



December 2014

GRANTS MANAGEMENT

Programs at HHS and
HUD Collect
Administrative Cost
Information but
Differences in Cost
Caps and Definitions
Create Challenges

Why GAO Did This Study

The federal government spends billions of dollars on various grants to achieve diverse purposes. The total cost of a grant includes both program costs that directly support the grant's mission and services and administrative costs to run the program. These administrative activities, such as managing finances, are essential. It is important for agencies to track the cost of these activities to provide accountability for efficient use of federal resources.

GAO was asked to review how costs associated with the administration of grants are tracked and the availability of this information. GAO examined (1) the extent to which selected federal agencies and grantees have mechanisms and guidance in place to distinguish between administrative and program costs and to facilitate the availability of these data to Congress and the public; and (2) the extent to which there are challenges that hinder the comparability of grant administrative cost data. For this review GAO selected six grant programs—three in HHS and three in the Department of Housing and Urban Development (HUD). Agencies and grant programs were selected in part based on obligation amounts and grant types. GAO reviewed each program's statutes, regulations, guidance, and grant documents, as applicable, and interviewed agency officials. Although GAO's findings are not generalizable, they are indicative of the wide variation associated with the mechanisms and guidance for tracking grant administrative costs.

GAO received and incorporated, as appropriate, technical comments from HHS. HUD did not provide comments.

View [GAO-15-118](#). For more information, contact Susan J. Irving at (202) 512-6806 or irvings@gao.gov.

GRANTS MANAGEMENT

Programs at HHS and HUD Collect Administrative Cost Information but Differences in Cost Caps and Definitions Create Challenges

What GAO Found

All six of the grant programs GAO reviewed had mechanisms in place to capture the administrative costs charged to their grant programs, either via a computerized system or paper reporting. All the programs reported that they reviewed their grantees' costs for appropriateness. Two of the programs make administrative cost data available online. The programs GAO reviewed track administrative costs in different ways. For some programs administrative and program costs are reported separately, while for others they are included in the same line items. Administrative costs reported to the federal government may understate the actual cost to administer a grant program. GAO found examples of grantees absorbing part of the costs to administer a grant. Some primary grant recipients stated that when such costs were not reimbursed by the federal grant, they would cover those expenses themselves. Another grantee said he relies on state appropriations to cover the majority of administrative costs.

GAO identified two factors that hinder the comparability of administrative cost data in the programs it reviewed. First, is the existence of cost caps. These caps limit the amount of the grant that may be charged as administrative costs, and thereby affect what is reported to the federal government as administrative costs. For the programs GAO reviewed caps ranged from 5 to 26 percent, with one program having no cap. This variation can make some programs look more administratively expensive than others. Second, differences in what is defined as an administrative cost can present an even greater challenge to comparing costs across programs. 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. For example, the salary of an employee who enrolls participants in one Department of Health and Human Services (HHS) program is considered a program cost but an employee who holds a similar position determining the eligibility of participants in another HHS program may be considered an administrative cost depending on the state where it is administered. This variation in definitions means that a program with high administrative costs may not be less efficient than a program with low administrative costs.

Given these issues, it is challenging to collect comparable information for different grant programs. Any use of information on administrative costs needs to recognize these concerns particularly when comparing programs with different types of objectives, projects, or services. Comparisons of costs may be appropriate when reviewing programs that fulfill similar missions or provide similar services. However, comparisons across different types of grant programs should be made with caution.

Contents

Letter		1
	Background	4
	Agencies Reviewed Have Mechanisms in Place to Collect Data on Federal Grant Administrative Costs, but These Data May Not Reflect Actual Cost of Administration	10
	Variations in Administrative Cost Caps and Definitions Hinder Meaningful Comparisons of Grant Administrative Cost Data across Programs	16
	Concluding Observations	18
	Agency Comments and Our Evaluation	19
Appendix I	Objectives, Scope, and Methodology	21
Appendix II	Selected Grant Programs, Administrative Costs Caps, and Administrative Cost Definitions	24
Appendix III	GAO Contact and Staff Acknowledgments	25
Table		
	Table I: Selected Grant Programs	10
Figures		
	Figure 1: Grant Life Cycle for Federal Grant-Making Agencies and Grant Recipients	5
	Figure 2: Two Options for Charging Administrative Costs under OMB Guidance on Cost Principles	7

Abbreviations

AITR	Allergy, Immunology and Transplantation Research
CCDF	Child Care and Development Fund
CDBG	Community Development Block Grant
HHS	Department of Health and Human Services
HOME	HOME Investment Partnerships Program
HUD	Department of Housing and Urban Development
MHSC	Multifamily Housing Service Coordinators
NIH	National Institutes of Health
OMB	Office of Management and Budget

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December 12, 2014

Congressional Requesters:

The federal government provides grants to a wide range of recipients—including state and local governments, for-profit and nonprofit entities, and public and private universities—to achieve national objectives. The government spends a substantial amount of money on these grants. According to the Office of Management and Budget (OMB), state and local governments alone received about \$546 billion in federal grants in fiscal year 2013.¹ The total cost of a grant includes two components: (1) program costs that directly support the grant's mission and services; and (2) administrative costs, such as payroll and clerical support, to run the grant program. It is important for agencies that administer grants to track these costs—including the portion spent to reimburse grantees for their administrative costs—because such tracking allows the agencies to provide accountability for efficient use of resources. Further, tracking these costs helps agencies assess the changes in the balance between grant administrative costs and program costs. However, as budgets grow more constrained, this drive for efficiency can create a tension between a program's capacity to deliver services and the actual administrative costs of doing so.

The recently enacted Digital Accountability and Transparency Act of 2014 (DATA Act) is intended to increase accountability and transparency of federal spending and establish government-wide financial data

¹Office of Management and Budget, *Analytical Perspectives, Budget of the United States Government, Fiscal Year 2015* (Washington, D.C.: 2014). Federal outlay data for fiscal year 2013 reflects the most current available data at the time of this report. These data include grants to states for Medicaid, the federal government's largest single grant program.

standards.² Towards this end, OMB and the Department of the Treasury (Treasury) are developing these standards, which could include administrative spending.³ In addition, legislation has been introduced in Congress that could also affect how agencies publicly report on program administrative costs.⁴ As agencies implement the DATA Act and as Congress examines whether to require additional reporting on administrative costs, it is important to consider what these costs represent, how they are calculated, and the challenges in making comparisons across different programs.

You asked us to review how costs associated with the administration of grants are tracked and the availability of this information. This report examines (1) the extent to which selected federal agencies and grantees have mechanisms and guidance in place to distinguish between administrative and program costs and to facilitate the availability of these data to Congress and the public; and (2) the extent to which there are challenges that hinder the comparability of grant administrative cost data. To address these objectives, we selected two agencies for this review—the Departments of Health and Human Services (HHS) and Housing and Urban Development (HUD). We selected HHS because it manages the largest share of federal grants in terms of both obligation amount and number of grant programs. We included HUD to obtain management perspectives on a different set of programs and issues. We then selected three grant programs at each of these agencies with the aim of identifying both higher-dollar value grants relative to other agency programs as well

²Pub. L. No. 113-101, 128 Stat. 1146 (May 9, 2014). The DATA Act is intended to increase accountability and transparency of federal spending and requires federal agencies to publicly report, on at least a quarterly basis, certain information about any funding made available to, or expended by, an agency or component of the agency. This requires a variety of information on the appropriation account, including budget authority, obligations, unobligated balances, outlays, and any other budget resources—at different levels of aggregation and disaggregation: appropriations account, program activities, and object classification. The DATA Act also provides for the establishment of government-wide financial data standards to, among other things, produce consistent and comparable data across program activities. Reporting is required to begin no later than May 9, 2017 (3 years after enactment).

³This information was highlighted in a Data Transparency Town Hall meeting hosted by Treasury and OMB on September 26, 2014.

⁴In early 2014, the House passed a bill that would require agencies to provide additional program-level information to be reported publicly, including total administrative costs of programs. See Taxpayers Right-To-Know Act, H.R. 1423, 113th Cong. (2014).

as a variety of types of grants (project and formula) and grantees (state and local governments, nonprofit organizations, and for-profit entities).

At HHS we selected the following grant programs:

- Child Care and Development Fund (CCDF);
- Head Start; and
- Allergy, Immunology and Transplantation Research (AITR).

At HUD we selected the following grant programs:

- HOME Investment Partnerships Program (HOME);
- Community Development Block Grant (CDBG); and
- Multifamily Housing Service Coordinators (MHSC).

See table 1 in the background for information on each of these programs.

To determine the extent to which selected federal agencies and grantees have mechanisms and guidance in place to distinguish between administrative and program costs, we reviewed regulations, program guidance, grant documents, and statutes as applicable for each program. Additionally, we interviewed agency officials responsible for each of the selected grant programs to understand how these programs collect administrative cost data; the guidance, training, and technical assistance they provide grantees; and their requirements and experiences with determining and reporting administrative costs. To inform our work on government-wide efforts to collect grant administrative cost information, we interviewed staff at OMB's Office of Federal Financial Management.

To examine the extent to which there are challenges that hinder the comparability of grant administrative cost data we used OMB data on federal grants to select states with varying amounts of federal grant obligations.⁵ We selected Massachusetts and New Hampshire as states receiving higher and lower amounts of federal grant dollars, respectively. We then selected primary grant recipients within those states with the highest grant obligation for each selected grant program in that state. To better understand grant administrative costs, grant management, and cost principles we reviewed our previous reports on these topics as well

⁵Office of Management and Budget, *Analytical Perspectives, Budget of the United States Government, Fiscal Year 2014* (Washington, D.C.: 2013).

as those by the Congressional Research Service and the Congressional Budget Office.⁶ See appendix I for more details on program selection and our overall objectives, scope, and methodology.

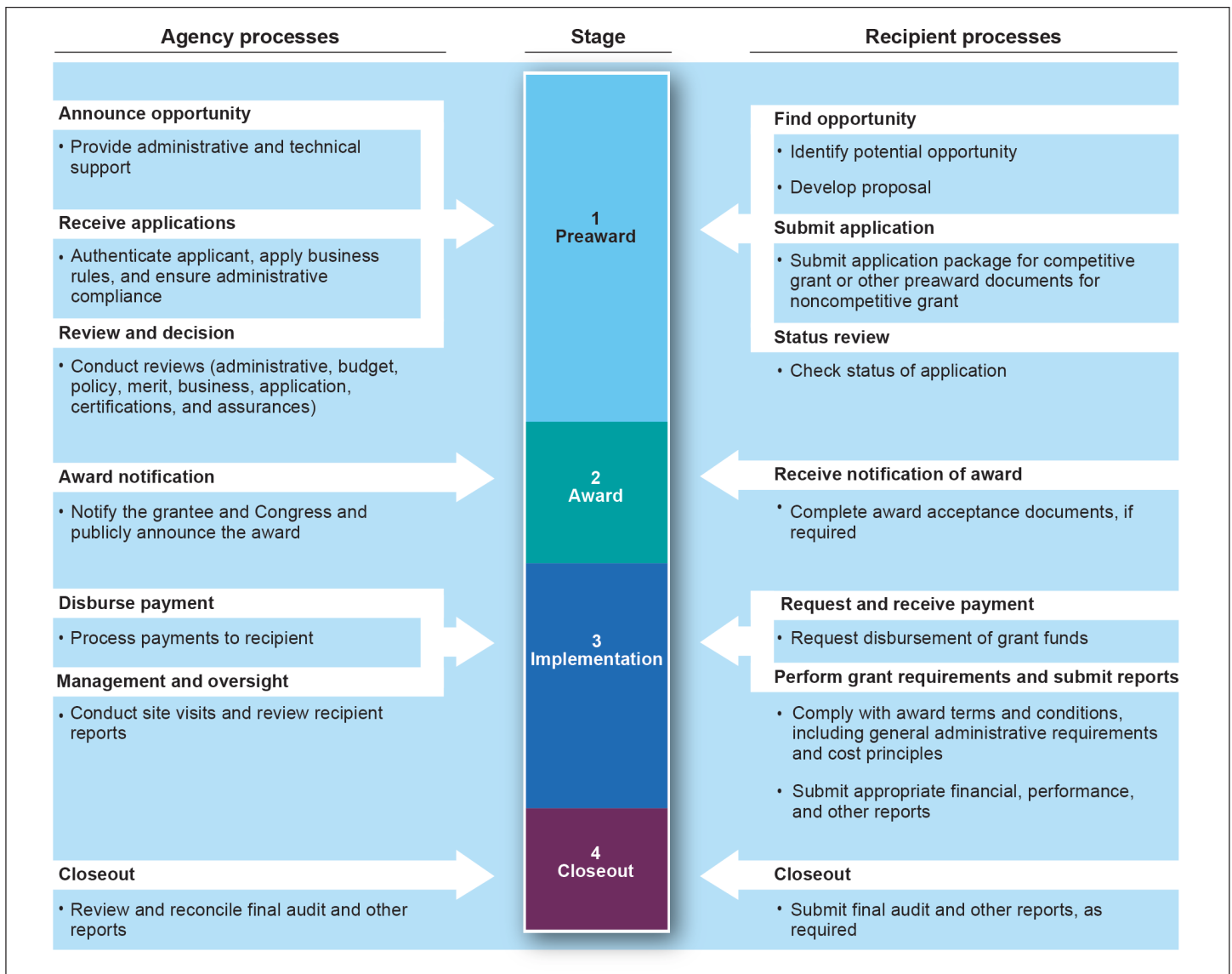
We conducted this performance audit from January 2014 to December 2014 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions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

Background

The federal government provides grants to a variety of recipients as a form of financial assistance to accomplish a particular public purpose authorized by law. Grant recipients include for-profit and nonprofit entities; public and private universities; and state, local, and tribal governments. Some grant programs also permit the granting of funds from primary grant recipient to subawardees. While there is substantial variation among grant types, competitively awarded federal grants generally follow a life cycle comprising various stages—pre-award (announcement and application), award, implementation, and closeout—as shown in figure 1.

⁶GAO reports include: *Biomedical Research: NIH Should Assess the Impact of Growth in Indirect Costs on Its Mission*, [GAO-13-760](#) (Washington, D.C.: Sept. 24, 2013); *Community Development Block Grants: Reporting on Compliance with Limit on Funds Used for Administration Can Be Improved*, [GAO-13-247](#) (Washington, D.C.: Mar. 21, 2013); *Grants to State and Local Governments: An Overview of Federal Funding Levels and Selected Challenges*, [GAO-12-1016](#) (Washington, D.C.: Sept. 25, 2012); *University Research: Policies for the Reimbursement of Indirect Costs Need to Be Updated*, [GAO-10-937](#) (Washington, D.C.: Sept. 8, 2010); *Nonprofit Sector: Treatment and Reimbursement of Indirect Costs Vary among Grants, and Depend Significantly on Federal, State, and Local Government Practices*, [GAO-10-477](#) (Washington, D.C.: May 18, 2010); *Human Service Programs: Demonstration Projects Could Identify Ways to Simplify Policies and Facilitate Technology Enhancements to Reduce Administrative Costs*, [GAO-06-942](#) (Washington, D.C.: Sept. 19, 2006); *Budget Issues: Assessing Executive Order 12837 on Reducing Administrative Expenses*, [GAO/AIMD-94-15](#) (Washington, D.C.: Nov. 17, 1993).

Figure 1: Grant Life Cycle for Federal Grant-Making Agencies and Grant Recipients



Source: GAO. | GAO-15-118

Grant programs are established through legislation that may specify particular objectives, eligibility requirements, and other conditions, and grant-making agencies may impose additional requirements on recipients. Additionally, grant programs are typically subject to a wide range of accountability requirements under their authorizing or appropriations statutes and implementing regulations. Congress may also impose

increased reporting and oversight requirements at the agency or recipient level. Grant-making agencies and their programs are also subject to crosscutting requirements applicable to most assistance programs.

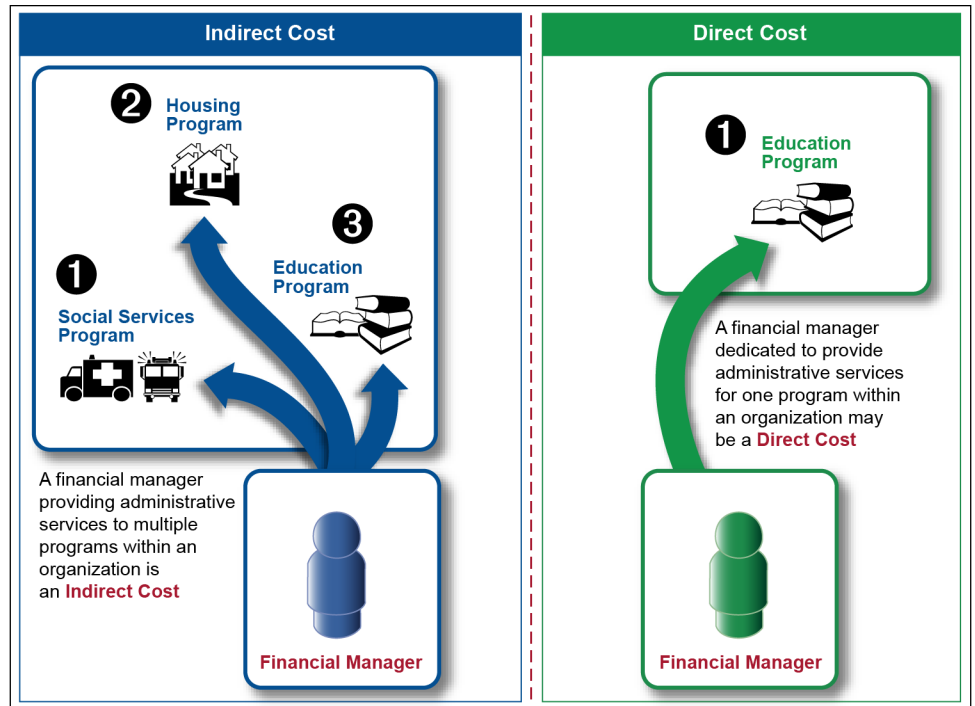
Administrative Costs

Administrative activities such as managing finances and facilities, ensuring quality, and reporting project status 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.⁷ 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 (see figure 2). To determine the proportion of indirect costs that may be charged to federally funded awards, grantees use a mechanism called the *indirect cost rate*. The procedure for requesting an indirect cost rate varies based on the type of grantee organization. In the case of higher educational institutions, the rate is established based on a historical fiscal year of cost data from a school and is applied to each of its individual research awards.⁸

⁷An entity may establish an indirect cost rate by submitting a proposal to its cognizant rate-setting agency. For educational institutions, this is determined by which federal agency provides the greatest amount of funds to the entity for the most recent 3 years—using a base year that represents historical costs by fiscal year. After the proposal has been reviewed or audited, the cognizant rate-setting agency and the school negotiate and come to agreement on the rate. The rate is then documented in a formal indirect cost rate agreement. See [GAO-10-937](#).

⁸GAO has analyzed the indirect cost reimbursement procedures for higher education institutions previously. See [GAO-10-937](#).

Figure 2: Two Options for Charging Administrative Costs under OMB Guidance on Cost Principles



Source: GAO analysis of OMB Circular No. A-21. | GAO-15-118

As we have previously reported, there is no government-wide definition of what constitutes an administrative cost.⁹ Programs have different missions, priorities, services, and clients, and jurisdiction for the programs are spread among numerous congressional committees; therefore federal agencies' definitions of allowable (or prohibited) administrative costs vary from program to program. We have also previously concluded that funding gaps for grant indirect costs which, depending on the program, may represent a large portion of administrative costs, may compromise the nonprofit sector's ability to partner with the federal government to provide services and may ultimately risk the viability of the sector.¹⁰ In a 2013 study, the Urban Institute found that limits on administrative costs

⁹GAO, *Homelessness: Information on Administrative Costs for HUD's Emergency Shelter Grants Program*, [GAO-10-491](#) (Washington, D.C.: May 20, 2010).

¹⁰[GAO-10-477](#).

are concerning for nonprofits because they must find other ways to cover these expenses. This study also stated that trying to minimize overhead costs could lead nonprofits to offer low pay for administrative positions, which could make it difficult to recruit and retain skilled and experienced staff.¹¹

Guidance on Cost Principles

OMB is responsible for developing government-wide guidance to ensure that grants are managed properly and that grant funds are spent in accordance with applicable laws and regulations.¹² OMB provides guidance on administrative requirements, cost principles, and audit requirements for federal awards. Until recently, OMB guidance came in the form of circulars for specific grants management areas to different types of grantees. For example, OMB Circular No. A-21 provided the principles for determining the types of direct and indirect costs that may be claimed and the methods for allocating such costs to federally funded projects at educational institutions. OMB had similar guidance on cost principles for state and local governments, Indian tribal governments, and nonprofit organizations. In December 2013, OMB consolidated its grants management circulars into a single document, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), to streamline its guidance, promote consistency among grantees, and reduce administrative burden on

¹¹The Urban Institute, *Nonprofit-Government Contracts and Grants: Findings from the 2013 National Survey* (December 2013). In 2013, the Urban Institute surveyed nonprofit organizations regarding their experiences with government contracts and grants. This survey was based on a national, randomly drawn sample of 501(c)(3) public charities taken from the Urban Institute's National Center for Charitable Statistics. The sample was limited to organizations that are required to file a Form 990 (an annual financial statement) with the U.S. Internal Revenue Service and have more than \$100,000 in expenditures. A total of 4,024 nonprofit organizations completed the survey and of that number 2,764 indicated they had government contracts and grants.

¹²OMB guidance is applicable to all grant programs and provides policies to be followed by the grant-making agency, not grantee. The grant-making agencies codify OMB's guidance into their own grant regulations, which then make them binding on the grantee.

nonfederal entities.¹³ OMB staff told us that although the new Uniform Guidance is intended to create a framework for the allocation of grant costs, decisions about how these costs are allocated are made at the award level.¹⁴ The new Uniform Guidance is scheduled to go into effect for grantees on December 26, 2014, and officials at both HHS and HUD told us they were evaluating the changes and its effects on their programs and regulations.

Selected Agencies and Programs

To provide examples for this review, we selected six grant programs at two federal grant-making agencies (see table 1). These programs are managed by a variety of subagencies and reflect different program objectives.

¹³78 Fed. Reg. 78,590 (Dec. 26, 2013). OMB's final guidance was published in Title 2, subtitle A, of the Code of Federal Regulations and consolidated eight grants management circulars, including: A-21 (Cost Principles for Educational Institutions), A-87 (Cost Principles for State, Local and Indian Tribal Governments), A-110 (Uniform Administrative Requirements for Grants and Agreements With Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations), A-122 (Cost Principles for Non-Profit Organizations), A-89 (Federal Domestic Assistance Program Information), A-102 (Grants and Cooperative Agreements with State and Local Governments), A-133 (Audits of States, Local Governments and Non-Profit Organizations), and A-50 (Audit Follow-up).

¹⁴The new Uniform Guidance also establishes a *de minimis* indirect cost rate of 10 percent of Modified Total Direct Costs, which means all direct salaries and wages, applicable fringe benefits, materials and supplies, services, travel, and subawards and subcontracts up to the first \$25,000 of each subaward or subcontract. This allows nonfederal grantees who have never had a negotiated indirect cost rate to receive indirect costs without the administrative burden associated with applying for, and receiving, such a rate.

Table I: Selected Grant Programs

Program name	Agency/sub-agency	Objectives
HOME Investment Partnerships Program	HUD/Community Planning and Development	To expand the supply of affordable housing, particularly rental housing, for low and very low income Americans.
Community Development Block Grant (CDBG) program for Entitlement Communities	HUD/Community Planning and Development	To develop viable urban communities by providing decent housing, a suitable living environment, and expanding economic opportunities, principally for persons of low and moderate income.
Multifamily Housing Service Coordinators	HUD/Office of Housing	To link elderly, especially frail and disabled, or disabled nonelderly assisted housing and neighborhood residents to supportive services in the general community.
Child Care and Development Fund (CCDF)	HHS/Administration for Children and Families	To promote family economic self-sufficiency and to help children succeed in school and life through affordable, high-quality early care and afterschool programs.
Head Start	HHS/Administration for Children and Families	To promote school readiness by enhancing the social and cognitive development of low-income children.
Allergy, Immunology and Transplantation Research (AITR)	HHS/National Institutes of Health	To assist public and private nonprofit institutions and individuals to establish, expand, and improve biomedical research and research training in allergic and immunologic diseases and related areas to assist public, private, and commercial institutions to conduct developmental research.

Source: GAO analysis of CFDA and HHS program descriptions. | GAO-15-118

Agencies Reviewed Have Mechanisms in Place to Collect Data on Federal Grant Administrative Costs, but These Data May Not Reflect Actual Cost of Administration

Although grant-making agencies are not required to track grant administrative cost data specifically, all six of the grant programs we reviewed collect grant administrative cost data in some form. Each of the grant programs we reviewed had mechanisms in place to capture the administrative costs charged to their grant programs, via either a computerized system or paper reporting.¹⁵ However, each program’s data collection system varied, as follows:

- HHS’s On-Line Data Collection System used for the CCDF grant and HUD’s Integrated Disbursement & Information System used for both HOME and CDBG are computerized data collection systems available to the grantee and agency that capture grant program budgetary information and actual post-award expenditure reporting.
- The Head Start Enterprise System collects grant budget estimates electronically during the program’s grant application process.

¹⁵OMB staff explained that they do not have a mechanism in place to collect that data centrally across all federal agencies.

Reporting of actual expenses incurred is captured in paper form at the regional office level.

- The Multifamily Housing Service Coordinators program uses the Line of Credit Control System to disburse and track payment of grant funds. The system may be accessed through a voice-response system or a computerized system. In addition to these systems, documentation is provided in paper form to the regional office where the grant is managed.
- Electronic Research Administration Commons is a web-based interface where National Institutes of Health (NIH) grantees share administrative information about grants. It also collects AITR grantees' Federal Financial Reports.

Officials for all of the selected programs reported that they use these systems to review their grantees' costs for appropriateness. Such reviews also help to ensure that the data collected are accurate if they are used for evaluating the programs' effectiveness. With the exception of the AITR program, which is managed at headquarters, all of the programs we reviewed performed compliance checks on fiscal reporting at the regional office level where the grants are managed. For five of the six programs in our review, officials said their analysis of administrative costs was focused on ensuring compliance with the grants' administrative cost caps and approved indirect rate agreements. Agency officials also told us that when a grantee's total federal expenditures exceed an audit threshold, all six programs rely on the single audit process to identify deficiencies in grantee accounting, internal controls, and financial management.¹⁶ Two of the six programs we reviewed—CDBG and CCDF—make their grant administrative cost data available to the public via their websites.

The six programs we reviewed track grant expenses in different ways, which can make it challenging to identify aggregate administrative costs. For some of these programs, administrative costs and program costs may be included in the same line items and program officials told us that

¹⁶31 U.S.C. §§ 7501-7507. The Single Audit Act, as amended, requires each federal entity that expends a certain amount of federal awards, including grants and other assistance, in a fiscal year to have a single or program-specific audit conducted by an independent auditor. The audit includes the entity's financial statements and a schedule of expenditures of federal awards, and a review of related internal controls. OMB sets the threshold for reporting. From 2004 to 2014, the threshold requiring a single or program-specific audit is \$500,000. The new OMB Uniform Guidance, effective for grantees on December 26, 2014 has increased the Single Audit threshold to \$750,000 or more in federal fund expenditures.

separating these costs would be labor intensive. For example, program officials explained that for the AITR program they do not specifically track grant administrative costs. Instead, grant program costs are reported as either direct or indirect costs because recipients are required to use the *Federal Financial Report* to report on grant expenditures and that report captures indirect costs.¹⁷ NIH officials explained that administrative costs are normally charged as indirect costs but if the administrative services are integral to a major project and the administrative costs can be specifically attributed to the project, they may be charged as direct costs to the grant.¹⁸ Therefore, interpreting indirect costs as administrative costs could miss administrative costs charged as direct costs to the grant.

Further complicating this issue, NIH officials explained that primary grant recipients report their subgrantee's direct and indirect expenses under the primary recipient's total costs on the *Federal Financial Report*. There is no requirement to specifically track grant administrative cost data for a grant's subgrantee and the current federal financial reporting mechanism for the AITR grant does not facilitate identifying all administrative costs. According to NIH officials, identifying administrative costs reported under the total cost line item would be onerous under the current financial information collection method since this would entail additional auditing at both the primary grantee and subgrantee levels. Additionally, consistent with OMB guidance, indirect cost rates are to be based on historical costs incurred by an institution and applied to all grants received by that institution for a set period. While using such a rate may prove efficient for reporting purposes, these rates are a blunt instrument by which to determine actual administrative costs for any one grant program.

For the grant programs we reviewed, financial reporting systems varied in their ability to aggregate program-wide administrative cost information. HUD's Integrated Disbursement & Information System—a nationwide

¹⁷The *Federal Financial Report* (Standard Form-425) is used for reporting grant expenditures for the recipients of federal funding assistance.

¹⁸For example, OMB guidance on cost principles for educational institutions states that the salaries of administrative and clerical staff should normally be treated as Facilities and Administrative costs. Direct charging of these costs may be appropriate where a major project or activity explicitly budgets for administrative or clerical services and individuals involved can be specifically identified with the project or activity. "Major project" is defined as a project that requires an extensive amount of administrative or clerical support, which is significantly greater than the routine level of such services provided by academic departments.

database that provides HUD with current information on CDBG and HOME program activities—includes grant administrative cost information. In contrast, the Head Start program does not currently have a system in place that allows it to aggregate grant administrative cost information across grantees. Instead, Head Start grantees report their expenses after they are incurred on a SF-425 paper form retained at the regional office level. HHS officials are planning to collect the SF-425 electronically on the GrantSolutions platform beginning in late 2015 and should be able to display these data electronically in the Head Start Enterprise System. According to HHS officials, the new method of data collection and management should enable Head Start staff to aggregate actual expenditure data—categorized as programmatic or administrative costs—for analysis and reporting at the headquarters level, which would potentially facilitate reporting these costs. This mechanism should facilitate program-wide aggregation of administrative costs and is a necessary first step to obtain an overall understanding of a program’s administrative costs.

Just as the mechanisms to collect information differ across the grant programs we reviewed, there is also variation in guidance and training regarding the reporting of grant administrative costs. The six programs we reviewed provide some form of written guidance or instruction regarding the allocation of administrative and program costs. Head Start provides program-specific resources, written guides, and interactive training modules on its website—the Early Childhood Learning and Knowledge Center. The AITR, CCDF, CDBG, and HOME programs also provide resources and guidance online.¹⁹ Applicable administrative cost definitions for MHSC are not included in the management handbook for the grant program. However, officials explained that a list of allowable administrative costs does exist in the grant’s Notice of Funding Availability. With regard to training, program officials with Head Start, CDBG, HOME, and CCDF told us they provide grantees across the country with training on a wide variety of program-specific and fiscal management issues. For example, HUD officials explained that they offer training on identifying allowable administrative costs and that they plan to provide training in financial management via interactive modules online.

¹⁹AITR’s guidance is available in the NIH Grants Policy Statement available on NIH’s grants management website. CCDF provides its resources on the Administration for Children and Families site, while CDBG and HOME resources are provided via HUD’s OneCPD.

NIH officials told us they provide written guidance and offer special training upon request, but NIH does not provide training to all of its grantees for the AITR grant program. NIH officials said that grantees tend to hire external consultants to assist them with preparing indirect cost rate proposals. MHSC officials said that they do not provide centralized training on administrative costs to grantees, but training is provided by some field offices that determine a need for such training. In addition to written guidance on fiscal information, all six of the programs we reviewed described processes for providing technical support to grantees on request.

Grant recipients of all the programs we reviewed told us that since administrative costs are not always reimbursed by their federal grants they must cover some administrative expenses themselves. The Urban Institute made the same point in a survey of nonprofits that receive government grants.²⁰ This review found that half of survey respondents said their government grants and contracts expressly excluded or limited reimbursements for their program and organizational administrative costs.

Unreimbursed administrative costs in the programs we reviewed ranged from costs related to the grant managers who oversaw the grant program to costs that covered centralized business services such as accounting or human resources. Functions like these support the administration of the grant but are not directly related to its aims or purposes. We found examples of grantees absorbing part of the costs to administer a grant. An official at a state department of health receiving a CCDF grant explained that she analyzes administrative costs and when her organization approaches its federal cost cap she pays these expenses from the state's general fund. Another CCDF state grantee told us that he relies on state appropriations to cover the majority of administrative costs, and therefore his organization's federally reported administrative costs remain well under the cap set by the program. Since state funds were available to cover a portion of the administrative expenses, he explained that the organization did not have to claim from the federal government all the administrative expenses to which they were entitled. To the extent that only administrative costs charged to the grant are reported, these reports may understate the actual administrative costs.

²⁰Urban Institute, *Nonprofit-Government Contracts and Grants: Findings from the 2013 National Survey*, (December 2013).

The actual cost to administer a grant may also be affected by whether oversight responsibilities are extended over long periods, as is required by some federal grant programs. If a grantee has oversight responsibilities for an ongoing portfolio of work it may incur greater administrative costs than a grantee with a shorter-term project with defined beginning and end dates. For example, primary grant recipients of the HOME program are required to oversee HOME-funded rental properties for up to 20 years after construction. According to a HOME grantee, as the portfolio of properties grows the HOME oversight requirements cause the grantee's oversight costs to increase year after year. However, the HOME grant administrative cost cap does not increase to cover these increased oversight costs associated with a grantee's growing portfolio of properties over time. Because of this, a HOME grantee told us that as these costs increase over time she will need to absorb these costs, covering them with resources from both HOME administrative funds and state funds. In some cases, the grantee has reviewed HOME grant amounts and actual HOME administrative costs and chosen to allocate funds to fewer units and to fewer projects because of the oversight costs that will be incurred over time.

Variations in Administrative Cost Caps and Definitions Hinder Meaningful Comparisons of Grant Administrative Cost Data across Programs

Two challenges to comparing administrative costs across grant programs are the variation in cost caps and differences in administrative cost definitions. These two issues are different, but they intersect. The variation in administrative cost caps—the limit to the amount of the grant that may be charged as administrative costs to the federal government—presents challenges to comparing costs across programs. Of the six grant programs we reviewed, administrative cost caps ranged from 5 percent for CCDF to a 26 percent administrative cost cap for education institutions receiving AITR grants.²¹ The Multifamily Housing Service Coordinators grant program has no cap.²² As a result of this variation, the administrative costs of some programs may appear more expensive than others. For example, CDBG's 20 percent cost cap could result in higher administrative charges to the grant than the CCDF's 5 percent cost cap. According to HUD data, CDBG administrative and planning expenses in fiscal year 2012 were approximately 16 percent and, according to HHS data, CCDF administrative expenses in fiscal year 2012 were approximately 3 percent.²³ As we have previously concluded, because there are differences in which activities are defined as administrative costs for financial reporting purposes, a program with high administrative spending is not necessarily less efficient than a program with low administrative spending.²⁴ Programs with higher administrative cost caps may be assumed—incorrectly—to have higher administrative costs; so it is important to have an understanding of individual caps in place before any cross program comparisons are made.

²¹CCDF has a 5 percent administrative cost cap that applies to states and territories and a 15 percent administrative cost cap for tribal communities.

²²See appendix II for applicable administrative cost caps and the types of expenses they include. Three of the programs we reviewed, HOME, CCDF, and Head Start, have a cost cap established by authorizing statutes and are included in the program regulations. CDBG has an administrative cost cap established in its appropriations and program regulations. While the AITR grant does not have a program-specific administrative cost cap, a cap may exist depending on the type of organization that receives the award. The MHSC grant program has no cap for administrative costs and does not have any program-specific regulations regarding administrative costs.

²³CDBG data are based on expenditures. Compliance with the CDGB administrative cap for entitlement communities is based on obligated funds. GAO issued a recommendation related to this in [GAO-13-247](#).

²⁴[GAO-06-942](#).

There is no government-wide definition of what constitutes an administrative cost. Programs have different missions, priorities, services, and clients, and jurisdiction for the programs are often spread among numerous congressional committees; federal agencies' definitions of allowable (or prohibited) administrative costs vary from program to program. Additionally, the definition of administrative costs varies across different federal grant programs even though many of the same activities are performed.²⁵ For example, the salary of an enrollment specialist at Head Start, who enrolls children in the program, is considered a program-related cost. However, the salary of similar position as an intake specialist for the Low Income Home Energy Assistance Program, who determines the eligibility and benefit level for participants, may be an administrative cost in some states where the program is administered.²⁶ When the same expenses are treated differently across programs, this results in different administrative cost totals for similar functions. Regardless of the reasons for variation in definitions of these costs, the existence of differences in definitions limits their comparability.²⁷ Monitoring programs entails collection and use of program-related operational and financial data, but for information to be effective for decision making, it has to be pertinent to the individual program. OMB staff we spoke with stated that collecting grant administrative cost information government-wide would not identify whether funds for administrative costs are being spent effectively. Specifically, they told us that analysis of administrative costs and the identification of potential administrative cost savings should occur at the program level. They said that when comparing administrative costs across programs it is important to remember that some programs are inherently more expensive to administer than others.

²⁵ [GAO-06-942](#). In 2006, we reviewed seven programs from HHS and the Departments of Agriculture and Labor and found that the statutes and regulations for the programs define administrative costs differently even though many of the same activities were performed.

²⁶ States may only use 10 percent of federal funds for planning and administering the Low Income Home Energy Assistance Program. The program's regulations do not define "costs of planning and administration" and therefore states vary in how they interpret these costs in determining their administrative expenses. Sample definitions for administrative costs include all costs associated with management oversight of the program, including participant eligibility for assistance. States are considered the primary interpreters and HHS defers to the state definitions unless they are considered clearly erroneous. This variation could be the result of a difference in the complexity in determining applicant eligibility, the amount of interaction with beneficiaries, as well as the overall nature of the programs.

²⁷ [GAO-06-942](#).

Comparing unlike costs across different programs would lead to erroneous comparisons. However, comparisons of costs may be more appropriate when comparing programs that fulfill similar missions or provide similar services. Additionally, different definitions for administrative costs could present a challenge in situations when multiple grant programs are consolidated into one program.²⁸

Concluding Observations

Administrative activities—such as reporting on project status, managing finances, and ensuring quality—are an essential part of the grant process. Selected programs track administrative costs in different ways and not all of the grant programs we reviewed have systems in place that could readily aggregate these costs from their grant recipients. Additionally, the actual cost of administering a given program may be paid by sources other than the federal government and the current collection of grant administrative cost data only reflects the federally reimbursed portion of these costs. Efficient and effective use of federal grant funds has always been important, but attention to the balance between program costs and administrative costs grows as budgets come under increasing pressures and the resources available for achieving federal grants' goals become further constrained. Although looking at administrative costs may seem like a logical first step when identifying opportunities to reduce expenses in such a budgetary environment, our review identified a number of factors that hinder the comparability of administrative costs across grant programs. Differences in cost caps and definitions are among the most important of these factors and make comparisons across grant programs very challenging, particularly when comparing programs with diverse missions and objectives. Comparing dissimilar costs leads to inappropriate conclusions that may have a perverse impact on federal policy making.

Comparisons of costs may be appropriate when reviewing programs that fulfill similar missions or provide similar service. However, comparisons of administrative costs across grant programs that provide different services should be made with caution. Any comparisons of administrative cost data should consider variation in administrative cost caps and cost definitions.

²⁸For more information on grant consolidations, see GAO, *Grant Program Consolidations: Lessons Learned and Implications for Congressional Oversight*, [GAO-15-125](#) (Washington, D.C.: Dec. 12, 2014).

Agency Comments and Our Evaluation

We provided a draft of this report to the Secretary of the Department of Health and Human Services and the Secretary of the Department of Housing and Urban Development. The Department of Health and Human Services had technical comments, which we incorporated as appropriate. The Department of Housing and Urban Development did not provide comments. We also provided an informational copy to the Director of the Office of Management and Budget.

We are sending this report to interested congressional committees, the Secretary of the Department of Health and Human Services, the Secretary of the Department of Housing and Urban Development, the Director of the Office of Management and Budget, and other interested parties. In addition, the report is 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 me at (202) 512-6806 or irvings@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. Major contributors to this report are listed in appendix III.



Susan J. Irving
Director for Federal Budget Analysis, Strategic Issues

List of Requesters

The Honorable Thomas R. Carper
Chairman
Committee on Homeland Security and Governmental Affairs
United States Senate

The Honorable Tom Coburn, M.D.
Ranking Member
Committee on Homeland Security and Governmental Affairs
United States Senate

The Honorable Claire McCaskill
Chairman
Subcommittee on Financial and Contracting Oversight
Committee on Homeland Security and Governmental Affairs
United States Senate

Appendix I: Objectives, Scope, and Methodology

This report examines (1) the extent to which selected federal agencies and grantees have mechanisms and guidance in place to distinguish between administrative and program costs and to facilitate the availability of these data to Congress and the public; and (2) the extent to which there are challenges that hinder the comparability of grant administrative cost data. To address these objectives, we selected two agencies for our review—the Departments of Health and Human Services (HHS) and Housing and Urban Development (HUD). HHS manages the largest share of federal grant making both in terms of grant obligation amount and the number of grant programs. We included HUD to obtain management perspectives on a different set of programs and issues.¹ Collectively, the selected agencies provide diversity in the number of grant programs and grant obligations and management perspectives on administrative and program costs.

At each selected agency, we identified three programs that provided a combination of the high dollar grant obligation in fiscal year 2012 and different grant types, such as project and formula, as well as grantee type, including state and local government and nonprofit and for-profit entities.² At HHS we selected the following grant programs: (1) Child Care and Development Fund; (2) Head Start; and (3) Allergy, Immunology and Transplantation Research. At HUD we selected the following grant programs: (1) HOME Investment Partnerships Program; (2) Community Development Block Grant; and (3) Multifamily Housing Service Coordinators. There were certain programs that met the criterion of high grant obligation at each selected agency but we did not consider them for selection for one or more reasons, including: administrative features of the grant program that made them unique and distinctly atypical of the grants at these agencies or planned consolidation of the program that made the review less relevant.

To determine the extent to which selected federal agencies and grantees have mechanisms and guidance in place to distinguish between administrative and program costs, we reviewed each program's

¹To determine which agencies had high grant obligation amounts we used USASpending data for fiscal year 2012 and to determine which agencies had a high volume of grant programs we used program counts from the Catalog of Federal Domestic Assistance.

²A formula grant is allocated to eligible recipients based on formula factors, such as state population, established in statutory and regulatory provisions. A project grant provides funding for fixed or known periods of specific projects.

authorizing statutes and regulations, where applicable, program guidance, and grant documents. We interviewed agency officials responsible for each of the selected grant programs to understand how these programs collect grant administrative cost data, the type of guidance, training, and technical assistance they provide grantees, and their requirements and experiences with determining and reporting administrative costs. To inform our work on government-wide efforts to collect grant administrative cost information, we interviewed staff at the Office of Management and Budget's (OMB) Office of Federal Financial Management, which oversees the financial management policy of the federal government.

To examine the extent to which there are challenges that hinder the comparability of grant administrative cost data we performed work at the primary recipient level. Based on fiscal year 2012 grant obligation data for selected grant programs to state and local governments from OMB's Analytical Perspectives, we selected two states—Massachusetts, which receives a relatively high amount of federal grant funds and was in the top quarter of fiscal year 2012 federal grant obligations, and New Hampshire, which receives a relatively low amount of federal grant funds and was in the bottom quarter of fiscal year 2012 federal grant obligations. We then selected primary grant recipients within those states with the highest grant obligation for each selected grant program. We next confirmed USASpending grant obligation amounts with HHS and HUD officials. We subsequently replaced certain primary grant recipients that had met the criteria of highest grant obligation for each selected grant program within the selected states because we determined that USASpending did not fully or correctly identify the grantee. Although the results of our review are not generalizable to other grant programs in other agencies, they are indicative of the wide variation associated with the mechanisms and guidance for tracking grant administrative costs and the utility of these costs for program management.

We conducted a literature review to identify issues raised, including those in our previous reports as well as the Congressional Research Service and the Congressional Budget Office, related to grant administrative costs, grants management, and cost principles. Additionally, we reviewed research reports from research groups and state representative organizations that discuss grant administrative costs from the perspective of grantees. We reviewed relevant HHS and HUD websites and related agency documents to understand grant administrative costs guidance for selected grant programs.

We conducted this performance audit from January 2014 to December 2014 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.

Appendix II: Selected Grant Programs, Administrative Costs Caps, and Administrative Cost Definitions

Program name	Administrative cost cap	Types of expenses included in administrative cost caps
HOME Investment Partnerships Program	10%	Includes program planning costs and salaries of participating jurisdiction's staff who perform activities, including compliance, developing interagency agreements, monitoring of HOME-assisted housing, reporting to HUD, program evaluation, audit resolution, providing public information, and travel costs; third-party audit, legal and accounting services; rental and purchase of equipment, insurance, utilities, office supplies and office space; the costs of administering tenant-based rental assistance programs; and indirect costs.
Community Development Block Grant (CDBG)	20%	Includes program planning costs and salaries of staff who perform activities, including providing information to the public, preparing budgets, monitoring and compliance, developing interagency agreements, preparing reports for HUD, audit resolution, program evaluation and supervising employees engaged in the same; travel costs incurred for official business; third-party legal, accounting and audit services; rental or purchase of equipment, insurance, utilities; office supplies and office space; and indirect costs.
Multifamily Housing Service Coordinators	None	No applicable regulatory or statutory definitions.
Child Care and Development Fund (CCDF)	5% (15% for Indian tribes)	Includes salaries of administrative and implementation agency staff; costs related to planning, developing, and designing the program; public outreach and hearings; preparing the application; monitoring and reporting on program activities; coordinating with federal, state and local officials; official travel; accounting and audit services; rental and purchase of equipment, utilities, and office supplies; and indirect costs.
Head Start	15%	Includes costs related to overall management, including salaries of the executive director, personnel officer, fiscal officer/bookkeeper, payroll/insurance/property clerk, and janitor for administrative office space, and costs associated with volunteers carrying out administrative functions; fringe benefits, travel, transportation and training; expenses related to bookkeeping and payroll services, audits, and bonding; administrative office insurance, supplies, copy machines, postage, and utilities; and occupying, operating and maintaining space for administrative activities.
Allergy, Immunology and Transplantation Research (AITR)	26% ^a	Indirect charges that typically include depreciation on buildings and equipment; costs of operating such facilities; salaries of executive officers attributable to administrative functions; salaries of clerical staff; office supplies; and library expenses.

Source: GAO analysis of HUD and HHS program regulations.

^aAITR grantees do not have statutory or individual program administrative cost caps. However, OMB Circular No. A-21 (now codified in Title 2 of the Code of Federal Regulations) imposes a 26 percent cap on administrative (but not facilities) expenses for universities. Costs for administration are limited to 26 percent of total direct costs.

Appendix III: GAO Contact and Staff Acknowledgments

GAO Contact

Susan J. Irving, (202) 512-6806 or irvings@gao.gov

Staff Acknowledgments

In addition to the contact named above, Peter Del Toro (Assistant Director), Keith O'Brien (Analyst-in-Charge), Gerard S. Burke, Stanley J. Czerwinski, Catherine Myrick, Carol L. Patey, and George H. Schadler III made key contributions. Also contributing to this report were Thomas M. Beall, Amy R. Bowser, Robert L. Gebhart, Josephine Perez, and Robert Robinson.

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