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OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503**

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**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.

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.