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THE ENVIRONMENTAL PROTECTION AGENCY'S GRANTS MANAGEMENT 2003-2006: PROGRESS AND CHALLENGE

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HEARING

BEFORE THE

SUBCOMMITTEE ON
WATER RESOURCES AND ENVIRONMENT

OF THE

COMMITTEE ON
TRANSPORTATION AND
INFRASTRUCTURE
HOUSE OF REPRESENTATIVES

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CONTENTS

TESTIMONY

	Page
Luna, Hon. Luis A., Assistant Administrator for the Office of Administration and Resources Management, U.S. Environmental Protection Agency	4
Roderick, Bill A., Acting Inspector General, U.S. Environmental Protection Agency	4
Stephenson, John B., Director, National Resources and Environment, U.S. Government Accountability Office	4
Welsh, Donald S., Administrator, Region III, U.S. Environmental Protection Agency	4

PREPARED STATEMENTS SUBMITTED BY MEMBERS OF CONGRESS

Carnahan, Hon. Russ, of Missouri	25
Johnson, Hon. Eddie Bernice, of Texas	26
Oberstar, Hon. James L., of Minnesota	41

PREPARED STATEMENTS SUBMITTED BY WITNESSES

Luna, Hon. Luis A.	31
Roderick, Bill A.	45
Stephenson, John B.	53
Welsh, Donald S.	31

THE ENVIRONMENTAL PROTECTION AGENCY'S GRANTS MANAGEMENT 2003-2006: PROGRESS AND CHALLENGE

Thursday, May 18, 2006

HOUSE OF REPRESENTATIVES, COMMITTEE ON TRANSPORTATION AND INFRASTRUCTURE, SUBCOMMITTEE ON WATER RESOURCES AND ENVIRONMENT, WASHINGTON, D.C.

The subcommittee met, pursuant to call, at 10:02 a.m., in Room 2167, Rayburn House Office Building, Hon. John J. Duncan, Jr. [Chairman of the committee] presiding.

Mr. DUNCAN. I am going to go ahead and call this hearing to order. I understand that Ranking Member Eddie Bernice Johnson is on her way.

I want to first welcome everyone to our fourth hearing on EPA grants management. Today, we are reviewing where the EPA stands since this series of hearings began three years ago. There was a history of troubling, sometimes even scandalous, EPA grants that runs well back into the early 1990s. There had been an ongoing cycle of poor performance, new critiques, promised reforms, and, unfortunately, repeated poor performance.

It has been this Subcommittee's goal to ensure that improvements take place and become a permanent way of doing business at the EPA. Areas in need of reform included, first of all, greater competition in awarding grants; then other things such as a serious follow-through in managing grants to ensure that grantees actually spent grant dollars for the intended purposes. There had been some instances where that had not been done.

Also, proper documentation of grant performance to make sure that future awards were based on reality and not just promises; and ensuring that EPA was awarding grants that were designed to actually improve the environment, and not just buddy-buddy type grants or awardings of money, and even instances where people refused to tell what had actually been accomplished or what the grant was actually spent on.

I am encouraged to see that significant progress has been made on a number of these initiatives. The EPA Office of Administration and Resources Management has worked nonstop developing new policies and guidelines, upgrading information technology programs, and providing agency-wide training. Some of the EPA regions have embraced these changes; they realize that grants issued pursuant to the new guidelines will make sure that American taxpayers get a better value for the dollars spent. Many can also see

how important it is for actual environmental enhancement to become a consistent foundation of EPA grants.

The bad news is that some within the EPA still resist changing their earlier practices, which requires less oversight and favored a select group of grantees. The reports before us today from the Government Accountability Office and the EPA Inspector General show there is still work to be done before the reforms are fully implemented on the ground. Fundamental lapses that still exist within the system include a failure by managers and supervisors at EPA to make grant management a regular part of an employee's annual performance review. Holding employees accountable for doing their jobs properly is a key to the success of this program.

We understand that EPA has a new electronic system for project officers to track their grants. It structures their awards and reviews of grants to improve the quality of their management. Unfortunately, the system is not being used by EPA managers to keep track of the number of grants that are not awarded or managed according to the new guidelines. The EPA Office of Administration and Resources Management has also developed new training materials and procedures to make sure the project officers are aware of how they are to carry out the grants. There are even requirements to participate in the training. However, GAO found that, in at least one case they reviewed, only about 25 out of 200 project managers in Region I attended a 90-minute course, even though it was offered three times.

For today's hearing we have asked GAO and the EPA Inspector General to present the results of their studies and for the two EPA administrators to discuss how far we have come and what must still be done to make EPA grants efficient and environmentally effective. I hope our witnesses will bring forward ideas on how we can change the grant culture within EPA and ensure effective implementation of the reforms.

My objective in holding these hearings is to make sure that American taxpayers are getting their money's worth in the EPA grants program. At the same time, grants should be designed to produce an environmental benefit.

Let me now turn to my good friend, the Ranking Member, Ms. Johnson, for any opening statement she would like to make.

Ms. JOHNSON. Thank you very much, Mr. Chairman. This is our fourth hearing in an important series that addresses the deficiencies and proposed improvements in grants management at the Environmental Protection Agency over the last three years. Today we will have the opportunity to review the successes EPA has had in achieving its goal through grant program reforms. We will also hear about challenges EPA still faces with regard to project officer accountability.

For more than a decade, EPA's Inspector General and Government Accountability Office have catalogued EPA's specific deficiencies in the area of grants management. EPA has repeatedly acknowledged these problems and its need to take corrective action by developing and implementing an effective grants management plan. However, some challenge remain. The EPA needs improvement in the areas of consistently funding grants that result in

measurable environmental benefits and in project officer accountability for poor grants management.

The EPA is our Nation's primary protector of the environment and natural resources. It is our duty to ensure that the funds we spend to protect our environment produces the outcomes and benefits that we expect. Has the Nation's water quality improved? Is the air we breathe safe? It is imperative that we continue to provide ongoing oversight to ensure that effective and efficient management of grants produce positive outcomes.

We acknowledge that it is a real challenge to achieve and measure environmental results for grants funding. It is often simpler to measure grants activities than to measure the environmental results of those activities, which may occur years after the grant was completed. Also, the EPA continues to struggle with project officer accountability. Grant specialists and project officers do not consistently document whether the grantee filing is fulfilling the terms and conditions of its grant.

Although EPA has made significant progress with the longstanding issue of grant closeouts, the lack of consistent documentation during the grant agreements make closing out in a timely manner even more difficult. Good record-keeping helps to ensure that we are getting the environmental benefit from the grant and helps determine whether a grantee should receive EPA grants in the future.

EPA is still not holding staff accountable for poor grant documentation or supervision. Although EPA has begun to establish accountability procedures, it still lacks a front-line personnel review process to measure grants management activity. Generally, EPA management does not measure project officer performance, nor routinely provide performance results of these activities to project officers.

I look forward to hearing the recommendations on how EPA can continue to move forward to correct these systemic weaknesses. We do not want the EPA to fall into an old familiar pattern: good intentions with no follow-through. We know that no policy will be successful without consistent and effective agency-wide implementation, which will require extensive training of agency personnel and a massive education campaign to reach thousands of grantees. I welcome the witnesses here today and I look forward to their testimony.

I yield back.

Mr. DUNCAN. Well, thank you very much, Ms. Johnson.

We have a very distinguished group of witnesses here today. This panel will consist of Mr. John B. Stephenson, who has been with us before, from the GAO, the U.S. Government Accountability Office, and he is the Director of the National Resources and Environment Section. We have from the U.S. Environmental Protection Agency three witnesses: Mr. Bill A. Roderick, who is the Acting Inspector General; the Honorable Luis A. Luna, who is Assistant Administrator for the Office of Administration and Resources Management; and Mr. Donald S. Welsh, who is the Administrator of Region III in Philadelphia, Pennsylvania.

We are very pleased and honored to have each of you here with us. We do proceed in the order in which the witnesses are listed

in the call of the hearing. That means, Mr. Stephenson, we will go with you first. We ask that all witnesses try to keep their opening testimony to five minutes. We give you six minutes because we know that is difficult to do, but once you see me start to wave this in consideration of other witnesses, that means stop. Your full statements will be placed in the record.

So, Mr. Stephenson, you may begin your testimony.

TESTIMONY OF JOHN B. STEPHENSON, DIRECTOR, NATIONAL RESOURCES AND ENVIRONMENT, U.S. GOVERNMENT ACCOUNTABILITY OFFICE; BILL A. RODERICK, ACTING INSPECTOR GENERAL, U.S. ENVIRONMENTAL PROTECTION AGENCY; HONORABLE LUIS A. LUNA, ASSISTANT ADMINISTRATOR FOR THE OFFICE OF ADMINISTRATION AND RESOURCES MANAGEMENT, U.S. ENVIRONMENTAL PROTECTION AGENCY; AND DONALD S. WELSH, ADMINISTRATOR, REGION III, U.S. ENVIRONMENTAL PROTECTION AGENCY

Mr. STEPHENSON. Thank you very much, Mr. Chairman and Ms. Johnson. Thank you for inviting GAO to testify today. My testimony today is based on the report that we issued to this Subcommittee, which we are releasing today, and there are copies out on the front table.

EPA annually administers grants valued at nearly $4 billion dollars, we all know, to over 4,000 grant recipients, so it is no understatement to say that EPA's success in accomplishing its mission depends to a large extent on how well it manages these grants. EPA has 119 grant specialists within its Office of Grants and Debarment who are largely responsible for setting grant policy and for administrative and financial grant functions.

But it also has over 2,000 project offices within its program offices, both in headquarters and the regions, that are responsible for monitoring progress and evaluating the results of these grants. While grants management is not their primary responsible, they are absolutely essential for ensuring that EPA's grant policies and procedures are effectively implemented.

In preparing our report, we conducted work at EPA headquarters, but more importantly at EPA's regional offices, where most of the grants are managed. We reviewed EPA's progress in implementing grant management reforms by, among other things, examining grant files. We looked in three of the EPA's ten regional offices: Region I (Boston), Region V (Chicago), and Region IX (San Francisco).

In summary, we believe that EPA has made important strides in achieving the grant reforms laid out in its 2003 Grants Management Plan, but weaknesses in implementation and accountability continue to hamper effective grants management in four areas: awarding grants; monitoring grants, including grants closeout; obtaining results from grants; and managing grant staff and resources.

Our in-depth review of grant files within the regional offices showed that grant specialists and project officers do not always document ongoing monitoring, nor do they always document corrective actions. In fact, corrective actions were recorded for only 55 percent of the 269 problems identified through EPA's own adminis-

trative and programmatic reviews. This lack of documentation not only raises questions about the adequacy of EPA's oversight and controls, but it hinders EPA's ability to collect important data that could be used in the future to better manage grants.

To address these problems, Region I and IX implemented a checklist to improve monitoring. However, of the 40 specific grant files we reviewed, more than half of the checklists were either missing, blank, or incomplete. Similarly, in Region V, which did not use a checklist, none of the 6 grant files we reviewed contained sufficient documentation to determine whether the required annual contact with the grantee had even occurred.

EPA also has problems in closing out grants. As a result, EPA is not ensuring that the grant recipient has met all financial requirements and provided final technical reports as required. Also, delays in closing out grants can unnecessarily tie up obligated, but unexpended, funds that could be used for other purposes.

A decade ago, EPA had amassed a backlog of over 18,000 completed grants that had not been closed out properly over the past two decades. It deserves a lot of credit for working down this backlog. However, it is still only closing out only 37 percent of its grants within its 180-day standard.

Adding to the agency's closeout problems, 8 of the 34 closed grants we reviewed in the regions were not closed out properly. For example, in Region I and V, required financial status reports were missing, and in Region IX lobbying and litigation forms, whose purpose is to ensure that Federal dollars are not spent for lobbying and litigation activities, were missing from the grant files. In addition, EPA has not fully implemented its new policy requiring that grant work plans specify well defined environmental results and, thus, cannot ensure that grantees will be held accountable for achieving them.

So, while we compliment EPA for establishing a good framework of policies and procedures, it now needs to ensure that its supervisors, and project officers in particular, are adhering to them. Project officers, as you mentioned, complained that training is not sufficient to keep pace with the issuance of new grant policy. Yet, as you observed, we think the fact that only 25 of Region I's 200 project officers attended a 90-minute training course is indicative of kind of the cultural problems there. This was not a mandatory course, it was offered as a voluntary course, so something needs to be more done in that area.

EPA may have the best grant policies and procedures in the Federal Government, but until project officers and their supervisors see grants management as a priority, continued improvement will be challenging for EPA.

Mr. Chairman, this concludes my prepared statement. I would be happy to take questions at the right time.

Mr. DUNCAN. Well, thank you very much, Mr. Stephenson, and thank you for your work on this topic.

Mr. Roderick.

Mr. RODERICK. Good morning, Mr. Chairman and members of the Subcommittee. I am Bill Roderick, Acting Inspector General of EPA. I am pleased to be here today to discuss the work that the Office of the Inspector General has done to help EPA identify and

correct deficiencies in the management of its grant programs. I have been asked specifically to discuss the issues of accountability within EPA's grants management process.

In response to a request from Chairman Young, we reviewed whether EPA held supervisors and their project officers accountable for grants management. We found that EPA had made progress in establishing accountability. For example, EPA has issued policy statements that detail grants management responsibilities for project officers and established the role of the senior resource officials as EPA's primary points of accountability.

EPA still needs a process to measure grants management activities. Project officers are responsible for performing about 140 grants management tasks; however, EPA has no methodology to measure whether the project officer performs these tasks effectively. Effective project officer performance increases the likelihood that the grant will be successful.

We also found that supervisors generally did not discuss project officer responsibilities during year-end evaluations. If grant issues were addressed, the discussion focused on grant recipients' performance rather than on specific project officer tasks. Out of 26 project officers we interviewed, only 5 said their supervisor had a discussion with them about their project officer responsibilities during their year-end evaluation.

Supervisors provided various reasons for rating project officers as successful without discussing grants management responsibilities. For example, supervisors stated that the year-end evaluation should focus on problems or issues with grantee performance or that project officer responsibility should be discussed at staff meetings or at other times during the year. Other supervisors stated the focus of the performance evaluation should be on EPA program accomplishments and not on project officer duties.

Finally, we found that managers did not discuss grants management during supervisors' year-end evaluations, nor did they effectively communicate grants management weaknesses to supervisors when identified. In turn, supervisors who were not aware of the identified weaknesses could not instruct their project officers to correct them. Examples of some identified weaknesses include grants without documentation that cost reviews, baseline monitoring, or technical reviews had been conducted. These weaknesses were identified through management reviews conducted by the Grants Administration Division or self-assessments conducted by program or regional offices.

We made three recommendations to help EPA fully establish a system of accountability for grants management. Number one, establish a process to measure project officer, supervisor, and manager performance against grants management requirements; number two, ensure managers and supervisors review and discuss grants management during performance evaluations; and, last, ensure that weaknesses identified in the management review or self-assessment are communicated to the appropriate project officer and supervisor.

EPA agreed with our recommendations. This past January, EPA provided us a detailed 12-step action plan to carry out our recommendations. This plan includes taking steps to ensure that

EPA's performance rating system addresses grants management responsibilities, among others. We believe this action plan, when fully implemented, will adequately address our recommendations.

For the last few years, the OIG has looked at other grants management issues beyond accountability. We have evaluated EPA's progress in opening more discretionary grants to competition and promoting competition at the maximum extent possible. We found that EPA's competition order was a positive step in promoting competition and can be improved in competition to the maximum extent possible. We have also reviewed whether EPA adequately measures the environmental results of its grants to ensure that they are having a positive impact on human health and the environment. We found that EPA can do more to measure results and outcomes to determine whether grants are meeting their intended purposes.

Mr. Chairman, in conclusion, the EPA has made progress overall in improving grants management during the last few years. There is clearly a commitment from EPA's leadership to address the problems and weaknesses identified by us, GAO, and this Subcommittee. More can and should be done to improve grant accountability, increase grant competition, and measure environmental results. Given the billions of dollars EPA awards every year, we will continue to monitor EPA's progress to ensure that it builds on the improvements made in managing its grants.

This concludes my prepared remarks. I would gladly answer any questions the Subcommittee may have.

Mr. DUNCAN. Well, thank you very much, Mr. Roderick. And as you said, I think because of the amount of money involved and the number of grants we are talking about, you need to try to stay on top of this as much as you possibly can. I think it is very, very important.

Mr. Luna.

Mr. LUNA. Thank you, Mr. Chairman. Thank you for the opportunity to appear before ths Subcommittee to review EPA grants management, both the progress we have made and the challenges that remain for us.

With me today is not only Don Welsh, who is EPA's Region III Administrator, but also a number of the agency's top grants officials. We are paying very close attention to this issue.

This Committee, the Government Accountability Office, and EPA's Office of Inspector General, as you have already heard, have raised legitimate concerns about the agency's grants management practices. I am here today to assure you we have heard those concerns, we are acting on them, and we are responding to the issues that they have raised.

I will be brief because I do want to get to your questions, but let me quickly review some of the work EPA has done thus far and then address the issues that remain.

I want to begin at the appropriate place and point you back to the work that was done by two outstanding EPA career employees: David O'Connor and Howard Corcoran. Dave O'Connor was the agency's Deputy Assistant Administrator for Administration and Resources Management and, therefore, the number two in the office that I now occupy. And before my confirmation as Assistant

Administrator, he was the acting head of that office. Earlier this month Dave retired, after 31 years of distinguished Federal service.

Howard Corcoran, who is right behind me, was and is the head of EPA's Office of Grants and Debarment, and he responds to me.

Together, these two gentlemen were the ones who conceived of and developed a long-term grants management plan. This was in response to the challenges the agency faced with the grants management issues we have been talking about this morning. This plan established the roadmap for our grants management reforms. I think the plan has put the agency on course to yield sustainable long-term results, as opposed to just quick hits.

When I was confirmed, I promised to give the plan a fresh look. I have done so now and I am confident that the plan will indeed accomplish what it was intended to do.

We are now halfway through the implementation of that plan, and as you already have noted, Mr. Chairman, we have made important strides. As Congresswoman Johnson has pointed out correctly, we need to go beyond good intentions and get to accountability. I think we are getting there. These include better grants management training, full automation of the grants process, and policies to focus on both oversight and on outcomes. We have created a system of internal reviews, which have been cited in the GAO's own report, to help us detect grants management weaknesses earlier. And with your permission, I would like to supply for the record a chart that contains a list of what we have accomplished thus far.

Mr. DUNCAN. That will be fine.

Mr. LUNA. Thank you.

And, yet, with all we have done, we also recognize we have much more to do. The GAO, EPA's own Inspector General, and this Committee have made clear that significant challenges remain. Their concern, and yours, include accountability, environmental results, and external peer reviews. And I assure you I share those concerns and take them very seriously.

We still lack effective processes to measure most grants management activities. Our staff's year-end evaluations do not generally include discussions of grants management responsibilities. We have continuing problems in documenting ongoing monitoring and in closing out grants. To address these issues, we have set up a number of mechanisms.

One I will point you to is a new employee evaluation tool that we set up this past year. We are requiring managers to discuss with employees four key areas: competition, environmental results, post-award monitoring, and pre-award reviews of nonprofit organizations. We have also provided guidance to program officers on how to assess compliance with these new policies. Next year we expect to have in place performance measurements to assess the grants management performance of project officers, supervisors, and managers. These will be incorporated into their 2007 performance agreements.

Firmly believing in the power of the carrot as well as the stick, we are also going to explore new recognition and incentive programs for project officers and supervisors to encourage excellence in grants management.

We think these steps, along with the changes the GAO recommends to our monitoring and closeout procedures, will help strengthen our internal controls.

Now to the area of environmental results. GAO and the OIG point out the need for grant work plans with measurable outcomes and results. They are right. Virtually all of our grant work plans have qualitative outcomes, but less than a fifth have quantitative outcomes. We are, therefore, training our project officers how to better define measures and evaluate the grantee's performance.

In addition, we are going to be implementing GAO's recommendation to develop new environmental performance measures under the grants management plan. We are developing a standardized template for grant agreements with States, particularly for State continuing environmental program grants and performance partnership grants. This is a new template that will link to EPA's strategic plan and link to long-term and annual goals, and include regular performance reporting. It will help us compare States' past performance and their future plans so we can see progress much more readily.

This Committee has stressed the importance of external peer reviews to improve grants competition. I agree. The agency's grants competition advocate, Bruce Binder, also here with us today, has come up with a way that I think will help. It will use external peer reviewers to evaluate funding announcements before they go public to see whether the proposed announcements have merit.

I think this preemptive, proactive approach can weed out bad grant ideas early on, without creating costly and time-consuming system that tries to chase the horse after it is out of the barn. We will be presenting this idea this month to the agency's Grants Management Council. After that panel's review and concurrence, I hope to have the new external peer review procedures in place next year.

While EPA headquarters is responsible for developing the policies needed for effective grants management, the agency's regional offices play a critical role in the implementation of those reforms. You will hear about those momentarily. The latest GAO report underscores the need for regions to make significant improvements in grants oversight, accountability, and closeout. We are working closely with our regional administrators to do that. Our regional administrators know what they have to do to hold their staffs accountable, and I think they are working to do so.

In summary, I believe EPA's grants management plan is for real. We put in place a comprehensive system to address our grants management weaknesses. We have adjusted it in response to the recommendations from GAO, the OIG, and this Committee. I hope the results are beginning to show. Much remains to be done, though, to create a culture of grants management that produces transparency, accountability, and results. We are committed to making that cultural shift. My goal is for EPA to become a best practices agency, a role model, for grants management.

I will be happy to respond to your questions.

Mr. DUNCAN. Well, thank you very much, Administrator Luna.

Mr. Welsh.

Mr. WELSH. Mr. Chairman and members of the Subcommittee, my name is Don Welsh. I am the Regional Administrator for EPA's

Region III, the Mid-Atlantic Region. Thank you for the opportunity to be here today.

I previously had the opportunity to speak before you, in October 2003, on the same question, grants management in EPA. At that time I appeared as the EPA Regional Administrator having lead region responsibility for management, which included grants. And I know I can speak for all of the other regional administrators when I say that we take our grants management responsibilities very seriously, and we implement the policies developed by our headquarters offices, led by Mr. Luna.

With our headquarters, we have taken to heart the recommendations of the Government Accountability Office and the EPA Inspector General. Of the $4 billion awarded last year, fiscal year 2005, the EPA regions awarded over 90 percent of those funds. In our region alone, we awarded over $320 million.

Since I last appeared before you, there have been marked improvements in the way EPA regions manage grants. Financial assistance programs are vital to EPA; they are a key component for protecting human health and the environment through partnership with our States, municipalities, and not-for-profit organizations. In our region, we now have a comprehensive grants management plan in place. Our program offices have 100 percent compliance with the new grants competition policy which went into effect in January of 2005, and we are orienting project work plans to environmental results, and we are placing increased emphasis on ensuring grantee organizations have the financial and administrative capability to manage their grants.

However, I do want to acknowledge that there are still challenges. We have to build on what we have put in place and perform our work more efficiently and effectively. I think the RAs, my peers, will need to continue to reinforce to our managers and our staff that we are serious about meeting the requirements and that we will hold them accountable to the new practices that we are putting in place. And we need to work with grantee organizations to improve upon defining meaningful and measurable environmental results.

I want to assure you that all levels of our organization, from our senior executives to our grant specialists and project officers, understand the necessity for sound grants management and our obligation to the public and Congress to ensure taxpayers' dollars are spent wisely.

Thank you, and I would be happy to answer your questions.

Mr. DUNCAN. Well, thank you very much, Mr. Welsh. As two or three of you have mentioned, this subject involves, in fiscal 2005, $4 billion in spending. It was 6728 grants offered through 93 different programs. And I mentioned in my opening statement this was the fourth hearing that we have held on this in the last three years.

What started this series of hearings, and what caused the staff to start investigating this several months before our first hearing, were some newspaper articles and news reports that reported of ridiculous grants being awarded, grants being awarded where there were no final reports, where people couldn't find out what the grant had accomplished, a couple of instances where grantees re-

fused to tell the media what their grant was for or what work they had done. And it appeared in some of these news reports and articles that in some ways some of these grants were becoming part of a Federal gravy train and being given out to buddies or friends or cohorts or former colleagues just as a way to give people some extra money.

Now, it does appear from the testimony that each of you has given that a lot of progress has been made. As I mentioned, though, in my opening statement, the GAO found that in at least one case only about 25 out of 200 project managers in Region I attended a 90 minute course on grants management, even though it was offered three times. If those types of things are still going on, then some people are not taking this nearly as seriously as they should.

And if we think everything is okay after this hearing because progress has been made, for which people should be commended, if we don't stay on top of it, then what is going to happen a year or two or three years from now, you are going to start reading these newspaper reports again or these new reports again about some of these ridiculous or scandalous type things.

But having said that, before I get into any questions, I am going to go first to Dr. Boozman and let him make any comments or ask any questions that he might have.

Mr. BOOZMAN. Thank you, Mr. Chairman. And I do appreciate the fact that you are holding this very, very important hearing.

The GAO has recommended that project officers document their grant activities in EPA's grants management database so managers can monitor their performance nationwide from EPA headquarters. What reaction have you gotten from the agency on this and how will you follow up on this recommendation, if implemented?

Mr. STEPHENSON. We got very good responses. As you heard from Mr. Luna, you know, they have taken all our recommendations very seriously and are in the process of implementing them. The structure is in place at EPA for good grants management. Now we have to work on the details of implementation. The regions are taking this more seriously, but we are trying to recommend things that will provide greater documentation, greater evidence that they are indeed performing their tasks as we would expect them to.

I think you have good commitment at top management both in headquarters and the regions. I still think there is some work to do with the project officers level. There are so many project officers that are so critical to overseeing grants that we have to do things in their performance ratings and so forth to make sure that they are doing that part of their job, albeit it is not their primary job.

So things like the little training course that we keep mentioning should be mandatory, they shouldn't be voluntarily. I mean, this is a serious part of a project officer's responsibility. So we follow up, generally, all of our recommendations and reports. We don't have any planned ongoing grants work, per se, in this area, but we certainly will try to keep on top of this situation as we proceed.

Mr. BOOZMAN. Have you ever had to discipline any of the officers for some of the things that have been very inappropriate? Has anybody gotten into any trouble or demoted for messing up?

Mr. WELSH. We don't have a specific instance.

Mr. BOOZMAN. Fired?

Mr. WELSH. I don't have a specific instance of anyone in Region III that was fired for failing to carry out the responsibilities of a grants manager. We do pay very close attention to it and we do make certain that the managers are living up to their responsibility to hold the people who report to them to the requirements that are part of our system for managing the grants. So it is certainly taken into consideration in performance reviews and it is part of the overall picture of rating someone's performance, but I don't have an instance of an individual that was removed for any of those reasons.

Mr. BOOZMAN. Okay. I am curious, though. Perhaps you can, at some point, provide the Committee with instances where people were, in any shape or form or fashion, disciplined for not following the protocol. And then, too, I would be curious to know if these were people that actually participated in the training seminars later on. I mean, discipline and training is just basic stuff, and I think that is really what the Committee is about--just following just basic good business practices that all of us would follow in private business.

Mr. LUNA. Congressman?

Mr. BOOZMAN. Yes.

Mr. LUNA. If I might address that. There are two issues that you are touching on. One is the fact that our performance appraisals for our employees needs to be detailed and robust enough, with the conversation, the dialog, and the expectations laid out clearly enough, that our employees know what is expected of them. That had been lacking until we instituted, this past year, a new performance appraisal system.

That system is designed to differentiate between the performance among our employees to a greater degree than the agency had been doing before. I referenced that very quickly in my testimony so as not to get bogged down. But the idea here is to create accountability and then to have consequences, and those consequences are: not getting as high a rating; not getting paid as much; not having the rewards, the recognition, et cetera; and, ultimately, if people are not doing their job well, then transfer or removal.

But there is a second issue here, and both Mr. Stephenson and Mr. Roderick have touched on it in their testimony. We have, according to Mr. Roderick's testimony, 2383 active project officers managing grants. A lot of them are doing it as a collateral duty. Most manage five or fewer grants; 29 percent manage only one. About one-third of the project officers spend less than 10 percent of their time on project officer responsibilities.

We can certainly make sure that the floggings continue until morale improves. At some point though, we need to understand that some of these project officers are not doing enough of this work to justify their focusing all the attention they should on it. That is one of the challenges we have as an agency. We need to balance whether we should have as many project officers versus a centralized operation, whether to have people in the field who are actually closer to the grantees and closer to the problems and understand what the needs are. We need to consider the balance between a head-

quarters-centric approach and a regional office approach. Those are the challenges that we have as managers trying to make this system work.

So, yes, we could fire somebody and we could do the public flogging. At the end of the day, however, I think this path of training, reinforcing, holding people accountable, giving them reasons to do this job well because it will improve environmental protection--which is the reason why they are in Federal Government to begin with--is going to bring us closer to a sustainable result, and that is what we all want.

Mr. BOOZMAN. Good. Thank you very much. And don't misunderstand. You know, the experiences I have had with the agency have been very positive. I think the vast majority of you do an excellent job, and I know that you and your staffs are working really hard to solve these problems, but they are problems that we have got to get solved. So thank you.

Mr. DUNCAN. Well, thank you very much, Dr. Boozman.

And Dr. Boozman is right, the key here—I mean, in these other hearings we have held, I don't think anybody has ever contended that some of these abuses that we have talked about had not occurred in the past. But the key to improving these types of things is accountability. And I think that things have improved because they know that the GAO and the Inspector General and the media and, to some extent, this Subcommittee have been trying to look over their shoulder to see where these grants are going and what they are accomplishing. And, unfortunately, we hadn't been doing enough of that, I guess, in years past, but I think maybe it has helped some now.

Mr. Salazar.

Mr. SALAZAR. Thank you, Mr. Chairman.

This question is for Mr. Luna. I know that you mentioned in your testimony that EPA was planning for a fully automated system for your grants process. Could you expound on that a little bit and could you also tell me how transparent that will be for review as far as anything that we might see that may not be up to par?

Mr. LUNA. One of the things that I wanted to do from the moment I started in this job was to make sure all of the grants were transparent, that the accountability be not only an internal one, but also an external one; that people could see what we were doing, what grants were being issued, to whom, in what amounts, what the expected outcomes were, and whether the outcomes were indeed going to be achieved. We have made significant strides in doing that.

The whole Federal Government is in the process of doing a number of E-Gov initiatives to create ready access for the public on how to apply for grants and then how to track what happens with those grants. This is a piece of that initiative. Internally, we are trying to make sure everything is as automated as possible. Our internal grants management system and our face to the public are both things that allow managers to quickly, on their desktop, see information that they can use to manage grants. Our systems also allow members of the public, members of this Committee, the media, anybody, to access the information we have so we are not hiding anything.

That transparency, that magnifying glass helps keep us focused on the outcome we seek, which is to make the grants process clear, so everybody understands what we are trying to achieve.

If you want additional information on the mechanics of how that system works, I will be happy to submit something for the record.

Mr. SALAZAR. I would certainly appreciate that, sir, if you could submit whatever information you have on that.

Mr. LUNA. Sure.

Mr. SALAZAR. Mr. Chairman, I yield back.

Mr. DUNCAN. All right, thank you very much.

Dr. Boustany.

Mr. BOUSTANY. Thank you, Mr. Chairman. First of all, let me just say thank you to the EPA for the hard work that you did down in Louisiana, my home State, in the aftermath of both hurricanes. I appreciate the work.

Mr. Stephenson, I have a question. In your report you found that the EPA staff complained on one side that they didn't have enough training in the area of new grants policies; at the same time, many project officers did not show up when the training was provided. Can you talk a little bit about that dichotomy?

Mr. STEPHENSON. Well, we did some detail—it was just an observation. We were there to look specifically into grant files and look at the documentation in those files and see if in fact the policies and procedures that were set forth at the headquarters were indeed followed, and it was sort of an aside. In Region I we noticed that the training was voluntarily, admittedly.

I don't know the specifics of why the attendance was so poor, but in fact it was offered three times. And it seems to me that while it is an ancillary duty for a project officer, it is nonetheless very important and probably needs to be made more mandatory. If you are going to be a project officer over even one grant, you need to have the training so you understand the policies and procedures, why they are important, and how they are supposed to work.

Mr. BOUSTANY. Thank you.

Mr. Roderick, what is your view of that inconsistency?

Mr. RODERICK. Sir, I wasn't aware of it until now, and I am certainly not aware of—sir, I wasn't aware of the details of that, since I did not work on that job with him, and I can't really say much more than that about it.

Mr. BOUSTANY. Okay. Kind of a general question. What progress is the EPA making in developing a system that will produce measurable environmental results from grant awards? I think this probably relates to the closeout issue, as well, but I would love to hear your comment on this.

Mr. RODERICK. Sir, the EPA set up a 12-point plan with a schedule and they began to achieve that, and they are on schedule, as far as we know, right now. As they get closer to the end, we will probably do some more audit work to ensure that it was carried out as planned. But at this point it looks good to us.

Mr. BOUSTANY. Thank you.

Mr. Welsh, do you have—

Mr. WELSH. Yes. We are really struggling with that issue not only in grants management, but in all of our programs, to try to develop real environmental measures that show us what is happen-

ing outside of our offices when we implement our programs. In some areas we have made significant progress. We do have some useful tools to use with programs like a pollution prevention grant. We can measure the savings in solid waste created or in BTUs that haven't been used. In the clean bus program, for instance, we have metrics that can tell us if you retrofit 10 school buses, what reductions in particulate pollution that brings about.

So in some areas we have been able to institute actual metrics that show what we are getting for the work done. In other areas it is a real challenge to come up with effective measures. For instance, in the grants area, a grant that pays for stream monitoring, that monitoring is information that is very useful, it is going to help us implement our programs more effectively and we think it will lead to better environmental outcomes. But the direct environmental benefit from a stream monitoring program is difficult to come up with measures for.

In Region III we actually reorganized to put together a division whose primary responsibility is coming up with the new tools we need using things like GIS and new databases that are available that weren't available when the agency was first created to try to find ways of making better measures not only of what is happening in the environment, but what impact our programs are having on that.

And it is frequently a difficult challenge to come up with a measure that is really meaningful and that is meaningful in the kind of time that is useful to a manager. You can occasionally show that there has been an environmental benefit from a program over a 15-year cycle, but that is not really enough information for us to be able to say whether a particular manager and a particular program is doing a good job that year.

So we are wrestling with that issue. I think we are—I started at the agency in the early 1980s, so I can say that we have made significant progress over that time. But there really is—that is one of the tough challenges that we are facing, in coming up with the kind of metrics that are meaningful in the environment that will help our managers decide when a grant has been effective, when it hasn't, when a regular program has been effective and when it hasn't.

Mr. BOUSTANY. Are you getting outside help in developing those metrics or is it just an internal process

Mr. WELSH. The folks that I have assigned to it are internal, but there are many, many people across the Country who are trying to climb that same tree such as the Environmental Council of the States. They have been looking at those issues. There are many other academics around the Country who have been trying to find those metrics, and I have a shelf in my office full of the literature from various organizations like the National Academy of Public Administration, about how you get better results, many other reports like that. So we are trying to avail ourselves of the knowledge that is out there wider than just at EPA. But I think in all areas this is a growth industry of people trying to find the effective ways of measuring those outcomes.

Mr. BOUSTANY. I thank you, Mr. Chairman. I yield back.

Mr. DUNCAN. Thank you very much, Dr. Boustany,

Ms. SCHWARTZ. Thank you very much, Mr. Chairman, for the opportunity to engage in a couple questions. And just following up on the previous questions,, it seems one of the maybe hard to measure, but to the degree you do studies and that information could and should be useful—just a follow-up—what kind of dissemination of that information, how do you—again, this may not be a project manager's role, but for it to be effective, someone who can then take action on that report needs to have the information, needs to know how to use it, and so does the next person in line in your own shop be able to know that that has been done.

So could you just speak to how do you then take what might be a very interesting study, might be useful in some way, but they are internally the EPA or locally make that useful to the next person who could take that information and really make a difference in what they are doing next?

Mr. WELSH. There probably isn't one magic answer to that. We certainly struggled with it. Having worked in government for a long time, I know that there is occasionally a tendency for even a very well prepared and very useful report to end up gathering dust on that shelf I mentioned in my office. So one of the things that we did in Region III is reorganized to make sure that we had folks whose specific mission was to look at all the data tools that we had available and make sure that we were using them effectively.

So I think it takes reinforcement in individual cases. I don't know of a system that will assure that reports are put to effective use, but I think by giving a senior manager who reports to me the specific job of making sure that we are making the best use of the data that we have available, we can make improvements and try to prevent an expensive and well written report from becoming a doorstop and, instead, being something that we are using to improve the environment.

Ms. SCHWARTZ. Okay. Just a suggestion there, too, is to the degree to which that then ends up going to—I am from Pennsylvania, as Mr. Welsh knows, and there are so many municipalities, there are so many authorities that have a role in this. The questions of local and, of course, county and State. As you also know, some of the environmental issues cross the political lines, so that makes it really very difficult to make sure that even neighboring townships know about it or the county knows about it or the State knows about so that when they take action they have resources to do that.

Obviously, the internet is a great way to post what information is available, but do you do that? Do you actually tell the county all the studies that have been done in the county and the information is now available, just as a simple way to make sure it is used?

Mr. WELSH. I think that is a great suggestion. I don't think we have a system in place to assure that that happens in every case, but we have used some very useful tools to put together what we call story boards, and it is designed to be something that anyone can understand. I don't have a technical degree, so when my own staff has to brief me on some of these things, I need to be able to understand what that data is telling us, and those story boards are something that you can effectively take to someone who is not schooled in the programs or schooled in the science and show them what information we have available. And I will take your sugges-

tion that perhaps we should take that show on the road and offer that to the local Government Advisory Council or to the Association of Counties in the different States and maybe make better use of it that way.

Ms. SCHWARTZ. Which leads me to the question I am prepared to ask, and that is it seems to me—and I think we may have been pushing on this—that you need—and this may be for Mr. Luna as well. We need to make sure—I understand there are checklists of what project managers have to review, what information they have to get. That seems to me extremely important to do. Having said that, there are two potential negative consequences of that, and that is that for project managers spending time on simple administrative checklists that could be done by someone else, particularly if they have the technical expertise; and, secondly, that they fill out the form, they do the whole checklist, but then—to use the expression—they don't see the forest for the trees, so that a project that may be doing all that it is supposed to do but missing the big picture or there is a real problem that is not being addressed that he or she knows but is not on the checklist.

Answer both questions, if you may. To the degree they are spending time on technicalities, the famous bureaucratic technicalities and wasting time that they could be using in a better way; and, secondly, that they are not actually overseeing the broader questions that may come up in terms of a project that is not going well, needs to go in a different direction, but in fact they have checked off every box that they have had to.

Mr. LUNA. Not to minimize your question, but if this were easy to do, it would've been done a long time ago. This question of how to find the balance between doing the bureaucratic piece of the puzzle, the paperwork, and having the strategic overview and perspective is one that is affected by time and resources. There are only so many hours in the day. There are only so many people who can do the work. Training people to simply go through checklists sometimes makes them miss the obvious for that very reason, as you have said.

To piggyback on what Don has already said, the question is one of trying to develop robust, coherent, meaningful performance measurements that really get to the heart of the matter. It's the ″Why are we here?″ ″Why are we doing this?″ We put money out the door. We are great at measuring money, but so what? What is the consequence? What is the outcome? To do this involves a partnership between the agency and the grant recipients. We are not as well versed as somebody in a given community about what their particular needs are. They have a sense of what needs to be done, but in order for us to give them the money and then be comfortable that the money is being spent the way it is intended, we need to have them help us identify what those outcome measurements are, as well as apply the more academic exercises and the more esoteric tools that we have.

It really has to be done by both the agency and the grant recipient. If we simply issue an edict and say, ″Thou shall produce this quantity of water cleanup by giving you this amount of money,″ it misses the point about how difficult it is, it misses the point of how many other inputs there are, and it misses the point of how some-

times outcomes take a long time to produce. And this year's million dollar grant may not produce a result for ten more years.

Ms. SCHWARTZ. I think my time is up, but if I may offer this suggestion. I think some of this—and I think you spoke to some of it before—is that it also has to come from the culture within the agency, and some of that has to do with training and the expectations that are put on project managers, as to how much they can speak up, what kind of interaction they can have, both with the grantee and, of course, with your higher-ups. So I would suggest as part of the training—and I think the suggestion that maybe it needs to be mandatory and not voluntary—has to include the expectations and the culture about what is the intent of the grant, what are you hoping to achieve, and to provide some appropriate permission for there to be some narrative as well as administrative and technical checkoffs.

I think, with that, my time is up.

Mr. WELSH. I would like to offer a particular example,—

Mr. DUNCAN. Go ahead. That is fine.

Mr. WELSH.—if the Chairman will indulge. In the region, on their first question about their paperwork and tying up the person in what becomes administrivia [sic], we are implementing a system of senior project officers so that there is one person whose primary responsibility is to liaison with our grants folks and make sure that all of the people who are project officers in that division are kept up to date on what the rules are and any changes and new policies and guidance so that we don't rely on each individual person to make sure they know what changes are going on. We also will have assistant project officers who can help. Typically, as a new grant program is developed, the technical person who understands that area of water monitoring or whatever it might be will become the project officer, and we really need their brain to be thinking about the technical issue about the program. So we think those two wrinkles will help reduce the sort of paperwork burden, but still get the job done.

On the other question, not in a grants area, but in a program area, we had exactly what you described happen once, that we had the folks who were watching paying so much attention to whether each box was checked and that each step was followed in the process that they missed the fact that it wasn't being effective. And what we did there is we want to put another set of eyes so when someone looks at the list and says is that done, a management set of eyes says, "well, was it effective?"

Ms. SCHWARTZ. Fair enough. Thank you very much.

Mr. DUNCAN. Well, thank you, Ms. Schwartz. And I certainly appreciate the comments and suggestions and the direction Ms. Schwartz headed in. You know, obviously, or one obvious goal of these hearings has been, and one obvious goal of the work of all four of these witnesses has been to keep these grants from becoming jokes or embarrassments or scandals. But I liked Mr. Welsh's comment. Another goal is to make sure that these grants do some good and actually help some people. And, you know, Mr. Welsh's comment hit the nail on the head when he said that we need to make sure that effective, important, well written reports don't just become doorstops. And that is a very good comment.

Ms. Johnson.

Ms. JOHNSON. Thank you, Mr. Chairman.

First, let me ask unanimous consent to have the statement of Democratic Ranking Member Oberstar and my full statement placed in the record.

Mr. DUNCAN. Without objection, so ordered.

Ms. JOHNSON. Thank you.

I want to ask if there was an evaluation of a project done in Region III and one done in Region VI, could you compare apples to apples? Is there enough standardization in the evaluation?

Mr. STEPHENSON. Are you asking each of us?

Ms. JOHNSON. Yes.

Mr. STEPHENSON. Yes. I think the policies, the implementation, checklists, the administrivia [sic], which I hate to all it because it is more important than that, should be pretty uniform from region to region. The type of grants that they are might be very different, but, nevertheless, the oversight responsibilities and the assurances that you are getting good outcomes from those grants should—the process for ensuring that should be fairly uniform. So, yes. We have some statistics in our report across-the-board for closeouts, for example, and there are slight variations from the regions, but in general they are all in the same ballpark.

Ms. JOHNSON. When you underscore the need for regions to make significant improvements, what area the oversight accountability, where you specifically—

Mr. STEPHENSON. Well, again, the culture at the top is just fine. That has to translate down to these 2300-plus project officers who share responsibility for effective grants oversight. It isn't their primary job, as has been said many times. I am sure many of them think it is a nuisance to fill out this documentation. Every bureaucracy—in GAO we have procedures that I think are a nuisance. Nevertheless, that is an important part of their job, and unless you have good data, you can never improve the overall results that you are getting for grants; you can never assure that you are performing that effective oversight. It is not that time-consuming to take a look at a grant one time a year and to check results at the end. The details of whether we have too many project officers or not enough, or whether they need administrative assistance or what are not for me to answer. I just think that it is an important part of their job that needs to continue to be emphasized.

Ms. JOHNSON. One more question to you before I move on. You found that regional officers noted that grant reforms are changing the skill mix required of both project officers and grant specialists. Could you elaborate on that?

Mr. STEPHENSON. Well, a clean water expert is hired because of his expertise in that area, be it monitoring or—I mean, these are basically scientists, so to lay on top of that some grant management responsibility that they think is probably not what they were hired to do makes it a challenge to get them to do the right thing. So, as Mr. Luna said, it is a balancing act, you know, between the overall responsibilities they have on a clean water program, for example, and their responsibilities for making sure that the grants—which I remind you is one-half of the budget, so should be a large percentage of how they spend their time. That is a balancing act.

That is the challenge that we face here, and continued oversight has made a big difference.

Ms. JOHNSON. Thank you.

Do you have any comments?

Mr. RODERICK. No, ma'am.

Ms. JOHNSON. Mr. Luna?

Mr. LUNA. You are, again, touching on the fundamental issues that we need to address as an agency and about the culture of the agency. I think it is possible to be consistent across the agency. We are looking for environmental outcomes. We are looking for improvements in the quality of life for the American people. It might be slightly different in New Mexico than it is in Texas than it is in New Hampshire than it is in Colorado, but the bottom line is still: did we make progress? Did we have a positive change in the environment? And if we didn't, then we have wasted our time and our money. That is the question we want to make sure gets answered, first by the announcements that are put out, then by the responses that come in. The people who apply for grants must understand it. We need to make sure they are prepared to spend that money wisely. We are trying to make sure that our folks understand that they need to hold those grantees accountable, and we need to make sure that our folks then do the paperwork, because without the paperwork the job isn't done.

So, at the end of the day, I think we can indeed compare apples to apples to apples and see if there is a change.

Ms. JOHNSON. Thank you very much.

Thank you, Mr. Chairman.

Mr. DUNCAN. Thank you, Ms. Johnson.

Mr. Stephenson, you indicated that the EPA has improved its—or it is reported that the EPA has improved its competitive award process from 27 percent to 93 percent of eligible grants. The Inspector General said that the number of eligible grants should be expanded. Do you agree with that? And could you more fully, for the record, put this number into context? For instance, what I am getting at, there is a large number of these grants that aren't eligible.

Mr. STEPHENSON. Yes. We didn't look at this issue specifically, but of that 4 billion pot that we keep talking about, many of them go to continuing environmental grants, go to the States under the Clean Water program, the Safe Drinking Water. There are formulas to the States and the States presumably have their risk system for how they award those in terms of grants.

But there is—I think it is down to less than 700 million now in discretionary grants. But even many of those are legislatively mandate, so there is not as much flexibility as there might be across all those discretionary programs. So when you scrub all those out, you are down to about, I think, 250 million—don't hold me to these specific numbers, but they are in the ballpark—that can be competed. So that 97 percent is the amount of that 250 million that is being competed, which is very good. I think the IG has done a little bit more work on whether we can expand that universe of program areas that can be competed without violating any laws or legislative intent, and I think they are working with EPA on that issue now.

So, I mean, we should always be looking to expand that universe of grants that we can compete. I think you will get better outcomes if you do that.

Mr. DUNCAN. How much interaction with the States on this formula money is done by EPA, interaction with the State environmental authorities? Or how much reporting is done back by the States to the EPA on all this formula money that is going to the States? Should there be—is there a lot of interaction and a lot of reporting so that EPA pretty much knows exactly what is happening to all this money, or should there be more done in that area?

Mr. STEPHENSON. I don't know. That is a good subject for review. But of the $1 billion in Clean Water revolving fund grants that go to the States, we don't take issue with the formulas used to distribute that across the States, and each State has a very different philosophy in how it expends that money. The lion's share goes to infrastructure, to wastewater plants; I think it is over 90 percent of the money. And each State has a priority ranking system for which projects receive the money, and they are required to annually report, the EPA regions are required to oversee those grants. But we have never gotten into the details of whether we agree with how those States are doing it, et cetera. We primarily provided some information to the House Appropriations Committee and have an ongoing project to do that now.

Mr. DUNCAN. All right. We have talked about the progress that has been made, but we talked about this closeout backlog before, and you said that that problem is returning to some extent. Can you explain what you are talking about there and why those closeouts, you feel they are important or might be important?

Mr. STEPHENSON. There is a lot of different stories. Every grant is unique, and EPA is still deciding exactly what its target goal for closeouts should be. A hundred and eighty days is kind of an old standard that I believe EPA is looking at now, but we base that percentage on that number of days. There may be good reasons why it takes longer, but, in general, we think that more attention needs to be given to this area to make sure they are being closed out in a timely manner. Some of these things sit there for years, and you may have unobligated balances. We assist the Appropriations Committee every year in looking at those unobligated balances, and last year identified over $100 million in funds that could have been pulled back and used for other purposes.

So we used to have Accounting as our middle name, now it is Accountability. Nevertheless, we still look at the dollars, and we are concerned that all of those dollars across the agency are being efficiently spent. And closing grants and de-obligation of funds is one way to ensure that.

Mr. DUNCAN. You said there is $100 million in backup money that is—

Mr. STEPHENSON. Last year we identified that much in money that was sitting there for—primarily for grants that had completed but had not been closed out, and, therefore, the money was still sitting there until we determined if there was any ongoing litigation, if there was any records that were owed by the grantee, et cetera. There are lots of reasons why they are not closed out. But we just think it becomes excessive when some of these are over a year old.

Mr. DUNCAN. All right, thank you very much.

Mr. Roderick, what key gaps did you find that remained in this grant management reform process? What are project officers not yet doing that they should be doing? What about what are supervisors not yet doing? What about senior management, managers? What can you tell us about all of that?

Mr. RODERICK. Sir, I think the thing that came out of our report, our study was that what was needed was more specific requirements to measure the performance of the grant work, and that had to go into people's appraisals or otherwise be conveyed to them as their duty, and then that stuff should be also discussed at their performance appraisal times. That is the main thing that we think needs to be done in the near term to get people—get those project officers working on the right things.

Mr. DUNCAN. Do you think enough emphasis is being put on grant management reforms in these year-end reviews or year-end performance discussions?

Mr. RODERICK. Sir, our report said that—basically concluded that there was not enough of that emphasis, and that is why we made those suggestions that I just spoke about for their—to improve their performance appraisal process.

Mr. DUNCAN. All right.

Administrator Luna, what challenges have you had to overcome at EPA to shift the culture towards greater accountability in this area? Have you met resistance or has this been something that has been pretty easy to work on?

Mr. LUNA. It has not been easy. It is something that requires diligence. We need to make sure folks understand attention must be paid, and so we spend time and energy making sure that message gets through the entire agency. It is very easy for headquarters to issue edicts, and it is very easy for people who are very busy doing environmental protection to say, okay, yeah, that is another order and we will get to it. What we have tried to do, rather than, again, using the stick approach, is show our employees how important it is to have the accountability and show the results, because then that, in turn, produces the environmental outcomes we all seek. And so it is a culture shift. It is not a matter of lacking people of good will. We have those. It is not a matter of having bad instructions. I think we have good instructions. It is a matter of inculcating this approach into the ethos of the organization and to illustrate and demonstrate how important it is.

I think the Committee's attention has been extremely valuable in helping focus the agency's attention on this issue, and as a taxpayer, I thank you for that. You know Federal agencies are big behemoths that take, like a ship, a long time to turn, I think we have started seeing that turn. The challenge for our folks who are in the grants management business is to help people understand that this is not just a part of somebody's duties, but is really a key part of the Agency, because these dollars buy the American people a lot of environmental protection.

Mr. DUNCAN. Well, you mentioned in your testimony that some managers—a lot of managers manage only one grant and they spend 10 percent—some of them spend only 10 percent or less of

their time on this. Do you think that this is something that people need to spend a little more time on?

Mr. LUNA. Well, if we do that, then we take them away from other duties.

Mr. DUNCAN. Right.

Mr. LUNA. And finding that balance is the key. A radical suggestion has been made that we look at reducing the number of project officers so we have a smaller core of more highly specialized, more highly trained, more proficient individuals doing this work. I am sure some project officers would welcome that because they don't enjoy this being one of their duties. But there are tradeoffs, and our regional administrators will then suffer the consequences of that. We need to have a conversation about how environmental protection would be impacted by having fewer people in the regions, in the field, closest to the issues, touching the grantees and touching the projects. At the end we might find that the medicine is worse than the disease.

Mr. DUNCAN. Well, I can understand the problem there, it does seem like an awful lot of people involved in the management process. You know, I have never been a bureaucrat, but I would imagine that even more bureaucrats hate bureaucratic language or meetings; they have the ability to write or think in that way, maybe, but they still probably don't really like that type of thing that much. So what I wish you could do is send out something or have meetings and tell these people in plain, down-to-earth ways that what we are concerned about is that they not make grants that result in jokes or embarrassments or scandals in the media; secondly, that they make grants that are going to do some good, and that that be one of the main criteria; and, thirdly, that they not make grants that people can turn into obvious conflicts of interest, that they don't make grants to their buddies or their friends or their old pals or their former colleagues. You know, you have got to be careful about sweetheart deals on some of these things. And sometimes maybe it is better to put those things in less technical, less bureaucratic, just put them in more plain, down-to-earth ways.

Mr. Welsh, you testified at our 2003, at our second hearing in that year on these procedures. Do you think there has been some significant changes since that time? What changes have you really seen?

Mr. WELSH. Yes, sir, I believe we have made significant headway on the culture change of making sure that the folks in the region understand that that is their responsibility. You mentioned a moment ago that you have never been a bureaucrat. I have to confess that I have never not been a bureaucrat. And bureaucrats carry a lot of baggage in our culture, but one thing that they certainly are is responsive when the boss says the boss wants something. And I can tell you that the deputy administrator, at a staff meeting, held all of the regional administrators accountable for our grant closeout rate, and that immediately went down the line, and before the meeting was over I think every project officer had heard that that was being raised by the boss with the regional administrators.

So the progress that we have seen and the challenge—when you were asking Luis the question, I wrote down in my notes "full plate." The challenge we really do have is when we reinforce to

folks you have to spend more time paying attention to this, we get the full plate complaint: ″What don't you want me to do if I spend more time on this?″ And one of the ways we can handle that is make sure we build it into the system so it is not really a separate thing to do, but it is just the way you normally do business so it doesn't eat up that much more of their time. But I also try to remind them if you get one of these really wrong, then you will find out how full your plate can be. So the time invested up front in working with the grantees, making sure they understand the requirements, will save a lot of the problems about the grant backlog or a grant that hasn't been closed out for five years because some big problem arose in the middle and there was an appeal and litigation.

So I think with the administrator and the deputy administrator and the regional administrators continuing to raise it at staff meetings, the bureaucracy will be responsive to knowing that the bosses care about this and they will spend the time that they need to make sure they get it right.

Mr. DUNCAN. That is a very good statement.

We have got a series of votes that are about to start on the floor.

Ms. Johnson, any closing comments?

Ms. JOHNSON. Not really.

Mr. DUNCAN. All right. Well, you know, really, I think this has been a very good hearing, and you, all four of you have been really outstanding witnesses, and I appreciate your comments. I understand that the staff on both sides has a few additional questions they would like to submit to place in the record of this hearing, but that will conclude the hearing at this time. Thank you very much.

[Whereupon, at 11:20 a.m., the subcommittee was adjourned.]

OPENING STATEMENT OF
THE HONORABLE RUSS CARNAHAN (MO-03)
COMMITTEE ON TRANSPORTATION AND INFRASTRUCTURE
SUBCOMMITTEE ON WATER RESOURCES AND ENVIRONMENT
U.S. HOUSE OF REPRESENTATIVES

Subcommittee Hearing on
EPA Grants Management 2003-2006: Progress and Challenge

Thursday, May 18, 2006, 10:00am
2167 Rayburn House Office Building

Chairman Duncan and Ranking Member Johnson, I want to thank you for holding this subcommittee hearing today.

Mr. Stephenson, Mr. Roderick, Mr. Luna and Mr. Welsh, thank you for joining us today to discuss the imperative issues of the EPA's discretionary grant management, reform and implementation. It is vital that we address these concerns in order to guarantee not only the efficient use of funds, but also the critical goal of a cleaner environment.

Just this past year, the Diesel Retrofit Project, as part of EPA's Clean Diesel Campaign, funded efforts in St. Louis to retrofit diesel vehicles and equipment with new technology to decrease diesel exhaust in the atmosphere.

These technology advancements are just a small stride in the effort to ensure better air quality, but without the EPA's grant such an endeavor could never have taken place, and without effective administrative action critical funding will not reach the places it is needed most.

Today's discussion highlights the need for reforms in grant programs at the EPA. The daunting responsibility of awarding, managing and implementing such grants is crucial.

I hope for success in future reforms of EPA grant programs and thank you again for your attendance at this hearing.

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STATEMENT OF
THE HONORABLE EDDIE BERNICE JOHNSON
SUBCOMMITTEE ON WATER RESOURCES AND ENVIRONMENT
OVERSIGHT HEARING ON
"EPA GRANTS MANAGEMENT 2003 – 2006: PROGRESS AND CHALLENGE"
MAY 18, 2006

Mr. Chairman, this is our fourth hearing in an important series that addresses deficiencies and proposed improvements in grants management at the Environmental Protection Agency (EPA) over the last three years.

Previously, we covered numerous subjects involving the EPA, beginning with the history and status of EPA grant management programs, where we unearthed deficiencies in both making and overseeing grants, specifically discretionary grants. We received testimony from the EPA on its plans to improve the management of grant programs and testimony on to what extent such plans would adequately address the management problems of the status quo. Lastly, we heard testimony ensuring that all EPA grants produce measurable environmental results.

Today, we will have the opportunity to review the successes EPA has had in achieving its goals through grant program reforms. We will also hear about the challenges EPA still faces with regard to project officer accountability.

For more than a decade, EPA's Inspector General (IG) and the General Accountability (GAO) have catalogued EPA's specific deficiencies in the area of grants management. EPA has repeatedly acknowledged these problems and its need to take corrective action. In response, in 2002, EPA developed and implemented an effective Grants Management Plan. The plan contained five strategic performance goals, along with strategies and performance measures, to build an effective system for grants administration. Although victim to a slow start, the Agency began meeting most of its performance goals in 2003 and 2004.

However, some challenges remain. The EPA needs improvement in the areas of consistently funding grants that result in measurable

environmental benefits and in project officer accountability for poor grants management.

The EPA is our nation's primary protector of the environment and natural resources. It is our duty to ensure that the funds we spend to protect our environment produce the outcomes and benefits that we expect. Has the nation's water quality improved? Is the air we breathe safe? It is imperative that we continue to provide ongoing oversight to ensure that effective and efficient management of grants produce positive outcomes.

We acknowledge that it is a real challenge to achieve and measure environmental results for grants funding. It is often simpler to measure grant activities than to measure the environmental results of those activities, which may occur years after the grant was completed. EPA acknowledges its shortcomings in this area and has initiated actions, including identifying seven criteria grant agreements should meet in order to obtain environmental results from grants, but the Agency's efforts are not yet complete.

Also, the EPA continues to struggle with project officer accountability. Grant specialists and project officers do not consistently document whether the grantee filing is fulfilling the terms and conditions of its grant. Although EPA has made significant progress with the longstanding issue of grant closeouts, the lack of consistent documentation during the grant agreement makes closing out in a timely manner even more difficult. Good record-keeping helps to ensure that we are getting the environmental benefit from the grant and helps determine whether a grantee should receive EPA grants in the future.

EPA is still not holding staff accountable for poor grant documentation or supervision. Although EPA has begun to establish accountability procedures, it still lacks a frontline personnel review process to measure grants management activity. Generally, EPA management does not measure project officer performance nor routinely provide performance results of these activities to project officers. I look

forward to hearing recommendations on how EPA can continue to move forward to correct these systemic weaknesses.

We do not want the EPA to fall into an old familiar pattern – good intentions with no follow-through. Their draft policies move in the right direction, emphasizing environmental results and staff accountability through the entire lifecycle of the grant. However, no policy will be successful without consistent and effective agency-wide implementation, which will require extensive training of agency personnel and a massive education campaign to reach thousands of grantees.

I am very interested in hearing recommendations from the witnesses about how EPA can be more effective agency through comprehensive grants management, measuring environmental outcomes, and holding staff accountable for consistent efficient management of grants. I welcome the witnesses here today and I look forward to their testimony.

JOINT STATEMENT OF
LUIS A. LUNA
ASSISTANT ADMINISTRATOR FOR
ADMINISTRATION AND RESOURCES MANAGEMENT AND
DONALD S. WELSH
REGIONAL ADMINISTRATOR, EPA REGION 3
U.S. ENVIRONMENTAL PROTECTION AGENCY
BEFORE THE SUBCOMMITTEE ON
WATER RESOURCES AND ENVIRONMENT
OF THE
COMMITTEE ON TRANSPORTATION AND INFRASTRUCTURE
U.S. HOUSE OF REPRESENTATIVES

May 18, 2006

Mr. Chairman, thank you for the opportunity to appear before the Committee on Transportation and Infrastructure to address the subject of today's hearing – EPA Grants Management 2003–2006: Progress and Challenges.

EPA must spend its $4 billion annual investment in grants effectively and achieve the desired environmental benefits. This Committee, the Government Accountability Office (GAO) and EPA's Office of the Inspector General (OIG) have raised legitimate concerns about the Agency's grants management practices. We have heard those concerns loud and clear and are responding to them in a thoughtful, systematic way.

MAJOR ACCOMPLISHMENTS

EPA's long-term Grants Management Plan (Plan) establishes the roadmap for our grants management reforms. Conceived of by then Acting Assistant Administrator, David J. O'Connor, and Director of Grants and Debarment, Howard Corcoran, this 5-year

Plan has put the Agency on course to yield sustainable, long-term results. Halfway through the Plan, we have made important strides. These include enhanced programs for grants management training and competition, full automation of the grants process, and the development of policies necessary for strong grants oversight and outcome-oriented grants. We have also instituted a system of internal reviews, cited in GAO reports, that allows for the early detection of grants management weaknesses. We are attaching a chart that contains a list of these accomplishments.

MAJOR CHALLENGES

While we have made progress, GAO, the OIG and this Committee have made clear that significant challenges remain. Particular areas of concern include accountability, environmental results and external peer review.

With regard to accountability, the OIG concluded in a September 27, 2005 report, entitled, ***"EPA Managers Did Not Hold Supervisors and Project Officers Accountable for Grants Management,"*** that the Report's title was indeed true, largely because there was no process to measure most grants management activities. The Report found that end-of-year evaluations generally did not include a discussion of grants management responsibilities, and that in the few cases where grants management weaknesses were identified, managers did not effectively communicate the weaknesses to staff.

GAO has raised similar issues. In its recent report entitled, "***Grants Management: EPA Has Made Progress in Grant Reforms, but Needs to Address Weaknesses in Implementation and Accountability***," GAO identified continuing problems in documenting ongoing monitoring and in closing out grants. The Report noted that these problems may have been caused by a lack of effective supervision.

EPA agrees with these OIG and GAO findings and is redoubling its efforts to promote accountable grants management. One way is by using the Agency's new Performance Appraisal and Recognition System (PARS), a multi-level employee evaluation tool that the Agency set up last year to meet its commitments to better manage our human capital. PARS is designed to improve communication between rating officials and staff, and allows for better differentiation between various levels of employee performance.

For this year, we have required that PARS performance agreements and associated mid-year and end-of-year performance reviews include discussions on four key policy areas: competition, environmental results, post-award monitoring and pre-award reviews of non-profit organizations. We have also provided guidance to program offices on how to assess compliance with these policies.

For next year's PARS process, we have asked a Performance Measures Workgroup to develop final performance measures to assess the grants management performance of project officers, supervisors and managers. These final measures will be incorporated in 2007 performance agreements. Firmly believing in the power of the carrot as well as the stick, we will also have the workgroup explore options for creating new recognition and incentive programs for individual project officers and supervisors to encourage excellence in grants management.

We think the use of PARS, coupled with changes to our monitoring and closeout procedures recommended by GAO, will strengthen our internal controls to help ensure proper documentation of ongoing monitoring and promote timely grant closeouts.

In the area of environmental results, GAO and the OIG have highlighted the need for improvement in developing grant work plans with quantitative outcome measures and in measuring grant results. We agree with this assessment. For example, the Agency recently completed an analysis that found nearly 100% of grant workplans contained well-defined qualitative outcomes, but only 18% had quantitative outcomes. To address this issue, we are providing on-line training to project officers on defining workplan measures and evaluating grantee performance. In addition, we will be implementing GAO's recommendation to develop new environmental results performance measures under the Grants Management Plan.

As a supplement to these efforts, EPA is developing a standardized template for its grant agreements with States, particularly for State Continuing Environmental Program Grants and Performance Partnership Grants. This new template will include clear linkages to EPA's Strategic Plan and long-term and annual goals, as well as consistent requirements for regular performance reporting. When fully implemented, it also will allow for meaningful comparisons between various States' past and planned activities and performance, making progress more visible and programs more transparent.

This Committee has stressed the importance of external peer review in enhancing the grant competition process. EPA agrees with the Committee that external peer review has great value in promoting accountability, transparency and results, and ensuring that taxpayer dollars are used appropriately. To take advantage of external peer review in a cost-effective way, the Agency's Competition Advocate, Bruce Binder, has recommended, and I have asked him to pursue, use of external peer reviewers to evaluate competitive funding announcements before they are made available to the public to

determine whether they will result in meritorious projects. We will be presenting this approach to the Agency's Grants Management Council in May and expect to have new external peer review procedures in place next year.

While EPA Headquarters is responsible for developing the policies needed for effective grants management, the Agency's Regional Offices play a critical role in the implementation of EPA's grants management reforms in the field. The recent GAO report underscores the need for Regions to make significant improvements in grant oversight, accountability and closeout. The Regional Administrator community is committed to meeting the challenge of holding Regional staff involved in grants management -- from senior executives to grant specialists and project officers -- accountable for the wise expenditure of taxpayer funds.

CONCLUSION

Under the Grants Management Plan, EPA has put in place a comprehensive system to address its grants management weakness. We have been careful to make adjustments to the design and implementation of the system to incorporate recommendations from GAO, the OIG and this Committee. GAO and OIG reports show that we have made considerable progress in our grants management reforms. They also demonstrate, however, that much remains to be done in creating a culture of grants management that places a premium on transparency, accountability and results. We are committed to making that cultural shift, which will allow EPA to become a "best practices" Agency for grants management. To achieve that goal and eliminate the grants

management weakness, we will work closely with Congress, GAO, the OIG, and our partners, including States, Tribes, local governments, non-profit organizations and educational institutions.

Thank you for providing us the opportunity to discuss these important issues with you today. We would be happy to respond to any questions you may have.

EPA Grants Management Plan: Issues/Major Accomplishments/Challenges

GRANTS MANAGEMENT PLAN GOAL/CONGRESSIONAL/GAO/OIG ISSUE	MAJOR ACCOMPLISHMENTS/CHALLENGES	DATE ACHIEVED/TARGET DATE
Goal 1: Enhance the Skills of Personnel Involved in Grants Management • Project officers do not effectively carry out EPA Grants Management Policies	Revamped Project Officer Training	March 2003
	Virtually all project officers certified	December 2003
	Issued Long Term Training Plan	September 2004
	Launched On-Line Training for Project Officers	March 2006
	Mandatory managers training	June 2006
Goal 2: Promote Competition in the Award of Grants • EPA awards grants to same recipients over and over • EPA project officers decide who gets grant funds • Public unaware of funding opportunities • Need more independent review of grant announcements	Issued EPA Order 5700.5, "Policy for Competition in Assistance Agreements"	September 2002
	Competed 92% of new grants subject to Competition Policy	September 2005
	Issued Revised Competition Policy, EPA Order 5700.5A1, which addressed many of the Office of Inspector General concerns in a recent audit report.	January 2005
	Revised Catalog of Federal Domestic Assistance	May 2005
	Completed Peer Review Pilot	September 2005
	Peer Review Workgroup Expected to Recommend External Review of Grant Announcements	May 2006

GRANTS MANAGEMENT PLAN GOAL/CONGRESSIONAL/GAO/OIG ISSUE	MAJOR ACCOMPLISHMENTS/CHALLENGES	DATE ACHIEVED/TARGET DATE
Goal 3: Leverage Technology to Improve Performance	Created Grantee Compliance Database to enhance oversight	December 2003
• EPA grant data is not easily accessible to the public	Successfully deployed the Integrated Grants Management System (IGMS)	March 2004 (Regions) September 2006 (HQ)
	Developed an interface to the E-Grants Portal	December 2004
	Developed publicly available Awards Database	February 2005
	Migration to E-Apply for Competitive Grants	October 2005
Goal 4: Strengthen EPA Oversight of Grants		
• EPA oversight of grantees is inadequate	Issued EPA Order 5700.6 on Post Award Monitoring	December 2003
	21% of recipients received advanced monitoring (exceeded 10% target)	December 2004
	Issued EPA Order 5700.8 on Pre-Award Reviews of Non-Profit Applicants	March 2005
	Established policy requiring Assistant /Regional Administrator certification of discretionary grants	April 2005
	Implemented statistical approach for selecting recipients for advanced monitoring	November 2005
	Provided Administrative Grants Management Training to over 500 grant recipients	March 2006
• EPA has not deployed its grants management resources effectively and efficiently	Conducted grants management workload analysis	April 2005

GRANTS MANAGEMENT PLAN GOAL/CONGRESSIONAL/GAO/OIG ISSUE	MAJOR ACCOMPLISHMENTS/CHALLENGES	DATE ACHIEVED/TARGET DATE
• EPA does not hold its staff accountable for effective grants management	Developed project officer workforce plans that require each EPA Office to clearly articulate how their project officer workforce will be deployed and trained.	February 2006
	Established Excellence in Grants Management Program	April 2003
• EPA does not hold its staff accountable for effective grants management (cont.)	Established senior level Grants Management Council	August 2003
	Required AAs/RAs to outline steps they are takings to address the grants management weakness in their FMFIA assurance letters	October 2003
	Required Grants Management Performance Standards	January 2004
	Issued Roles and Responsibilities Policy	October 2004
	Conducted Over 40 internal reviews of EPA Offices to determine compliance with EPA Grant Policies	December 2005
	Required that 2006 reviews under the Agency's Performance Appraisal and Recognition System (PARS) focus on key grants management policies	January 2006
	Required that 2007 PARS agreements and reviews incorporate grants management performance measures	January 2007

GRANTS MANAGEMENT PLAN GOAL/CONGRESSIONAL/GAO/OIG ISSUE	MAJOR ACCOMPLISHMENTS/CHALLENGES	DATE ACHIEVED/TARGET DATE
Goal 5: Support Identifying and Realizing Environmental Outcomes		
• EPA grants do not lead to specific environmental outcomes or results	Issued Interim Policy on grant environmental results	January 2004
	Issued EPA Order 5700.8, "Environmental Results under EPA Assistance Agreements"	November 2004
	On-Line Training on Environmental Results in Grants Provided to Project Officers	May 2006

Democratic Ranking Member, James L. Oberstar
Committee on Transportation and Infrastructure

Subcommittee on Water Resources and Environment, Oversight and Investigations
Oversight Hearing on EPA Grants Management 2003 – 2006: Progress and Challenge

May 18, 2006

Chairman Duncan and Democratic Ranking Member Johnson, thank you for calling this important hearing to address grant making reforms at the Environmental Protection Agency (EPA). In previous hearings the Subcommittee addressed the extent to which EPA's plans and policies adequately address existing grant management problems. This hearing will primarily focus upon reviewing the success EPA has had with achieving grant program reforms and will address the challenges it still has with ensuring that EPA grants produce measurable environmental benefits, and achieve project officer accountability.

EPA relies heavily on grants to carry out its missions of protecting human health and safeguarding the environment. EPA must work diligently to manage, oversee and ensure that these grants achieve their intended

environmental benefits. It is Congress' duty, particularly in this current, tight budget environment, to make sure that agencies efficiently use the limited financial resources that each receive.

Over the past few years, EPA has made a strong commitment to improving grant management. While there has been significant progress, there is still a good deal of work to be done. EPA adopted its first long-term Grant Management Plan, establishing five strategic performance goals to guide the Agency in building an effective system for grant administration and to succeed at meeting most of its performance goals. Also, EPA indicates that it has increased the percentage of competively issued "eligible grants" from about 27 percent in FY2002 to 93 percent on FY2005. Eligible grants constitute about 10 percent of the total grant budget and about 65 percent of all discretionary grants.

Unfortunately, EPA is behind on meeting its commitment in achieving environmental results. EPA has initiated an action plan to obtain measurable

environmental results consistently from its grants but it acknowledges that the efforts are not complete and that it has more work to do in this area.

We must continue to provide oversight of the issue to ensure that EPA continues to go in the right direction. This is not an easy issue to address. It is no small challenge to achieve and measure environmental results from grant funding. It is easier to measure grants activities than the environmental results of those activities, which may occur years after the grant was completed. But EPA can do better.

It appears that EPA is still struggling with the issue of staff accountability for poor grant management. It is clear that EPA has made strides in forming a new policy, follow-up guidance, training and performance appraisals. But it is often difficult for EPA headquarters and the regions to foster a new policy that is at times met with institutional resistance. I look forward to hearing more about EPA's new policy for staff accountability, and hearing recommendations from the EPA Inspector

General and the Government Accountability Office on how EPA can improve its performance.

Finally, EPA's challenges continue in the area of environmental outcomes and in staff accountability in general. In order for these plans and policies to be effective they must be consistently implemented agency-wide. There must be a sustained and coordinated effort and, most importantly, all agency officials involved in managing grants must be committed to and held accountable for achieving the plan's goals and objectives.

I welcome the witnesses and I look forward to hearing the testimony.

Statement of Bill A. Roderick
Acting Inspector General
U.S. Environmental Protection Agency
Office of Inspector General
Before the
Subcommittee on Water Resources and Environment
Committee on Transportation and Infrastructure
U.S. House of Representatives
May 18, 2006

Good morning Mr. Chairman and Members of the Subcommittee. I am Bill Roderick, Acting Inspector General for the U.S. Environmental Protection Agency (EPA). I am pleased to be here today to discuss the work the Office of Inspector General (OIG) has done to help EPA identify and correct deficiencies in the management of its grant programs. EPA uses assistance agreements, more commonly known as grants, as the primary means of fulfilling its mission of protecting human health and the environment. In fiscal year 2005, EPA awarded approximately $4 billion dollars in grants to State, local and tribal governments; universities; and non-profit organizations. This amount represents more than half of EPA's budget.

A recent OIG report, done at the request of Chairman Young and issued in September 2005, reviewed whether EPA held supervisors and their project officers accountable for grants management. This work showed that while EPA has made progress to establish accountability, more needed to be done to measure supervisor and staff performance of their grants management responsibilities.

This accountability report is part of a larger body of work we have done on grants management at EPA over the years. We have also focused on the need for EPA to compete more of its discretionary grants, and the need for performance indicators to ensure that the grants awarded produce their intended results. We have testified before this Subcommittee on these issues in the past.

Accountability Within EPA's Grants Management Process

The Grants Administration Division (GAD) within the Office of Administration and Resources Management serves as the lead office for grants management, which includes responsibility for grant regulations, policy, and guidance; and for grant-related training. GAD is also responsible for cradle-to-grave administrative management for all grant programs administered by EPA headquarters.

There are three key groups of officials involved in the grants management process: project officers, grants specialists, and senior resource officials. Project officers have a large role because of their direct interaction with grantees as the designated EPA program points of contact. Project officers work within regional and headquarters program offices and are responsible for the review, negotiation, award, and

administration of grants as they relate to programmatic and technical requirements. They are also responsible for developing and maintaining the official technical project file. According to a 2004 study on EPA's grants workforce, there were 2,383 active project officers managing grants. Most managed five or fewer grants while 29 percent managed only one. About one-third of the project officers spent less than 10 percent of their time on project officer responsibilities.

Grants specialists work within GAD in headquarters and the Grants Management Offices in the regions and provide administrative guidance and direction from application to closeout. They are also responsible for developing and maintaining the official grant file, which should consist of programmatic and fiscal information on the purpose, performance, and history of a grant agreement.

Finally, senior resource officials, which are typically Senior Executive Service managers such as Deputy Assistant Administrators in headquarters offices and Assistant Regional Administrators, oversee and guide the resource management activities within their organizations. They maintain fiscal resource management practices, and are EPA's primary points of accountability.

Findings on Grant Accountability

In 2005, the Chairman asked the OIG to examine the issue of accountability in EPA's grants management process with a focus on project officers and mid-level managers. This request stemmed from a July 2004 hearing before this Subcommittee when EPA's then-Acting Assistant Administrator for the Office of Administration and Resources Management testified that EPA had begun to address grants management weaknesses and that one of EPA's goals was to increase accountability among grants management staff. In response, our objective was to answer the following question: Is EPA holding project officers and supervisors accountable for their grants management responsibilities?

In our report, we differentiate between the terms "manager" and "supervisor." We use "manager" to define high-level EPA managers who are typically Assistant Administrators, Regional Administrators, senior resource officials, or division directors. We use "supervisor" to define project officers' first-line supervisors, who typically are branch or section chiefs.

We found that EPA had made some progress in establishing accountability. According to the Office of Personnel Management model on accountability, a system of accountability should include four elements: 1) establishing requirements; 2) communicating the requirements; 3) measuring employee performance against those requirements; and 4) rewarding or correcting employee performance. EPA has made significant progress on the first two elements. For example, EPA has issued policy statements that detail grants management responsibilities for project officers and establish the role of senior resource officials as EPA's primary points of accountability.

Despite this progress, we found that EPA managers did not sufficiently hold supervisors and project officers accountable for grants management. This is because there is no process to measure most grants management activities. Project officers are responsible for performing about 140 grants management tasks. However, EPA has no methodology to measure whether the project officer performs these tasks effectively. Effective project officer performance increases the likelihood that the grant will be successful. In addition, supervisors did not gather information on project officer performance but instead relied on project officers to inform them of grants management weaknesses. While EPA officials believe that measurement information exists in current systems such as the Integrated Grants Management System and will be enhanced by new processes such as the Performance Appraisal and Recognition System (PARS), these systems and processes are either not fully implemented or have not been effectively used.

Supervisors generally did not discuss project officer responsibilities during year-end evaluations. If grant issues were addressed, the discussion focused on the grant recipient's performance rather than on specific project officer tasks. Out of 26 project officers we interviewed, only five said their supervisor had a discussion with them about their project officer responsibilities during their year-end evaluation. Supervisors provided various reasons for rating project officers as successful without discussing grants management responsibilities. For example, supervisors stated that the year-end evaluation should focus on problems or issues with grantee performance; or that project officer responsibilities should be discussed at staff meetings or other times throughout the year. Other supervisors stated that the focus of performance evaluations should be on EPA program accomplishments and not on project officer duties.

Managers also did not discuss grants management during supervisors' year-end evaluations. Of 22 supervisors interviewed, 18 did not have a discussion of their project officers' grants management responsibilities. Managers also did not effectively communicate grants management weaknesses to supervisors when identified. In turn, supervisors who were not aware of the identified weaknesses could not instruct their project officers to correct them. Examples of some identified weaknesses included grants without documentation that cost reviews, baseline monitoring, or technical reviews had been conducted. These weaknesses were identified through management reviews conducted by GAD or self-assessments conducted by program or regional offices.

Of 26 project officers we interviewed, only eight were made aware of their weaknesses identified in the management reviews and self-assessments, and only two corrected their identified weaknesses. Some project officers said they would have corrected their weaknesses if they had known about them.

OIG Recommendations and EPA's Response

We made three recommendations to help EPA fully establish a system of accountability for grants management: 1) establish a process to measure project officer, supervisor, and manager performance against grants management requirements to form the basis for performance ratings and discussions; 2) ensure managers and supervisors review and discuss grants management during performance evaluations; and 3) ensure that the weaknesses identified in a management review or self-assessment are communicated to the appropriate project officer and supervisor.

EPA agreed with our recommendations. In January 2006, EPA provided us a detailed 12-step action plan that outlined the tasks and milestone dates necessary to carry out our recommendations. This plan includes taking steps to ensure that PARS addresses grants management responsibilities. For example, 2005 appraisals of project officers, supervisors, and managers with grants management responsibilities were to include discussions about grants management performance. For 2006 performance agreements and mid- and end-year evaluations, discussions will also cover competition, environmental results, post-award monitoring, and pre-award reviews of non-profit organizations. For the 2007 appraisal process, EPA intends to establish a workgroup to develop final performance measures to assess grants management performance of project officers, supervisors, and managers. These final measures are to be incorporated into 2007 performance agreements. We believe that EPA's proposed action plan is comprehensive and when implemented will adequately address our recommendations. We will continue to monitor EPA's progress in implementing their action plan.

Other Grants Management Issues of Concern

The OIG has looked at other grants management issues the last few years beyond accountability. We have evaluated EPA's progress in opening more discretionary grants to competition and promoting competition to the maximum extent possible. We have also reviewed whether EPA adequately measures the environmental results of its grants to ensure that they are having a positive impact on human health and the environment. EPA has taken positive steps to address both issues but it can do more to improve these important grants management areas.

Grant Competition

In 2001, we reported that EPA did not have a policy in place requiring that program officials competitively award discretionary grant funding. Grants were awarded without competition based on the project officer's opinion that the recipient was uniquely qualified. Without competition, EPA could not be assured that it was funding the best products based on merit or accomplishing its mission with a reasonable return on taxpayer's investment. In response to our report, EPA issued an Order in 2002 to compete some grants to the maximum extent practicable. In 2005, we issued a followup report that assessed whether the Order promoted competition and if those competitions were fair and open.

We found that the Order was a positive step in promoting competition and that the competitions reviewed were generally open and fair. However, the Order did not promote competition to the maximum extent possible. The Order only applied to $161 million (about 19 percent) of the more than $835 million of discretionary grants awarded in fiscal year 2003. This was mostly because the Order overemphasized exemptions and justifications, requiring competition only after those two options were exhausted. For example, the Order exempted from competition over 40 pollution abatement and control programs; programs available only to Indian Tribes and Intertribal Consortia; programs that have standards and procedures for competition established by regulation or rule; and awards to foreign governments. As a result of overemphasizing exemptions and justifications, EPA did not ensure that it awarded discretionary grants to the most qualified recipients or for the most innovative projects, thus potentially diminishing EPA's efforts to accomplish its mission.

We made several recommendations directed at increasing the number of grants subject to competition. Most notably we recommended eliminating blanket exemptions for programs where EPA uses discretionary funds and competition is practicable. We also recommended that EPA eliminate the justification for organizations that represent the interests of States, tribal, or local governments, also known as co-regulators or co-implementers. EPA disagreed with these specific recommendations but did revise the Order to include numerous procedural changes. We continue to believe that EPA needs to increase the pool of discretionary grants subject to competition, even those to States and Tribes. Competition does not preclude eligible recipients from receiving Federal funding, and can help ensure that funding decisions are merit based and transparent. By continuing to award funds to the same recipients when competition is possible may create the appearance of bias or favoritism.

Measuring Environmental Results

Testimony by the OIG and the Government Accountability Office (GAO) before this Subcommittee in July 2004 indicated that EPA faced challenges in demonstrating environmental results for all its grant-supported programs. EPA has made some progress in this area, yet we continue to see this as a management challenge based on work we have conducted since then.

In 2004 we looked at the Clean Water State Revolving Fund (CWSRF), EPA's largest grant program. This multi-billion dollar program funds a wide variety of water quality projects, including all types of non-point source, watershed protection or restoration, and estuary management projects, as well as more traditional municipal wastewater treatment projects (point sources). While no one would argue that the program does not make an important contribution to public health and a healthy environment, EPA was nevertheless struggling to determine how it would measure program results. We noted that EPA had been working on developing environmental measures since 1998 but still had not established a uniform set of measures to assess the environmental impact of the program. Further, EPA had not developed a comprehensive

plan for measuring results. The result was that EPA did not know the actual environmental impact of the CWSRF nor could it compare the impact of individual water quality programs and make informed resource allocations in a tight budget environment. Some States were even questioning the value of measuring for results and therefore did not emphasize it. We recommended that EPA develop an environmental measurement plan based on stakeholder input and then implement the plan, which EPA agreed to do.

In response to our report, EPA and States developed and agreed to use a suite of measures to assess the potential benefits from CWSRF loan projects. Some of the measures used are population served, the volume of wastewater treated or processed, and whether the affected water body is impaired, threatened, or meets standards. These measurements rely on environmental data reported to EPA by States and local communities that started in 2005. All 50 States and Puerto Rico have agreed to submit data to EPA. To date, 42 States have already done so. As of March 1, 2006, EPA had received data for about 1,250 projects totaling $7.2 billion. EPA has already begun to use this data to produce reports on CWSRF environmental accomplishments and have highlighted the environmental impact of CWSRF loans in its 2005 Annual Report. EPA also expects that the measures established will serve as a tool to help States examine, challenge, and improve their own funding decisions. From these measures, EPA has estimated that $2.2 billion in costs have been saved. EPA estimated that the 834 communities that have reported data would have spent about $2.2 billion more to conduct the same projects if those communities had gone to a private bank for a loan instead of using the CWSRF loan program.

The impact of not measuring environmental results was also noted in two recent reports we conducted on the Alaska Village Safe Water Program. This program provides grants to small native and rural Alaskan villages to help pay for the development and construction of public water systems and wastewater systems to improve health and sanitation conditions; and for the training and technical assistance needed to operate those systems. Grants to the State of Alaska have been funded by EPA's annual appropriation. The U.S. Department of Agriculture and the State of Alaska also provide funding for the program. Since 1995, EPA has awarded over $230 million in grants for the program.

We found that EPA did not provide sufficient oversight of the grants awarded to the State of Alaska to ensure effective results. Specifically, EPA did not develop goals, objectives, and measures for the grants as required by EPA policy, nor did they sufficiently monitor progress because EPA considered them to be earmarks and that earmarks were not subject to the same rigorous oversight as programmatic grants. EPA did not evaluate whether facilities were being used for their intended purpose, or if they were abandoned or not being used. As a result, EPA could not determine whether the grants met the objectives of the Safe Drinking Water Act, nor could it quantify the benefits of improved health and sanitation resulting from the projects. We recommended that EPA include goals, objectives, and outcomes within all grants; and develop measures to gauge whether the grants are meeting their intended purposes. EPA agreed with our recommendations and indicated it would take corrective action.

We conducted a followup review of the Alaska Village Safe Water Program to determine whether EPA met guidelines before awarding an additional $34 million grant to the State of Alaska. We found that some of the same conditions we identified earlier still existed. Specifically, EPA did not ensure that the grant application contained environmental or public health objectives for the various projects to be funded, or provided sufficient information about particular projects being constructed. Also, EPA's review of the application prior to awarding the grant did not assess whether there was a reasonable chance that each project funded would achieve its objectives. As a result, there were no assurances that the grant money would be used efficiently or effectively. In response, EPA said that it awarded the grant despite knowing these concerns because of financial concerns over the State's program.

Since our initial Alaska report was issued in 2004, EPA and the State of Alaska have taken steps to address the findings in our reports. For example, EPA has established measures for output and outcomes for future program projects. In addition, in an April 2006 response to our followup report, EPA said that it recently conducted a joint study with the Center for Disease Control's Arctic Investigation Program and the Alaska Native Tribal Health Consortium to verify and examine the impact the projects have had on improving public health. The study examined the relationship between respiratory tract and skin infections with improved sanitation service in rural Alaskan villages. The results showed that those areas with improved sanitation services had significant health improvements over those areas without them. Such results clearly demonstrate the importance and impact the program can have on improving public health.

When examining the need to measure for results, we looked beyond EPA to determine how nongovernmental organizations (NGOs) that fund environmental projects seek to improve grantee performance in hopes that there might be some lessons that EPA could learn and incorporate. In a 2005 report, we found that EPA's policies intended to ensure a clear link between grant results and goals and to enhance oversight of grantee qualifications and performance mirrored the practices of NGOs. We also found additional NGO practices that EPA could adopt to improve grant effectiveness. One is to look at a grantee's past performance or ability to manage grant funds as a ranking criterion when making decisions about future grants to help ensure the selection of successful applicants. Another is to conduct a retrospective evaluation of grant projects, which can provide valuable information about how grants in the past contributed to improving human health and the environment. EPA agreed with our recommendations but suggested conducting the retrospective evaluations in three to four years, which would provide more information about grant results than an evaluation conducted at that time.

Additional Suggestions to Improve Grants Management at EPA

Throughout the reports we have issued over the years on grants management, we have made numerous recommendations to EPA that we believed would help strengthen its grants management process. To its credit, EPA leadership has made improving grants management a priority and has implemented many of our recommendations—ranging from developing new policies, orders, and plans; to implementing or enhancing training for grants staff. However, improving accountability for grants management is an area where EPA could still improve.

There are several underlying factors that affect accountability at EPA. One is EPA's organizational structure. Responsibility for grants is divided between the program offices and the grants offices. EPA's national grants office does not have authority over project officers that are within the national program and regional offices. The national program offices also do not have authority over the regional offices. EPA has dealt with this authority issue by elevating grants policies to EPA orders that all are required to follow. EPA has also established a Grants Management Council consisting of senior managers from national and regional offices that serves as a high-level forum for planning and coordination of grants management activities. While these actions have served to elevate the importance of grants management within EPA, the decentralized organizational structure of EPA remains a barrier that it will continually have to deal with.

Accountability is also impacted by how EPA has defined project officer and grants specialist functions. EPA has placed primary management of grants on project officers. As mentioned earlier, the project officer is responsible not only for the technical aspects of the grant, but also for monitoring activities such as ensuring that reports are submitted and reviewed timely. Project officers are responsible for about 140 grants management tasks yet the project officer function is often considered an additional responsibility for staff, with most managing five or fewer grants. We believe that EPA needs to continue to look for ways to better balance the work required to manage grants between the project officer and grants specialist.

Conclusion

Mr. Chairman, EPA has made progress overall in improving grants management during the last few years. There is clearly a commitment from EPA's leadership to address many of the problems and weaknesses identified by us, GAO, and this Subcommittee. However, more can and should be done to improve grant accountability, increase grant competition, and measure environmental results. Given the billions of dollars EPA awards every year, we will continue to monitor EPA's progress to ensure that it builds on the improvements made in managing its grants.

This concludes my prepared remarks. I would gladly answer any questions the Subcommittee may have.

United States Government Accountability Office

GAO

Testimony

Before the Subcommittee on Water Resources and Environment, Committee on Transportation and Infrastructure, House of Representatives

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ENVIRONMENTAL PROTECTION AGENCY

Progress Has Been Made in Grant Reforms, but Weaknesses Remain in Implementation and Accountability

Statement of John B. Stephenson, Director,
Natural Resources and the Environment

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Highlights

Highlights of GAO-06-774T, a testimony before the Chairman, Subcommittee on Water Resources and Environment, Committee on Transportation and Infrastructure, House of Representatives

ENVIRONMENTAL PROTECTION AGENCY

Progress Has Been Made in Grant Reforms, but Weaknesses Remain in Implementation and Accountability

Why GAO Did This Study

The Environmental Protection Agency (EPA) has faced challenges for many years in managing its grants, which constitute over one-half of the agency's budget, or about $4 billion annually. EPA awards grants through 93 programs to such recipients as state and local governments, tribes, universities, and nonprofit organizations. In response to concerns about its ability to manage grants effectively, EPA issued its 5-year *Grants Management Plan* in 2003, with performance measures and targets.

This testimony is based on GAO's May 2006 report, *Grants Management: EPA Has Made Progress in Grant Reforms but Needs to Address Weaknesses in Implementation and Accountability* (GAO-06-625). GAO examined EPA's progress in implementing its grant reforms in four key areas: (1) awarding grants, (2) monitoring grantees, (3) obtaining results from grants, and (4) managing grant staff and resources.

What GAO Recommends

GAO's recommendations in its May 2006 report were directed toward strengthening ongoing monitoring, grant closeouts, and obtaining results from grants. EPA has agreed to implement these recommendations.

www.gao.gov/cgi-bin/getrpt?GAO-06-774T.

To view the full product, including the scope and methodology, click on the link above. For more information, contact John B. Stephenson at (202) 512-3841 or stephensonj@gao.gov.

What GAO Found

EPA has made important strides in achieving the grant reforms laid out in its 2003 *Grants Management Plan*, but weaknesses in implementation and accountability continue to hamper effective grants management in four areas. First, EPA has strengthened its award process by, among other things, (1) expanding the use of competition to select the most qualified applicants and (2) issuing new policies and guidance to improve the awarding of grants. However, EPA's reviews found that staff do not always fully document their assessments of grantees' cost proposals; GAO also identified this problem in one region. Lack of documentation may hinder EPA's ability to be accountable for the reasonableness of a grantee's proposed costs. EPA is reexamining its cost review policy to address this problem.

Second, EPA has made progress in reviewing its in-depth monitoring results to identify systemic problems, but long-standing issues remain in documenting ongoing monitoring and closing out grants. EPA and GAO found that staff do not always document ongoing monitoring, which is critical for determining if a grantee is on track in meeting its agreement. Without documentation, questions arise about the adequacy of EPA's monitoring of grantee performance. In addition, grant closeouts are needed to ensure that grantees have met all financial requirements, provided their final reports, and returned any unexpended balances. For fiscal year 2005, EPA closed out only 37 percent of its grants within 180 days after the grant project ended, as required by its policy. EPA also did not always close out grants properly in the regional files GAO reviewed.

Third, EPA has initiated actions to obtain environmental results from its grants, but these efforts are not complete. For example, EPA's 2005 environmental results policy establishes criteria that grants should meet to obtain results. However, EPA has not established a performance measure that addresses these criteria. Furthermore, EPA has not yet identified better ways to integrate its grant reporting systems. The Office of Management and Budget's 2006 assessment also indicates that EPA needs to continue its concerted efforts to achieve results from grants.

Finally, EPA has taken steps to manage grant staff and resources more effectively by analyzing workload, providing training, assessing the reliability of its grants management computer database, and holding managers and staff accountable for successfully fulfilling their grant responsibilities. Management attention is still needed because, among other things, EPA has just begun to implement its performance appraisal system for holding managers and staff accountable for grants management.

Mr. Chairman and Members of the Subcommittee:

We are pleased to be here today to discuss the work you requested on the Environmental Protection Agency's (EPA) grant management reforms. My testimony today focuses on the progress EPA has made in implementing its grant management reforms and the problems that remain. This testimony is based on the report being released today.[1]

As you know, EPA has faced challenges for many years in managing its grants, which constitute over one-half of the agency's budget, or about $4 billion annually. In fiscal year 2005, EPA took 6,728 grant actions involving funds totaling about $4 billion.[2] These awards were made through 93 programs to various types of recipients, with states receiving the largest portion (about 75 percent) of the grant funds.[3] As of September 30, 2005, EPA was administering grants through headquarters and regional offices to 4,075 grant recipients. Given the size and diversity of EPA's grant programs, its ability to efficiently and effectively accomplish its mission depends to a large extent on how well it manages its grant resources and builds accountability for results into its efforts.

In response to concerns about its ability to manage grants effectively, in 2003, EPA issued its *Grants Management Plan*.[4] In this plan, EPA for the first time presented goals, objectives, milestones, and performance measures with targets for tackling the agency's long-standing grants management problems. The 5-year plan had five goals that addressed major concerns we had identified in our 2003 report on grants management.[5] EPA has also issued policies to implement the plan and other grant reforms.[6] EPA is currently revising this plan to reflect accomplishments achieved and to address remaining issues.

Our testimony today assesses EPA's progress in implementing its grant reforms for (1) awarding grants, (2) monitoring grantees, (3) obtaining results from grants, and (4) managing grant staff and resources. To address these issues, we conducted our work at EPA's headquarters and regional offices. At EPA headquarters, we reviewed EPA documents from, and interviewed officials of, the Office of Grants and Debarment and the Office of Water, one of the program offices involved with grants. We reviewed EPA's

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[1] GAO, *Grants Management: EPA Has Made Progress in Grant Reforms but Needs to Address Weaknesses in Implementation and Accountability*, GAO-06-625 (Washington, D.C.: May 12, 2006).

[2] Grant actions involving funding include new awards, and increase and decrease amendments.

[3] These awards were made to six main categories of recipients: states (74.9%), local governments (9.8%), nonprofits (7.3%), universities (4%), Native American tribes (3.5%), and other (0.6%).

[4] EPA, *Grants Management Plan, 2003-2008*. EPA-216-R-03-001 (Washington, D.C.: April 2003). The plan's goals are to (1) strengthen the award of grants by using competition to select grantees for certain awards to ensure that the best applicants are chosen; (2) monitor grants to ensure that grantees are making progress toward their objectives and, at the end of the project period, to ensure that recipients have provided all financial and technical reports before closing out the grants; (3) obtain results from grants by identifying and measuring their environmental and public health outcomes; (4) enhance the skills of EPA personnel involved in grants management; and (5) leverage technology to improve program performance.

[5] GAO, *Grants Management: EPA Needs to Strengthen Efforts to Address Persistent Challenges*, GAO-03-846 (Washington, D.C.: Aug. 29, 2003).

[6] For this testimony, grant reforms include EPA's *Grants Management Plan*, policies issued just prior to and after the issuance of the plan, and related efforts.

Office of Inspector General reports as well as the Office of Management and Budget's (OMB) Program Assessment Rating Tool (PART).[7] In conducting our work, you asked us to address the implementation of EPA's grant reforms at the regional level for Clean Water Act programs. We selected Wetland Program Development Grants because it is a discretionary grant program and Nonpoint Source Management Program grants because it is a type of formula-based grant program. We reviewed EPA's progress at the regional level by selecting grants in 3 of EPA's 10 regional offices: Region 1 (Boston), Region 5 (Chicago), and Region 9 (San Francisco). We selected these regions, in part, because, collectively, they represent a significant share of regional grant funding for the two programs we reviewed and provide geographic dispersion. Our regional work offers insights into regional grant activities in the two programs in the three regions we visited, but it is not generalizable to all grants in all regions because we (1) selected only two of the programs conducted in these offices and (2) incorporated nonprobability sampling into our grant selection process. This testimony is based on GAO's report for which audit work was conducted from February 2005 through April 2006, in accordance with generally accepted government auditing standards.

In summary, EPA has made important strides in achieving the grant reforms laid out in its 2003 *Grants Management Plan*, but weaknesses in implementation and accountability continue to hamper effective grants management in four areas. Specifically:

- *Awarding grants.* EPA has strengthened its award process by, among other things, expanding the use of competition to select the most qualified applicants and issuing new policies and guidance to improve the awarding of grants. Nevertheless, EPA has found that staff do not always fully document their assessments of grantees' cost proposals, and we also identified this problem in one region. Without documentation, EPA may be limited in its ability to be accountable for the reasonableness of a grantee's proposed costs. EPA is reexamining its cost review policy to address this problem.

- *Monitoring grantees.* EPA has made progress in reviewing the results of its in-depth monitoring to identify systemic problems, but long-standing issues remain in documenting ongoing monitoring and closing out grants. EPA and we found that staff do not always document ongoing monitoring, which is critical for determining if a grantee is on track in meeting its agreement. Without documentation, questions arise about the adequacy of EPA's monitoring of grantee performance. Lack of documentation occurred, in part, because managers did not fulfill their commitment to improve monitoring documentation. Grant closeouts are needed to ensure that grantees have met all financial requirements, provided their final reports, and returned any unexpended balances. For fiscal year 2005, however, EPA closed out only 37 percent of its grants within 180 days after the grant project ended, as required by its policy. EPA also did not always close out grants properly in the regional files we reviewed.

[7]OMB's PART is a diagnostic tool meant to provide a consistent approach to evaluating federal programs.

- *Obtaining results from grants.* EPA has initiated actions to obtain environmental results from its grants, but these efforts are not complete. For example, EPA's 2005 environmental results policy establishes the criteria that grants should meet to obtain results. However, EPA has not established a performance measure that addresses these criteria. Furthermore, EPA has not yet identified better ways to integrate its grant reporting systems. Finally, OMB's 2006 assessment indicates that EPA needs to continue its concerted efforts to achieve results from grants.

- *Managing grants staff and resources.* EPA has taken steps to manage grant staff and resources more effectively by analyzing workload, providing training, assessing the reliability of its grants management computer database, and holding managers and staff accountable for successfully fulfilling their grant responsibilities. Management attention is still needed because, among other things, EPA has just begun to implement its performance appraisal system for holding managers and staff accountable for grants management.

Background

EPA offers three types of grants. First, *discretionary grants* fund activities such as environmental research and training, and EPA has the discretion to independently determine the recipients and funding levels for these grants. In fiscal year 2005, EPA awarded about $644 million in discretionary grants. Second, *nondiscretionary grants* are awarded primarily to state and local governments and support projects often on the basis of formulas prescribed by law or agency regulation. In fiscal year 2005, EPA awarded about $2.4 billion in nondiscretionary grants. Finally, *continuing environmental program grants* contain both nondiscretionary and discretionary features. In fiscal year 2005, EPA awarded about $1 billion in grants for continuing environmental programs.

EPA administers and oversees grants primarily through the Office of Grants and Debarment in the Office of Administration and Resources Management, 10 program offices in headquarters, and program offices and grants management offices in EPA's 10 regional offices. As of September 30, 2005, 119 grant specialists in the Office of Grants and Debarment and the regional grants management offices were largely responsible for administrative and financial grant functions. Furthermore, 2,064 project officers were actively managing technical and programmatic aspects of grants in headquarters and regional program offices. Unlike grant specialists, however, project officers also have nongrant responsibilities, such as using their scientific and technical expertise.

EPA Has Strengthened the Award Process, but Lack of Key Documentation Raises Accountability Concerns

EPA has strengthened its award process by, among other things, expanding competition to select the most qualified applicants. In September 2002, EPA issued a policy that for the first time required competition for many discretionary grants.[8] EPA issued a revised

[8]EPA, *EPA Order 5700.5: Policy for Competition in Assistance Agreements*, (Sept. 12, 2002).

competition policy, effective January 2005.[9] It enhanced competition by, among other things, reducing the threshold for competition from $75,000 to $15,000. EPA also issued a policy to require certain nonprofit organizations to document that they have administrative and financial systems to manage grants.

As part of its *Grants Management Plan*, the agency developed a performance measure for increasing the percentage of new grants subject to the competition policy that are actually competed and set increasing targets for achieving this measure. According to EPA, about $249 million of the approximately $3.1 billion it awarded in new grants in fiscal year 2005 were eligible for competition. EPA reports it now competes a higher percentage of eligible grants, up from 27 percent in fiscal year 2002 to 93 percent in fiscal year 2005, exceeding its targets for fiscal years 2003 through 2005.[10] The 7 percent of eligible new grants that EPA reported it did not compete—which totaled about $10 million of the $249 million eligible for competition in fiscal year 2005—resulted from exceptions to the policy.

While EPA has improved its award process, its internal reviews in program and regional offices have found that staff do not always fully document their reviews of grantees' cost proposals. For example, in 2004 and 2005, in six of the seven program and regional offices it reviewed, the Office of Grants and Debarment found either no documentation of cost reviews or insufficient documentation.[11] Furthermore, we also found this problem in one of the three regions we visited. Region 5 has a checklist to ensure that staff members who are responsible for each aspect of the cost review have completed and documented their review before awarding a grant. For most of the 12 approved award files we reviewed, we found instances in which the resolution of the issues between the project officer and grant specialist was not documented. This documentation problem may hinder EPA's ability to ensure the reasonableness of its grantees' estimated costs for performing the proposed work. Because of the continuing problems with documenting cost reviews, EPA is reexamining its cost review policy for grants.

EPA Has Improved In-depth Monitoring to Identify Agencywide Problems, but Weaknesses Remain in Ongoing Monitoring and in Closing Out Grants

EPA has improved some aspects of monitoring, but long-standing problems in documentation and grant closeouts continue. Specifically, (1) in-depth monitoring results can be analyzed nationwide, but staff do not always document corrective actions; (2) inadequate documentation of ongoing monitoring hinders accountability; and (3) EPA has reduced its closeout backlog, but grant closures are often delayed and sometimes improperly executed.

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[9]EPA, *EPA Order 5700.5A1: Policy for Competition of Assistance Agreements, 5700.5A1* (Jan. 11, 2005).
[10]In fiscal year 2005, EPA competed 1,414 new grants, or 93 percent of the 1,526 new grants eligible for competition.
[11]The site visits occurred in 2004 and 2005, and reports were issued later.

In-depth Monitoring Results Can Be Analyzed Nationwide to Identify Problems, but Staff Do Not Always Document Whether Corrective Actions Have Been Taken

EPA has begun to review the results of its in-depth monitoring to identify systemic grantee problems, but staff do not always document whether grantees have taken corrective actions. In fact, the Office of Grants and Debarment found that corrective actions were documented for only 55 percent of the 269 problems identified through administrative and programmatic reviews. We reported similar results in August 2003. According to an Office of Grants and Debarment official, while some EPA staff took corrective actions, they did not document those actions in EPA's grantee computer database.

Inadequate Documentation of Ongoing Monitoring Hinders Accountability

EPA and we found that grant specialists and project officers do not always document ongoing monitoring. Ongoing monitoring is critical because, at a minimum, EPA conducts it on every grant at least once a year throughout the life of the grant and uses the results to determine whether the grantee is on track in meeting the terms and conditions of the grant. However, our analysis of EPA's internal reviews indicates that several offices experienced recurring problems in 2004 and 2005. For example, an August 2004 Office of Grants and Debarment internal review cited one regional office as having "very limited" documentation of ongoing monitoring; and in the following year, the regional office's self-assessment found the same documentation problem with project officer files. A lack of documentation raises questions about the adequacy of the project officers' and grant specialists' ongoing monitoring of grantee performance.

Because of these documentation problems, two of the three regional offices we visited have committed to using checklists to document their ongoing monitoring. Regions 1 and 9 had implemented such checklists at the time of our review. However, of the 40 project officer and grant specialist files we reviewed in regions 1 and 9, more than half of the checklists were either missing, blank, or incomplete. Similarly, in Region 5, which did not use a checklist, none of the six grant files requiring annual contact with the grantee had documentation showing that the contact had occurred.

In the three regions, we also found that project officers' files did not always contain grantees' progress reports, which, according to EPA's project officer manual, are the project officer's primary mechanism for determining if the grantee is fulfilling its grant agreement obligations. Thirteen of the 32 project officer grant files we reviewed were missing at least one or more required progress reports. When EPA staff do not obtain progress reports, they cannot monitor effectively, which may hinder accountability.

The lack of documentation for ongoing monitoring occurs because of weaknesses at the staff, supervisory, and management level in the three regions we visited. Specifically:

- Grant specialists and project officers do not consistently document key monitoring efforts, or they rely on other staff with technical expertise to assist

with ongoing monitoring who may not provide the documented results for inclusion in the grant file. This situation occurred in two of the three regions we visited.

- Supervisors do not always effectively review grant files for compliance with grant policies in the three regions we visited.

- Senior EPA managers in the regions do not always ensure that their commitments to improve monitoring documentation are being met. For example, two regions had committed to using checklists to document ongoing monitoring. However, more than half of the checklists we reviewed in these regions were missing, blank, or incomplete.

Despite the importance of ongoing monitoring, EPA has not created a performance measure for documenting ongoing monitoring that would underscore its importance to managers and staff. Furthermore, EPA's grants database has a data field for recording ongoing monitoring, but recording this information is optional. Establishing a performance measure and/or requiring the entry of information could enhance accountability for implementing the monitoring policy.

EPA Has Reduced Its Closeout Backlog, but Grant Closures Are Often Delayed and Sometimes Improperly Carried Out

EPA incorporated grant closeout into its monitoring policy and its *Grants Management Plan*.[12] During closeout, EPA ensures that the grant recipient has met all financial requirements and provided final technical reports, and ensures that any unexpended balances are "deobligated" and returned to the agency. Delays in closing out the grant can unnecessarily tie up obligated but unexpended funds that could be used for other purposes. EPA's policy states that closeouts should occur within 180 days after the grant's project end date.

In the past, EPA had a substantial backlog of grants that it had not closed out. EPA reported that, by 1995, the agency had amassed a backlog of over 18,000 completed grants that had not been closed out from the past two decades. In fact, EPA had identified closeout, among other things, as a material weakness—an accounting and internal control weakness that the EPA Administrator must report to the President and Congress.[13] As we reported in 2003, however, EPA improved its closeout of backlogged grants, eliminating backlog as a material weakness. Specifically, for fiscal year 2005, using its historic closeout performance measure, EPA reported that it had closed 97.8 percent of the 23,162 grants with project end dates between the beginning of fiscal year 1999 and the end of fiscal year 2003. EPA came close to its 99-percent target of closing out this backlog.

[12]EPA has had a closeout policy in effect since 1992. See EPA, *EPA Closeout Policy for Grants and Cooperative Agreements*, GPI-92-04 (Aug. 27, 1992).
[13]31 U.S.C. § 3512.

EPA developed a second closeout performance measure—which we call the current closeout performance measure. As EPA reported, the agency closed out 79 percent of the grants with project end dates in fiscal year 2004 by the end of reporting fiscal year 2005 (September 30, 2005) but did not meet its performance target of 90 percent. However, EPA's current closeout performance measure does not calculate whether EPA closed the grant within 180 days. Rather, this measure only reports whether EPA closed the grant by the end of the following fiscal year (the fiscal year in which it reports on closeouts—the reporting year). The measure, in fact, can allow for a much more generous closeout time—from 183 days beyond the 180 days to as much as 547 days (18 months) beyond the 180 days—because EPA does not report the performance measure until September 30, the end of the current fiscal year. EPA's current performance measure for closing out grants is a valuable tool for determining if grants were ultimately closed out. However, we believe that this performance measure—taken alone—is not a sufficient way to measure closeout because it does not reflect the 180-day standard specified in EPA policy.

To determine the percentage of grants that were closed within 180 days, we examined EPA's analysis of closeout time frames for regional offices, headquarter offices, and agencywide. EPA is having significant difficulty in meeting the 180-day standard. In fact, for fiscal year 2005, EPA closed out only 37 percent of the grants within the 180 days. Table 1 shows that EPA's current performance measure is masking the fact that the agency is having significant difficulty in closing out grants within 180 days.

Table 1: Comparison of EPA's Performance against the Current Closeout Measure and the 180-Day Standard, Fiscal 2005 Reporting Year

	Percent of grants meeting the current measure and 180-day standard	
Unit	**Current closeout performance measure**	**180-day standard**
Agencywide	79	37
Program offices	81	35
Region 1	96	30
Region 2	49	26
Region 3	97	51
Region 4	91	43
Region 5	37	16
Region 6	85	49
Region 7	90	44
Region 8	99	45
Region 9	76	32
Region 10	89	52

Source: GAO analysis of EPA data.

Notes: For the current closeout performance measure, GAO's analysis of information from EPA's Grant Information and Control System database, as of November 30, 2005; for the 180-day standard, GAO's analysis of information from EPA's Grant Information and Control System database, as of December 31, 2005.

Overall, a combination of grantee lateness and internal inefficiencies contributed to late closeouts. For example:

- In Region 5, it took 795 days—615 days beyond the 180-day standard—to close out a 2-year wetland grant for $56,778. The grantee submitted the final financial status report 114 days late because a key grant contact had died. However, it took the region an additional 591 days after the grantee provided the final reports to close out the grant. According to the grant specialist, closeout was delayed, in part, because of internal administrative delays and because the grant was "lost" under a stack of other closeout files.

- In Region 1, closure of a nonpoint source grant that provided $796,532 over 10 years was delayed primarily because of a lack of documentation. According to the project officer who inherited the file from a retiring employee, the file had unusually poor documentation. Moreover, the state employee who assumed responsibility for the grant also did not have a complete file. Consequently, it took the project officer nearly 5 months beyond the allotted 180 days to complete close out.

Adding to the agency's closeout problems, 8 of the 34 closed grants we reviewed in the regions were not closed out properly. Specifically:

- In Region 5, one grant specialist's file was missing the final financial status report, which is a key report that describes how the grantee spent the grant funds and whether any unspent funds remain that need to be deobligated.

- Region 1 grant specialists had not adequately reviewed the indirect cost rate grantees submitted as part of their final financial status report, which, in turn, led to improper closeout in 5 of the 10 files we reviewed.

- In Region 9, Lobbying and Litigation Certification Forms—whose purpose is to ensure that federal dollars are not spent for lobbying or litigation activities—were missing from two grant files.

As with monitoring, without effective supervisory review of the grant and project officer files, grants may be improperly closed out. With more effective supervision, grants would be more likely to be properly closed out.

EPA has formed a work group to review its monitoring and closeout policies and plans to revise these policies in 2006.

EPA Has Initiated Actions to Obtain Results from Grants, but Its Efforts Are Not Complete

EPA has taken steps to obtain environmental results from its grants, but its efforts are not complete. EPA included a performance measure in its *Grants Management Plan* for identifying expected environmental results from grants and issued an environmental results policy, effective in January 2005. This policy, for the first time, requires EPA staff to ensure that grant workplans specify well-defined environmental results, which enables EPA to hold grantees accountable for achieving them.

To assess the agency's effectiveness in implementing its environmental results policy, EPA identified seven criteria that grant agreements should meet. However, EPA's current performance measure does not take into account the new criteria for identifying and measuring results from grants established by the policy. Furthermore, EPA acknowledges that it has not identified better ways to integrate its systems for reporting on the results of grants. Until recently, EPA recognized—but had not addressed in its results policy—the known complexities of measuring environmental outcomes, such as demonstrating outcomes when there is a long lag time before results become apparent. While EPA has taken positive steps by issuing a results policy, OMB's evaluation of EPA grant programs in 2006 indicate that EPA must continue its concerted efforts to achieve results from its grants. Specifically, OMB found that 5 of 18 EPA grant programs in 2006 are "ineffective" or "results not demonstrated," although there has been some improvement from 2004 through 2006.[14] Despite this progress, a closer examination of the ratings for 2006 indicated that, with one exception, the scores for the results component were lower than the scores for other components, such as planning and management.

EPA Has Taken Steps to Manage Grants Staff and Resources More Effectively but Still Faces Major Management Problems

EPA has taken steps to manage grants staff and resources more effectively in four key areas: (1) analyzing workload; (2) providing training on grant policies; (3) assessing the reliability of the agency's grants management computer database; and (4) holding managers and staff accountable for successfully fulfilling their grant responsibilities. Nevertheless, management attention to these four issues is still needed.

Analyzing workload. Fulfilling an objective identified in the *Grants Management Plan,* in April 2005, an EPA contractor's analysis of project officers and grant specialists showed that EPA had an overall shortage of project officers and grant specialists, expressed in full-time equivalents.[15] The contractor recommended that before EPA add staff, it take steps to improve the effectiveness and efficiency of its grants management operations. As a result, grant offices are preparing project officer workforce plans—due this year—that incorporate the workload analysis.

Providing training. EPA has provided some training on grant policies; however, according to EPA staff, the amount of training has not been sufficient to keep pace with the issuance of new grant policies. Region 1 provided training for its project officers on the new awards process. However, only about 25 of the region's 200 project officers attended the optional 90-minute course, although they had three opportunities to do so.

Assessing the reliability of the grants computer database. In 1997, EPA began developing the Integrated Grants Management System to better manage its grants; EPA now also

[14]These assessments, which were part of the President's fiscal year 2005 to 2007 budget submissions, were published in February 2004, 2005, and 2006, respectively.
[15]LMI Government Consulting, *Management of Assistance Agreements at the Environmental Protection Agency: Workload Analysis and Models*, April 2005.

uses this database to inform the public and the Congress about its $4 billion investment in grants. Data quality problems in this database could impair EPA's ability to effectively manage grants and provide accurate information. In 2005, we recommended that EPA conduct a comprehensive data quality review of its Integrated Grants Management System.[16] EPA expects to complete this review in 2006.

Holding managers and staff accountable. In 2005, EPA's Inspector General reported that EPA was not holding supervisors and project officers accountable for grants management.[17] In response, EPA issued a plan in January 2006 to ensure that the agency's new performance appraisal system addresses grants management responsibilities. For the 2007 performance appraisal process, EPA plans to establish a workgroup to develop final performance measures to assess the grants management performance of project officers and supervisors and to incorporate these measures into 2007 performance agreements. Our review is consistent with the Inspector General's findings. As previously discussed, EPA grants staff told us that their supervisors were not reviewing their grant files to determine compliance with grant monitoring policies. It is possible that the awarding, monitoring, and closeout problems we found would have been mitigated by effective supervisory review.

Mr. Chairman, about 3 years into its *Grants Management Plan, 2003-2008,* EPA has made important strides in achieving its grant reforms, but it has not resolved its long-standing problems in documenting ongoing monitoring and closing out grants. As it revises its management plan, EPA has an opportunity to tackle these continuing problems. In our report, we recommended that the Administrator of EPA take actions to strengthen ongoing monitoring, closing out grants, and obtaining results from grants, and the agency has agreed to implement our recommendations. At the same time, we believe that congressional oversight has contributed to EPA's progress to date and that continuing oversight is important to ensuring that EPA builds accountability into the agency's efforts to achieve results from its $4 billion annual investment in grants.

Mr. Chairman, this concludes my prepared statement. I would be happy to respond to any questions that you or Members of the Subcommittee may have.

For further information, please contact John B. Stephenson at (202) 512-3841. Individuals making key contributions to this testimony were Andrea Wamstad Brown, Bruce Skud, Rebecca Shea, Lisa Vojta, Carol Herrnstadt Shulman, Omari Norman, David Bobruff, Matthew J. Saradjian, and Jessica Nierenberg.

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[16]GAO, *Grants Management: EPA Needs to Strengthen Efforts to Provide the Public with Complete and Accurate Information on Grant Opportunities,* GAO-05-149R (Washington, D.C.: Feb. 3, 2005).
[17]EPA Office of Inspector General, *EPA Managers Did Not Hold Supervisors and Project Officers Accountable for Grants Management,* Report No. 2005-P-00027 (Washington, D.C.: Sept. 27, 2005).

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