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

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

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

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

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

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

In particular, the Single Audit is the primary tool that Federal agencies use for overseeing their grant programs. The Single Audit Act of 1984 (further amended in 1996, 31 U.S.C. 7501) provides for a cost-effective audit in lieu of multiple audits and for combining the annual financial statement audit with the review and testing of the grantee’s internal controls and compliance with requirements of major programs. Under OMB’s implementing guidance of OMB Circular A-133, “Audits of States, Local Governments, and Non-Profit Organizations,” grantees with \$500,000 expenditures or more in Federal awards in a given year must obtain an annual audit of their activities. Under these requirements, more than 40,000 grantees (covering over 95% of all Federal grant expenditures) are audited annually. The audit results, including an opinion on the reviewed Federal programs, are available on a public website maintained by the Federal Audit Clearinghouse¹.

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

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

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

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

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

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

- Provide oversight and strategic direction to enhance the transparency of Federal spending, including the collection, display, and reliability of government spending data; and
- Advance efforts to detect and remediate fraud and waste in Federal programs, including the deployment of fraud detection technologies that proved successful during the implementation of the Recovery Act.

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

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

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

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

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

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

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

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

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