

Transforming Grants Management: A Strategic Approach to Improving Performance and Reducing Burden

by

Robert D. Muller, Ed.D.

Executive Summary

The Federal government provides more than \$495 billion annually in grants to state and local governments, non-profit organizations, universities, community groups, and other government and non-governmental entities. These funds support a broad range of programs, including those related to defense and homeland security, transportation, health, education, and economic development and a wide array of other industries. Government-funded programs affect virtually every aspect of American society, increasing attention on the effective and efficient use of government resources. In the last several years, there have been numerous initiatives that focus on improving the processes that drive management of government grants, and associated proposals to reform the Federal grants process. Recent regulatory and legislative efforts include the Government Performance Results Act of 1993, the Federal Financial Assistance Management Improvement Act of 1999, and the 2001 President's Management Agenda. These share a common goal of simplifying the application and reporting process, reducing burden, and linking funding to program results.

There has been a dramatic increase in programs rated as more effective since enactment of these new policies. Despite this, a vast majority of programs are still not considered effective by OMB and other independent evaluations.

Common concerns with grants management processes raised during our research included:

- Over reliance on technology as a solution rather than a tool
- Performance measures based on inputs rather than outcomes
- Burdensome requirements that do not increase the quality of oversight
- Imposition of top-down, overly standardized processes that do not take into account differences (including varying risk factors) of grantees or, on the other hand, over reliance on individual grantee experience and decentralization

Our work with federal agencies has led us to develop a five-step conceptual approach for improving grants management processes from pre-application deliberations through closeout. These steps are, in brief:

1. Assess performance and results
2. Conduct business process analysis to identify opportunities for improvement
3. Increase buy-in and improvement through greater communication and coordination with grantee
4. Develop systems for data-driven, outcome-based reporting and oversight
5. Manage risk through targeted oversight efforts

Although grants and programs across agencies serve a vast array of purposes and employ a variety of management and oversight approaches, common grants processes mean that many face similar challenges. By reviewing lessons learned and best practices of grantees, all Federal programs can become efficient, achieve desired outcomes, and have a better chance of obtaining increased funding.

The purpose of this paper is to review the grants management process and provide insight into ways in which Federal agencies can improve the effectiveness and efficiency of their limited funds. While this research was conducted before the need for the current economic stimulus and the infusion of funds pursuant to the American Recovery and Reinvestment Act of 2009, the same principles apply, perhaps with even more urgency.

Introduction: The Magnitude of U.S. Grant Distributions

The Federal government disbursed more than \$495 billion in grants (19.3 percent of Federal government expenditures) in fiscal year 2007¹³. The recipients of these funds are more than 60,000 organizations, including state and local governments and non-profit organizations¹⁴. These grants fund programs include public priorities ranging from defense and homeland security to Temporary Assistance to Needy Families, minority business development, housing assistance in disasters, transportation, K-12 and higher education, research, and a wide range of other critical needs. Grants are disbursed in a variety of ways—some by formula (for example, based on population and indicators of need), others through competitive processes. There are also billions of dollars given in private sector grant-making each year (from foundations and other sources), as well as grant disbursement at the state and local level.

The more than \$495 billion in Federal grants is annually distributed from 32 different Federal agencies across all states and U.S. territories. Table 1 lists the top five grant-making Federal agencies in 2007.

Table 1 - Selected Federal Agencies that Award the Highest Amounts of Grants (2007)¹⁵

Agency	Grant Amount
Department of Health and Human Services	\$284,182,141,000
Department of Transportation	\$72,380,361,000
Department of Education	\$36,353,165,000
Department of Housing and Urban Development	\$32,447,047,000
Department of Agriculture	\$27,363,835,000

Obviously this is a lot of money, with enormous consequences in terms of impact across American society. And while this research was conducted before the need for the current economic stimulus and the infusion of funds pursuant to the American Recovery and Reinvestment Act of 2009, the same principles apply, perhaps with even more urgency. The purpose of this paper is to review the grants management process and provide insight into ways in which Federal agencies can improve the effectiveness and efficiency of their grants programs.

¹³ U.S. Census Bureau, Consolidated Federal Funds Report for Fiscal Year 2007, U.S. Government Printing Office, Washington, DC, 2007

¹⁴ Federal Financial Management Report 2007. Executive Office of the President, Office of Management and Budget.

¹⁵ U.S. Census Bureau, Consolidated Federal Funds Report for Fiscal Year 2007, U.S. Government Printing Office, Washington, DC, 2007.

Federal Government Grants Process

Federal grant-making typically follows the same general process of pre-application, application, grant award and disbursement, monitoring, and closeout. Each of these steps, summarized below, is quite complex, with each stage of the process offering a great opportunity for innovative ideas to improve efficiency.

Pre-application

Congress passes legislation authorizing a grants program, determining programmatic goals and eligibility requirements, and assigning a Federal agency to oversee the grants competition and monitor grantees. The designated agency then develops implementing regulations and guidance.

Application

Grant programs generally include a detailed application process, wherein the agency designs the application or request for proposals to which potential grantees respond. The process of developing applications is typically a public one, with proposed rules published in the Federal Register. The cognizant agency publicly announces grant opportunities, and reviews and rates proposals that are submitted, eventually selecting a slate of grantees.

Grant Award and Disbursement

The agency selects grantees and negotiates with them to ensure eligibility criteria are met. Some grants are disbursed by formula, while others are administered as part of a competitive process. The agency must publicly announce this decision and process funds to the grantee. Grantee management of federal funds is subject to regulations specified by the Office of Management and Budget, through government-wide policies and procedures for financial and program management, and direction from the grantor.

Monitoring

According to Federal statute, the agency monitors grantees to ensure proper use of funds, both in terms of programmatic operations and financial controls. This monitoring typically occurs through formal reporting and includes informal discussions, site visits, and an ongoing collaborative relationship between grantee and funder.

Closeout

During closeout of the grant, the agency works with the grantee to prepare and review any final reports, and to conduct a final financial accounting and reconciliation.

Efforts to Improve Grants Management: A Short History

Across the Federal government, a long history of initiatives for accountability of Federal funds and tying these funds to program outcomes has marked grants management improvement efforts. The first attempt to provide unbiased information about grants performance began with the Budget and Accounting Act of 1921, which established both the Office of Management and Budget (OMB) and the Government Accountability (formerly Accounting) Office (GAO). The Budget and Accounting Procedures Act of 1950 established the Joint Financial Management Improvement Program (JFMIP), which in part focused on increasing communication and coordination to share financial best practices¹⁶.

¹⁶ OSD Comptroller icenter: <http://www.defenselink.mil/comptroller/icenter/topnav/timeline.htm>

Other initiatives have included the 1965 Planning-Programming-Budgeting System (PPBS), which sought to quantify program outputs and relate them to planning over multiple years. The Management by Objectives Act (MBO) of 1973 intended to link the President's budget to agency results. Zero Based Budgeting (ZBB) of 1977 attempted to establish a direct link between funding level and program results by asking agencies to detail program activities and results achievable at different funding levels¹⁷.

Recent Initiatives

Many of these early initiatives had mixed results, in part because there was little relationship between program measurement, the President's budget, and Congressional authorization and appropriations¹⁸. As a result, the Government Performance Results Act of 1993 (GPRA) was enacted to improve public confidence in government grant-making while increasing impact, initiating a government-wide focus on measuring performance and ensuring that public funds achieve their intended goals. GPRA seeks to hold Federal agencies accountable for the programmatic accomplishments of their grantees through measurement of results and customer satisfaction, improved oversight of outcomes, and a focus on efficiency by tying allocation of funds to results.

Subsequently, the Federal Financial Assistance Management Improvement Act of 1999 (Public Law 106-107) was enacted to improve the Federal grant making process and directly link funds with results while simultaneously reducing the burden by:

- Simplifying application and reporting requirements
- Increasing coordination
- Improving the effectiveness and performance of grant programs
- Improving the delivery of services¹⁹.

The Office of Management and Budget oversees both The Grants Policy Committee (GPC) and the Grants Executive Board (GEB). GPC was established to create policies that facilitate the implementation of P.L. 106-107. The Committee convenes a variety of interagency work groups and processes. GEB is responsible for the technological aspects of P.L. 106-107, including grants.gov. Grants.gov is one of many different government initiatives to result from P.L. 106-107. An electronic clearinghouse of Federal discretionary grants by 26 different Federal agencies with the intent to simplify the searching and applying process, grants.gov is used by more than one million users/organizations who receive more than \$400 billion from the Federal government each year²⁰.

Government agencies have struggled to implement GPRA, which has received renewed focus in the 2001 President's Management Agenda (PMA). The PMA included language about results-based government, including a focus on highrisk grantees. The OMB is attempting to quantify program effectiveness based on evidence of results with the PART, first launched in FY 2004. There is evidence that these tools are starting to have an impact²¹.

¹⁷ OSD Comptroller GAO - Performance Budgeting: Past Initiatives Offer Insights for GPRA Implementation, March 1997.

¹⁸ *ibid*

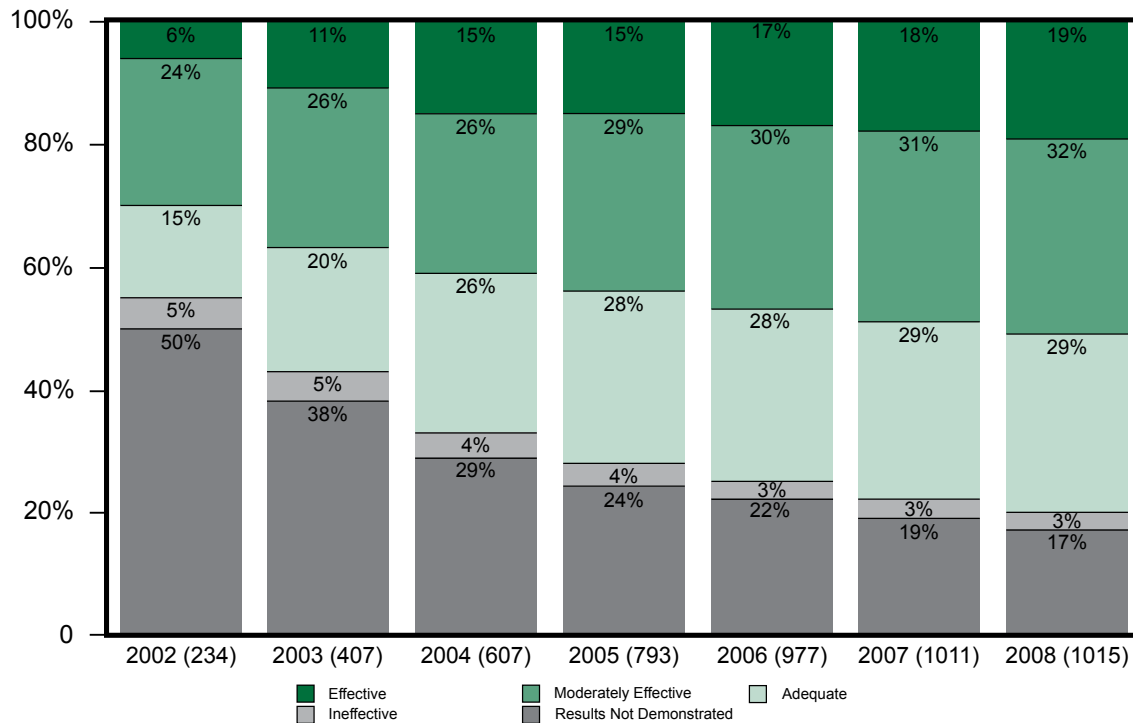
¹⁹ Public Law 106-107 - Federal Financial Assistance Management Improvement Act of 1999.

²⁰ Grants.gov Annual Report for FY 2006, <http://www.grants.gov/section3/AnnualReport2007.pdf>.

²¹ Office of Management and Budget, The Federal Government is Results Oriented: A Report to Federal Employees, August 2004.

The PART was designed to measure the effectiveness of government programs. This rating system also has direct impacts on programs—42 percent of the programs labeled as ineffective experienced budget cuts²². According to government estimates, there was a significant increase in the effectiveness of programs from 2002-2008, but more work is still needed.

**Cumulative Program Results by Ratings Category
(2002 - 2008)**



Lessons Learned from Agency Grants Management Improvement Efforts

Our analysis of efforts to improve grants management processes in several Federal agencies identified a number of common challenges that face reform efforts. These include the following themes, discussed further below:

- Over-reliance on technology as a solution vs. a tool
- Performance measures based on inputs rather than outcomes
- Adding burdensome requirements that do not increase the quality of oversight
- A standardized process that does not take into account differences (including varying risk factors) of grantees

Over-reliance on technology as a solution vs. a tool

Government agencies have invested substantial sums in developing new technology for improving grants management. At times, these technology investments have supplanted strategic program improvement efforts. While technology can be a powerful tool for streamlining management of grant programs and finances for grantor and grantee, it is not an end in and of itself. Reengineering business processes, and understanding and addressing the challenges of grants management require concerted attention prior to developing technology solutions.

²² Performance Management and Budgeting in the Federal Government: Brief History and Recent Developments, March 16, 2005.

Performance measures based on inputs rather than outcomes

A performance measurement process is an effective means of measuring progress and monitoring grantee activities, but only if care is taken to ensure that measures are focused on the desired inputs, outputs, and outcomes. Because “what gets measured gets done,” ensuring that measurement processes provide incentives for the most effective and efficient program results is critical. Government measurement processes have improved significantly in recent years as the PART and other efforts have prompted agencies to better define program outcomes, and make distinctions between input and output as well.

Adding burdensome requirements that do not increase the quality of oversight

Review of grants management processes also revealed a tendency toward proliferation of requirements and requests for data and documentation and burden, but not a clear correlation between those requirements and grantee performance. Additional requirements can be essential in effective grants management and oversight, but increasing burden also increases administrative costs and can decrease the amount of time spent on program delivery. Burden is often in the eye of the beholder—clearly, some burden is entirely appropriate to ensure adequate fiscal and programmatic oversight. Care should be taken, however, to calibrate requirements with the difficulty in meeting them, and with the size of the grant and other factors, so that the costs of reporting and other requirements do not exceed the benefits (to grantee and grantor) of collecting the information.

A standardized process that does not take into account difference (including various risk factors) of grantees

When designing a process for effective grants management, it does not necessarily make sense to use the same process for each grantee. In fact, we found that a “one-size-fits-all” approach tended to be detrimental to both the government’s ability to provide effective guidance and oversight, and the grantees’ ability to manage their programs. The size of the grant, funder priorities, and potential risk factors could all influence desired oversight and other requirements. For very small grants, it may not make sense to have the same reporting requirements or investment in technological support that may be appropriate for larger grants. Additionally, if monitoring and oversight have shown that a grantee is particularly effective, reducing reporting requirements could allow the grantee to focus even more effort on improving outcomes. Defining minimum reporting and accountability requirements is essential, as is targeting resources to higher risk issues. Triage in grants management can be an effective tool in managing limited Federal staff capacity—freeing up time to mentor and provide additional support and technical assistance to new grantees or those that need more assistance.

Reducing Burden While Improving Performance

Many observers inside and outside government—grantor and grantee alike—lament what can be perceived as overly burdensome grants management processes while simultaneously recognizing the need for oversight and careful stewardship of taxpayer dollars. An overly burdensome grant application and monitoring process may discourage some of the best grantees from applying for funds or favor current grantees, thereby limiting competition. Clearly Federal funds are intended to be used to run an effective program, achieve the intent of the Congress, and steer clear of potential for waste, fraud and abuse -- the need to streamline the grant-making process and reduce burden should in no way reduce accountability. Rather, a balance which simultaneously values grantee discretion while ensuring effective fiscal management and monitoring of program results should be sought.

Our analysis identified several aspects of the grant process that are perceived as burdensome to many organizations, including:

- Length of application
- Number of reporting requirements
- Length of time in providing requested information
- Overall timeline of grant cycle and how it meshes with the needs of grantees
- Technical complexity
- Unclear guidance

Surveys of grantees have identified several parts of the process where requirements are perceived as potentially burdensome, and could benefit from some streamlining or rationalization. The length and complexity of some applications (or perceived time to complete) can deter organizations less experienced in Federal work from applying, or appear burdensome in proportion to the likelihood and size of the potential grant. Agencies can help potential grantees and expand applicant pools by systematically seeking feedback from target groups on the application process, regularly reviewing the application to remove unnecessary information (some suffer from the Christmas tree ornament syndrome), and offering technical assistance before and during the application process to organizations interested in pursuing Federal funding.

Once a grantee receives an award, reporting requirements and time to provide the requested information can be both essential to effective grants management and oversight and problematic in terms of administrative costs and complexity. Grantees may need extra assistance in developing a system to manage information or analyze progress towards goals, and to comply with both fiscal and program requirements. In addition, the overall timeline of the grant cycle may differ from that of program implementation, causing sequencing challenges in reporting (for example, if outcome data is sought prematurely). Finally, some grantees have expressed concerns about technical complexity of compliance with reporting requirements, and unclear and inconsistent guidance. Lack of clear, ongoing communications processes between the grantee and funding agency can be a substantial contributor to burden for both grantee and grantor.

The concept of perceived burden has proven to be an important one in identifying means of improving grants management processes. Perceived burden could be related to many factors, such as:

- Experience of organization in receiving government funds
- Capacity of organization
- Workload
- Training of organization's staff

Analysis of grants and programs across agencies reveals a vast array of program purposes, sizes, management and oversight approaches. While many grant aspects vary both within and across agencies, grants management processes typically follow several common steps (pre-application, application, grant award and disbursement, monitoring, and closeout) and many face the same aforementioned themes.

Recent government efforts to improve grants management processes have a significant potential payoff in terms of improved program results and efficient use of funds. Thorough and deliberative process analysis of each step of the grantmaking process and systematic means of seeking feedback from all stakeholders during all phases of the process can help funders determine high priority problems and where potential for improvement lies.

A Strategic Approach to Improving Grants Management

Our experience across government agencies has resulted in a five-step conceptual approach for improving grants management processes, from initial pre-application deliberations through closeout. We suggest that agencies employ these steps to analyze and improve their grants management processes:

- Assess performance and results
- Conduct business process analysis to identify opportunities for improvement
- Increase buy-in and improvement through greater communication and coordination with grantee
- Develop systems for data-driven, outcome-based reporting and oversight
- Manage risk through targeted oversight efforts

Each of these steps is briefly described below.

1. Assess performance and results

This initial step is intended to gain an overview of the strengths and weaknesses of the grant-making process and identify potential areas of improvement. It involves the following actions:

- *Collect data regarding effectiveness and efficiency of grants processes*

Review the entire grant-making process with the goal of reducing the administrative burden and improving collaboration between agency staff and grantees on programmatic outcomes. This also requires examination of monitoring and oversight processes.

- *Examine the range of performance metrics, including program outcomes and outputs*

Performance measures, or key performance indicators (KPIs), are an integral part of results-based accountability as they allow more effective program measurement and fine tuning. Some KPIs may not be what the grantee is used to tracking or what is easiest to report. Their intent is to guide the grantee to fulfill the agency's desired goals and objectives. While it may be easier to measure inputs (such as number of centers or number of flyers printed), the focus must be on outputs/outcomes (such as number of children vaccinated). Examination of performance metrics and identification of areas where they seem to work well in gauging program progress, and where they do not, are important steps.

- *Assess efficiency in terms of resources required by grantor and grantee*

One way to improve efficiency is by eliminating wasteful or duplicate requests. The time that a grantee spends on administrative requirements detracts from his or her ability to run a program. If some information is collected but never used, that process should be considered wasteful and eliminated. Duplication (asking for the same information multiple times for no apparent reason) is also a wasted effort.

Intensive reporting requirements, if not used, useful, and understood, also detract from the time an agency has available to conduct thoughtful monitoring and oversight. Oversight can be improved through regular communication with the grantee, feedback on all submitted information, more targeted information requests, site visits, and formal reporting requirements.

- *Examine regulatory and legislative requirements*

RAI regulatory and legislative requirements must be carefully reviewed when developing performance measures and reporting requirements to ensure legislative intent and letter are met.

- *Agency strategic direction/strategic planning for program success*

While each grant/grantee is unique, the overall goals and direction of the agency need to be examined to ensure that combined, individual grantees pursue the overall goals of the organization.

- *Work with key stakeholders*

Coordination and communication with key stakeholders can help identify new and innovative ideas and ensure buy-in of new initiatives or processes. This is a step that many agencies overlook or have not pursued in systematic, ongoing ways.

2. Conduct business process analysis to identify opportunities for improvement

This step entails assessment and process analysis of all steps in the grants management process, from pre-application through closeout, to determine ways to streamline and increase efficiency and outcomes.

- *Review grant timeline and application requirements*

Examining the overall grants process timeline will reveal opportunities for streamlining the process and reducing complexity. For example, organizations can reduce complexity when standardizing language, terminology, and forms. A sample application and report can also be provided to ensure clear expectations and that grantees understand the level of detail and type of information to be provided. Communicating with grantees helps determine where instructions or requirements need to be clarified. This extra support during the application process can also help diversify the applicant pool, rather than favor current grantees.

Analyzing the grants process will ensure that deadlines are appropriately spaced so that grantees have time to run a program and adequately answer reporting requirements.

- *Develop understanding of grantee requirements, lessons learned and determinants of success*

By examining all programs and comparing the experiences of high-performance grantees, the agency can educate other grantees. Additionally, "lessons learned" can be shared to help guide programs facing similar issues. Care must be taken to ensure that these lessons do not become implemented in a rigid manner, thereby discouraging innovation.

3. Increase buy-in and improvement through greater communications and coordination with grantee

Focus groups and interviews with grantees can gauge means of improving performance, as described below:

- When making significant changes, extra efforts to communicate and involve agency personnel will help ensure that agency staff understand the new process and requirements, and the rationale behind these changes. Staff buy-in and expertise is crucial to successful implementation.
- Equally crucial is buy-in from the grantees. Communication with the grantee will help clarify the process and rationale for agency requirements. By explaining why certain information is collected and can support grantee goals, one can obtain buy-in and the grantee will be more likely to embrace performance measures and reporting requirements. The agency should consider whether there are ways to incentivize participation and acceptance of standards.
- The grantee is entitled to adequate feedback from funders regarding performance. This reporting is not to be viewed as merely a requirement that must be "checked off," but rather an important and useful tool for gaining more information to better monitor the grantee.

- Frequent communication and interaction with the grantee is an opportunity to discover problems as they develop and help troubleshoot challenges. It also provides an opportunity to discuss best practices of other grantees. Staff will discover that this ongoing communication allows them to be more responsive to grantee concerns and improves grantees ability to implement programs effectively.

4. Develop systems for data-driven, outcome-based reporting and oversight

Examination and subsequent streamlining of formal reporting can ensure that information submitted is used by and useful for the agency and grantee. When assessing performance, customer satisfaction should be considered (in limited cases, this may be the only measure necessary). One way to ease the burden on the grantee while still having enough data to accurately provide oversight and inform the agency, is to use existing external evaluations or surveys. This allows grantees to focus on the community programs where they have skills, rather than forcing them to be social scientists.

Streamlining of the grants process should not reduce innovation, nor should it impede financial oversight. Performance-based funding and use of best practices are crucial for accountability.

5. Manage risk through targeted oversight efforts

With the renewed focus on improving grant outcomes while reducing burden, time is better spent on the monitoring and oversight of grants and less time on the bureaucratic process of grant awards. Effective and early monitoring and oversight offer a great opportunity to help grantees improve programmatic outcomes and desired results.

Agencies must take extra care to reduce unnecessary burden on grantees. Some things to consider:

- Burden matching the overall utility of information
- Burden having a direct relationship to size of grant
- Decreasing burden for grants that are the least risk

By identifying minimum compliance requirements and characteristics of risk, government oversight can focus on those grants that are perceived as the highest risk. These high-risk grantees could benefit from increased training and monitoring.

Risk factors that might warrant increased attention include:

- Large grants
- Large grants related to grantees budget
- Prior unsatisfactory performance
- History or indication of management problems
- Financially instability or turnover
- New grantees

By identifying risk factors and analyzing grantees through these lenses, the agency can focus its efforts on grantees that are potentially at increased risk and provide them with additional education, training, and assistance. Risk analysis can also provide the opportunity to develop mentoring programs (for example, pairing organizations with strong programmatic but weak administrative skills with intermediary organizations that can assist them).

Expected Results

Despite very different programmatic and policy goals, government grant-making agencies follow similar grants processes, but have very different outcomes. By examining lessons learned and effective practices, one can avoid common pitfalls and greatly streamline the grants management processes without compromising financial oversight or programmatic results. In fact, such a process can result in significant improvements in effectiveness and efficiency for Federal government and grantee personnel alike, with a net benefit in terms of program impact.

Agencies that take the time to examine the grants management process can improve effectiveness of their grantees. Areas such as the grants timeline, performance measures, and reporting requirements all provide an opportunity to achieve desired outcomes. The most effective agencies assess performance and results; conduct business process analysis to identify opportunities for improvement; develop an integrated approach to meeting program needs; increase buy-in and improvement through greater communication and coordination with grantees; develop systems for data-driven, outcome-based reporting and oversight; and manage risk through targeted oversight efforts.

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