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Report to Congressional Requesters

March 2015

MUNICIPALITIES IN FISCAL CRISIS

Federal Agencies Monitored Grants and Assisted Grantees, but More Could Be Done to Share Lessons Learned

Accessible Version

GAO-15-222

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GAO Highlights

Highlights of GAO-15-222, a report to congressional requesters

Why GAO Did This Study

Similar to the federal and state sectors, local governments are facing long-term fiscal pressures. In cases of fiscal crisis, municipalities may be required to make significant cuts to personnel that may impact their oversight of federal grants. GAO was asked to review the oversight of federal grants received by municipalities in fiscal crisis. This report (1) identifies challenges that selected municipalities in fiscal crisis experienced when managing federal grants and steps taken by those municipalities; (2) reviews the monitoring processes that federal agencies used to oversee selected grants to selected municipalities; and (3) examines actions the White House Working Group on Detroit and selected federal agencies took to assist municipalities in fiscal crisis.

For this review, GAO conducted site visits to four municipalities in fiscal crisis: Detroit, Michigan; Flint, Michigan; Camden, New Jersey; and Stockton, California. GAO focused on eight grant programs administered by DHS, HUD, Justice, and DOT. The basis for selecting these grant programs included dollar amount and grant type. GAO reviewed grant oversight policies and actions for fiscal years 2009-2013 and interviewed local, state, and federal officials, including those at Treasury and OMB.

What GAO Recommends

GAO recommends that OMB direct federal agencies involved in the White House Working Group on Detroit to document and share lessons learned from federal efforts to assist Detroit. OMB neither agreed nor disagreed with this recommendation.

View GAO-15-222. For more information, contact J. Christopher Mihm at (202) 512-6806 or mihmj@gao.gov and Robert J. Cramer at (202)-512-7227 or cramerr@gao.gov.

What GAO Found

Grant management challenges experienced by municipalities in fiscal crisis. The diminished capacity of selected municipalities in fiscal crisis hindered their ability to manage federal grants in several ways. First, reductions in human capital capacity through the loss of staff greatly reduced the ability of some cities to carry out grant compliance and oversight responsibilities. Second, the loss of human capital capacity also led to grant management skills gaps. For example, in Detroit, Michigan, loss and turnover of staff with the skills to properly draw down funds caused some grant funds to remain unspent. Third, decreased financial capacity reduced some municipalities' ability to obtain federal grants. For example, both Flint, Michigan, and Stockton, California, did not apply for competitive federal grants with maintenance of effort requirements because their city governments were unable to ensure that they would maintain non-federal funding at current levels. Fourth, outdated information technology (IT) systems hampered municipalities' ability to oversee and report on federal grants. For example, Detroit's 2011 and 2012 single audits identified IT deficiencies in every federal grant program reviewed, which led to the city having to pay back some federal grant funds. In response to these challenges, the four municipalities GAO reviewed have taken a number of actions to improve their management of federal grants including centralizing their grant management processes and partnering with local nonprofits to apply for grants.

Federal grant monitoring and oversight processes. The eight grant programs GAO reviewed used, or had recently implemented, a risk-based approach to grant monitoring and oversight. These approaches applied to all grantees not just those in fiscal crisis. The grant programs administered by the Department of Housing and Urban Development (HUD) and the Department of Justice (Justice) consistently assessed grantees against a variety of risk factors to help program officials determine the need for more in-depth monitoring actions such as onsite monitoring visits. When program officials at HUD, Justice, the Department of Transportation (DOT), and the Department of Homeland Security (DHS) found deficiencies through monitoring actions, they required corrective actions from their grantees. However, in some cases, local grantees did not implement these corrective actions, resulting in continued grant management problems. In such cases, federal program officials took actions such as increasing the level of financial oversight or withholding grant funds until the grantee improved its grant management processes.

Actions taken to assist municipalities in fiscal crisis. The White House Working Group on Detroit—an interagency group assembled by the White House to assist Detroit—as well as selected agencies took a variety of actions to aid municipalities in fiscal crisis. These actions included improving collaboration between selected municipalities and federal agencies, providing flexibilities to help grantees meet grant requirements, and offering direct technical assistance. However, neither individual agencies nor the Office of Management and Budget (OMB), which was involved in the working group and has an interagency leadership role in achieving administration policy, have formal plans to document and share lessons learned from the efforts to assist Detroit with other federal agencies and local governments.

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Abbreviations

AFG	Assistance to Firefighters Grant Program
ATF	Bureau of Alcohol, Tobacco, Firearms, and Explosives
CDBG	Community Development Block Grant
Chapter 9	Chapter 9 of the U.S. Bankruptcy Code
COPS	Community Oriented Policing Services
DHS	Department of Homeland Security
DOT	Department of Transportation
FEMA	Federal Emergency Management Agency
FHWA	Federal Highway Administration
FTA	Federal Transit Administration
FTE	full-time equivalent
HOME	HOME Investment Partnerships Program
HUD	Department of Housing and Urban Development
IT	information technology
JAG	Edward Byrne Memorial Justice Assistance Grant Program
Justice	Department of Justice
OMB	Office of Management and Budget
SAFER	Staffing for Adequate Fire and Emergency Response Grant Program
SC2	Strong Cities, Strong Communities
TARP	Troubled Asset Relief Program
TIGER	Transportation Investment Generating Economic Recovery Grant Program
TSA	Transportation Security Administration

U.S. GOVERNMENT ACCOUNTABILITY OFFICE
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March 20, 2015

The Honorable John Conyers, Jr.
Ranking Member
Committee on the Judiciary
House of Representatives

The Honorable Gary C. Peters
U.S. Senate

In July 2013, facing its inability to repay a debt estimated at approximately $18 billion the city of Detroit filed for Chapter 9 municipal bankruptcy. The most populous city in U.S. history to file for bankruptcy, Detroit is one of a number of municipalities confronting a serious fiscal crisis in recent years. In fact, fiscal sustainability presents a national challenge shared by all levels of government. Our long-term model tracking the fiscal condition of the state and local sector has shown that—similar to the federal government—state and local governments also face long-term fiscal pressures.[1] In extreme cases, some local governments have been unable to raise enough revenue to meet their obligations, leading them to file for Chapter 9 bankruptcy or to be enrolled in state-level programs for fiscally distressed municipalities. In such cases, local governments often make significant cuts to personnel and services, and these actions may have impacts on the ability of these local governments to oversee and administer federal grant funds.

The federal government has a substantial interest in local government fiscal health as a result of the grant funds it sends to state and local governments. In fiscal year 2014, the federal government provided state and local governments nearly $577 billion in federal grants, funding a wide range of public policy areas, such as health care, transportation, income security, education, job training, social services, community development, and environmental protection.[2]

[1]GAO, *State and Local Governments' Fiscal Outlook: 2014 Update*, GAO-15-224SP (Washington, D.C.: Dec. 17, 2014).

[2]Office of Management and Budget, *Analytical Perspectives, Budget of the United States Government, Fiscal Year 2016* (Washington, D.C.: 2015). Federal outlay data for fiscal year 2014 reflects the most current available data at the time of this report.

Given that municipalities in fiscal crisis must continue to meet federal grant requirements while facing severe fiscal pressures and potential loss of capacity, you asked us to examine the oversight of federal grants to municipalities in fiscal crisis. This report (1) identifies challenges that selected municipalities in fiscal crisis have experienced when managing federal grants and steps those municipalities took to address the challenges; (2) reviews the internal controls, monitoring, and oversight processes that federal agencies used to oversee selected grant programs to several municipalities in fiscal crisis; and (3) examines actions the White House Working Group on Detroit and selected federal agencies took to assist selected municipalities in fiscal crisis. In conducting this work we focused on four municipalities in fiscal crisis as case examples: Detroit, Michigan; Flint, Michigan; Camden, New Jersey; and Stockton, California. Criteria for selecting these municipalities included whether they were in fiscal crisis (defined as having filed for Chapter 9 bankruptcy or being designated in fiscal crisis by their state government); amount of federal grant obligations; population; and state intervention type (e.g., assignment of an emergency fiscal manager). We selected eight federal grant programs that these municipalities received using the following criteria: dollar amount, grant type (e.g., direct or pass-through), and incidence across multiple municipalities.[3] We focused our analysis on federal grants received by these municipalities in the 5 year period from 2009 to 2013. Findings from these cases are not generalizable to all municipalities in fiscal crisis.

To identify challenges selected municipalities in fiscal crisis experience when managing federal grants, to describe the steps the affected municipalities took to address those challenges, and to review the actions the White House Working Group on Detroit and selected federal agencies have taken, we conducted interviews with local, state, and federal officials. We conducted site visits to the four municipalities and interviewed senior elected and appointed leadership as well as departmental staff in charge of managing the selected grants. We interviewed senior headquarters and regional staff where applicable at the federal agencies responsible for the grants we selected. In the case of

[3]Some federal programs award grant funds directly to grantees, such as municipalities, states, or nonprofit organizations. Other federal grant programs—referred to as pass-through grants—are awarded with a specific requirement that a portion of the grant funds be distributed by the initial grant recipient (such as a state government) to entities within that grantee's jurisdiction to carry out services.

the one pass-through grant included in our sample, we interviewed state officials responsible for overseeing the distribution of that grant to our selected cities. To obtain a government-wide perspective we interviewed members of the White House Working Group on Detroit, described by agency officials as an interagency collaborative effort to help coordinate the federal response to Detroit's fiscal crisis, as well as officials at the Office of Management and Budget and at the Department of the Treasury's Office of State and Local Finance. We reviewed and analyzed our interviews with these officials to identify grant management challenges facing our selected municipalities and the actions taken by those municipalities and federal agencies to address those challenges.

To review the internal controls, monitoring, and oversight processes that federal agencies use to oversee the selected grants made to our four case example municipalities, we reviewed the applicable grant programs' authorizing statutes and regulations as well as government-wide grant requirements. We also reviewed relevant oversight policies in effect for fiscal years 2009 to 2013. This was the most recent 5-year period for which monitoring data was available for our selected grant programs at the time we began our review. We interviewed cognizant local, state, and federal officials about grant monitoring and follow up actions.

We conducted our work from February 2014 to March 2015 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to 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. For a full description of our objectives, scope, and methodology, see appendix I.

Background

Municipal Fiscal Crisis

While there is no single definition of municipal fiscal crisis, both academic research and state policy documents distinguish between municipalities in distress, crisis, and in extreme cases, bankruptcy. In managing revenue and expenses, local governments occasionally confront deficits and

periods when they lack enough cash to cover expenses.[4] Most of the time, they find ways to get through the temporary trouble by, for example, borrowing money over the short term. But when budget gaps widen and a city cannot pay its bills, meet its payroll, balance its budget, or carry out essential services, the local government is viewed as distressed. Municipal officials usually respond with some combination of service cuts, worker layoffs, tax and fee increases, reserve spending, and borrowing. If those measures do not work and the city no longer has the money to meet its obligations, the distress can escalate into a crisis or financial emergency, which may include defaulting on a bond payment or, in rare instances, filing for protection under Chapter 9 of the U.S. Bankruptcy Code (Chapter 9).[5]

Chapter 9 provides a municipality with protection from creditors while the municipality develops and negotiates a plan for adjusting its debts. Among other requirements, a municipality may seek such bankruptcy protection in a federal bankruptcy court if it is authorized to do so under state law, and the municipality can prove to the bankruptcy court that it is insolvent.[6] Twenty-seven states authorize municipalities to file for Chapter 9 bankruptcy, but 15 of those states have conditions or limitations on the authorization. Of the remaining 23 states, 21 do not have specific authorizations, and 2 specifically prohibit their municipalities from filing for Chapter 9.[7] Chapter 9 filings are rare for general purpose municipalities (e.g., cities, towns, and counties). From January 1980 to June 2014, 43 of approximately 39,000 general purpose municipalities filed for Chapter 9. These municipalities tended to be small in population: only 8 of the 43 municipalities had a population over 50,000. Three of the four municipalities in our review have filed for Chapter 9: Detroit, Michigan; Camden, New Jersey; and Stockton, California (see figure 1).

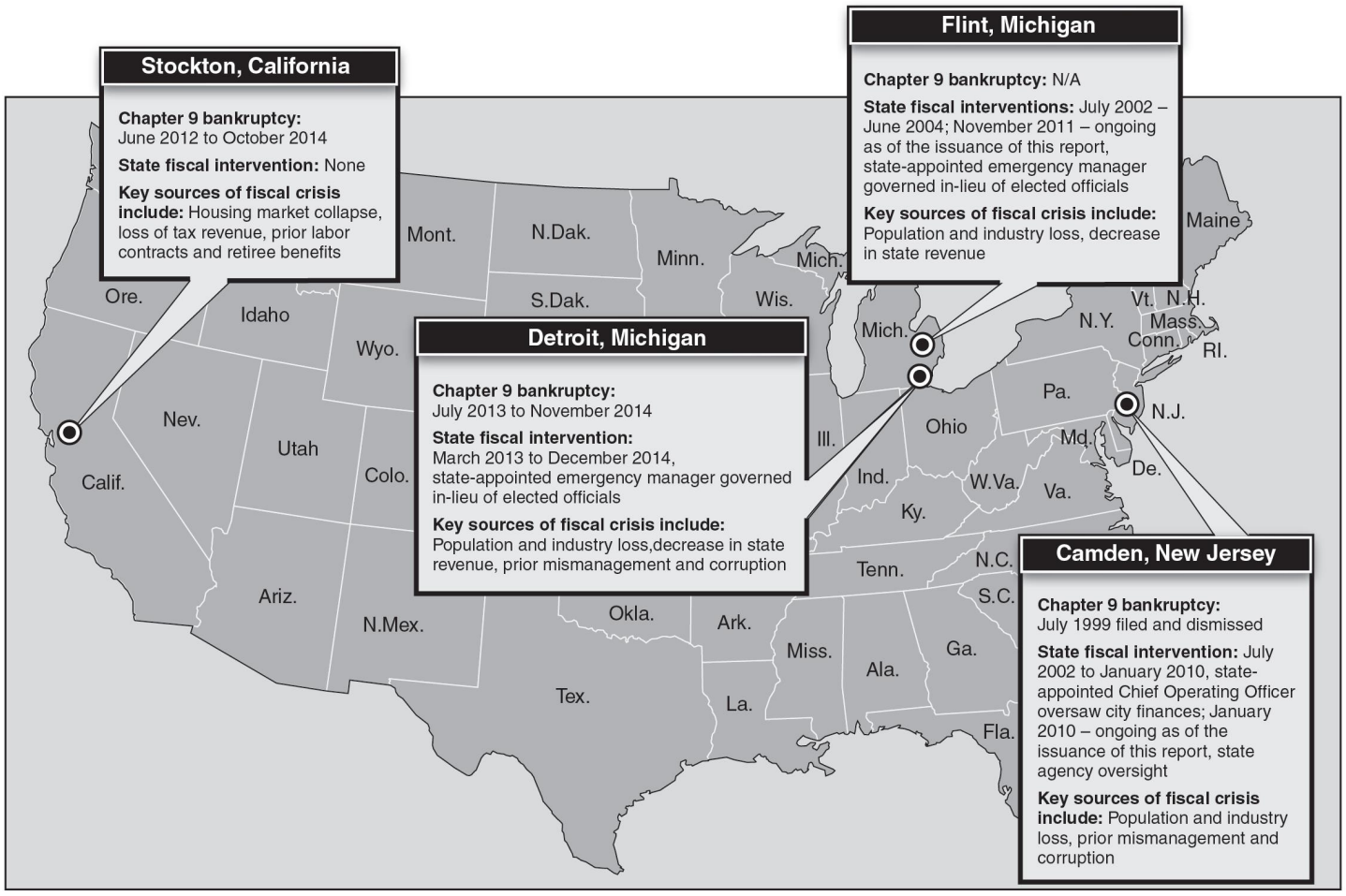
[4]Pew Charitable Trusts, *The State Role in Local Government Financial Distress* (Washington, D.C.: July 2013).

[5]See 11 U.S.C. §§ 109(c), 901-946.

[6]See 11 U.S.C. § 109(c)(2) & (3).

[7]Chapman and Cutler LLP, *Primer on Municipal Adjustment: Chapter 9: The Last Resort for Financially Distressed Municipalities* (Chicago, IL: July 2012).

Figure 1: Fiscal Crisis Intervention in Selected Municipalities



Source: GAO presentation and analysis of state and local government budget documents and reports. | GAO-15-222

Note: For Detroit, Camden, and Stockton, the beginning date for Chapter 9 bankruptcy refers to the date that the cities filed for Chapter 9 bankruptcy protection. The end date for Chapter 9 bankruptcy refers to the date that the federal bankruptcy judge approved the municipality's plan to exit bankruptcy.

Federal and State Actions to Address Municipal Fiscal Crises

Congress has provided assistance to municipalities in fiscal crisis by using a variety of approaches on a case-by-case basis. For example, in 1975 New York City faced a serious fiscal crisis. New York City had accumulated $14 billion in debt, and was unable to pay for normal operating expenses. That year Congress passed legislation to provide short-term loans to New York City to assist with its fiscal crisis.[8] As a condition of receiving these loans, the city had to agree to develop more stringent financial procedures including a new accounting system that would allow an auditor to perform an audit and render an opinion on the city's financial statements.[9] In a prior report on New York City's financial plan, we concluded that the federal government's intervention, along with other factors, helped to stabilize the city's fiscal crisis.[10]

Congress also took steps to assist the District of Columbia during its fiscal crisis in 1995. In 1994, the District was running a $335 million budget deficit and could no longer pay its bills. In response, Congress passed the District of Columbia Financial Responsibility and Management Assistance Act in April 1995.[11] This act established the District of Columbia Financial Responsibility and Management Assistance Authority—a financial control board—to assist the District in restoring financial solvency and improving management effectiveness during a control period. By 2001, the District had balanced its budget for 4 consecutive fiscal years in accordance with generally accepted accounting principles, obtained access to both short-term and long-term credit markets, and repaid outstanding debt it owed to the U.S. Treasury. As a result, the control period ended and the District returned to self-governance. In 2001, we testified that Congress' creation of a control board contributed to the improvement in the fiscal health of the District.[12]

[8]New York City Seasonal Financing Act of 1975, Pub. L. No. 94-143, 89 Stat. 797 (Dec. 9, 1975).

[9]GAO, *Testimony before the Senate Committee on Banking, Housing, and Urban Affairs on The New York City Seasonal Financing Act of 1975 Public Law 94-143*, (Washington, D.C.: May 16, 1977).

[10]GAO, *Assessment of New York City's Performance and Prospects Under Its 3-Year Emergency Financial Plan*, GGD-77-40 (Apr. 4, 1977).

[11]Pub. L. No. 104-8,109 Stat. 97 (Apr. 17, 1995).

[12]GAO, *District of Columbia: Oversight in the Post-Control Board Period*, GAO-01-845T (Washington, D.C.: June 8, 2001).

In prior work, we identified several guidelines for Congress to consider when evaluating the need for a federal response to a large failing firm or municipality.[13] Those guidelines included considering whether the problem was localized or widespread and whether the costs of a municipal collapse would outweigh the costs of providing aid. We also provided guidelines for structuring a federal intervention, such as developing clear goals and objectives and protecting the financial interest of the federal government.

In addition to these federal efforts, 19 states have passed laws establishing mechanisms to assist municipalities in fiscal crisis, in part to avoid the need for these entities to file for Chapter 9 protection in federal court.[14] The manner of state intervention varies. Some states may designate a receiver, emergency fiscal manager, state agency head, or financial control board to administer the intervention. Depending on the state, this entity may take a number of actions, including restructuring debt and labor contracts, raising taxes and fees, offering state-backed loans and grants, providing technical assistance, and even dissolving the local government. Three of the four municipalities in our review were subject to state interventions to assist with the fiscal crisis. Camden, New Jersey, had a state-assigned fiscal monitor that provided oversight. Both Detroit, Michigan, and Flint, Michigan, had state-appointed emergency fiscal managers with broad authority to oversee all operations of government in lieu of elected officials. There was no state intervention in Stockton, California (see figure 1 above).

Federal Grant Accountability Requirements and Selected Grant Programs

Like many states and localities, the four municipalities we selected received a number of federal grants in a range of policy areas, including housing, transportation, and law enforcement. In most instances, the municipalities received funding through the grant programs both prior to and during their fiscal crisis. Managing these grants when fiscal conditions deteriorated became a greater challenge, as we discuss

[13]GAO, *Guidelines for Rescuing Large Failing Firms and Municipalities*, GAO/GGD-84-34 (Washington, D.C.: March 29, 1984).

[14]The 19 states with laws allowing intervention in municipal fiscal crisis are: Connecticut, Florida, Indiana, Illinois, Maine, Massachusetts, Michigan, Nevada, New Hampshire, New Jersey, New Mexico, New York, North Carolina, Ohio, Oregon, Pennsylvania, Rhode Island, Tennessee, and Texas. See Pew Charitable Trusts, *The State Role in Local Government Financial Distress* (Washington, D.C.: July 2013).

throughout this report. Grants represent one form of federal assistance consisting of payments in cash or in kind to a state or local government or a nongovernmental recipient for a specified purpose. Grant programs are typically subject to a wide range of accountability requirements under their authorizing legislation or appropriation and implementing regulations so that funding is spent for its intended purpose. For example, the Department of Housing and Urban Development (HUD) administers Community Development Block Grants (CDBG) to aid states and localities in providing housing, economic development, and other community development activities. Congress mandated that HUD administer these grant programs in a manner that principally benefits low- and moderate-income persons, aids in the prevention or elimination of slums or blight, or meets urgent community development needs. HUD regulations direct grant recipients to prepare planning documents and maintain certain records proving the legislation's requirements as a condition to receiving funds.

In addition, grant programs are also subject to crosscutting requirements applicable to most assistance programs. For example, recipients of grant funds are prohibited from using those funds to lobby members and employees of Congress and executive agency employees. The Office of Management and Budget (OMB) is responsible for developing government-wide policies to ensure that grants are managed properly and that grant funds are spent in accordance with applicable laws and regulations. Until recently, OMB published guidance in various circulars to aid grant-making agencies with such subjects as audit and record keeping and the allowability of costs.[15] In December 2013, OMB consolidated its grants management circulars into a single document, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, to streamline its guidance, promote consistency among grantees, and reduce administrative burden on nonfederal entities.[16]

[15]For an overview of OMB's role in grants management, see GAO, *Grants to State and Local Governments: An Overview of Federal Funding Levels and Selected Challenges*, GAO-12-1016 (Washington, D.C.: Sept. 25, 2012).

[16]See 78 Fed. Reg. 78,590 (Dec. 26, 2013). In December 2014, OMB, along with grant-making agencies, issued a joint interim final rule implementing OMB's Uniform Guidance for new grant awards made on or after December 26, 2014. 79 Fed. Reg. 75,871 (Dec. 19, 2014).

For this review, we selected the grant programs listed below. For a brief description of these programs as well as the award amounts for our selected cities, see appendix II.

- Community Development Block Grant Entitlement Program (CDBG) administered by the Department of Housing and Urban Development (HUD).
- HOME Investment Partnerships Program (HOME) administered by HUD.
- Federal Transit Formula Grant Program, administered by the U.S. Department of Transportation's (DOT) Federal Transit Administration (FTA).
- Highway Planning and Construction Grant Program administered by DOT's Federal Highway Administration (FHWA).
- Edward Byrne Memorial Justice Assistance Grant Program (JAG) administered by the Department of Justice (Justice).
- Community Oriented Policing Services (COPS) Hiring Program administered by Justice.
- Assistance to Firefighters Grant Program (AFG) administered by Department of Homeland Security's (DHS) Federal Emergency Management Agency (FEMA).
- Staffing for Adequate Fire and Emergency Response (SAFER) grant program administered by FEMA.

Reduced Capacity Hindered Selected Municipalities' Ability to Manage Federal Grants

The capacity of grant recipients is a key factor in grants management which can have a significant impact on a program's success. Capacity involves both the maintenance of appropriate resources and the ability to effectively manage and utilize those resources. In prior work, we have identified several different types of capacity.[17] Human capital capacity describes the extent to which an organization has sufficient staff with the knowledge and technical skills needed to effectively meet its goals and objectives. Financial capacity is the ability of an organization to meet financial responsibilities related to federal grants, such as matching requirements. Organizational capacity refers to the degree to which an

[17]GAO-12-1016.

organization is institutionally prepared for grant management and implementation, including its ability to employ technology for grant oversight and reporting. A lack of capacity in any of these three dimensions can adversely impact a recipient's ability to effectively manage and implement federal grants. We found challenges related to each of these three types of capacity at the four municipalities we reviewed.

Reductions in Human Capital Capacity Affected the Ability of Municipalities to Manage Federal Grants, but the Impact Varied

All four municipalities experienced reductions in their human capital capacity due to fiscal crisis, but the effect of those reductions on the management of selected grants varied. From 2009 to 2013, these municipalities experienced workforce declines ranging from 18 to 44 percent (see table 1). In an effort to cut costs, these municipalities laid off city employees, imposed furloughs, and cut wages (which according to officials in Stockton, in turn led to higher staff attrition rates).

Table 1: Overall Full-Time Equivalent (FTE) Levels Reported by Selected Municipalities in Fiscal Crisis, 2009 – 2013

Municipality	FTEs in 2009	FTEs in 2013	Percent Change in FTEs
Detroit, Michigan	13,420	8,912	-34
Stockton, California	1,585	1,305	-18
Camden, New Jersey	1,142	865	-24
Flint, Michigan	986	546	-44

Source: GAO analysis of Fiscal Year 2013 Comprehensive Annual Financial Reports for Detroit, MI; Flint, MI; and Stockton, CA and Municipal State Aid Applications for Fiscal Years 2010/2011 and 2014 for Camden, NJ. | GAO-15-222.

Note: FTEs reflect the total number of regular straight-time hours (i.e., not including overtime or holiday hours) worked by employees divided by the number of compensable hours for each fiscal year.

In three municipalities—Detroit, Flint, and Stockton— this downsizing directly impacted city staff responsible for the management and oversight of federal grants. For example, Detroit's Planning and Development Department, which administers HUD's CDBG and HOME grants received by the city, lost more than a third of its workforce between 2009 and 2013—falling from 173 to 110 FTEs. According to Detroit officials, it was difficult for the staff that remained to carry out all of the department's grant compliance and oversight responsibilities. They said the loss ultimately contributed to adverse single audit findings, monitoring findings and special grant conditions from HUD. For example, in a 2013 monitoring report for the CDBG program, HUD found seven deficiencies, such as incorrect grant charges for staff time and failure to demonstrate

adequate controls to prevent charging CDBG for unallowable costs. HUD officials also noted that Detroit had failed to close its single audit findings from fiscal years 2010 through 2012 in part due to a lack in human capital capacity. According to HUD's monitoring report, Detroit did not "have the capacity to improve its capacity."[18]

In contrast, sometimes a city's grant management and oversight staff were able to largely avoid the impact of overall reductions in city personnel brought on by a fiscal crisis. One reason for this was the availability of federal or other nonlocal revenue dedicated to covering the cost of grant administration and oversight. For example, although Camden laid off a quarter of its workforce in 2011, staffing levels in its Department of Planning and Development did not suffer as severely as other departments. Camden officials attributed this to the fact that HUD provides funds for planning and administrative costs for CDBG grantees. More specifically, CDBG grantees are allowed to use up to 20 percent of the grant amount plus any program income for general grant management activities or salary costs for employees who administer the program. HOME grantees may also use up to 10 percent of the grant amount plus any program income for such planning and administrative costs.[19] HUD provides the same administrative cost allowances to all its CDBG and HOME grantees, including our other three municipalities—Detroit, Flint, and Stockton. However, these cost allowances may not have the same effect in protecting a city's grant management staff from downsizing in all cases. The specific approach a city uses to distribute these planning and administrative costs across employees, the severity of the local workforce reductions, and the amount of local or other revenue

[18]HUD, *Monitoring Review Report, City of Detroit, Community Development Block Grant Programs* (Detroit, MI: Sept. 17, 2013).

[19]For additional information on the issue of grant administrative costs, see GAO, *Grants Management: Programs at HHS and HUD Collect Administrative Cost Information but Differences in Cost Caps and Definitions Create Challenges*, GAO-15-118 (Washington, D.C.: Dec. 12, 2014).

received by the city can also influence how severely grant management staff are impacted.[20]

Decreased Human Capital Capacity Affected Knowledge Management, Contributing to a Grant Management Skills Gap at Selected Municipalities

In addition to having a sufficient number of staff, municipalities also need to have personnel with the right knowledge, skills, and abilities to manage their grants effectively. Local officials in Detroit, Flint, and Stockton told us that reductions in staff due to fiscal crisis led to grant management skills gaps in their workforce. With overall lower staff numbers, remaining staff were left to cover a larger set of responsibilities, including managing grant programs that they had not been familiar with prior to the staff reductions. Officials representing Detroit and Flint told us that when they lost grant management staff, the resulting skill shortage sometimes contributed to violations of grant agreements or grant funds remaining unspent in city accounts.

For example, Flint's Department of Community and Economic Development, which administers HUD's CDBG and HOME grant programs, lost a number of key staff during its fiscal crisis through layoffs and attrition, including an experienced employee who reviewed and approved grant expenditures. Flint officials as well as HUD's technical assistance providers for the CDBG and HOME programs told us that losing staff with critical grant management knowledge contributed to compliance problems, resulting in a series of critical audits of Flint's HOME program by HUD's Inspector General from 2009 to 2013.[21] According to staff from HUD's Office of the Inspector General, staff turnover in Flint contributed to grant management knowledge gaps and subsequent audit findings. These findings had serious monetary consequences for the city of Flint. Flint officials told us that the city owed

[20]Grant managers who administer Highway Planning and Construction program funds in Detroit provided an example of how grant management staff can operate largely unaffected by significant city budget cuts through the use of nonlocal revenue sources. These grant managers told us that they were not affected by the city's fiscal crisis because they did not use local funds to pay for their staff. Rather, special revenue streams from state transportation taxes provided the funds to cover the cost of staffing their projects.

[21]See, for example, the following audit reports: HUD Office of Inspector General: *The City of Flint Lacked Adequate Controls Over Its HOME Investment Partnerships Program*, 2014-CH-1001 (Chicago, IL: Nov. 15, 2013); and *The City of Flint, MI, Lacked Adequate Controls Over Its HOME Program Regarding Community Housing Development Organizations' Home-Buyer Projects, Subrecipients' Activities, and Reporting Accomplishments in HUD's System*, 2011-CH-1001 (Chicago, IL: Oct. 13, 2010).

HUD approximately $1.1 million in 2014 because Flint could not ensure that its indirect costs had been appropriately calculated and allocated across HUD's grant programs.[22] In addition to increasing the risk of violations of grant agreements, losing grant management skills made it more difficult for officials in Detroit, Flint, and Stockton to draw down grant funds. For example, staffing levels in Detroit's Department of Transportation, which administers FTA's Federal Transit Formula Grant program, fell from 1,514 FTEs in 2009 to 809 in 2013. In addition, over the span of 3 years, the department had 4 directors. According to Detroit officials, this change in management caused a lack of direction and consistency in priorities, which particularly affected the departments' procurement staff. Federal Transit Formula grantees—including Detroit—use these grant funds to finance the procurement and maintenance of transit equipment and facilities, such as buses and bus terminals. A lack of employees with the skills to process procurement requests and administer grants caused some grant funds from FTA to remain unspent in accounts.

Officials in two municipalities—Detroit and Stockton—told us that turnover in senior- and mid-level management contributed to federal grant management challenges. According to city officials, this happened for two reasons. First, because some cities in fiscal crisis must furlough employees, lower salaries, or reduce retirement benefits, senior staff members chose to leave their positions while they could still vest their retirement benefits based on their highest salary levels. Second, more experienced staff members had more marketable skills and were able to find other jobs more easily than the junior staff members. Officials in

[22]Managing finances and facilities, ensuring quality, and reporting project status are administrative activities that are essential to the operation of grant programs. These administrative costs may be charged directly or indirectly to a grant depending on individual program guidelines and whether the grantee has an approved indirect rate agreement. A direct cost is one that can be specifically identified with the individual grant objective and is charged to that specific grant. Direct costs include, for example, a researcher's salary and equipment. Indirect costs represent a grantee's general support expenses that cannot be specifically identified with an individual grant project. Indirect costs include, for example, building utilities and administrative staff salaries. To determine the proportion of indirect costs that may be charged to federally funded awards, grantees use a mechanism called the indirect cost rate. Programs have different missions, priorities, services, and clients; as a result definitions of administrative costs vary from program to program. Therefore, different programs may treat similar costs differently. A cost that may be classified as administrative in one program may be considered a direct program delivery cost by another. See GAO-15-118.

these two municipalities explained that losing senior staff created gaps in institutional knowledge and made it more difficult for remaining staff to meet existing grant requirements.

These gaps in institutional knowledge were exacerbated by a lack of robust knowledge transfer practices, which heightened the risk to federal fund management as a city government lost staff because there was no mechanism in place for staff to pass down knowledge to their successors before they left. Knowledge management had been a long-standing challenge for the city of Detroit. Detroit had few written grant policies to help transfer knowledge about grants management.[23] According to a city of Detroit report and Detroit officials, grant management policies and procedures in Detroit varied among grant-recipient departments. Some departments had policies and procedures while others did not. This resulted in ad hoc procedures, passed on from one employee to the next. When an employee who was knowledgeable in one area of grants management retired, his or her knowledge also left.

Detroit officials said they believed that limitations in the city's ability to effectively manage and preserve existing knowledge and expertise regarding grant management contributed to the city's history of poor audit findings. Detroit had 90 compliance findings on its single audit in 2011 and 98 findings in 2012.[24] The questioned costs totaled $31.6 million in 2011 and $14.8 million in 2012. A cost becomes questioned when the auditors review grant expenditures and cannot find sufficient documentation to prove that the expenditure was eligible under the terms of the related grant program. In some cases, Detroit had to return part or all of these questioned costs to relevant federal departments or had

[23]In August 2013, Detroit issued an initial, internal working report that consolidated long-standing grants management issues the city had faced. Detroit developed this report in response to an agreement—The Financial Stability Agreement—between the city and the state of Michigan in April 2012. The Financial Stability Agreement required Detroit to restructure its grant management system.

[24]The Single Audit Act, as amended, requires all non-federal entities that expend a certain amount of federal awards, including grants and other assistance, in a fiscal year to obtain a single or program-specific audit by an independent auditor. 31 U.S.C. §§ 7501-7507. From 2004 to 2014, the threshold requiring a single audit was $500,000. The new OMB Uniform Guidance increased the single audit threshold to $750,000 for 2015. Single audit reports provide information about the validity of grant expenditures, adequacy of internal controls over federal funds, compliance with grant rules and regulations, and questioned amounts. Single audits are an important mechanism that federal agencies use to help ensure the accountability of federal funds.

funding withheld. As of February 2015 Detroit officials were working to implement written grant management policies and procedures as a part of the city's response to its fiscal crisis and bankruptcy.

Decreased Financial Capacity Reduced Some Municipalities' Ability to Obtain Federal Grants

A lack of financial capacity at two of the municipalities we reviewed—Flint and Stockton—reduced their ability to apply for federal grants that call for local resource investments or maintenance of effort provisions. Officials in Flint told us that they struggled to generate local resources needed to make the city competitive for some federal grants. A manager with Flint's Department of Transportation told us that the city wanted to apply for a Transportation Investment Generating Economic Recovery (TIGER) grant, which is a competitive grant program administered by DOT that supports road, rail, transit, and port projects. TIGER grant applications are evaluated in part by the level of nonfederal financial commitments that grantees are able to contribute to the proposed project. Because of the city's limited budgetary resources, Flint needed to postpone submitting an application for at least 3 years in order to obtain the local funds to make the application competitive.

Other federal grant programs require grantees to demonstrate that they will maintain the level of nonfederal funding for the program that was in effect prior to receiving the federal grant award. The purpose of this maintenance of effort requirement is to prevent grantees from substituting federal dollars for local dollars. Flint and Stockton did not apply for competitive federal grants with maintenance of effort requirements because their city governments were unable to ensure that they would maintain nonfederal funding at current levels. For example, officials in Stockton told us that the city decided not to reapply for an AFG grant because it could not afford the maintenance of effort requirements. As part of the AFG grant terms, a grantee must agree to maintain local expenditure levels of at least 80 percent of the average expenditures in the 2 fiscal years prior to the grant award. These officials told us that certifying that they will maintain expenditure levels was not always possible for municipalities in fiscal crisis.

Limited Organizational Capacity, Demonstrated in Outdated Information Technology, Hampered Municipalities' Ability to Oversee and Report on Federal Grants

In two municipalities we reviewed, a chronic lack of investment in organizational capacity— specifically in information technology (IT) systems—challenged the ability of these communities to oversee and report on grants in an accurate and timely way. In Detroit, the IT systems that handled grants management were outdated and fragmented, making it difficult to capture reliable financial information. Senior city officials told us that they did not know the total amount of grant funds Detroit received from the federal government because their various IT systems did not communicate with one another. According to an outside review commissioned by the city to assess its grant management system, grant account information appeared in numerous makeshift spreadsheets that did not necessarily match the city's central accounting system and Detroit's general ledger did not update automatically with grant payroll or budgeting data. These IT inconsistencies made it impossible for Detroit to capture reliable financial information. The report also found that basic accounting practices like proper award setup and closeout, cost allocation, and reconciliation were overlooked or omitted, leaving Detroit with mismatched records and grant funds that were subject to expiration.[25] In Detroit's 2011 and 2012 single audit reports, external auditors found IT deficiencies in every federal grant program they reviewed.[26] As a result of these and other single audit findings, Detroit's general fund had to cover disallowed costs and federal grant de-obligations. In other words, these broken IT systems exacerbated the fiscal crisis by contributing to inefficiencies and extra costs for the city's general fund.

Although the grants accounting system in Stockton generally produced reliable financial information, senior city officials told us that the system could not generate timely reports to inform local decision making. Stockton's 20-year-old accounting system did not generate the automatic reports that more modern systems are designed to produce. This required city employees to manually process financial data to produce financial reports. Because of the time involved, city employees often chose not to produce the reports, leading to late reporting and outdated numbers. For example, rather than running comparisons of budgeted spending to actual

[25]Public Consulting Group, *City of Detroit: Grants Management and Revenue Opportunities* (Oct. 29, 2013).

[26]External auditors conducting Detroit's single audit reviewed 78 federal grant programs in 2011 and 73 in 2012.

spending on a monthly basis, senior Stockton officials told us that city employees had instead produced these comparisons on a quarterly basis. Members of the Stockton City Council as well as local auditing groups told us that the absence of timely financial data made it more difficult for the city's leadership to make informed financial decisions.

Selected Municipalities Have Taken Actions to Address Some of These Challenges and Improve Their Management of Federal Grants

Three municipalities—Flint, Stockton, and Detroit—have consolidated their grant management processes in an effort to improve citywide oversight and accountability for federal grant funds. To address challenges with financial and organizational capacity, Flint and Stockton instituted a new grant application preapproval process for all city departments. As part of the new process, whenever a city department official intends to apply for a federal grant, that department official must notify city finance officials for approval to apply. The city finance officials review this notification to identify any potential costs for the city that the grant may entail. If these officials approve this notification, the department may apply for the federal grant. Officials from both these cities told us that this process was intended to notify appropriate city officials of any matching or maintenance of effort requirements associated with federal grants. Another benefit that these officials identified was that the notification process allowed city leadership to be aware of any effects that the grants may have on the city's legacy costs, such as retiree health care.

Detroit has also taken steps to overhaul its grant management system, including establishing a new citywide Office of Grants Management. Grant management problems have plagued Detroit for years. In April 2012, Detroit signed a consent agreement with the state of Michigan that required the city to restructure its grant management system.[27] As a first step to meet this requirement, officials worked with outside consultants to assess the current state of the city's grants management and to identify

[27]This agreement created an independent, appointed Financial Advisory Board with broad powers to oversee Detroit's finances. The Detroit City Council voted to accept the agreement in April 2012, which allowed greater fiscal oversight by the state government in exchange for the state providing Detroit assistance with its finances. In December 2012, the Governor of Michigan ordered a financial review after Detroit failed to meet the objectives of the consent agreement. The review found that the city was in financial emergency and did not have a satisfactory plan to resolve it. In response, the Governor declared a financial emergency and appointed an emergency manager to administer Detroit's finances in March 2013.

potential reforms. Then in June 2014, the Emergency Manager directed the Chief Financial Officer to establish a central Office of Grants Management. According to Detroit officials, benefits of a stable, centralized grants management office include better management, compliance, accountability and oversight and reporting of grant data. It also results in better trained staff, and clear and up-to-date grant financial and performance data. A top priority for this office is to ensure the proper management and fiscal integrity of grants. Detroit officials told us that they have begun the process of implementing grant management policies and procedures to standardize processes across the city and to help build a culture of compliance and integrity. These policies and procedures include grant planning, pre-award processes, award acceptance, post-award management, and compliance and monitoring.

Three municipalities in our review—Detroit, Flint, and Camden—collaborated with local nonprofits to apply for federal grants. Officials from these cities told us that this collaboration helped them address challenges they faced with human capital capacity. For example, officials in Detroit worked with the Detroit Public Safety Foundation to identify and apply for federal grants to help support the Detroit Police and Fire Departments. This foundation assisted the police department with its 2014 COPS grant application and the fire department with securing its AFG grants in 2011 and 2013 and its SAFER grants in 2011, 2012, and 2013. Detroit Fire Department officials told us that without the help of the Public Safety Foundation, they would have limited capacity to apply for competitive federal grants.

Similarly, the city of Flint partnered with the Flint Area Reinvestment Office and the Charles Stewart Mott Foundation to identify and apply for federal grants. The Flint Area Reinvestment Office is a local nonprofit organization with the mission to “inform, organize, and facilitate local partner collaboration on strategic opportunities that attract federal and state resources.” The Charles Stewart Mott Foundation—which began in Flint in 1926—supports a variety of projects through its Flint Area Program, such as economic development, job training, and emergency services projects. A senior Flint official told us that one of the valuable contributions these local nonprofits made was to coordinate grant applications in the area to help ensure that multiple organizations were not applying for the same grant. These two organizations helped the city apply for a COPS grant, which it received in 2013.

In addition to taking steps that directly improve federal grant management—such as consolidating grant management processes and

working with local nonprofits to apply for federal grants—some municipalities also recognized the need for making improvements to systemic financial and organization problems to set a proper foundation for sound grant management. Two of the municipalities in our review—Flint and Stockton—established committees to recommend changes in city governance necessary to improve long-term fiscal health and stability. These municipalities recognized that their fiscal issues were the result of long-term, systemic policies and structures. Therefore, they created committees to recommend changes to improve their long-term financial capacity. Flint officials said that systemic changes were needed to protect the fiscal future of the city. In response, Flint's Emergency Manager appointed members to a Blue Ribbon Committee on Governance Reform. The committee explored the structures, policies, and practices that contributed to Flint's financial difficulties. It also proposed changes designed to help the city avoid returning to those difficulties in the future. In June 2014, the committee issued a number of recommendations to Flint's Emergency Manager including that he embrace the use of multi-year budgeting, strategic planning, and long-term financial forecasts. In November 2014, Flint citizens voted to adopt four of six Blue Ribbon Committee recommendations. Stockton City Council members created a similar group, the Charter Review Advisory Committee, to advise the council on potential changes to the city charter, including administrative issues, election rules, term limits, and civil service reforms.

Most Grant Programs Assessed Risk to Identify and Respond to Deficiencies

Effective grant oversight procedures help ensure that waste, fraud, and abuse are minimized and that program funds are being spent appropriately. Such procedures include identifying the nature and extent of grant recipients' risks and managing those risks; having skilled staff to oversee recipients to ensure they are using sound financial practices and meeting program objectives and requirements; and using and sharing information about grant recipients. Our past work has shown that to ensure that grant funds are used for intended purposes, federal agencies need effective processes for: (1) monitoring the financial management of grants; (2) ensuring results through performance monitoring; (3) using audits to provide valuable information about recipients; and (4) monitoring subrecipients as a critical element of grant success.[28] We reviewed

[28]See GAO, *Federal Grants: Improvements Needed in Oversight and Accountability Processes*, GAO-11-773T (Washington, D.C.: June 23, 2011).

implementation of these monitoring procedures for each of the eight selected grant programs in Detroit, Flint, Camden, and Stockton in fiscal years 2009 through 2013. It is important to note that agencies use these monitoring procedures for all grantees, not just those in fiscal crisis.

All Eight Grant Programs Consistently Used or Had Recently Implemented a Risk-based Approach to Monitoring and Oversight

Four of the programs—CDBG, HOME, JAG, and COPS—consistently assessed risk during this period when determining the amount and type of oversight they would provide their grantees. See figure 2 for an overview of the risk assessments and monitoring actions taken for our selected grant programs in Detroit, Flint, Camden, and Stockton in fiscal years 2009 to 2013. These programs considered a variety of risk factors. For example, to assess risk for JAG grants in 2013, program officials used a grant assessment tool that included 29 risk indicators, such as the size of the grant award, timeliness of progress reports, and whether there had been an inspector general audit for the grantee in the previous 2 years. If a grantee scored higher than a certain threshold on these indicators, the grantee would likely be considered a high priority for in-depth monitoring activities, such as enhanced desk reviews or site visits. Two of these four programs—CDBG and HOME—considered risk factors that would likely be impacted by a municipality experiencing fiscal crisis, such as measures of employee loss, turnover, or extended vacancies of key staff.

Figure 2: Risk Assessment, In-Depth Monitoring Actions and Number of Monitoring Findings by Selected Federal Grant Programs in Detroit, Flint, Camden, and Stockton, Fiscal Years 2009-2013.

Agency	Grant program	Detroit	Flint	Camden	Stockton
Housing and Urban Development	Community Development Block Grant	25	0	6	0
	HOME Investment Partnerships	4	14	0	
Department of Justice	Byrne Justice Assistance Grant	0		0	
	Community Oriented Policing Services Hiring Grant	0	1	1	3
Department of Homeland Security[a]	Assistance to Firefighters Grant			0	
	Staffing for Adequate Fire and Emergency Response				
Department of Transportation	Federal Transit Formula Grant[b]	63	*no open grants*		

Grant assessed for risk

In-depth monitoring review conducted

\# Number of deficiencies found during in-depth monitoring review

Source: GAO analysis of grant monitoring documents from HUD, DOT, Justice, and FEMA. | GAO-15-222

Notes: In-depth monitoring refers to either onsite monitoring visits or remote monitoring that involved verification of grant compliance documentation and information. In addition to these in-depth monitoring actions, agencies conducted additional monitoring actions such as routine financial analysis or performance monitoring for grantees. Further, agencies may have conducted monitoring actions for other grant programs that these municipalities received during fiscal years 2009-2013.

The Department of Transportation's (DOT) Highway Planning and Construction grant program is not included in this table because state departments of transportation are the primary recipients of Highway Planning and Construction grant funds, and generally oversee the design and construction of most Highway Planning and Construction projects. DOT is responsible for overseeing the state departments of transportation's administration of the Highway Planning and Construction grant, including state oversight of locally-administered grant projects. Since these are pass-through grants, federal monitoring actions for this program are not directly comparable to the other grant programs in this table.

[a] The Department of Homeland Security (DHS) started incorporating risk assessment more consistently into its grant monitoring procedures in 2013. Detroit was the only municipality of those we selected for this review that received one of these DHS grants in 2013.

[b] FTA started formally incorporating more risk assessment into its grant monitoring reviews for Federal Transit Formula Grants in 2014.

The four other grant programs—Federal Transit Formula, Highway Planning and Construction, AFG, and SAFER—have taken steps toward incorporating more risk assessments into grant monitoring processes. In 2014, FTA began formally using a new list of risk factors to determine whether to conduct enhanced oversight of a Federal Transit Formula grantee. This included whether the grantee had a state financial oversight

control board or similar mechanism, which some state agencies require as a result of being in fiscal crisis. Of the eight programs we reviewed, the Federal Transit Formula program was the only one to have a risk factor directly linked to municipal fiscal distress. Prior to this change, FTA conducted routine monitoring reviews of its approximately 600 Federal Transit Formula grantees at least once every 3 years—or about 200 grantees per year.[29] According to FTA officials, the new risk factors allow FTA to better target these reviews based on grantee risk and need.

In 2014, FHWA also made improvements to its processes for identifying risk for its locally-administered Highway Planning and Construction grant projects. By law state departments of transportation are the direct recipients of Highway Planning and Construction Grant funds and have the primary role to oversee grant funds that are administered by subrecipients, such as municipalities. However, FHWA is responsible for monitoring the state departments of transportation to ensure that states are accountable for implementing federal requirements and conducting adequate oversight of federal funds. In August 2014, FHWA published an order that established a uniform methodology for assessing risk in the stewardship and oversight of locally-administered Highway Planning and Construction grant funds by state departments of transportation. For example, the order provides a guide for FHWA officials to use to assess the extent to which state departments of transportation have acceptable review and oversight plans detailing state oversight activities for locally-administered projects. FHWA developed this order to help provide reasonable assurance that Highway Planning and Construction grant projects comply with key federal requirements.[30]

In carrying out its oversight of AFG and SAFER grants, FEMA conducted both financial and programmatic monitoring. Financial monitoring primarily focuses on statutory and regulatory compliance of financial

[29]In addition to these triennial reviews, FTA conducts special oversight reviews with a narrowed subject matter focus, such as procurement system reviews, which help ensure that grantees are purchasing buses and trains using competitive bidding practices, as well as special civil rights reviews, which help ensure that grantees are, among other things, providing public transportation to the disabled and adhering to equal employment opportunity practices.

[30]For more on FHWA's grant oversight see GAO, *Federal-Aid Highways: Federal Highway Administration Could Further Mitigate Locally Administered Project Risks*, GAO-14-113 (Washington, D.C.: Jan. 16, 2014).

matters, while programmatic monitoring focuses on grant progress, targeting issues that may impact achievement of the grant's goals. Prior to fiscal year 2013, a FEMA official told us that the reasons that AFG or SAFER grantees were chosen for in-depth programmatic monitoring were unclear, as those choices were often left to the discretion of regional program officials. These officials explained that, in fiscal year 2013, the agency conducted a baseline risk review of all new grantees to help inform the selection of grants for programmatic monitoring. For financial monitoring, prior to 2013 FEMA applied risk factors to a sample of grants to inform in-depth monitoring decisions. In response to a recommendation from the DHS Inspector General, in 2014 program officials said that they incorporated a set of three financial questions into the programmatic baseline risk review discussed above.[31]

Some Selected Municipalities Did Not Implement the Required Federal Corrective Actions to Resolve Deficiencies, Resulting in Continued Grant Management Problems

When program officials found deficiencies through monitoring, they typically required corrective actions from the grantee; however, selected municipalities did not always take corrective actions to address these deficiencies. This contributed to continued grant management problems, resulting in a potential financial risk. However, the actual impact of these problems on proper use of federal funds is unclear.

Further, the municipalities appeared to face these difficulties even when officials from different federal programs took different enforcement approaches. For example, in administering and monitoring Federal Transit Formula Grants in fiscal year 2012, FTA contractors found that the Detroit Department of Transportation had increased the amount of some of its contracts by more than $100,000 without including proper documentation to support the changes to the contract. In response, FTA required that Detroit provide evidence of adequate documentation to support future change orders to contracts. As stated in its monitoring reports, FTA has required numerous corrective actions from Detroit during our review period (fiscal years 2009 through 2013). Between 2009 and 2013 FTA found over 60 deficiencies with Detroit's Federal Transit Formula Grants. According to FTA officials, Detroit would submit corrective action plans to address such deficiencies, but would not follow through on the plans. To enforce corrective actions, FTA officials told us

[31]Department of Homeland Security Office of Inspector General. *FEMA's Use of Risk-Based Monitoring for Grantee Oversight*, OIG-13-40 (Washington, D.C.: Feb. 14 2013).

that they could choose to withhold funds from Detroit. However, these officials said that they were hesitant to withhold funds because, while doing so may lead to changes in behavior of local officials, it would also deprive the city's residents of the benefit of services provided by the funds. Instead, in April 2013 FTA placed Detroit on restricted draw down status. While in this status, FTA officials told us that all requests by the city of Detroit for payments under their Federal Transit Formula Grant are first to be reviewed by FTA officials to ensure that the costs are eligible for reimbursement and that city officials have included the necessary documentation.

HUD officials also found chronic monitoring deficiencies in Detroit, but they took a different enforcement approach. Between 2009 and 2013, HUD's grant monitoring reports identified 29 deficiencies in Detroit's CDBG and HOME grant programs. In general, deficiencies were found in the following areas, among others: poor procurement practices, inadequate calculation of administrative and indirect costs to the grants, poor financial reporting, and lack of key documentation. In a December 2012 letter to the city of Detroit, HUD designated the city as a "high risk grantee" and imposed special grant conditions requiring Detroit to provide written procedures for how it would maintain compliance with the regulations governing its grant funds.[32] As a result of these conditions HUD withheld its fiscal year 2012 formula funds—including CDBG and HOME grants—until Detroit had provided the agency with sufficient documentation to satisfy HUD officials that the city could properly manage the funds. HUD officials told us that the agency released these funds gradually in fiscal year 2013 as Detroit demonstrated that it satisfied the requirements set forth in the grant conditions. HUD had a similar experience with continued monitoring deficiencies with the city of Flint.

[32]HUD may consider a grantee or subgrantee high risk if the grantee has a history of unsatisfactory performance, is not financially stable, has a management system that does not meet relevant management standards, or is otherwise not responsible. 2 C.F.R. §200.205. Designating a grantee as high risk allows HUD to impose special grant conditions or restrictions on the grantee such as withholding grant funds or requiring additional, more detailed financial reports. 2 C.F.R. §200.207. This high-risk designation falls under the crosscutting grants management requirements and applies to all grant programs and is separate from the risk levels designated by HUD as a part of its grant monitoring policies for CDBG and HOME grants. In contrast, a high score on HUD's risk assessment criteria for CDBG and HOME grants would lead to a high-risk designation for those particular grant programs. Although distinct, these two processes can complement each other, since individual grant program risk scores may help HUD identify grantees to designate as high risk under its broader determination.

For example, in its 2011 monitoring report on Flint's HOME grant program, HUD stated that it had not received responses from Flint on how the city planned to address the agency's 2010 monitoring findings, despite the fact that Flint officials had repeatedly promised to provide them. As a result, HUD officials told us that they withheld Flint's fiscal year 2011 HOME funds, and—similar to the experience in Detroit—only released those funds in 2014 after Flint had addressed its monitoring deficiencies.

Federal Actions Assisted Municipalities in Fiscal Crisis, but Efforts to Share Lessons Learned Are Limited

The White House Working Group on Detroit and Selected Agencies Improved Collaboration with Municipalities

Both the White House Working Group on Detroit and individual federal agencies took steps to improve collaboration with, and assistance to, municipalities experiencing fiscal crisis. The White House Working Group on Detroit was composed of staff from multiple federal agencies, including OMB, Treasury, HUD, and DOT, and was led by a coordinator who acted as a liaison between the Working Group and the city of Detroit. According to federal officials, the idea and structure of the White House Working Group on Detroit drew heavily from one of the White House's place-based assistance initiatives: Strong Cities, Strong Communities.[33] In July 2011, the White House launched the Strong Cities, Strong Communities (SC2) pilot, which deployed teams of federal employees from a range of different agencies to work alongside mayors and their staffs in cities—including Detroit. As part of this effort, the administration established a

[33]Executive Order 13602 of March 15, 2012. *Establishing a White House Council on Strong Cities, Strong Communities*, Signed: March 15, 2012, 77 Fed. Reg. 16131 (Mar. 20, 2012). For more on the White House's broader place-based initiatives, see *White House Memorandum to Heads of Executive Departments and Agencies*, M-09-28 (Aug. 11, 2009).

White House Council on Strong Cities, Strong Communities. This council is co-chaired by the Secretary of Housing and Urban Development and the Assistant to the President for Domestic Policy. Among the goals for the SC2 initiative is to improve relationships between local and federal agencies and coordination across federal programs needed to spark economic growth in distressed areas.[34] Officials told us that the White House Working Group on Detroit was modeled to be an enhanced version of the SC2 initiative.

According to the working group's coordinator, one objective of the White House Working Group on Detroit was to facilitate information sharing between federal agencies and Detroit officials to help the city solve its fiscal crisis. It sought to accomplish this objective by meeting with senior city leaders to discuss their priorities and then connecting these officials with available resources or expertise needed to respond to city problems. For example, Detroit officials identified the city's outdated IT systems as one of the top hurdles to its fiscal recovery. In response, the White House Office of Science and Technology Policy and the National Economic Council convened a group of top IT leaders in municipal government. These experts, dubbed the Tech Team, met with Detroit officials, assessed the city's IT systems, and developed a set of recommendations with the purpose of streamlining government processes, saving money, and improving city services. Detroit city officials told us that they were following through on the Tech Team's recommendations. For example, the Tech Team recommended that Detroit establish a cabinet-level position within city government charged with leveraging technology and innovation to improve the delivery of government services. In February 2014, Detroit hired a Chief Information Officer to lead IT improvements in the city. As a first step, the Chief Information Officer stated that Detroit is working on another of the Tech Team's recommendations—evaluating citywide IT infrastructure—by completing a comprehensive analysis of the current IT systems in the city, providing new computers and issuing requests for proposals for new records management systems for the police and fire departments.

[34]The seven cities that were part of the Strong Cities, Strong Communities Initiative pilot in 2011 were Chester, Pennsylvania; Cleveland, Ohio; Detroit, Michigan; Fresno, California; Memphis, Tennessee; New Orleans, Louisiana; and Youngstown, Ohio. In 2014, seven additional cities were selected for the Strong Cities, Strong Communities Initiative through a competitive process, including Brownsville, Texas; Flint, Michigan; Gary, Indiana; Macon, Georgia; St. Louis, Missouri; Rockford, Illinois; and Rocky Mount, North Carolina.

Justice's Bureau of Alcohol, Tobacco, Firearms, and Explosives (ATF) collaborated with two of our selected municipalities to help leverage limited local, state, and federal public safety resources. ATF collaborated with the Stockton Police Department to reduce firearms and gang crime.[35] Historically, Stockton has experienced high crime rates. Officials there explained that much of Stockton's crime was drug and gang related as the city is located at the intersection of two major drug corridors. As a result of severe budget cuts and layoffs since 2009, Stockton Police Department officials told us that they have been unable to respond to nonviolent crimes. Instead, officials said that Stockton has focused its limited capacity on its most violent crimes.

Despite these efforts, the city experienced a surge in violent crimes in 2012, with a record 71 homicides. Stockton officials told us that they reached out to ATF to provide technical assistance to the city's gang crime task force in 2012. ATF responded by collaborating with Stockton on a special operation to: (1) target and remove violent criminals who illegally trafficked and possessed firearms; and (2) dismantle criminal organizations working in Stockton. According to ATF and Stockton officials, experienced undercover ATF agents from throughout the country were deployed alongside local ATF agents and Stockton police officers to conduct covert investigations of some of the most violent criminals in Stockton and surrounding areas. An ATF report found that as a result of this partnership, 44 defendants were charged with a variety of federal firearms, narcotics, and robbery offenses and 11 more were charged with various state offenses. The operation also resulted in the seizure of 84 firearms and nearly 60 pounds of illegal drugs.

[35]ATF is a law enforcement agency within Justice with a mission to partner with communities, industries, law enforcement, and public safety agencies to safeguard the public from violent criminals, criminal organizations, the illegal use of trafficking of firearms, the illegal use and storage of explosives, acts of arson and bombings, acts of terrorism, and the illegal diversion of alcohol and tobacco products.

White House Working Group on Detroit and Selected Agencies Took Steps to Provide Flexibilities on Grant Requirements

The White House Working Group and selected agencies provided flexibilities on some grant requirements to assist municipalities in fiscal crisis. Generally, federal grant programs have rules and requirements regarding how grantees may spend funds. These conditions may be outlined in the legislation that established the grant program or through additional requirements established by the grant-making agency. Federal agencies can provide flexibilities on such grant requirements in certain circumstances.

For example, members of the White House Working Group on Detroit from both OMB and Treasury used such flexibilities to allow Detroit to leverage previously allocated grant funds to address urban blight in the city. A 2013 survey of Detroit's properties found that approximately 85,000 structures and vacant lots either met the definition of blighted property or showed indications of future blight, and roughly 40,000 of those structures needed immediate removal.[36] A senior OMB official told us that one of his tasks as a member of the White House Working Group was to identify all existing federal funds that were already set aside for Detroit. In June 2013, as part of this effort, staff at OMB and Treasury identified unused resources from the Hardest Hit Fund that had been given to Michigan to distribute throughout the state.[37] Although the Hardest Hit Fund was typically used to prevent foreclosures, these officials determined that it was possible within the legal limits of the grant requirements to redirect $100 million of Michigan's Hardest Hit Funds to Detroit and to other Michigan cities for use in the demolition of blighted properties. In addition, OMB officials identified CDBG and HOME grant funds that had been previously allocated to the city but were in danger of expiring. Working together with staff from HUD and the city of Detroit, these officials told us they were able to quickly formulate plans that met

[36]Detroit Blight Removal Task Force, *Detroit Blight Removal Task Force Plan* (Detroit, MI: May 2014).

[37]The Hardest Hit Fund was established in 2010 as part of the Troubled Asset Relief Program (TARP). Authorized by the Emergency Economic Stabilization Act of 2008 (EESA), the purposes of TARP included helping to stabilize the U.S. financial system, restart secondary credit markets, and prevent avoidable foreclosures. To accomplish this, TARP authorized Treasury to assist financial institutional and markets, businesses, homeowners, and consumers. See EESA, Pub. L. No. 110-343, Div. A, 122 Stat. 3765 (2008). TARP's Hardest Hit Fund provided targeted aid to families in states hit hard by the economic and housing market downturn. According to Treasury, the Hardest Hit Fund programs varied by state, but in general, they helped homeowners stay in their homes.

grant requirements, thereby enabling the city to use the grant funds before they expired.

In another example of federal agencies providing flexibility, the COPS Office worked closely with city officials in Camden to help legally transfer its grant funds during the city-county police consolidation. In May 2013, Camden dissolved its city police department and created a new Metro Division for the city of Camden within the existing Camden County Police Department. Camden officials told us that without dissolving the city police department, Camden would have been unable to continue to afford the salary and benefit costs of its police force. When Camden officials started working on the plan to consolidate the city and county police departments, officials reached out to the COPS Office to discuss what would happen with the city's active COPS grant. Camden officials told us that the COPS Office was very helpful in providing options and flexibilities for Camden to continue to use the COPS grant. For example, the COPS Office provided Camden with several options and worked with the city to find a way to maintain its status as primary grantee but to transfer grant funds to the new county police force. The COPS Office worked with Camden officials in the police and finance departments to ensure that the transfer and transition occurred in a manner that met grant requirements. As a result, COPS officials told us that Camden remained in compliance with grant regulations while maintaining access to grant funds that supported community police in the newly consolidated force.

Agencies Provided Direct Technical Assistance and Training

Federal agencies provided a variety of technical assistance and training to help the municipalities in fiscal crisis included in our review to overcome knowledge gaps and human capital capacity challenges. For example, HUD provided in-depth technical assistance to help Flint and Detroit administer its grant programs. In 2010, HUD changed the way that it structures and delivers technical assistance. This approach, called OneCPD, was a departure from the manner in which technical assistance was previously delivered specific to a single program and often not coordinated with other technical assistance being offered. According to HUD, OneCPD was intended to provide nationwide, comprehensive,

needs-based and cross-program technical assistance.[38] HUD officials told us that grantees or HUD field offices may request technical assistance from the agency, which will then assign a technical assistance provider to the grantee. HUD's technical assistance provider developed technical assistance plans for Flint and Detroit to improve their grant management capabilities. As outlined in its technical assistance plan for Flint, this provider conducted an assessment to determine and prioritize Flint's needs and to address capacity gaps. Subsequently, the technical assistance provider worked with Flint to develop a comprehensive work plan to address both past and future demands; develop more organized and complete policies and procedures; and design processes for self-auditing, monitoring, and compliance.

FTA assigned a senior member of its regional office in Chicago to assist Detroit during its fiscal crisis. According to FTA officials, the Regional Counsel served as an advisor and liaison to Detroit's Department of Transportation since September 2013. For example, an FTA official told us that the Regional Counsel met in person with officials in Detroit's Department of Transportation at least once per month and participated in multiple teleconferences throughout the month to assist city officials with administering the Federal Transit Formula Grant program. Both FTA and Detroit officials said that the FTA Regional Counsel assisted the city by providing technical assistance on a variety of grant management issues. For example, the Regional Counsel provided input and advice on Detroit's draft fleet management plan for its city bus service. The Regional Counsel also worked with Detroit officials to provide needed training. For example, an FTA official told us that in April 2014 the Regional Counsel organized a training course on FTA procurement requirements. The Regional Counsel has worked to identify other discretionary federal grant programs available for Detroit's transit system. For example, an FTA official told us that the Regional Counsel connected Detroit officials with federal officials in DHS' Transportation Security Administration (TSA) to learn about grants at TSA that support security programs for transit agencies. Detroit officials told us that the FTA Regional Counsel has been helpful with providing a direct line of communication between the city and FTA.

[38]OneCPD only applied to grant programs administered by HUD's Office of Community Planning and Development (CPD). According to HUD officials, in 2014 the department expanded OneCPD to include more grant programs and renamed the program Community Compass.

Similarly, FEMA conducted an onsite technical assistance visit to Detroit in March 2014 to provide expertise and guidance on its SAFER grants after program officials noticed that the city was slow to spend its numerous open SAFER grants totaling approximately $55 million. The city was using SAFER to fund nearly 300 fire department positions. Once in Detroit, FEMA officials discovered that turnover among city staff managing the grants contributed to a lack of knowledge about how to submit payment requests. In addition, because SAFER involves payroll, using these grant funds relies on Detroit's payroll system, financial accounting system, and grants system, all of which face challenges. Detroit was working to improve these systems, but a FEMA official explained that these broken systems and staff turnover meant that Detroit had not made a payment request in 6 months. These infrequent payment requests added to the complication of tracking down payroll information for these 300 individuals. According to FEMA officials, during its technical assistance visit, FEMA worked with Detroit officials on how to set staffing maintenance levels (e.g., how many firefighters to maintain on the payroll) to stay in compliance with the grant. Further, FEMA officials told us that they found that Detroit was including too much information in their payment requests, which also contributed to processing delays. These officials stated that they worked with Detroit on how to provide enough information to be compliant without further overburdening the payment request process.

Documentation and Sharing of Lessons Learned and Good Practices Is Limited

Documentation and sharing of lessons learned from the efforts to assist Detroit has been limited. Senior officials at OMB and HUD told us that they knew of no formal plans to document and share such information, but that they saw value in doing so. In fact, these officials told us that there have been instances of this happening informally and they believed it would be a good idea to capture lessons learned more formally to help institutionalize improvements to the administration's broader place-based initiatives as well as any future efforts to help municipalities in fiscal crisis. Local officials were also interested in lessons learned. In both Stockton and Flint, city officials wanted to learn about what was working in Detroit and in other cities dealing with a fiscal crisis. Stockton officials told us that they understood that, given Detroit's size and the amount of public attention it had received, its situation warranted a level of direct response from the federal government that smaller cities probably could not expect. However, these officials believed that their city and other municipalities could still benefit from some of the approaches and advice offered to Detroit.

The informal structure of the White House Working Group may be one reason that lessons learned have not been formally documented and shared. Officials involved with the working group told us that the composition of the group was driven by the needs of the city of Detroit. When Detroit faced difficulties with blight, the working group assembled agency officials from Treasury, HUD, OMB, and the Environmental Protection Agency to advise city officials about how available grant funds could be used for blight remediation. When the city faced difficulties with street lighting, the working group assembled officials from the Department of Energy to provide technical assistance and advice. After addressing such needs in Detroit, these federal officials typically returned to their usual responsibilities at their respective agencies. In such an environment, and especially in the absence of a clear articulation of the need to identify and preserve promising practices, it is unlikely that staff would take the time to systematically document good practices or lessons learned that could then be shared with other interested agencies or municipalities. Our prior work has shown that collaboration among federal and local grant participants, particularly with regard to information sharing, is important for effective grant management.[39] In the absence of a formal structure to capture lessons learned, OMB—in its leadership role in agency management of programs and resources to achieve administration policy—would be well positioned to direct such an effort. OMB officials told us that the administration plans to continue its commitment to assist Detroit, in part by creating an executive director position within OMB charged with leading the administration's efforts.

Although there are no formal plans for documenting and sharing lessons learned from the White House Working Group's efforts to assist Detroit, a related place-based initiative recently developed a vehicle for sharing lessons with other distressed municipalities.[40] In October 2014, the SC2 initiative launched a website to help local governments share information

[39]See GAO, *Managing for Results: Key Considerations for Implementing Interagency Collaborative Mechanisms*, GAO-12-1022 (Washington, D.C.: Sept. 27, 2012); *Grants to State and Local Governments: An Overview of Federal Funding Levels and Selected Challenges,* GAO-12-1016 (Washington, D.C.: Sept. 25, 2012); and *Results-Oriented Government: Practices That Can Help Enhance and Sustain Collaboration among Federal Agencies*, GAO-06-15 (Washington, D.C.: Oct. 21, 2005).

[40]See *White House Memorandum to Heads of Executive Departments and Agencies*, M-09-28 (Aug. 11, 2009) for more on the White House's broader place-based initiatives. Place-based initiatives aim to coordinate and leverage federal resources in a specific locality.

about economic turnaround efforts. This site, called the National Resource Network, provides a resource library, technical assistance library, and opportunities for selected municipalities in economic or fiscal distress to request assistance from the network. A senior official with the SC2 Initiative told us that the National Resource Network is intended to be the platform for federal agencies to share lessons learned and best practices with municipalities in economic and fiscal distress. Given that Detroit is one of the cities that has taken part in the SC2 pilot, its National Resource Network website might be a natural fit to share lessons learned from the efforts of the White House Working Group on Detroit.

Officials indicated that they were not aware of plans for a formal evaluation of the efforts of the White House Working Group, including an effort to document and share good practices. Although the informal operation of the White House Working Group helped connect Detroit with resources and expertise it needed to help address its fiscal crisis, if federal officials do not assign formal responsibility for documenting lessons from Detroit's experience in a timely manner, opportunities to leverage that knowledge may be lost. Moreover, such efforts need not be resource intensive, given that the infrastructure to share the information already exists.

Conclusions

Cities facing serious financial crisis or in Chapter 9 bankruptcy provide a special challenge to the federal government and its grant-making agencies. On one hand, the losses of human capital, financial, and organizational capacity that can accompany such serious financial distress present municipalities with significant challenges to their ability to effectively obtain and manage federal grants. In light of this challenge, and the responsibility that federal grant-making agencies have to the American taxpayer to ensure that grant funds are spent efficiently and appropriately, all the agencies we reviewed used—or had recently incorporated—risk assessments when conducting their grant monitoring and oversight activities. Although not specifically fashioned for cities in fiscal crisis, such risk assessments consider a variety of factors that are likely to be impacted by a municipality in such a situation.

On the other hand, cities facing financial crisis are examples of organizations that particularly need the assistance and support the federal government and federal grants can provide. In response to the Detroit bankruptcy, both the White House Working Group and individual agencies have taken actions such as improving collaboration, providing grant flexibilities, and offering direct assistance and training. Detroit's

emergence from the Chapter 9 process and the new and sometimes innovative relationships it has developed with its federal partners are a promising start. However, the federal government has not developed a mechanism for documenting lessons from Detroit's experience, and if these lessons are not captured in a timely manner, experiences from officials who have first-hand knowledge may be lost.

Recommendation for Executive Action

We recommend that the Director of the Office of Management and Budget direct, as appropriate, federal agencies involved with the White House Working Group on Detroit, to collect good practices and lessons learned from their efforts to assist Detroit during its fiscal crisis and share them with other federal agencies and local governments. Toward this end, OMB may want to consider making use of existing knowledge and capacity associated with the Strong Cities, Strong Communities Initiative and its National Resource Network.

Agency and Third Party Comments and Our Evaluation

We provided a draft of this report to Assistant Attorney General for Administration, the Secretaries of the Departments of Homeland Security, Housing and Urban Development, Transportation, Treasury, and the Director of the OMB. Both the Department of Housing and Urban Development and the Office of Management and Budget generally agreed with the report; however, OMB staff neither agreed nor disagreed with our recommendation. The Departments of Housing and Urban Development and Justice provided technical comments, which we incorporated as appropriate. The Departments of Homeland Security, Transportation, and Treasury did not have any comments on the draft report. We also provided drafts of the examples included in this report to cognizant officials from the cities of Detroit, Flint, Camden, and Stockton to verify their accuracy and completeness, and incorporated changes as appropriate.

We are sending copies of this report to the heads of the Departments of Homeland Security, Housing and Urban Development, Justice, Transportation, Treasury, and OMB as well as interested congressional committees and other interested parties, including the state and local officials we contacted for this review. This report will also be available at no charge on the GAO website at http://www.gao.gov.

If you or your staff have any questions about this report, please contact J. Christopher Mihm at (202) 512-6806 or mihmj@gao.gov or Robert Cramer at (202) 512-7227 or cramerr@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of our report. Key contributors to this report are listed in appendix III.

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Appendix I: Objectives, Scope, and Methodology

This report (1) identifies challenges that selected municipalities in fiscal crisis have experienced when managing federal grants and steps those municipalities took to address the challenges; (2) reviews the internal controls, monitoring, and oversight processes that federal agencies used to oversee selected grant programs to several municipalities in fiscal crisis; and (3) examines actions the White House Working Group on Detroit and selected federal agencies took to assist selected municipalities in fiscal crisis.

To conduct this work, we focused on four municipalities in fiscal crisis as case examples: Detroit, Michigan; Flint, Michigan; Camden, New Jersey; and Stockton, California. We selected these municipalities based on a number of factors. First, we applied two threshold fiscal crisis criteria, which included either filing for Chapter 9 municipal bankruptcy or being declared in fiscal crisis by their state government. Once these criteria were met, we selected the municipalities with relatively high levels of federal investment in terms of population and federal grant obligations. We considered those municipalities with populations over 50,000, using 2010 Census data to estimate the population figures. We also narrowed the pool of municipalities to those with federal grant obligation amounts of at least $5 million between fiscal years 2011 and 2013. To obtain this obligation data, we used grant obligation figures from USASpending.gov. Once we applied these criteria, we then selected a group of municipalities that would provide variety in terms of the state intervention type and geographic location. States use different types of interventions to assist municipalities in fiscal crisis. Some states intervene with an emergency fiscal manager, a state oversight board, or a state agency, while other states provide no interventions. Our selection provided two municipalities with emergency fiscal managers (Detroit and Flint), one municipality with oversight from a state agency (Camden), and one municipality with no state intervention (Stockton). Finally, we considered geographic diversity when selecting the municipalities and our final selection includes municipalities on the east coast, west coast, and in the Midwest. Based on the grants that our four municipalities received, we selected eight grant programs for our review. Grant selection was also based on the following criteria: (1) dollar amount; (2) grant type (e.g., direct or pass-through); and (3) incidence across multiple municipalities. Findings from these cases are not generalizable to all municipalities in fiscal crisis. See appendix II for a list of the selected grants in our review and the grant award amounts for our selected cities between 2009 and 2013. We chose the period of fiscal years 2009 through 2013 because it included the latest 5 years with available monitoring data at the time of our review.

To identify challenges that selected municipalities in fiscal crisis have experienced when managing federal grants and the steps those municipalities took to address those challenges, we primarily relied on interviews with local, state, and federal officials. We conducted site visits to the four selected municipalities and interviewed elected leadership and departmental staff in charge of managing the selected grants. In the case of the one pass through grant included in our sample, we interviewed state officials responsible for overseeing the distribution of that grant to our selected cities. We also interviewed federal headquarters and regional staff where applicable who oversee the selected grants and researchers and professional organizations that were knowledgeable about municipal fiscal crises and challenges that municipalities faced. In these interviews, we asked local, state, federal, and nongovernmental officials to describe the challenges that the selected municipalities in fiscal crisis faced regarding federal grants management. We reviewed and analyzed our interviews with federal, state, and local officials to identify grant management challenges. To illustrate the reduced capacity of the selected cities, we used full-time equivalent (FTE) data from published Comprehensive Annual Financial Reports for Detroit, Flint, and Stockton as well as state municipal aid applications for Camden. To determine that these data were sufficiently reliable for the purposes of this report, we checked for consistency across published financial reports for the selected cities. We also verified these numbers with cognizant city officials.

To review the internal controls, monitoring, and oversight processes that federal agencies used to oversee the selected grants made to our four case example municipalities, we examined grant laws, regulations, and oversight policies for fiscal years 2009 to 2013 for our eight selected grant programs. We compared the monitoring policies for the eight grant programs with the implementation documentation for those policies in the four selected agencies. For example, if an agency policy stated that grants would receive risk scores that would help determine the appropriate level of monitoring, we checked for documentation of the risk scores and subsequent monitoring actions such as site visits or desk reviews. Examples of oversight implementation documentation that we reviewed for our selected grant programs included grant risk assessment worksheets, monitoring reports, sanction letters, and monitoring follow up documents. We also reviewed monitoring findings of single audits and office of inspector general audit reports. We interviewed cognizant local, state, and federal officials about these monitoring policies and actions.

To examine the actions the White House Working Group on Detroit and selected federal agencies took to assist selected municipalities in fiscal crisis, we interviewed local, state, and federal officials involved with grant management for the four selected municipalities and eight selected grant programs. We conducted site visits to the four selected municipalities and interviewed elected leadership and departmental staff in charge of managing the selected grants. In the case of the one pass-through grant included in our sample, we interviewed state officials responsible for overseeing the distribution of that grant to our selected cities. In these interviews, we asked officials to describe the actions that the White House Working Group and selected federal agencies took to assist them during their fiscal crisis. We asked officials to describe the actions that were helpful and the actions that could be improved. We also interviewed federal headquarters and regional staff who oversee the selected grants to obtain their perspectives about the actions they took to assist these selected municipalities. To obtain a government-wide perspective we interviewed members of the White House Working Group on Detroit, described by agency officials as an interagency collaborative effort to help coordinate the federal response to Detroit's fiscal crisis, as well as officials at the Office of Management and Budget and at the Department of the Treasury's Office of State and Local Finance. We reviewed our interviews with federal, state, and local officials to identify actions taken by federal agencies that assisted municipalities in fiscal crisis. We used criteria from our prior work to inform the usefulness of these actions, including our work on effective federal collaboration, implementing interagency collaborative mechanisms, and state and local grant management.[1]

We conducted this performance audit from February 2014 to March 2015, in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that

[1]See GAO, *Managing for Results: Key Considerations for Implementing Interagency Collaborative Mechanisms*, GAO-12-1022 (Washington, D.C.: Sept. 27, 2012); *Grants to State and Local Governments: An Overview of Federal Funding Levels and Selected Challenges,* GAO-12-1016 (Washington, D.C.: Sept. 25, 2012); and *Results-Oriented Government: Practices That Can Help Enhance and Sustain Collaboration among Federal Agencies*, GAO-06-15 (Washington, D.C.: Oct. 21, 2005).

the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Appendix II: Overview of Selected Grant Programs

Table 2: Purpose of Federal Grant Programs Included in GAO's Review

Program	Purpose
Community Development Block Grant Entitlement Program (CDBG)	Supports a wide range of community-based activities directed toward neighborhood revitalization, economic development, and community services and facilities.
Home Investment Partnerships Program (HOME)	Supports a variety of activities to increase the supply of and access to affordable housing for low and very low income Americans.
Federal Transit Formula Grant Program	Supports public transportation services in urbanized areas (census designated areas over 50,000 in population).
Highway Planning and Construction Grant Program	Assists state transportation agencies in the planning, development, and construction of improvements to highways and public roads.
Edward Byrne Memorial Justice Assistance Grant Program (JAG)	Supports a range of program areas, including law enforcement; courts; prevention; corrections; drug treatment and enforcement; technology improvement; and victim and witness initiatives.
Community Oriented Policing Services (COPS) Hiring Program	Advances public safety through community policing by addressing the full-time sworn officer needs of law enforcement agencies.
Assistance to Firefighters Grant (AFG) Program	Supports fire departments in providing critically needed resources to protect the public, training emergency personnel, and fostering interoperability and supporting community resilience.
Staffing for Adequate Fire and Emergency Response (SAFER) Grant Program	Assists fire departments to increase the number of firefighters in their community and to enhance the capabilities of fire departments to comply with staffing, response, and operational standards.

Source: Catalog of Federal Domestic Assistance, DHS, DOT, HUD, and Justice. | GAO-15-222

Table 3: Selected Grant Programs and Total Award Amounts to Selected Municipalities from Fiscal Years 2009 through 2013 (Dollars in Millions)

Program	Agency and administering component	Detroit, Michigan	Flint, Michigan	Camden, New Jersey	Stockton, California
Community Development Block Entitlement Grant Program (CDBG)	Department of Housing and Urban Development, Community Planning and Development (CPD)	$177	$20	$13	$19
Home Investment Partnerships Program (HOME)	Department of Housing and Urban Development, CPD	$42	$5	$5	$9
Federal Transit Formula Grant Program	Department of Transportation, Federal Transit Administration (FTA)	$169	n/a	n/a	n/a
Highway Planning and Construction Grant Program[a]	Department of Transportation, Federal Highway Administration (FHWA)	$0.3	n/a	$6	$47
Edward Byrne Memorial Justice Assistance Grant Program (JAG)[b]	Department of Justice, Office of Justice Programs (OJP)	$11	$2	$2	$2
Community Oriented Policing Services (COPS) Hiring Program	Department of Justice, COPS Office	$19	$4	$8	$16
Assistance to Firefighters Grant (AFG) Program	Department of Homeland Security, Federal Emergency Management Administration (FEMA)	$4	n/a	$1	$0.8
Staffing for Adequate Fire and Emergency Response (SAFER) Grant Program	Department of Homeland Security, FEMA	$52	$14	$11	n/a
Total[c]		**$474**	**$45**	**$45**	**$94**

Source: DHS, DOT, HUD, Justice, and single audits for Detroit, Flint, Camden, and Stockton for fiscal years 2009 to 2013. | GAO-15-222

Note: For all programs except the Highway Planning and Construction program, these amounts represent grants awarded during the given fiscal years. These municipalities may have had access to additional grant funds awarded in prior years for these programs. These figures are presented in nominal dollars.

[a]The Highway Planning and Construction totals are federal funds expended rather than grant awards. State departments of transportations (DOT) are the direct recipients of Highway Planning and Construction funds. Local governments that administer Highway Planning and Construction projects in California, Michigan, and New Jersey do not receive grant awards, but rather, are reimbursed by the state DOTs for project costs. These expenditure figures are from the municipalities' single audits and audited financial statements during this period.

[b]Justice awards JAG grants to eligible local governments directly or to jurisdictions certified as disparate. A disparate allocation occurs when a city or municipality is allocated one-and-one-half times (150 percent) more than the county, while the county bears more than 50 percent of the costs associated with prosecution or incarceration of the municipality's violent crimes. A disparate allocation also occurs when multiple municipalities are collectively allocated four times (400 percent) more than the county, and the county bears more than 50 percent of the collective costs associated with prosecution or incarceration of each municipality's violent crimes. Detroit and Flint are disparate jurisdictions and share their JAG grants with Wayne County and the Charter Township of Flint, respectively. The grant amounts shown here were the amounts awarded to the disparate pairs of Detroit and Wayne County and Flint and the Charter Township of Flint.

[c]Totals may not add due to rounding.

Appendix III: GAO Contacts and Staff Acknowledgments

GAO Contacts

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Staff Acknowledgments

In addition to contacts named above, Peter Del Toro (Assistant Director); Rebecca Rose O'Connor (Analyst-in-Charge); and Benjamin L. Sponholtz made major contributions to this report. Additionally, Joy Booth; Amy Bowser; Shane Close; Steve Cohen; Cathy Colwell; Beryl H. Davis; Kim McGatlin; and Rebecca Shea made key contributions to this report.

Appendix IV: Accessible Data

Data Table for Figure 2: Risk Assessment, In-Depth Monitoring Actions and Number of Monitoring Findings by Selected Federal Grant Programs in Detroit, Flint, Camden, and Stockton, Fiscal Years 2009-2013.

Agency	Grant program	Detroit	Flint	Camden	Stockton
Housing and Urban Development	Community Development Block Grant	Grant assessedfor risk; In-depth monitoring review conducted (25 deficiencies found)	Grant assessed for risk; In-depth monitoring review conducted (0 deficiencies found)	Grant assessed for risk; In-depth monitoring review conducted (6 deficiencies found)	Grant assessed for risk; In-depth monitoring review conducted (0 deficiencies found)
	HOME Investment Partnerships	Grant assessed for risk; In-depth monitoring review conducted (4 deficiencies found)	Grant assessed for risk; In-depth monitoring review conducted (14 deficiencies found)	Grant assessed for risk; In-depth monitoring review conducted (0 deficiencies found)	Grant assessed for risk
Department of Justice	Byrne Justice Assistance Grant	Grant assessed for risk; In-depth monitoring review conducted (0 deficiencies found)	Grant assessed for risk	Grant assessed for risk; In-depth monitoring review conducted (0 deficiencies found)	Grant assessed for risk
	Community Oriented Policing Services Hiring Grant	Grant assessed for risk; In-depth monitoring review conducted (0 deficiencies found)	Grant assessed for risk; In-depth monitoring review conducted (1 deficiency found)	Grant assessed for risk; In-depth monitoring review conducted (1 deficiency found)	Grant assessed for risk; In-depth monitoring review conducted (3 deficiencies found)
Department of Homeland Security [Note A]	Assistance to Firefighters Grant	Grant assessed for risk	No open grants	In-depth monitoring review conducted (0 deficiencies found)	Grant not assessed for risk or subject of in-depth monitoring
	Staffing for Adequate Fire and Emergency Response	Grant assessed for risk	Grant not assessed for risk or subject of in-depth monitoring	Grant not assessed for risk or subject of in-depth monitoring	No open grants
Department of Transportation	Federal Transit Formula Grant [Note B]	In-depth monitoring review conducted (63 deficiencies found)	No open grants	No open grants	No open grants

Source: GAO analysis of grant monitoring documents from HUD, DOT, Justice, and FEMA. GAO-15-222.

Notes: In-depth monitoring refers to either onsite monitoring visits or remote monitoring that involved verification of grant compliance documentation and information. In addition to these in-depth monitoring actions, agencies conducted additional monitoring actions such as routine financial analysis or performance monitoring for grantees. Further, agencies may have conducted monitoring actions for other grant programs that these municipalities received during fiscal years 2009-2013.

The Department of Transportation's (DOT) Highway Planning and Construction grant program is not included in this table because state departments of transportation are the primary recipients of Highway Planning and Construction grant funds, and generally oversee the design and construction of most Highway Planning and Construction projects. DOT is responsible for overseeing the state departments of transportation's administration of the Highway Planning and Construction grant, including state oversight of locally-administered grant projects. Since these are pass-through grants, federal monitoring actions for this program are not directly comparable to the other grant programs in this table.

[a] The Department of Homeland Security (DHS) started incorporating risk assessment more consistently into its grant monitoring procedures in 2013. Detroit was the only municipality of those we selected for this review that received one of these DHS grants in 2013.
[b] FTA started formally incorporating more risk assessment into its grant monitoring reviews for Federal Transit Formula Grants in 2014.