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November 14, 2011

TO: All Department Heads

FROM: Kalbert K. Young 
Director of Finance

SUBJECT: Management of Federal Funds

Our ability to obtain basic financial information on the use of federal funds by State departments and agencies is currently difficult due to the limitations of the State's Fiscal Accounting and Management System (FAMIS) and because several state departments and agencies have accounting systems outside of FAMIS. While replacing FAMIS is a long term goal, we need to start now to find effective ways to gather information that will allow us to improve the way we account for and manage federal funds.

Our concern regarding federal awards is reinforced by the observations and findings about the State's current management of federal awards cited in the September 28, 2011 report, *Baseline of Information Management and Technology and Comprehensive View of State Services*, prepared by the Science Applications International Corporation (SAIC) (see attached) on behalf of the Office of Information Management and Technology (OIMT) in preparation for the creation of an Information Technology Strategic Plan for the State (see <http://hawaii.gov/oimt/BaselineAssessment.pdf>.) Observation/findings on page 55 of the report notes:

- *"Some departments are not able to use all of the money provided by grants they have been awarded due to missed or inadequate reporting."*
- *"Staff needs to be trained and empowered with processes and tools to speed up application, tracking, and reporting."*
- *"A standard approach for grant applications and lifecycle reporting would benefit many departments in the State."*

Additionally, the Federal government is calling for increased transparency and accountability regarding the use of federal funds. In June 2011, the Digital Accountability and Transparency Act of 2011 (DATA Act) was introduced and referred to the House Committee on Oversight and Government Reform. If enacted, the DATA

Act would apply the type of intensive recipient reporting that is required for American Recovery and Reinvestment Act (ARRA) awards to all federal grants, contracts and loans and establish an independent body to track all federal spending on a single website. As such, we must be prepared to implement the DATA Act should it be enacted.

It is critical, especially during these difficult fiscal times, that we maximize the federal funds that the State receives and use these funds efficiently. I have therefore asked Mr. Mark Anderson, State ARRA Coordinator, Department of Budget and Finance, to work with Ms. Lynn Heirakuji, Director of the Hawai'i Fair Share Initiative, Office of the Lieutenant Governor, to develop recommendations on how we can improve the management of federal funds and determine the steps we need to take to implement the DATA Act. These efforts will require the input and support of your department's staff and attached agencies, and I appreciate the cooperation that I know you will provide the team.

Should you have any questions, please call Ms. Lynn Heirakuji at 586-0271 or Mr. Mark Anderson at 586-3035.

Enclosures: FFIS Issue Brief 11-27, July 1, 2011
SAIC Report, page 55

c: The Honorable Brian Schatz, Lieutenant Governor
Sanjeev Bhagowalia, Chief Information Officer
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Issue Brief 11-27, July 1, 2011

House and Senate Bills Overhaul Federal Reporting, Repeal FFATA

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Summary

The Federal Funding Accountability and Transparency Act (FFATA, P.L. 109-282), which included new reporting requirements for recipients of federal grants and contracts, was fully implemented on October 1, 2010 (see [Issue Brief 10-40](#)). Since then, bills have been introduced in both the House and Senate that would repeal FFATA and overhaul recipient reporting requirements.

The Digital Accountability and Transparency Act of 2011 (H.R. 2146, DATA Act) was introduced in the House on June 13, 2011, and it passed the House Committee on Oversight and Government Reform a week later. It would mandate full multi-tier recipient reporting and require recipients to report on the use of funds. The bill also establishes the Federal Accountability and Spending Transparency Board (FAST Board), mirrored after the Recovery Accountability and Transparency Board, to coordinate and oversee grant and contracts reporting; create common data elements and data standards for use across all federal spending information systems; and focus on reducing fraud, waste, and abuse. The FAST Board would create at least one new website for federal spending data. In addition, the bill would eliminate USAspending.gov and the Census Bureau's Consolidated Federal Funds Report, and require that the new website(s) contain the information reported by these systems. The House bill would sunset on September 30, 2018.

On the same day that the House bill was introduced, the administration issued an executive order that establishes a new oversight board to monitor all government spending, focusing on transparency of federal spending and efforts to reduce fraud, waste, and abuse. In addition, on June 16, 2011, a companion bill to House bill was introduced in the Senate, although no further action on that bill has been taken. This *Issue Brief* focuses on the House committee-passed bill.

Reporting Requirements

Recipient Reporting. Like FFATA, the reporting requirements included in the House bill would cover all federal awards: grants, loans, cooperative agreements, contracts, and other forms of federal financial assistance. However, FFATA, as implemented, only captures prime and first-tier subaward reporting. The DATA Act would require full multi-tier reporting. Specifically, the DATA Act defines a recipient as: "(A) any person that

receives Federal funds pursuant to a Federal award, either directly or through a subgrant or subcontract at any tier; and (B) any state, local, or tribal government, or any government corporation, that receives Federal funds pursuant to a Federal award, either directly or through a subgrant or subcontract at any tier.”

The House bill would exempt a recipient from the reporting requirements if the recipient is an individual *and* the total amount of funds does not exceed \$100,000 in the current year (calendar year or fiscal year) *or* no award received in a year exceeds \$24,999. This is different from FFATA, which exempts all federal awards to individuals (unrelated to any business or non-profit organization); entities with gross incomes less than \$300,000 in the previous tax year; and subawards that are valued at less than \$25,000. However, the DATA Act would allow the FAST board to grant additional exemptions.

The DATA Act defines several elements that must be part of recipient reporting:

- Recipient identification, including name and location
- Identification of executive federal agency
- Identification of federal award
- Identification of the federal program, if applicable
- Total amount of federal funds received for the federal award, during the period covered by the report
- Amount of federal funds from the award that were expended or obligated during the period covered by the report
- A detailed list of all projects or activities for which federal funds were expended or obligated
- If the federal award is a prime award, an identification of all subawards
- If the federal award is a subaward, an identification of the prime award
- Any additional information required by the board

FFATA, as implemented, captures more data elements than those specifically delineated in the bill, but it does not require details on the use of funds. However, given the FAST Board’s authority to require additional information, this may change. Additionally, under FFATA, federal agencies are responsible for populating the prime recipient data into USAspending.gov. While the DATA Act still requires federal agencies to report all obligations and expenditures of federal funds, prime recipients are responsible for reporting this information as well. Moreover, prime recipients are currently responsible for reporting subaward information. Under the House bill, prime recipients would be given the option to report on behalf of subawardees (so long as all tiers are reported).

The legislation also requires that the recipient reports be submitted at least quarterly but allows the board to determine a shorter time-frame. Under

FFATA, prime recipients are responsible for reporting subaward and compensation data on a rolling basis, with reporting due by the end of the month following the month the award was made. Finally, the DATA Act would require all recipients to register with the Central Contractor Registration (CCR) database or to complete other requirements as required by the board (FFATA only requires prime recipients to maintain an active registration in CCR).

Similar to FFATA, the reporting requirements would be a condition of receiving federal funds. Unlike FFATA, the House bill would allow federal agencies to impose penalties (no more than \$250,000) for noncompliance.

Federal Agency Reporting. The DATA Act would require federal agencies to report all obligations and expenditures of federal funds to the new board. The bill specifically requires that, to the extent possible, federal agencies should identify awards that are subject to the recipient reporting requirements so that information submitted by federal agencies and recipients can be compared.

Data Standardization. The House bill would require the FAST Board to designate common data elements to be reported by recipients and federal agencies. The purpose of this change would be to increase the capacity of various data systems to communicate with each other and allow data to be automatically checked for errors.

Website(s). Under the bill, the FAST Board must make all information reported by federal agencies and recipients available to the public on one or more websites that it establishes and maintains. Moreover, the board must create a federal accountability portal to combine federal reporting information with other government databases as well as allow federal agencies to verify recipients' eligibility and assist in identifying waste, fraud, and abuse.

Effective Dates. Within 180 days after the effective date (October 1, 2011) of the House bill, the board must issue guidance on recipient and agency reporting and common data elements, and create one or more websites. Within one year of the effective date, agencies must implement the recipient reporting requirements. Within two years after the board determines common data elements and standards, federal agencies must issue guidance to incorporate the changes.

New Board

The House bill would establish the FAST Board as an independent agency in the executive branch. All functions (and authority) of the Recovery Accountability and Transparency Board (from the Recovery Act) would be transferred to this board. The bill would, in essence, establish the FAST Board as a permanent successor to the Recovery Board.

Moreover, the functions of the Census Bureau's Consolidated Federal Funds Report would be transferred to the FAST Board. The bill would require that the board's website include the total amount of federal funds obligated and spent in each state, county, congressional district, and municipality. However, it is unlikely that this information would be comparable to the Census Bureau's reports because a new data source—recipient and agency reports—would be utilized. Moreover, the Consolidated Federal Funds

Report captures all federal spending whereas the House bill would exclude reporting of certain awards, and it is unlikely the data would capture social security payments, other direct payments to individuals, and federal salaries. As detailed in [Budget Brief 11-10](#), the Census Bureau's FY 2012 budget request recommends termination of the Consolidated Federal Funds Report and other federal financial statistics.

The legislation details the composition of the board, which consists of a chairperson (appointed by the president, with the advice and consent of the Senate), the controller and deputy director for management at OMB, and the inspectors general and deputy secretaries of various federal departments.

The board would be responsible for the following activities:

- Receiving, storing, and publicly disseminating all federal spending information under this act
- Reviewing whether recipient reporting meets applicable standards as well as specifies the purpose of the award and performance measures
- Auditing and investigating federal funds to determine whether fraud, wasteful spending, poor contract or grant management, or other abuses are occurring
- Making recommendations to federal agencies on measures to prevent fraud, waste, and abuse
- Regularly auditing the quality of data submitted by recipients and federal agencies
- Standardizing common data elements and data reporting standards
- Reviewing whether there are appropriate mechanisms for interagency collaboration relating to federal funds

The FAST Board is also required to submit a number of reports to Congress and the president, including regular reports on data-quality audits and semi-annual reports on activities and findings of the board. In addition, no later than five years after the effective date of the act, the board must submit a report that includes cost savings (both direct and indirect) as a result of the board and its activities.

The bill authorizes \$51 million annually from FYs 2012-2018 to carry out the functions of the board. These are the only funds authorized in the bill.

State Concerns

States have expressed a number of concerns with the House bill. First, the bill does not include a funding mechanism, such as new funding or the ability to increase administrative caps within existing programs, to help states implement the new requirements. Second, the bill would leave significant discretion to the FAST Board, particularly in allowing the board to require reports more frequently than once a quarter. State groups have recommended that the bill specify quarterly reporting, with reports due one month after the end of the quarter to accommodate state accounting systems and close-out times. Third, even though the bill focuses on streamlining federal reporting, it would not eliminate duplicate reporting for

recipients. States would still be required to submit program-specific reports to individual agencies as well as reports to the FAST Board. Fourth, the bill does not appoint a state/local representative to the FAST Board. Finally, the bill creates a new reporting system, less than a year after FFATA was fully implemented.

Next Steps

Although the House bill moved quickly through committee, it is anticipated that the process will slow while various concerns are addressed. However, since both houses of Congress and the administration are focused on increased transparency of federal spending and efforts to reduce fraud, waste, and abuse, it seems likely that reporting changes will be forthcoming.

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Table 14: Patient Protection and Affordable Care Act (PPACA) Implementation

| Observation/Finding | Process Identification/ Reengineering/Requirements Definition Benefit |
|--|--|
| <ul style="list-style-type: none"> • PPACA implementation is required by the Federal government. • The State is not effectively implementing an integrated solution to the Act's requirements. • DCCA and DOH are involved in the Act's implementation. • SAIC suspects that more Departments will ultimately be impacted by the Act's implementation, and therefore, it should be addressed from an enterprise perspective. | <ul style="list-style-type: none"> • Enterprise approach to the Act's data requirements enhances required reporting and services to citizens. • Supports stakeholders' involvement and buy-in starting in the requirements definition phase. |

→ **2.1.4.1.14 Federal Grant Application and Lifecycle Management**

Many Departments apply, are awarded, and track grants. Many Departments need to identify grant opportunities to augment their budget. Table 15 summarizes the team's observations with regard to Federal grant application and lifecycle management.

Table 15: Federal Grant Application and Lifecycle Management

| Observation/Finding | Process Identification/ Reengineering/Requirements Definition Benefit |
|--|--|
| <ul style="list-style-type: none"> • Grants have many reporting requirements that must be satisfied. Some are stringent such as the American Recovery and Reinvestment Act of 2009. • Managing and tracking grants in the State's complex and demanding financial environment, with additional financial pressures arising from increased budget cuts and competition, makes maintaining an adequate grant funding pipeline essential to the health of many Departments. • Some Departments are not able to use all of the money provided by grants they have been awarded due to missed or inadequate reporting. • Staff needs to be trained and empowered with processes and tools to speed up application, tracking, and reporting. • A standard approach for grant applications and lifecycle management would benefit many Departments in the State. • Not currently working collaboratively with the Departments (who currently have grants) to determine what process improvements could be implemented to enhance the application process and reporting process and to create a standard approach statewide. | <ul style="list-style-type: none"> • Increases use of grant money through more timely reporting. • Minimizes grant money returned to the Federal government due to missed reporting requirements. • Increases performance with better, more timely tracking information for Project Managers. • Provides consistency and efficiency in applying for and tracking grants. • Reduces missed deadlines. • Provides for improved information to support performance measurement. |