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ASSESSING GRANTS MANAGEMENT PRACTICES AT FEDERAL AGENCIES

HEARING

BEFORE THE

FEDERAL FINANCIAL MANAGEMENT, GOVERNMENT INFORMATION, FEDERAL SERVICES, AND INTERNATIONAL SECURITY SUBCOMMITTEE

OF THE

COMMITTEE ON
HOMELAND SECURITY AND
GOVERNMENTAL AFFAIRS
UNITED STATES SENATE

ONE HUNDRED TWELFTH CONGRESS

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ASSESSING GRANTS MANAGEMENT PRACTICES AT FEDERAL AGENCIES

WEDNESDAY, JULY 25, 2012

U.S. SENATE,
SUBCOMMITTEE ON FEDERAL FINANCIAL MANAGEMENT,
GOVERNMENT INFORMATION, FEDERAL SERVICES,
AND INTERNATIONAL SECURITY,
OF THE COMMITTEE ON HOMELAND SECURITY
AND GOVERNMENTAL AFFAIRS,
Washington, DC.

The Subcommittee met, pursuant to notice, at 2:30 p.m., in Room SD–342, Dirksen Senate Office Building, Hon. Thomas R. Carper, Chairman of the Subcommittee, presiding.

Present: Senators Carper, Brown, and Coburn.

OPENING STATEMENT OF SENATOR CARPER

Senator CARPER. Welcome one and all. I call the hearing to order. We are glad you all could be all with us today.

This hearing, as you know, will focus on some challenges related to Federal agencies' grant management practices and the opportunities that exist for addressing those practices.

Each year, the Federal Government allocates, as you know, billions of dollars, actually hundreds of billions of dollars through grants to State and local governments, to educational institutions, to medical researchers, and to others. Effective management of those grants involves, among other things, ensuring that the funds are spent appropriately and are actually achieving the intended results for taxpayers. Now more than ever, it is important that we ensure strong, effective oversight over grant money.

From Fiscal Years (FY) 1990 through 2010, Federal grant spending increased from about $135 billion annually, to over $612 billion, almost one-quarter of the Fiscal Year 2010 Federal budget. This money went out through more than 1,600 Federal grant programs managed by 23 Federal grant-making departments and agencies.

These programs help first responders and State and local government improve their ability to withstand disasters. They fund efforts to find cures to cancer and other diseases. It is our responsibility in Congress and in the Administration to ensure that all this money is spent as intended and that, at the end of the day, we see real results.

As everyone in the room knows, both the Federal Government and most State and local governments have struggled with record budget deficits in recent years. Today, our national debt stands at more than $15 trillion, well over double what it was just a decade

ago when we actually had a balanced budget, if you can believe that. The last time our national debt was this high was at the end of World War II. That level of debt was not sustainable then. It is certainly not sustainable today. In order to address the burden that this debt places on our country, we need to look in every nook and cranny of the Federal Government with programs large and small and make certain that the resources we are investing in are being spent efficiently and effectively. We need to demand results and focus the scarce resources the taxpayers entrust us with on our highest priorities as a country and on solutions that are proven effective in addressing the many challenges that we face.

Across the Federal Government, program managers need to sharpen their pencils and stop making the kind of expensive, avoidable mistakes that lead to improper payments. According to the Government Accountability Office (GAO), Federal agencies made an estimated $115 billion in improper payments in 2011. We have seen this before. Actually, we have seen more of this before. A year ago it was $119 billion. We are making a little progress.

Senator Coburn, you will be happy, I just learned from Peter Tyler who sits behind my left shoulder, that we are going to hotline our Improper Payments Bill, the latest version of the Improper Payments Bill, grandson of the original improper payments bill I think, and try to get that done in the next few months—there you go. Version 3.0.

But Federal grants are not the whole cause of improper payments. We know that error and fraud unfortunately occur in all categories of Federal spending.

But, improving management and accountability in grant spending is one important piece of the puzzle when it comes to curbing waste and fraud. Success in doing so will help us as we work to curb our national debt, and in the case of Federal grants, it will help us get better results, we hope, both for grant recipients and the public at large. Ultimately all of us, that includes the Congress, that includes the Administration, State and local governments, grant recipients large and small. We want to improve the way that grants are managed and need to work together to do so.

Our witnesses today will describe some important progress that has been made during the last few years, maybe even in the last few days, in improving the oversight and management of Federal grants. We will also be looking today at additional steps that the Federal Government ought to take.

One stark example of the need for improved Federal grants management is the problem of money remaining in expired grant accounts. After a grant is awarded, the recipient has a specific amount of time to complete the grant requirements and to spend those funds.

The grants must then be closed out, a process which includes an audit of the spending. In effect, the grant recipient has to show the receipts for the money that has been spent.

However, according to GAO, at the end of Fiscal Year 2011, almost $1 billion in undisbursed funding remained in expired grant accounts.

We have a chart[1] here that shows the amount of money in expired grants within one grant management system called the Pay-

ment Management System, and the chart shows the levels and the ages of expired Federal grants.

It shows about $794 million of grant funds remaining in accounts after the expiration date, sometimes going back as long as 5 or 10 years.

GAO has also identified an additional Federal grant management system with $126 million in expired grant amounts of money. This is just not acceptable.

Our GAO witness today will describe how a lack of a timely grant close out will lead to a higher risk of waste and fraud.

The second problem we will discuss today is that of drawdown or ensuring the grant recipients spend their award of money in a timely manner. Unfortunately, problems have been identified in this area as well.

For example, since its formation, the Department of Homeland Security (DHS) has provided State and local governments with over $35 billion in grant funding to help prepare for disasters and acts of terrorism.

However, for a variety of reasons, the Department and its stakeholders have struggled to draw down some of this money and put these funds to work in our communities, and this could be due to sloppy bookkeeping or problems with how the grant program is structured. It could even be a sign that some of the unspent funds are not needed and could have been put to better use elsewhere. For whatever the reason, though, this is another issue that needs to be addressed.

Finally, we will discuss the importance of measuring performance in our grant programs. As I have said earlier, we have got to work smarter with our limited resources, and this includes finding better ways to look at what we got for the grant money that has been spent.

We look forward today to hearing from Danny Werfel, the Controller of the Office of Management and Budget (OMB) about how the Administration intends to build on what has worked so far in grant management oversight and also improve the performance of those initiatives that have not worked as well as we would like.

We also look forward to hearing from officials from two of the largest grants making Federal agencies, the Department of Health and Human Services (HHS) and the Department of Homeland Security about grants management within their agencies.

We are here today in large part, though, because we have a moral imperative to ensure that grant dollars are spent wisely and have proper oversight; and at the same time, we also need to ensure that scarce taxpayer resources are invested and spent as effectively as possible and that they show good measurable results.

I am happy to turn it over to Senator Brown for any comments for any comments he wants to make or if he would he like to yield to Dr. Coburn.

Senator BROWN. I will yield.

Senator COBURN. I thank my colleague

Senator CARPER. Dr. Coburn has another conference. I am glad that you are here and you are recognized.

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[1] The chart referenced by Senator Carper appears in the appendix on page 77.

OPENING STATEMENT OF SENATOR COBURN

Senator COBURN. I thank my colleagues for recognizing me early. Unfortunately, I have a meeting at 2:45.

As most of you know, I am keenly interested in this issue and have been through the testimony, and I am very pleased with the Controller alert that went out this week on grant management.

Not all of this is the Administration's problems because a lot of the problems we find are from earmarks that were written improperly, than the money went out and there is no way to get it back. The grant funds are sitting there in limbo. This is what we need to fix.

So, take my comments with a grain of salt but I would note a couple of things, and I have some questions for the Hon. Danny Werfel that we will submit for the record in terms of how you plan to follow up with the Controller alert.

But, I would make a comment and just a little example. The city of Nederland, Texas, just got a $2.1 million grant for port security that was allegedly to renovate its city hall.

The first story to be published in the paper said this was for the city hall. The corrected paper that was printed after that said, "oh, well, we are going to build a new city hall," but the port security funds are for an emergency operations center for a land-locked city, even though it is close to Port Arthur.

It just shows you when we have needs to deepen ports in South Carolina and to deepen the Kerr-McClellan navigation system to 12 feet all the way to Arkansas so we can ship the bread basket of wheat and corn that comes out of the middle of the country, we are spending $2.1 million to renovate a city hall. I know that is the instruction from the Secretary to spend the money. I understand that. I am not sure it is a wise use of the money.

We are going to request that the city council and their planning commission show us that this was, in fact, for an emergency operations center and not for a new city hall.

Grant management is key to making sure we are following what we want to do. I appreciate the efforts from all of you, and how you are trying to do this right.

I think we are making some progress. I am really excited about some of the things that are happening, and I know it is slow, but I appreciate your dedication to do that. We will have questions for the panel through the questions for the record (QFRs), if we could, Mr. Chairman.

Again, I thank my colleague from Massachusetts for yielding to me.

Senator CARPER. You are welcome. Thank you so much for your comments, and thanks for your steadfast work on these issues too. Thank you.

OPENING STATEMENT OF SENATOR BROWN

Senator BROWN. Thank you, Mr. Chairman.

And, thank you to Senator Coburn.

As you know, grants are important not only to other States but to Massachusetts. We have world class research facilities: MIT, Northeastern, UMass, WPI, and others. We are second in NIH funding and fourth on a per capita basis. I have heard anywhere

from first to fourth. That is pretty impressive for a State our size and it drives an information based, 21st Century economy that serves as a model for our Nation. I support the increase in NIH funding and ensuring consistency in that funding, not just to create jobs in the Bay State, but more importantly to save and improve people's lives.

I have learned in my brief time in Washington that throwing more money at a problem without adequate oversight and management is a recipe for waste, fraud, and abuse. Unfortunately, the current grants management system is beset by longstanding problems. For example, GAO recently reported that some 3,700 grant and contract recipients receiving $24 billion in Recovery Act money collectively owed more than $750 million in Federal taxes. The government also improperly pays many grants, for example, 5 of the top 10 government programs making improper payments were grant programs. These grants programs represent approximately $40 billion of the $115 billion total of government improper payments. This hearing will focus on the government's failure to properly disperse grant dollars and GAO reports at the end of Fiscal Year 2011, $794 million remain in expired accounts as was referenced by Senator Carper.

The lifecycle is also characterized by many other problems, from not assessing the capability of prospective grantees to account for funds, to poor monitoring of grantee performance, to grants that are not closed out in a timely manner. Simply put, the grants management system is broken. We need to fix it. Grants now account for more Federal outlays than contracts, yet the grant management system is woefully behind the Federal contract management system. To achieve these grants and the grants reform that we need, there must be robust governance structure that effectively incorporates input from all of the stakeholders. It is our role as leaders to make sure that we fix this right away. The taxpayers have a right to expect better management.

We cannot continue to waste money, Senator Carper, as you have referenced. We have to do it better. We just have to. I am looking forward to the testimony and I have some questions and go and do some votes. Thank you.

Senator CARPER. Thank you so much, Senator Brown. Thanks for being here.

I want to thank our staffs, for the work that they continue to do here and help us to our oversight jobs.

Danny Werfel is, I think this is the first time you have been before us, Mr. Werfel. I was kidding. Somebody the other day said if we had to pay him on the basis of every appearance, the Federal deficit would be a lot larger. We are glad you come for no extra charge.

But our first witness today is Daniel Werfel. He is the Controller at the Office of Management and Budget. Mr. Werfel is responsible for OMB's efforts to improve financial management in all areas of the government, including financial reporting, improper payments, real property management, financial accounting standards, grant management, and financial systems, a lot of which are things we worked on in this Subcommittee.

Mr. Werfel generously testifies in front of our Subcommittee quite frequently. We thank him for being with us today. So welcome.

Elizabeth M. Harman, Assistant Administrator for the U.S. Department of Homeland Security. She is our second witness and has served in this role since 2010. She is responsible for the development, the administration, the implementation, award, and close out of more than 50 different grants and financial assistance programs.

Ms. Harman has over 20 years of experience in the emergency management community, starting at the age of 12—is that right? I do not know if that is right or not—where she has held positions as an administrator, an academic, a volunteer and a career firefighter. That is pretty impressive.

We want to thank you for appearing before this Subcommittee. Welcome.

Ms. Nancy Gunderson, U.S. Department of Health and Human Services. She is the Deputy Assistant Secretary for the Office of Grants and Acquisition Policy and Accountability at the Department of Health and Human Services.

Her office is responsible for department-wide leadership in the areas of grants and acquisition. Ms. Gunderson joined the Department of Health and Human Services in 2009. She was also the one-time Director of Acquisition Operations for the Federal Emergency Management Agency (FEMA). And has also held several key positions within the Department of Defense. We look forward to your testimony. I want to thank you for joining us today.

And finally Mr. Stanley Czerwinski, who was the Director on the Strategic Issues Team for GAO. He is responsible for leading a broad range of evaluations concerning Federal, State, and local governments. Prior to coming to GAO, Mr. Czerwinski worked for both the Congressional Research Service (CRS) and the Congressional Budget Office (CBO). He has testified numerous times before Congress. We thank him for being with us today.

One of the sounds that people most enjoy hearing is the sound of their own name correctly pronounced. So, we try to get it right and excuse us when we do not please.

Mr. Werfel, you are in the leadoff spot.

Mr. Czerwinski, you get to bat cleanup. In between we have these two ladies. A good lineup. Please proceed.

TESTIMONY OF HON. DANIEL I. WERFEL,[1] CONTROLLER, OFFICE OF FEDERAL FINANCIAL MANAGEMENT, OFFICE OF MANAGEMENT AND BUDGET

Mr. WERFEL. Thank you, Chairman Carper, Ranking Member Brown, Dr. Coburn, and Members of the Subcommittee, for the invitation to discuss with you today how the Federal Government can improve our management of Federal grants.

In response to the President's charge to build a 21st Century government that operates efficiently, effectively, and accountably, this Administration is taking transformative steps to improve the oversight and accountability of funds awarded through Federal grants.

[1] The prepared statement of Mr. Werfel appears in the appendix on page 43.

We are doing this by targeting oversight resources on the risk of waste, fraud, and abuse and by reducing administrative burden on recipients to improve grants delivery.

To meet these goals, OMB has worked over the past year to review our policies on the single audit tool to ensure that we are best focusing our oversight resources where they can be most targeted on addressing the risk of waste, fraud, and abuse.

Similarly, we are reviewing our cost allocation and administrative requirements to ensure that we are minimizing the administrative burden and resources associated with compliance so that recipients can focus their efforts on achieving outcomes.

Consistent with our belief that successful resolution of policy questions requires strong input from those who may be affected, OMB began by engaging with both Federal and non-Federal stakeholders to generate ideas for reform.

Last October, we created the Council on Financial Assistance Reform (COFAR), an interagency council to provide a unified governance voice to the grants community and coordinate grants policies across the government.

The COFARs first assignment has been to work with OMB to further develop these ideas for reform while also charting its own path for further ongoing stakeholder engagement.

In order to provide all interested stakeholders with an opportunity to formally and transparently provide their input at the formative stages of this process, OMB published an advance notice of proposed guidance in the Federal Register last February.

For each reform idea discussed, we looked for new and creative ways to ensure that our grants policies best serve the Federal Government, grant recipients, and ultimately the taxpayer.

We received more than 350 public comments through this process, including views from State, local, and tribal governments, institutions of higher education, organizations, and the audit community.

Since then, OMB has worked with the COFAR to review the feedback and develop concrete reform proposals for consideration. We intend to publish a notice of proposed guidance for public comment in the coming months.

Beyond this effort, OMB is also improving the financial stewardship of Federal grants through verification of recipient eligibility using a new do-not-pay tool which I know you are aware of.

And, as I discussed in a hearing last week, we are also working to increase the transparency of Federal spending of which grants is a major component.

I would also like to specifically address GAO's recently issued report on the timeliness of grant closeout actions. We fully agree with GAO that timely closeout of grants can be improved. Failure to close out these accounts in a timely fashion may, in some cases, represent a worthy opportunity to improve our financial management and grants management practices, and I commend this Subcommittee and GAO for drawing attention to this issue and calling on Federal agencies to act.

We are committed to working with agencies to ensure that appropriate steps are taken to improve accounting and other controls in this area.

Having said that, we believe there are a few important caveats to the GAO report that I have highlighted in my written remarks. Most critical of these caveats, the prolonged period for closeout in some cases may reflect deliberate agency controls to ensure that proper grant recipient documentation is provided prior to disbursement of grant funds that closeout. Caveats aside, we fully agree with GAO that there are opportunities to improve the timeliness in the closeout of grant awards.

To that end, yesterday I issued an alert on this topic to all agency chief financial officers (CFOs) that include specific strategies that agencies should explore for improving this process, including establishing strong linkages between the program and the CFO shop to determine what timely closeout means for programs and how to achieve it, focusing first on closing out expired grants that are several years past their end dates and have no remaining funds, establishing policies and procedures describing when it is appropriate for the agency to unilaterally close out grants, establishing annual or semiannual performance targets for timely grant closeout, leveraging internal control procedures to mitigate risks associated with not closing out grants in a timely manner, and monitoring closeout activity and tracking progress in terms of reducing our closeout backlog.

As you will hear from HHS and DHS today, they are already engaging on these types of actions in their improvement efforts.

Through these and other steps, we look forward to continuing to work closely with agencies, GAO, and this Subcommittee to ensure that the financial management policies governing Federal grants are delivering the high standard of accountability appropriate for an efficient, effective, and accountable 21st Century government.

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

Senator CARPER. Thank you so much. Ms. Harman.

TESTIMONY OF HON. ELIZABETH M. HARMAN,[1] ASSISTANT ADMINISTRATOR, GRANTS PROGRAM DIRECTORATE, FEDERAL EMERGENCY MANAGEMENT AGENCY, U.S. DEPARTMENT OF HOMELAND SECURITY

Ms. HARMAN. Good afternoon. Chairman Carper, Ranking Member Brown, Dr. Coburn, and other Members of the Subcommittee. My name is Elizabeth Harman. I am the Assistant Administrator for the Grant Programs Directorate (GPD) at the Federal Emergency Management Agency, part of the Department of Homeland Security.

On behalf of Secretary Napolitano and Administrator Fugate—

Senator CARPER. I would just ask, do not call it GPD.

Ms. HARMAN. OK.

Senator CARPER. I am not big on acronyms, just so you know.

Ms. HARMAN. We will go with Grant Programs Director.

Senator CARPER. That is great or just call it the Directorate.

Ms. HARMAN. Thank you.

On behalf of Secretary Napolitano and Administrator Fugate, it is my pleasure to appear before you today to discuss the grant

[1] The prepared statement of Ms. Harman appears in the appendix on page 50.

management practices within FEMA. FEMA grant programs have significantly contributed to the security and preparedness—

Senator CARPER. If you could slow down just a little bit. If you use 6 minutes that is OK.

Ms. HARMAN. OK.

Senator CARPER. If you use 16 minutes, that is another problem.

Ms. HARMAN. I will not go to 16 minutes. I promise.

Over the past 10 years, these programs have provided more than $35 billion in Federal funds to enhance the capabilities to plan, prepare, prevent, respond to, and recover from both natural and terrorist events. Over the past 10 years, we have also made progress in how these grants are managed and administered.

Since its creation, the Directorate has matured as an organization. In the past 2½ years, we have made significant strides and improvements to our operations, focusing heavily on the development, management, and oversight of FEMA grant programs.

These improvements include managing grant closeouts, enhancing grant management information technology (IT) system, and expanding our monitoring activities both programmatic and financial. The ultimate responsibility for management and oversight of FEMA grant programs rests with the Grant Programs Directorate.

As of Fiscal Year 2011, the Grant Programs Directorate was experiencing delays in processing grant closeouts for FEMA's grant programs. These delays resulted in significant backlog of open grants which were several years past their period of performance end date.

Our Directorate identified solutions to address the immediate closeout of awards as well as to establish long-term goals to support ongoing sustainability of closeouts that would mitigate future delays.

Our Directorate conducted a current State assessment of the grant closeout process, evaluated our universe of open and closed grants, coordinated with related stakeholders to identify process improvements, and developed and implemented a closeout manual to detail the process and enhance stabilization and standardization.

Through a phased approach, our Directorate initially focused its efforts on grants awarded in Fiscal Years 2005 and prior; and within the first 3 months of 2011, we effectively closed out 588 grants. To date, we have successfully closed 8,000 of 14,000, going back as far as 1997.

Moving forward, we are currently concentrating our closeout efforts on the closeout of all Fiscal Year 2007 by March 31, 2013, in conjunction with all eligible Fiscal Year 2008 through 2010 grants.

Our Directorate has taken a proactive approach in ensuring that all current and future grants are closed in a timely manner. To sustain and maintain continued progress on this effort, we have implemented a tracking system designed to identify grants nearing closeout within the 30-day period as well as developed a grant closeout guide defining roles, responsibilities, and processes for stakeholders.

To fulfill FEMA's strategic initiative of consolidating and automating the entire non-disaster grants management lifecycle into a single system, we have developed and implemented the Non-Disaster Grant Management System. This system further enhances

the grant management infrastructure of FEMA preparedness grant programs.

We began accepting applications in the system in Fiscal Year 2011 and we currently use it to manage approximately 20 different preparedness programs. When fully implemented, the system will consolidate all of FEMA's non-disaster grant programs into one comprehensive system that covers the entire grant management lifecycle.

The expansion of this system and its improved functionality will provide FEMA with a flexible system that can quickly adapt to changing business needs, reporting requirements, and performance metrics.

With regards to financial and programmatic monitoring, FEMA has launched a long-term solution. This approach implements risk management principles to direct scarce monitoring resources to grantees and programs with the most need.

As part of a multiyear process, FEMA has refined criteria for deciding which programs to monitor, standardized regional financial and program monitoring activities and expanded ongoing oversight activities to ensure early identification of any issues.

This methodology builds upon the established monitoring approach and will drive FEMA toward continuously advancing his grants management capability.

The Fiscal Year 2012 monitoring plan lays the foundation for future risk-based monitoring which supports DHS's risk management philosophy.

FEMA plans to continue to further refine this approach. We will begin focusing our efforts on the development of a unified financial and programmatic monitoring plan for Fiscal Year 2013.

The purpose of this integrated approach will be to encourage and promote the coordination of activities and communication between financial and programmatic monitoring staff and build the foundation for robust integration into Fiscal Year 2014.

Over the last several years, FEMA has strived to improve how our grants have been managed and administered fiscally and programmatically. I believe we have made significant progress and improvements in that area and will continue to do so moving forward.

Mr. Chairman, Ranking Member Brown, and other Members of the Subcommittee, this concludes my statement and I am happy to answer any questions you may have.

Senator CARPER. Good. Thanks for that statement.

Ms. Gunderson, you are recognized.

TESTIMONY OF NANCY J. GUNDERSON,[1] DEPUTY ASSISTANT SECRETARY, OFFICE OF GRANTS AND ACQUISITION POLICY AND ACCOUNTABILITY, U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

Ms. GUNDERSON. Chairman Carper, Ranking Member Brown, and Members of the Subcommittee, thank you for this opportunity to discuss the Department of Health and Human Service's grants management policies and practices.

[1] The prepared statement of Ms. Gunderson appears in the appendix on page 59.

As the Deputy Assistant Secretary for Grants and Acquisition Policy and Accountability, I am responsible for providing department-wide leadership in the area of grants and acquisition management. My office oversees and supports the Department's 13 grants management offices and 10 procurement activities as they award and administer grants and contracts in fulfilling the Department's mission to enhance the health and well-being of Americans.

As the largest Federal grant making organization and one that manages a great variety of grant programs, the Department is often called upon for leadership and advice in the area of grants management.

We proudly serve as a managing partner of grants.gov, the Federal-wide site used to find and apply for grants opportunities.

As co-chair of the Council on Financial Assistance Reform, we are engaged in the Office of Management and Budget's Federal-wide efforts to streamline existing grants administration policies.

Our grantees provide vital services and conduct important research, all for the benefit of the public; and therefore, it is in the Department's and the public's best interest that our grantees succeed. And, I would like to highlight some of our grants management practices and policies.

Our agencies provide technical assistance to facilitate grantee performance and their compliance. They also monitor grantee progress over the project's lifecycle. Grantees are required to submit financial reports, quality performance measures, and annual and final progress reports, all of which provide assurance that the grant funds are expended in accordance with the original purpose and intent of the grant program.

With regard to grant closeout, this process reflects the culmination of the business relationship between the Federal grant program and the grantee and is a vital step in ensuring accountability of the grantee and the financial integrity of the program expenditures. When the financial reporting and expenditure information come together, the grant may be closed out in our payment management system.

As reported by the Government Accountability Office, the Department has made progress in its closeout effort. It was noted that the total amount of undisbursed balances and expired Federal grant accounts was over $200 million less in 2011 than the amount previously reported in 2006, while during this time the overall amount of grant expenditures and disbursements increased by 23 percent.

In 2011, at the Department, we identified 60,000 grants as eligible for closeout compared to 64,000 in 2006 and closed approximate 26,000 of the eligible grants in 2011.

Additionally, the Government Accountability Office also reported on grants that remained undisbursed more than 5 years past the grant end date, and we recognize that more work remains to close out grants that have long expired and to keep up with the overall workload.

My office led an accelerated closeout effort last year to get ahead of grants closeout and prevent a sizable backlog from occurring. In addition to focusing on closeout efforts on grants facing funds cancellation, which generally occurs five Fiscal Years after the funds

were appropriated, we asked our agencies to concentrate also on Fiscal Year 2008 funded grants that had more recently expired.

This effort resulted in the de-obligation of $116 million from a total of 2,700 grants and also revealed some of the systemic problems and challenges we have between our grants systems, the payment management system, and our grantees' financial reports.

We plan to keep this accelerated closeout initiative moving, update our grants policies by the end of the calendar year, resolve the system challenges within 24 months and supplement our agencies initiatives to dedicate staff to grants closeout by establishing an intradepartmental grants closeout task force.

Finally, as part of the Secretary's commitment to program integrity, we are collaborating across the Department to further improve our grants closeout practices. Incorporating grants closeout into our program integrity initiative will ensure that closeout remains a departmental priority, facilitate a consistent method to assess on a program-by-program basis the challenges associated with closeout, and provide an opportunity to share the agency's risk mitigation practices across the Department.

I have spoken with the agencies reflected in the report that have aged grants expirations. The challenge they have in closing these grants primarily involved discrepancies between the authorized, expended, and disbursed amounts recorded in the grants and financial and payment management systems.

These grants require significant analysis and coordination to ensure that all accounts are equal and that the grants may be closed out. The agencies are taking steps to closeout these grants.

The Department strongly agrees with the need to protect taxpayer dollars and is committed to doing so as we work to support our mission.

Thank you for the opportunity to appear before the Subcommittee about this important topic, and I am glad to answer any questions you may have.

Senator CARPER. Thank you, Ms. Gunderson.

Mr. Czerwinski, all yours.

TESTIMONY OF STANLEY J. CZERWINSKI, DIRECTOR,[1] STRATEGIC ISSUES, U.S. GOVERNMENT ACCOUNTABILITY OFFICE

Mr. CZERWINSKI. Thank you, Chairman Carper and Ranking Member Brown, Dr. Coburn, Members of the Subcommittee.

Thank you both for asking us to be here as well as asking us to do the work that we are here to talk about. One of the themes that I am going to touch on today is the importance of congressional oversight in achieving results.

Back in 2008, you asked us to look at undisbursed grants. What we found was over $1 billion sitting in one payment system, the one that HHS runs, and these funds had not been disbursed even though their grants had expired. You subsequently asked us to take another look at this situation in 2011. This time we looked at the grant accounts that HHS has along with the 12 agencies that it services. That is about 70 percent of all grants. This time we also

[1] The prepared statement of Mr. Czerwinski appears in the appendix on page 63.

added in the Department of Treasury that services their own grants as well as those for other agencies for about 10 percent.

The story at Treasury was really interesting because we had not looked at Treasury last time, and this time when we went in there 4 years later, they said, we have been waiting for GAO to come for 4 years.

What they had said was that you have been asked by Senator Carper and Coburn and we know they will be asking you to come back. And, when you did your report in 2008, we thought that you would be here to ask and we wanted to be doing some things that we could actually show improvement on.

At that point in 2008 Treasury set up a dormant account report. They also went to all the agencies they service and said that GAO will be here to ask questions and we want to be able to show improvement.

We looked at what happened from 2008 to 2012 and we saw roughly about $100 million improvement over that 4-year time. I can tell you that would not have happened without congressional oversight.

Similarly, what we have found in our work is when the inspectors general, GAO, or internal auditors look at an agency, it raises the visibility of what is going on and we see actions taken.

This is similar to what Ms. Gunderson talked about with HHS. The Inspector General for HHS did four reports looking at grants that should have been closed out. Their internal auditor in their performance of accountability report identified grant closeout as an ongoing, lasting management challenge.

As a result, HHS took action, and the results that Ms. Gunderson talked about today are really a good indication of that.

This goes back to a point that you and Senator Coburn mentioned at the hearing that Comptroller General Gene Dodaro did on the Data Act. You only get improvement when agencies step up, take individual accountability and carry out what they are supposed to be doing.

In terms of grant closeout, there is essentially a process that they have to follow step by step, grant by grant; and the work that you asked us to do this time around really gives a good roadmap for how to do that.

You asked us to look at the oldest. You asked us to focus on the biggest. And, as the chart[1] that you have up there shows, over $100 million sits in accounts that had been dormant for 5 years or longer.

What we also found, looking at the biggest, was that about 1 percent of the grants in terms of numbers are over $1 million. Yet, they account for one third of the monies sitting there unspent.

If agencies follow the roadmap that you laid out and focus on the oldest and biggest, they will get a good leg up on going forward the way they should on this.

It is really important that agencies close out the grants because it allows for more efficient and effective use of the Federal funds.

[1] The chart referenced appears in the appendix on page 77.

Right now that money is sitting there; and if they can collect it, it can either go back to Treasury or agencies can redirect it for other purposes.

Now, grant closeout is just one step in the grant making process but it shows the importance of grants. Chairman Carper, as you mentioned in your opening statement, over $600 billion in grants went out this past year.

That goes out in over half a million individual grant awards. Also, there are about 1,000 different grants programs. We are talking about one in almost every five Federal dollars going out through grants. This is a really important process.

In your oversight agenda for next year, we are hoping to help you out. We are doing some work at your request, Chairman Carper, and your request, Ranking Member Brown, to look at a number of grant issues. I just want to lay those out for a moment before I close my statement.

First, we are looking at streamlining grants. Second, as you mentioned in your statement, Chairman Carper, we are looking at performance measurement. What are we getting with grants? And finally, internal controls.

On streamlining, in 1997 Congress passed PL 106–107 and PL 106–107 was aimed at improving the way we apply for grants, the way we manage them, and the way we oversee them; and we know that, 15 years later, we are not where we should be.

And so, at your request what we are going to be looking at where we stand on streamlining efforts to date and hopefully come up with recommendations to improve.

Now, one of the questions that people always ask is, What are we getting out of our grants? And that is probably one of the hardest answers to come up with—How do you measure performance?

But, there are some grantees and some grantmakers who have done some very innovative things trying to measure performance. What we are going to do, at your request, is to look at those, see what has worked, see what has not and hopefully have some best practices for others to draw on.

Finally, as you know, there have been a number of reviews raising a lot of problems with how we go about either managing or overseeing grants. Often that comes back to internal controls.

So, once again at your request, we will be looking at how internal controls can be improved on by grant makers.

Going forward, we hope this will help you with your oversight agenda. And, I have to tell you, I have done a lot of hearings and I have worked with a lot of committees—we love working for people like you.

What you have is a dedication to accountability that we share, what you have is a discipline for carrying out oversight over the long haul, and a determination to make change. And frankly, that is what we at GAO live for.

We look forward to helping you all the way through.

Senator CARPER. What we also have is really dedicated Subcommittee staff on both sides and we are grateful for the terrific work that they do and we see you as a real partner, OMB as a real partner, the IG as a real partner, and the agencies as well. We are

in this together and I think we are making some progress and that is encouraging. Senator Brown.

Senator BROWN. Thank you, Senator Carper.

I guess in listening to the testimony, one of the questions I have, I think I will start with FEMA, at what point do you terminate the grant if it has not been disbursed? I mean some of them go for 10 plus years, number one.

If you cannot verify how the money is spent, is there any mechanism to, and you believe that there is a fraud perpetrated or just there is some type of negligence, actual, per se, what do you do?

Ms. HARMAN. Thank you. Those are excellent questions.

With regards to termination of the grants, the majority of our grants are really focused on preparedness and preparing our Nation to build capabilities so that we can respond to and take care of any events.

Many of those come in the form of target allocations and are driven through a risk formula that is in statute of the 9/11 Act. There area lot of grants over the years that have been proscribed with statutory minimums going to each stakeholder. Other grants, we are now moving to more of a competitive, more of a bottom-up needs approach.

I think you are going to see some changes as we move to that with regards to un-obligated bounces that are out there. We have more of a request for funding that is needed as opposed to a dollar amount that has been calculated, based off risk for stakeholders to spend within a defined period of time.

Traditionally, our period of performance is a policy decision. In the past years, it has been a 36-month period of performance. We are moving more to have a 24-month period of performance effectively this year as we roll grants out the door.

We work very closely with our stakeholders to ensure how that money is being spent. It has to tie currently to their State homeland security strategies. In the future, it will be tied to their threat hazard identification risk assessment.

You may have heard the term THIRA thrown around. It is an acronym. However, if you have heard of that, that is what they should be spending that money toward.

With regards to terminating grants, we have terminated grants in cases of fraud or waste or things that have been identified; but with regards to spending the dollars, it takes a long time to build capabilities and build preparedness.

Senator BROWN. Does it take over 10 years?

Ms. HARMAN. Well, what I can tell you is from the FEMA preparedness grant programs that we have obligated more than $35 billion over the last 10 years. Of those dollars, our average return to the Treasury after closeout is roughly 1 percent.

There are some grant programs that a little bit more goes back for a variety of reasons. I can chat with you about whether it is matching funds or other constraints in the program.

Senator BROWN. I just want to make sure you have in place a mechanism in the event that it is clear that they are not going to fulfill their grants request. If you find out that there is a fraud or some type of negligence that there is recourse.

Ms. HARMAN. Absolutely.

Senator BROWN. We can follow up on that off-line because I do want to shift gears just a little bit, I am going to ask the same question to Health and Human Services.

Mr. Werfel, thank you for coming back. One of the things that is always perplexing to me is that we are awarding grants of substantial money to people that owe us a tremendous amount in delinquent taxes.

How do we address that? How is that allowed? How do we know that, when they get their grant, a portion of that money is actually going to paid back, the money that they owe us anyway?

Should there not be just a straight prohibition on those types of awards? If you owed taxes to the Federal Government you are not getting any grants until you pay it off.

Mr. WERFEL. Thank you for the question, Senator. It is a very straightforward question. Unfortunately, there is not a straightforward answer.

Senator BROWN. Of course.

Mr. WERFEL. Let me amplify why.

The status of our taxpayers and all the elements of that, who they are, their household size, their adjusted gross income, and their delinquency status is all protected information. Section 6103 of the tax code provides significant constraints on the IRS's ability to release that information, not just publicly but within and among Federal agencies as well. We certainly do not have unconstrained access.

Senator BROWN. It does not need a congressional fix then?

Mr. WERFEL. It potentially could. But it is a trade-off. There is a trade-off. There is a balance there in terms of privacy and protection of data versus sharing that information for program integrity purposes.

As the world exists today, Federal agencies do not have real-time access or a way of gauging a recipient's tax status in terms of whether they are delinquent or not.

Senator BROWN. What about if there is a Federal lien? Would these agencies check for a Federal lien or State liens?

Mr. WERFEL. When you get into certain levels of delinquency, the more severe delinquencies, others certain public indicators start to emerge such as—

Senator BROWN. I think $750 million is kind of severe. Obviously, it is just not one entity.

Mr. WERFEL. Right.

Senator BROWN. At what point, I guess is what I am getting at. I think you know the problem. I think you know my concerns and probably Senator Carper's.

I would love a suggestion as to how you feel we should address and fix it, whether it is through Executive Order, a legislative fix, an administrative fix. I just want to fix it.

Mr. WERFEL. Right. There was legislative action recently. Several appropriations bills required that agencies consider suspension and debarment for issues where we have a recipient that is either a convicted felon or has an outstanding tax liability, and we are currently working on guidance to articulate how agencies will do that. Again, I just want a caveat that the constraint we have here is getting access to the information on who is delinquent or not and that

makes the process a little bit more clumsy in terms of us executing to make sure that—

Senator BROWN. Right. I want to find a way to streamline it, though, and maybe we can work with your office.

Mr. WERFEL. Something to work on.

Senator BROWN. Thank you.

Then, getting back to you, Ms. Gunderson, I know it is kind of the same question, but Health and Human Services has a large percentage, $794 million in undisbursed grant money.

While there may be reasons why these accounts have not been closed out in the short-term, why have they not closed out expired accounts that are 3 years or older? Kind of the same question I asked earlier.

I mean, at what point do you say, OK it is clear that they are not going to fulfill the grant award and we need to get the money back. Also, it is clear that there was some type of fraud or negligence.

Do you have a mechanism to recoup the money?

Ms. GUNDERSON. Thank you. Of the $795 million, about $595 million of that was reported by the GAO to be accountable to HHS's programs.

Senator BROWN. Thank you for that correction.

Ms. GUNDERSON. We are a portion and subset of that, but again a large subset of that, and it is a significant amount of money. We believe the amount is slightly overstated because we have since found, through our own analysis, that some of those grants had actually been extended and performance was not yet completed.

Senator BROWN. Well, it says $400 million.

Ms. GUNDERSON. Even in that case, it still is a significant amount of money. We are engaged in closing out that effort.

We have since focused, as I mentioned earlier, a lot of our close-out effort on the more recently expired grants and this audit brought to light the need to close out those ones that have long been expired.

As one of the examples, one of our agencies has closed out over 17,000 of those aged grants this Fiscal Year, and 8,000 of those were funded from Fiscal Year 2007 or prior. So, we are making progress.

Senator BROWN. What about the earlier ones? The ones that are 10 years and over.

Ms. GUNDERSON. Those ones are the Fiscal Year 2007 prior, about 8,000 from one agency alone have been closed out. We are making progress and putting our attention towards this.

Senator BROWN. I do not want to take Senator Carper's time. I may come back to this. Thank you.

Senator CARPER. Did you want to finish your sentence?

Ms. GUNDERSON. I did not know if you wanted me to address the other half of your question.

Senator CARPER. Go ahead.

Senator BROWN. Yes, please thank you. I did not want to take the Chairman's time.

Ms. GUNDERSON. That is OK. We do have mechanisms and processes to be able to terminate a grant if need be when a grantee is

not performing or is underperforming. A great majority of our grants.

Senator BROWN. How about fraud and negligence, though?

Ms. GUNDERSON. And in those cases as well, and having those issues referred either to our Office of Inspector General for action as well.

A great majority of our grants are awarded to State and local governments. We do work in partnership with them to ensure that they are performing against the grants that we do award with them.

Senator BROWN. Do you have a mechanism though? For example, I just told my staffer, hey, I want you to go through and see how many are outstanding in Massachusetts because I want to write them and call them and say, did you know there may be a turn over with personnel so we can get that grant out the door.

It is about jobs. It is about obviously maximizing the grant opportunities in your State so you are not falling behind.

Is there something that you all have that you can let us, as legislators, know that your State has $300 million that has not gone out the door yet. I am sure you would like to know that, right, Tom?

Ms. GUNDERSON. We can provide that information through our payment management system and we can provide information about all the awards that your States received through our Tracking Accountability in Government Grant System.

Senator BROWN. Thank you.

Senator CARPER. Let me direct my first question to Mr. Werfel.

I understand from Peter Tyler, who is the fellow sitting over my left shoulder here, that yesterday your office put out an important document to the Federal agencies, controller community, that specifically addresses the issue of expired grants.

In your alert, I am told, your alert to agencies highlighted the importance of closing out grants in a timely manner, the subject that we are talking about here today; and it specifically mentioned the importance of curbing waste and fraud which we have talked about here again today.

And, we believe that this is an excellent example of the Administration taking positive, proactive action when a problem becomes known as this one has.

We understand the communication I mentioned also described the many issues and recommendations that came out of GAO. And, I just wondered if you might comment for us on yesterday's alert, and also describe any specific additional steps that the Administration is contemplating taking to further improve the timeliness of agencies in performing grant closeouts and the associated audits.

Mr. WERFEL. Thank you, Senator.

I think it is an example of this entire hearing and the GAO report and our response I think is an example of how sometimes in small ways and through small steps we can make significant progress in terms of understanding the nature of deficiencies that are occurring in financial management and work collectively to close them out.

GAO's report, I think, prompted by this Subcommittee highlighted and area that we did not have full insight on. On an individual agency basis I think they did; but collectively across the

community whether it be the CFO council or the grants council that we recently created, looking at that issue in its entirety, we are able to say, OK, cross government we have varying levels of performance.

I think you are hearing from two witnesses today whose agencies are very actively engaged in this issue with or without OMB issuing directions or alerts.

But, we have other agencies that self reflective can say this is an area that we have not focused on and the fact that it is being raised, whether it is by our Inspector General or GAO, there is something we can do about it.

So, we get our communities together. We just, for example, met yesterday with every CFO, had a robust discussion on a whole host of issues probably all important to this Subcommittee.

Senator CARPER. Give us a couple of examples.

Mr. WERFEL. Of what we talked about?

Senator CARPER. Yes.

Mr. WERFEL. Well, we talked about the implementation of do-not-pay, its importance, and made sure that every agency was on track in terms of thinking about their signing up for that solution. And, we talked about—

Senator CARPER. How was the reaction? That is something that is obviously of great interest to us.

Mr. WERFEL. I think the reaction is very positive. The way we talked about it, just to share with you, we consider the use of data and leveraging the information age in new and effective ways as the major game changer in the area of improper payments; and the issue is how well the agency is positioned to move from being in an embryonic phase of using data to a more sophisticated one. We have a few agencies that are off and running at 40 yards down the football field and they are doing excellent work. HHS is certainly one of them with their CMS fraud lab and all the forensics they have going on.

Senator CARPER. They have a lot of money at stake there. So, good to hear.

Mr. WERFEL. Yes. It is the right agency to be advancing down the football field ahead of everyone.

The other agencies are not in that same place; and the point is that, by signing up for the do-not-pay solution, it is kind of a, we are going on the journey together; and Treasury and OMB are helping agencies lead because we are taking them on a journey to start with some very basic data matches against the death master file, against the occluded party list.

But we are building on that to say there are more sophisticated analysis that can take place. And, Treasury is going to house that data analytics center for the agencies. If they do not have the wherewithal right now to get 40 yards down the football field on their own, the do-not-pay solution is kind of a collective amongst the Federal agencies to move them along.

And, I think there is a lot of excitement and energy around the help that the do-not-pay solution will provide agencies in helping them along. So, that is an example.

But, we also talked about grants closeout. I talked about the elements of the Controller alert that was issued. This fell into a cat-

egory of an area where the agencies felt like, with many GAO reports, let us know the problem, highlight it for us so that we can understand the nature of its, and then talk to us about the different types of strategies that are at play.

So, looking at, for example, tracking, performance targets, the right times and places to unilaterally close out grants just when certain criteria are hit, all of those things are things that, in response to the Controller alert, that agencies are reviewing and we will continue that dialogue going forward.

Senator CARPER. OK. Mr. Czerwinski, let me just ask how would you react, if you will, to the news that Mr. Werfel and his team put out the document yesterday to the Federal agency controller community that specifically address these expired grants?

Mr. CZERWINSKI. Thank you, Chairman Carper, and we are very pleased to see that.

As you will recall, this is stemming from a recommendation that we made in 2008 to you. So, to have the action taken now is very gratifying to us. And, going back to my statement, I think this is testimony to essentially congressional oversight.

In terms of the actual content of the alert, we agree completely with the concept; and that is, by raising the attention, that you will get better performance; and then again, the implementation, the kind of things that I talked about emphasizing those that are most at risk, the oldest, largest.

So, we are in very much agreement with where OMB is going with this.

Senator CARPER. OK. Good.

This is a question, to some extent you all have already spoken to this but I am going to ask you just to drill down a little bit more, just reiterate what you have already said.

But, I am going to ask Ms. Gunderson and Ms. Harman, if you would just comment a bit more on the steps that you all are taking to address within your own Departments the expired grants.

Ms. GUNDERSON. We have issued department-wide guidance to accelerate the close out initiative; and as I mentioned, my office engaged in an accelerated closeout team effort last year and really had our agencies focus in on the Fiscal Year 2008 funded grants that had recently expired.

Senator CARPER. What was the catalyst for that, for you all doing that?

Ms. GUNDERSON. It was again as a result of some of the OIG reports that we had seen, our auditor's reports reflecting a concern with it in our financial statements, and just a need to move forward and again breakdown that backlog that creates the cumulative effect of these grants having expired and being added to the pool to be closed out.

So, we wanted to get them ahead of the game in addition to the efforts that they took to focus in on the grants that were having funds canceled or those older ones. So, that was one main initiative.

We've asked our agencies to dedicate staff to this and many have already done that, or done that on their own, several in those cases. I personally have this in my performance plan to ensure that

our Department increases grants closeout and several of our agencies have also taken that same initiative.

Senator CARPER. That is good. Ms. Harman.

Ms. HARMAN. With regards to FEMA, the need for closeouts was really identified through our Internal Controls Branch that was created also in January of last year. I realigned our Directorate to create an Internal Controls Branch to sort of highlight what do we really need to be working on.

Closeouts was one of the biggest ones. So, although we did not get to a full branch, we did put together a task force to sort of do an assessment and say, what are we dealing with here?

Our grants have a very big spotlight on them. Everyone is very interested in what are we doing with preparedness and how much money is going there; and as such, we send those financial documentation to the Hill on quite a regular basis, quarterly.

The drawdown issue was sort of coupled and hiding in there and a lot of the discussion was never on drawdown. It was really, well, we cannot really deal with drawdown.

When we look at the numbers that we were sending and what we were reporting, it was, wait a second, some of that money has already gone back to the treasury. We need to take a look at this.

So, coupled with closeout and internal controls, it really highlighted a lot of concerns for us. So, that task force was able to do an internal assessment; and as I mentioned, we have already closed out 8,000 of 14,000 awards.

All of those awards of 2007 which will be closed, this will be that 5-year mark where money goes back to Treasury as of September 30. Those grants will be closed. Our mark is March 30, 2013, and all open grants that are eligible and expired to closeout will be closed by the end of the Fiscal Year 2013.

Senator CARPER. Mr. Werfel and Mr. Czerwinski, would you say that these two agencies are good examples of what is going on across the Executive Branch or are they agencies that are doing an especially good job or are they the laggards?

How would you characterize the job they are doing in this regard?

Mr. CZERWINSKI. I would say they are probably on the leading-edge at this point by the focus they are placing on it. They may be very well leading-edge because their risks were the greatest to start with.

Senator CARPER. OK. Mr. Werfel.

Mr. WERFEL. Those are my exact sentiments. I think the work that HHS and DHS are doing are commendable. In some ways in terms of the directions that OMB has issued yesterday, these agencies are on top of many of those elements in terms of tracking and understanding.

But, they are driven in some cases by risk; and in particular I think HHS being the largest grant making agency, there is a lot of focus from their OIG and from oversight entities on their grants portfolio and some issues have surfaced over the years and they have organized themselves to prioritize the grants management. They look at these indicators and they delve deeper into them to understand what do these accounts and their hold over balances mean, and both of these agencies are evaluating them.

I think it is now incumbent upon the rest of the community, as generated by the GAO report and in this hearing, to follow suit, understand the data better, and figure out where there is need for improvements.

Senator CARPER. OK. Good. Senator Brown.

Senator BROWN. I just want to go backwards just for a minute, Mr. Werfel.

So, there is no sharing. I know the privacy issues. Why then do the agencies as part of their format when they are putting up their grant application say, let us know, do you have any tax arrearage and/or under the pains and penalties of perjury? I hereby certify that I have paid all State and Federal taxes and no outstanding monies are owed to any entities thereof.

Why can we not do something like that?

Mr. WERFEL. That is definitely an option that is under close consideration. I mentioned earlier that the legislation that was recently issued requires us to have at least some basis of knowledge of taxpayers status in order to consider suspension and debarment. The self-certification of the recipient comes out first and foremost as a major and significant option.

Senator BROWN. We just did insider trading in the STOCK Act, and we are signing our documents when we are doing our ethics documents. We are signing under the pains and penalties of perjury.

I would think that somebody applying and getting millions of taxpayer dollars, the least they could do is certify that they are in compliance with all applicable tax laws.

I would suggest whomever is making that decision, let us get it done.

Mr. WERFEL. It is definitely under consideration as a component.

Senator BROWN. All right. Also, the agency gave notice, thankfully yesterday, as you were just discussing.

Did you put in penalties or suggestions of penalties if you, in fact, do not do it? For example, you are sending out a notice to the agencies of the things they need to do. Is there anything that, if you do not do it, this is what is going to happen, your budget is going to be cut, or you are not going to be eligible to issue any grants, or is there some type of penalty?

Mr. WERFEL. Not at this stage and that is something we can talk about as an approach, as a strategy. The approach that we tried to take at OMB in working with the agency is to do things in stages, and particularly we get a lot of feedback from the agencies in our relationship with them.

They often tell us, tell us what the issue is, not the how, and allow us to fix the issue and defer to our expertise.

So, yesterday what you saw us telling them what the issue was, making sure that we are a community looking last at what the issue is, making suggestions on how to do it, but not necessarily dictating the exact procedures that the agencies will take.

If that does not work and we move forward now that this issue is squarely on our radar screen, we would move to a next stage of development of the process with the agencies of more directive, maybe a little bit more, I hate the term, but micromanagement.

Whatever term you want to use, but much more specific requirements would be put in place as we grow and develop on the issue.

Senator BROWN. So, what time frame is that, like, at what point do you say, this is not really working. The thing that is kind of gnawing at me is that we are talking, about a lot of money, and at some point we have to kind of get off our duffs and just move forward and get it back into the system.

I know Massachusetts and Delaware, we would love to have that money back in the system to look for other ways to spend it or use it to pay down our debt.

Maybe I am too anxious. I just want to get it done. However you can do that to basically light a fire with the agencies who are obviously, now that you are bringing it to their attention, now that we have a hearing and, they are making better efforts. I think it is a collective effort, us pushing it on our end, you guys hearing about it, you guys pushing it.

Everyone is doing their job. I understand that. I want to take it a step further now and really I want to close out the accounts. There should be a working balance within these things, but not hundreds of millions of dollars. It just does not make sense.

That being said, I would like to go back to Ms. Harman. What performance metrics do you have in your agency, or your agencies, or at the program level to evaluate how effective the grant was in achieving its purpose. As Senator Coburn referenced, they have a port emergency response, but they do not have a port.

How do you figure out if somebody is actually doing what they are saying they are going to do?

Ms. HARMAN. That is a really good question.

We have a variety of grant programs as I mentioned earlier. Some of them are target allocations where there is a given amount of money that comes to a State and that is intended to be used on your State's strategic plan.

During the application process, there is a review where they will submit investment justifications or projects and then there are milestones that are measured throughout the monitoring process for that.

Other programs that are competitive programs similar to the port and transit programs undergo a significant review process; port in particular, those projects have to be reviewed by the captain of the port in addition to having a national review panel.

If those dollars, through monitoring, are being used for anything other than what was approved, we usually know about it pretty quickly and steadfast.

There was concern, I realize, with the memo and the direction that came out earlier in the year to allow greater flexibility with some of the open dollars that are out there. We are ensuring, as we work with our stakeholders one on one, that those dollars under those individual grant programs are respective of the integrity of that grant program.

If it is a port grant program, any of those dollars being spent need to be focused on port and maritime security, not other things.

There are mechanisms there that are in place for that. With regards to what we know outside of the administrative factors of monitoring the grants and the performance and the stakeholders

know what we are doing, holistically performance-wise we know exactly what we have purchased, who has purchased what at what State level, at what FEMA region to look at the capabilities that has been built.

Senator BROWN. So, is there anything that you all, I am talking about you two in the middle, is there anything that you need us to do? Do you have enough bodies to do the job? Is it a personnel thing that you need? More processors or you need more computers? What is it that is kind of leading up to a good effort but maybe we could make a better effort?

Ms. HARMAN. It is a variety of issues that go on with managing grants. We have approximately 20,000 open grants within FEMA that we manage. That does not include disaster grants. I am talking sort of preparedness, mitigation types of grants.

Senator BROWN. Yes.

Ms. HARMAN. So, there is a large work load there.

We are using currently sort of risk factors or key indicators to determine where should we be doing the monitoring and where should we not. Obviously, we cannot monitor every single one of those grants so there has got to be some indicators that are going to lead us to monitor some more so than others.

So, we are doing a lot of that. But, there is a capacity there that is needed with regards to personnel, with regards to funding.

Currently, the funding that supports FEMA is a percentage of the overall amount of grants that are appropriated each year. That amount fluctuates year to year.

We had a $4 billion budget at one point. I have a $1 billion budget this last year at the Secretary's discretion to allocate. It is still the same number of grants that go out the door that need to be monitored. So, it still continues to build up.

I think our biggest challenge that we have which we are making progress on is to move to a consolidated grant management system, the IT system that we use.

The grant programs Directorate within FEMA is a combination from DHS programs, Justice programs, and legacy FEMA programs. With that combination back in 2007, came the people, the business processes, and the systems with that.

In order for us to extract information when you or your staff are requesting, what did so and so do with this grant dollar, we are searching multiple systems to ensure that the query was correct.

Systems for us is a critical portion of what we do, and we are making progress there but that is dependent on available funding and the capacity of the contractor and everyone else to consolidate all of these systems into one.

Senator BROWN. OK. The same question.

Ms. GUNDERSON. I would add to what was said and as an ask associated with what we would need and it goes to what is required to report on progress.

We had several programs that are similar, but the authorizing legislation requires different types of reporting and often those are among the same grantee community.

We are confusing the grant community with the types of reports that we want. As an example of that, we have recently aligned 2 of our programs, related to FEMA's work, our hospital prepared-

ness program and our public health emergency preparedness program. We have brought those programs together so they can align their programs, understand the types of reports that were required by the authorizing statutes and design a combined strategy to help facilitate a better demonstration of what the outcomes were of those programs.

I guess I would emphasize, as these programs are authorized and put forward, an emphasis on some of the standard data that we can collect so that we do not create disparate reporting systems and have that duplication.

Senator BROWN. Yes, you are not duplicating your efforts.

Ms. GUNDERSON. Right.

Senator BROWN. You just want to keep it simple.

Ms. GUNDERSON. Right. Exactly.

Senator BROWN. Well, thank you all for your testimony.

Mr. Chairman, I have to head out.

Senator CARPER. Thanks for being a part of this very much.

I am going to give our audience a chance to take a nap if they want and I am going to ask a question of Mr. Werfel that no one else in the room might be interested in but I am.

In my briefing materials that I read, Mr. Werfel, the term Single Audit Act came up, and that was actually something I worked on in my first year as a freshman member of the House of Representatives a while back.

I remember once my State auditor, a fellow named Dennis Greenhouse, said to me, "We need a Single Audit Act, and we need somebody to be the champion for the Single Audit Act in the House of Representatives."

I was looking for something to champion as a new guy, a new kid on the block, so that was one of the things I championed.

My briefing materials indicated that the Single Audit Act needs a refresher. Could you just explain for us sort of the rationale, Mr. Werfel, for why we have a Single Audit Act, what has worked well, what has not, and why we need that refresher?

Mr. WERFEL. Absolutely. The history here is that, as a recipient of Federal dollars, before the Single Audit Act framework was in place, there was a lot of auditors descending from the Federal Government into State and local governments, universities, and elsewhere to do their audit work, we are the auditors from HHS, we are the auditors from Education, et cetera.

And, there was a concern that there was a lot of overlap and stepping on each other's feet in terms of trying to figure out what the right audit footprint was.

So, the notion was that we needed a framework to reconcile all of these various audit streams that were flowing down out of the Federal Government, recognizing that the dollars need to be audited, there needs to be strong oversight scrutiny and accountability but maybe there is a more rational way to do it in the single audit framework; and the Single Audit Act was born.

And, OMB is charged with the responsibility essentially for issuing the regulations, although we call them circulars, that affect how the single audit framework plays out.

In terms of a couple of different key questions, for example, who gets a single audit, in terms of how much money they get from the

Federal Government, we set thresholds, and then what types of questions they are asked in their single audit framework.

And, over the years there has been a whole host of different concerns raised about the single audit framework. One of the ones that we are very focused on is that the single audit is not always asking the question that is most central to the taxpayers bottom line.

That is very important to me. I have gotten some feedback over the years from those that are in the field doing the work and in particular program managers or State comptrollers saying, oftentimes I read my single audit results from my State and there is a lot of, hum, I do not know really what to do with this information, it is not all that helpful to me as a manager versus in some cases I read the results and I say this is huge, it is significant, it is impactful, and it changes the way I am going to do my work.

And, our response at OMB was we wanted to make sure that the questions that were being asked and the resources that were being deployed were more around the significantly relevant issues and less around the ones that were not eating helpful.

So, when the President issued his Executive Order on improper payments in 2009, one of the things that is in that Executive Order is he asked OMB to explore the audit of dollars in the field and how they can be improved, and that led us to the single audit and it led us to some fundamental questions which is, are we asking the right questions in the single audit to get at that fundamental bottom line question of whether the dollars are being spent correctly, are we auditing the right entities, are we auditing where the risks are, because for every minute we spend auditing a low risk entity it is a minute not spent and a deeper dive not being done into an entity with a higher risk.

And so, what we issued last February as part of our reform, and I do not think we need the law to change per se, it is more of our regulations that have to change, is how can we refine the process to get after this bottom line question more aggressively and how can we continuously improve this model.

And, we floated three different ideas essentially. One was should we raise the threshold so that this block of audit resources that are in place are placed more squarely on higher dollar grantees than lower dollar grantees. That was one question we asked. We got a lot of diverse feedback on that.

The second question we asked is should we narrow the set of questions that we are asking so that there are more at the bottom line of improper payments and so we can go deeper with that same audit footprint into the area of whether the money was spent correctly or not versus some of the other tangential questions that are being asked. We got a lot of good feedback on that.

And the third is are we doing enough to be transparent and aggressive in follow-up and resolution of all the audit findings that surface under single audit, and there was clear consensus in the comments received that is an area of significant area of improvement.

So, here is where we stand. We issued the notice. We have gotten public comment, and we are now getting ready to issue a more formal proposal, not the final, but a formal proposal for a second public comment period and then we will go final.

And, we are currently grappling with those comments and trying to determine should we raise that threshold to gather the higher dollar grantees or is our risk distribution better the way it has been with the lower dollar grantees still covered by a single audit.

And, the second question that we are grappling with is how much and whether to narrow the question footprint so that it is more centrally, and what are the trade-offs of taking away some of the other areas of inquiry.

And, I think we have a huge game changing opportunity. I mentioned data analytics earlier as a game changer. Also, the strength of the audit, making sure that it is more risk-based and more targeted on what I believe to be a more bottom-line question from the taxpayer is another opportunity that we are going to see help in the battle against improper payments.

Senator CARPER. Let me just make this comment. I thought that was a great response to a rather obscure question and issue.

The Olympics are underway in London. Not so much in the Summer Olympics but in the Winter Olympics they have judges and they raise up scorecards.

I am just going to ask the other three judges here, we will just say this is the Olympics and Mr. Werfel, you have just been one of the athletes. And, if you were to take your name tags and turn them over and write a score between 1 and 10, what score, Ms. Harman, would you give Mr. Werfel for his response on that?

Did he knock it out of the park? What do you think?

Ms. HARMAN. Yes, I am fairly certain I would go with a 10. [Laughter.]

Senator CARPER. Ms. Gunderson, I know you are pretty tough grader but what do you think?

Ms. GUNDERSON. I would go with 10 maybe, 9.9, yes.

Senator CARPER. Mr. Czerwinski, what do you think?

Mr. CZERWINSKI. Well, he oversees their budgets. [Laughter.]

Senator CARPER. You can be the honest broker here.

Mr. CZERWINSKI. But also remember I am from GAO so we always say more can be done.

Senator CARPER. OK. All right.

Mr. CZERWINSKI. It was a really good answer and I was thinking it was a really good primer to hear. I do have two other points to add to it, though—

Senator CARPER. Go ahead.

Mr. CZERWINSKI [continuing]. Coming out of the Recovery Act, because the Recovery Act stressed a lot of systems and it showed us there are two lessons that appeared to me had to do with single audit.

One is timing. Timing of the audit is essential because if you get the audit out there too late, it does not do anybody any good. So, whatever we do, and I think Dan has got it exactly right, and the context too, it has to be with the concept of improving the timing in mind also.

The second is, looking at the State and local fiscal condition, their resources have been stressed worse than ours at the Federal level. What we saw during the Recovery Act were when States that fiscal stress, they tended to make cuts to people like me.

They cut the State and local audit functions, and so, what you are talking about is asking State and local auditors to look at more, do it more quickly, do it with less.

Where Danny gets a really high mark, and I probably give him a 9.5, is that you do it by targeting better, by what you look at and how you go about it, and I thought his answer was fabulous.

Senator CARPER. OK. All right. Good work.

I have a question. I want to return to an issue that has been raised already but I want to really pose this for the entire panel.

When the issue of performance metrics comes up, I am often reminded of the saying by I think it was Vince Lombardi, who used to say, if you are not keeping score, you are just practicing.

In 2010, Congress, with the help of this Subcommittee, passed a law requiring the use of measures that would help the Federal Emergency Management Agency keep better score of its grants and called on the National Association of Public Administration to assist the agency in studying and developing and implementing performance metrics to assess the effectiveness of the grants.

It is my understanding that FEMA is already implementing several of these recommendations and is developing an implementation timeline for some of the remaining measures.

And, I would just say to, Ms. Harman and Ms. Gunderson, could you just describe for us some of these specific ways that your agencies are implementing quantifiable performance metrics to measure the effectiveness of your grants?

And, do you have any best practices that you would like to share with the rest of us, the other panelists, and with me?

Ms. HARMAN. Sure. I can talk a little bit to that. That is a great question. We obviously hear that a lot, critically from FEMA. You have invested $35 billion over the last 10 years, what are we getting for it?

We did work very closely with NAPA on that report. We partnered within FEMA, one of our partner Directorates is the National Preparedness Directorate where really smart people with really big brains analyze all of this data that we collect from our stakeholders.

So, as we work with them, we have worked very closely, what information are we collecting, why are we collecting it, and what do we need.

There are a lot of reporting requirements, everything from financial reporting requirements, tell us what you are doing with your money, tell us how you are progressing on your investment justification.

It, at times, can be overly burdensome to a stakeholder to do that. So, we have had to really step back and think, with the help of NAPA, saying what should we be collecting and why. So, we are in the process of making some enhancements with that.

We have also looked at individual grant programs such as the Emergency Management Performance Grant Program that is out there. That is roughly $350 million a year. You hear some folks who like that program, it is great, and others that do not like it say what are we doing with this, what are we getting for it.

We instituted some very specific measures to show that this grant program is not just paying for people, for local emergency

managers, they are paying for people that meet certain knowledge, skills, and abilities.

So, we have performance metrics with regards to the types of training that is required for these emergency managers, the types of activities they should be performing each year with regards to participation and exercises. When they are writing plans, they should be writing their plans to a certain level.

So, all of that has been incorporated, and this is just one program out of a multitude of programs that we have. So, we are making a lot of progress with that.

But, with the intel and the data that we currently have we, as I mentioned earlier, we know exactly what was purchased and where we purchased it.

But, I think the true metric of performance and the capabilities that we have built over time is nothing beats through performance. When you look at the performance of the events last year in Joplin and Tuscaloosa, those events were handled very swiftly, very quickly and efficiently at a local level.

FEMA did not have to deploy one Federal urban search and rescue team down there because it was already handled at a local level. So, these dollars are making a difference.

By 2010, 75 percent of States and urban areas had emergency operation plans that they were comfortable with to say we can deal with a catastrophic event here.

We have more than 10 million stakeholders trained in the incident command system across the board. That was sort of unheard of. Incident command prior to 9/11 not a lot of folks really knew what that was.

So, we have data that can show us what they are capable of, what they are comfortable of, what training they have taken, but nothing beats the true performance that we have seen in some of the recent disasters.

Senator CARPER. Ms. Gunderson.

Ms. GUNDERSON. At the Department level, we do not have a singular set of performance metrics to apply to all of our programs. We manage over 300 programs across the Department.

I do have some examples of what our agencies do at the program level. In our Health Resources Services Administration, for an example, under their HIV–AIDS Bureau, something that is near and dear to our heart given the conference that is occurring this week in Washington, they have created a set of performance measures which comprise indicators that the providers can use to monitor the quality of care that they are providing based on a core set of data and reporting metrics.

So, we are able to capture that data and understand it. They have also recently begun to introduce language into their funding opportunities announcements that have let them open the door to consider that performance information in making future funding decisions.

Senator CARPER. Mr. Czerwinski, do you want to add anything or, Mr. Werfel, anything on this point?

Mr. CZERWINSKI. One thing I was thinking about is that you have a great staff.

Senator CARPER. Me?

Mr. CZERWINSKI. Yes. You have a great staff.

Senator CARPER. You are right. I know.

Mr. CZERWINSKI. The kind of questions that they are asking are really helpful to us as we do our work. Our Assistant Director who is going to be doing the performance report that we talked about in my statement, I am sure he is taking a lot of notes based on what you are asking. So, thanks for helping us.

Senator CARPER. I saw somebody back there writing a lot. [Laughter.]

OK. Thank you. Mr. Werfel, anything on this particular point?

Mr. WERFEL. I think it is a really good question and it goes to, I think, the appropriate evolution of grants. And, right now if you look where our metrics are, they are in the nuts and bolts issues. We have lots of metrics on improper payments and outstanding debts as an example.

We have audit on the findings, whether in the single audit or the financial statement audit. We have a bunch of metrics that go at the heart of these financial management issues, and those are all important.

Where we do not have a global framework is on performance metrics across the government, and I think that with the enactment of the GPRA Modernization Act and other efforts, it seems to me that this is where we are evolving to, to grow from nuts and bolts metrics on the money and the timing of the money. These are all really important questions, but what we are getting for the money I think is the next evolution of metrics and definitely in grants there is a huge opportunity there.

Senator CARPER. Anything? Anybody else? Ms. Harman.

Ms. HARMAN. Well, I will just add. The other important thing for us at DHS, and I know we have partnered with HHS in aligning some of our grant programs, is the overall what we are trying to accomplish with performance metrics and where are we going as a Nation with regard to capabilities.

So, the other thing that has helped guiding us, of course, is Presidential Policy Directive Number 8, and the national preparedness goal and everything else that fits within that with the strategy and the framework and the core capabilities that now all of our grant programs are aligning to, to help us get to sort of a single fashion and a goal in mind.

So, that is an overarching strategy for us.

Senator CARPER. OK. Good. Thank you.

Maybe one more question for you, Mr. Werfel.

As some of you know, I often like when I get to the end of hearing, sometimes I will ask the panelists to kind of reflect back on what has been said, what you have said, what others have said, questions that have been asked. Just maybe make a closing statement. You always get to give an opening statement but I am going to give you an opportunity to make a closing statement if you like.

Before we do that, though, I want to ask one more question, if I could, of Mr. Werfel, and this deals with the new Federal Grant Management Council.

I understand that the Administration has established a new council—I am sure there is an acronym for it—for the oversight of

grants—and, yes there is, we talked about it earlier—grants across the Federal Government.

And, there are a lot of issues, questions, and concerns that need to be addressed by the Council on Financial Assistance Reform. Please do not call it COFAR but I know that is what it is. You may just call it the Council.

But, Mr. Werfel, what are the top priorities for the new oversight body—you talked a little bit about this earlier—for the Council on Financial Assistance for the next, we will say, calendar year?

Mr. WERFEL. Well, at the Council we focused on three main areas and then a high-level burden reduction, error reduction, and transparency. That is where we have started.

And, part of that comes from making sure we know and are in touch with our stakeholders, and we have a couple of big ones. The grantee community, I will put them in blocks of State and local governments, colleges and universities, and nonprofits; and they certainly are extraordinarily vocal, and as they should be, on places where they see a lot of unnecessary administrative activity.

It is that type of feedback that led the President to issue a directive in, I believe it was, February 2011 for the Federal Government with emphasis on OMB on looking at the burdens we impose on our recipients and looking for strategies to reduce that burden; and that is part of the effort that I described when I was talking about the single audit.

There are other components of that and burden reduction is one. And so, before I leave burden reduction, I will just say the major tension there is that on all the paperwork we are trying to pull back and say, is it really worth it, are we getting the bang for the buck in terms of requiring all these check the boxes.

On the other side of that is the auditor and the Inspector General community saying, in some cases and in many cases that paperwork is critical to our investigations.

So, we cannot just, unfortunately there is no easy pull back on the paperwork and everyone is happy. It has got to be done very strategically and in concert with the auditor.

And, this Council is having meetings and I have sat in a few of them that are fascinating where you have the universities in one chair and the Inspector General community in the other and they are talking about this paperwork burden and we are trying to figure out is there a solution set their.

On error reduction, we have been talking about that. It is do not pay. It is improper payments. It is all the various work we are doing; and in many cases, it is trying to empower the State and local governments to be a part of the solution.

So, we have programs like Medicaid and unemployment insurance where there is 50 different State administrative solutions. So, it is not like at HHS or at Labor. They can fashion the solution that is going to solve the problem.

It involves outreach and partnership and best practice sharing and working amongst the State and local governments in a way to cultivate solutions and having good things go viral in terms of what we can do, in terms of error reduction. That is a clear priority.

And then finally, last week I was here and talking about transparency; and the big stakeholder there is the public. It is the sun-

light groups. It is this Committee. It is the House of Representatives as well and it is the President's commitment that he has had in transparency since he cosigned and coauthored the Transparency Act in 2006.

And, as we discussed last week, there are important steps that the grants community needs to take to position our information, not only to get public more quickly but more reliably.

And so, the Council is focused on those areas as well.

Senator CARPER. Thank you. Just a follow-up for you and then I just have one related question for Mr. Czerwinski.

I understand that there are no stakeholders, no stakeholders such as grant recipients, on the Council. Is that true? And, if that is true, is the lack of stakeholder involvement a potential problem? And, if it is, how would you engage grant recipients?

Mr. WERFEL. It is a very tough question that I have wrestled with and lost some sleep over. The answer is there are no official non-government entities on our Council.

The reason, there are probably two primary reasons for that. The first is that we feel that there is an appropriate time and place to have external outreach, an appropriate time and place to have an internal free exchange of ideas, collaborative spirit without knowing that everything we say is public, could end up on the front cover of the New York Times, that type of thing. And so, we are trying to balance that.

And so, our answer to balance that was to essentially have a government-only Council by judge us not based on the structure of that Council. Judge us on whether we are both actively engaging stakeholders and that active engagement is resulting in improvements and changes to the manner in which we are carrying out government programs, because it does not really matter—I am sure, I am going to make an assumption here, that if you had the recipient stakeholders community in here and they were testifying and asked them, what would be more important, a name and a seat at the table at the Council with no real change in the direction of Federal policy that is to your benefit or no seat on the Council but active engagement in a real dynamic set of changes coming from the Federal Government in response to your concerns.

I think they would take the latter every time. When I have talked to them, I have asked them to judge us and judge me on that frame.

And, I think this first project that the Council has undertaken, this very transformative change, the Single Audit Act to administrative requirements, this is a major first test because the comments that we got back from the community were filled with passion and concern and energy; and to the extent we can make sure that we are navigating all of them, I think we will demonstrate to them that they really do have a voice.

Senator CARPER. OK. Mr. Czerwinski, based on the work that you all are doing at GAO, what would you consider to be some of the important questions or issues that this new oversight Council should take up?

Mr. CZERWINSKI. Well, you started with one and that is the input from the stakeholders. A second is to take a look at both the finan-

cial and programmatic management of what you want to achieve with grants.

A third, and this is something that we looked at back when we were falling on PL 106–107, is setting clear objectives and clear time frames, and then holding yourselves accountable to that, that is one issue that we found looking back to the Grant Executive Board, the Grand Policy Committee, that this was not quite as clear as what they wanted to achieve and when they were going to achieve it by. Hence, things have stretched out.

So, I would say that would probably be the other piece is to really have a very clear objective, a clear plan, clear time frames.

Senator CARPER. OK. Good. Thanks.

OK. What I would like to do now is just ask each of you help me give the benediction, and just a short statement. Your opening statements were about 5 minutes. This one should not be that long.

But, just a point or two that you would like to reiterate. I think we ought to underline some points before we wrap this up and I go start voting.

Do you want to go first, Mr. Czerwinski?

Mr. CZERWINSKI. Yes. I went last the last time so I will go first this time if that is ok.

Senator CARPER. Go right ahead.

Mr. CZERWINSKI. To me this hearing goes back to the point that we were talking about congressional oversight and also we talked about a plan for OMB with its Council. I think there is a plan for the accountability community and for the oversight community as to what we want to achieve in the next session of Congress.

So, I personally was very gratified to hear the line of questioning that went along the lines of internal controls, went along the lines of streamlining in performance measurement because those, I believe, are three central pieces if we are going to make grant management work better.

And of course, when we talk about grant management, we have to think about the impact it has not just on the recipient community but also on the Federal budget, and this is a huge piece of the budget. It is a very complicated piece, and we need to get some handle on making it more straightforward and to work better.

The issue of closeouts is a very specific issue. It is a small one; but it is also an example of where, when we start to pay attention and we start to focus efforts, they can get better.

We talked about reporting in 2008 that we roughly found about $1 billion. We saw improvement when we came back in 2012. Assuming that we come back again at another time, we would expect to see similar or greater improvement.

Senator CARPER. OK. Thanks.

Ms. Gunderson, you can repeat, do not hesitate to repeat some of the same points that Mr. Czerwinski made. If you have others, that will be fine as well.

Ms. GUNDERSON. I do want to emphasize the Department is committed to protecting the taxpayer dollars and serving as a steward of the public's trust.

We do take grants management very seriously and we really appreciate the work of the Subcommittee, the Government Accountability Office and our own Inspector General in continuing to bring

grants management to the forefront because it is an important part of the way we execute our mission at the Department.

We did make great success last year in terms of our grant close out and we did get noticed for that both by the GAO, which we appreciate, and our own internal auditors.

We have come off the risk list internally in terms of our audit, and the fear for that is that means we have declared success and we will move on and will not pay attention.

This work of the Subcommittee and the GAO continues to emphasize that this is important work to do in terms of closing out our accounts, managing our ongoing projects.

We appreciate that and the attention that your Subcommittee gives to these types of initiatives and the resources we need and systems we need to make these things happen is appreciated.

Senator CARPER. Thank you. Ms. Harman, a closing thought.

Ms. HARMAN. Sure. I would just like to say thank you for the opportunity to be here. It is not often we get to talk about grant management with regards to FEMA.

We have talked a lot about our different programs and what is good, what is bad, which ones are working, what are we getting for our dollars.

It is exciting for me to be able to share with you what a lot of our staff are working on. We have a very dedicated staff at FEMA. They are in the grants world and sometimes they get a little bit left out of the excitement when it comes to the response and recovery phases and working directly with victims of incidents.

I just wanted to throw kudos to them because there are many times under some of the statutory deadlines that we have to get the grants out the door that many of them have given up there summers and there vacations to obligate all of those fun in a timely manner. So, I want to throw kudos to there.

With regards to things that we need, you are most likely aware of the President's budget, the request for the consolidation of 16 different preparedness grant programs into the National Preparedness Grant Program, one single program.

That most certainly would ease a lot of the things we have to do. It is difficult enough as a stakeholder, a former stakeholder myself, but at the State level to manage not only the funds that we appropriate and allocate to the States but funds that are coming in from other Federal agencies.

It is a big and heavy workload, and what we have proposed is a consolidation of 16 programs to achieve the national preparedness goals. When Ranking Member Brown asked earlier what do you need, I was a little selfish in the point where I focused on IT systems and really what our Directorate needs.

But, in the larger scope of things, the streamlining of these programs and achieving the same goal will also not only build capability and preparedness but it will also streamline a lot of the administrative functions behind managing these grants.

Thank you for the time.

Senator CARPER. You bet and thanks for yours.

Mr. Werfel, last statement.

Mr. WERFEL. Two quick points. First of all, I want to echo something that Mr. Czerwinski said earlier about the talent and dedication of the people sitting behind you.

Senator CARPER. On both sides?

Mr. WERFEL. On both sides for sure.

Senator CARPER. I know.

Mr. WERFEL. And I have been working with this Committee and the Subcommittee coming up on 9 years since I transitioned into the financial management sphere and this group is especially collaborative and smart and thoughtful and challenging, challenging us in the right ways. And so, I just wanted to give that feedback to the group and to you.

Senator CARPER. Thank you.

Mr. WERFEL. And, one of the particular areas which is most encouraging and I am hearing more and more of is outreach and connectivity that the folks sitting behind you have with the stakeholders, State and local governments, and particularly those that are impacted by grants policy, and I encourage that type of ongoing discussion.

I mean a lot of things get lost in translation. I do not want to be the voice of the State and local governments or the universities on these issues. I want to make sure that you are hearing it directly from them so you can make the best informed judgment.

I am hearing more and more just in the chatter of this entity or that entity going up and meeting with the Homeland Security and Governmental Affairs Committee (HSGAC) staff and I think that is an enormously positive development and we are hoping that it continues.

Senator CARPER. Well, good. I just want to make one observation. This, I think, has been a very helpful hearing, and we appreciate the work that has gone into not just preparing for what you said here today but literally the work that has gone on for months, in some cases years, to enable us to report the sort of progress that is being realized especially by these two agencies.

This is not a hearing that is maybe as attention-gathering as Fast and Furious. It is not as riveting as the fiscal cliff or something along those lines or cybersecurity.

Having said that, Federal grants is important stuff and we realized that and obviously you know that, and in the end, it will help us save some money and we need to save a lot of money. This is not the whole fiscal package but this adds up.

And, I always like to see progress being made. We are seeing progress being made. I want to congratulate you for that because we all know everything we do we can do better. We need to improve more but I am pleased with the progress that we heard about today. Let us keep it coming.

Thanks so much.

We are adjourned.

[Whereupon, at 4:12 p.m., the Subcommittee was adjourned.]

APPENDIX

FOR RELEASE: July 25, 2012
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U.S. SENATE COMMITTEE ON HOMELAND SECURITY AND GOVERNMENTAL AFFAIRS

SUBCOMMITTEE ON FEDERAL FINANCIAL MANAGEMENT, GOVERNMENT INFORMATION, FEDERAL SERVICES, AND INTERNATIONAL SECURITY

HEARING: "Assessing Grants Management Practices at Federal Agencies"

Opening Statement of Senator Tom Carper, Chairman
As prepared for delivery

Today's hearing will focus on some challenges related to federal agencies' grant management practices and the opportunities that exist for addressing them.

Each year, the federal government allocates billions of dollars through grants to state and local governments, educational institutions, medical researchers and others. Effective management of these grants involves, among other things, ensuring that the funds are spent properly and are actually achieving results for taxpayers. Now, more than ever, it is important that we ensure strong, effective oversight over grant money.

From fiscal years 1990 through 2010, federal grant spending increased from about $135 billion annually, to over $612 billion, almost one-quarter of the fiscal year 2010 federal budget. This money went out through more than 1,600 federal grant programs managed by 23 federal grant-making departments and agencies.

These programs help first responders and state and local government improve their ability to withstand disasters. They fund efforts to find cures to cancer and other diseases. They help communities deal with transportation challenges. It is our responsibility in Congress and in the administration to ensure that all of this money is spent as intended and that, at the end of the day, we see real results.

As everyone in this room knows, both the federal government and most state and local governments have struggled with record budget deficits in recent years. Today, our national debt stands at more than $15.8 trillion, well over double what it was just ten years ago. The last time our national debt was this high was at the end of World War II. That level of debt was not sustainable then, and it is not sustainable today. In order to address the burden this debt places on our country, we need to look in every nook and cranny of federal spending – in programs large and small – and make certain that the

resources we're investing are being spent efficiently and effectively. We need to demand results and focus the scarce resources taxpayers entrust us with on our highest priorities as a country, and solutions that are proven effective in addressing the many challenges we face.

Across the federal government, program managers need to sharpen their pencils and stop making the kind of expensive, avoidable mistakes that lead to improper payments. According to the Government Accountability Office, federal agencies made an estimated $115 billion in improper payments in 2011.

Federal grants are not the whole cause of improper payments. Errors and fraud, unfortunately, occur in all categories of federal spending. But improving management and accountability in grant spending is one important piece of the puzzle when it comes to curbing waste and fraud. Success in doing so will help us as we work to curb our federal debt and, in the case of federal grants, it will help get better results both for grant recipients and the public at large.

Ultimately, all of us -- Congress, the Administration, state and local governments, and grant recipients small and large -- want to improve the way grants are managed and need to work together to do so. Our witnesses today will detail some important progress that has been made during the last few years in improving the oversight and management of federal grants. We will also be looking today at additional steps that the federal government should take.

One stark example of the need for improved federal grants management is the problem of money remaining in expired grants accounts. After a grant is awarded, the recipient has a specific amount of time to complete the grant requirements and spend the funds. The grant must then be "closed out," a process which includes an audit of the spending. In effect, the grant recipient has to show the receipts for the money spent.

However, according to the Government Accountability office, at the end of fiscal year 2011, almost $1 billion in undisbursed funding remained in expired grant accounts. We have a chart that shows the amount of money in expired grants within one grant management system, called the Payment Management System. The chart shows $794 million dollars in grant funds remaining in accounts after the expiration date, sometimes going back as long as five to ten years.

GAO has also identified an additional federal grant management system with $126 million in expired grant money. This is simply unacceptable. Our GAO witness will describe how a lack of timely grant close out will lead to a higher risk of waste and fraud.

A second problem we will discuss today is that of "draw down," or ensuring that grant recipients spend their awarded money in a timely manner. Unfortunately, problems have been identified in this area as well. For example, since its formation, the Department of

Homeland Security has provided state and local governments with over $35 billion in grant funding to help prepare for disasters and acts of terrorism.

However, for a variety of reasons, the Department and its stakeholders have struggled to "draw down" some of this money and put these funds to work in our communities. This could be due to sloppy bookkeeping or problems with how the grant program is structured. It could even be a sign that some of the unspent funds were not needed and could have been put to better use elsewhere. For whatever the reason, this is another issue that needs addressing.

Finally, we will discuss the importance of measuring performance in our grant programs. As I said earlier, we must work smarter with our limited resources. This includes finding better ways to look at what we get for the grant money we spend.

I look forward to hearing today from Danny Werfel, the Comptroller of the Office of Management and Budget, about how the Administration intends to build on what has worked so far in grants management and oversight, and also to improve the performance of those initiatives that have not worked as well. I also look forward to hearing from officials from two of the largest grant-making federal agencies, the Department of Health and Human Services and the Department of Homeland Security, about grants management within their agencies.

We are here today in large part because we have a moral imperative to ensure that grant dollars are well spent, and have proper oversight. At the same time, we must also ensure that the scarce taxpayer resources we invest are being spent as effectively as possible, and show good, measurable results.

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Opening Statement by Senator Scott P. Brown

July 25th, 2012

Subcommittee on Federal Financial Management, Government Information, Federal Services, and International Security

U.S. Senate Homeland Security & Governmental Affairs Committee

"Assessing Grants Management Practices at Federal Agencies"

Grants are important to Massachusetts. We have world class research universities like MIT, Northeastern, UMass, WPI, and others. Massachusetts is second in NIH funding and fourth on a per capita basis. That is pretty impressive for a state our size and drives an information based 21st century economy that serves as a model for the nation. I strongly support increasing NIH funding and ensuring consistency in that funding not just to create jobs in the Bay State but more importantly to save and improve people's lives.

I have learned in my brief time in Washington that throwing more money at a problem without adequate oversight and management is a recipe for waste, fraud and abuse. Unfortunately the current grants management system is beset by longstanding problems. For example, GAO recently reported that some 3,700 grant and contract recipients receiving $24 billion in Recovery Act monies collectively owed more than $750 million in federal taxes. The government also improperly pays many grantees, for example five of the top ten government

programs making improper payments were grant programs. These grant programs represent approximately $40 billion of the $115 billion total of government improper payments. This hearing focuses on the government's failure to properly disburse grant dollars. GAO reports at end of fiscal year 2011 $794 million remained in expired grant accounts with $110 million remaining unspent more than 5 years past the grant end date. The grant life cycle is also characterized by many other problems from not assessing the capability of prospective grantees to account for funds, to poor monitoring of grantee performance to grants that are not closed out in a timely manner. Simply put, the grants management system is broken and Congress and too many past administrations have failed to reform it.

Grants now account for more federal outlays than contracts, yet the grant management system is woefully behind the federal contract management system. To achieve grants reform, there must be a robust governance structure that effectively incorporates input from stakeholders. Congress has an essential role to play in guiding this reform, including reducing duplication amongst grants by removing obstacles to consolidation and supporting comprehensive reform that brings grants management into a 21st century government the taxpayers' expect.

I intend to take a leadership role in Congress to achieve this reform by increasing transparency, accountability and enhancing research productivity by eliminating onerous requirements and streamlining administrative rules. The goals

of any grant reform process should be guided by fairness, efficiency, consistency and accountability. Taxpayers have a right to expect better management of the grants they're funding.

We can no longer afford business as usual – allowing millions of dollars in grant money to be wasted each and every year. The people of the Baystate sent me to Washington a little of two years ago to solve problems like this. Reforming the grants management process is important to the people of Massachusetts and America. Fixing this Washington problem could be a key to invigorating our economy, so the rest of the nation can follow the lead of Massachusetts and become a world leader in the information based economy.

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

Testimony of Danny I. Werfel

Controller, Office of Federal Financial Management

Before the Homeland Security and Governmental Affairs Committee

Subcommittee on Federal Financial Management, Government Information, Federal Services and International Security

United States Senate

July 25, 2012

Thank you Chairman Carper, Ranking Member Brown, and Members of the Subcommittee, for the invitation to discuss with you today how the Federal Government can improve oversight and accountability in managing Federal grants.

In response to the President's charge to build a 21st Century Government that operates efficiently, effectively and accountably, this Administration is taking transformative steps to improve the management and administration of funds awarded through Federal grants. The President outlined three key principles that together establish the foundation for grants reform – ***mitigate*** the risk of waste, fraud and abuse, ***reduce*** administrative burden on recipients to improve grants delivery by ensuring resources are focused on achieving programmatic outcomes, and ***create*** an institutionalized structure of governance across Federal grant-making agencies. Two Presidential directives – Executive Order 13520 on Reducing Improper Payments and the President's Memorandum on Administrative Flexibility - complemented by the creation of a new government-wide grants management council, have equipped us with the tools necessary to build on this foundation in order to enhance existing grants management policies.

Foundation for Grants Reform

To help drive our efforts to ***mitigate waste, fraud and abuse***, in November 2009 the President issued Executive Order 13520 on *Reducing Improper Payments and Eliminating Waste in Federal Programs.* In this Order, the President directs Federal agencies "to more effectively tailor their methodologies for identifying and measuring improper payments to those programs, or components of programs, where improper payments are most likely to occur." Accordingly, we reviewed our use of the Single Audit tool across the government to ensure that the independent audit community can focus on oversight and strengthening of the entities, programs, and practices that pose the greatest risk of improper payments, waste, fraud, and abuse.

To ***reduce administrative burden on recipients and improve program delivery***, the President issued in February 2011 a Memorandum on *Administrative Flexibility, Lower Costs, and Better Results for State, Local, and Tribal Governments.* In this Memorandum, the President instructed the Federal government to work with our state, local and tribal partners to "reduce unnecessary regulatory and administrative burdens and redirect resources to services that are essential to achieving better outcomes at lower cost." Accordingly, the Administration conducted a comprehensive review over the past year and a half of the administrative requirements placed on recipients of Federal grants to determine where we can relieve some of those burdens to focus our resources on achieving outcomes without compromising accountability.

To create an institutionalized governance structure, concurrent with our work to review the policies that govern grants management, in October 2011, OMB created a formal body, the Council on Financial Assistance Reform (COFAR)[1], to coordinate grants policies across the government. This body, which I co-chair along with Ellen Murray, the Chief Financial Officer at the Department of Health and Human Services, is comprised of the eight largest grant-making agencies plus one rotating member to represent the smaller agencies, and meets regularly to advance grants policy, deliberate on reforms, and ensure government-wide coordination and collaboration.

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[1] See M-12-01 available at http://www.whitehouse.gov/sites/default/files/omb/memoranda/2012/m-12-01.pdf

Importantly, as we pursue grants reform efforts, it is critical that the Federal government maintain a close and dynamic feedback loop with other stakeholders. Prior to beginning our reform efforts, OMB engaged with both Federal and non-Federal stakeholders to provide recommendations for how to approach reform. This outreach included input from representatives of many Federal agencies, two Offices of Inspectors General, the Government Accountability Office (GAO), non-profit representatives, state, local, and tribal governments, and institutions of higher education. The input of these stakeholders was integral in setting up a framework for grants management reform, and ultimately, the creation of the COFAR.

As the COFAR begins to solidify its role in the grants community, and as our reform process moves forward, we are committed to furthering these outreach efforts to solicit regular input from both Federal and non-Federal stakeholders.

Proposal to Improve Accountability and Oversight in Grants Management

Armed with the collective wisdom of the Federal government and external stakeholder groups that we have amassed through this process, OMB published an Advance Notice of Proposed Guidance in the Federal Register on February 28th, 2012. The intent of that notice was to share the key areas where policy changes may be appropriate and further our goals to improve management and oversight of Federal grants while reducing administrative burden. These ideas fall into three broad categories: administrative requirements, cost principles, and audit requirements. In each of these areas, we are looking for new and creative ways to rework existing OMB circulars to ensure that our grants policies are consistent, coherent, and serve the Federal Government, grantees, and ultimately the taxpayer.

Through the Advance Notice process, we were able to provide all public stakeholders with transparent access to early ideas under consideration and a chance to formally provide their input at the formative stages. We received more than 350 public comments through this process, including views from state, local, and tribal governments, institutions of higher education, nonprofit organizations, and the audit community. All of these are available for the public to review at www.regulations.gov.

With these comments in hand, OMB is now working with the COFAR to review the feedback that we have received and develop concrete reform proposals for consideration. We intend to publish a Notice of Proposed Guidance for public comment in the coming months.

These multiple rounds of public comment are critical. The draft proposal will reflect our best analysis of how to improve accountability for Federal dollars while focusing our resources most efficiently. This analysis will be based heavily on the feedback received from the Advance Notice, but we will rely on all the interested stakeholders to review the proposals and advise us on opportunities to refine and improve them to ensure that we are meeting our collective goals for grants reform.

Other Efforts to Improve Grants Management

While pursuing this overarching effort to improve grants management , OMB is also exploring other avenues to improve the financial stewardship of Federal funds expended through grants. Several complementary efforts are underway to enhance the tools we use to provide oversight and ensure accountability.

The first of these is enhanced attention to the use of evidence in Federal agency budget submissions and implementation efforts, in particular for Federal grants. We want to focus our funds strategically and we want to fund what works. If we don't yet know what works to address the problems we need to tackle, we want to fund projects to identify effective interventions. And, once we have identified effective government practices and programs, we want to find lower cost ways to deliver. The goal is to find the highest return-on-investment opportunities emphasizing facts and evidence. In the Information Age, it is critical that we use the tools of more affordable technology to marshal the evidence to make smarter decisions. Accordingly, this year, OMB issued guidance to Federal agencies that fiscal year 2014 budget submissions should demonstrate the use of evidence, where available, to justify funding requests for various programs and to produce successful program outcomes.

In addition, OMB is strengthening efforts to crack down on waste, fraud and abuse in all Federal spending. For instance, in April 2012, OMB issued a Memorandum on "Reducing Improper Payments through the 'Do Not Pay List.'" Following on agencies' efforts to review internal controls and processes surrounding existing pre-payment and pre-award procedures, OMB and the Department of Treasury established the "Do Not Pay" solution to provide a single-entry access portal for agencies to access multiple data sources and assist in validating eligibility for payment. The April 2012 memorandum requires agencies to develop implementation plans to employ the Do Not Pay solution, and we are currently reviewing those plans. This effort is part of a broader focus on eliminating wasteful payment errors and cracking down on fraud, both in grants and across the spectrum of Federal spending.

We are also focused on refining our approach to providing improved transparency to the public on Federal spending data, as I discussed in a hearing before the full Homeland Security and Government Affairs Committee last week. In order to maximize the public's ability to digest and analyze information on Federal spending, we are focusing on improving the reliability and quality of data reported through sites such as USAspending.gov. It will allow overseers to better track grant dollars. And it will allow the public to know who is getting grants, what they are for, and what their status is.

Undisbursed Grant Balances

Finally, I would also like to discuss a particular issue of interest to this Subcommittee regarding undisbursed balances in expired grant accounts. As you know, GAO recently issued a report entitled "Grants Management: Action Needed to Improve the Timeliness of Grant Closeouts by Federal Agencies" (GAO-12-360)," which highlighted a finding of $794 million in undisbursed balances in expired grant accounts. We agree with GAO that timely closeout of grants can be improved overall. Failure to closeout these accounts in a timely fashion may, in some cases, represent a worthy opportunity to improve our financial management and grants management practices, and I commend this Committee and GAO for drawing attention to this issue and

calling on Federal agencies to act. We are committed to working with agencies to ensure that appropriate steps are taken to improve accounting and other controls in this area.

Having said that, we believe there are a few important caveats to this finding where (1) this figure includes undisbursed funds in grant accounts that have not expired; and (2) for truly expired grant accounts, the prolonged period for closeout reflects deliberate agency controls to ensure that proper grant recipient documentation is provided prior to disbursement of grant funds at close-out.

I would like to make four specific points regarding this issue: First, GAO's estimate of $794 million in undisbursed grant balances is overstated. In its report, GAO acknowledged certain grants may have received extensions of their period of performance, but such extensions may not actually be reflected in the payment systems. As a result, while GAO's survey of the payment systems would have identified these as expired grant accounts, they have not actually expired.

Second, as GAO points out, it is important to recognize the legitimate needs for additional time required to properly close-out grant awards in some cases. Certain grants may not be eligible for closeout, despite the expiration of the period of performance. For instance, homeland security grant accounts often take a longer time to close out because expenditures get delayed as recipients refine plans for how best to prepare for potential terrorist events or disasters. Construction grants, as another example, may require additional time for grantees to consolidate and submit invoicing information from multiple parties to meet agency close-out reporting requirements. While these circumstances result in delayed grant close-out, they ensure the accountability of Federal spending by permitting the Federal Government to withhold disbursement of funds until it has received all necessary financial and program information to account for grant activities.

Third, the GAO report suggests the possibility of implementing policies and procedures that would allow for an automatic deobligation of remaining grant funds after a certain period passes. The Federal government is responsible for paying grantees the allowable and allocable costs incurred up to the total amount of the grant. Accordingly, the potential consequences of a

policy of automatic deobligation of remaining grant funds must be thoroughly evaluated before setting limits for allowing accounts to remain open.

Finally, it is important to note that even in cases where funds remain in expired grant accounts to be closed out, deobligating these funds does not fundamentally impact the overall debt or deficit, as some observers have suggested, because the funds were never actually expended. That said, we fully agree with GAO that there are opportunities to improve the timeliness in the close out of grant awards and ensure that proper internal controls are in place for the accountability and oversight of these funds. OMB is engaging agencies on specific strategies for how to improve their procedures for closing out grants.

In this and all of our efforts, our central goal is to continuously improve grants management practices and policies in a way that benefits the Federal Government, the grantee community, and the American public. As we continue to move forward with these efforts, we look forward to working closely with this Committee to ensure that the financial management policies governing Federal grants are delivering the high standard of accountability appropriate for an efficient, effective and accountable 21st Century Government.

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

STATEMENT

OF

ELIZABETH M. HARMAN
ASSISTANT ADMINISTRATOR
GRANT PROGRAMS DIRECTORATE

FEDERAL EMERGENCY MANAGEMENT AGENCY
U.S. DEPARTMENT OF HOMELAND SECURITY

BEFORE
THE

COMMITTEE ON HOMELAND SECURITY AND GOVERNMENTAL AFFAIRS
SUBCOMMITTEE
ON
FEDERAL FINANCIAL MANAGEMENT, GOVERNMENT INFORMATION, FEDERAL SERVICES, AND INTERNATIONAL SECURITY

UNITED STATES SENATE
WASHINGTON, D.C.

"ASSESSING GRANTS MANAGEMENT PRACTICES AT FEDERAL AGENCIES"

WEDNESDAY, JULY 25, 2012

Submitted
By

Federal Emergency Management Agency
500 C Street, S.W.
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Good morning Chairman Carper, Ranking Member Brown, and Members of the Subcommittee. I am Elizabeth Harman, Assistant Administrator for the Federal Emergency Management Agency's (FEMA) Grant Programs Directorate (GPD). On behalf of Secretary Napolitano and Administrator Fugate, it is my pleasure to appear before you today to discuss the grants management practices of the Department of Homeland Security (DHS), Federal Emergency Management Agency (FEMA).

FEMA fulfills its role as the principal component within DHS responsible for assisting state and local governments to prepare for, protect against, respond to, recover from, and mitigate incidents of terrorism and other all hazards events. To achieve this mission, FEMA relies on Congressional appropriations for state and local programs in emergency management and homeland security. These appropriations provide for grants, training, exercises, and other support activities to assist States, Territories, Tribal governments, local jurisdictions, as well as for-profit and non-profit organizations in furthering their preparedness missions. By providing funds, encouraging State, local and private sector collaboration, and encouraging risk-based investment planning involving the Whole Community, FEMA's grant programs, managed and administered by GPD, have had a positive impact on the Nation's overall preparedness and security.

Since its inception in 2007, and in accordance with the Post-Katrina Emergency Management Reform Act (PKEMRA), GPD has consolidated business operations, systems, training, policy, oversight, and program management of all FEMA grants. GPD is comprised of three legacy organizations inclusive of the FEMA Grants Management Branch, the DHS Office of Grants and Training, Office of Grant Operations, and the Preparedness Programs Division. This consolidation created a single entity responsible for the business and program management of all FEMA grant programs. As a result of changes in GPD's approach to grants management, GPD now successfully provides financial management and administration of 96 federal grant programs, including the programmatic and administrative management of over 19,000 open grants, totaling over $10 billion dollars in federal funding. Additionally, GPD closely collaborates with other FEMA components including the National Preparedness Directorate, the ten FEMA Regional Offices, the Office of Response and Recovery, other DHS components, and other Federal agencies to create a fully integrated, interdisciplinary system of support services for other stakeholders and partners.

GPD's focus over the past several years has been on improving grants management and related efforts to ensure meaningful and measurable results. By stressing the importance of providing customer service for all grantees as well as for internal and external partners; by engaging State, local, and Tribal stakeholders through consistent outreach and discussion; and by ensuring transparency in the grant process, GPD enhances the Nation's level of preparedness, resiliency, the public's safety, and our overall ability to prepare for, protect against, respond to, recover from, and mitigate all hazards.

Over the past few years, GPD has matured as an organization, making significant improvements to its operations and focusing heavily on the development, management, and oversight of FEMA's grant programs. These improvements include: reducing the personnel vacancy rate; realigning organizational resources and functions; enhancing the grant award and budget review process; standardizing internal operating procedures; implementing drawdown and closeout improvement initiatives; enhancing financial and programmatic monitoring activities; strengthening regional partnerships; improving the grants management infrastructure; formalizing GPD's relationships with its internal and external partners; and enhancing stakeholder involvement with program development and administration.

Staffing

At the beginning of the third quarter of fiscal year 2010, 20 percent (37 Full Time Employees or FTEs) of GPD Headquarters' 180 authorized positions were vacant in the Preparedness Grant Division and the Grants

Operations Division. With the full support of FEMA's senior leadership, GPD has made major strides in addressing its staffing shortfalls. Currently, GPD's vacancy rate is 10 percent and GPD has filled 168 of its 189[1] authorized positions. GPD's staffing improvements include filling several key leadership positions such as the Deputy Assistant Administrator to GPD, the Director for Grant Operations, and the Director for the Preparedness Grants Division. The decrease in the vacancy rate has led to definitive improvements in GPD's overall operations allowing the Directorate to improve its oversight of grantees.

Organizational Realignment

In conjunction with the overall hiring initiative within GPD, the Directorate has sought to improve its overall mission effectiveness and financial and program management through a realignment of functions within the organization. To complement and support the hiring of a highly motivated and competent staff, GPD established two distinct but complementary divisions, the Grant Operations Office and Preparedness Grants Division. These GPD components serve as the financial and programmatic resources for GPD, respectively. The realignment has laid a path forward for increased coordination and communication efforts between management and staff, as well as improved collaboration between program and financial functions and responsibilities. As a result, GPD has increased overall mission performance through various grant process improvements that further support the grants management lifecycle.

Grant Award and Budget Reviews

During fiscal year 2010 and prior, GPD often experienced delays in processing grant awards and releasing funds to grantees. These delays impacted grantee performance by reducing the time available to spend grant funds and in some cases, delayed grantees from proceeding with critical projects. GPD identified delays in two principal areas. The first was the delays associated with GPD review and approval of grantees' budgets, which were historically conducted post-award. The second delay involved the project reviews and approvals required under Federal environmental and historic preservations laws, such as the National Environmental Preservation Act (NEPA). The Directorate's leadership identified both of these areas as opportunities for improvement.

To alleviate the burden on grantees, GPD undertook several internal reforms which resulted in major improvements and shortened both environmental and historic preservation reviews. The most significant of these included:

- Adding Environmental and Historic Preservation (EHP) staff to review EHP applications;
- Improving an EHP screening form to facilitate the application process;
- Developing a Programmatic Environmental Assessment to streamline the review of certain projects; and
- Implementing a formalized process to follow-up with grantees that need to submit additional information in order to process their application.

GPD also took major steps to shorten the budget review process, including setting goals to conduct all budget reviews prior to award. In addition, GPD created a budget review checklist designed to assist grantees by providing guidance on what information is needed for a complete and thorough budget, which served to improve consistency as well as decrease overall review time.

[1] Between FY2010 and FY2012, the number of authorized positions increased from 180 to 189.

By providing these instructions, grantees were better informed on what materials were needed, were able to ensure that their budget information was complete, and as a result, their budgets were approved more quickly. Overall, steps instituted within GPD streamlined internal processes to make the entire budget review period less than 30 days.

Standardizing Internal Operating Procedures

The development and adoption of standard operating procedures (SOPs) is critical to the successful, long-term operation of any organization. In 2011, FEMA embarked on an effort to develop SOPs for all of its preparedness grant programs, including the Emergency Management Performance Grant Program (EMPG), the Emergency Operations Center Grant Program (EOC) and the Driver's License Security Grant Program (DLSGP). Those SOPs are now in force and are utilized on a daily basis by both headquarters and regional grants staff. GPD recently completed similar efforts with the Homeland Security Grant Programs including the State Homeland Security Grant Program (SHSGP), the Urban Areas Security Initiative (UASI) Grant Program, Operation Stone Garden (OPSG), the Metropolitan Medical Reserve System (MMRS) Grant Program and the Citizen Corps Grant Program (CCP).

Expediting Grant Drawdowns

Another issue GPD has focused on is "drawdowns," or the rate at which GPD's grantees, the recipients of preparedness grant funds, spend the monies they receive.

It is important to understand that grant funds currently in the pipeline are not idle. In the vast majority of cases, work is being performed, projects are underway and capabilities are being built in accordance with the rules and guidelines under which these grants were accepted.

In those cases where funds do appear to be idle, GPD engages proactively with grantees to put funds to use. Further, based on input from grantees, DHS and FEMA undertook an effort in the fall of 2011 to evaluate ways to further streamline the grants process and put available funding to work now. In conjunction with the FY 2013 budget roll-out, GPD implemented a number of measures that provide grantees with additional flexibility to accelerate the spending of remaining FY 2007 - FY2012 DHS/ FEMA grant funds by addressing immediate needs and building core capabilities that will support preparedness in the long run, consistent with existing laws, regulations and programmatic objectives. At the same time, similar to the recent Administration effort to expedite Recovery Act funding, grantees are required to take steps to expend, draw down and close out previously awarded grant funding. Specific measures outlined in the Secretary's February 13, 2012 Memorandum titled "Guidance to State Administrative Agencies to Expedite the Expenditure of Certain DHS/FEMA Grant Funding" included:

Support Reprioritization

- Allow grantees to apply grant balances towards more urgent priorities.
- Expand allowable expenses under the Port and Transit Security Grant Program, in accordance the SAFE Port Act and 9/11 Act, respectively.
- Allow combating violent extremism activities (CVE) outlined in the Administration's CVE Strategy to be eligible in all grant years.

Focus on Core Capabilities

- Expand maintenance and sustainment to equipment, training, and critical resources that have previously been purchased in order to build and sustain core capabilities tied to the five mission areas of the National Preparedness Goal.

Provide Waivers

- Waive the 50 percent cap on personnel costs.
- Waive the match requirements under FY 2008 and 2009 Port Security Grant for public sector grantees and match requirements for Nonprofit Security Grant Program, the Interoperable Emergency Communications Grant Program and Regional Catastrophic Planning Grant Program.

In addition to the measures described above, State Administrative Agencies are encouraged to reduce administrative hurdles that can delay expenditure of funds, as well as decrease delays between receipt of invoices and expenditure of corresponding funds.

Specific guidance was provided as to the timeline grantees were encouraged to follow in spending awarded preparedness grant funds. Pursuant to GPD's Information Bulletin Number 379 issued February 17, 2012, the following timeframes were encouraged.

"Subject to certain exceptions, grantees are required to take steps to expend, draw down and close out DHS/FEMA grant funding by the dates outlined below. If those funds have not been spent by the dates outlined below, DHS/ FEMA will reclaim them to the extent permitted by law.

- All FY 2007 grant funding must be spent by June 30, 2012
- All FY 2008 and 2009 grant funding must be spent by September 30, 2012
- All FY 2010 funding must be spent by September 30, 2013
- All FY 2011 and FY 2012 funding must be spent by the end date cited on the award agreement.

The periods of performance outlined above support the effort to expedite the outlay of grant funding and provide economic stimulus. Agencies should request waivers sparingly, and they will be granted only due to compelling legal, policy, or operational challenges."

As mentioned above, there are a variety of factors contributing to unspent grant funds, several of which FEMA has addressed directly by reducing administrative requirements, streamlining the grant budget review process and simplifying the EHP Reviews. More broadly, preparedness grant programs have historically been authorized and appropriated by Congress to have up to a five year performance period. This has allowed grantees to apply for and be awarded funding, then follow their own internal processes and state/ local laws as they carry out grant-funded projects. In addition, the body of federal regulations imposed on grantees, including rules on the timing and frequency with which grant dollars can be drawn from the Treasury and pre-disbursement requirements such as environmental and historic reviews have impacted drawdown rates. State laws and regulations governing the allocation of federal grant dollars to state agencies, including those that impact procurement and hiring activities, also impact drawdowns. Often, agencies cannot enter into contracts until award or sub-awards are in hand. Once funds are in hand, contracting processes may take over a year and are subject to state/local procurement laws and local officials who approve budgets/projects and meet infrequently. Other factors that impact drawdown rates include cost share requirements, understaffed state administrative agencies due to layoffs or furloughs, and grantees unfamiliar with the federal grants process.

Managing Grant Closeouts

GPD has also evaluated ways to improve the grants management closeout process to expedite the financial and programmatic closeout of open, expired grants. As such, in January of 2011, GPD developed the Grant Closeout Task Force specifically designed to provide closeout support for FEMA's grant programs.

To that end, GPD evaluated FEMA's universe of open and closed grants, conducted a current state assessment of the grant closeout process, coordinated and communicated with related stakeholders on process improvements, identified improvement recommendations, and developed and implemented a closeout manual detailing each step of the process and to enhance standardization.

GPD initially focused its efforts on grants awarded in fiscal year 2005 and prior, and within the first three months, GPD effectively closed out 588 out of 611 grants resulting in $3.2 million in deobligated funding. To date, GPD has successfully closed out approximately 8,000 grants out of 14,000 dating back as far as 1997 due to the creation of the Grant Closeout Task Force. Moving forward, GPD is currently concentrating its closeout efforts on financially and programmatically closing out fiscal year 2007 grants, in conjunction with eligible fiscal year 2008 – 2010 grants.

GPD has taken a pro-active approach to ensuring all current and future grants are programmatically and financially closed in a timely manner. To sustain and maintain continued progress on this effort, GPD has implemented the following action items:

- Implemented a tracking system designed to identify grants nearing closeout within a 30 day period
- Developed a closeout guide defining roles, responsibilities, and processes for stakeholders
- Identified alternate closeout methods to address system closeout limitations
- Established weekly benchmarks based on closeout needs and priority

Financial and Programmatic Monitoring

FEMA launched a long-term solution to enhance financial and programmatic monitoring. This approach implements risk management principles to direct scarce monitoring resources to grantees and programs with the most need. As part of a multi-year process, FEMA has standardized financial and programmatic monitoring activities and expanded ongoing oversight activities to ensure early identification of issues. This methodology builds upon the established monitoring approach and will drive FEMA toward continuously advancing its grants management capability.

The fiscal year 2012 approach lays the foundation for future financial risk-based monitoring that will support FEMA's and DHS's risk management philosophy. We assess the monitoring needs of each grant selected for monitoring using eight key indicators:

1) Spending patterns
2) Grant dollar value
3) Grantee responsiveness
4) New FEMA grantee/grantee with new personnel
5) Number of grants managed by grantee
6) Prior financial monitoring findings
7) Program type
8) Priority areas as determined by me and my leadership team

As a result of these efforts over the past two and a half years, GPD is making significant improvements to its grant monitoring activities with the annual development and implementation of its fiscal year monitoring plans.

In fiscal year 2012, we will continue to refine this risk-based monitoring approach. GPD also will begin focusing its efforts on the development of a unified financial and programmatic monitoring plan for fiscal year 2013. This plan will leverage existing relationships and monitoring activities between GPD's financial and programmatic divisions. The purpose of this integrated monitoring plan will be to encourage and promote the coordination of activities and communications between financial and programmatic monitoring staff, and build the foundation for robust integration in fiscal year 2014.

The development of a more closely integrated financial and programmatic monitoring approach is currently underway and identifies the following key initiatives and outcomes:

- Providing a unified source of guidance to conduct financial and programmatic monitoring activities
- Encouraging communication and coordination among financial and programmatic monitoring counterparts
- Supporting informed decision making through the use of a risk-based approach

Regional Coordination Efforts

Over the past two and a half years, GPD has made significant strides in strengthening capacity in FEMA's regional offices to play a more constructive role in managing grants. Sparked by the new strategic direction set forth by FEMAGPD recognized the importance of increased regional grants collaboration and management as an integral step towards building a robust grants management structure across FEMA. To manage and facilitate this new way forward, GPD established the Regional Coordination and Oversight Branch to provide oversight over the business grants management and program implementation efforts for all FEMA grant programs, such as financial monitoring and compliance oversight and cash analysis. Leveraging this resource, GPD has effectively managed processes and procedures to promote accountability, improved management controls over grants management business functions, and streamlined and standardized monitoring and cash analysis activities.

GPD has developed and implemented a series of initiatives to improve our coordination and communication efforts across FEMA. The most significant of which include the following:

- Transferring full grants management responsibility to the regional offices for six FEMA preparedness grant programs with associated guidance, tools, and operating procedures
- Conducting onsite regional grant business management assessment visits with all ten FEMA regional offices to collect feedback and observations on FEMA operations
- Developing annual financial monitoring plans through various working groups and discussions
- Hosting and facilitating monthly conference calls to discuss financial and programmatic grant related issues and topics
- Implementing a formalized communications and outreach plan to improve customer service to regional partners

Due to the diversity of FEMA's grant programs and the importance of establishing consistencies and financial controls, it remains a critical priority for GPD to monitor the process of regional grants management efforts. Through ongoing outreach activities, including discussions with FEMA Regional Administrators, GPD continues to explore new opportunities for future improvements and collaboration efforts.

Enhancing Infrastructure

To further enhance the grants management infrastructure of FEMA's preparedness grant programs, GPD developed and implemented the Non-Disaster Grants Management System (ND Grants). This system, which is used to manage approximately 20 preparedness grant programs, began accepting grant applications in fiscal year 2011. GPD has identified system improvements and capabilities that support the consolidation for all of FEMA's non-disaster grant programs into one system that covers the entire grants management lifecycle. Expansion of ND Grants and its improved functionality will provide FEMA with a flexible system that can quickly adapt to changing business needs, reporting requirements, and performance metrics. Once fully deployed, ND Grants will accomplish the following:

- Support the entire grants management life cycle from application to closeout
- Provide real time acknowledgement of information as well as notify FEMA employees and grantees of pending actions
- Offer integrated reporting that effectively measures award outlays and demonstrates how awards impact the overall preparedness of the nation
- Provide a user friendly interface that clearly highlights pending actions to be completed
- Automate and standardize processes to manage the entire grants management lifecycle
- Collect grant data in a structured, searchable format allowing data manipulation and customization for preparation, analysis, and reporting
- Complete the automation of FEMA's Mitigation Directorate's grants

Formalizing Relationships with Federal Agency Partners

GPD has the programmatic, financial and fiduciary responsibility for the management and oversight of FEMA's grant programs. Working in partnership with a number of Federal agencies, GPD draws on those agencies' expertise and resources in the development and administration of individual Homeland Security Grant Programs. For example, GPD has partnered with the U.S. Coast Guard in the development and administration of PSGP. Similarly, it has partnered with the Transportation Security Administration in the development and administration of TSGP and with Customs and Border Protection in the development and administration of OPSG. Furthermore, GPD participates in the Emergency Communications Preparedness Center (ECPC) Grants Focus Group (GFG), which is an interagency coordinating body of Federal grants administrators whose programs support emergency communications. Through the GFG, GPD has worked with its Federal partners to develop common guidance for these programs, encouraging alignment of programs to national goals, objectives, and priorities, as well as technical standards that promote interoperability.

In order to formalize GPD's relationships with its partner agencies and ensure ongoing stability, GPD has eight (8) MOUs in place with the Department of Homeland Security's Office of Policy, Screening Coordination Office, the Department of Homeland Security's Office of Infrastructure Protection, the Department of Health and Human Services, the Department of Transportation, the Transportation Security Administration, the Department of Homeland Security's Office of Health Affairs, FEMA's Office of Environmental Planning and Historic Preservation, and the Department of Commerce's National Telecommunication and Information Administration.

Engaging Stakeholders

GPD's partners in the development and administration of the preparedness grant programs are the grantees, and more broadly the stakeholder community. These are the Nation's governors, mayors, tribal leaders, emergency managers, port and transit stakeholders, the law enforcement and fire service communities, and others connected to the Nation's overall preparedness and ability to respond to threats and hazards and who receive homeland security grant funds.

Recognizing that its success is linked to the success of its grantees, GPD has prioritized efforts to reach out to the stakeholder community, listen to their concerns and be responsive to their needs. GPD has actively sought opportunities to address and engage stakeholders at conferences and other formal meetings including, but not limited to, the National Emergency Management Association (NEMA), the International Association of Emergency Managers (IAEM), the National Conference of Mayors, the National Association of Counties, the Urban Areas Security Initiative (UASI) Conference, and the Emergency Communications Planning Consortium (ECPC). GPD leadership meet regularly with State and local leaders including governors, mayors, State and local legislators, representatives of transit and port systems as well as others from the emergency response community. In addition, GPD is making use of emerging technologies to solicit comments and feedback from the public and stakeholders regarding the development of the proposed fiscal year 2013 National Preparedness Grant Program.

The FY 2013 National Preparedness Grant Program

As we look ahead, and in order to address evolving threats and make the most of limited resources, the Administration proposed a new vision for homeland security grants in the FY 2013 President's budget. The Administration's proposal focuses on building and sustaining core capabilities associated with the five mission areas within the National Preparedness Goal (NPG), helping to elevate nationwide preparedness.

This proposal reflects the many lessons we have learned in grants management and execution over the past ten years. Using a competitive, risk-based model, the proposal envisions a comprehensive process to assess gaps, identify and prioritize deployable capabilities, limit periods of performance to put funding to work quickly, and require grantees to regularly report progress in the acquisition and development of these capabilities. The Administration looks forward to working with Congress and stakeholders on this proposal to enable all levels of government to build and sustain, in a collaborative way, the core capabilities necessary to prepare for incidents that pose the greatest risk to the security of the Nation.

Conclusion

Over the last several years, FEMA has strived to improve how preparedness grants are managed and administered fiscally and programmatically. I believe we have made significant improvements in this area and will continue to do so moving forward.

Thank you, Mr. Chairman, for providing me this opportunity to appear before you today to discuss these important issues. I look forward to answering any questions you or other members of the Committee may have.

U.S. Department of Health and Human Services

Statement of
Nancy J. Gunderson

Before the Homeland Security and Governmental Affairs Committee
Subcommittee on Federal Financial Management, Government Information,
Federal Services and International Security
United States Senate

July 25, 2012

Chairman Carper, Ranking Member Brown, and Members of the Subcommittee, thank you for this opportunity to appear before you to discuss the Department of Health and Human Services' (HHS) grants management policies and practices; and, in particular, efforts to facilitate timely closeout of expired grants. I am the Deputy Assistant Secretary for HHS' Office of Grants and Acquisition Policy and Accountability, and am responsible for the management and oversight of the HHS grants and acquisition programs. I supervise the Department's Senior Grants Policy and Senior Procurement Executives, and oversee and support thirteen grants management offices and ten procurement activities within HHS as they award and administer grants and contracts in support of the Department's mission to enhance the health and well-being of Americans. The Department is committed to serving as a careful steward of tax-payer dollars and has a fiduciary responsibility to ensure that the full intent and purpose of the grants are carried out, and disbursements are made in accordance with government-wide policies for allowable and allocable costs.

HHS Office of Grants and Acquisition Policy and Oversight

My office, which is known as the Office of Grants and Acquisition Policy and Accountability, provides Department-wide leadership in the areas of grants and acquisition management through: (1) policy development; (2) performance measurement; (3) systems management; (4) oversight; and (5) workforce training, development, and certification. HHS is the federal government's largest grant-making organization and third largest Department in federal contracting. As a result, my staff and I are actively involved in government-wide governance bodies involving grant or acquisition priorities, policies, and systems; such as the Council on Financial Assistance Reform and the Chief Acquisition Officers Council. My office also represents the Department in coordinating with the Office of Management and Budget, the Government Accountability Office (GAO), Congress, and other federal agencies in the area of grants and acquisition policies and management. It is within this context, that I join you today. We appreciate the work of this Subcommittee and GAO in bringing attention to grants management and fostering greater accountability, both from a fiscal and programmatic stand point.

Scope of HHS' Grants Programs

In fiscal year 2011, HHS' grants management offices awarded $380 billion in grants. HHS' mission is to enhance the health and well-being of Americans by providing for effective health

and human services and by fostering sound, sustained advances in the sciences underlying medicine, public health, and social services. HHS accomplishes its mission through several hundred programs and initiatives that cover a wide spectrum of activities, serving the American public at every stage of life and ranging from researching life-saving new cancer therapies to supporting Head Start grantees in providing children a better start in life.

Grants Management and Closeout

Over the life of the grant's project period, the grantee provides services, conducts research, and supplies information, all for the benefit of the public. It is in the Department's best interest that grantees are given the tools to succeed – facilitating meaningful programmatic results and fostering fiscal integrity. The agency monitors the grantee's progress over the lifecycle of the project. In addition to financial reports, grantees are required to submit other reports, such as annual and final progress reports, all of which provide assurance that grant funds are expended in accordance with the original purpose and intent of the grant. At the end of the grant period, the grantee is accountable, through a series of reporting mechanisms, for demonstrating that it has expended all funding in a manner that is allowable and allocable to the grant. Once all final financial reports are submitted, the agency reviews the final financial transactions and financial expenditures, as reported by the grantee in the Federal Financial Report, and deobligates unspent funds in a timely manner. Therefore, the grant closeout process reflects the culmination of a business relationship between the federal grant program, the grants administration officials, and the grantee and is a vital step in ensuring the accountability of the grantee and the financial integrity of the grant program expenditures.

Grant Closeout Policies and Efforts

HHS policy and federal grants management regulations dictate that the grantee must submit the required closeout documentation within 90 days of the end of the grant period, and HHS aims to complete its review and closeout the grant in the Payment Management System (PMS) within 90 days of the grantee's submission. While the total time frame may seem lengthy and the administrative aspects of grants closeout may sound straightforward, several factors influence the speed and complexity of the process, including grant extension reporting, a lag in the receipt of financial information and supporting documentation from grantees, and low balance threshold reconciliation.

HHS acknowledges that additional work remains in improving the process for closing out expired grant accounts with undisbursed balances. Nevertheless, the Department has made significant progress in focusing additional attention to the importance of grant closeout, and in reducing the amount of undisbursed grant balances since GAO's report in December 2006. GAO noted in its 2012 report that, federal-wide, "the total amount of undisbursed balances in expired grant accounts in PMS is over $200 million less than the amount previously reported for calendar year 2006, while the overall amount of grant disbursements through PMS increased by 23 percent during this time." GAO's comparison reflects the intensified focus on grant closeout and the significant level of improvement achieved thus far.

Internally, HHS has also tracked progress in its grant closeout efforts. According to data in HHS' PMS, 60,722 HHS grants were eligible for closeout during FY2011 and of this total, 25,799 or 42.5 percent have since been closed. Beyond the statics, HHS is also engaged in facilitating information sharing, heightening senior management attention and action, and bolstering the Department's grant closeout policies.

Actions to Accelerate Grants Closeout

In addition to HHS' routine efforts to educate grantees about the grants closeout process and monitor their financial reporting practices over the life of the grant, the Department has taken several concrete steps to improve its grants closeout activities. As depicted by GAO's earlier reports as well as HHS' 2007 financial statement audit findings, the Department clearly had the need to improve financial controls, monitoring, and business procedures to effectively address grant closeouts. HHS' Risk Management and Financial Oversight Board established and monitored a Department-wide Internal Control Corrective Action Plan in 2008 to address these critical issues, including grants closeout.

HHS' Program Support Center, which operates the PMS, plays a key role in the Department's efforts to improve the rate of grant closeout activities, and implemented expedited procedures for closing cancelled grants. Furthermore, the Program Support Center staff provides HHS' agencies with a Quarterly Closeout Report of grants that appear eligible for closeout for agency review; the reports are also made available in the PMS itself. The Program Support Center staff also routinely communicate with the agency Financial Officers and Grant Management Officers on grant closeout activities ensuring that, at both a summary and detail level, the agencies understand the quantity of grants and dollar values that could be closed out through agency review and action.

Building on this body of work and in response to an identified need to improve financial controls, monitoring, and business procedures to effectively address grant closeout, HHS established an internal team in February 2011, led by my office, to coordinate a Department-wide response in strengthening financial controls and accelerating the number of grant closeouts. By the end of CY2011, the Accelerated Closeout Team effort resulted in the deobligation of $116 million from a total of 2,700 grant awards. As a result of these efforts, the Risk Management and Financial Oversight Board officially deemed HHS' grant closeout corrective action plan as "complete" in 2011.

Improvement Plans

In light of GAO's recent recommendations, and in an effort to strengthen our closeout process, HHS is taking a strategic approach to promote improvement in the rate of closeout in the short term, and to promote sustainable policies, processes, and resources to ensuring steady management of grants closeout over time. In FY2011, HHS launched an initiative to revise and revitalize its internal grants administration policies. As part of that effort, HHS is working to revise and strengthen its grants closeout policy. The policy is in development and is projected to be completed by December 2012.

In addition to revising policy, HHS recognizes the need to devote more staff to grant closeout activities. To supplement the initiatives launched by some of the individual agencies to increase or dedicate staffing for closeout, the Department has a short- and a long-term strategy to establish an intra-Departmental grants closeout taskforce. The purposes of the taskforce would be to increase the rate of grant closeout, address the complexities associated with the existing overdue grants, and facilitate intra-Departmental communication across the agencies and with the PMS team.

Additionally, HHS is working internally across its grants administration systems, including the PMS, to facilitate the ease of grantee report submission and the integration of both financial and grant administrative information to better ascertain which grants are actually eligible to be closed out, and if they are delayed, whether there is a relationship to the type of grant and the complexity of the financial transactions and related reports. The Department is developing a strategy to identify key areas for systems improvement with an anticipated timeframe of 24 months.

Finally, as a part of the Secretary's broader commitment to program integrity, my office is collaborating with the HHS Office of Finance to incorporate grants closeout as a key element of the Department's program risk assessment tool. This initiative will ensure that grants closeout remains a departmental priority and facilitate a consistent, Department-wide method to assess, on a program by program basis, the challenges associated with grants closeout and efforts to mitigate them.

Conclusion

The Department strongly agrees with the need to protect taxpayer dollars and is committed to using its grants and acquisition management practices to serve as a careful steward of these funds. We recognize that we have a fiduciary responsibility to ensure that the full intent and purpose of the grant are carried out and disbursements are made in accordance with government-wide policies for allowable and allocable costs. HHS is actively working to strengthen its grant closeout policies and processes, and we appreciate the work of this Subcommittee and GAO in recognizing our progress and continuing to draw attention to this important aspect of grants management.

Thank you for the opportunity to testify before the Committee about HHS' grants management activities. I am glad to answer any questions you may have including addressing items related to the work of the Council on Financial Assistance Reform.

United States Government Accountability Office

GAO

Testimony

Before the Subcommittee on Federal Financial Management, Government Information, Federal Services, and International Security, U.S. Senate

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GRANTS MANAGEMENT

Improving the Timeliness of Grant Closeouts by Federal Agencies and Other Grants Management Challenges

Statement of Stanley J. Czerwinski,
Director, Strategic Issues

GAO-12-704T

July 25, 2012

GAO
Accountability * Integrity * Reliability

Highlights

Highlights of GAO-12-704T, a testimony before the Subcommittee on Federal Financial Management, Government Information, Federal Services, and International Security, Committee on Homeland Security and Governmental Affairs, U.S. Senate

GRANTS MANAGEMENT

Improving the Timeliness of Grant Closeouts by Federal Agencies and Other Grants Management Challenges

Why GAO Did This Study

As the federal government confronts long-term fiscal challenges, it is critical to improve the efficiency of federal grants processes, such as grant closeout procedures that allow for the return of unspent balances to the Treasury. In 2008, GAO reported that about $1 billion in undisbursed funding remained in expired grant accounts in the largest civilian payment system for grants—PMS. For this statement, GAO provides information from its April 2012 report updating its 2008 analysis. GAO also describes federal grant spending over the last three decades and discusses other grant management challenges identified in its past work and that of others.

This testimony addresses (1) the amount of undisbursed funding remaining in expired grant accounts; (2) actions OMB and agencies have taken to track undisbursed balances; (3) GAO recommendations to improve grant closeout; (4) recent and historical funding levels for federal grants; and (5) GAO's ongoing and future work on grants management issues.

What GAO Recommends

For grant closeout, GAO's April 2012 report recommended OMB revise future guidance to better target undisbursed balances and instruct agencies to take action to close out grants that are past their end date or have no undisbursed balances remaining. OMB staff said they generally agreed with and will consider the recommendations.

View GAO-12-704T. For more information, contact Stanley J. Czerwinski at (202) 512-6806 or czerwinskis@gao.gov or Beryl H. Davis at (202) 512-2623 or davisbh@gao.gov.

What GAO Found

Closeout is an important final point of grants accountability. It helps to ensure that grantees have met all financial and reporting requirements. It also allows federal agencies to identify and redirect unused funds to other projects and priorities as authorized or to return unspent balances to the Department of the Treasury (Treasury). At the end of fiscal year 2011, GAO identified more than $794 million in funding remaining in expired grant accounts (accounts that were more than 3 months past the grant end date and had no activity for 9 months or more) in the Payment Management System (PMS). GAO found that undisbursed balances remained in some grant accounts several years past their expiration date: $110.9 million in undisbursed funding remained unspent more than 5 years past the grant end date, including $9.5 million that remained unspent for 10 years or more. Nevertheless, the more than $794 million in undisbursed balances remaining in PMS represents an improvement in closing out expired grant accounts with undisbursed balances in PMS compared to the approximately $1 billion GAO found in 2008. This improvement is notable given that the overall amount of grant disbursements through PMS increased by about 23 percent from 2006 to 2011.

When agencies made concerted efforts to address timely grant closeout, they and their inspectors general and auditors reported that they were able to improve the timeliness of grant closeouts and decrease the amount of undisbursed funding in expired grant accounts. GAO found that raising the visibility of the problem within federal agencies can also lead to improvements in grant closeouts. However, GAO's review of agencies' annual performance reports for fiscal years 2009 to 2011 found that systematic, agencywide information on undisbursed balances in grant accounts eligible for closeout is still largely lacking.

The challenge presented by undisbursed balances in expired grant accounts is just one of a number of grants management challenges identified in past GAO work. Addressing these challenges is critical to increasing the efficient and effective use of federal grant funds, which represent a significant component of overall federal spending. According to the Office of Management and Budget (OMB), federal outlays for grants to state and local governments, including Medicaid, increased from $91 billion in fiscal year 1980 (about $221 billion in 2011 constant dollars) to more than $606 billion in fiscal year 2011, accounting for approximately 17 percent of total federal outlays. During this 30-year period there has been a shift in grant spending, increasing the percentage of grant funding of Medicaid while decreasing the percentage of funding of non-Medicaid-related grant programs.

GAO work on grants over the last decade has identified a range of issues related to the management of grant programs, including the streamlining of grants management processes, the measurement of grant performance, grant lessons learned from implementing the American Recovery and Reinvestment Act of 2009, and internal control weaknesses. GAO will be looking at each of these grants management issue areas in future work for this Subcommittee.

Chairman Carper, Ranking Member Brown, and Members of the Subcommittee:

I appreciate the opportunity to discuss with you today the findings from our recent report for you on the timeliness of grant closeout by federal agencies, as well as some of the new and ongoing work we are doing for this Subcommittee on other key grants management challenges.[1] Closeout is an important final point of grants accountability that helps to ensure that grantees have met all financial and reporting requirements. It also allows federal agencies to identify and redirect unused funds to other projects and priorities as authorized, or to return unspent balances to the Department of the Treasury (Treasury). (See appendix I for an illustration of how and when federal agencies may redirect unused funds.) In a 2008 report to this Subcommittee, we found that timely grant closeout was a long-standing issue at federal agencies and that roughly $1 billion in undisbursed funding remained in the largest civilian payment system for grants.[2] Assessing grants management practices, such as ensuring that agencies follow proper closeout procedures, is critical to increasing the efficient and effective use of federal grant funds, which represent a significant component of federal spending. In fiscal year 2011, federal grants outlays to state and local governments, including Medicaid, accounted for approximately 17 percent of total federal outlays.[3] Challenges involving grants management have been a repeated theme in our work over the last decade, and at your request, I will also briefly discuss some of the work we are doing for this Subcommittee on this important area.

My testimony today is drawn from our recent report to you on the timeliness of grant closeout as well as federal grants funding data from the Office of Management and Budget (OMB). It will address (1) the amount of undisbursed funding remaining in expired grant accounts; (2) actions OMB and agencies have taken to track undisbursed balances in grants eligible for closeout; (3) GAO recommendations on how to improve

[1]GAO, *Grants Management: Action Needed to Improve the Timeliness of Grant Closeouts by Federal Agencies*, GAO-12-360 (Washington, D.C.: Apr. 16, 2012).

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

[3]Federal grant outlays include the federal share of Medicaid funds that are sent to the states. Medicaid is the largest federal grant program.

grant closeout from our recent report; (4) recent and historical funding levels for federal grants; and (5) our ongoing and future work on grants management challenges.

To conduct our work on grant closeout, we analyzed data from the quarterly closeout reports provided to users of the Payment Management System (PMS), the largest civilian payment system for grants, which is administered by the Department of Health and Human Services' (HHS) Program Support Center (PSC). PMS closeout reports list all grant accounts that remain open more than 3 months past the grant end date and for which there has been no disbursement in the preceding 9 months. We analyzed data from "dormant account reports" provided to users of a second payment system, the Automated Standard Application for Payments (ASAP) system,[4] which reports accounts for federal grants that remain inactive for 2 years or more. We also conducted a web-based search for audit reports we have issued and those issued by federal inspectors general. We interviewed agency officials, including officials from OMB, and reviewed OMB circulars and other guidance related to grants management and performance reporting. We reviewed performance reports for the 24 agencies required to issue audited financial statements under the Chief Financial Officers Act of 1990 (CFO Act) for information reported on undisbursed balances in grants eligible for closeout. More detailed information on our scope and methodology for the grants closeout work can found in our published report.[5] To determine the level of federal grants funding and its changes over the last three decades, we used OMB data for fiscal years 1980–2011.[6] For a more accurate comparison of grant spending from year-to-year, we converted each fiscal year's outlays to constant 2011 dollars.

We conducted our performance audit on grant closeout from May 2011 to April 2012 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to

[4]The Automated Standard Application for Payments (ASAP) system is administered jointly by the Department of the Treasury (Treasury) and the Federal Reserve Bank of Richmond.

[5]GAO-12-360, pp. 35-44.

[6]See Office of Management and Budget, *Fiscal Year 2013, Historical Tables, Budget of the U.S. Government*. Specifically, Table 12.3, Federal Outlays for Grants to State and Local Governments, by Function, Agency, and Program: 1940–2013.

obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. In addition, we are providing information on grants funding levels for the past three decades.

Undisbursed Balances in Expired Grant Accounts Have Declined but More Action Is Needed

We found that as of September 30, 2011, more than $794 million in undisbursed balances remained in PMS in 10,548 expired grant accounts. These are accounts that were more than 3 months past the grant end date, had no activity for 9 months or more, and therefore should be considered for grant closeout. This is an improvement from 2008, when we reported that at the end of calendar year 2006, roughly $1 billion in undisbursed funding remained in expired PMS grant accounts. These expired grant accounts do not include accounts associated with grant programs for which the duration of the grant is not limited to a specific time period, such as payments to states for the Medical Assistance Program, known as Medicaid, and Temporary Assistance for Needy Families. This improvement is notable given that the overall amount of grant disbursements through PMS increased by about 23 percent from 2006 to 2011. However, more work needs to be done to further improve the timeliness of grant closeout and reduce undisbursed balances. We have highlighted three areas in need of particular attention.

First, we found that undisbursed balances remained in grant accounts several years past their expiration date. We found that 991 expired grant accounts containing a total of $110.9 million in undisbursed funding were more than 5 years past the grant end date at the end of fiscal year 2011. Of these, 115 expired grant accounts containing roughly $9.5 million in undisbursed funding remained open more than 10 years past the grant end date. Federal regulations generally require that grantees retain financial records and other documents pertinent to a grant for a period of 3 years from the date of submission of the final report. Over time, the risk increases that grantees will not have retained the financial documents and other grant information that federal agencies need to properly reconcile financial information and make the necessary adjustments to grant award amounts and amounts of federal funds paid to recipients. This could potentially result in the payment of unnecessary and unallowable costs.

Second, we found that a small percentage of grant accounts (a little more than 1 percent) with undisbursed balances of $1 million or more accounted for more than a third of the total undisbursed funds in expired

grant accounts. Overall, 123 accounts from eight different federal agencies had more than $1 million in undisbursed balances at the end of fiscal year 2011 for a combined total of roughly $316 million in undisbursed balances. Accounts with undisbursed balances remaining after the grant end date can indicate a potential grant management problem. Data showing that some grantees have not expended large amounts of funding, such as $1 million or more, by the specified grant end date raise concern that the grantees may not have fully met the program objectives for the intended beneficiaries within the agreed-upon time frames.

Third, we found more than 28,000 expired grant accounts in PMS with no undisbursed balances remaining that had not been closed out as of the end of fiscal year 2011. According to data provided by PSC, PMS users were charged a total of roughly $173,000 per month to maintain the more than 28,000 expired grant accounts with zero-dollar balances listed on the year-end closeout report. This would represent roughly $2 million in fees if agencies were billed for these accounts for the entire year. While the fees are small relative to the size of the original grant awards, they can accumulate over time. If the grant has otherwise been administratively and financially closed out, then agencies are paying fees to maintain grant accounts that are no longer needed. However, the presence of expired grant accounts with no undisbursed funds remaining raises concerns that administrative and financial closeout—the final point of accountability for these grants, which includes such important tasks as the submission of financial and performance reports—may not have been completed.

In addition to data from PMS, we also reviewed data from the ASAP system and found that as of September 30, 2011, $126.2 million in undisbursed balances remained in 1,094 dormant grant accounts. Agencies can use the information in these reports to help identify accounts in need of attention and unspent funds available for deobligation. For example, agencies may want to focus attention on accounts where there has been no activity for a prolonged period. We found roughly $11 million in 179 accounts that had been inactive for 5 years or more.

Raising the Visibility of Grant Closeout Can Lead to Improvements

We have found that when agencies made concerted efforts to address timely grant closeout, they, their inspectors general, and auditors reported that they were able to improve the timeliness of grant closeouts and decrease the amount of undisbursed funding in expired grant accounts. Agencies' approaches generally focused on elevating timely grant closeouts to a higher agency management priority and on improving overall closeout processing. For example, in response to past audit reports, HHS officials reported increasing monitoring of grant closeout. Since fiscal year 2006, the HHS independent auditor had routinely reported on concerns with management controls over grant closeout, including a backlog of HHS grant accounts in PMS that were already beyond what the auditor considered a reasonable time frame for closeout.[7] In fiscal year 2011, the independent auditor noted significant improvements in the closeout of grants in PMS. While we found that roughly three-fourths of all undisbursed balances in expired PMS grant accounts were from grants issued by HHS, we also found that the total undisbursed balances in these accounts represented the lowest percentage (2.7 percent) for any federal department included on the September 30, 2011, closeout report.[8] In comments on our draft report, HHS reported that it had identified $116 million in undisbursed balances in PMS available for deobligation through a special initiative begun in 2011 and is updating existing department policies and procedures to improve the grant closeout process going forward.

In 2008, we recommended that OMB instruct all executive departments and independent agencies to annually track the amount of undisbursed balances in expired grant accounts and report on the status and

[7]Independent auditors are independent accounting experts who conduct impartial audits of the financial statements of public and private organizations to ensure there are no misstatements, and assess whether organizations' systems to detect and prevent fraud (internal controls) are effective. Independent auditors also provide consulting non-audit services in areas such as information technology.

[8]We excluded grant accounts from our analysis that did not have a defined end date, including large Medicaid formula grants for the Medical Assistance Program. The purpose of the PMS closeout report is to alert awarding agencies of accounts in PMS that remain open after their posted end date. If a grant does not have a defined end date then HHS staff consider the PMS closeout report merely as a reminder to the awarding agency of the open account. We did not exclude grant accounts for similar programs that were identified in the Catalog of Federal Domestic Assistance as Recovery-Act-related, because, to achieve the purposes of the Act, Congress explicitly directed federal departments and agencies to expend the funds made available in this Act as quickly as possible consistent with prudent management.

resolution of the undisbursed funding in their annual performance reports. At the time, OMB supported the intent of our recommendations, but its comments did not indicate a commitment to implement our recommendations. Starting in 2010, OMB has issued guidance to track and report on undisbursed balances in expired grant accounts to only certain federal departments and entities covered by the Commerce, Justice, Science, and Related Agencies Appropriations Act, as required by law. However, in its instructions, OMB equated "expired grant accounts" with expired appropriation accounts. Based on this definition, OMB's guidance included grant accounts that were still available for disbursement and was not limited only to those grant accounts eligible for closeout. In our review of CFO Act agencies' annual performance reports for fiscal years 2009 to 2011, we found that systematic, agencywide information on undisbursed balances in grant accounts eligible for closeout was largely lacking.

GAO Recommends that OMB Issue Governmentwide Guidance to Track and Report on Undisbursed Balances in Grants Eligible for Closeout

In our 2012 grant closeout report, we reiterate our recommendation that OMB instruct all executive departments and independent agencies to report on the status and resolution of the undisbursed funding in grants that have reached the grant end date in their annual performance reports, the actions taken to resolve the undisbursed funding, and the outcomes associated with these actions. In addition, we recommend that the Director of OMB take the following three actions:

- Revise the definition of "undisbursed balances in expired grant accounts" in future guidance issued to agencies to focus on undisbursed balances obligated to grant agreements that have reached the grant end date and are eligible for closeout.
- Instruct agencies with undisbursed balances still obligated to grants several years past their grant end date to develop and implement strategies to quickly and efficiently take action to close out these grants and return unspent funds to the Treasury when appropriate.
- Instruct agencies with expired grant accounts in federal payment systems with no undisbursed balances remaining to develop and implement procedures to annually identify and close out these accounts to ensure that all closeout requirements have been met and to minimize any potential fees for accounts with no balances.

OMB staff said that they generally agreed with the recommendations and will consider them as they review and streamline grant policy guidance.

OMB did not provide specific actions or time frames with which it would address the issues that we have raised. We will continue to monitor OMB's action on our recommendations.

The challenge presented by undisbursed balances in expired grant accounts is just one of a number of grants management challenges we have identified in our past work. Grants continue to be an important tool used by the federal government to achieve national objectives. As the federal government confronts long-term and growing fiscal challenges, its ability to maintain the flow of intergovernmental revenue, such as through grant programs, could be constrained. To make the best use of federal grant funds, it is critical to address grants management challenges that could impact the efficiency and effectiveness of federal grants processes. Accordingly, the Subcommittee has requested that we examine a number of areas involving these issues in future work. However, before I discuss these I would like to put them in a broader context by briefly describing the level of recent federal grant spending and how it has changed over the last three decades.

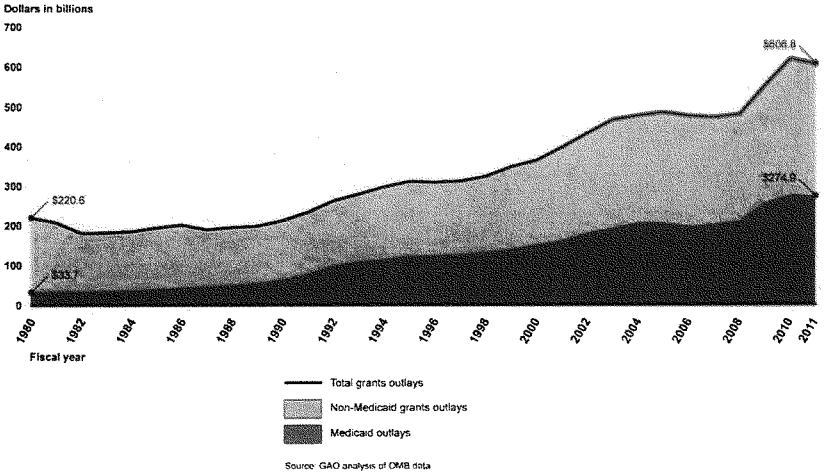
While Grants Have Consistently Been a Significant Component of Federal Spending, the Focus of Grants Outlays Has Shifted In the Last 30 Years

Grants have been, and continue to be, an important tool used by the federal government to provide program funding to state and local governments. According to OMB, federal outlays for grants to state and local governments increased from $91 billion in fiscal year 1980 (about $221 billion in 2011 constant dollars) to over $606 billion in fiscal year 2011.[9] Although many federal departments and agencies award grants, HHS, which administers the Medicaid program, is by far the largest grant-making agency, with grants outlays of almost $348 billion in fiscal year 2011, or about 57 percent of the total federal grants outlays that year. Even when Medicaid's outlays of $275 billion are excluded, HHS remains the largest federal grant-making department.[10] Figure 1 shows the total federal outlays for grants to state and local governments over the period from fiscal years 1980 to 2011, in constant dollars, and the increasing amount of this total that went to Medicaid over time.

[9]We used OMB data on grants outlays to state and local governments for this testimony. Constant dollar amounts reflect adjustments for inflation (e.g., the purchasing power of the $91 billion spent in 1980 represents about $221 billion in fiscal year 2011 dollars).

[10]All further references to total or overall federal grants outlays refer to outlays to state and local governments.

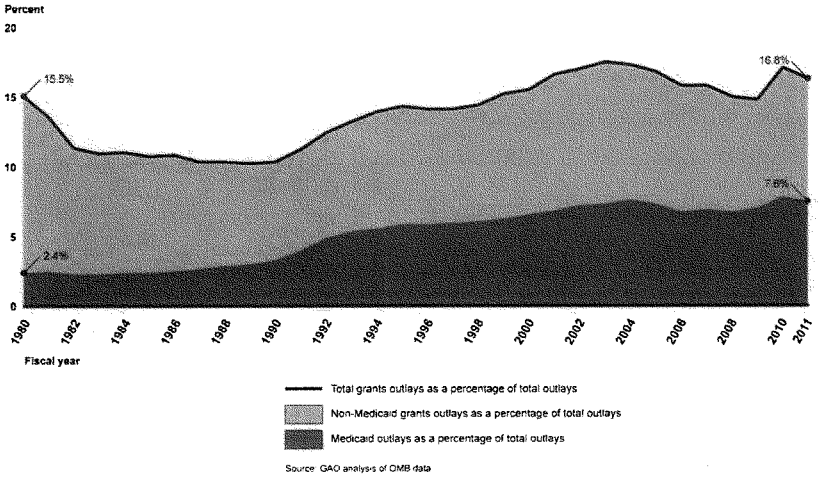
Figure 1: Total Federal Outlays for Grants to State and Local Governments and Medicaid, in 2011 Constant Dollars, Fiscal Years 1980-2011



Source: GAO analysis of OMB data

It is important to note that although federal outlays for grants have increased during the past three decades, as shown in Figure 2, grants outlays as a percentage of total federal outlays in fiscal year 2011 was at a roughly comparable level to what it was more than 30 years earlier (15.5 percent vs. 16.8 percent). At the same time, Medicaid outlays increased from over 2 percent of total federal outlays in 1980 to almost 8 percent in 2011. The considerable increase in Medicaid outlays was offset by an approximately equivalent decrease in the share of outlays for all other grants.

Figure 2: Total Federal Outlays for Grants to State and Local Governments and Medicaid as a Percentage of Total Federal Outlays, Fiscal Years 1980-2011



Ongoing and Future Work Targets Key Grants Management Issues

Given the federal government's use of grants to achieve national objectives and respond to emerging trends, this Subcommittee has recently requested that we conduct a number of grant-related reviews in support of its oversight efforts. Today, I would like to briefly highlight four areas where our previous work and that of the inspectors general and others have identified challenges, and where we are beginning the work you requested related to the management of grant programs. Specifically, they are the streamlining of grants management processes; the measurement of grant performance; grant lessons learned from implementing the American Recovery and Reinvestment Act of 2009 (Recovery Act); and internal control weaknesses in grants management processes.

For more than a decade, the federal government has undertaken several initiatives aimed at streamlining governmentwide grants management.

Over the years, Congress has expressed concern over the inconsistencies and weaknesses we and the inspectors general have found in grants management and oversight. In response to your request we plan to examine the progress OMB and federal grant governance bodies have made toward streamlining grants management. We also expect to assess what further actions should be taken to simplify processes, reduce unnecessary burdens, and improve the governance of streamlining initiatives. We plan to report our results next year.

We also expect to evaluate the extent to which there are governmentwide requirements for measuring and reporting grant performance and the extent to which federal agencies measure grant performance to report progress toward their goals, as well as offer assistance to grantees on collecting data and reporting grant performance. As with our streamlining work, the specifics of this grant performance reporting work are currently under development, and we anticipate a 2013 report. In our past work we have reported that effective performance accountability provisions are of fundamental importance in assuring the proper and effective use of federal funds to achieve program goals.

Under the Recovery Act, grants have played an important role in distributing federal funds in light of the most serious economic crisis since the Great Depression. As of June 2012, Treasury had paid out more than $250 billion in Recovery Act funds to state and local governments, much of it through grants. Given the significant investment made in the Recovery Act, and the considerable challenges facing our nation moving forward, this Subcommittee recognized the importance of collecting, analyzing, and sharing grant lessons and insights gained as a result of this process. Building on our previous reviews, we will examine lessons from the implementation of the Recovery Act—including specific examples of practices and approaches that worked as well as challenges encountered by federal, state, and local agencies. Among the potential issues to consider are the efforts to facilitate coordination and collaboration among federal, state, local, and nongovernmental partners and actions taken to enhance the organizational and administrative capacity of federal partners. Once again, we anticipate reporting to the Subcommittee next year.

Finally, in numerous reviews over the years, we have identified weaknesses in federal agencies' processes for managing and overseeing grant programs. Among the issues we are planning to address in future work is how federal agencies can improve internal control over grants monitoring. We will also examine what improvements, if any, are needed

in federal agencies' internal controls to help ensure the primary grantees are providing adequate oversight of subgrantees.

Concluding Observations

The improvements made in the timeliness of grant closeouts since our 2008 report demonstrate that congressional oversight can lead agencies to focus attention on a specific grant challenge, and result in real progress. However, our recent update of our earlier analysis of undisbursed balances also shows that more still needs to be done to close out grants; agencies would use their resources most effectively by focusing initially on older accounts with larger undisbursed balances. As our review of past grant work suggests, there are numerous other issues where congressional attention could also likely pay dividends. This is all the more relevant because federal grant programs remain important tools to achieve national objectives and continue to be a significant component of federal spending. We look forward to continuing to support this Subcommittee's efforts to examine the design and implementation of federal grants and participating in its active oversight agenda.

Chairman Carper, Ranking Member Brown, and Members of the Subcommittee, this completes my prepared statement. I would be pleased to respond to any questions that you or other members of the Subcommittee may have.

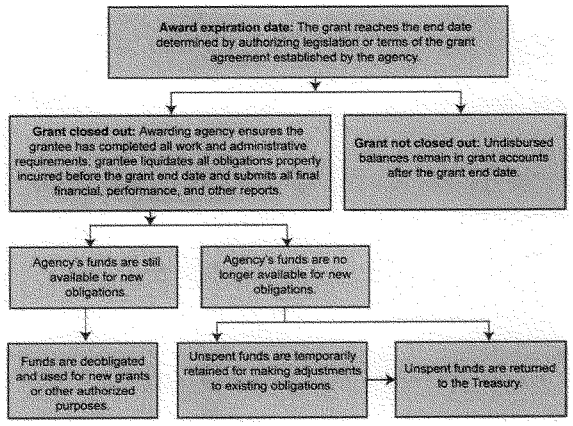
Contacts and Acknowledgments

If you or your staff have any questions about this testimony, please contact me at (202) 512-6806 or czerwinskis@gao.gov, or Beryl H. Davis, Director, at (202) 512-2623 or davisbh@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this statement. GAO staff who made key contributions to this testimony are Phyllis L. Anderson, Assistant Director; Peter Del Toro, Assistant Director; Thomas M. James, Assistant Director; Kimberly A. McGatlin, Assistant Director; Laura M. Bednar, Maria C. Belaval, Anthony M. Bova, Amy R. Bowser, Virginia A. Chanley, Melissa L. King, Thomas J. McCabe, Diane N. Morris, and Omari A. Norman. Additional contributions were made by Andrew Y. Ching, Travis P. Hill, Jason S. Kirwan, Jennifer K. Leone, Cynthia M. Saunders, Albert C. Sim, and Michael Springer.

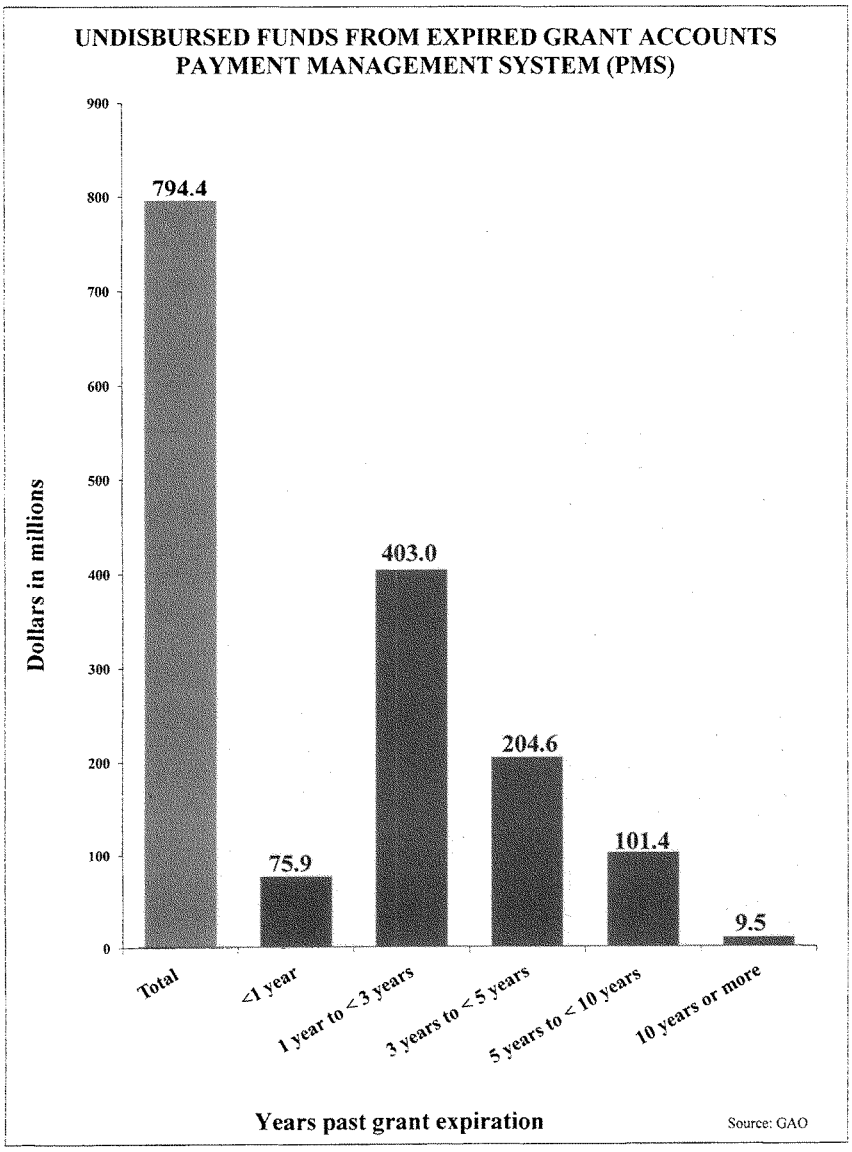
Appendix I: Deobligating Undisbursed Balances in Expired Grant Accounts

While there can be substantial variation among grant programs, figure 1 illustrates how closing out grants could allow an agency to redirect resources toward other projects and activities or return unspent funds to Treasury.

Figure 1: Deobligating Undisbursed Balances in Expired Grant Accounts



Source: GAO analysis of OMB circulars and federal regulations.


UNDISBURSED FUNDS FROM EXPIRED GRANT ACCOUNTS
PAYMENT MANAGEMENT SYSTEM (PMS)
Dollars in millions
900
800
700
600
500
400
300
200
100
0
794.4
75.9
403.0
204.6
101.4
9.5
Total
<1 year
1 year to < 3 years
3 years to < 5 years
5 years to < 10 years
10 years or more
Years past grant expiration
Source: GAO

IMPROPER PAYMENTS 2011

$115 BILLION

Post-Hearing Questions for the Record
Submitted to the Honorable Daniel I. Werfel From Senator Tom Coburn

"Assessing Grants Management Practices at Federal Agencies"
July 25, 2012

1. **In your written statement to the Committee, you said that GAO's estimate of $794 million in undisbursed grant balances is overstated because that figure may include grants whose periods of performance have been extended. What is the accurate amount of undisbursed grant balances?**

   In the testimony, I pointed to the statement in the GAO audit report that GAO may have overstated the amount of undisbursed grant balances. OMB also provided possible causes of the overstatement that were not raised in the GAO report (including, for example, extended closeout periods). The amount of undisbursed grant balances is a piece of information that is not currently collected or maintained across the government. Regardless of the actual amount of the balances, OMB does agree with GAO that undisbursed grant balances warrant further agency attention, and we have asked agencies to examine specific strategies to address those balances.

2. **On July 24th, OMB issued a *Comptroller Alert* highlighting strategies that agencies can take to close out federal grants in a timely manner. Specifically, how does OMB plan to follow up on agency progress in implementing the strategies outlined in the Comptroller Alert? Will OMB require agencies to publicly report data on unspent grant balances, as recommended by GAO in 2008?**

   OMB will follow up with agencies to determine what progress they have made and what assistance they need to improve timely grant closeout. This issue affects each agency differently and, therefore, we will be working with each agency through the Council on Financial Assistance Reform and the Chief Financial Officer's Council to determine the appropriate strategies and next steps. Agencies should design processes with strong internal controls to promote effective funds management for all types of obligations. OMB will keep this Committee informed about agency progress in addressing this issue.

Question#:	1
Topic:	media reports
Hearing:	Assessing Grants Management Practices at Federal Agencies
Primary:	The Honorable Tom A. Coburn
Committee:	HOMELAND SECURITY (SENATE)

Question: At the hearing, I expressed concerns about media reports that funds under the Port Security Grant Program were allocated to the city of Nederland, Texas to either renovate its city hall or to build an emergency operations center. Please provide a list of all projects in the city of Nederland that have been funded by the Port Security Grant Program since 2007, included a description of the project, as well as the total amount of funding provided.

Response: The City of Nederland is part of the Sabine Neches Port Area, which includes the Ports of Port Arthur and the Port of Beaumont.

Nederland, Texas received PSGP funding in the FY 2007 Supplemental and FY 2012 grant rounds. In the FY 2007 Supplemental, they received $98,735 in federal funding through Jefferson County, the Fiduciary Agent for the Sabine-Neches port area, to enhance existing communications equipment in the police and fire departments to meet "Project 25" (P25) compliance for Interoperability by the year 2015. With this grant P25 compliant (standards based) communications equipment was purchased. In FY 2012, Nederland Fire Rescue will receive $2,100,169 in federal funding to construct an Emergency Operations Center and procure dispatch equipment that would allow any entity on the regional radio system to utilize the system in case of disruption of their primary dispatch center. Currently Nederland houses and provides dispatching services for the Police and Fire Departments of Nederland, Port Neches, and Groves. The proposed equipment would serve as backup to dispatch in the event of system failure.

Nederland Fire/Rescue provides first response capabilities to Sunoco Logistics Terminal, a primary Strategic Petroleum Reserve shipping and receiving site and crude oil storage facility, and Chevron Terminal, an alternate Strategic Petroleum Reserve shipping and receiving site and crude oil storage facility. The Sunoco terminal receives and transports crude oil to the Motiva refinery for its 600,000 barrel per day operation. The pipeline responsible for this runs through Nederland, TX. The organization participates in mutual aid to an additional 34 Maritime Transportation Security Act (MTSA) regulated port facilities along the Sabine-Neches River, which has been identified as a Group II Port Area.

Due to Nederland's geographic location within the port areas, the establishment of the Nederland Central Fire Station / Emergency Operations Center is considered by the Coast Guard's Captain of the Port to be a priority project. The request for the EOC was found to be in alignment with the Sabine-Neches Area Maritime Security Plan, and it aligns

Question#:	1
Topic:	media reports
Hearing:	Assessing Grants Management Practices at Federal Agencies
Primary:	The Honorable Tom A. Coburn
Committee:	HOMELAND SECURITY (SENATE)

with the Port Wide Risk Mitigation Plan (PWRMP). This alignment was demonstrated by the Captain of the Port's ranking and recommendation to fully fund this project, which was heavily weighted when the National Review Panel (NRP) approved the project.

Question#:	2
Topic:	guidance
Hearing:	Assessing Grants Management Practices at Federal Agencies
Primary:	The Honorable Tom A. Coburn
Committee:	HOMELAND SECURITY (SENATE)

Question: In January, Secretary Napolitano issued guidance to the states to expedite the spending of the $8 billion in unspent grant funds under FEMA's preparedness grants, citing "the need for further fiscal stimulus." How did the purpose of these grant programs come to include fiscal stimulus? Have you developed any metrics to track the fiscal stimulus impact of FEMA's preparedness grants? How does FEMA plan to measure and balance the new stimulus of these funds with our nations important preparedness goals?

Response: The expedited expenditure measures instituted in February were designed to support grantee efforts to put grant funding to work quickly by addressing immediate needs and building core capabilities that will support long-term preparedness, consistent with existing laws, regulations and programmatic objectives. Any fiscal stimulus gained by the expedited drawdown of grant funding serves as a secondary benefit. As such, specific metrics to track the fiscal stimulus for these grant funds are not planned.

As part of the implementation of Presidential Policy Directive 8 (PPD-8): *National Preparedness,* the Department is measuring preparedness efforts across the Whole Community. The first edition of the National Preparedness Goal (NPG), released October 2011, identifies 31 core capabilities and preliminary capability targets necessary to achieve national preparedness. FEMA requires states, territories and urban areas to complete a standardized Threat and Hazard Identification and Risk Assessment (THIRA) to identify their targets for each core capability defined in the NPG. FEMA also requires states and territories to assess their current capability levels relative to their THIRA targets in the 2012 State Preparedness Report (SPR). Together, the THIRA and the SPR constitute an assessment of capability gaps based on capability-specific performance objectives. The THIRA and SPR provide a preparedness baseline that enables FEMA and grantees to measure and track progress towards closing those capability gaps.

Question#:	3
Topic:	unspent grant funds
Hearing:	Assessing Grants Management Practices at Federal Agencies
Primary:	The Honorable Tom A. Coburn
Committee:	HOMELAND SECURITY (SENATE)

Question: With regard to the $8 billion in unspent grant funds, in your statement, you said that "the unspent funds in the pipeline are currently not idle, and that in the vast majority of cases, work is being performed and projects are underway." You then listed "Reprioritization" as the first measure to help spend these funds, including allowing grantees to apply grant balances to other priorities, and expanding allowable expenses under some grant programs. If the majority of the unspent funds are being put towards projects that are underway, why does the Department's strategy include allowing states and grantees to reprioritize funds for other uses? Are states required to report to FEMA when they want to reprioritize grant funds in accordance with Secretary Napolitano's guidance? Of the $8 billion in unspent funds identified in January, what is the specific amount of money that has been reprioritized and put to a different use?

Response: The Secretary provided guidance to grantees to reprioritize their grant funds to put grant funding to work more quickly by addressing immediate needs and building core capabilities that will support preparedness in the long run. To ensure accountability, States are required to submit their written reprioritization requests for approval to FEMA. To that end, of the $8 billion in unspent grant funds, over $135 million has been reprioritized to date.

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