple the amount of payment recoveries from the prior year. Last summer, the President signed bipartisan legislation, the Improper Payment Elimination and Recovery Act (IPERA), which strengthens accountability with respect to all aspects of improper payments and provides new authorities to assist Federal agencies in recovering erroneous payments to grantees. Most recently, in April, OMB released IPERA's implementing guidance, and agencies are now complying with the new law and implementing guidance, including the expansion of payment recapture audits to grantees.

Fraud Technology Pilots. To further mitigate waste, fraud, and abuse, OMB has worked with the RATB and Federal agencies to utilize cutting edge fraud detection capabilities to enhance accountability and eliminate fraud in Federal award spending. OMB, the RATB, and the Centers for Medicare and Medicaid Services (CMS) have piloted a broader application of the RATB's fraud detection tool to awards funded with non-Recovery Act funds. This pilot project was extremely successful, as the Recovery Board's tool helped uncover instances of fraud in CMS programs. As a result, CMS recently announced plans to expand its use of forensic tools to more aggressively go after fraud. In addition, OMB and the Department of the Treasury, in close consultation with the RATB, are currently in the process of expanding VerifyPayment.gov to include a "Do Not Pay" portal, which will provide agencies with the capability to do pre-award validation checks against relevant existing databases across the Federal Government to verify a recipient's eligibility before award and payment. These two efforts will not only help to prevent waste, fraud, and abuse up front prior to awarding a grant but also provide the capability to detect fraud after the grant has been awarded.

Sub-award Reporting. Bolstered by the successful transparency initiatives under the Recovery Act, OMB initiated requirements for the reporting of sub-award information on all Federal spending. Through the USAspending.gov platform, the public has increased visibility into Federal spending, beyond the prime recipient level. As of June 2011, for awards made beginning in 2000, USAspending.gov displays over $25.4 trillion in prime awards, based on over 48,000 individual prime awards, and over $1.4 trillion in sub-awards.

The Administration remains committed to continuing efforts to improve the grant management process and identification and mitigation of waste, fraud, and abuse. We are also in the early stages of developing improvements to Single Audits that will eliminate unnecessary burden while improving the rigor of the audit itself. Further, we are developing a new set of performance metrics in the area of Single Audit that will help ensure that Federal programs and recipients are held accountable for resolving audit findings quickly and effectively.

We look forward to working closely with this Committee toward the effective implementation of current and future transparency and accountability efforts to ensure that Federal grant programs are accountable for taxpayer dollars.

Thank you again for the opportunity to testify today. I look forward to answering your questions.

Mr. LANKFORD. Thank you to all of you.

I recognize myself for 5 minutes for question time.

Ms. Franzel, thank you for what you are bringing to us. Let me just mention a couple of things. You mentioned the tracking of the unused funds when a grant is complete and the closeout procedures on that. Do we have any idea how often we have funds returned to us? Say we requested $100,000 and we only used $80,000; here is your $20,000 back?

Ms. FRANZEL. Actually, our work in that area was to look at funds that had not been drawn down by the grantees. It had been obligated by the Federal agencies for draw down and the grant period had passed but for whatever reason the grant amount was not closed out or drawn down. We don't know if the grantee didn't finish the program or if there was some kind of a problem, etc.

What this indicates, and we found this in 325 different Federal programs, is it indicates a grant closeout problem. And so part of getting unused Federal funds returned to the Federal Government would also be part of the closeout process.

So no, I can't answer questions about how much maybe should have been returned and wasn't. But I think we are fairly confident in saying that there are some issues with the closeout process. That is what would be included in the closeout process.

Mr. LANKFORD. Thank you.

Ms. Keegan, you had mentioned a couple of things. You made a comment about how there is no clear picture of how the grants are selected in that process and how we go through that, that review panel scores aren't necessarily used, and that type of thing. Then you mentioned a formula report coming back to Congress that was sunsetted in 1995. Obviously grants have dramatically increased in that time period. Is it your recommendation that you are making to this group that we do have some kind of formula report coming back to Congress again?

Ms. KEEGAN. I think when considering the issue of transparency in Federal grants, certainly an investigation into what information is available and what information would be useful is something for Congress to evaluate. The report did provide a great deal of information about the specific calculations in the formulas. There isn't anything available now. It is really up to Congress to decide whether they need that information or not.

Mr. LANKFORD. Mr. Werfel, there are a lot of circulars out there and executive orders that give instructions to the agencies. Do you see a need to be able to gather those different circulars together and for consistency's sake, administration to administration, codify some of those? Say these have been either through several administrations or through trial and error in our own administration determined to be good ideas to get some baseline standards for grant writing?

Mr. WERFEL. Let me start by saying, Mr. Chairman, that generally I think the overall concept of cleaning up a variety of different requirements that are out there—whether issued through memorandum or circular, some of which are pushed into the Code of Federal Regulations and some of which aren't—I think is an important suggestion that we should consider. It is a complex array

of requirements that exists today and I think there would be some benefit in reconciling some of that.

Mr. LANKFORD. Is there the possibility of being able to gather together some of those things so you would say this is a series of maybe 50 different ideas or whatever it may be, that these should be looked at and examined as our top areas that we suggest that we could get to this committee?

Mr. WERFEL. Well, there is some of it that is legislative and therefore I think we could tee it up for this committee as being impactful. I mean there are a couple of dimensions, I think, to this question.

On the one hand, we are trying to improve these policies and make them more impactful. So, for example, in the area of single audit, we have ongoing working groups that extend across Federal agencies and into state governments into both programmatic and audit communities within the state governments. Asking the fundamental questions that GAO raised in their testimony in terms of how can we make sure that these single audits are getting to the right issues and the results are being used.

There are other questions in terms of making sure that we are presenting clear policies so we have the right policies.

Mr. LANKFORD. Right, but some of it is just a consistency basis so that if you are agency to agency you know the standard and criteria. I am not talking about creating a whole FARs system for grants but some sort of consistent system so that we know if you are going after a Federal grant, this is a given. All of these factors have to go into the background on it.

Let me ask you a quick question. Has OMB done any kind of studies or documents to be able to study the grant process that you have in draft form or in a final form that this committee could get to be able to see some of the work that you are doing to be able to research grants and how grants are done?

Mr. WERFEL. I don't think we have anything specifically off the shelf but we have a lot of work. I don't think it would be a big lift for us to put together something for you.

Mr. LANKFORD. If we could get that, even if it is in draft form at this point, we could get a chance to take a look at it and see some of the ideas that you are building as well with your own research. I am sure OMB is tracking this as well. We would be able to look at it and see what is being done and how it is being handled currently.

Mr. WERFEL. There are certainly particular areas right now that we are very invested in trying to improve, including single audit, www.grants.gov, and other areas.

Mr. LANKFORD. Great, we will follow up with you on requesting those specific documents, may it be drafts or final reports on that.

With that, I yield to Mr. Connolly.

Mr. CONNOLLY. Thank you, Mr. Chairman.

Before my 5 minutes begin, if I might be given a point of personal privilege? I know Mr. Kelly will join me in this, we want to congratulate you on your recent win. Your dog, Liberty, won the People's Choice at the Humane Society. My dog, Abigail, is still in recovery from her loss to Liberty but she sends her best wishes and congratulations.

Mr. LANKFORD. Well, I will pass that on to my dog Liberty.

Mr. CONNOLLY. Ms. Keegan, your testimony is pretty compelling about the fact that there seems to be no rhyme or reason within the Federal Government for grant-giving. I mean, each agency may have a reason, may have its own formula, and may have its own process but we have no standardized transparency system. We have no standardized set of criteria. We have no standardized policy with respect to whether someone can, in fact, look at whether they won or lost and why. You frankly have more transparency in the contracting system than you do in what you described in the grant-giving system.

We sort of are juggling, it seems to me, in this hearing and this committee with two sets of responsibilities. One is on the receiving end—are they accountable, are they using the money for the purposes intended, and is it efficacious. But we also need to focus on the grant-giving side, it seems to me.

You know, listening to you I am persuaded, gosh, we have to be able to do better than that. That is not very professional. But on the other hand, what I worry about is that in our desire to be more transparent and to try to make sure that this is a process that is accountable, as it should be, Government tends to want one size fits all because that is easier. So we are going to treat the grant to the lab bench scientist the same as a grant to, you know, a local government to build a highway. They aren't the same thing and we have to recognize the distinction.

What is your reaction?

Ms. KEEGAN. I think that the interesting thing about your point is that there are a great deal of variations across grant programs.

I will give you a specific example. I cover the Department of Homeland Security grants at CRS. One of the elements that I mention in my testimony is regarding disclosure of information in the grant applications themselves. Beyond the issue of proprietary information, for the Department of Homeland Security grants it could be argued that some of that information may not ideally be disclosed in the interest of national security.

It is really up to Congress to weigh that and decide which programs, or all programs, or just certain selection of categories of programs need that kind of uniformity and transparency. It is up to Congress whether you need to balance, you know, the particular intent of the programs and the information that might be available with the overall goal of transparency. I do agree that there is definitely a need to create that balance.

You know, when you look at uniformity there are some things that you can do where there might not be as many issues to address as there are in others for uniformity. For instance, there is reporting the scores or other things where there is not so much detail that there is a risk to a national goal or national security.

Mr. CONNOLLY. Mr. Werfel, welcome back to this committee. I almost think you are a member of our staff since you come with such frequency. Thank you for being so responsive.

How will the Government address the issue of data integrity in Federal spending related to acquisition management, grant management, and the like?

Mr. WERFEL. It is a huge issue because the value of the information that is up on public Web sites such as www.usaspending.gov and www.recovery.gov is so dramatically diminished if we don't have confidence in the quality and the reliability of the information.

I think in this regard the Recovery Act really positioned us well to do a better job more globally. We had an information collection system that had built-in controls over time. It got better and better over time to make sure that information reported in by recipients was more valid. A good example of that is in the early part of the Recovery Act when the system would accept any version of congressional district. Mistakes were made. We got smarter and now if you type in the wrong congressional district, it won't let you type that in.

I tell that story to say that the systems that capture the information can be made better. The Recovery Act was a lessons learned there.

We also had a very dedicated process during the Recovery Act where Federal agencies over a short period of time really focused on data anomalies and mistakes in the data to make sure that the information going on www.recovery.gov was accurate. Of course the public was very important in pointing out errors.

The key is can we do the same thing more broadly on www.usaspending.gov and learn those lessons. We have already started to do that.

One of the challenges is that you need to invest in systems in order to make those improvements but we have to do investments within our current resource constraints.

But in particular we are working with agencies to kind of carry forward things that have worked well in the Recovery Act in terms of data reliability and having them do a better job reviewing their www.usaspending.gov spending information.

Mr. CONNOLLY. Thank you.

Mr. LANKFORD. I am going to recognize Mr. Meehan for 5 minutes.

Mr. MEEHAN. Thank you, Mr. Chairman.

Thank you, each of you, for your tremendous work in this area, which is something that Congress is just not paying enough attention to. As we are dealing with the requirement to be faithful stewards of Government moneys, I thank you for taking the time to point out many of the places where some opportunities arise.

I think I am stunned by the observation, Ms. Franzel, in your report of close to $125 billion in improper payments that are made. How do we begin to put our arms around that kind of a number and look for ways in which we can capture that before those dollars go out the door?

Ms. FRANZEL. The estimate that you cite covers various Federal programs. Not all of them are grant programs but in the top 10, 5 of them are in fact grant programs. So grant programs are certainly included in the estimate of improper payments Government-wide.

We and OMB have been certainly working closely on this matter. We are really at a point where we need to get to the next step on improper payments. Over the past several years the Government

has made a lot of progress in terms of monitoring and measuring the amount of improper payments out there. At this point, we really need to get at the causes of those improper payments so that those causes could then be remedied in order to prevent improper payments from happening.

Mr. MEEHAN. Could you give me an example of something you would point to that people would understand is a cause that we aren't following up on?

Ms. FRANZEL. Certainly. There are many different types of improper payments. In fact, sometimes something is categorized as an improper payment because there is no documentation available to verify that the payment should have been made. In that case, we are really not sure if the payment should have been made or not. So in those cases it is important to figure out why. Why is there not documentation?

In other cases, a program might be giving payments to ineligible recipients. Then it is important to ask why and how that is happening. In some cases it may be weak controls at the agency or organization that is really signing up recipients for a program. In other cases it could be that the program design is so difficult to implement that, in fact, sometimes it is not always clear if somebody is eligible.

So there can be a wide range of causes. I think across agencies and programs the Federal Government needs to get a handle on these causes so that the problems can be fixed and so that improper payments can be prevented.

Mr. MEEHAN. We were talking just the other night, Congressman Lankford and myself, about this opportunity. These are the kinds of things that we need to work with you on so that we can have some sort of measure of accountability as we go along.

We do an awful lot of pay and chase. I used to do work as a corporate attorney. In a lot of the contract field there would be requirements that would have to be met before we would pay the next installment. Do we do enough of that in Government contracting now or in other kinds of grant programs where there has to be an accountability that is almost contemporaneous with the release of the next line of funding?

Ms. FRANZEL. It really is a delicate balance. For instance, in Medicaid the payments do need to get out so that medical services can continue to be provided. So there needs to be a good balance of controls up front along with getting payments out.

In fact, we at GAO are starting some work in the near future on looking at the Medicaid program. We are also currently working on foster care to really drill down and take a look at what are some of the causes of improper payments and then matching that up with some of the initiatives that are ongoing. There are many initiatives ongoing in Government but we really need to match all of this up.

Mr. MEEHAN. You hear oftentimes from physicians and others that there are late payments for them. They perform the service and then they carry for a long period of time.

Let me ask one last question of anybody on the panel. When I was a prosecutor in the U.S. Attorneys' Office, we used to make a lot of use of the Qui Tam laws in which people were awarded a per-

centage of a recovery that they brought to the attention of the Government. This goes all the way back, of course, as you well know to the Civil War era. Do we make use of that in the kind of programs that we have, not the big-ticket Government programs where we have found our benefit?

How do we use that capacity to be able to have others be eyes and ears to help us identify some of the remarkable $125 billion in wrongful payments? That is to any panelist.

Mr. WERFEL. Thank you, Congressman, for the question and the opportunity to respond.

Dating back to 2002, Congress created a provision that enabled Federal agencies to basically hire contingency-based contractors to go and help them find their improper payments and recover them. It was limited to improper payments to vendors. The way it would work is let us say an agency made $10 million in payments to contractors in a given year. They would hire a specialized audit firm to come in. They wouldn't have to pay that audit firm, only pay them out of the percentage of improper payments that they identify were made to the contractor.

That has been a very successful program. It was so successful that the Medicare program initiated it. So now we are moving beyond contractors. Medicare can hire these specialized auditors to go into hospitals and pull out these improper payments and get paid out of a portion of that. Now that has been expanded to Medicaid and with the recent enactment of new improper payments legislation we have it for all activities.

So we are right at this cusp moment where we are trying to build on the successes we have had preliminarily with contractor improper payments and transition it to grant improper payments and elsewhere.

Mr. MEEHAN. Mr. Chairman, I know I am over my time but may I just ask one more question on that point?

Mr. LANKFORD. Yes, you may.

Mr. MEEHAN. Are we able to utilize current technology to see outliers on what our patterns of payments are? I use again a Medicare or Medicaid situation in which you would see somebody who is doing an inordinate amount of billing for a particular issue in a geographic or demographic area that is suspect just by its very number?

Mr. WERFEL. Absolutely, Congressman. There is good news and bad news there.

The very good news is that we, for the first time, have had a significant breakthrough. The Recovery Board took technology that was generally used in law enforcement and intelligence and also used by credit card companies to look for payment anomalies and they deployed it for the first time that I am aware of in a very systemic way over all Recovery Act dollars. They have been able to do things that in my 14 years of Federal service I had never seen and a lot of agencies had never seen. So we are piloting that solution.

The bad news is that we are in the embryonic phase of this across Government and that agencies are going to have to ramp up. We are low on the learning curve right now in terms of deploying these types of technologies.

But the Recovery Board's deployment was a significant break-through and I think it is going to give us some momentum for programs like Medicare and Medicaid.

Mr. MEEHAN. Thank you.

Thank you for your courtesy, Mr. Chairman. I yield back.

Mr. LANKFORD. Thank you.

I recognize Mr. Kelly for 5 minutes.

Mr. KELLY. Thank you, Mr. Chairman.

I would like to thank the panel for appearing.

Mr. Werfel, you describe www.usaspending.gov as a way of increasing public visibility on the grants spending. Describe that a little bit. How does that work? How does that increase the visibility for folks?

Mr. WERFEL. It is, in my experience, one of the more critical ways in which the citizenry can have an understanding of what is going on with taxpayer dollars.

They way it works is that all payments, essentially, greater than $25,000 are submitted into this warehouse and pulled onto this Web site so that they are searchable. So you can type in Yale University or ABC Co. or the State of Arizona and see all the payments that these various entities have received. You can look at them in different categories and have an understanding with a description of how that money is being used.

It enables people to understand within their local communities where the Federal dollars are going and how they are being used. And www.recovery.gov just took that to the next level. It provided way more granularity and detail than we had seen before.

Mr. KELLY. So on the Web site you can see where the grant was made but does it track the progress that is being made?

Mr. WERFEL. It does not. It is more of a capture of who got the money and what was the intended use of the money. It doesn't necessarily tell you progress, whereas www.recovery.gov goes a little bit deeper into progress points, in particular job impacts in terms of job creation.

Mr. KELLY. Okay, so it would be helpful, I think, if we could also track the spending and get more of a universal recipient tracking.

You mentioned earlier about the President's executive order on the Government Accountability and Transparency Board. But under that, their only responsibility really is to write a report and release it 6 months from now. The DATA Act is going to shed more light on it and be a much better tracking vehicle. Help me with that a little bit, if you would, with the Board itself and what its function is.

Mr. WERFEL. I think there are a couple of fundamental purposes of the new Board that the EO created.

One is that we have right now a Recovery Board in place that has a lot of lessons learned and a lot of infrastructure technology skills that they have developed. We have to figure out how to marshal that through to the future. Currently the Recovery Board is set to expire September 30, 2013. So as good stewards of the taxpayer dollar and good public policy personnel, we want to make sure that we have a plan for how we are going to transition past September 30, 2013 to make sure that these practices don't go to waste and are carried forward. This Board is going to help us mar-

shal the types of steps that we need to take to conduct that transition.

The other, I think, primary purpose of this group is to help us provide more integrated, strategic leadership on transparency and accountability by bringing together the best and brightest of the CFO, management, and Inspectors General communities for a dedicated, Presidentially directed purpose around how we can enhance transparency and accountability. It is going to help give us that strategic roadmap. We may need Congress' help in developing legislation that helps us execute on that strategic roadmap, but I think it is important that we get started on planning and figuring out what the right next steps are.

Mr. KELLY. And I think the DATA Act adds an awful lot of credibility to that whole process.

I just wanted to go back to Ms. Franzel and Ms. Keegan. The pre-award process concerns me greatly because I am not exactly sure how these agencies determine whether a contract or grant is the appropriate vehicle. What are the implications of this decision? The pre-award phase seems to be critical.

Ms. FRANZEL. I will start and I will let Ms. Keegan finish.

First of all, not all grants are competitive so there are some grant programs out there that are not competed. For those that are competitive, it is important to determine whether the grantee has the financial management capabilities to track the use of the Federal funds as well as the programmatic capabilities to actually successfully carry out the program. Then each grant program also has its own specific requirements.

It is really the up front determination that a particular candidate would be successful in carrying out a Federal program with Federal funds.

Ms. KEEGAN. Congressman, I also think that it is important to point out that the purposes of grants and contracts are a little bit different. Grants are generally to support a public purpose or a national goal through the authorization of funds to a particular grant program. Contracting, has a little bit of a different purpose. So I think because the intent of the different vehicles is different, the approach to what should be funded with the different vehicles is different.

Mr. KELLY. I noticed in my private life that when we put together and we structure these RFPs, as it were, it is critical that we have exact language in there that really leads people to be able to either get a grant or a contract.

I worry sometimes as we talk about all of this that there is such an inconsistency in the way we do all of this. It really doesn't make sense to a lot of us as to how we actually get to these ends.

Ms. KEEGAN. Congressman, at one point in my career I was a grants writer as well for local governments. It is a challenge when you are trying to direct the resources as best you can as a small entity, whether a public entity or a non-profit, and to be able to best identify what the criteria are that are going to be considered, what was funded in the past, and what the real goal of the grant program is in very specific detail. All of that information is helpful for grant writers in order to best use their resources.

Mr. KELLY. Thank you.

Mr. LANKFORD. I would like to take a couple of moments just for a few followup questions and then we are going to transition to our second panel. I do appreciate you all coming and getting a chance to hear you.

Mr. Werfel, I wanted to be able to follow up on something Mr. Kelly mentioned about contracts versus grants. How comfortable are you that the agencies are not using a grant when they should use a contract because the grant process is easier than the contracting process? But we are receiving a deliverable, whether that be a research report or something else. When we really should be doing a contract rather than a grant on that. Are you comfortable on that?

Mr. WERFEL. First of all, I think that there is sufficient guidance that I have used and helped advise coming out of OMB. And I think there are some Comptroller General positions that are in the literature that help an agency determine whether this situation is appropriately awarded as a grant versus a contract. I think Congress can often be helpful there in terms of signaling its congressional intent for how the money can be spent.

Mr. LANKFORD. We just had a dramatic increase in the number of grants. I am just trying to probe and see if you are comfortable at this point that we are not just seeing people that should be writing contracts writing grants instead.

Mr. WERFEL. I am not aware of any systemic issue in that area.

Mr. LANKFORD. On the www.grants.gov site, obviously that is building up and adding in some of the www.recovery.gov elements into it, the self reporting and, again, what Mr. Kelly was talking about before about trying to get into the details of how it is going.

Also, if there is a deliverable at the end of it, we need to not only know that it was awarded and how much was awarded but if there was some report or if there was some response back to it. Is it possible to have that at the end as well so that Americans, whoever they may be, could look over the shoulder in the years to come and say we awarded to this for this amount and this was the deliverable at the end?

Mr. WERFEL. Absolutely. I think an important step that Congress recently took was the passage of the GPRA Modernization Act which updated requirements that we have to report on performance goals. The last time that law was enacted, I think, was first enacted in the early 1990's. We obviously live in a very different world in terms of technology and how information can be provided in more real time.

Our challenge right now as the Federal Government is to synthesize all of these various efforts and technologies. We have more information on where the dollars are going and who is getting them than we have had before. The technologies we have to report that information and make it searchable and usable are good. We need to improve the quality and, as you said, we need to figure out how to find the right synergy so that when you are reading this information you are not just learning that XMY University got a grant, you are learning what the impact has been. That is really taking, I think, spending transparency to the next level and we need to move in that direction.

Mr. LANKFORD. Right, and that is what we have talked about before, just a single portal for this, a single portal where people can go to be able to do their research on it.

I have two quick things and then we are going to switch to the next panel.

But with the payment time period, a couple of you have brought up how we make payments, whether it is as we go along or whether it is at the beginning or at the end. I have spoken to people that are in very small communities and are maybe getting a grant for, let us say, water treatment to do some of the certification. That grant payment comes at the end.

So a very small community in a very poor area has to come up with $250,000 on the promise that the Federal Government will pay at the end. But they are having to go get bank loans and literally go put their city park on collateral for something that will be paid at the end when the process is complete. That kind of ordering is something I would think needs to be examined in the grant process as well.

Then, Mr. Werfel, you brought up the issue of trying to deal with fraud after the fact by what could affectionately be called fraud bounty hunters. They can go out there after different companies and be able to find areas where there is fraud. Then they are paid a percentage of what they find. The benefit of it is obviously that they are going to go find fraud. The challenge of it is that they are in an adversarial role from the moment they walk through the door.

Immediately when they walk through the door, for whatever entity they are evaluating, they are going to be paid if they find something wrong. So they are going to stay until they find something wrong. That puts every single grant recipient in a very difficult position because you will have human error at some point and they will stay until they find it.

Now you have an adversarial role. Instead of the Federal Government being your ally, now suddenly the Federal Government is your enemy walking through your doors. Instead of serving that company, we are at odds with them based on the bounty hunter that we said is going to go find something.

So we have to be able to resolve that process. I have numerous people back in my district that are very frustrated with those companies that step in, that they know are paid to find the issues and that will stay until they do, no matter how small. They will find them to the maximum that they can possibly do it. So that is just an issue we are going to need to work through in the days to come.

With that, do you have further comments?

Mr. CONNOLLY. If I could just add, Mr. Chairman, that I want to reemphasize that just as we are looking at the transparency and accountability on the receiving end of grants, I think Ms. Keegan's testimony really underscores that we have to look at the possibility of waste at the front end. Some more accountability if not standardization within the Federal family may very well help us reduce improper payments at the front end rather than having to collect them at the receiving end.

Thank you.

Mr. LANKFORD. With that, I thank this panel very much for not only the time that you spent in preparing your written statements but for coming here for the oral statements and questions as well.

We will now take a short recess so we can transition to our second panel.

[Recess.]

Mr. LANKFORD. I now welcome our second panel.

Dr. Tom Coburn is a U.S. Senator from the State of Oklahoma.

Dr. Coburn, we really appreciate you taking so much time out of your busy schedule as well to be able to appear before the subcommittee today. Your entire written statement will obviously be made a part of the record.

You have done extensive work in grant research. We are very grateful for your testimony today would be very honored to be able to receive that now.

STATEMENT OF HON. TOM COBURN, A U.S. SENATOR FROM THE STATE OF OKLAHOMA

Senator COBURN. Thank you. It is a pleasure to be before you. I was just observing the members in here. Not one of you were in the House with me, which was not all that long ago. I left in 2000. So it is a privilege and a pleasure to come before you.

I want to say something at the outset about your last panel. I worked with Danny Werfel for 7 years and he is phenomenal. I am glad he is where he is now. When you talk about IGs, they are key to us knowing what is going on. The Government Accountability Office is key. I could not work in the Senate without the Congressional Research Service. They are excellent.

So we have the tools to solve the problems in front of us. The problem is that not enough people know what the problem is.

I would say that if you are looking for a model agency on how they handle grants, go look at the Institute of Museum and Library Services. First of all, there is not a grant that they put out that they don't follow up. There is not a grant that they don't check to see if they are meeting the requirements of the grant that was submitted. They have 100 percent follow up.

Consequently, the expectation has changed in terms of Museums and Libraries that if you get a grant from the Federal Government, you had better perform. In other words, they have created the expectation. We don't even hardly look at them anymore because they really do a great job. So they are a great model.

If you wanted to follow up on this, bring them up and ask what they are doing. I can guarantee you it is not being done in the rest of the Government the way they do it.

Mr. Werfel talked about www.usaspending.gov. Myself and President Obama were the authors of that. They are basically in violation of that bill because they were supposed to have sub-grants and sub-contractors on that at this time and they have chosen not to put the resources in to get there. But if we had sub-grantees and sub-contractors on it, you could actually find them.

You can search that site by anything. It is like a Google site. You put in the name fish and you will see every penny we spend on fish. In other words, it is a good site. It just hasn't been fully blend-

ed out. The granularity in there is because we don't put the sub-contracts and sub-grants in there.

And it is important to know throughout the grant process who is getting the money and for what. It is not just to look at the money, but to look at what is being done with it to see if it is really a purpose that we intend.

As you noted, my statement will be made part of the record so I will be very brief.

We have done several reports on grants and agencies through my Office. I could not do that without GAO, CRS, and the IGs as well. They make it easy for us to put together the information.

But let me talk about the National Science Foundation. I am a big supporter of NSF. They do key, legitimate Government work with a priority to keep us ahead of the curve. But even the agencies that I love are wasteful. What we did was a report, and you can't really reflect that on the present management because the present Director has only been there 6 months so this report that we put forward actually reflects what happened before he got there. But we had some pretty significant findings.

When grants aren't utilized, you are supposed to give the money back. We found $1.7 billion in money that should be ours that wasn't pulled back. That is 25 percent of their annual budget. So we found that money that they should have been pulling back that was growing every year. All of that is management, paying attention when something expires and getting rid of it.

We also found a significant amount of low priority projects, which means they weren't paying attention. There was an $80,000 study on why the same teams dominate March Madness. Well, the same teams don't dominate it so the premise of the study in the first place fails. And I am not sure what that lends to us as a country in terms of creating leading science technology. The point is if we have great oversight, and I am on the Oversight Committee on the other side of the Hill, the purpose ought to be to call attention to where we are missing the mark in terms of what our goals are.

So what are some other things? There was $1 million for an analysis of how quickly parents respond to trendy baby names. As a scientist, I have trouble finding out how that, as a country and especially in a constricted budget environment, is going to help us. What is the positive thing that is going to come out of that research? Maybe there is something, but is it a priority? Does a cost-benefit analysis say for what we are going to get we could have spent the money somewhere else to get much better leading edge technologies?

There was $315,000 to study whether FarmVille on Facebook helps adult relationships and $581,000 to study whether online dating users are racist in their dating habits. Maybe there is value in those but the point is that it is all about priorities. The reason that in a lot of grants you are not seeing priorities is because we are not looking at it. We are not holding the agencies accountable. Here is a mission statement, here is what we are supposed to be doing, and then they kind of get off track.

The reason they can get off track is because they are not before the Congress every year with somebody going over their grants with them. Aggressive oversight is one of the most important

things we can do. It doesn't mean we are right about our assessment of what they are doing. But knowing that they have to come before us and explain their grants will limit a lot of questionable grants that go out there for things that don't have great cost-benefit analyses to them.

We found significant fraud and inappropriate expenditures at the National Science Foundation. We also found significantly poor contracting practices.

Let me comment on something the other panel said. There shouldn't be, other than in rare instances, any grant that isn't competitive. There should not be any contract that isn't competitive. We know we have problems in our Government. For example, we have $64 billion a year in IT and $32 billion of that is at risk. In other words, it is never going to get accomplished. We will have blown 50 percent of our IT budget and we do it every year. We blow it because of the way we contract and the way we oversee it.

There is a lot of money that we can spend more wisely and also get greater value for the American public if we make sure, one, that we competitively bid all of these things, and two, that we know what we want before we contract.

That is a big problem in the Defense Department. It is a big problem in the large agencies. They don't know what they want and they write a contract anyway. What they should be doing is waiting until they figure it out or create a research only contract to say what is it that we want. It is a giant problem that has $100 billion a year worth of waste in the Federal Government.

Let me just talk for a second about the poor contracting practices and then I will stop.

We found that NSF in 2010 spent $422 million for contracts, $283 million of which were not competitively bid. They were cost-plus. They were paid whether the work was completed or not. Seventy percent, or $204 million, went to contracts permitting advanced payments to just three groups.

None of these contractors had an approved disclosure statement. So what happened was the agency couldn't identify or document the actual costs, which is a problem with the contract at the beginning. In other words, they didn't do it right at the beginning. Then, when they found that they couldn't get what they wanted, they didn't have the tools to find out whether or not they got good value because they couldn't get the information.

One of the things we have to do as a Congress with all of the grants is to deal with the tremendous amount of duplication. I will give you an example in NSF. NSF is one of 15 programs, 72 sub-agencies, and 12 independent agencies engaged in research and development. In other words, we don't just have NIH, Department of Defense research, and NSF. We have 72 sub-agencies, 15 Federal departments, and 12 independent agencies.

We are all interested in education. We are interested in getting more scientists, more technologists, more engineers, and more math. Well, we now have in the Federal Government some 105 science, technology, engineering, and math programs. Twenty-eight of them are coming through the National Science Foundation at a cost of $1.2 billion. None of them are cross referenced to see if they are duplicating anything else that the rest of the Federal Govern-

ment is doing. Not one of them has a metric on it as to whether or not it is accomplishing the purpose.

So the whole idea is when you begin to look at grants then you start looking at a bigger area. We need to focus down and put somebody in charge of science, technology, and math but not 12 different agencies that are spending over $2.5 billion a year with no measurements in terms of what their results are.

There is methodology in how the agencies utilize grants but we are responsible for allowing all of the duplication that has come because we have passed the legislation and appropriations bills that have actually caused it.

With that, I will take any questions you might have.

[NOTE.—The Report of the National Science Foundation: Under the Microscope, may be found in committee files.]

[The prepared statement of Hon. Tom Coburn follows:]

Statement of Thomas A. Coburn, M.D., U.S. Senator, Oklahoma

House Subcommittee on Technology, Information Policy, Intergovernmental Relations and
Procurement Reform

"Improving Oversight and Accountability in Federal Grant Programs"

Thursday, June 23, 2011

Thank you Chairman Lankford, Ranking Member Connolly and distinguished members of the
Committee for inviting me to testify about oversight of our federal grant programs, especially as
relates to the grant-making process at the National Science Foundation (NSF).

Every year, hundreds of billions of taxpayer dollars are lost to waste, fraud, abuse and
mismanagement. As an elected official, I take seriously my duty to safeguard taxpayers'
investments in federal programs by ensuring their money is used effectively, efficiently and for
sound purposes. This is for an important reason: when the government recklessly wastes
taxpayer money, the public trust is undermined.

As part of my oversight efforts, I have released a series of reports examining various federal
programs and agencies. The most recent in this series – National Science Foundation: Under the
Microscope – identified more than $1.2 billion at NSF that has been lost to waste, fraud,
duplication and mismanagement and an additional $1.7 billion in funds that have gone unused.

As a practicing physician and a two-time cancer survivor, I have a very personal appreciation for
the benefits of scientific research. Investing in innovation and discovery can transform and
improve our lives, advance our understanding of the world, and create meaningful new jobs.

While I am committed to targeted investments in transformative research, I believe the core
mission of NSF is undermined when taxpayer dollars are wasted on frivolous and low-priority
efforts. I believe taxpayers share my skepticism regarding the priority of recent NSF studies
such as: How long can shrimp run on a treadmill; How to ride a bike; When did dogs became
man's best friend; Why some college basketball teams dominate March Madness; If political
views are genetically pre-determined; How to improve the quality of wine; Do boys like to play
with trucks and girls like to play with dolls; How rumors get started; How much housework does
a husband create for a wife; and When is the best time to buy a ticket to a sold out sporting event.

While many of the examples highlighted in my recent report are entertaining, they are also
symptoms of a broken grant-making process in need of reform:

Poor Grant Administration Leaves $1.7 Billion in Limbo.
According to NSF's 2010 financial statements, the agency currently has $1.733 billion in
"undisbursed balances in expired grant accounts."[i] The over $1.7 billion of NSF funds
that remain in limbo means, in practical terms, less money for research.

Agency policy is to close out grant awards on the award expiration date. One quarter later, any un-liquidated funds are to be de-obligated. [ii] NSF then identifies funding to be returned to the Treasury from any cancelled appropriations. In 2010, NSF returned $33.68 million to the United States Treasury while sitting on $1.7 billion in undisbursed, expired funding. The account has steadily grown from $1.53 billion in 2008 and 1.66 billion in 2009. [iii]

The Government Accountability Office (GAO), which conducted a government-wide review of unexpended grants, concluded that closeout procedures ensure grantees have met all financial requirements, provided final reports, and that unused funds are de-obligated. The audits generally attributed problems to inadequacies in 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." [iv]

"The existence of unspent funds can hinder the achievement of national objectives in various ways, such as leaving projects incomplete, preventing the reallocation of scarce resources to address other needs, or making federal funds more susceptible to improper spending or accounting as monitoring diminishes over time," GAO found. [v]

Poor Contracting Practices.
Serious concerns have also been raised regarding the agency's contracting practices, categorizing them as "high-risk." [vi] In 2010, the NSF spent $422 million for contracts, $283 million of which went to contracts known as "cost reimbursement contracts." These contracts are paid "regardless of whether the work is completed." [vii]

Over 70 percent of these funds—$204 million—were for contracts permitting advance payments to three specific recipients. [viii] NSF found that none of these three contractors had an approved disclosure statement—precluding the agency from being able to identify and document actual costs. The IG concluded that, "[g]iven the amount of money it expends on these contracts, the risk of fraud, waste, and abuse by NSF contractors will continue to be high until NSF implements fully adequate cost surveillance procedures." [ix]

NSF also requires what are called "contingency estimates" in the budgets of large Major Research Equipment and Facilities Construction projects to protect against cost overruns. A recent audit of two projects revealed more than $169 million of unallowable contingency costs, comprising 25 percent of the combined award amounts, which totaled $684 million. The IG explained that this occurred because "no barriers existed to prevent the funds from being drawn down in advance." [x]

Lack of Accountability.
The Office of Inspector General (IG) reports semiannually on the top management challenges confronting the agency. Managing and administering grants remains a top challenge in 2011. [xi]

Specifically, the IG found that "Ensuring effective oversight throughout the life cycle of an award continues to be an accountability challenge. Prior IG audits of NSF's operations have indicated that NSF needs to continue to improve its grant management activities including the oversight of awardees' financial accountability, programmatic performance, and compliance with applicable federal and NSF requirements." The IG also found that the agency performed 20 percent fewer site visits for its Award Monitoring and Business Assistance Program site visits than it had planned.[xii]

Past audits indicate that significant numbers of NSF-supported researchers fail to submit final and annual reports on the progress of their projects. A 2005 audit found that "[a]pproximately 47 percent of the 151,000 final and annual project reports required in the past 5 years were submitted late or not at all."[xiii] The end result could be that the agency and the scientific community, "may not be fully informed about the results of the research funded."[xiv]

The report continues, "[o]f the 43,000 *final* project reports, 8 percent were never submitted, and 53 percent were submitted, on average, 5 months late. Of 108,000 annual project reports required, 42 percent were never submitted."[xv]

The same report found that although NSF has a policy that prohibits researchers who have not submitted final project reports in the past from receiving new awards, there were 74 instances out of 571 over the five year period in which delinquent researchers received new funding.[xvi]

The report sums up the key issue: "because of missing or late project reports, NSF management, the National Science Board, NSF's advisory committees, and the scientific community may not be fully informed about the results of the research funded by NSF. Tracking the results of NSF's research is essential to setting future research policy and strategic direction, and ensuring that the research funded contributes to that direction."[xvii]

When asked if things have gotten better, the agency responded that "NSF reengineered business processes and implemented system changes as part of final action"[xviii] which allowed the agency to close the IG's recommendations out as completed. The IG, however, believes that grant oversight remains as an ongoing management challenge at NSF.[xix]

NSF's work faces extensive duplication challenges, both within the agency and across the federal government.
NSF is one of at least 15 federal departments, 72 sub-agencies, and 12 independent agencies engaged in federal research and development.[xx] An NSF-led analysis of the federal research budget explains that the federal government has, "17 science agencies [that] have 17 different data silos, with different identifiers, different reporting structures, and different sets of metrics."[xxi]

NSF also duplicates the work of the U.S. Department of Education and other government departments and agencies in the area of Science, Technology, Engineering, and

Mathematics (STEM) education. In Fiscal Year 2010, there were 28 STEM education programs at NSF totaling $1.2 billion (Appendix 1).[xxii] According to a May 2007 report of the Academic Competitiveness Council (ACC), there are 105 federal programs supporting STEM education, with aggregate funding of $3.2 billion in FY 2006. [xxiii]

In conclusion, at a time when the U.S. is being both challenged as the world's scientific and technological leader and threatened by a nearly insurmountable $14 trillion debt, we must learn to do more with less, and to do so efficiently and effectively.

I have recently communicated with NSF Director Dr. Subra Suresh and I know he shares a commitment to better prioritizing our nation's limited financial resources to advance science and reduce wasteful spending. I plan to support his efforts in this regard, and encourage members of this Subcommittee to do the same.

Thank you again for inviting me to take part in this important conversation. I look forward to any questions you may have for me.

[i] National Science Foundation 2011 Financial Statements, "Chapter 3: Appendices, http://www.nsf.gov/pubs/2011/nsf11003/pdf/chapter_3_appendices.pdf (March 16,2011).

[ii] National Science Foundation 2011 Financial Statements, "Chapter 3: Appendices, http://www.nsf.gov/pubs/2011/nsf11003/pdf/chapter_3_appendices.pdf (March 16,2011).

[iii] National Science Foundation 2011 Financial Statements, "Chapter 3: Appendices, page III-24, http://www.nsf.gov/pubs/2011/nsf11003/pdf/chapter_3_appendices.pdf (March 16,2011).

[iv] Government Accountability Office, "GRANTS MANAGEMENT; Attention Needed to Address Undisbursed Balances in Expired Grant Accounts," August 2008, Page 2; http://www.gao.gov/new.items/d08432.pdf

[v] Government Accountability Office, "GRANTS MANAGEMENT; Attention Needed to Address Undisbursed Balances in Expired Grant Accounts," August 2008, Page 5; http://www.gao.gov/new.items/d08432.pdf

[vi] Statement Of Allison C. Lerner, Inspector General, National Science Foundation, Before The House Commerce, Justice, Science Appropriations Subcommittee, February 2011,http://www.nsf.gov/oig/testimonyfeb2011.pdf (March 11, 2011).

[vii] Statement Of Allison C. Lerner, Inspector General, National Science Foundation, Before The House Commerce, Justice, Science Appropriations Subcommittee, February 2011,http://www.nsf.gov/oig/testimonyfeb2011.pdf (March 11, 2011).

[viii] Statement Of Allison C. Lerner, Inspector General, National Science Foundation, Before The House Commerce, Justice, Science Appropriations Subcommittee, February 2011, http://www.nsf.gov/oig/testimonyfeb2011.pdf (March 11, 2011).

[ix] Statement Of Allison C. Lerner, Inspector General, National Science Foundation, Before The House Commerce, Justice, Science Appropriations Subcommittee, February 2011, http://www.nsf.gov/oig/testimonyfeb2011.pdf (March 11, 2011).

[x] Statement Of Allison C. Lerner, Inspector General, National Science Foundation, Before The House Commerce, Justice, Science Appropriations Subcommittee, February 2011, http://www.nsf.gov/oig/testimonyfeb2011.pdf (March 11, 2011).

[xi] NSF/OIG Semiannual Report to Congress, "FY 2011 Top Management Challenges & Back Matter," September 2010, http://www.nsf.gov/pubs/2011/oig11001/oig11001_7.pdf (January 26, 2011).

[xii] NSF/OIG Semiannual Report to Congress, "FY 2011 Top Management Challenges & Back Matter," September 2010, http://www.nsf.gov/pubs/2011/oig11001/oig11001_7.pdf (January 26, 2011).

[xiii] Office of Inspector General, "Audit of Project Reporting for NSF Awards ," National Science Foundation December 13, 2004, OIG 05-2-006, http://www.nsf.gov/oig/newsletter/03_2005.htm#one (January 26, 2011).

[xiv] Office of Inspector General, "Audit of Project Reporting for NSF Awards ," National Science Foundation December 13, 2004, OIG 05-2-006, http://www.nsf.gov/oig/05-2-006Final.pdf (January 26, 2011).

[xv] Office of Inspector General, "Audit of Project Reporting for NSF Awards ," National Science Foundation December 13, 2004, OIG 05-2-006, http://www.nsf.gov/oig/05-2-006Final.pdf (January 26, 2011).

[xvi] Office of Inspector General, "Audit of Project Reporting for NSF Awards ," National Science Foundation December 13, 2004, OIG 05-2-006, http://www.nsf.gov/oig/newsletter/03_2005.htm#one (January 26, 2011).

[xvii] Office of Inspector General, "Audit of Project Reporting for NSF Awards ," National Science Foundation December 13, 2004, OIG 05-2-006, http://www.nsf.gov/oig/newsletter/03_2005.htm#one (January 26, 2011).

[xviii] Email Correspondence between the National Science Foundation Congressional Affairs Office and the staff of Senator Tom Coburn, March 16, 2011.

[xix] NSF/OIG Semiannual Report to Congress, "FY 2011 Top Management Challenges & Back Matter," September 2010, http://www.nsf.gov/pubs/2011/oig11001/index.jsp (January 26, 2011).

[xx] National Science Foundation, "Survey of Federal Funds for Research and Development," Last updated June 2009, http://www.nsf.gov/statistics/srvyfedfunds/ (April 4, 2011).

[xxi] Julia Lane and Stefano Bertuzzi, "The STAR METRICS Project: Current and Future Uses for S&E Workforce Data," The National Science Foundation and the National Institutes of Health, June 2010, http://www.nsf.gov/sbe/sosp/workforce/lane.pdf.

[xxii] To gather the STEM program funding numbers for Fiscal Year 2010, staff used the Academic Competitiveness Council (ACC) report on STEM programs from 2007 as a guide. To find the current numbers, staff used each of the agencies FY 2010 budget documents and recorded the funding levels for each program specified by the ACC study. While updating the numbers from the 2007 report, staff searched for any new agency programs pertaining to STEM, or a specific science, technology, mathematics, or engineering initiative. All programs and their funding levels are detailed in Appendix 1.

[xxiii] U.S. Department of Education, "Report of the Academic Competitiveness Council, May 2007,

Mr. LANKFORD. Thank you, Dr. Coburn, very much for being able to come.

I am just going to bounce a couple of things off you just for additional information. Let me start with the last statement you were making about duplication. A lot of the stories we have heard and we have seen some of the reports that are coming out on it.

How do you get there? How do you actually start combining those? I understand that legislatively we ultimately have the responsibility but we are talking about killing one program and moving that money, or whatever percentage it may be, to another and combining multiple agencies. Realistically, how do we get there?

Senator COBURN. I think you have to have leadership where you have cross jurisdiction among committees to come together. Let us say science, technology, engineering, and math. You take the committees in the House and the Senate that are responsible for those; have some experts; and ask what is it we really want to accomplish in that, what are the 105 programs we have today that are doing that, where are they directed, and what is it that we really need. Then split that up and come to a consensus that we are going to have a combined committee that is going to address that and agree to it.

None of these are partisan issues. It is just a matter of silliness and the right hand not knowing what the left hand is doing. So it is a great question. First of all you have to know there is a problem there to address it, and then you have to build a consensus within each body to say let's get together and form a joint committee to address science, technology, engineering, and math. Let us have one set of bureaucracy running this rather than 20.

What we did with the last debt limit was we went to GAO and CRS and we asked them this question: We would like a list of all the programs in the Federal Government. They both told us to take a hike, there is no way you can do it. Both of them did. I understand that. It is a massive project. There is only one agency that lists all of their programs. That is the Department of Education. You can go to any head of any agency and they can't tell you all of their programs. They don't even have them written down.

So what we have over the next 2 years is the rest of the Federal Government coming though GAO to where we are going to be see every program at every agency. In the Senate, I am trying to attach to every bill that goes through there a mandate that each agency has to list each year their programs just so they know what they are and so we can know what they are.

The problem is so big and so massive that you have to start by knowing what the programs are. Last year, two times in one other committee, and I won't name which committee, we had members of the Senate offer amendments to do well-intentioned things without knowing that we already had a program and a department doing exactly what they were writing, already and exactly. Of course, the amendment was withdrawn when they were made aware of that but the fact is that most of us as Members of Congress aren't aware. So you have to aggressively pursue it.

Mr. LANKFORD. We had been working on that on this committee as well, looking for areas just to get disclosure out there in the public, even to have a Web site that lists not only the agency but all

the programs that are within that agency. Then anyone can get a chance to look and see where their dollars are spent, what programs are available, and how much goes into that program as well as how many staff are dedicated to that. It gives people a basic look.

Let me ask you a question about some of these grant programs that you mentioned before that are coming up like developing a relationship through FarmVille. I don't remember a bill that was related to that. How do grants like that come into existence?

Senator COBURN. Well, it is because we are lazy legislators. What we decide is we will pass a bill and grant maximum flexibility to the bureaucracy. In fact, we are transferring our own authority as Congress to the bureaucracy.

I just came from a hearing in the Senate on regulations. Regulations are killing our country. That is not partisan. It was happening under the Bush administration; it is happening a little more now. It is more important now because we are in the midst of a slow economic time and we need the regulations to go down so business can grow.

But when we give up our responsibility to actually direct the agency specifically in terms of what we intend, that is how you get that. We do that because, one, we are not thorough, and two, a lot of times we don't know what we want when we write a piece of legislation. That should be a caution to us.

If you don't know what you want, you are not any different than the agency that is passing a grant out there. You need to know what you want before you write it, what you intend and what you expect. Then you need to follow up.

When was the last time every agency in the Federal Government was overseen? With 535 Members of Congress, we could do that every 2 years if we would do it. You know what? We would see a marked change in the bureaucracy.

Mr. LANKFORD. On the transparency side, not only coming back to Congress to be able to denote that, but also we need to be able to get it out just to the general public. Then any individual could get a chance to look in and see the grants, how they are spent, and what they are spent on so that anyone could look over their shoulder.

You would have the possibility of a newspaper out there going through all the details of each and every grant. So it is not only a congressional committee but it is also that media source that is out there asking the same questions.

Senator COBURN. You can do that on www.usaspending.gov right now.

Mr. LANKFORD. Yes, if it was populated with all of the information.

Senator COBURN. Well, for example, in Museum and Library Sciences I think you could go there and you could see every grant. They are very compliant. Now they are small but they have also been extremely aggressive to make sure they are great stewards with that money.

Mr. LANKFORD. That is terrific.

I would like to recognize Mr. Connolly for 5 minutes.

Mr. CONNOLLY. Thank you so much, Mr. Chairman, and welcome Senator Coburn.

Senator COBURN. Thank you.

Mr. CONNOLLY. Thank you for your vigilance in protecting the U.S. tax dollar and shedding some light on research and grant funding. Let me just share with you concerns, though, I have maybe on the other side.

I heard you say that you thought all of these grants ideally ought to be competitively bid. Respectfully, I guess I would want to see the ability of the Federal Government in awarding research and development grants preserved. I would remind us of the fact that, for example, the successful crash effort to make sure the United States had the atom bomb before the Nazis was not competitively bid.

I spent 20 years of my life in the private sector for organizations that did Federal research and I saw firsthand where there was value in preserving flexibility for the Federal agency to look at expertise and say, I don't want to reinvent the wheel since you have that expertise. We want to fund that because that can develop something that is going to help our economy or help medicine or whatever it may be.

So this is just a word of caution. I think you are right and I am not unsympathetic with the idea that by and large we ought to have a really good reason why something isn't competitively bid. But to go to a rigid formula where everything is competitively bid, especially in the research field, I think could be risky, frankly, and could choke innovation unwittingly.

Senator COBURN. Let me respond to that. If you only have one company or one institution that is capable of doing what you are wanting to do, I think that is true.

But I would put out to you that the reason we have seven major weapons programs in the Department of Defense today that are vastly over budget and are at risk is because we had cost-plus contracting on the research and development and no capital risk exposure by those companies that were involved in it. Human nature is to say whatever you want, since it is cost-plus, we will do it for you.

We have three problems in the Federal Government in terms of that contracting. One is that we are losing our contracting experts. We have a real problem with contract managers. We are short on them and we are short on experienced contract managers. There is great wisdom in them because they have the experience and they have known these businesses. They know who can actually do what. So I tell you that is the first thing.

The second thing is that in a lot of agencies, including the Pentagon, we don't have an adult in the room as far as requirement creep.

The third problem we have across agencies when we do cost-plus contracting is it is low-balled on purpose. They know it is going to cost a whole lot more but they want to get it started because they know once they get it started and once we get a lot of money invested in it we will be more reticent to pull the plug on it.

I think you could address all of those three. I agree with you if we have a unique level of expertise. But I would tell you if there

are two of them that have that level of expertise, we ought to have them compete. If there is nobody that has that level of expertise, then I am fine with that.

Mr. CONNOLLY. I agree and I am glad you brought up acquisition expertise in the Federal Government.

By the way, I commend to you Susan Collins' bill. I introduced it here in the House. Susan Collins has a companion bill on the Federal Acquisition Institute trying to upgrade those capabilities.

But we have to hire more people to manage contracts. And you are right, we need continuity. Requirement creep often occurs because you have multiple project managers over the life of a contract, many of them.

One more point I would like to make if I can. And you did not do this; I don't mean to imply you did. But one of the things that sometimes concerns me is that in the political arena we make fun of research. I can remember in my campaign last year my opponent went on and on and on about funding research on monkeys. Well, it happened to be HIV research and monkeys were the best analog to humans.

Senator COBURN. Yes, they are primates.

Mr. CONNOLLY. It was frankly to me a despicable thing but it became the political arena.

There is one that came up recently, Mr. Chairman, in the Science and Technology Committee. The Golden Fleece award, which was issued by a Democrat from Wisconsin at the time, was given to an odd sounding study called The Sexual Behavior of the Screw-Worm Fly. Why would we waste $250,000 on that? Yet that research, which cost $250,000, saved millions of livestock. It is estimated that it saved and enhanced the cattle industry profits by $20 billion and lowered the cost of beef at the supermarket by 5 percent. Other than that, yes, it was a frivolous piece of Federal research.

So it is easy to demagogue research sometimes, especially with the public not spending time on research directly. I would hope that all of us in the political arena would show a little bit more respect for what we are trying to do, as you say.

Senator COBURN. No, I agree. We don't know the depths and the intents. But that is the other thing that ought to be put in the grant. What are we trying to accomplish here? When you read a grant proposal and you don't see the endpoint in it and you don't see what they are actually going for, then we ought to be asking a question about every one of those.

It is the same thing with the pine beetle out West right now. If we would have had good research on hurting its reproductive capability, we wouldn't have half the forests in Colorado and Wyoming turning brown right now.

Look, I am a two time cancer survivor. I believe in science. It is why I am still alive. But the point is that even our good agencies like NSF need to be overseen so that when they are not paying attention, they will pay attention. That is my whole point.

Mr. CONNOLLY. Thank you.

Mr. LANKFORD. I have enjoyed multiple rounds of conversation with this but you have a vote coming up very shortly on the Senate side. We appreciate your time and very much value your input on

this. We look forward to getting a chance for our committees to be able to work together in the future.

Senator COBURN. Thank you very much.

Mr. LANKFORD. With that, this committee hearing is adjourned.

[Whereupon, at 11:56 a.m., the subcommittee was adjourned.]

[The prepared statement of Hon. Elijah E. Cummings and additional information submitted for the hearing record follow:]

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Opening Statement
Elijah E. Cummings, Ranking Member
Committee on Oversight and Government Reform

**Subcommittee on Technology, Information Policy, Intergovernmental
Relations and Procurement Reform**
Hearing on "Improving Oversight and Accountability in Federal Grant Programs"

June 23, 2011

Thank you, Chairman Lankford and Ranking Member Connolly for convening this hearing today.

Federal grants to states and local governments, as well as non-profit organizations, help provide vital resources and services to our communities. They help ensure that our police officers and firefighters have the tools and manpower they need to protect our streets and reduce violence. They provide meals to homebound senior citizens and low income children. They help communities respond to natural disasters, and help them improve preparation for the next one. And, they ensure our most vulnerable citizens have access to critical medical services. In these and many other ways, federal grant programs benefit all Americans and our national community.

Given the importance of these programs, we owe it to our constituents to ensure that every dollar we spend in these grants goes to its intended purpose. I am grateful we are holding this hearing today and look forward to the testimony of the experts.

I believe the goal of this hearing should be to carefully consider how we can *strengthen* federal grant programs. As we work to eliminate the deficits and debt, we should demand effective and efficient administration of all federal grant programs, and take any needed steps to eliminate waste, fraud, and abuse.

I do not believe this forum should be used as a platform for advocating arbitrary cuts to critical grant programs. State and local governments collectively receive 90% of all federal grant dollars, and they compete for many of these dollars in programs that award funds based on merit and the grantees' ability to promote public priorities.

I strongly support efforts to clean up waste, fraud, and abuse. Let's also work to make the award process more transparent and accessible for state and local governments and non-profit organizations.

But let's not use the banner of "accountability" as an excuse to stop providing state and local governments with the means to provide for their citizens. Now is not the time to cut funding for nutritional programs for women, infants, and low-income children. Now is not the time to cut Homeland Security grants for state and local fire departments. Now is not the time to arbitrarily reduce federal funding for the sciences at our public and private universities. And, now is not the time to cut Medicaid funding to the states, or to convert them into an insufficient -- and, I might add, less accountable -- block grant program.

Together, we should look for ways to promote better management of all grant programs, but we should not arbitrarily cut the federal government's contributions by hundreds of billions of dollars, forcing States and individual beneficiaries to bear the costs of a healthier, stronger, and safer society.

Contact: Ashley Etienne, Communications Director, (202) 226-5181.

Responses to Questions for the Record from
Danny Werfel, OMB Controller, to
Rep. Lankford, Chair,
Subcommittee on Technology, Information Policy,
Intergovernmental Relations and Procurement Reform,
Committee on Oversight and Government Reform

July 26, 2011

1) **GAO and others have found that agencies that conduct competitions for grant awards do not always document the basis for their final selection decisions concerning which proposals will be funded and which will not. Is there a need for minimum, uniform standards of transparency in the awarding of competitive discretionary grants?**

We continuously encourage and strive for improved communication between Federal agencies and the applicant community. Documenting the basis for final selection decisions concerning which proposals will be funded and which will not is a commonly acknowledged best practice in the Federal grant-making community.

We have made significant improvements in grants management during this Administration:

- Increased transparency through requiring sub-award reporting. As of July 21, 2011, we display $11.9 billion in sub-grants or a total of 15,946 sub-grant transactions on USAspending.gov.

- Streamlined duplicative reporting requirements and systems, such as ceasing the Federal Assistance Award Data System.

- Stabilized the central grants system, Grants.gov, to provide quicker response times and an overall more pleasant experience for the applicant community.

- Enhanced guidance and regulation to facilitate improved data quality, such as requiring recipients to register in the Central Contractor Registration to enable additional validation checks within the grant award process.

- Improved the accountability over high risk programs funded by the American Recovery and Reinvestment Act through a pilot, which accelerated the reporting of audit findings on the high risk programs, and enabled management to resolve the findings earlier, to mitigate waste, fraud, and abuse.

- Implemented the new Grants Management Specialist series with the Office of Personnel Management to ensure grants are being managed and monitored by qualified Federal employees.

In addition to the above actions, OMB is working with Federal agencies on further improvements in data quality; error reduction; pre-award eligibility verifications; forensic detection tools; and enhancements to and integration of information technology. As indicated in my written testimony, we are working toward a new and unified grants governance framework in the near term. Within this framework, OMB will continue to work with Federal agencies to improve the grants management process, share best practices, and enhance guidance and regulations as appropriate to drive more uniformity in the grant award process. OMB and Federal agencies will also work closely with the Government Accountability and Transparency Board (GATB) to drive more uniform data standards and enhance transparency reporting over Federal spending.

2) **Should agencies be required to disclose to potential grant applicants the evaluation criteria that will be used to select grantees and how those criteria would be weighted?**

Beginning in 2003, OMB required all Federal grant-making agencies to disclose evaluation criteria and specify the relative percentages or weights attributed to each. The requirement can be found at 68 FR 37378. Increasing transparency in Federal government is an effective way to provide citizens with a better understanding of how government works. As indicated in the response to Question 1, OMB will continue to work with the Federal agencies and the GATB to drive more uniformity in the transparency of Federal spending.

3) **Should agencies be required to publicly disclose the formal evaluation ratings of competing grant applicants and the supporting evaluation narratives?**

OMB supports increased transparency in the grant-making process. The public should be able to understand both why funds are awarded to particular applicants and how to better align future proposals with agency objectives.

Transparency, however, must be balanced with the protection of proprietary information submitted by the grant applicants and evaluations of that information. In addition to the accomplishments and actions outlined in Question 1, OMB will continue to work with the grants community, both Federal and non-Federal, to identify the best methods to improve the pre-award and awarding process and to provide greater transparency. OMB will also work with the GATB on enhancements to transparency reporting over Federal spending.

4) Should agencies be required to provide a written, publicly available "justification" for funding decisions that deviate from rankings?

OMB supports transparency to inform grant applicants and the general public about why certain grant proposals were ultimately funded. This allows the public to understand both why funds are awarded to particular applicants and also how to better align future proposals with agency objectives. In addition to the accomplishments and actions outlined in the response to Question 1, OMB is committed to continuing to work with the Federal grant-making community to determine the best practices for informing the public on selection decisions, evaluating those practices, and incorporating those best practices into guidance as appropriate.

5) Do grant making agencies have sufficient conflict of interest programs in place to ensure that panel reviewers or decision makers are unbiased?

OMB is conducting a holistic review of how Federal agencies manage their grants. A review of existing agency policies on panel reviewers and agency decision makers will be included in this process. As indicated in my written testimony, we hope to achieve, in the near-term, a new and unified grants governance framework that will assist with this review. Within this framework, OMB will continue to work with Federal agencies to determine any modifications to or new guidance needed to improve the grants management process.

6) We understand that OMB has developed various working groups to address ways to improve the single audit process including Executive Order 13520- Reducing Improper Payments Section 4(b) Single Audit Recommendations Workgroup (Single Audit workgroup) and the Circular No. 87- Cost Principles for State, Local, and Indian Tribal Governments Workgroup. Please identify the name of each workgroup established since 2009 that have addressed Single Audit improvement, the composition of members of the workgroup, the workgroup's objectives, and whether the group is still in existence.

OMB has coordinated three working groups that addressed improvements to the Single Audit process. We are evaluating the working groups' recommendations and identifying opportunities to apply the recommendations as we carry out a broad range of efforts to improve grants management. The members of each workgroup are listed in the respective Appendices of the workgroup reports. The names and objectives of the workgroups are listed as follows:

- Workgroup 1: Executive Order 13520 "Reducing Improper Payments" Section 4(b) Single audit Workgroup (January 2010) – Develop recommendations to improve the

effectiveness of single audits of non-federal entities that are expending federal funds in order to help identify and reduce improper payment. Workgroup is completed.

- Workgroup 2: Single Audit Metrics Workgroup (October 2010) – Develop an implementation strategy for designing a baseline, metrics and targets to track the effectiveness of Single Audit over time. Workgroup is still in existence. Expected completion is September 2011.

- Workgroup 3: Plan for Considering and Implementing Recommendations from the Executive Order 13520 Working Groups (February 2011) – Review the recommendations and provide a plan for implementation of recommendations from two separate workgroups under Executive Order 13520 (the Single Audit and the Incentives & Accountability Workgroups). Workgroup is still in existence. Expected completion is September 2011.

- In addition, OMB, through the Office of Federal Financial Management, is also co-leading two working groups under the February 28, 2011 Presidential Memorandum, *Administrative Flexibility, Lower Costs, and Better Results of State, Local, and Tribal Governments*, with participation from Federal, state, and local governments. These working groups are developing ideas to reduce burden and offer more flexibility to state and local governments in program delivery while maintaining or improving accountability over programs. While the working groups are not exclusively focused on the Single Audit or cost principles, potential changes to these guidance documents may be recommended by the working groups.

7) **For each workgroup identified in response to question 6, please provide the subcommittee with copies of any reports or products, whether in draft or final form, prepared by the workgroup, including but not without limitation any draft reports setting forth or responding recommendations of a June 2010 Single Audit workgroup.**

Final reports for Workgroups 1 and 2 are enclosed. The Workgroup 3 report can be provided once finalized by the working group.

8) **GAO recommended in 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. What action, if any, has OMB taken to address this issue?**

As a result of the GAO recommendations in 2008, OMB worked with the Grants Policy Committee to determine if any additional guidance was needed in this area. At that time, it was determined that no additional guidance was needed.

In FY 2010, OMB directed agencies funded under the Commerce, Justice, Science, and Related Agencies Appropriations Act to track undisbursed balances in expired grant accounts. Those agencies were required to report this information in the Performance & Accountability Reports or Agency Financial Reports and annual performance plans and budgets.

Currently, OMB is conducting a holistic review of how Federal agencies manage their grants. As indicated in my written testimony, we hope to achieve, in the near term, a new and unified grants governance framework that will assist with this review. Within this framework, OMB will continue to work with Federal agencies to determine any modifications to or new guidance needed to improve the grants management process.

9) Please provide any reports or documents, whether in draft or final form, detailing all undisbursed grant accounts and the status and resolution of any undisbursed grant funding in such accounts.

Below are links to the agencies' websites and Performance and Accountability Reports or Agency Financial Reports that fall under the authority of Section 537 of the Commerce, Justice, Science, and Related Agencies Appropriations Act, 2010, of the Consolidated Appropriations Act (Pub. Law 111-117) which requires reporting on the undisbursed grant accounts in fiscal year 2010.

DOJ: http://www.justice.gov/ag/annualreports/pr2010/TableofContents.htm
NASA: http://www.nasa.gov/pdf/500155main_NASA_FY_2010_PAR-11-15-10.pdf
NSF: http://www.nsf.gov/about/performance/
DOC: http://www.osec.doc.gov/bmi/budget/FY10PAR.html
MMC http://www.mmc.gov/reports/administrative/pdf/par_2010.pdf
USITC http://www.usitc.gov/press_room/documents/PAR2010.pdf
USCCR-: http://www.usccr.gov/
LSC: http://www.lsc.gov/about/annualreport.php
SJI: http://www.sji.gov/about.php

Metrics for Evaluating the Effectiveness of the Single Audit Process

Single Audit Metrics Workgroup Recommendations

June 21, 2011

Metrics for Evaluating the Effectiveness of the Single Audit Process

Table of Contents

Metrics for Evaluating the Effectiveness of the Single Audit Process

Executive Summary

This paper presents the findings and recommendations of the Single Audit Metrics Workgroup (Workgroup) formed by the U.S. Office of Management and Budget (OMB) to develop an implementation strategy for recommendation number 12, *"Develop a baseline, metrics, and targets to track the effectiveness of Single Audit over time,"* made by the Single Audit Workgroup in their report to OMB dated June 4, 2010. The full text of this finding is provided in Appendix A of this report. The Workgroup was comprised of representatives from Federal agency management, Offices of Inspectors General, and OMB involved in the Single Audit process. The Workgroup recommends three outcome measures of how well Federal agencies use the Single Audit process to reduce improper payment risk at direct recipients of Federal awards.[1]

1. Reduce unclean[2] Single Audit opinions
2. Reduce repeat audit findings
3. Reduce untimely audit reports

The Workgroup analyzed current publicly available data in the Federal Audit Clearinghouse (FAC) database and considered the following three risk factors in developing the metrics: (1) dollar size of Federal awards expended; (2) number of consecutive years repeating; and (3) severity. The Workgroup also made recommendations for future improvements to the metrics, which include collecting in the FAC database more specific information on audit findings and improving the utility of the Single Audit reporting package. The plan is to initially use the best available FAC data to target the areas of greatest risk. Over time, the goal is to improve the available FAC data and to refine the metrics and follow-up tools to reduce improper payment risk. The "how to" of using the Single Audit process to reduce improper payment risk entails analysis of the Single Audit results, use of metrics to assess change over time, and development of effective tools to focus improvement efforts. To ensure the proper "tone at the top" in support of this effort, each major grant-making agency should identify a senior policy official accountable for the measurement process.

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[1] Federal agencies are only responsible to follow-up on audit findings for recipients who receive their awards directly from the Federal agency. Pass-through entities are responsible for follow-up on the audit findings of subrecipients.

[2] "Unclean" audit opinions are qualified, adverse, and disclaimer of opinion.

Metrics for Evaluating the Effectiveness of the Single Audit Process

List of Recommendations

The Workgroup makes the following recommendations:

- **Implement the metrics:** Establish an OMB lead Single Audit Metrics Implementation Team to lead the measurement process and ensure success. This team's leadership responsibilities include training agencies on the metrics process, working with the Federal Audit Clearinghouse to provide the necessary metrics data, developing a process for agencies to report results, and resolving implementation issues. While beyond the scope of this report, the Workgroup anticipates the Implementation Team will need to provide interagency leadership for cross-cutting findings (findings affecting multiple agencies or programs), how to ensure corrective action on longstanding problems (e.g., new tools are needed to compel change in a cooperative manner), and developing a combined table of programs and program-entities measured under the unclean Single Audit opinion and repeat audit findings metric. Implementation, possibly as a pilot, needs to begin by July 2011 for measurement of non-Federal entity fiscal years ending in 2012, with results available in 2013.[3]

- **Define clear agency leadership:** Designate a senior policy official at the selected grant-making agencies to be fully accountable for the measurement and improvement process including the following:
  - Identifying programs and entities to be measured and negotiating annual improvement targets with OMB;
  - Overseeing the agency's process to use the metrics to focus attention and resources on reducing improper payment risk identified by Single Audits; and
  - Publicly reporting the metric results such as on the agency's website.

- **Improve measurement data:** Revise the data submitted to the FAC on the Data Collection Form (SF-SAC) to allow agencies to better target improper payment risk. If changes are made effective for non-Federal entities fiscal years ending in 2012, improved data can be available in 2013.[4] Consider additional steps to enhance the usefulness and access to Single Audit reports, and in particular, the audit finding text.

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[3] The most common fiscal year end for non-Federal entities is June 30 and fiscal year June 30, 2012 starts July 1, 2011. Single audit reports are not due until 9 months after entity fiscal year end so June 30, 2012 audits are not due until March 31, 2013.

[4] Changes to the SF-SAC Data Collection Form which auditees and auditors use to submit a summary of the Single Audit reports are made under the notice and comment process provided by the Paperwork Reduction Act.

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Metrics for Evaluating the Effectiveness of the Single Audit Process

Introduction

On November 23, 2009, President Barack Obama issued Executive Order 13520—Reducing Improper Payments (Executive Order) in an effort to reduce improper payments. The Executive Order is designed to balance the following two interests: (1) intensifying efforts to eliminate payment error, waste, fraud, and abuse in the major programs administered by the Federal Government; and (2) ensuring that Federal programs continue to serve their intended beneficiaries.

The Executive Order intends specifically to:

1. Reduce improper payments by boosting transparency;
2. Hold agencies accountable for reducing improper payments;
3. Examine the creation of incentives for states to reduce improper payments; and
4. Increase penalties for contractors who fail to disclose improper payments.

Section 4(b) of the Executive Order provides that:

> Within 30 days of the date of this order, the Director of OMB shall establish a working group consisting of Federal and elected State and local officials to make recommendations to the Director of OMB designed to improve the effectiveness of single audits of State and local governments and non-profit organizations that are expending Federal funds. The Director of OMB may designate an appropriate official to serve as Chair of the working group to convene its meetings and direct its work. The working group's recommendations shall be prepared in consultation with the CIGIE [Council of Inspectors General on Integrity and Efficiency] and submitted within 180 days of the date of this order. The recommendations shall address, among other things, the effectiveness of single audits in identifying improper payments and opportunities to streamline or eliminate single audit requirements where their value is minimal.

To implement the Executive Order, OMB created eight workgroups, including one to examine the single audit process. In their June 4, 2010 report, the Single Audit Workgroup concluded that the Single Audit assists in reducing improper payments and provides a base level of accountability and transparency for each non-Federal entity. Therefore, the Single Audit can provide a starting point for assessing areas of risk for improper payments. Recommendation No.

Metrics for Evaluating the Effectiveness of the Single Audit Process

12 of this report was *"Develop a baseline, metrics, and targets to track the effectiveness of the Single Audit over time."*[5] This paper presents the findings of the Single Audit Metrics Workgroup (Workgroup) and its recommendations to that end.

The Workgroup used the following guiding principles in developing the proposed metrics process presented in this report:

- Make the best use of currently available data in the public Single Audit Database maintained by FAC with a plan to improve the usefulness of data submitted to the FAC and refine the metrics as better data is available.

- Develop metrics that are outcome-based in contrast to the current Single Audit follow-up measure of whether audit findings are resolved within six months regardless of whether improvement has been made to mitigate or correct reported deficiencies.

- Use underlying data that is objective. The Workgroup chose the Single Audit Database because it is based upon data reported by independent auditors.

- Facilitate agency implementation by first targeting areas of highest risk considering dollars, frequency, and severity, and by using a simple consistent approach. The recommended approach balances highlighting both programs with the largest dollar amounts and programs with a high frequency of unclean audit opinions and repeat audit findings, regardless of dollars.

- Recognize that top agency leadership is the key to success with OMB leading a Single Audit Metrics Implementation Team and identifying an accountable agency official at each major grant-making agency. Top agency leadership involvement will be critical as many of the deficiencies reported by Single Audit are longstanding, in the larger non-Federal entities, and will likely be difficult to correct. New approaches will be needed to make progress in correcting long-standing deficiencies as repeat unclean audit opinions and findings indicate prior efforts failed.

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[5] The Recovery Accountability and Transparency Board provided further support in recommending Single Audit Metrics to improve accountability. See Appendix B for excerpts of the letter dated September 8, 2010.

Metrics for Evaluating the Effectiveness of the Single Audit Process

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Goal 1 – Reduce Unclean Single Audit Opinions

Under the Single Audit, the auditor provides an opinion (the highest level of audit assurance) on compliance for each major program. Anything other than a clean opinion (unqualified) is an indicator of serious deficiencies which could result in improper payments. A reduction in the number of unclean audit opinions (i.e., qualified, adverse, or disclaimer) would be an indicator of improvement in non-Federal entity program accountability and would result in a decrease in improper payment risk. A program for this purpose is defined by a valid first five digit format of the Catalog of Federal Domestic Assistance (CFDA) number in the FAC database.[6]

The FAC assisted the Workgroup by developing a report generator, which Workgroup members used to enter parameters to produce an Excel report identifying unclean Single Audit opinions. The Workgroup used the data for Single Audits for base year 2009 and prior years 2006 to 2008 as recorded in the FAC database as of February 25, 2009.[7]

The Workgroup developed a ranking system to combine qualified, adverse, and disclaimer opinions into a single unclean audit opinion variable.
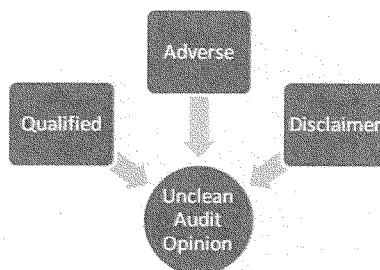
The Workgroup identified the following risk ranking factors for unclean opinions for program-entities (a single program at a non-Federal entity): (1) dollar size of program expenditures in the

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[6] An exception is that the Research and Development (R&D) cluster is treated as a single program because of the large number of CFDA numbers used for R&D and that the FAC database includes a specific R&D identifier. Federal agencies are encouraged to consider Student Financial Aid and other clusters of programs as a single program in their negotiations with OMB on this metric.
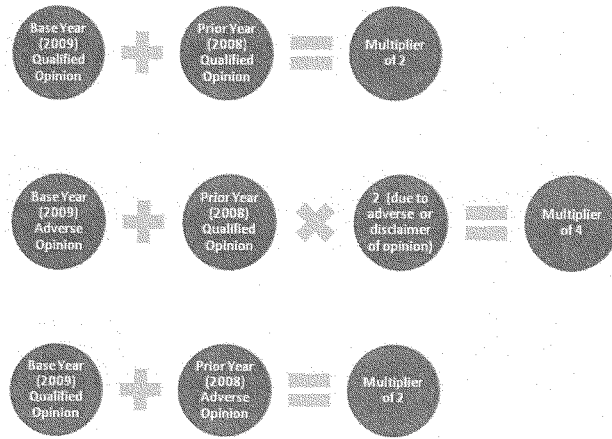
[7] Due to the 9-month delay in filing Single Audit reports after the end of the non-Federal entities' fiscal year, fiscal year ending in 2009 is the most recent full year data available, e.g., a fiscal year ending December 31, 2010 is not due until September 30, 2011.

Metrics for Evaluating the Effectiveness of the Single Audit Process

base year;[8] (2) a count of the number of consecutive years of unclean major program audit opinions from the base year;[9] and (3) whether the unclean opinion is qualified or the more severe adverse or disclaimer of opinion in the base year.

Risk ranking multipliers were developed based on a count of the number of consecutive unclean audit opinions from the base year and type of unclean opinion. For example, an unclean opinion only in the base year would have a count multiplier of 1. If there were an unclean opinion in the base year and the prior year, the count multiplier would equal 2. However, if the base year had an adverse or disclaimer of opinion, the count multiplier was doubled.[10] At this point, the risk score could be calculated. For example if Program "X" had a total of $1 in million expenditures for 2009 and there was a qualified opinion in the base year (2009), the risk score would be 1 million (i.e., $1 million * a multiplier of 1). Similarly if Program "Y" had $1 in million expenditures for 2009 and a qualified opinion in 2008 and 2009 the risk score would be 2 million ($1 million * a multiplier of 2). However, if the program-entity had an adverse or disclaimer of opinion in the base year, the risk score would double. See the diagram below for an illustration of calculating the multiplier.

Diagram 1: Unclean Single Audit Opinion Multiplier Calculation

Base Year (2009) Qualified Opinion + Prior Year (2008) Qualified Opinion = Multiplier of 2

Base Year (2009) Adverse Opinion + Prior Year (2008) Qualified Opinion × 2 (due to adverse or disclaimer of opinion) = Multiplier of 4

Base Year (2009) Qualified Opinion + Prior Year (2008) Adverse Opinion = Multiplier of 2

As a result of the analysis of the FAC database, the Workgroup proposes the following metric:

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[8] Base year is the most recent year being analyzed.

[9] The Workgroup did not make special allowance for biennial audit as there are only three states (Indiana, Montana, and North Dakota) and a relatively small number of other entities.

[10] The multiplier is only doubled if an adverse or disclaimed opinion is present in the base year (i.e., the most current year). If an adverse or disclaimed opinion is present for the prior years, but not the base year, then the multiplier is not doubled.

Metrics for Evaluating the Effectiveness of the Single Audit Process

Objective: Reduce the number of programs at non-Federal entities with unclean Single Audit opinions.

Recommended Metric: Percentage decrease in risk score factor for each measured program from the base year to measurement year. The risk score factor for the program will be computed as the sum of all of the risk scores for individual program-entities with an unclean audit opinion in the base year.

Calculation:

Risk Score	=	Base year Federal awards expended	X	Count of consecutive years of "Unclean" Single Audit opinions from base year	X	2 (if Adverse or Disclaimer)

(Multiplier spans the last two factors.)

Reasoning: By reducing the program-entities with unclean Single Audit opinions and ensuring no new program-entities have unclean opinions, the risk of improper payments is reduced.

Because the unclean audit opinion metric identifies a program-entity anytime an unclean opinion is found in the base year, this metric is a quick indicator of improper payment risk. For example, this metric includes program-entities that are first-time offenders—that is, programs-entities are identified after only one unclean audit opinion.   In contrast, the repeat audit finding metric (defined later in this report) does not identify program-entities until there are four-time repeats for the same type of compliance requirement.

Implementation of Unclean Single Audit Opinion Metric

The Workgroup concluded that the strongest risk mitigation strategy would include highlighting not only programs that had the potential to affect the largest dollar amounts, but also the programs that have the highest frequency of unclean audit opinions. This focuses both on the largest dollar risk combined with equal emphasis on frequent problems. For example, a small dollar program would have a low chance of selection from risk score but equal chance of selection under the frequency factor.

Metrics for Evaluating the Effectiveness of the Single Audit Process

The Workgroup prepared a government-wide selection composed of the largest 50 programs under the risk score plus the 50 programs with the greatest frequency of unclean opinions. Duplicate programs were combined. For example if Program "X" was both one of the programs in the top 50 largest risk score and the top most frequent, it is only included once. This combination produced a selection for base year of fiscal year ending 2009 reports in the FAC database of 81 different programs (Catalog of Federal Domestic Assistance (CFDA) numbers), 996 non-Federal entities, and 1,872 program-entities. The selection includes programs from 11 different Federal agencies and covers approximately 98.7 percent of the total risk score for all programs with unclean opinions in the base year. See the following table for base year 2009 in risk score order of the top 50 programs considering the risk score and frequency of unclean opinions. While there is subjectivity in determining the risk factors and the number of programs measured, after these decisions are made subsequent steps are objective based upon audit reports in the FAC database.

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Metrics for Evaluating the Effectiveness of the Single Audit Process

Metrics for Evaluating the Effectiveness of the Single Audit Process

Unclean Opinions in Risk Score Order based on Top 50 Risk Score and Frequency for Base Year 2009

Order	Risk Seq	Ct. Seq	Prefix	CFDA	Ent Cnt	CFDA Program Title
1	1	25	HHS	93.778	21	Medical Assistance Program
2	2	72	USDA	10.551	9	Supplemental Nutrition Assistance Program
3	3	27	DOT	20.205	20	Highway Planning and Construction
4	4	80	DOL	17.225	8	Unemployment Insurance
5	5	42	ED	84.010	14	Title I Grants to Local Educational Agencies
6	6	118	HUD	14.228	5	Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii
7	7	22	HHS	93.558	22	Temporary Assistance for Needy Families
8	8	8	ED	84.032	52	Federal Family Education Loans
9	9	31	ED	84.027	19	Special Education_Grants to States
10	10	262	USDA	10.566	1	Nutrition Assistance For Puerto Rico
11	11	81	NASA	43.RD	8	R&D Cluster
12	12	62	DHS	97.036	10	Disaster Grants - Public Assistance (Presidentially Declared Disasters)
13	13	34	HHS	93.575	17	Child Care and Development Block Grant
14	14	53	HHS	93.767	10	Children's Health Insurance Program
15	15	2	HUD	14.871	114	Section 8 Housing Choice Vouchers
16	16	45	ED	84.367	13	Improving Teacher Quality State Grants
17	17	39	DoD	12.RD	15	R&D Cluster
18	18	73	HHS	93.658	9	Foster Care_Title IV-E
19	19	82	USDA	10.561	8	State Administrative Matching Grants for the Supplemental Nutrition Assistance Program
20	20	46	HHS	93.659	13	Adoption Assistance
21	21	47	HHS	93.568	13	Low-Income Home Energy Assistance
22	22	35	HHS	93.596	17	Child Care Mandatory and Matching Funds of the Child Care and Development Fund
23	23	64	HHS	93.667	10	Social Services Block Grant
24	24	55	USDA	10.555	11	National School Lunch Program
25	25	6	ED	84.063	57	Federal Pell Grant Program
26	26	65	HHS	93.563	10	Child Support Enforcement
27	27	5	HHS	93.600	71	Head Start
28	28	263	DOT	20.315	1	National Railroad Passenger Corporation Grants
29	29	56	ED	84.268	11	Federal Direct Student Loans
30	30	83	ED	84.126	8	Rehabilitation Services_Vocational Rehabilitation Grants to States
31	31	90	HHS	93.959	7	Block Grants for Prevention and Treatment of Substance Abuse
32	32	74	USDA	10.557	9	Special Supplemental Nutrition Program for Women, Infants, and Children
33	33	187	ED	84.394	2	State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act
34	34	20	HHS	93.RD	23	R&D Cluster
35	35	48	HHS	93.777	13	State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare
36	36	14	HUD	14.218	45	Community Development Block Grants/Entitlement Grants
37	37	21	DOT	20.106	23	Airport Improvement Program
38	38	75	DHS	97.067	9	Homeland Security Grant Program
39	39	188	ED	84.365	2	English Language Acquisition Grants
40	40	1	HUD	14.157	141	Supportive Housing for the Elderly
41	41	91	ED	84.048	7	Career and Technical Education – Basic Grants to States
42	42	132	HHS	93.917	4	HIV Care Formula Grants
43	43	3	HUD	14.850	85	Public and Indian Housing
44	44	17	HUD	14.239	28	Home Investment Partnerships Program
45	45	264	Treas	21.RD	1	R&D Cluster
46	46	101	99	99.RD	6	R&D Cluster
47	47	66	DoD	12.401	10	National Guard Military Operations and Maintenance (O&M) Projects
48	48	102	DOI	15.875	6	Economic, Social, and Political Development of the Territories
49	49	92	ED	84.389	7	Title I Grants to Local Educational Agencies, Recovery Act
50	50	23	ED	84.038	22	Federal Perkins Loans
51	55	43	HHS	93.228	14	Indian Health Service_Health Management Development Program
52	56	10	HUD	14.872	51	Public Housing Capital Fund
53	62	40	DOT	20.507	15	Federal Transit_Formula Grants
54	65	50	HHS	93.775	12	State Medicaid Fraud Control Units
55	67	51	DOL	17.259	12	WIA Youth Activities
56	70	9	HUD	14.867	52	Indian Housing Block Grants
57	71	49	ED	84.173	13	Special Education_Preschool Grants
58	72	28	HUD	14.129	20	Mortgage Insurance_Nursing Homes, Intermediate Care Facilities, Board and Care Homes and Assisted Living Facilities
59	73	16	HHS	93.441	31	Indian Self-Determination
60	78	26	DOI	15.042	21	Indian School Equalization Program
61	80	52	DOI	15.030	12	Indian Law Enforcement
62	84	4	HUD	14.181	79	Supportive Housing for Persons with Disabilities
63	85	11	HHS	93.224	49	Consolidated Health Centers (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, Public
64	97	29	DOI	15.021	20	Consolidated Tribal Government Program
65	98	7	HUD	14.195	57	Section 8 Housing Assistance Payments Program
66	99	12	ED	84.033	46	Federal Work-Study Program
67	100	36	HUD	14.155	17	Mortgage Insurance for the Purchase or Refinancing of Existing Multifamily Housing Projects
68	102	13	ED	84.007	46	Federal Supplemental Educational Opportunity Grants
69	108	30	HUD	14.235	20	Supportive Housing Program
70	109	53	HUD	14.135	12	Mortgage Insurance_Rental and Cooperative Housing for Moderate Income Families and Elderly, Market Interest Rate
71	111	41	ED	84.031	15	Higher Education_Institutional Aid
72	112	15	ED	84.375	43	Academic Competitiveness Grants
73	117	54	USDA	10.760	12	Water and Waste Disposal Systems for Rural Communities
74	118	37	HHS	93.237	17	Special Diabetes Program for Indians_Diabetes Prevention and Treatment Projects
75	119	18	HUD	14.182	25	R&D Cluster
76	137	38	ED	84.376	17	National Science and Mathematics Access to Retain Talent (SMART) Grants
77	146	44	USDA	10.415	14	Rural Rental Housing Loans
78	190	24	HUD	14.885	22	ARRA Public Housing Capital Fund Stimulus Recovery Act
79	195	19	HHS	93.703	25	ARRA · · · · · · · · · · · · · · · · ·
80	247	32	HUD	14.882	18	Native American Housing Block Grants (Formula) Recovery Act Funded
81	290	33	HHS	93.708	18	ARRA - Head Start
					1872	

Metrics for Evaluating the Effectiveness of the Single Audit Process

A key concept emphasized throughout this report is that this metric, and the subsequent metrics, target monitoring resources over a manageable group of high-risk programs, program-entities, and non-Federal entities to objectively track progress to correct internal control and compliance deficiencies and thereby reduce risk of improper payments. One of the advantages of this approach is that it is more targeted than the current approach of focusing on all audit findings (e.g., treating low risk and high risk basically the same) and only measuring whether the audit findings were processed (e.g., current term is "resolved"). In short, the unclean audit opinion metric is an initial effort to systematically identify the program-entities that require further investigation or monitoring considering both risk score and frequency in conjunction with the severity of the category of the unclean audit opinion.

The Workgroup proposes the initial unclean Single Audit opinion metric measure progress from base non-Federal entity fiscal years ending in 2009 to first measurement of non-Federal entity fiscal years ending in 2012. For example, if the total of all risk scores for Program "X" in 2009 was 100 million, a goal could be to reduce the total for the program by 10 percent in 2012 to 90 million. Recognition is made that funding and entities may change in 2012; however, if funding is less, then risk is less. Similarly, if funding increases and the associated risk increases, agency efforts should, in turn, increase to ensure all programs have clean opinions. In order to make the greatest reduction in the risk score, an agency will need to target improvement efforts considering dollars, frequency of unclean opinions, and whether there is an adverse or disclaimer of opinion. The agency will also need to target follow-up efforts to help ensure that no new entities have an unclean opinion. Each agency would be responsible for their own programs with the exception that for the Research and Development (R&D) cluster, the agency providing the non-Federal entity with the most direct awards would be responsible.

Metrics for Evaluating the Effectiveness of the Single Audit Process

Goal 2 - Reduce Repeat Audit Findings

Under the Single Audit the auditor is required to report deficiencies in major programs as audit findings. Audit findings (e.g., material non-compliance, material weaknesses, and significant deficiencies) are indicators of deficiencies that could result in improper payments. The longer an audit finding repeats for a program, the higher the potential risk. A reduction in repeat audit findings would be an indicator of improvement in non-Federal entity program accountability and result in a decrease in improper payment risk.

The Workgroup defined a repeat audit finding as a type of compliance requirement[11] repeating for a program as recorded in the FAC database. A finding by type of compliance requirement may repeat but not be the exact same issue as the prior year. For example, an eligibility audit finding repeating in multiple years may be related to different specific eligibility requirements. However the Workgroup believes that once an entity is put on notice through audit findings that they have eligibility deficiencies, they should take action to ensure full eligibility compliance.

The seriousness of an audit finding and the difficulty of taking corrective action vary depending upon the facts and circumstances of a given case. For example, an audit finding may relate to a serious condition of immediate and great risk to Federal dollars which will be complex to correct. On the other hand, a finding may be so simple it can easily be corrected in a day. However, non-Federal entity management is responsible for taking prompt action on all Single Audit findings and the Federal awarding agency is responsible for ensuring this happens and for mitigating the risk to Federal programs.

The FAC assisted the Workgroup by developing a report generator, which Workgroup members used to enter parameters to produce an Excel report identifying repeat audit findings. Repeat audit findings were identified when the FAC database showed a type of compliance requirement for a program at a non-Federal entity with a finding in consecutive years from the base year. The Workgroup used the data for Single Audits for base year 2009 and prior years 2006 to 2008 as recorded in the FAC database as of February 25, 2009.

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[11] OMB Circular A-133 and the Compliance Supplement identify the following 14 types of compliance requirements: "A. Activities Allowed or Unallowed;" "B. Allowable Costs/Cost Principles;" "C. Cash Management;" "D. Davis-Bacon Act;" "E. Eligibility;" "F. Equipment and Real Property Management;" "G. Matching, Level of Effort, Earmarking;" "H. Period of Availability of Federal Funds;" "I. Procurement and Suspension and Debarment;" "J. Program Income;" "K. Real Property Acquisition and Relocation Assistance;" "L. Reporting;" "M. Subrecipient Monitoring;" and "N. Special Tests and Provisions." In addition the FAC database also allows auditors to select "Other" as an additional type.

Metrics for Evaluating the Effectiveness of the Single Audit Process

A count was made of the number of consecutive years an audit finding repeats by type of compliance requirement from the base year. For example, a 2-year repeat finding is the base year plus the immediate prior year, and a 3-year repeat finding is the base year plus the immediate 2 prior years. A 4-year repeat finding is the base year plus the immediate 3 prior years. The count of repeat findings continues in a similar manner for additional years of consecutive repeat audit findings by type of compliance requirement. See the diagram below as an example.

Diagram 2: Repeat Findings by Type of Compliance Requirement
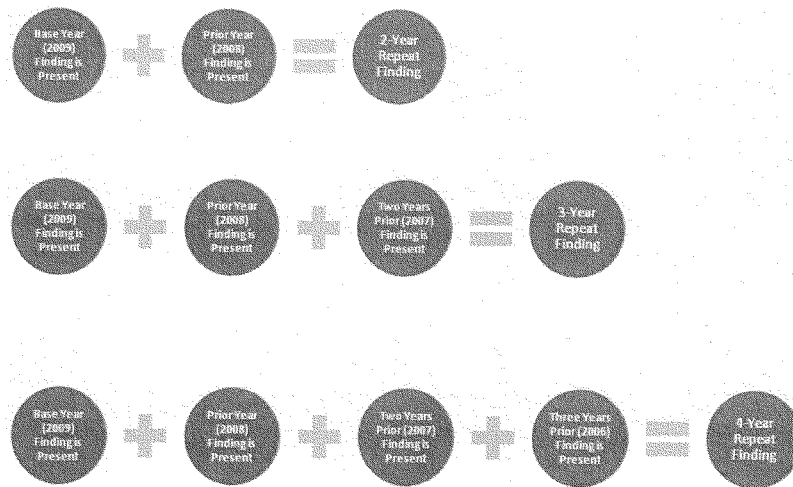
A 2-year repeat finding may be of lesser concern because of the amount of time often required to improve processes and systems sufficiently to remove a finding. In contrast, 4-year repeat findings would likely be of major concern because the continued inability or unwillingness to take corrective action increases the risk of improper payments.

As a result of the analysis of the FAC database, the Workgroup proposes the following metric:

> **Objective**: Reduce the number of programs at non-Federal entities with repeat audit findings for the same type of compliance requirement for 4 or more years (base year plus immediate 3 prior years)

Metrics for Evaluating the Effectiveness of the Single Audit Process

Recommended Metric: Percentage decrease in risk score for each measured program from the base year to measurement year. The risk score for the program will be computed as the sum of all of the risk scores for individual program-entities with 4-year repeat audit findings for the same type of compliance requirement.

Calculation:

		Base year Federal awards expended	X	Count of the types of compliance requirements repeating 4 or more consecutive years from the base year
Risk Score	=			

Multiplier spans: Base year Federal awards expended X Count of the types of compliance requirements repeating 4 or more consecutive years from the base year

Reasoning: By reducing the risk score for the program-entities with repeat audit findings and ensuring no new program-entities have repeat Single Audit findings the risk of improper payments is reduced.

Examples and an illustration of a count of the types of compliance requirements with four consecutive repeats are shown below:

- An audit finding occurring in only one type of compliance requirement (e.g., "E. Eligibility") in the 4 consecutive years 2006, 2007, 2008, and 2009 would have a count of one.

- An audit finding occurring in two types of compliance requirement (e.g., "E. Eligibility and "L. Reporting") occurring in the 4 consecutive years of 2006, 2007, 2008, and 2009 would have a count of two.

"E. Eligibility" Finding → 2006, 2007, 2008, and 2009 → Multiplier or Count = 1

"E. Eligibility" Finding *and* "L. Reporting" Finding → 2006, 2007, 2008, and 2009 → Multiplier or Count = 2
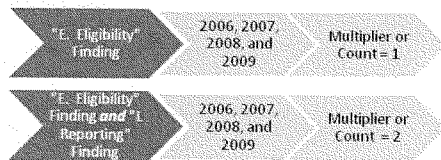
This count is then multiplied by the total Federal awards expended in the program at the entity for the base year to compute the risk score.

Metrics for Evaluating the Effectiveness of the Single Audit Process

The illustration below shows that a program with Federal awards expended of $1 million for base year 2009 and with a finding for both "E. Eligibility" and "L. Reporting" in each of the 4 years for a count of two would have a risk score of 2

million.

Using the same calculation, another program with Federal awards expended of $2 million for base year 2009 and with a finding only for "E. Eligibility" in each of the 4 years for a count of one would have a risk score of 2 million. [12]
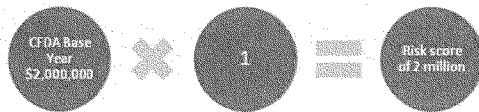
The Workgroup recognizes that there are limitations to this system—not all audit findings or types of compliance requirements are of equal risk. For example, if auditors were required to identify in the FAC database the types of compliance requirements for a program that contributed to unclean audit opinions or were material weaknesses in internal control, the focus of the ranking system could be sharpened. After agreeing on the method of combining the factors, advantages of this calculation are its consistency, objectivity, and grounding in audited data. The ranking system is conservative in its methodology by identifying potential risk in all types of compliance requirements that repeat for 4 consecutive years recognizing that risk may vary between the types of compliance requirements. Clearly a type of compliance requirement repeating for 4 or more consecutive years from a base year should be of concern and the proposed repeat audit finding metric uses the best available Single Audit data to target and track progress in areas of higher improper payments risk.

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[12] The risk score is not a meaningful figure on its own, but meaningful only as a way to compare risk between different programs and measure between a base year and a measurement year.

Metrics for Evaluating the Effectiveness of the Single Audit Process

Implementation of Repeat Audit Finding Metric

Similarly to the unclean audit opinion metric, the Workgroup concluded that the strongest risk mitigation strategy would include highlighting not only the programs that had the potential to affect the largest dollar amounts, but also the programs that have the highest frequency of repeat findings. This focuses both on the largest dollar risk with equal emphasis on frequent problems. For example, a small dollar program would have a low chance of selection under the risk score but equal chance of selection under the frequency factor.

The Workgroup identified an initial government-wide selection composed of the largest 50 programs under the risk score plus the 50 programs with the greatest number of entities with four-time repeat types of compliance requirements. Programs identified in both groupings were combined. For example, if Program "X" was one of the programs in the top 50 largest risk scores and one of the programs within the top 50 of the greatest frequency, it is only counted once. This combination produced a selection from fiscal year ending 2009 reports in the FAC database of 71 different programs (CFDAs), 515 non-Federal entities,[13] and 1,150 program-entities. The selection includes programs from 14 different Federal agencies and covers approximately 99.5 percent of the total risk score. See the following table for base year 2009 in risk score order of the top 50 programs considering the risk score and frequency of 4-year repeat audit findings for a type of compliance requirement.

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[13] To put this in perspective, the Federal Audit Clearinghouse received Single Audit reports for fiscal years ending in 2009 from over 40,000 non-Federal entities.

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Metrics for Evaluating the Effectiveness of the Single Audit Process

Repeat Findings in Risk Score Order based for Top 50 Risk Score and Frequency - Base Year 2009						
Order	Risk Seq	Ct. Seq	Prefix	CFDA	Ent Cnt	CFDA Program Title
1	1	5	HHS	93.778	39	Medical Assistance Program
2	2	1	ED	84.032	86	Federal Family Education Loans
3	3	45	DOL	17.225	9	Unemployment Insurance
4	4	29	USDA	10.551	13	Supplemental Nutrition Assistance Program
5	5	10	HHS	93.558	30	Temporary Assistance for Needy Families
6	6	39	DOT	20.205	10	Highway Planning and Construction
7	7	27	ED	84.010	14	Title I Grants to Local Educational Agencies
8	8	21	HHS	93.767	19	Children's Health Insurance Program
9	9	28	ED	84.027	14	Special Education_Grants to States
10	10	134	USDA	10.566	1	Nutrition Assistance For Puerto Rico
11	11	16	HHS	93.658	20	Foster Care_Title IV-E
12	12	2	ED	84.063	69	Federal Pell Grant Program
13	13	78	DHS	97.036	4	Disaster Grants - Public Assistance (Presidentially Declared Disasters)
14	14	17	HHS	93.RD	20	R&D Cluster
15	15	13	HHS	93.575	24	Child Care and Development Block Grant
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17	17	14	ED	84.268	22	Federal Direct Student Loans
18	18	18	HHS	93.596	20	Child Care Mandatory and Matching Funds of the Child Care and Development Fund
19	19	55	USDA	10.555	7	National School Lunch Program
20	20	15	HHS	93.563	21	Child Support Enforcement
21	21	40	HHS	93.568	10	Low-Income Home Energy Assistance
22	22	41	ED	84.367	10	Improving Teacher Quality State Grants
23	23	35	USDA	10.561	11	State Administrative Matching Grants for the Supplemental Nutrition Assistance Program
24	24	42	HHS	93.667	10	Social Services Block Grant
25	25	6	HUD	14.871	38	Section 8 Housing Choice Vouchers
26	26	43	DoD	12.RD	10	R&D Cluster
27	27	30	HHS	93.659	13	Adoption Assistance
28	28	61	NASA	43.RD	6	R&D Cluster
29	29	36	ED	84.126	11	Rehabilitation Services_Vocational Rehabilitation Grants to States
30	30	52	USDA	10.558	8	Child and Adult Care Food Program
31	31	8	ED	84.038	36	Federal Perkins Loans
32	32	33	NSF	47.RD	12	R&D Cluster
33	33	9	HHS	93.600	32	Head Start
34	34	88	98	98.007	3	Food for Peace Development Assistance Program (DAP)
35	35	56	DHS	97.067	7	Homeland Security Grant Program
36	36	68	USDA	10.553	5	School Breakfast Program
37	37	89	USAID	98.001	3	USAID Foreign Assistance for Programs Overseas
38	38	57	DOL	17.260	7	WIA Dislocated Workers
39	39	19	HHS	93.777	20	State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare
40	40	62	DOL	17.258	6	WIA Adult Program
41	41	135	ED	84.365	1	English Language Acquisition Grants
42	42	46	DOT	20.106	9	Airport Improvement Program
43	43	136	ED	84.011	1	Migrant Education_State Grant Program
44	44	63	DOL	17.259	6	WIA Youth Activities
45	45	69	ED	84.048	5	Career and Technical Education -- Basic Grants to States
46	46	137	DHS	97.024	1	Emergency Food and Shelter National Board Program
47	47	79	SSA	96.001	4	Social Security_Disability Insurance
48	48	70	DOI	15.875	5	Economic, Social, and Political Development of the Territories
49	49	90	HHS	93.959	3	Block Grants for Prevention and Treatment of Substance Abuse
50	50	80	HHS	93.917	4	HIV Care Formula Grants
51	51	20	HUD	14.218	20	Community Development Block Grants/Entitlement Grants
52	52	25	HUD	14.850	15	Public and Indian Housing
53	55	11	HUD	14.867	30	Indian Housing Block Grants
54	61	37	ED	84.173	11	Special Education_Preschool Grants
55	65	3	ED	84.007	50	Federal Supplemental Educational Opportunity Grants
56	69	4	HUD	14.157	50	Supportive Housing for the Elderly
57	70	22	HHS	93.441	19	Indian Self-Determination
58	72	7	ED	84.033	38	Federal Work-Study Program
59	74	23	HHS	93.775	17	State Medicaid Fraud Control Units
60	80	47	HUD	14.129	9	Mortgage Insurance_Nursing Homes, Intermediate Care Facilities, Board and Care Homes and Assisted Living Facilities
61	84	26	DOI	15.042	15	Indian School Equalization Program
62	92	31	DOI	15.021	13	Consolidated Tribal Government Program
63	97	24	HHS	93.224	17	Consolidated Health Centers (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, Public Housing Primary Care, and School Based Health Centers)
64	105	48	DOC	11.307	9	Economic Adjustment Assistance
65	110	12	HUD	14.181	26	Supportive Housing for Persons with Disabilities
66	121	34	DOI	15.047	12	Indian Education Facilities, Operations, and Maintenance
67	123	44	HUD	14.856	10	Lower Income Housing Assistance Program_Section 8 Moderate Rehabilitation
68	124	49	ED	84.041	9	Impact Aid
69	131	38	HUD	14.195	11	Section 8 Housing Assistance Payments Program
70	137	50	DOI	15.046	9	Administrative Cost Grants for Indian Schools
71	140	51	USDA	10.415	9	Rural Rental Housing Loans
					1150	

Metrics for Evaluating the Effectiveness of the Single Audit Process

A key Workgroup finding is that this metric targets monitoring resources over a manageable group of high-risk programs, program-entities, and non-Federal entities to objectively track progress to correct internal control and compliance deficiencies and thereby reduce risk of improper payments. One of the advantages of this approach is that it is more targeted than the current audit follow-up process of focusing on all audit findings (e.g., treating low risk and high risk basically the same) and only measuring whether the audit findings were processed (e.g., current term is "resolved"). In short, this approach will be an initial effort to objectively show whether improper payment risks associated with repeat compliance findings identified by Single Audits are reduced over time.

The Workgroup proposes the initial repeat audit finding metric measure progress from base non-Federal entity fiscal years ending in 2009 to first measurement of non-Federal entity fiscal years ending in 2012. For example, the total of all risk scores for Program "X" in 2009 was 100 million and a goal could be to reduce the total for the program by 10% in 2012 to 90 million. The Workgroup recognizes that funding may change in 2012; however, the proposed metric and analysis of the metric adjusts accordingly—if funding is less, the associated risk score is less and if funding is increased, the associated risk score is greater. Therefore, agency efforts may adjust accordingly. In order to make the greatest reduction in the risk score, an agency will need to target improvement efforts considering a combination of the number of four-time repeat findings and the dollars. Agencies will also need to target two-time repeat findings to ensure they do not become four-time repeat findings. Each agency would be responsible for their own programs with the exception that for the R&D cluster the agency providing the non-Federal entity with the most direct awards would be responsible.

Metrics for Evaluating the Effectiveness of the Single Audit Process

Goal 3 - Reduce Untimely Single Audit Reports

A reduction in the number of late Single Audits would allow Federal agencies to follow-up more quickly and ensure audit findings are promptly corrected. Federal agencies must receive the audit reports before they can take action. For audit information to be relevant and actionable, it must be timely. Delays beyond the 9-month due date increase improper payment risk. For example, when Federal agencies are unaware of program risks identified by audit they are unable to take action to mitigate risks.

The FAC assisted the Workgroup by developing a report generator which Workgroup members used to enter parameters to produce an Excel report identifying untimely audits.[14] The Workgroup used the data for Single Audits for base year 2009 and prior years 2006 to 2008 as recorded in the FAC database as of April 20, 2009.

The analysis showed that unclean audit opinions, material non-compliance, material weaknesses in internal control, and going concern issues for reports more than 90 days late exposed Federal programs to an increased risk of improper payments. The Workgroup recommends an initial focus on chronically late audit reports to target late audits posing the greatest risk with an understanding that the definition of chronically late would be tightened over time. For the initial metric, chronically late audit reports were defined as reports more than 90 days late in a single year for entities expending over $50 million annually (assigned cognizant agency for audit) and more than 90 days late for 2 consecutive years for entities with smaller expenditures (assigned oversight agencies for audit). Entities expending more than $50 million pose greater risk because of the larger dollar amounts and the Federal agencies monitor them more closely through the assignment of a cognizant agency for audit.[15]

As a result of the analysis of the FAC database, the Workgroup proposes the following metric:

> **Objective**: Ensure timely filing of Single Audit reports with the FAC.

> **Recommended Metric**: Percentage decrease in risk score for the assigned entities from the base year to measurement year. A separate measurement is proposed for entities with cognizant and oversight agencies.

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[14] This metric does not address the issue of ensuring that all Single Audit reports are filed with the FAC more fully described in Recommendation No. 9 of the Single Audit Workgroup's June 4, 2010 report. Allowance was not made for any due date extensions as Federal policy beginning in 2010 is for agencies not to provide extensions and there is no central repository of extensions provided in prior years.

[15] Non-Federal entities not assigned a cognizant are assigned an oversight agency for audits.

Metrics for Evaluating the Effectiveness of the Single Audit Process

Calculation:

Risk score for entity	=	Base year Federal awards expended	X	Count of consecutive years chronically late

Reasoning: Reduce late Single Audit reports by targeting recipients (e.g., non-Federal entities expending direct Federal awards) with chronically late reports.

A key issue for this metric is who to hold accountable for improvement. OMB Circular A-133 in §___.400(c)(3) and (c)(4) puts the responsibility for ensuring timely audits on the Federal awarding agency and the pass-through entity respectively. The rationale for this is based upon §___.225 that only the Federal awarding agency or pass-through entity that provides the funding can take sanctions for failure to file. Unlike the other two metrics of unclean audit opinions and repeat audit findings, which are specific to an agency's programs, untimely audit reports affect all agencies providing direct awards to a recipient. However, holding multiple agencies responsible for the same metric is not practical and having multiple agencies following up on the same untimely filing is not efficient.

Implementation of the Untimely Single Audit Reports Metric

The Single Audit process uses the concept of a cognizant or oversight agency for audits to coordinate the Single Audit responsibilities affecting more than one agency. The Workgroup believes this same concept should be used to establish accountability for the untimely audit report metric by holding the cognizant or oversight agency responsible for the untimely audit reports metric.[16] Cognizant agency for audit assignments are for a 5-year period and the recommendation is that the assigned cognizant agency for audits for 2011-2015 be held accountable using this metric for their respective non-Federal entities. The assigned oversight agency for audits can change each year based upon the mix of expenditures as reported in each year's Schedule of Expenditures of Federal Awards. For continuity, the recommendation is that the oversight agency for audits for 2009 be held accountable for this metric for their respective non-Federal entities until the entity is no longer chronically late. If the entity was subsequently late after a timely filing, the then-current oversight agency for audits would be responsible until the next timely filing.

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[16] Responsibility for follow-up on untimely audits for subrecipients not expending any direct Federal awards is outside the scope of this metric as the Federal policy is for the pass-through entity to be responsible for follow-up with subrecipients.

Metrics for Evaluating the Effectiveness of the Single Audit Process

A non-Federal entity that filed a Single Audit report in the base year and has not filed the measurement year's report within 90 days after the due date in the measurement year would be considered more than 90 days late unless the respective cognizant or oversight agency for audit confirms that the entity's Federal awards expended are below the audit threshold and therefore a Single Audit is not required.

Based upon analysis of the FAC data, the Workgroup recommends that the initial measure for untimely Single Audit reports include all non-Federal entities assigned cognizant agencies for audit and the top 10 considering both risk scores and count for entities assigned oversight agencies for audit. This combination produced a selection for the base year of fiscal year ending 2009 reports in the FAC database of a combined cognizant/oversight total of 644 non-Federal entities covering approximately 98.8 percent of the total risk score as shown in the table below. Separate measures should be made for entities with cognizant and oversight agencies for audit.

CFDA Prefix	Agency	Cognizant Risk score %	Count	Oversight Risk Score %	Count	Agency Combined Risk Score %	Count
10	USDA	0.14%	2	0.16%	37	0.30%	39
12	DoD	0.14%	2	0.30%	42	0.44%	44
14	HUD	1.55%	11	0.82%	169	2.37%	180
15	DOI			0.26%	43	0.26%	43
16	DOL			0.10%	34	0.10%	34
19	State	0.06%	1			0.06%	1
20	DOT	0.90%	3	0.13%	29	1.03%	32
66	EPA			0.06%	13	0.06%	13
84	ED	2.36%	13	0.63%	94	2.99%	107
93	HHS	90.57%	10	0.56%	121	91.13%	131
94	CNCS	0.02%	1			0.02%	1
97	DHS			0.06%	19	0.06%	19
	Total	95.73%	43	3.08%	601	98.82%	644

The Single Audit Metrics Implementation team will need to consider implementation issues such as using a simplified approach where a Federal agency only has a very few non-Federal entities to follow-up on (e.g., State and CNCS above).

Metrics for Evaluating the Effectiveness of the Single Audit Process

Future Directions to Refine Metrics and to Improve the Utility of Single Audit Reports

Improve Audit Finding Risk Information in the FAC Database

Currently the repeat audit finding metrics treat all findings the same. The metric could be improved and become a more robust indicator of risk if the auditor identified on the SF-SAC which audit findings and types of compliance requirements contributed to: (a) an unclean Single Audit opinion; (b) a material weakness; and (c) a significant deficiency. Currently the unclean single audit opinions, types of compliance requirements, and audit findings are only identified on the SF-SAC and in the FAC database at the program level. Material weaknesses and significant deficiencies are not identified on the SF-SAC or in the FAC database at the program level. Federal officials must manually search the auditor's reporting on compliance and internal control over compliance applicable to each major program to obtain this information.

Now that the SF-SAC is submitted electronically, data collection techniques are available which were not practical with a paper format. For example, if material noncompliance and material weaknesses were captured in the FAC database by type of compliance requirement, the metrics could be refined to focus on the repeat audit findings that presented the greatest risk, e.g., the findings that contributed to an unclean audit opinion or a material weakness. This would further refine the risk focus from all repeat audit findings to the ones presenting the greatest risk of improper payments. This could be implemented with a revision to the SF-SAC using the PRA process for fiscal years ending in 2012 to provide linking the audit finding number to the types of compliance requirements and severity of the finding. For example, when the auditor enters the audit finding number, a standard format would be used, e.g., 2012-1 for the first finding in 2012. Then a drop down menu would appear and the auditor would indicate the types of compliance requirements applicable to the finding and for each type of compliance requirement there would be another dropdown menu to indicate whether it is material non-compliance (MNC), material weakness (MW), significant deficiency (SD), or none.[17] The auditor already identifies this information elsewhere in the audit report, but this information is not captured on the SF-SAC and, therefore not included in the FAC database. This SF-SAC change should also require the Single Audit reporting packages to be submitted in text-based PDF to facilitate electronic searches.

Improve Accessibility of Audit Findings

An integral factor to improvement across Federal agencies in reducing unclean audit opinions and repeat audit findings is the analysis of audit findings both at a single program-entity and across program-entities to identify trends and global program issues. Analysis of audit findings

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[17] A finding may be both an MNC and an MW or an MNC and an SD.

Metrics for Evaluating the Effectiveness of the Single Audit Process

requires review of the audit finding text, which is buried in each individual audit report. Reviewing audit findings for a particular program or type of compliance requirement requires manually retrieving the PDF copy of the report from the FAC Image Management System and then searching for the findings. This process is too cumbersome for routine analysis and monitoring of audit findings.

A more effective vision would be a Single Audit report database that would allow clicking on the summary information publicly available in the FAC database of a program's audit finding by type of compliance requirement and severity (e.g., material non-compliance or material weakness) and pulling up in a window the actual text of the audit finding. The next step would allow for the ability to search across audit findings to identify risk trends. Technology is available to do this; however, there are significant limitations until the structure of the Single Audit reporting package is more uniform. While the reports are currently submitted in PDF, many of the submissions are scanned copies (often from poor quality originals and crooked pages) and are not searchable or able to be accurately converted to a database without significant manual intervention. Additional problems are that the numbering of audit findings is not uniform and the location of the beginning and end of audit findings is not easily identified for electronic searches. Also, while Government Auditing Standards provide guidance to structure audit findings by specific elements (e.g., criteria, condition, cause, effect, recommendation, and auditee views) many findings are written in "prose" making the specific elements hard to identify. Finally, the audit finding is not required to specifically identify the applicable types of compliance requirements, nor whether the finding is a material non-compliance, material weakness, or significant deficiency.

Other Potential Enhancements
OMB should form a workgroup to consider additional steps to enhance the usefulness and access to Single Audit reports and in particular the audit finding text:

- Facilitate ingestion of Single Audit reports into a Single Audit report database;
- Identify audit finding locations in the report in a manner to be identified electronically;
- Facilitate automated analysis of audit findings;
- Reduce risk of personally identifiably information being included Single Audit reports;
- Facilitate automated access and analysis; and
- Support central a Single Audit report database to provide Federal agencies, States, pass-through entities, and the public ready access to audit findings.

Metrics for Evaluating the Effectiveness of the Single Audit Process

Appendices

Metrics – Tracking Single Audit Progress over Time

Though the first single audits were completed in 1986 as the result of the Single Audit Act of 1984, no metrics have ever been used to provide evidence of how the Single Audit has improved Federal program accountability. Intuitively, a non-Federal entity that is associated with an auditor and undergoes the rigorous process of an annual audit, including detailed tests of Federal program internal controls and compliance, is more accountable than a non-Federal entity that does not go through such a process. Clearly the sentinel effect of audit and Federal agency follow-up on audit findings improves program accountability. However, without a clear metric there is no baseline or measure to demonstrate benefit, justify audit cost, track progress, and improvements over time, or demonstrate a process of continuous improvement.

Recommendation No. 12 – *Develop a baseline, metrics, and targets to track the effectiveness of the Single Audit over time.*

The Workgroup recommends the development of a baseline, metrics, and targets, which are publicly reported, to track progress over time and provide meaningful information about the effectiveness of the Single Audit, similar to the Improper Payments Information Act's annual statistical measure of improper payments. Potential metrics are:

> ***Repeat Finding by Type of Compliance Requirement*** – A reduction in the number of non-Federal entities with serious audit findings by type of compliance requirement would provide a measure of improvement in non-Federal entity program accountability. For

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example, if an entity had a serious eligibility audit finding in year one and again in year two, then this would be a repeat finding and may be considered of lesser concern, as it often takes a year to improve processes and systems sufficiently to remove a finding. If a serious eligibility finding is repeated in year three, it may be considered of medium concern. However, a repeat of the finding in year four and in subsequent years would likely be considered of major concern, as the continued inability or unwillingness to take corrective action greatly increases the risk of improper payments. To be objective, a serious audit finding could be defined as a material weakness, material non-compliance, or both. An audit finding would be classified as repeat by type of compliance requirement regardless of the cause. For example, if in year one there was an eligibility material weakness due to a system problem and in year two there was an eligibility material non-compliance due to a completely different issue or cause (e.g., a change in personnel), it would still be classified as a repeat audit finding because the eligibility type of compliance requirement repeated.

Annual statistics should be produced and compared (e.g., statistics by minor, medium, and major concern; by type of compliance requirement; by program; and by entity). Statistics could also be dollar-weighted. Analysis of these statistics could be used to develop a baseline and target for improvement in reducing repeat findings, which would be used to hold both non-Federal entities and Federal agencies accountable and provide useful information to inform the IPIA process on risks and risk mitigation.

Timeliness of Audit Completion – For audit information to be relevant and support the IPIA process, it must be timely. A simple metric could be developed to track the number of audits accepted by the Federal Audit Clearinghouse that are filed by the due date. The data could be stratified and analyzed such as by size of non-Federal entity, Federal awards expended, or type of entity (e.g., states, local governments, non-profit organizations).

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Other Metrics – Other potential metrics include change in the number of clean audit opinions (both entity and major programs), low-risk auditees, and material weaknesses. These also could be dollar-weighted and stratified.

Metrics for Evaluating the Effectiveness of the Single Audit Process

**Appendix B: September 8, 2010 Recovery Accountability and Transparency Board
Letter to OMB**

Recovery Accountability and Transparency Board
1717 Pennsylvania Avenue NW, Suite 700
Washington DC 20006-4614

Mr. Danny Werfel   **SEP 0 8 2010**
Controller
Office of Federal Financial Management
Office of Management and Budget
1650 Pennsylvania Avenue, NW
Washington, DC 20502

Dear Mr. Werfel:

As you know, the Recovery Accountability and Transparency Board (Board) staff has
been analyzing the Single Audit data contained in the Federal Audit Clearinghouse (FAC) to
determine how this data can be used to improve oversight of American Recovery and
Reinvestment Act (Recovery Act) funds. As a result of this analysis, in January, I recommended
that the Office of Management and Budget (OMB) track, by federal agency, the percentage of
late Single Audit submissions. We believe tracking and publishing this information would create
an added incentive for federal agencies to work with recipients to ensure Single Audits are
submitted timely. In March 2010, I recommended that OMB work with federal agencies to
increase their oversight of states to reduce the number of states with qualified, adverse, or
disclaimer opinions on major programs and reduce the number of states with sub-recipient
monitoring findings.

Board staff has recently performed additional analysis of the Single Audit data contained
in the FAC. We analyzed the Single Audit history for 2009. Unlike our review in March, we
examined *all* entities including states that received Recovery Act funds to determine which
entities have the following Single Audit findings:

- An opinion other than an unqualified (clean) opinion on major federal programs with
  Recovery Act funds;
- Sub-recipient monitoring findings on major federal programs with Recovery Act funds;
  and
- Repeat other than unqualified opinions and sub-recipient monitoring findings from the
  prior year's Single Audit.

We focused on these findings because we believe that they are indicative of poor internal
controls. Poor internal controls can lead to mismanagement of funds, fraud, or waste. Our
analysis only focused on entities that received Recovery Act funds. We are concerned that
Recovery Act funds may be in jeopardy.

Metrics for Evaluating the Effectiveness of the Single Audit Process

Page 2 – Mr. Danny Werfel

Based on our analysis, we determined that these Recovery Act funded programs had:

- Over $32 billion awarded to entities that have one or more of the issues noted above;
- 166 recipients with a qualified opinion in 2009 on at least one major program;
- 87 recipients with a sub-recipient monitoring finding in 2009 on at least one major program;
- 17 recipients with a adverse/disclaimer opinion in 2009 on at least one major program;
- 15 recipients who received funding from major programs with a qualified/disclaimer/adverse opinion each of the previous 5 years, including eight states;
- 6 recipients who received funding from major programs with a sub-recipient monitoring finding each of the previous 5 years;
- 44 recipients with a qualified/disclaimer/adverse opinion on major programs in at least the prior year; and
- 16 recipients with sub-recipient monitoring findings on major programs in at least the prior year.

We also noted during this review that more issues were associated with the following Recovery Act programs than any other programs:

- Department of Health and Human Service's Medicaid Assistance Program (CFDA: 93.778)
    - o 23 qualified/disclaimer opinions
    - o 12 sub-recipient monitoring findings
    - o 18 repeat qualified/disclaimer/adverse opinions; 12 were repeat opinions for at least the previous 3 years
    - o 6 repeat sub-recipient monitoring findings in at least the prior year
- Department of Health and Human Service's Foster Care Program (CFDA: 93.658)
    - o 15 qualified/disclaimer opinions
    - o 9 repeat qualified/disclaimer/adverse opinions; 3 were repeat opinions for at least the previous 5 years
- Department of Labor's Workforce Investment Act Youth Activities (CFDA: 17.259)
    - o 24 qualified/disclaimer/adverse opinions
    - o 28 sub-recipient monitoring findings
    - o 5 repeat qualified/disclaimer/adverse opinions in at least the prior year
    - o 3 repeat sub-recipient monitoring findings in at least the prior year
- Department of Education's State Fiscal Stabilization Fund (CFDA: 84.394)
    - o 22 qualified/adverse opinions
    - o 6 sub-recipient monitoring findings
    - o No repeat opinions or findings, new program

Metrics for Evaluating the Effectiveness of the Single Audit Process

Page 3 – Mr. Danny Werfel

As a result of these findings, specific actions need to be taken to ensure that federal agencies are effectively using Single Audit results to manage their Recovery Act programs. One step I strongly urge OMB to take is to set Single Audit performance metrics for federal agencies. This is the same recommendation made in my March 2010 letter to you. These performance metrics should be designed to measure improvement in reducing the:
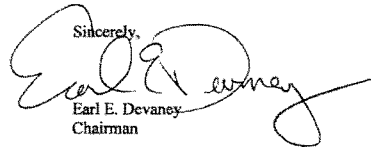
- number of qualified, adverse, and disclaimer opinions;
- number of material weaknesses and material non-compliance;
- number of repeat findings;
- number of sub-recipient monitoring findings; and
- percentage of late Single Audits.

This recommendation is also consistent with the recommendations recently made by the Single Audit Working Group.

In addition, we found that federal agencies are not taking advantage of the information contained in the FAC when determining whether to make an award to an entity. The recommendation regarding performance metrics outlined in this letter and in my previous letters will help ensure that the information obtained through the Single Audit process is effectively used by federal agencies in their administration of the Recovery Act.

I look forward to working with you to ensure that federal agencies are effectively using the information gathered through the Single Audit process. Please contact me or John Higgins, Director, Accountability, at 202-254-7900 to discuss how our organizations can work together on this important initiative.

Sincerely,

Earl E. Devaney
Chairman

cc: G. Edward DeSeve, Office of the Vice President
        John Higgins, Recovery Accountability and Transparency Board

Metrics for Evaluating the Effectiveness of the Single Audit Process

Appendix C: Metrics Overview Matrix

	Program Based Metrics		Entity Metric
	Unclean Opinions	Repeat Findings	Untimely Audits
Screening Factors	Unclean audit opinion in base year	Type of compliance requirement repeating 4 or more consecutive years from base year	> 90 days late Cog – 1 year Over – 2 year
Risk Scores	(Base year Fed awards expended) X (Count of consecutive year unclean opinions from base year) X (2 if adverse or disclaimer in base year)	(Base year Fed awards expended) X (Count of types of compliance requirements repeating 4 more consecutive years from base year)	(Base yr Fed awards expended) X (Count of consecutive year chronically late)
Selecting Factors	Largest 50 programs by risk scores / Top 50 programs by program-entity count	Largest 50 programs by risk scores / Top 50 programs by program-entity count	Cog – All Oversight – Top 10 agencies by untimely audit entity count
	Combine duplicate program selections	Combine duplicate program selections	
Measure	Percent decrease in risk scores from base year to measurement year (Untimely Audits will have separate measure for Cog and Oversight)		

Metrics for Evaluating the Effectiveness of the Single Audit Process

Appendix D: Workgroup Membership

Terrill W. Ramsey   Co-Chair
Senior Technical Advisor
U.S. Department of Health and Human Services

Christopher M. Stubbs   Co-Chair
Office of the Inspector General
Department of the Interior

Paul Fite   Member
Manager, Federal Audit Clearinghouse
U.S. Census Bureau

Tom Griffin   Member
Assistant Director, Office of Risk Management
U.S. Department of Energy

Keith Kistler   Member
Financial Consultant, Risk Management Service
U.S. Department of Education

Elliot Lewis   Member
Assistant Inspector General for Audit
U.S. Department of Labor

Phil Maestri   Member
Director, Risk Management Service
U.S. Department of Education

Betsy Newcomer   Member
Policy Analyst
Office of Federal Financial Management
Office of Management and Budget

James Sullivan   Member
Program Manager
U.S. Department of Treasury

John Sysak   Member
National Single Audit Coordinator
Office of Inspector General
U.S. Department of Transportation

Andrew Terry   Member
Federal Audit Clearinghouse
U.S. Census Bureau

Metrics for Evaluating the Effectiveness of the Single Audit Process

Gilbert Tran OMB Liaison
Technical Manager
Office of Federal Financial Management
Office of Management and Budget

Regina VanHouten Member
Senior Audit Manager
Recovery Accountability and Transparency Board

Caroline M. Watral Member
Presidential Management Fellow
U.S. Department of Education

Metrics for Evaluating the Effectiveness of the Single Audit Process

Appendix E: Acknowledgements

Metrics for Evaluating the Effectiveness of the Single Audit Process

Appendix F: Acronyms and Terms

CFDA	Catalogue of Federal Domestic Assistance
Clean Audit Opinion	Unqualified opinion
FAC	Federal Audit Clearinghouse
IPIA	Improper Payments Information Act
OMB	Office of Management and Budget
PDF	Portable Document Format
PRA	Paperwork Reduction Act
R&D	Research and Development
SF-SAC	Data Collection Form used to report to the FAC
Unclean Audit Opinion	Qualified, adverse, or disclaimer of opinion

Executive Order 13520 – *Reducing Improper Payments*

Section 4(b) Single Audit Workgroup Recommendations

June 4, 2010

E.O. 13520 – *Reducing Improper Payments*
Section 4(b) Single Audit Workgroup Recommendations

Table of Contents

E.O. 13520 – *Reducing Improper Payments*
Section 4(b) Single Audit Workgroup Recommendations

Executive Summary

This paper presents the findings and recommendations of the Single Audit Workgroup (Workgroup) formed by the U.S. Office of Management and Budget (OMB) pursuant to Section 4 (b) of Executive Order 13520 – Reducing Improper Payments. The Workgroup was comprised of representatives from the federal audit community; federal agency management involved in overseeing the Single Audit process and programs subject to that process; representatives from the state audit community; and staff from OMB. Section 4 (b) tasked the Workgroup with developing recommendations to improve the effectiveness of single audits of non-federal entities that are expending federal funds in order to help identify and reduce improper payments.

The Workgroup made recommendations in four areas.

1.   **Instilling Federal Leadership** – The Workgroup recommended four ways to enhance federal leadership over the Single Audit process:

      - Establish an accountable agency official for Single Audit in each grant-making agency.
      - Improve interagency coordination.
      - Conduct further study on the appropriate division of Single Audit responsibilities between federal agency management and the Office of Inspector General (OIG).
      - Provide agency contacts for non-federal entities.

2.   **Managing Risks** – The Workgroup recommended five ways to focus the Single Audit on those non-federal entities presenting the greatest risk of improper payments:

      - Increase the focus on the 150 largest non-federal entities.

- Conduct further study on how Single Audit could be more efficiently implemented for non-federal entities accountable for smaller federal awards.
- Streamline the types of compliance requirements that must be tested.
- Shorten the Single Audit cycle.
- Establish a centralized process to ensure that Single Audit reports are submitted.

3. **Using Single Audit Reporting Effectively** – The Workgroup made ten recommendations to improve access to the information contained in Single Audit reports, to enhance federal agency follow-up of findings, and to coordinate Single Audit and Improper Payments Information Act (IPIA) analysis and results:

- Digitize Single Audit reports.
- Improve the identification of high-risk findings.
- Develop metrics to track the effectiveness of the Single Audit.
- Establish an interagency analysis of single audits.
- Broaden the follow-up of Single Audit findings to look at the entire federal program.
- Expand the role of the Federal Audit Clearinghouse to provide support and tracking functions.
- Enhance the follow-up of cross-cutting findings that affect multiple federal agencies.
- Conduct a pilot to coordinate Single Audit and IPIA processes for high-risk programs.
- Conduct further study of actions that may need to be taken when known questioned costs could result in improper payments.
- Make Single Audit reports publicly available.

E.O. 13520 – *Reducing Improper Payments*
Section 4(b) Single Audit Workgroup Recommendations

4. **Amending the Stated Purposes of the Single Audit Act** – Finally, the Workgroup made one recommendation to amend a stated purpose of the Single Audit Act of 1984, as amended (Single Audit Act):

- Pursue an amendment to the fifth stated purpose of the Single Audit Act to require that federal agencies not only rely upon and use audit work done pursuant to the Single Audit Act, but that they act upon the results of single audits.

List of Recommendations

Following are all of the recommendations developed by the Workgroup. The recommendations deemed most important by the Workgroup are highlighted in bold. Recommendations which OMB could implement immediately are followed by an asterisk.

1. **The management of each major grant-making agency should take a stronger leadership role for the Single Audit process. * (page 15)**

2. Improve federal interagency Single Audit coordination similar to the interagency coordination provided by the NSAC for the OIGs. * (page 15)

3. Conduct further study on the appropriate division of leadership roles between federal agency management and OIG. (page 16)

4. Enhance Appendix III of the Compliance Supplement to provide federal agency management contacts in addition to the current listing for OIG contacts. A clear distinction should be made within each agency between the two functions and the responsibilities of each function. * (page 16)

5. **Increase focus on the top 150 non-federal entities that expend the most federal funding. * (page 20)**

6. Conduct further study on how Single Audit could be more efficiently implemented for non-federal entities accountable for smaller federal awards. (page 21)

7. Refocus Single Audit compliance testing on those compliance requirements most likely to result in improper payments. (page 23)

8. **Shorten the Single Audit cycle. (page 26)**

9. Establish a centralized process for ensuring that all Single Audit reports are filed with the Federal Audit Clearinghouse. (page 29)

10. **Conduct a pilot project to test digitizing Single Audit reports. * (page 33)**

11. Improve the identification of high-risk audit findings. (page 33)

12. **Develop a baseline, metrics, and targets to track the effectiveness of Single Audit over time. * (page 34)**

13. Implement an interagency Single Audit analysis and reporting function. * (page 36)

14. Focus Single Audit follow-up on both federal program accountability and individual non-federal entity accountability (as opposed to the current audit finding-by-finding approach). * (page 37)

15. Expand the Federal Audit Clearinghouse role to provide central support and tracking of the audit follow-up process. (page 37)

16. Revise the approach for following up on cross-cutting findings, possibly following the centralized indirect cost negotiation model. (page 38)

17. Conduct a pilot for coordinating review of improper payments and Single Audit results for high priority programs. * (page 39)

18. Conduct further study to determine what additional steps need to be taken by non-federal entities or their auditors when questioned costs are identified that could result in improper payments. (page 40)

19. Conduct a study to determine how Single Audit reports could be made publicly available via the Internet. (page 40)

20. Seek amendment of the fifth stated purpose of the *Single Audit Act* to require federal agencies to not only rely upon and use work done pursuant to the single audits, but to act on the results of single audits. (page 42)

* Indicates recommendations which OMB could implement immediately.

Introduction

In an effort to reduce improper payments in federal grants, President Barack Obama issued Executive Order No. 13520 – Reducing Improper Payments (Executive Order), on November 23, 2009. The purpose of the Executive Order is to reduce improper payments by intensifying efforts to eliminate payment error, waste, fraud, and abuse in the major programs administered by the Federal Government, while continuing to ensure that federal programs serve their intended beneficiaries.

Eliminating improper payments in federal grants is not an easy task. The overall federal grant process involves many parties. Grant funds are typically passed from the Federal Government to the primary recipient, which in many cases then passes the grant funds to a subrecipient who might pass the funds further to another subrecipient. Each party in the grant chain must be cognizant of its fiduciary responsibility to eliminate improper payments. Clearly, this is a complex process that will require a concentrated effort by each party involved in the federal grant process.

The Executive Order aims specifically to:

1. Reduce improper payments by boosting transparency.
2. Hold agencies accountable for reducing improper payments.
3. Examine the creation of incentives for states to reduce improper payments.
4. Increase penalties for contractors who fail to disclose improper payments.

Section 4 (b) of the Executive Order provides that:

> Within 30 days of the date of this order, the Director of OMB shall establish a working group consisting of Federal and elected State and local officials to make recommendations to the Director of OMB designed to improve the effectiveness of single audits of State and local governments and non-profit organizations that are expending Federal funds. The Director of OMB may designate an appropriate official to serve as Chair of the working group to convene its meetings and direct its work. The working group's recommendations shall be prepared in consultation with

the CIGIE [Council of Inspectors General on Integrity and Efficiency] and submitted within 180 days of the date of this order. The recommendations shall address, among other things, the effectiveness of single audits in identifying improper payments and opportunities to streamline or eliminate single audit requirements where their value is minimal.

To implement the Executive Order, OMB created eight workgroups, including one to examine the role of the Single Audit in identifying and reporting improper payments. This paper presents the findings of the Single Audit Workgroup (Workgroup) and its recommendations. The Workgroup developed the following business question to address the Executive Order:

How can the effectiveness of the Single Audit process (Single Audit) be improved and measured; and, how can the Single Audit and the Improper Payments Information Act (IPIA) process be coordinated, where appropriate, to enhance federal program accountability?

The Workgroup also agreed to examine the five stated purposes of the Single Audit Act of 1984, as amended (Single Audit Act), and determine which, if any, of those stated purposes need to be revised.

Based on numerous meetings, research, and discussions, the Workgroup identified 20 recommendations, which are organized by four primary areas:

1. Instilling Federal Leadership
2. Managing Risks
3. Using Single Audit Reporting Effectively
4. Amending the Single Audit Act Objectives

The Purpose of Single Audit is Not to Measure Improper Payments

An initial Workgroup consideration was whether the Single Audit could be expanded to provide support for IPIA measurement. Initially, such a task seemed like a logical extension of the Single Audit process, as the compliance requirements tested under the IPIA are also tested under Single Audit. For example, the eligibility requirements tested under the Medicaid Payment Error Rate Measurement[1] are also tested under Single Audit. It seemed feasible that the non-federal entity auditor could expand the sample size and draw a statistically valid sample from selected grantees to provide an error rate. That rate could then be rolled up into a national improper payments error rate. However, further analysis showed that while the initial theory looked promising, there were practical implementation problems. First, while Single Audit tests the same compliance requirements as the IPIA, the selection of which programs to test is non-federal entity dependent (e.g., the major program determination is entity specific depending upon the non-federal entity's mix of programs). Second, the Single Audit test period is based upon the non-federal entity fiscal year rather than a standard test period across a program (e.g., the federal fiscal year), and non-federal entity fiscal years vary. To ensure sufficient Single Audit testing to support the IPIA, the federal government would need to ensure that the Single Audit covers certain programs as major during specified years, and this testing would likely need to be for a different test period than the non-federal entity fiscal year. Finally, the sample sizes selected for single audits are chosen to meet the purpose of determining whether the non-federal entity complied. Sample sizes to meet the purpose of determining an estimated improper payment rate and amount would need to be much larger and for a different purpose than Single Audit.

Even if after significant effort these challenges could possibly be overcome, the Workgroup determined that this approach is inconsistent with the purpose of an audit, which is an attest function on management's representations, not a method to obtain the

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[1] The Payment Error Rate Measurement program, often referred to as PERM, uses a 17-state three-year rotation for measuring Medicaid improper payments.

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original data and determine an estimate of a grantee's level of improper payments. The risk assessments and estimation processes required by the IPIA are part of the monitoring component of management's internal control over its programs. Federal agency management is responsible for the measurement of improper payments. The OIG then performs an independent and objective oversight function to consider management's controls and measurements and evaluate them. This same approach should be used at the non-federal entity level.

Expanding the Single Audit to measure improper payments would in effect be using the auditor to perform a management function. Consistent with the current purpose of Single Audit, exceptions identified during Single Audit testing are reported by the non-federal entity auditor as questioned costs rather than improper payments. Federal agency management must make the final decision of whether to allow or disallow costs as an improper payment. The monitoring of internal controls by a non-federal entity should include reviews of transactions to determine compliance rates and should detect improper payments, which is similar to improper payments testing. Auditors should rely upon the non-federal entity monitoring of controls to reduce Single Audit testing. Federal agency management is responsible for the improper payments measurement, not the OIG. The OIG performs an independent and objective oversight function. This same approach should be used at the non-federal entity level.

Reasons Single Audit is not well suited to measure improper payments include:

- Improper payments are federal, program-wide measurements for all grantees. Grantees have different audit periods, and there are differences between the normal measurement periods for improper payments and entities' fiscal years.
- The measurement of improper payments must be statistical, and Single Audit does not require statistical sampling or the reporting of statistical error rates.
- The sample size for Single Audit is not similar to that needed to measure improper payments. Specifically, Single Audit sample sizes answer a yes/no question related to material compliance/non-compliance. Improper payment sample sizes answer the

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question of how much was improperly paid (through a point estimate), requiring much larger samples to be tested.

- Single Audit only requires the non-federal entity auditor to report only known questioned costs and not to project likely questioned costs.

- An audit is an attest function rather than a measurement function.

- Measuring improper payments is more of a management "monitoring" function rather than an audit function.

- Management should be responsible for determining improper payments, similar to management's responsibility for producing financial statements.

Federal agencies under the IPIA are testing expenditure transactions by either going into states to perform their own IPIA measurements or requiring states to perform IPIA measurements according to federal specifications. An appropriate non-federal entity auditor role would be to test the improper payment estimation processes and the reporting of improper payments by non-federal entity management rather than using the audit function to estimate and report improper payments.

While the Workgroup agreed that the statistical measurement of improper payments should not be a purpose of the Single Audit, it did conclude that Single Audit does assist in identifying and reducing improper payments.

Single Audit Assists in Reducing Improper Payments

While it does not provide a statistical measure of improper payments, the Single Audit does provide a base level of accountability and transparency for each non-federal entity. The risk of improper payments is mitigated through:

- Preparation by the non-federal entity of financial statements in accordance with generally accepted accounting principles.
- Testing and the rendering of an opinion by an independent auditor on these statements, in accordance with *Government Auditing Standards*.
- Performance by the auditor of additional internal control and compliance tests.
- Availability to the public of reports on audit results, internal control deficiencies, and instances of non-compliance.

The Single Audit process addresses accountability by:

- Identifying internal control weaknesses and areas of non-compliance.
- Following up on corrective action for audit findings.
- Providing a starting point for assessing risk areas for improper payments.
- Enhancing the control environment by establishing a discipline for undergoing annual audits, producing audited financial statements, responding to internal control testing, associating with an auditor, and performing audit follow-up and corrective action.

Chapter 1 – Instilling Federal Leadership

Federal agency OIGs have taken a leadership role in the Single Audit process by:

- Assisting OMB in the development of Single Audit policy.
- ~~Approving extensions of reporting due dates.~~
- Providing technical advice to non-federal entities and their auditors.
- Coordinating with audit organizations such as the American Institute of Certified Public Accountants (AICPA) and the National State Auditors Association (NSAA).
- Speaking at training sessions provided to non-federal entity auditors.
- Ensuring the quality of audits performed.
- Participating in the audit follow-up process.

The level of OIG involvement varies by agency, but most OIGs have a strong Single Audit presence, have designated an experienced staff person as their national single audit coordinator (NSAC), and are listed in Appendix III of the Compliance Supplement as the federal agency contact for the non-federal entities to contact regarding Single Audit issues. The NSACs routinely coordinate with each other and hold an in-person meeting, chaired by OMB staff, semi-annually.

The management, or non-OIG, side of federal agencies generally plays a secondary role in the Single Audit process except for issuing the management decision letter and disallowing program costs; annually updating the Compliance Supplement; and ensuring that all Single Audit reports are received. Non-OIG participation in the Single Audit is organized differently among federal agencies (e.g., in the CFO office or individual divisions administering federal awards), which makes interagency management coordination more difficult. The Workgroup could not readily identify an agency-wide non-OIG point of contact responsible for Single Audit equivalent to the OIGs' position of NSAC. During this study, non-federal entity auditors indicated to the Workgroup that it

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was important for them to have federal agency contacts for Single Audit information (both management and OIG) and to know who to contact for specific federal functions.

The Workgroup observed that the OIGs appear to be well coordinated and organized and actively participating in the Single Audit process. By contrast, the management side appears not to be uniformly organized, and its participation in the Single Audit process appears to be more reactive and focused on resolving and following up on individual audit findings. A central agency point of contact is not readily available, and interagency Single Audit coordination is minimal.

Under the IPIA, management is fully responsible for the measurement, reporting, and reduction of improper payments. However, management is also responsible for working with OMB in the development of IPIA policy and participating, along with the non-federal entity, in the measurement process. Each agency with a high-priority program is required by the Executive Order to appoint an existing Senate-confirmed position as the agency's "accountable official" for improper payments. The OIGs participate in the IPIA process independently in an appraisal function rather than operationally with the IPIA measurement. The Workgroup believes that the OIGs may have assumed a Single Audit leadership role for the following reasons:

- To address the lack of agency management participation and expertise.
- Because the organization of federal program management varies between agencies.
- Because of the importance of Single Audit to ensuring the accountability of federal program expenditures, which is essential to completing the agency's annual audit.
- Because the OIGs often perform the role of the cognizant or oversight agency for audit, including ensuring Single Audit quality, and have greater contact with the non-federal entity auditors.
- Because the OIGs operate under a uniform government-wide act and coordinate through the CIGIE.

Some members of the Workgroup expressed concern that since federal agency management is responsible for federal program accountability and monitoring, management needs to assume a stronger leadership role. The OIGs should provide independent oversight and, when requested by management, technical advice.

The Single Audit Act and OMB Circular A-133 prescribe specific agency functions under Single Audit, but leave it up to each agency to decide where, organizationally in the agency, the functions should be performed. The Inspector General Act of 1978, as amended, does not prescribe specific Single Audit roles to the OIG.

Recommendation No. 1 – The management of each major grant-making agency should take a strong agency leadership role for the Single Audit process.

Each agency head should designate an accountable official in a Senate-confirmed position, similar to the accountable official for improper payments, to address Single Audit. This Single Audit official would be responsible for the agency's use of the Single Audit process to ensure accountability for federal awards, including coordination with the IPIA process, and provide an annual progress report for incorporation into the agency's annual performance and accountability report. At a working level, each Single Audit official could designate a key agency Single Audit coordinator at the staff level (similar to the NSAC) to coordinate the Single Audit process within the agency and with other agencies and to serve as a point of contact for non-federal entities and their auditors.

Recommendation No. 2 – Improve federal interagency Single Audit coordination to be similar to the interagency coordination provided by the NSAC for the OIGs.

OMB should help organize key agency Single Audit coordinators and facilitate initial meetings. Working together, these coordinators could promote interagency coordination, consistency, and sharing in areas such as coordinating audit follow-up; identifying higher-risk grantees; providing guidance to non-federal entities and their auditors; providing input on Single Audit policy; enhancements to the Federal Audit

Clearinghouse on database and reporting; and studying ways to use Single Audit results to improve grant accountability, best practices, and training.

Recommendation No. 3 – Conduct further study on the appropriate division of leadership roles between federal agency management and the OIG.

The Workgroup could not reach agreement on the appropriate division of leadership roles within an agency between the OIG and management and recommends that OMB conduct additional study of the issue. Some members of the Workgroup believe that a top-level management official, similar to the accountable official, should be fully responsible for the agency's Single Audit process; however, by memorandum of agreement the OIG may agree to perform certain Single Audit functions (e.g., ensuring the quality of single audits), as long as the OIG functions do not impair the OIG's independence to audit the agency's performance of the Single Audit process.

Other members of the Workgroup believe that since the Single Audit involves non-federal audits, a strong OIG role is appropriate, and the OIG can perform any Single Audit function except for issuing management decision letters and imposing sanctions against non-federal entities for non-compliance.

Recommendation No. 4 – Enhance Appendix III of the Compliance Supplement to provide federal agency management contacts in addition to the current listing of OIG contacts. A clear distinction should be made within each agency between the two functions and the responsibilities of each function.

The Compliance Supplement is updated annually, and this change could be made in the 2011 Supplement.

Chapter 2 – Managing Risks

Federal agencies provide over $600 billion in federal awards annually to non-federal entities (states, local governments, and non-profit organizations) that carry out, on a daily basis, federal programs that are vital to the American people. Approximately 75 percent of the federal awards audited go to the 150 largest non-federal entities, with the balance going to 37,000 smaller entities. As most federal programs operate from year to year, federal grants management operates on a continuum in which federal agencies have an on-going relationship with the non-federal entity administering federal programs.

Both the IPIA and the Single Audit focus federal oversight on the largest-dollar programs. However, their approaches are different. IPIA measurement and risk mitigation starts at the program-wide level first, with a focus on the largest-dollar programs across all non-federal entities. Tests are performed at non-federal entities with the largest dollars to support an estimate of overall program error rate and amount. Risk mitigation plans only look at individual non-federal entities' corrective actions as a way to support overall error rate reduction and risk mitigation. By contrast, Single Audit looks at dollars spent by non-federal entities rather than on a federal program-wide basis. The Single Audit view considers two factors: first, if the non-federal entity expends above the audit threshold (currently $500,000) and a Single Audit is required; and second, whether programs are identified by the non-federal entity auditor as the largest and riskiest and need to be tested for compliance. In short, the IPIA focus is program first and Single Audit's focus is non-federal entity first.

Under Single Audit, the non-federal entity auditor provides an opinion (the highest level of audit assurance) on major program compliance. Major programs are determined at each non-federal entity based upon multiple factors, with the primary factor being the dollar size of program expenditures (i.e., the larger the program dollar expenditure at a non-federal entity, in relation to other programs, the greater chance the program will be major at the non-federal entity). A point of emphasis is that the dollar size comparison is in relation to the mix of programs at the individual non-federal entity, not the overall

dollar size of expenditures across all entities. For example, a $10 million program may be considered a smaller program for a large state and never tested, yet the same program with only $300,000 in expenditures could be the largest program at a small non-profit and always tested.

The Single Audit also requires:

1. A financial statement audit and Schedule of Expenditures of Federal Awards (SEFA) to demonstrate a base level of non-federal entity financial management and provide a basic accounting by program of all federal awards expended by the non-federal entity.
2. Additional audit tests of internal controls related to applicable compliance requirements for major programs, including the reporting of deficiencies.
3. Sufficient evidence for the non-federal entity auditor to express an opinion on compliance with applicable compliance requirements for major programs. The Single Audit provides federal agencies and their auditors with indicators of entity and program risk at the non-federal entity, but not an error rate measurement.

Single Audit requires all non-federal entities expending above the audit threshold to have a Single Audit. Approximately one-half of the non-federal entities audited (19,000) expend less that $2 million per year, which represents less than two percent of total federal awards audited under Single Audit. While accountability is important for all federal dollars, resources are limited for non-federal entities and their auditors. Therefore, the Workgroup considered the cost/benefit of performing half of the audits to cover less than two percent of the dollars. Some Workgroup members believe that federal oversight of Single Audit, like that of IPIA, should focus more on the largest dollars. Other members of the Workgroup believe that the current focus and audit threshold of $500,000 are needed to ensure accountability for federal awards and that any benefits of increasing the audit threshold would be more than offset by the need for additional monitoring of federal programs. These Workgroup members believe that the general public is very interested in smaller dollar grantees as they can better understand the amounts involved.

These Workgroup members also believe that the Single Audit is an effective tool for agencies to use in monitoring their smaller award recipients for compliance with federal requirements and that elimination of this tool would require significant additional resources (for both the OIG and agency management) to mitigate the risks caused by reduced oversight of 19,000 non-federal entities.

In the limited time available to study this issue, the Workgroup could not reach consensus on how to implement a tiered approach that would help focus Single Audit on those federal funds that may be at greatest exposure for improper payments, reduce audit burden, and not jeopardize accountability for "smaller" entities. Moreover, the Workgroup received significant comments from Single Audit stakeholders on this issue. These stakeholders included federal grants management officials, federal CFOs, OIG officials, state auditors, and the AICPA. Many respondents expressed concern that simply raising the threshold for Single Audit would leave too much exposure for federal funds and would eliminate the only accountability of compliance with federal requirements for many non-federal entities. Several respondents offered alternatives such as:

- Develop a limited Single Audit for non-federal entities bellow a certain threshold. The Workgroup had also discussed this idea, but could not readily determine what such a reduced Single Audit would include and what requirements of the "full" Single Audit would be omitted.
- Allow non-federal entities bellow a certain threshold more time to complete the Single Audit. For example, if the Single Audit due date was accelerated, continue to allow these entities nine months to complete their Single Audit. However, the Workgroup noted that this would not provide audit burden relief. Further, since all entities currently subject to Single Audit would continue, it would not ultimately allow federal agencies to better focus their oversight.
- Allow non-federal entities below a certain threshold to receive a Single Audit on other than an annual basis, for example every three years.

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Federal programs have many compliance requirements, and non-federal entities are responsible to fully comply with all. However, it is not practical or cost effective to use audit resources to verify everything under every possible scenario. The OMB Circular A-133 Compliance Supplement focuses on key risks by identifying 14 types of compliance requirements for the auditor to test.[2] The first 13 are specific, while the fourteenth, Special Tests and Provisions, is broader. By contrast, the IPIA focuses on the key accountability areas to determine whether the right recipient receives the right payment for the right reason and at the right time and whether all this was documented to provide accountability for federal dollars. Some Workgroup members believe that audit resources are limited and if Single Audit testing is too broad and includes areas of low risk, the overall depth of testing will be reduced (e.g., more areas of testing do not bring with it more resources but rather will reduce the amount of testing in critical areas).

Federal agencies report annually on the results of IPIA measurement within 45 days after the federal fiscal year end as part of their annual performance and accountability report. OMB closely monitors this activity and reports on compliance by federal agencies with this requirement. Non-federal entities are required to issue their Single Audit reports within nine months after the non-federal entity's fiscal year end. There is no central process to track or report overall non-federal entity compliance. Some federal agencies have routinely provided non-federal entity extensions to the reporting due date, although OMB, in Memorandum M-10-14, advised federal agencies to no longer grant extensions.

Recommendation No. 5 – *Increase the focus on the 150 non-federal entities that expend the most federal funding.*

Based on information obtained from the Federal Audit Clearinghouse database, over 75 percent of the federal awards covered under Single Audit are expended by only 150

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[2] The 14 types of compliance requirements are Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Cash Management; Davis-Bacon Act; Eligibility; Equipment and Real Property Management; Matching; Period of Availability of Federal Funds; Procurement and Suspension and Debarment; Program Income; Real Property Acquisition and Relocation Assistance; Reporting; Subrecipient Monitoring; and Special Tests and Provisions.

entities. Some Workgroup members believe that an intense analysis of the audit assurance and risk identification provided by Single Audit for the top 150 would provide useful information to the government-wide IPIA effort as well as information on the effectiveness of Single Audit. For example, if the analysis showed few risks for the dollars expended at these top 150 entities, it would indicate lower improper payment risk. Conversely, if the analysis showed areas of unacceptable risk, federal agencies could focus on steps to mitigate the risk and improve accountability. Most audit efforts focus first on dollar coverage. The cost/benefit of this effort should be high, as this more focused look at fewer than 0.5 percent of the non-federal entities would provide an accountability picture of how over 75 percent of the dollars were expended. Currently, Single Audit provides no government-wide analysis or reporting, and this could be an easy first step. A potential approach would be a pilot for OMB to charter an interagency task force to review the Single Audit and audit follow-up activities of the largest non-federal entities' single audits completed during 2010. An objective of the pilot could be to determine the feasibility and benefits of more intense monitoring, reporting, and analysis of the Single Audit results of the non-federal entities expending the largest amount of federal awards.

Recommendation No. 6 – *Conduct further study on how Single Audit could be more efficiently implemented for non-federal entities accountable for smaller federal awards.*

As previously noted, the Workgroup debated several ides on how Single Audit could be more efficiently implemented for the large number of entities currently subject to Single Audit that account for a smaller total portion of all federal expenditures. The Workgroup's goal was to identify a means of focusing federal oversight agencies on the most significant program-wide issues and providing audit burden relief, while not jeopardizing accountability for federal funds at these "smaller" non-federal entities.

Several members supported increasing the audit threshold by using a tiered approach to focus the more rigorous audit of major programs on the largest dollars, while keeping some level of audits for all non-federal entities currently audited. This tiered approach

would continue the base level of accountability provided by the financial statement audit and the SEFA for non-federal entities expending below the tiered threshold, but relieve them of the specific Single Audit testing of major programs. It would retain the current full Single Audit for entities expending above the tiered threshold. As shown in Appendix A, a tiered threshold of $2 million would relieve audit burden for approximately 19,000 non-federal entities (approximately half of the current single audits) with additional risk to only two percent of federal awards expended. Similarly, a tiered threshold of $5 million would relieve burden for approximately 28,500 entities (approximately 75 percent of current single audits) with additional risk to less than five percent of the dollars. A tiered threshold of $10 million would relieve burden for approximately 33,000 entities (approximately 88 percent of current single audits) with additional risk to less than eight percent of the dollars.

The Workgroup members supporting the tiered approach believe that the process of a non-federal entity going through the rigor of preparing financial statements, including a SEFA in accordance with generally accepted accounting principles, an independent auditor testing and rendering an opinion on these statements in relation to the financial statements taken as whole in accordance with *Government Auditing Standards*, and the auditor providing a report on internal control and compliance relative to financial reporting that can be made available to the public, provides a strong base level of accountability sufficient for the smaller dollars involved below the tiered threshold.

The basic benefit of the tiered approach is to reduce audit requirements of minimum value while still maintaining base level accountability and reporting. This would also be consistent with the IPIA and other recommendations in this report to better manage risks and focus the Single Audit on the largest dollars and most critical compliance requirements.

However, as previously discussed, the Workgroup could not reach a consensus and received significant feedback from Single Audit stakeholders expressing concern over such a tiered approach. Several stakeholders offered alternatives, but again, there was no

clear consensus on how this goal could be achieved. Therefore, the Workgroup concluded that further study and analysis is necessary to determine how to best achieve audit burden relief and better focus Single Audit on those entities that represent the greatest exposure to improper payments.

Recommendation No. 7 – *Refocus Single Audit compliance testing on those compliance requirements most likely to result in improper payments.*

The Workgroup recommends revising OMB Circular A-133 and the Compliance Supplement to focus Single Audit internal control and compliance testing on the key types of compliance requirements most likely to result in improper payments. This approach is consistent with OMB's October 2009 Single Audit Internal Control Project for American Recovery and Reinvestment Act (ARRA) programs, which limited testing to the following basic types of compliance requirements. [3]

- **A.** *Activities Allowed or Disallowed* **and B.** *Allowable Costs/Cost Principles* – The amounts reported as expenditures and claimed for matching were for allowable activities and charges that were reasonable, allowable, and allocable under the administrative requirements and cost principles circulars and terms and conditions of award or grant agreement.

- **C.** *Cash Management* – The non-federal entity followed procedures to minimize the time elapsing between the transfer of funds from the U.S. Treasury, or pass-through entity, and their disbursement.

- **E.** *Eligibility* – The records show that those who received services or benefits, either directly or on behalf of someone else, were eligible to receive them—the right amount, to the right person, for the right purpose, and at the right time.

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[3] The letter references are to the references used for the types of compliance requirements in the OMB Circular A-133 Compliance Supplement.

- **L. Reporting** – Federal financial reports, claims for advances and reimbursement, and amounts claimed as matching are accurate and include all activity of the reporting period, are supported by applicable accounting records, and are fairly presented in accordance with program requirements.

- **M. Subrecipient Monitoring** – The pass-through entity (1) made sub-awards only to eligible entities, (2) identified awards, compliance requirements and payments to the subrecipient prior to disbursement, (3) monitored subrecipient activities to ensure subrecipient compliance, and (4) performed the audit resolution function (e.g., ensured proper audit submitted on time, followed up on audit findings, including issuance of a management decision, and ensuring that subrecipients took timely and appropriate corrective action).

- **N. Special Tests and Provision** – Requirements that are unique to each federal program and are found in the laws, regulations, and the provisions of contract or grant agreements pertaining to the program which could have a direct and material effect on a major program.

Some provision should be made for the few programs and entities where the types of compliance requirements dropped could put a program at risk of improper payments (D. *Davis Bacon, F. Equipment and Real Property Management, G. Level of Effort and Earmarking,*[4] H. *Period of Availability of Federal Funds,* I. *Procurement and Suspension and Debarment,* J. *Program Income,* and K. *Real Property Acquisition and Relocation Assistance*). A potential approach would be to include these requirements in a program's write-up for *Special Tests and Provisions*. This inclusion would only be applicable when the federal agency (1) makes a strong case for how non-compliance with these types of

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[4] The matching part of G. *Matching, Level of Effort, and Earmarking* testing is relocated to types of compliance requirements A. and B. for whether the costs claimed for matching are reasonable, allowable, and allocable. Determination of whether the matching percentage computation is met is covered under L. *Reporting* because if the matching amount is properly reported, then the determination of whether the percentage is met is a math calculation the federal agency can perform and follow up on. The relocation of the A. and B. compliance requirements is consistent with the way many auditors perform testing and since for many programs the full non-federal entity matching is not required to be met until the end of the grant period, determination of whether the requirement is met cannot be made until grant close-out.

compliance requirements could result in increased risk of improper payments; and (2) provides a targeted Compliance Supplement write-up identifying improper payment risks and focusing audit tests to address these risks.

Refocusing the Compliance Supplement and Single Audit testing to the types of compliance requirements at greatest risk of causing improper payments would streamline the Single Audit process and use Single Audit resources where the risks are greatest. The Workgroup believes the current Compliance Supplement focuses too much on minute detail, which obscures the big picture of overall federal program accountability and improper payment reduction.

Non-federal entity auditors have told Workgroup members that the current Compliance Supplement framework, using the Part 2 Matrix to identify when types of compliance requirements may be applicable, results in selecting all types of compliance requirements listed for a specific program, unnecessary documentation, and additional testing of little value. Currently, federal agencies are not required to justify program risk as a criterion for listing a type of compliance requirement as applicable in the matrix. As a result, a type of compliance requirement is often checked as applicable even if there is a remote chance of non-compliance causing improper payments or other significant program risks. For example, if *Program Income* could potentially be material to a program under unusual circumstances, the matrix would identify program income as an applicable compliance requirement, and audit procedures would need to be performed. Not performing audit procedures for a compliance requirement identified in the matrix requires the auditor to follow up and document why the type of compliance requirement did not need to be tested. If not clear, the auditor may perform the additional procedures related to that type of compliance requirement even though the area is low-risk out of fear that quality reviewers may question their judgment. The Workgroup believes that the better approach is to clearly focus the Single Audit on the known areas of highest risk of improper payments and make a business decision to accept some small risk of undetected non-compliance to ensure that the Single Audit is cost-effective and risk-focused.

Specific Implementation Issues

OMB updates the Compliance Supplement annually, and this change in focus could be implemented in the 2011 annual Compliance Supplement update. Implementation would need to be followed by technical changes to OMB Circular A-133 and the Federal Audit Clearinghouse data collection form to remove reference to types of compliance requirements dropped. No change in the Single Audit Act would be required. OMB and the Compliance Supplement team would need to enforce a disciplined transition to ensure that the types of compliance requirements dropped were not simply relocated as an additional test area under *Special Tests and Provisions*.

The Workgroup believes that federal agencies and non-federal entities and their auditors would support focusing the Single Audit on the areas of greatest risk of improper payments. Federal agencies may express concern at dropping some types of compliance requirements. However, this would be mitigated by providing a method for an agency to include a focused write-up in the Compliance Supplement under *Special Tests and Provisions*, which may provide improved audit coverage targeted to the issues of highest risk.

Recommendation No. 8 – *Shorten the Single Audit cycle.*

For Single Audit results to be actionable and support the reduction of improper payments, Single Audit reporting and federal agency follow-up must be timely. The current nine months to complete the audit and then six months for audit resolution is too long. Workgroup members question whether a process that produces untimely data could be taken seriously. In *Updated Guidance on the American Recovery and Reinvestment Act,* dated March 22, 2010 (Memorandum M-10-14), OMB advised federal agencies not to grant extension requests to grantees for fiscal years 2009 through 2011. Federal agencies have either already adopted this policy or are in the process of adopting this policy. Additionally, OMB clarified in Memorandum M-10-14 that in order to qualify as a low-

risk auditee, the Single Audit filing with the Federal Audit Clearinghouse must be timely.
A phase-in period to shorten the cycle is favored by the Workgroup. Such a phase-in
period could shorten the due date of the Single Audit report by one month per year. For
example, Single Audit reports for fiscal years beginning on or after July 1, 2012, would
be due as follows:

July 1, 2012, would be due in 8 months.

July 1, 2013, would be due in 7 months.

July 1, 2014, would be due in 6 months.

Completing the audit more quickly will require that both non-federal entity management
and their auditors work differently, and federal agencies will also need to help. Following
are specific changes to consider:

- Non-federal entity management will need to close their books quicker and prepare the
  SEFA earlier.
- Subrecipients (particularly subrecipients of states) will need to know earlier the
  CFDA number and amount of federal awards disbursed to them. This will require
  pass-through entity management to identify the amount and CFDA number of federal
  awards at the time of disbursement to (or drawdown by) the pass-through entity. This
  earlier identification at the time of disbursement is already required for ARRA funds.
- States and other large non-federal entities will need to address the issue of timely
  incorporation of their component units so the financial statement portion of the Single
  Audit can be completed faster.
- Auditors will need to start the audits earlier and perform more audit procedures on an
  interim basis.
- OMB and federal agencies will need to update the Compliance Supplement earlier to
  support interim testing and quicker reporting. The Workgroup believes that OMB,
  with the support of federal agencies, should strive to issue the annual update to the
  Compliance Supplement in February.

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- Federal agencies, and particularly federal agency management, will need to improve their structures to ensure timely and consistent guidance to non-federal entities and their auditors on both audit and compliance questions.

Single Audit stakeholders noted overwhelmingly that shortening the Single Audit cycle would be challenging, but that earlier issuance of the Compliance Supplement was critical. The Workgroup believes one way to ensure earlier completion of the Compliance Supplement would be to include a trigger whereby late publication of the Compliance Supplement would result in an automatic and equivalent extension of the Single Audit due date. OMB may also want to explore other incentives for non-federal entities to complete their audits earlier and for federal agencies to complete their resolution follow-up quicker.

The time period for federal agency resolution of audit findings should also be shortened from six months to four months after the date the Federal Audit Clearinghouse shows the filing status as complete. A similar phase-in period should be used with a goal of completing the audit and audit resolution within 10 months after year end. For example, an audit with a fiscal year ending June 30, 2015, would be due by December 31, 2015, and audit resolution should be complete by April 30, 2016, two months prior to the end of the next fiscal year.

Specific Implementation Issue

Shortening the audit due date requires a change in both the Single Audit Act and OMB Circular A-133. Shortening the time frame for audit resolution only requires a simple change to OMB Circulars A-50 and A-133 and possibly could be implemented quicker through an OMB memorandum to federal agencies.

Recommendation No. 9 – *Establish a centralized process for ensuring that all Single Audit reports are filed with the Federal Audit Clearinghouse.*

Under OMB Circular A-133, each federal awarding agency and pass-through entity is required to individually determine whether the required Single Audit reports are filed with the Federal Audit Clearinghouse or received in the case of a pass-through entity. This process is not efficient, as many non-federal entities receive federal awards from multiple federal agencies and pass-through entities with duplicate follow-up efforts. It is also not effective, as there is no overall monitoring or reporting of how many non-federal entities are delinquent in submitting their required audit reports. The Workgroup recognizes the challenges for federal agencies in identifying which non-federal entities are required to report, particularly for entities expending small amounts closer to the audit threshold (e.g., determining whether expenditures exceed the audit threshold is complicated, as there are multiple payment systems at the federal level and each pass-through entity has its own system; also, non-federal entities have flexibility in choosing the non-federal entity for Single Audit reporting, which may be difficult to match to the payment mechanisms). Finally, only the federal awarding agency or pass-through entity can take sanctions for failure to file. However, the Federal Audit Clearinghouse does provide tracking for the largest non-federal entities, which have cognizant agency for audit assignments[5], and most entities are consistent from year to year, particularly states and local governments. Also, non-profit organizations are now required to report on their IRS form 990 whether they complied with the requirements of the Single Audit. If the Single Audit reports are not received by the Federal Audit Clearinghouse, they cannot be used to support the IPIA process. The Workgroup recommends that OMB explore (1) a central follow-up process and enforcement mechanism for auditees delinquent in filing Single Audit reports, and (2) an annual government-wide reporting on non-federal entity compliance with the requirement to file with the Federal Audit Clearinghouse.

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[5] Non-federal entities expending more than $50 million annually have a cognizant agency for audit assignment.

Chapter 3 – Effective Use of Single Audit Reporting

Improve Access to Audit Findings

Non-federal entities are required to file their Single Audit reports with the Federal Audit Clearinghouse within nine months after the end of the non-federal entity's fiscal year. Subrecipients must file both with the Federal Audit Clearinghouse and their pass-through entity. The report submission includes a summary report called the Data Collection Form or the SF-SAC (see example in Appendix C), as well as a PDF image of the reporting package.[6] The Federal Audit Clearinghouse creates a publicly accessible database from the SF-SAC, which provides a summary of audit results including types of audit opinions, references to audit findings, and the basic federal awards expended information as presented on the SEFA. However, effective audit follow-up requires more than summary information, it requires the specifics of the audit finding. Unfortunately, the link between the SF-SAC and the audit finding is manual (i.e., follow-up officials must take the finding number from the SF-SAC, locate the PDF image of the report, and then search for the related audit findings). This is cumbersome, time consuming, and does not lend itself to analysis of audit results of a program across entities.

Typically, federal agencies download the reporting package via the Internet using the Federal Audit Clearinghouse image management system, review the entire package to identify issues requiring follow-up, and work out the details with a focus on resolving[7] individual findings. Each agency follows up on its own findings and some agencies further divide the process with individual operating divisions following up on findings for the division's awards. While an audit finding's cause and the corrective action needed

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[6] The reporting package includes (1) financial statements and Schedule of Expenditures of Federal awards (SEFA); (2) auditor's reports; (3) summary schedule of prior audit findings; and (4) corrective action plan.
[7] Note that in federal lingo, a Single Audit finding is resolved when there is agreement between the federal agency and the non-federal entity on what corrective action is needed. A resolved finding may or not be corrected depending upon the corrective action the non-federal entity actually takes.

often cross programs and agencies,[8] the Workgroup's observation is that follow-up activities are generally decentralized with limited coordination. OMB Circular A-133 prescribes that the cognizant agency for audit should provide coordination for audit findings that affect the programs of more than one agency. However, this does not routinely occur in practice. The Workgroup questions whether this model is practical considering the volume of Single Audit reports and the lack of a centralized audit follow-up tracking system. While the Federal Audit Clearinghouse provides a central process and database for receipt of Single Audit reports, follow-up data and systems are decentralized within each federal agency, and in some cases, operating divisions within agencies are following up independently on audit findings for their programs.

The current approach of individual finding-by-finding, agency-by-agency follow-up does not readily identify the causes of overall program or entity risk nor does it provide a feedback loop from the audit follow-up process to grant management. Addressing the cause is key to improving program accountability and reducing the risk of improper payments. Audit follow-up needs to be broadened to go beyond the finding-by-finding approach and analyze audit findings from different perspectives. For example, audit findings could be analyzed in the following manners: (1) by program across all entities (e.g., to identify common causes or provide feedback to improve program design); (2) across all programs within an entity (e.g., to identify high-risk entities and characteristics to help identify them); or (3) between similar types of entities (e.g., to identify common issues between states). By contrast, IPIA provides a government-wide perspective of a program as a whole across all non-federal entities, identifies key risks, and objectively tracks progress over time.

The Workgroup believes a key to better use of audit findings is a link between the SF-SAC and the audit finding detail. To consider the feasibility of using the current Federal Audit Clearinghouse files and current technology to accomplish this linkage, the

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[8] Examples of audit findings crossing programs and agencies include the following: eligibility findings from a common client intake system, cost allowability non-compliance with OMB Circulars, or non-federal entity overall financial system findings that directly affect federal awards.

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Workgroup met with members of an Association of Government Accountants' (AGA) project team performing a research study on how to leverage technology to create an interactive Single Audit database.[9] The AGA team provided a proof-of-concept by using 10 statewide audits to demonstrate automated linking and search capabilities from the SF-SAC summary to the detailed audit findings. This was accomplished by using software to first convert the current PDF image reports to XML and then using intuitive software to organize and search the findings and provide digital linking. Once the data is digital, organized, and searchable, it can support analysis such as identifying recurring and uncorrected problems both at the grantee and program levels. For example, with a few clicks, the full text of the audit findings for the Temporary Assistance for Needy Families (TANF) could be presented, and then with a few more clicks this could be narrowed down to just the audit findings affecting eligibility. In addition to real time reporting and analysis, this technology could provide for user tagging to improve future access to the data. Current technology allows access to be user determined to meet the user's needs.

But there is more. The AGA project demonstrated only how the use of current technology could provide immediate improvements with existing data. Simple changes to improve the consistency of the data could provide additional benefits. For example, audit findings are not always located in the same place within a reporting package, which makes automated identification of the location of the findings more difficult. Also, auditors do not uniformly report the finding elements[10] required by *Government Auditing Standards* in a consistent format.

The Workgroup recognizes that the Single Audit process was started and the Single Audit Act and OMB Circular A-133 were written in a different era when data was in unsearchable, printed reports. The following recommendations are a first step toward modernization and leveraging existing technology.

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[9] AGA CPAG Research Series: Report No. 24, May 2010, will be posted on the Internet at http://www.agacgfm.org/research/publications/default.aspx and an article titled *Leveraging Technology: Creating and Interactive Single Audit Database,* will appear in the AGA *Journal of Government Financial Management,* 2010 second quarter edition and at http://www.agacgfm.org/publications/journal/.
[10] The elements of a finding as defined by *Government Auditing Standards* are condition, criteria, cause, effect, and recommendation.

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Recommendation No. 10 – *Conduct a pilot project to test digitizing Single Audit reports.*

The Workgroup recommends a pilot to test the process developed by the AGA research project using existing Single Audit data in the Federal Audit Clearinghouse for the 150 non-federal entities with the greatest expenditures, which account for approximately 75 percent of the total expenditures of federal awards.[11] Once this Single Audit data is digitized and searchable, analysis should be performed on the programs at greatest risk of improper payments, with analysis by program across all entities, across all programs within an entity, and between similar entities. This analysis should provide useful information about total accountability and risk for the largest federal program dollars as well as the programs currently at greatest risk of improper payments.

Recommendation No. 11 – *Improve the identification of high-risk audit findings.*

The Workgroup recommends a review of the current model for Single Audit findings and related reporting to look for simple changes to better identify the findings that require immediate attention or attention in the near future (e.g., to avoid improper payments) as opposed to minor findings not requiring federal agency action. The review should focus on (a) how to facilitate the digitization and searching of the audit findings (e.g., uniform reporting of audit finding detail consistent with *Government Auditing Standards*); (b) improving the linkage between the current year audit findings and the corrective action plan and the subsequent year summary schedule of prior audit findings; and (c) reformatting the SF-SAC to identify audit findings which are material weaknesses or which contribute to an other than "clean" opinion on compliance.

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[11] Based upon information in the Federal Audit Clearinghouse for fiscal years ending in 2008 (the latest full year of information available).

Metrics – Tracking Single Audit Progress over Time

Though the first single audits were completed in 1986 as the result of the Single Audit
Act of 1984, no metrics have ever been used to provide evidence of how the Single Audit
has improved federal program accountability. Intuitively, a non-federal entity that is
associated with an auditor and undergoes the rigorous process of an annual audit,
including detailed tests of federal program internal controls and compliance, is more
accountable than a non-federal entity that does not go through such a process. Clearly the
sentinel effect of audit and federal agency follow-up on audit findings improves program
accountability. However, without a clear metric there is no baseline or measure to
demonstrate benefit, justify audit cost, track progress and improvements over time, or
demonstrate a process of continuous improvement.

Recommendation No. 12 – *Develop a baseline, metrics, and targets to track the
effectiveness of the Single Audit over time.*

The Workgroups recommends the development of a baseline, metrics, and targets, which
are publicly reported, to track progress over time and provide meaningful information
about the effectiveness of the Single Audit, similar to the IPIA's annual statistical
measure of improper payments. Potential metrics are:

> ***Repeat Finding by Type of Compliance Requirement*** – A reduction in the
> number of non-federal entities with serious audit findings by type of compliance
> requirement would provide a measure of improvement in non-federal entity
> program accountability. For example, if an entity had a serious eligibility audit
> finding in year one and again in year two, then this would be a repeat finding and
> may be considered of lesser concern, as it often takes a year to improve processes
> and systems sufficiently to remove a finding. If a serious eligibility finding is
> repeated in year three, it may be considered of medium concern. However, a
> repeat of the finding in year four and in subsequent years would likely be
> considered of major concern, as the continued inability or unwillingness to take

corrective action greatly increases the risk of improper payments. To be objective, a serious audit finding could be defined as a material weakness, material non-compliance, or both. An audit finding would be classified as repeat by type of compliance requirement regardless of the cause. For example, if in year one there was an eligibility material weakness due to a system problem and in year two there was an eligibility material non-compliance due to a completely different issue or cause (e.g., a change in personnel), it would still be classified as a repeat audit finding because the eligibility type of compliance requirement repeated.

Annual statistics should be produced and compared (e.g., statistics by minor, medium, and major concern; by type of compliance requirement; by program; and by entity). Statistics could also be dollar-weighted. Analysis of these statistics could be used to develop a baseline and target for improvement in reducing repeat findings, which would be used to hold both non-federal entities and federal agencies accountable and provide useful information to inform the IPIA process on risks and risk mitigation.

Timeliness of Audit Completion – For audit information to be relevant and support the IPIA process, it must be timely. A simple metric could be developed to track the number of audits accepted by the Federal Audit Clearinghouse that are filed by the due date. The data could be stratified and analyzed such as by size of non-federal entity, federal awards expended, or type of entity (e.g., states, local governments, non-profit organizations).

Other Metrics – Other potential metrics include change in the number of clean audit opinions (both entity and major programs), low-risk auditees, and material weaknesses. These also could be dollar-weighted and stratified.

Recommendation No. 13 – *Implement an interagency Single Audit analysis and reporting function.*

Implement an interagency Single Audit analysis function to develop tools and techniques to use information in the Federal Audit Clearinghouse database to better manage the Single Audit process and look at ways Single Audit information could provide a feedback loop to management and the IPIA process. Potential action areas for this function are developing metrics to track progress, working with federal program managers and audit follow-up officials to develop reports identifying trends, and developing an annual report on Single Audit progress as measured by the metrics. A key focus of any analysis and reporting function should be to identify improper payment risks disclosed by the Single Audit process. Representation on the workgroup should include a mix of staff with background in Single Audit and IPIA, including agency program managers and follow-up officials, Federal Audit Clearinghouse staff, and in an advisory capacity, OIG staff. A potential pilot for this function would be to assist in the analysis of the pilot recommended for digitizing Single Audit reports for the top 150 non-federal entities and to work with the Federal Audit Clearinghouse to use available information to develop initial Single Audit metrics.

View of Whole Single Audit Process

While the Single Audit is one audit for a non-federal entity, the federal agency audit follow-up is decentralized with many agencies and program officials working one audit and sometimes even the same audit finding. OMB Circular A-133 requires the cognizant agency for audit to coordinate the management decision[12] for audit findings that affect the federal programs of more than one agency (cross-cutting findings). However, information provided to the Workgroup indicates this coordination is not done routinely. Impediments to interagency coordination on cross-cutting findings include the following

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[12] The management decision is the federal agency's communication to the non-federal entity of actions the non-federal entity is expected to take as a result of the finding, including any requirement to repay disallowed costs.

factors: (1) interagency business processes and systems do not exist to facilitate interagency coordination and ad hoc phone and e-mail coordination is not practical; and (2) only the agency (or in some cases operating division within an agency) that awarded the funds can issue the management decision to resolve the audit finding.

Recommendation No. 14 – *Focus Single Audit follow-up on both federal program accountability and individual non-federal entity accountability (as opposed to the current audit finding-by-finding approach).*

As a pilot, one or more IPIA high-priority programs could be selected for review in coordination with the greater access to audit finding information provided by the pilot for digitizing the audit reports of the top 150 non-federal entities to provide a focus on the selected programs.

Recommendation No. 15 – *Expand the Federal Audit Clearinghouse's role to provide central support and tracking of the audit follow-up process.*

While the Federal Audit Clearinghouse provides a central repository of Single Audit reports, the audit follow-up process is decentralized between agencies, within agencies, and even again for individual findings with little coordination and no central reporting. Each agency maintains its own audit follow-up system, and some agencies have multiple follow-up systems, few if any of which communicate with each other. These systems vary from automated web-based systems to spreadsheets to manual paper files. Much of the information in the Federal Audit Clearinghouse system is re-entered (often manually) to the individual agency systems. The Federal Audit Clearinghouse database provides a publicly accessible web-based system of all the reports received, but there is no reporting on how they were used or what actions were taken as a result of the deficiencies reported. The Workgroup believes that the current decentralized process is both inefficient and ineffective and recommends that OMB charter a study of the feasibility of expanding the Federal Audit Clearinghouse database to support the audit follow-up process and provide

government-wide information on how the results of audits are used to improve federal program accountability and reduce improper payments.

Recommendation No. 16 *– Revise the approach for following up on cross-cutting findings, possibly following the centralized indirect cost negotiation model.*

An example of a cross-cutting finding is when a non-federal entity's payroll system improperly over-charges all federal programs for employee salary and benefit costs. Even though multiple federal agencies and programs are involved, the improper overcharging is based upon the same government-wide requirements in the administrative requirements and the cost principles circulars. Audit follow-up and any disallowance of costs is handled separately by each agency and often decentralized again within the agency to the applicable program officials. Under most program laws and regulations, only the federal entity awarding the grant can take sanctions or disallow costs.

Without a centralized system, it is almost impossible for federal agencies to coordinate follow-up activities, and even with a central system it would be difficult, as views of appropriate corrective action and repayment of disallowed costs often differ. This decentralized approach most certainly results in differing audit resolution for the same issue under the same requirements. Non-federal entities have indicated to Workgroup members that it is difficult for the entity to negotiate corrective action with many different federal agency personnel on the same issue. The Workgroup recommends that OMB charter a study to identify the feasibility of a central focus on resolution and follow-up of cross-cutting audit findings. A potential group to perform this study would be the key agency Single Audit coordinators recommended earlier in this report.

Improper Payments, Single Audit, and Grants Management Coordination

Even though one of the five stated purposes of the Single Audit Act is for federal agencies to rely upon the Single Audit to the maximum extent practical, there is little evidence of a coordinated feedback loop between processes relating to Single Audit,

IPIA, and grants management. Other recommendations in this report, such as an increased focus on the top 150 non-federal entities, improving the timeliness of the Single Audit by shortening the report due date to six months, improving access to audit findings, using metrics to measure the effectiveness of the Single Audit, and developing a Single Audit analysis and reporting function, should provide valuable risk information to be passed on to the IPIA and grants management processes. Similarly, pervasive causes of improper payments found during the IPIA measurement process should be passed on to Single Audit and grants management.

Recommendation No. 17 – *Conduct a pilot for coordinating the review of IPIA and Single Audit results for high-priority programs.*

A potential pilot study would be for agencies with high-priority programs covered by Single Audit to perform a coordinated risk analysis for similar periods (e.g., the findings in Single Audit reports for fiscal years ending in 2009 and the improper payments identified in the IPIA measurement reported in the agency's 2010 annual performance and accountability report). In most cases, the improper payment measurement is focused on compliance requirements that are also tested under Single Audit. Such a pilot should be coordinated with the pilot recommended earlier under effective use of Single Audit reporting to pilot digitizing reports to provide a searchable database of Single Audit findings. It is anticipated that most expenditures for high-priority programs would be included in the reports of the reporting pilot. The coordinated review pilot should also consult with program grants management officials. This analysis could be summarized in a report to OMB, and may include common risk indicators and analysis of how closer coordination between the Single Audit and IPIA processes could help mitigate improper payment high-priority program risk. The results of this pilot should be coordinated with the next update of the Compliance Supplement to ensure that auditors performing single audits are made aware of risks identified in IPIA measurement.

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Recommendation No. 18 – *Conduct further study to determine what additional steps need to be taken by non-federal entities or their auditors when questioned costs are identified that could result in improper payments.*

When reporting on the results of single audits, non-federal entity auditors report questioned costs based on the non-compliance specifically identified by the auditor, referred to as known questioned costs. In evaluating the effect of known questioned costs on the opinion on compliance, the non-federal entity auditor considers the best estimate of total costs questioned (likely questioned costs), not just the known questioned costs. However, the likely questioned costs estimate is not required to be reported, nor is there guidance or criteria as to how likely questioned costs are determined.

To fully assess the impact of Single Audit in preventing or reducing improper payments and to maximize the value of Single Audit to inform the IPIA process, it is essential that the non-federal entity follow-up on known questioned costs to identify likely questioned costs. Likely questioned costs provide the potential impact of improper payments. This would allow the non-federal entity and federal agencies to ensure that federal funds are being administered in a manner to avoid or minimize improper payments. Relying on known questioned costs is not effective for this purpose since it does not quantify the full extent to which improper payments may have occurred.

Recommendation No. 19 – *Conduct a study to determine how Single Audit reports could be made publicly available via the Internet.*

All of the preceding recommendations in this report relate to either the non-federal entity or the Federal Government. However, providing transparency of Single Audit results to the public could be a significant driver for reducing improper payments. Further, the Workgroup believes that the public is entitled to see the results of these audits of federal funds. However, before the full text of Single Audit reports can be made public, there must be a process for ensuring that personally identifiable information (PII) that may be included in Single Audit reports is not disclosed. Although Single Audit reports should

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not contain PII, many do. The Workgroup concluded that additional study is needed to determine who should be responsible for making Single Audit reports publicly available on the Internet and what the process would be for ensuring that PII is not disclosed. One possible solution could involve a requirement for the non-federal entity to post its Single Audit report to the web. Since it is the non-federal entity's report, this approach would not require a third party to make decisions regarding the non-federal entity's report.

Chapter 4 – Amending the Single Audit Act Objectives

At the conclusion of the Workgroup's study, the members of the Workgroup reviewed the five stated purposes of the Single Audit Act in light of the preceding findings, conclusions, and recommendations.

The five stated purposes of the Single Audit Act are to:

1. Promote sound financial management, including effective internal controls, with respect to federal awards administered by non-federal entities.
2. Establish uniform requirements for audits of federal awards administered by non-Federal entities.
3. Promote the efficient and effective use of audit resources.
4. Reduce burdens on state and local governments, Indian tribes, and nonprofit organizations.
5. Ensure that federal departments and agencies, to the maximum extent practicable, rely upon and use audit work done pursuant to chapter 75 of title 31, United States Code.

Recommendation No. 20 – *Seek amendment of the fifth stated purpose of the Single Audit Act to require federal agencies to not only rely upon and use the work done pursuant to the Single Audit, but to act on the results of single audits.*

The Workgroup concluded that stated purposes 1 through 4 were all consistent with the findings and conclusions of the Workgroup's study. However, the Workgroup believes that the fifth stated purpose could be strengthened by adding a positive requirement for federal agencies to act on the findings contained in Single Audit reports. This would be consistent with the recommendations presented in Chapter 1 to enhance the federal leadership of Single Audit. Moreover, this would provide a linkage of the Single Audit to reducing improper payments.

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Appendix A

Stratification of Entities by Amount of Federal Awards Expended
Entity Fiscal Years Ending in 2008

Range <=	Expenditures			Number of Audits		
	Within Range	Cumulative	Cumulative %	Within Range	Cumulative	Cumulative %
Above $25 Billion	$268,434,748,790	$268,434,748,790	25.9%	6	6	0.02%
$25,000,000,000	$239,295,438,383	$507,730,187,173	49.0%	15	21	0.06%
$10,000,000,000	$223,619,981,482	$731,350,168,655	70.7%	64	85	0.23%
$1,000,000,000	$37,322,588,494	$768,672,757,149	74.3%	55	140	0.37%
$500,000,000	$35,331,827,853	$804,004,585,002	77.7%	101	241	0.64%
$250,000,000	$45,045,969,520	$849,050,554,522	82.0%	288	529	1.41%
$100,000,000	$33,546,581,192	$882,597,135,714	85.3%	474	1,003	2.67%
$50,000,000	$31,824,634,050	$914,421,769,764	88.3%	917	1,920	5.11%
$25,000,000	$41,378,555,798	$955,800,325,562	92.3%	2,700	4,620	12.30%
$10,000,000	$4,825,042,957	$960,425,368,519	92.8%	487	5,107	13.60%
$9,000,000	$5,156,663,176	$965,582,031,695	93.3%	607	5,714	15.22%
$8,000,000	$5,663,869,535	$971,245,901,230	93.8%	757	6,471	17.23%
$7,000,000	$6,919,932,538	$978,165,833,768	94.5%	1,068	7,539	20.08%
$6,000,000	$7,177,257,711	$985,343,091,479	95.2%	1,422	8,961	23.87%
$5,000,000	$8,453,718,018	$993,796,809,497	96.0%	1,889	10,850	28.90%
$4,000,000	$9,738,815,275	$1,003,535,624,772	96.9%	2,806	13,656	36.37%
$3,000,000	$11,042,925,667	$1,014,578,550,439	98.0%	4,504	18,160	48.36%
$2,000,000	$13,205,618,815	$1,027,784,169,254	99.3%	9,244	27,404	72.98%
$1,000,000	$784,130,313	$1,028,568,299,567	99.4%	804	28,208	75.13%
$950,000	$756,196,672	$1,029,324,496,239	99.4%	818	29,026	77.30%
$900,000	$751,738,898	$1,030,076,235,137	99.5%	859	29,885	79.59%
$850,000	$735,248,633	$1,030,811,483,770	99.6%	891	30,776	81.96%
$800,000	$720,815,120	$1,031,532,298,890	99.7%	930	31,706	84.44%
$750,000	$714,081,213	$1,032,246,380,103	99.7%	985	32,691	87.06%
$700,000	$765,910,325	$1,033,012,290,428	99.8%	1,136	33,827	90.09%
$650,000	$767,376,087	$1,033,779,666,515	99.9%	1,228	35,055	93.36%
$600,000	$708,663,351	$1,034,488,329,866	99.9%	1,231	36,286	96.64%
$550,000 to $500,000	$663,612,806	$1,035,151,942,672	100.0%	1,262	37,548	100.00%
	$1,035,151,942,672			$ 37,548		

Total $2 Million & Below		$20,573,392,233	2.0%		19,388	52%
Total $5 Million & Below		$49,808,851,193	4.8%		28,587	76%
Total $10 Million & Below		$79,351,617,110	7.7%		32,928	88%

Source: Federal Audit Clearinghouse Database

B

0348-0057

E.O. 13520 – *Reducing Improper Payments*
Section 4(b) Single Audit Workgroup Recommendations

Appendix B

OMB No. 0348-0057

Form SF-SAC
(08-16-2008)

U.S. DEPT. OF COMM. – Econ. and Stat. Admin. – U.S. CENSUS BUREAU
ACTING AS COLLECTING AGENT FOR
OFFICE OF MANAGEMENT AND BUDGET

Data Collection Form for Reporting on
AUDITS OF STATES, LOCAL GOVERNMENTS, AND NON-PROFIT ORGANIZATIONS
for Fiscal Year Ending Dates in 2008, 2009, or 2010

▶ Complete this form, as required by OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations."

PART 1	GENERAL INFORMATION *(To be completed by auditee, except for Items 6, 7, and 8)*

1. Fiscal period ending date for this submission

Month	Day	Year
09	30	2008

2. Type of Circular A-133 audit
1 ☒ Single audit
2 ☐ Program-specific audit

3. Audit period covered
1 ☒ Annual   3 ☐ Other – [____] Months
2 ☐ Biennial

4. Auditee Identification Numbers

a. Primary Employer Identification Number (EIN)

`5 3 – 6 0 0 1 1 3 1`

b. Are multiple EINs covered in this report? 1 ☒ Yes 2 ☐ No

c. If Part I, Item 4b = "Yes," complete Part I, Item 4c on the continuation sheet on Page 4.

d. Data Universal Numbering System (DUNS) Number

`7 8 – 1 4 5 – 5 7 3 8`

e. Are multiple DUNS covered in this report? 1 ☒ Yes 2 ☐ No

f. If Part I, Item 4e = "Yes," complete Part I, Item 4f on the continuation sheet on Page 4.

5. AUDITEE INFORMATION

a. Auditee name
GOVERNMENT OF THE DISTRICT OF COLUMBIA

b. Auditee address *(Number and street)*
810 1ST STREET, NE
City
WASHINGTON
State
DC
ZIP + 4 Code
`2 0 0 0 2 – 4 2 2 7`

c. Auditee contact
Name
WILLADENE TOLMACHOFF
Title
SINGLE AUDIT COORDINATOR

d. Auditee contact telephone
(202) 442 – 8277

e. Auditee contact FAX
(202) 442 – 6453

f. Auditee contact E-mail
WILLADENE.TOLMACHOFF@DC.GOV

g. AUDITEE CERTIFICATION STATEMENT – This is to certify that, to the best of my knowledge and belief, the auditee has: (1) engaged an auditor to perform an audit in accordance with the provisions of OMB Circular A-133 for the period described in Part I, Items 1 and 3; (2) the auditor has completed such audit and presented a signed audit report which states that the audit was conducted in accordance with the provisions of the Circular; and, (3) the information included in **Parts I, II, and III** of this data collection form is accurate and complete. I declare that the foregoing is true and correct.

Auditee certification	Date
ELECTRONICALLY CERTIFIED	12/17/2009

Name of certifying official
ANTHONY F. POMPA

Title of certifying official
DEPUTY CHIEF FINANCIAL OFFICER

6. PRIMARY AUDITOR INFORMATION
(To be completed by auditor)

a. Primary auditor name
BDO SEIDMAN, LLP

b. Primary auditor address *(Number and street)*
7101 WISCONSIN AVENUE, SUITE 800
City
BETHESDA
State
MD
ZIP + 4 Code
`2 0 8 1 4 – 4 8 6 8`

c. Primary auditor contact
Name
WILLIAM DEISIG
Title
PARTNER

d. Primary auditor contact telephone
(301) 654 – 4900

e. Primary auditor contact FAX
(301) 654 – 3567

f. Primary auditor contact E-mail
WDEISIG@BDO.COM

q. AUDITOR STATEMENT – The data elements and information included in this form are limited to those prescribed by OMB Circular A-133. The information included in Parts II and III of the form, except for Part III, Items 7, 8, and 9a-9r, was transferred from the auditor's report(s) for the period described in Part I, Items 1 and 3, and **is not a substitute** for such reports. The auditor has not performed any auditing procedures since the date of the auditor's report(s). A copy of the reporting package required by OMB Circular A-133, which includes the complete auditor's report(s), is available in its entirety from the auditee at the address provided in Part I of this form. As required by OMB Circular A-133, the information in **Parts II** and **III** of this form was entered in this form by the auditor based on information included in the reporting package. The auditor has not performed any additional auditing procedures in connection with the completion of this form.

7a. Add Secondary auditor information? *(Optional)*
1 ☐ Yes   2 ☒ No

b. If "Yes," complete **Part I, Item 8** on the continuation sheet on page 5.

Auditor certification	Date
ELECTRONICALLY CERTIFIED	12/17/2009

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E.O. 13520 – *Reducing Improper Payments*
Section 4(b) Single Audit Workgroup Recommendations

Primary EIN: 5 3 – 6 0 0 1 1 3 1

PART II	FINANCIAL STATEMENTS *(To be completed by auditor)*

1. Type of audit report

Mark either: 1 ☒ Unqualified opinion **OR**

any combination of: 2 ☐ Qualified opinion 3 ☐ Adverse opinion 4 ☐ Disclaimer of opinion

2. Is a "going concern" explanatory paragraph included in the audit report? 1 ☐ Yes 2 ☒ No

3. Is a significant deficiency disclosed? 1 ☒ Yes 2 ☐ No – *SKIP to Item 5*

4. Is any significant deficiency reported as a material weakness? 1 ☒ Yes 2 ☐ No

5. Is a material noncompliance disclosed? 1 ☒ Yes 2 ☐ No

PART III	FEDERAL PROGRAMS *(To be completed by auditor)*

1. Does the auditor's report include a statement that the auditee's financial statements include departments, agencies, or other organizational units expending $500,000 or more in Federal awards that have separate A-133 audits which are not included in this audit? (AICPA Audit Guide, Chapter 12) 1 ☐ Yes 2 ☐ No

2. What is the dollar threshold to distinguish Type A and Type B programs? (OMB Circular A-133 § ___ .520(b)) $ 6,265,901

3. Did the auditee qualify as a low-risk auditee? (§ ___ .530) 1 ☐ Yes 2 ☒ No

4. Is a significant deficiency disclosed for any major program? (§ ___ .510(a)(1)) 1 ☒ Yes 2 ☐ No – *SKIP to Item 6*

5. Is any significant deficiency reported for any major program as a material weakness? (§ ___ .510(a)(1)) 1 ☒ Yes 2 ☐ No

6. Are any known questioned costs reported? (§ ___ .510(a)(3) or (4)) 1 ☒ Yes 2 ☐ No

7. Were Prior Audit Findings related to direct funding shown in the Summary Schedule of Prior Audit Findings? (§ ___ .315(b)) 1 ☒ Yes 2 ☐ No

8. Indicate which **Federal** agency(ies) have current year audit findings related to **direct** funding or prior audit findings shown in the Summary Schedule of Prior Audit Findings related to **direct** funding. (Mark (X) all that apply or None)

96 ☐ U.S. Agency for International Development

10 ☒ Agriculture

23 ☐ Appalachian Regional Commission

11 ☐ Commerce

94 ☐ Corporation for National and Community Service

12 ☐ Defense

84 ☒ Education

81 ☐ Energy

66 ☒ Environmental Protection Agency

39 ☐ General Services Administration

93 ☒ Health and Human Services

97 ☒ Homeland Security

14 ☒ Housing and Urban Development

03 ☐ Institute of Museum and Library Services

15 ☐ Interior

16 ☐ Justice

17 ☒ Labor

09 ☐ Legal Services Corporation

43 ☐ National Aeronautics and Space Administration

89 ☐ National Archives and Records Administration

05 ☐ National Endowment for the Arts

06 ☐ National Endowment for the Humanities

47 ☐ National Science Foundation

07 ☐ Office of National Drug Control Policy

59 ☐ Small Business Administration

96 ☒ Social Security Administration

19 ☐ U.S. Department of State

20 ☒ Transportation

21 ☐ Treasury

64 ☐ Veterans Affairs

00 ☐ None

☐ Other – Specify:

FORM SF-SAC (8-6-2008)

E.O. 13520 – *Reducing Improper Payments*
Section 4(b) Single Audit Workgroup Recommendations

(Page 3 - #1 of 25) Primary EIN: 5 3 - 6 0 1 1 3 1

PART III FEDERAL PROGRAMS – Continued

9. FEDERAL AWARDS EXPENDED DURING FISCAL YEAR

CFDA Number Federal Agency Prefix (a)	Extension (b)	Research and development (c)	Name of Federal program (d)	Amount expended (e)	Direct award (f)	Major program (g)	First type of audit report (h)	Type(s) of compliance requirements (i)	Audit finding reference number(s) (j)
9 3	041	1☐Yes 2☒No	ELDER ABUSE PREVENTION	$ 25,000.00	1☒Yes 2☐No	1☐Yes 2☒No		0	N/A
9 3	042	1☐Yes 2☒No	SPECIAL PROGRAMS FOR THE AGING TITLE IV CHAPTER 2 LONG TEAM CARE	939,485.00	1☐Yes 2☐No	1☒Yes 2☐No			N/A
9 3	044	1☐Yes 2☒No	SPECIAL PROGRAMS FOR THE AGING TITLE III, PART B GRANTS	1,236,526.00	1☒Yes 2☐No	1☐Yes 2☒N/A		0	N/A
9 3	045	1☐Yes 2☒No	SPECIAL PROGRAMS FOR THE AGING TITLE III, PART C NUTRITION SERVICES	3,002,425.00	1☒Yes 2☐No	1☐Yes 2☒No		0	N/A
9 3	048	1☐Yes 2☒No	AGING AND DISABILITY RESOURCE CENTER	212,918.00	1☒Yes 2☐No	1☐Yes 2☒No		0	N/A
9 3	066	1☐Yes 2☒No	VITAL STATISTICS RE-ENGINEERING PROGRAM	81,286.00	1☒Yes 2☐No	1☐Yes 2☒No		0	N/A
9 3	069	1☐Yes 2☒No	PUBLIC HEALTH EMERGENCY PREPAREDNESS	7,843,996.00	1☒Yes 2☐No	1☐Yes 2☒No		0	N/A
9 3	086	1☐Yes 2☒No	D.C. FATHERHOOD INITIATIVE	1,315,193.00	1☒Yes 2☐No	1☐Yes 2☒No		0	N/A
9 3	110	1☐Yes 2☒No	MATERNAL AND CHILD HEALTH FEDERAL CONSOLIDATED PROGRAMS	254,253.00	1☒Yes 2☐No	1☐Yes 2☒No		0	N/A
9 3	116	1☐Yes 2☒No	PROJECT GRANTS AND COOPERATIVE AGREEMENTS FOR TUBERCULOSIS CONTROL PROGRAM	744,746.00	1☒Yes 2☐No	1☐Yes 2☒No		0	N/A

TOTAL FEDERAL AWARDS EXPENDED ——————▶ $ 2,086,633,597.00

1 See Appendix 1 of instructions for valid Federal Agency two-digit prefixes.

2 Or other identifying number when the Catalog of Federal Domestic Assistance (CFDA) number is not available. (See instructions)

3 If major program is marked "Yes," enter only one letter (U = Unqualified opinion, Q = Qualified opinion, A = Adverse opinion, D = Disclaimer of opinion) corresponding to the type of audit report in the adjacent box. If major program is marked "No," leave the type of audit report box blank.

4 Enter the letter(s) of all type(s) of compliance requirement(s) that apply to audit findings (i.e. noncompliance, significant deficiency including material weakness, questioned costs, fraud, and other items reported under § __.510(a)) reported for each Federal program.

  A. Activities allowed or unallowed   E. Eligibility   I. Procurement and suspension and debarment   L. Reporting
  B. Allowable costs/cost principles   F. Equipment and real property management   J. Program income   M. Subrecipient monitoring
  C. Cash management   G. Matching, level of effort, earmarking   K. Real property acquisition and relocation assistance   N. Special tests and provisions
  D. Davis – Bacon Act   H. Period of availability of Federal funds   O. None
  5 N/A for NONE   P. Other

FORM SF-SAC (06-6-2008)

Page 3

E.O. 13520 – *Reducing Improper Payments*
Section 4(b) Single Audit Workgroup Recommendations

(Page 3 - #2 of 25) Primary EIN: 5 3 - 6 0 0 1 3 1

PART III   FEDERAL PROGRAMS – Continued

9. FEDERAL AWARDS EXPENDED DURING FISCAL YEAR

CFDA Number		Research and development	Name of Federal program	Amount expended	Direct award	Major program		Types(s) of compliance requirements	Audit finding reference number(s)
Federal Agency Prefix	Extension					Major program	If yes type of audit report		
9	3 . 130	1☐Yes 2☒No	PRIMARY CARE SERVICES-RESOURCE COORDINATION AND DEVELOPMENT	$ 122,736 .00	1☒Yes 2☐No	1☐Yes 2☒No		O	N/A
9	3 . 16?	1☐Yes 2☒No	INJURY PREVENTION AND CONTROL RESEARCH AND STATE AND COMMUNITY BASED PROG	$ 19,025 .00	1☒Yes 2☐No	1☐Yes 2☒No		O	N/A
9	3 . 15?	1☐Yes 2☒No	PROJECTS FOR ASSISTANCE IN TRANSITION FROM HOMELESSNESS (PATH)	$ 269,209 .00	1☐Yes 2☐No	1☐Yes 2☐No		O	N/A
9	3 . 197	1☐Yes 2☒No	CHILDHOOD LEAD POISONING PREVENTION PROJECTS STATE AND LOCAL	$ 548,442 .00	1☒Yes 2☐No	1☐Yes 2☒No		O	N/A
9	3 . 236	1☐Yes 2☒No	ORAL HEALTH EXPANSION	$ 157,907 .00	1☒Yes 2☐No	1☐Yes 2☒No		O	N/A
9	3 . 243	1☐Yes 2☒No	SUBSTANCE ABUSE AND MENTAL HEALTH SERVICES	$ 1,614,332 .00	1☒Yes 2☐No	1☐Yes 2☒No		O	N/A
9	3 . 251	1☐Yes 2☒No	UNIVERSAL NEWBORN HEARING SCREENING	$ 153,480 .00	1☒Yes 2☐No	1☐Yes 2☒No		O	N/A
9	1 . 268	1☐Yes 2☒No	IMMUNIZATION GRANTS	$ 1,373,985 .00	1☒Yes 2☐No	1☐Yes 2☒No		O	N/A
9	3 . 275	1☒Yes 2☐No	SUBSTANCE ABUSE AND MENTAL HEALTH SERVICES - ACCESS TO RECOVERY	$ 703,278 .00	1☒Yes 2☐No	1☐Yes 2☒No		O	N/A
9	3 . 283	1☐Yes 2☒No	CENTERS FOR DISEASE CONTROL AND PREVENTION INVESTIGATIONS	$ 1,299,361 .00	1☒Yes 2☐No	1☐Yes 2☒No		O	N/A

TOTAL FEDERAL AWARDS EXPENDED ————► $ 2,088,633,597 .00

1 See Appendix 1 of instructions for valid Federal Agency two-digit prefixes.

2 Or other identifying number when the Catalog of Federal Domestic Assistance (CFDA) number is not available. (See Instructions)

3 If major program is marked "Yes," enter only one letter (U = Unqualified opinion, Q = Qualified opinion, A = Adverse opinion, D = Disclaimer of opinion) corresponding to the type of audit report in the adjacent box. If major program is marked "No," leave the type of audit report box blank.

4 Enter the letter(s) of all type(s) of compliance requirement(s) that apply to audit findings (i.e., noncompliance, significant deficiency (including material weaknesses), questioned costs, fraud, and other items reported under § 510(a)) reported for each Federal program.

A. Activities allowed or unallowed	E. Eligibility
B. Allowable costs/cost principles	F. Equipment and real property management
C. Cash management	G. Matching, level of effort, earmarking
D. Davis – Bacon Act	H. Period of availability of Federal funds
5 N/A for NONE	

I. Procurement and suspension and debarment
J. Program income
K. Real property acquisition and relocation assistance

L. Reporting
M. Subrecipient monitoring
N. Special tests and provisions
O. None
P. Other

FORM SF-SAC (9-8-2005)

E.O. 13520 – *Reducing Improper Payments*
Section 4(b) Single Audit Workgroup Recommendations

Appendix B
(Continued)

(Page 3 - #3 of 25)   Primary EIN: 5 3 - 6 0 0 1 1 3 1

PART III   FEDERAL PROGRAMS – Continued

9. FEDERAL AWARDS EXPENDED DURING FISCAL YEAR

CFDA Number (Federal Agency Prefix / Extension 2)	Research and development	Name of Federal program	Amount expended	Direct award	Major program	Major program if yes, type of audit report	Type(s) of compliance requirements	Audit finding reference number(s)
9 3 .307	1☐Yes 2☒No	MINORITY HEALTH AND HEALTH DISPARITIES RESEARCH	$ 775,888.00	1☒Yes 2☐No	1☐Yes 2☒No		O	N/A
9 3 .xxx	1☐Yes 2☒No	MINORITY BIOMEDICAL RESEARCH SUPPORT	$ 415,344.00	1☒Yes 2☐No	1☐Yes 2☒No			N/A
9 3 .397	1☐Yes 2☒No	CANCER CENTERS SUPPORT	$ 240,728.00	1☒Yes 2☐No	1☐Yes 2☒No		O	N/A
9 3 .556	1☐Yes 2☒No	PROMOTING SAFE AND STABLE FAMILIES	$ 1,187,586.00	1☒Yes 2☐No	1☐Yes 2☒No		O	N/A
9 3 .558	1☐Yes 2☒No	TEMPORARY ASSISTANCE FOR NEEDY FAMILIES	$ 85,648,774.00	1☒Yes 2☐No	1☒Yes 2☐No	Q	BCEHIN	2008-43;2008-7;2008-36 2008-31;2008-37;2008-42; 2008-44;2008-51
9 3 .563	1☐Yes 2☒No	CHILD SUPPORT ENFORCEMENT	$ 16,719,785.00	1☒Yes 2☐No	1☒Yes 2☐No	Q	BCRN	2008-38;2008-39;2008-40; 2008-41;2008-42
9 3 .564	1☐Yes 2☒No	CHILD SUPPORT ENFORCEMENT RESEARCH	$ 125,000.00	1☒Yes 2☐No	1☐Yes 2☒No		O	N/A
9 3 .566	1☐Yes 2☒No	REFUGEE AND ENTRANT ASSISTANCE-STATE ADMINISTERED PROGRAMS	$ 825,435.00	1☒Yes 2☐No	1☐Yes 2☒No		O	N/A
9 3 .568	1☐Yes 2☒No	LOW-INCOME HOME ENERGY ASSISTANCE PROGRAM	$ 7,655,223.00	1☒Yes 2☐No	1☒Yes 2☐No	U	F	2008-66
9 3 .569	1☐Yes 2☒No	COMMUNITY SERVICES BLOCK GRANT	$ 11,024,948.00	1☒Yes 2☐No	1☒Yes 2☐No	Q	CI	2008-78;2008-83

TOTAL FEDERAL AWARDS EXPENDED → $ 2,068,833,597.00

1 See Appendix 1 of instructions for valid Federal Agency two-digit prefixes.
2 Or other identifying number when the Catalog of Federal Domestic Assistance (CFDA) number is not available. (See instructions)
3 If major program is marked "Yes", enter only one letter (U = Unqualified opinion, Q = Qualified opinion, A = Adverse opinion, D = Disclaimer of opinion) corresponding to the type of audit report in the adjacent box. If major program is marked "No," leave the type of audit report box blank.
4 Enter the letter(s) of all type(s) of compliance requirement(s) that apply to audit findings (i.e. noncompliance, significant deficiency (including material weakness), questioned costs, fraud, and other items reported under § ___.510(a)) reported for each Federal program.
5 N/A for NONE

A. Activities allowed or unallowed	E. Eligibility
B. Allowable costs/cost principles	F. Equipment and real property management
C. Cash management	G. Matching, level of effort, earmarking
D. Davis – Bacon Act	H. Period of availability of Federal funds

I. Procurement and suspension and debarment
J. Program income
K. Real property acquisition and relocation assistance
L. Reporting
M. Subrecipient monitoring
N. Special tests and provisions
O. None
P. Other

FORM SF-SAC (3-6-2001)   Page 3

Appendix C

Workgroup Membership

Elliot P. Lewis *Assistant Inspector General for Audit* *U.S. Department of Labor*	Chair
Terrill W. Ramsey *Senior Technical Advisor* *U.S. Department of Health and Human Services*	Key Coordinator
Tammie Brown *Office of Inspector General* *U.S. Department of Health and Human Services*	Member
Debra K. Davenport *Auditor General* *State of Arizona*	Member
John Fisher *Office of Inspector General* *U.S. Department of Health and Human Services*	Member
Juan Gordon *Administration for Families and Children* *U.S. Department of Health and Human Services*	Member
Laura Hansen-Rainey *Office of Inspector General* *National Science Foundation*	Member
Carolyn Jagers-Burnette *Administration for Families and Children* *U.S. Department of Health and Human Services*	Member
Hugh Monaghan *Office of Inspector General* *U.S. Department of Education*	Member

E.O. 13520 – *Reducing Improper Payments*
Section 4(b) Single Audit Workgroup Recommendations

Appendix C
(Continued)

Mark Porter   Member
Food and Nutrition Service
U.S. Department of Agriculture

Kinney Poynter   Observer
Executive Director
National Association of State Auditors, Comptrollers
  and Treasurers

Randy C. Roberts   Member
Office of the Auditor General
State of Arizona

Margo Sheridan   Member
Deputy Chief Financial Officer
U.S. Department of Transportation

Chris Stubbs   Member
Program Manager, Risk Analysis
Recovery Accountability and Transparency Board

Gilbert Tran   OMB Liaison
Office of Federal Financial Management
Office of Management and Budget

David A. Vaudt   Member
Auditor of State
State of Iowa

Kevin Winicker   Member
Office of Inspector General
U.S. Department of Education

Appendix D

Acronyms

AICPA	American Institute of Certified Public Accountants
AGA	Association of Government Accountants
ARRA	American Recovery and Reinvestment Act
CFDA	Catalogue of Federal Domestic Assistance
CFO	Chief Financial Officer
CIGIE	Council of Inspectors General on Integrity and Efficiency
E.O.	Executive Order
FY	Fiscal Year
IRS	Internal Revenue Service
IPIA	Improper Payments Information Act
NSAC	National Single Audit Coordinator
NSF	National Science Foundation
OIG	Office of Inspector General
OMB	Office of Management and Budget
PDF	Portable Document Format
PII	Personally Identifiable Information
SEFA	Schedule of Expenditure of Federal Assistance
TANF	Temporary Assistance for Needy Families
XML	Extensible Markup Language