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August 2003

GRANTS MANAGEMENT

EPA Needs to Strengthen Efforts to Address Persistent Challenges

GAO-03-846

August 2003

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Highlights

Highlights of GAO-03-846, a report to congressional requesters

GRANTS MANAGEMENT

EPA Needs to Strengthen Efforts to Address Persistent Challenges

Why GAO Did This Study

The Environmental Protection Agency (EPA) has long faced problems managing its grants, which constitute over one-half of the agency's annual budget, or about $4 billion. EPA uses grants to implement its programs to protect human health and the environment and awards grants to thousands of recipients, including state and local governments, tribes, universities, and nonprofit organizations. EPA's ability to efficiently and effectively accomplish its mission largely depends on how well it manages its grant resources. As requested, GAO determined (1) major challenges EPA faces in managing its grants and how it has addressed these challenges in the past, (2) extent to which EPA's recently issued policies and grants management plan address these challenges, and (3) promising practices, if any, that could assist EPA in addressing these challenges.

What GAO Recommends

The Administrator of EPA should ensure that the agency (1) meets goals, targets, and time frames in its grants management plan, and (2) takes specific actions to strengthen its efforts and report annually to Congress on its grant management accomplishments.

In commenting on a draft of this report, EPA stated that it agreed with GAO's recommendations and will implement them as part of its 5-year grants management plan.

www.gao.gov/cgi-bin/getrpt?GAO-03-846.

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 continues to face four key management challenges, despite past efforts to address them. These challenges are (1) selecting the most qualified applicants, (2) effectively overseeing grantees, (3) measuring the results of grants, and (4) effectively managing grants staff and resources. In recent years, EPA has taken a series of actions to address these challenges by, among other things, issuing policies, conducting training, and developing a new data system for grants management. However, these past actions had mixed results because of the complexity of the problems, weaknesses in design and implementation, and insufficient management emphasis.

EPA's 2002 competition and oversight policies and 2003 grants management plan focus on the major challenges GAO identified, but will require strengthening, enhanced accountability, and a sustained commitment to succeed. For example, EPA's new oversight policy mandates more in-depth monitoring of grantees but it does not build in a process for analyzing the results of the in-depth monitoring to address systemic grantee problems. Such analysis could better target EPA's oversight efforts. In addition, its 5-year grants management plan does offer, for the first time, a comprehensive road map with objectives, goals, and milestones for addressing grants management challenges. However, the plan does not completely address how EPA will hold all managers and staff accountable for successfully fulfilling their management responsibilities. Therefore, EPA cannot ensure the sustained commitment required for the plan's success.

Although information on promising grants management practices is limited, the federal agencies and other organizations GAO contacted identified some practices for each of EPA's four major challenges that may further assist EPA in improving its grants management. For example, one federal agency takes into account applicants' potential to achieve results when selecting grantees. A private foundation conducts preaward reviews of some applicants to learn about the organization and assess its fiscal health. In addition, GAO has developed a guide for federal agencies to use to hold managers and staff accountable for achieving desired agency results. This guide could be useful in helping EPA ensure accountability for grants management performance.

Contents

Letter 1

Results in Brief 2
Background 4
Four Key Grants Management Challenges Persist despite EPA's Past Efforts to Address Them 9
New Policies and Plan Show Promise but Require Strengthening, Enhanced Accountability, and Sustained Commitment to Succeed 27
Promising Practices Could Assist EPA in Addressing Its Grants Management Challenges 35
Conclusions 39
Recommendations for Executive Action 40
Agency Comments and Our Evaluation 41

Appendixes

Appendix I: Objectives, Scope, and Methodology 43

Appendix II: EPA'S 10 Regions and Regional Office Locations 45

Appendix III: Results of Our Analysis of EPA'S 2002 In-Depth Reviews 46
Analysis of Number and Types of EPA's In-depth Reviews 46
Analysis of Problems Identified in EPA's In-depth Reviews 48
Analysis of Corrective Actions Identified in EPA's In-depth Reviews 54
Analysis of Protocols Used for EPA's In-depth Reviews 55
Analysis of Significant Actions Taken Against Grantees as a Result of In-depth Reviews 57

Appendix IV: Summary of EPA's Grants Management Plan, 2003-2008 58
Goal 1: Enhance the Skills of EPA Personnel Involved in Grants Management 58
Goal 2: Promote Competition in the Award of Grants 59
Goal 3: Leverage Technology to Improve Program Performance 61
Goal 4: Strengthen EPA Oversight of Grants 63
Goal 5: Support Identifying and Achieving Environmental Outcomes 66

Appendix V: Comments from the Environmental Protection Agency 68

Appendix VI: GAO Contacts and Staff Acknowledgments 70
GAO Contacts 70
Staff Acknowledgments 70

Related GAO Products 71

Tables

Table 1: Number of In-depth Reviews by Type of Grantee and Review, 2002 14
Table 2: Most Frequently Identified Problems, by Problem Area for Administrative Reviews, 2002 15
Table 3: Most Frequently Identified Problems, by Problem Area for Programmatic Reviews, 2002 16
Table 4: Description of Most Frequently Identified Problems in EPA's In-depth Reviews 16
Table 5: Number of Reviews by Type of Reviews 46
Table 6: Number of Off-site and On-site Reviews and Number of Reviews EPA Indicated It Performed, by Program and Regional Office 47
Table 7: Number of Problems Identified by Type of Review 48
Table 8: Number of Problems by Type of Grantee 49
Table 9: Number of Problems by Dollar Amount of Grants 50
Table 10: Number of Problems by Type of Review 51
Table 11: Number of Problems Per In-depth Review 52
Table 12: Description of Problems Identified in EPA's Reviews 53
Table 13: Number of Problems and Corrective Actions 54
Table 14: Number of Mandated and Nonmandated Reviews 55
Table 15: Number of Nonmandated Reviews With or Without a Review Protocol, by Program and Regional Office, and by Type of Review 56
Table 16: Number of Significant Actions Taken Against Grantees by Type of Grantee 57
Table 17: Number of Significant Actions Per In-depth Review 57
Table 18: Goal 1 Performance Measures 58
Table 19: Goal 2 Performance Measures 60
Table 20: Goal 3 Performance Measures 62
Table 21: Goal 4 Performance Measures 64
Table 22: Goal 5 Performance Measures 67

Figures

Figure 1: EPA's Key Offices Involved in Grant Activities 5
Figure 2: Percentage of EPA Grant Dollars Awarded by Recipient Type, Fiscal Year 2002 7

Abbreviations

CFDA	Catalog of Federal Domestic Assistance
EPA	Environmental Protection Agency
HHS	Department of Health and Human Services
IFMS	Integrated Financial Management System
IGMS	Integrated Grants Management System
OMB	Office of Management and Budget
PART	Program Assessment Rating Tool
SAMHSA	Substance Abuse and Mental Health Services Administration
STAR	Science To Achieve Results

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Accountability * Integrity * Reliability

United States General Accounting Office
Washington, D.C. 20548

August 29, 2003

The Honorable Don Young
Chairman, Committee on Transportation
and Infrastructure
House of Representatives

The Honorable Anne M. Northup
House of Representatives

The Environmental Protection Agency (EPA) has faced persistent challenges in managing its grants, which constitute over one-half of the agency's budget, or about $4 billion annually. To support its mission of protecting human health and the environment, in fiscal year 2002, EPA awarded grants to a variety of recipients, including state and local governments, tribes, universities, and nonprofit organizations. As of September 30, 2002, there were 4,100 grant recipients. Given the size and diversity of EPA's programs, its ability to efficiently and effectively accomplish its mission largely depends on how well it manages its grant resources and builds accountability into its efforts.

Congressional hearings in 1996, 1999, and 2003 have focused on EPA's problems in effectively managing its grants. We and EPA's Inspector General have reported on a number of weaknesses throughout the grants management process—from awarding grants to measuring grant results.[1] EPA's efforts to address its grants management problems have not fully resolved them. Because EPA has faced persistent problems in managing grants, we designated its grants management as a major management challenge in January 2003.[2]

Late in 2002, EPA launched new efforts to address some of its grants management problems. It issued two new policies—one to promote competition in awarding grants and one to improve its oversight of grants. Furthermore, in April 2003, EPA issued a 5-year grants management plan to address its long-standing grants management problems.

[1]See, for example, U.S. General Accounting Office, *Environmental Protection Agency: Problems Persist in Effectively Managing Grants*, GAO-03-628T (Washington, D.C: June 11, 2003).

[2]U.S. General Accounting Office, *Major Management Challenges and Program Risks: Environmental Protection Agency*, GAO-03-112 (Washington, D.C.: January 2003).

You asked us to determine the (1) major challenges EPA faces in managing its grants and how it has addressed these challenges in the past, (2) extent to which EPA's recently issued policies and grants management plan address these challenges, and (3) promising practices, if any, that could assist EPA in addressing these challenges.

To identify the challenges EPA faces in managing its grants and to examine how it has addressed these challenges in the past, we (1) analyzed 93 reports on EPA's grants management, including our reports, EPA's Inspector General reports, and EPA's internal management reviews conducted from 1996 through 2003, (2) systematically reviewed and recorded information from the 1,232 records of calendar year 2002 in-depth reviews of grantee performance—from financial management to progress in achieving grant objectives, and (3) interviewed EPA officials and reviewed documents obtained from them.[3] To determine the extent to which EPA's recently issued policies and grants management plan address these challenges, we (1) reviewed the new policies and plan and interviewed EPA officials responsible for key aspects of the plan, (2) attended EPA's grants management training courses, and (3) observed five EPA in-depth reviews of grantees. To identify what promising practices, if any, could assist EPA in addressing these challenges, we interviewed officials in six federal agencies, including the five largest grants-awarding agencies, and in private sector organizations and reviewed documentation from them. We also reviewed two GAO reports that describe effective training and performance management systems for federal agencies. Our detailed scope and methodology are discussed in appendix I.

Results in Brief

EPA continues to face four key grants management challenges, despite past efforts to address them. These challenges are (1) selecting the most qualified grant applicants, (2) effectively overseeing grantees, (3) measuring the results of grants, and (4) effectively managing grant staff and resources. In recent years, EPA took a series of actions to address these challenges by, among other things, issuing policies, conducting training, and developing a new data system for grants management. However, these actions had mixed results because of the complexity of the problems, weaknesses in design and implementation, and insufficient management

[3]Federal financial assistance includes grants, cooperative agreements, loans, loan guarantees, scholarships, and other forms of assistance. For this report, we focused on both grants and cooperative agreements, and for simplicity, refer to both as "grants."

attention. For example, EPA's efforts to improve oversight included in-depth monitoring of grantees but did not include using a statistical approach to identifying grantees for reviews, collecting standard information from the reviews, and analyzing the results to identify systemic grants management problems. EPA, therefore, could not be assured that it was identifying and resolving grantee problems and using its resources to more effectively target its oversight efforts.

EPA's 2002 competition and oversight policies and 2003 grants management plan focus on the major grants management challenges we identified but will require strengthening, enhanced accountability, and a sustained commitment to succeed. Specifically, the new competition policy should encourage EPA to select the most qualified applicants by requiring competition for more grants. However, effective implementation of the policy will require a major cultural shift for EPA managers and staff because the competitive process will require significant planning and take more time than awarding grants noncompetitively. Furthermore, the new oversight policy, while now requiring more in-depth monitoring to identify problems, still does not address the problem we noted in EPA's earlier polices—the need for EPA to develop information on systemic problems with grantees. Finally, EPA's new grants management plan does offer, for the first time, a comprehensive road map with goals, objectives, and milestones for addressing grants management challenges. However, while the plan recognizes the importance of accountability, it does not completely address how EPA will hold all managers and staff accountable for successfully fulfilling their grants responsibilities. For example, the plan does not call for including grants management performance standards in managers' and supervisors' performance agreements. Without holding all managers and staff accountable for grants management, EPA cannot ensure the sustained commitment required for the plan's success.

Although information on promising grants management practices is limited, the federal agencies and other organizations we contacted identified some practices for each of EPA's four major challenges that may further assist EPA in improving its grants management. For example, one federal agency takes into account applicants' potential to achieve results when selecting grantees. A private foundation conducts preaward reviews of some applicants to learn about the organization and assess its fiscal health. In addition, we have provided a guide for federal agencies to use in developing a comprehensive performance management system to hold managers and staff accountable for achieving desired agency results. This

guide could be useful in helping EPA ensure accountability for grants management performance.

We are making recommendations to the EPA Administrator to strengthen grants management, specifically in overseeing grantees, measuring environmental outcomes, incorporating accountability for grants management responsibilities, considering promising practices, and reporting on the progress of its efforts in its annual report to Congress.

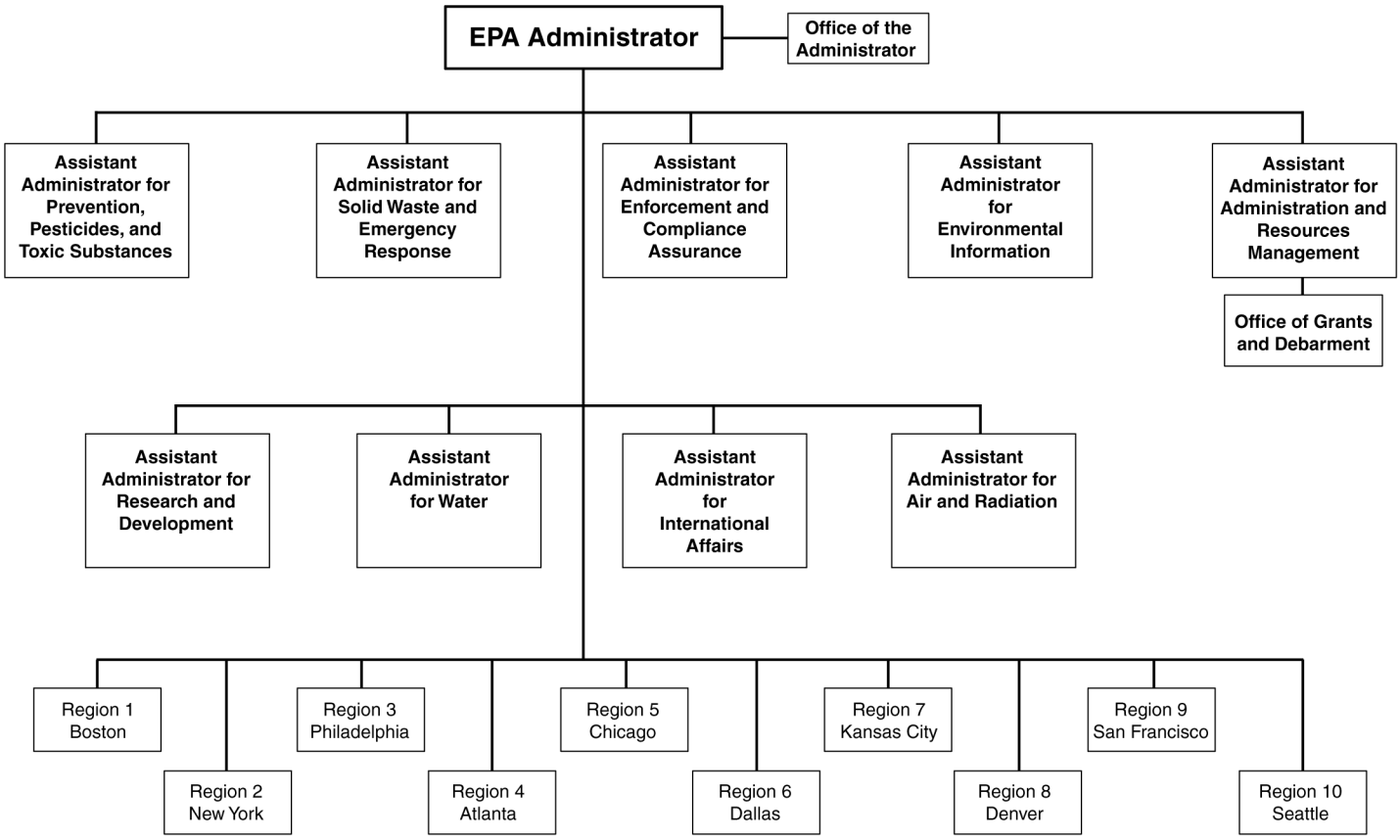
We provided a draft of this report to EPA for its review and comment. EPA stated that it agreed with our recommendations and will implement them as part of its 5-year grants management plan. EPA's comments are presented in appendix V.

Background

EPA administers and oversees grants primarily through the Office of Grants and Debarment, 10 program offices in headquarters,[4] and program offices and grants management offices in EPA's 10 regional offices. Figure 1 shows EPA's key offices involved in grants activities for headquarters and the regions. (See app. II for a map of EPA's regional office locations.)

[4]According to EPA officials, two headquarters' offices, EPA's Office of General Counsel and the Office of the Chief Financial Officer conduct limited grant activity.

Figure 1: EPA's Key Offices Involved in Grant Activities



Source: GAO analysis of EPA information.

The management of EPA's grants program is a cooperative effort involving the Office of Administration and Resources Management's Office of Grants and Debarment, program offices in headquarters, and grants management and program offices in the regions. The Office of Grants and Debarment develops grant policy and guidance. It also carries out certain types of administrative and financial functions for the grants approved by the headquarters program offices, such as awarding grants and overseeing the financial management of these grants. On the programmatic side, headquarters program offices establish and implement national policies for their grant programs, and set funding priorities. They are also responsible for the technical and programmatic oversight of their grants. In the regions, grants management offices carry out certain administrative and financial

functions for the grants, such as awarding grants approved by the regional program offices,[5] while the regional program staff provide technical and programmatic oversight of their grantees.

As of June 2003, 109 grants specialists in the Office of Grants and Debarment and the regional grants management offices were largely responsible for administrative and financial grant functions. Furthermore, 1,835 project officers were actively managing grants in headquarters and regional program offices. These project officers are responsible for the technical and programmatic management of grants. Unlike grant specialists, however, project officers generally have other primary responsibilities, such as using the scientific and technical expertise for which they were hired.

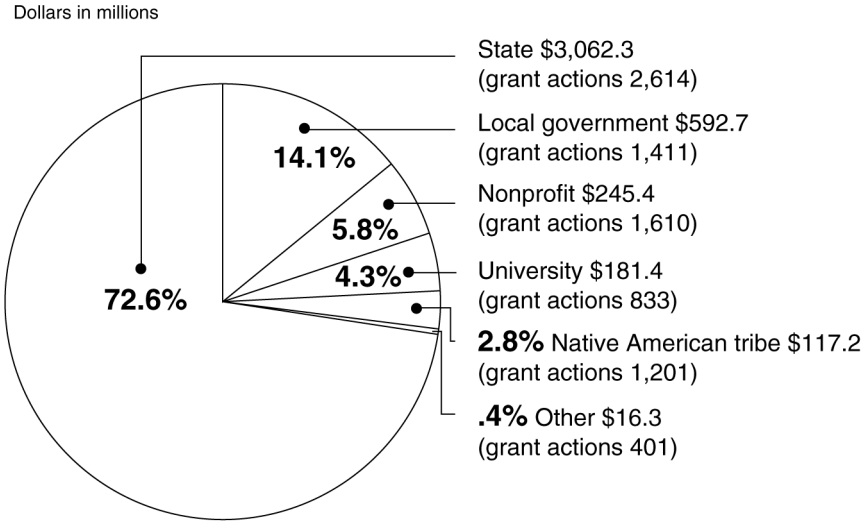
In fiscal year 2002, EPA took 8,070 grant actions[6] totaling about $4.2 billion.[7] These awards were made to six main categories of recipients as shown in figure 2.

[5]Program offices in Regions 4, 5, 6, 9, and 10 award grants directly.

[6]Grant actions include new awards, increase and decrease amendments. The 8,070 grant actions involving funding were composed of 4,374 new grants, 2,772 increase amendments, and 924 decrease amendments. In addition, EPA awarded 1,620 no cost extensions, which did not involve funding, in fiscal 2002.

[7]GAO did not verify EPA's budget data.

Figure 2: Percentage of EPA Grant Dollars Awarded by Recipient Type, Fiscal Year 2002



Source: GAO analysis of EPA data.

EPA offers two types of grants—nondiscretionary and discretionary:

- *Nondiscretionary grants* support water infrastructure projects, such as the drinking water and clean water state revolving fund programs, and continuing environmental programs, such as the Clean Air Program for monitoring and enforcing Clean Air Act regulations. For these grants, Congress directs awards to one or more classes of prospective recipients who meet specific eligibility criteria; the grants are often awarded on the basis of formulas prescribed by law or agency regulation. In fiscal year 2002, EPA awarded about $3.5 billion in nondiscretionary grants. EPA awarded these grants primarily to states or other governmental entities.

- *Discretionary grants* fund a variety of activities, such as environmental research and training. EPA has the discretion to independently determine the recipients and funding levels for these grants. In fiscal year 2002, EPA awarded about $719 million in discretionary grants. EPA awarded discretionary grants primarily to nonprofit organizations, universities, and government entities.

The grant process has the following four phases:

- *Preaward*. EPA reviews the application paperwork and makes an award decision.

- *Award*. EPA prepares the grant documents and instructs the grantee on technical requirements, and the grantee signs an agreement to comply with all requirements.

- *Postaward*. After awarding the grant, EPA provides technical assistance, oversees the work, and provides payments to the grantee; the grantee completes the work, and the project ends.

- *Closeout of the award*. EPA ensures that all technical work and administrative requirements have been completed; EPA prepares closeout documents and notifies the grantee that the grant is completed.

EPA's grantees are subject to the same type of financial management oversight as the recipients of other federal assistance. Specifically, the Single Audit Act[8] requires grantees to have an audit of their financial statements and federal awards or a program specific audit if they spend $300,000 or more in federal awards in a fiscal year.[9] Grantees submit these audits to a central clearinghouse operated by the Bureau of the Census, which then forwards the audit findings to the appropriate agency for any necessary action. However, the act does not cover all grants and all aspects of grants management and, therefore, agencies must take additional steps to ensure that federal funds are spent appropriately.

In addition, EPA conducts in-depth reviews to analyze grantees' compliance with grant regulations and specific grant requirements.[10] Furthermore, to determine how well offices and regions oversee grantees, EPA conducts three types of internal management reviews that address grants management: (1) Management Oversight Reviews, which assess grants management activities in regional offices; (2) Management Effectiveness Reviews, which are self-assessments of grants management activities performed by EPA's headquarters and regional offices; and (3)

[8]The Single Audit Act Amendments of 1996, Pub. L. No. 104-156, 110 Stat. 1396 (codified at 31 U.S.C. §§ 7501-7507).

[9]The Office of Management and Budget, as authorized by the act, increased this amount to $500,000 in federal awards as of June 23, 2003.

[10]EPA refers to these in-depth reviews as advance monitoring.

Post-Award Validation Reviews, which assess the effectiveness of initiatives EPA has taken to improve oversight efforts.

EPA has faced persistent problems in managing its grants. EPA's Inspector General testified before Congress in 1996 and again in 1999 that EPA did not fulfill its obligation to properly monitor grants. Acknowledging these problems, EPA identified oversight, including grant closeouts, as a material weakness—an accounting and internal control system weakness that the EPA Administrator must report to the President and Congress.[11] EPA's fiscal year 1999 Federal Managers' Financial Integrity Act report indicated that this oversight material weakness had been corrected, but the Inspector General testified that the weakness continued. In 2002, the Inspector General again recommended that EPA designate grants management as a material weakness. The Office of Management and Budget (OMB) also recommended in 2002 that EPA designate grants management as a material weakness. In its fiscal year 2002 Annual Report,[12] EPA ultimately decided to maintain this issue as an agency-level weakness, which is a lower level of risk than a material weakness. EPA reached this decision because it believes its ongoing corrective action efforts will help to resolve outstanding grants management challenges. However, in adding EPA's grants management to our list of EPA's major management challenges in January 2003, we signaled our concern that EPA has not yet taken sufficient action to ensure that it can manage its grants effectively.

Four Key Grants Management Challenges Persist despite EPA's Past Efforts to Address Them

We identified four key challenges that EPA continues to face in managing its grants despite efforts to address them. These challenges are (1) selecting the most qualified grant applicants, (2) effectively overseeing grantees, (3) measuring the results of grants, and (4) effectively managing grant staff and resources. In recent years,[13] EPA took a series of actions to address these challenges by, among other things, issuing policies on competition and oversight, conducting training for project officers and nonprofit organizations, and developing a new data system for grants management. However, these actions had mixed results because of the

[11]See 31 U.S.C. § 3512.

[12]U.S. Environmental Protection Agency, *Fiscal Year 2002 Annual Report*, EPA-190-R-03-001 (Washington, D.C.: Jan. 31, 2003).

[13]EPA took these actions through early 2002.

complexity of the problems, weaknesses in design and implementation, and insufficient management attention.

EPA Has Not Always Selected the Most Qualified Applicants despite Issuing a Competition Policy

EPA has not always ensured that the most qualified applicants receive grant awards. For discretionary grants, the agency requires project officers to evaluate grant applications and recommend funding those that will most effectively contribute to EPA's program objectives and priorities. But project officers have not always performed all of the steps required to review grant applications. According to a 2003 Inspector General report,[14] project officers did not always, among other things, (1) ensure a link between the project funded and EPA's mission, (2) assess the probability of success prior to the award, and (3) determine the reasonableness of proposed project costs. As a result, EPA may have lost the opportunity to fund other projects that could have better achieved its mission.

The Federal Grant and Cooperative Agreement Act of 1977[15] encourages agencies to use competition in awarding grants. To encourage competition, EPA issued a grants competition policy in 1995. However, EPA's policy did not result in meaningful competition throughout the agency, according to EPA officials.[16] Furthermore, EPA's own internal management reviews and a 2001 Inspector General report found that EPA has not always encouraged competition.[17]

Finally, EPA has not always engaged in widespread solicitation when it could be beneficial to do so. Widespread solicitation would provide greater assurance that EPA receives proposals from a variety of eligible and highly qualified applicants who otherwise may not have known about grant

[14]EPA Office of Inspector General, *EPA Must Emphasize Importance of Pre-Award Reviews for Assistance Agreements*, Report No. 2003-P-0007 (Washington, D.C.: Mar. 31, 2003).

[15]Federal Grant and Cooperative Agreement Act of 1977, Pub. L. No. 95-224, 92 Stat. 3 (codified as amended at 31 U.S.C. §§ 6301-6308).

[16]According to a 2003 National Research Council report, however, EPA's Science To Achieve Results (STAR) program effectively awards grants for extramural research through its peer-reviewed, competitive award process. See National Research Council, *The Measure of STAR: Review of the U.S. Environmental Protection Agency's Science To Achieve Results (STAR) Research Grants Program.* (Washington, D.C.: 2003).

[17]EPA Office of the Inspector General, *EPA's Competitive Practices for Assistance Awards*, Report No. 2001-P-00008 (Philadelphia, PA: May 21, 2001).

opportunities. According to a 2001 EPA Inspector General report,[18] program officials indicated that widespread solicitation was not necessary because "word gets out" to eligible applicants. Applicants often sent their proposals directly to these program officials, who funded them using "uniquely qualified" as the justification for a noncompetitive award. This procedure created the appearance of preferential treatment by not offering the same opportunities to all potential applicants. In addition, the agency provided incomplete or inconsistent public information on its grant programs in the *Catalog of Federal Domestic Assistance*. Therefore, potential applicants may not have been adequately informed of funding opportunities.

EPA Has Not Always Effectively Overseen Grant Recipients despite Past Actions to Improve Oversight

EPA has not always effectively overseen grant recipients despite efforts to improve monitoring. To address oversight problems, EPA issued a series of policies starting in 1998. However, these oversight policies have had mixed results in addressing this challenge.

EPA Has Not Always Effectively Overseen Grant Recipients

EPA's oversight efforts have not always been proactive or well documented, or ensured compliance with grant requirements and objectives. According to EPA's 2001 internal management reviews, project officers had minimal contact with grantees, limiting their oversight to reviewing grantees' progress reports. However, project officers did not proactively ensure the recipient submitted the reports on time or that the reports included the required financial information. According to our analysis of EPA's 2002 in-depth reviews, 15 percent of the reviews identified a problem with grantees' submitting complete progress reports on time.

Furthermore, EPA's guidance emphasizes the importance of documenting oversight efforts, in part, because a lack of documentation raises questions about the extent of the monitoring conducted. However, project officers and grants specialists have not always documented their monitoring activities. According to a 2002 EPA internal management review, for example, one grants management office developed a form to make it easier to ensure monitoring activities were completed, but the form was missing from 50 percent of the grant files reviewed. Even when staff used the

[18]EPA Office of Inspector General, Report No. 2001-P-00008.

monitoring form, they did not always complete it. Furthermore, project officers did not always document that they had monitored the required five key areas under the policy, such as ensuring compliance with the terms and conditions of the grant award.[19]

Finally, EPA has not effectively ensured that grantees comply with the following grant requirements and objectives:

- *Adequate financial and internal controls*. In 2001,[20] we reported that EPA's oversight of nonprofit grantees' costs did not ensure that grantees used funds for costs allowed under OMB's guidance.[21] For example, EPA did not include transaction testing, which can identify unallowable expenditures, such as lobbying.

- *Compliance with grant regulations*. In 2002, according to the Inspector General, EPA did not monitor grantees' procurements to determine if the grantees were using a competitive process to obtain the best products, at the best price, from the most qualified firms.[22] In addition, in 1999 and again in 2002, the Inspector General reported conflict-of-interest problems because grant recipients had awarded contracts to parties who had helped them prepare their grants and, therefore, had advance knowledge about grantees' plans to award contracts.[23] Our review of EPA's 2002 in-depth reviews also found that a number of

[19]The monitoring of key areas is required under EPA Order 5700.4, *Interim Grantee Compliance Assistance Initiative Policy*, (February 2002). The other four key areas include the (1) progress of work, (2) meeting of all programmatic and statutory and regulatory requirements are met, (3) equipment purchased under the award is managed and accounted for, and (4) financial expenditures.

[20]U.S. General Accounting Office, *Environmental Protection: EPA's Oversight of Nonprofit Grantees' Costs Is Limited*, GAO-01-366 (Washington, D.C.: Apr. 6, 2001).

[21]OMB has issued three circulars defining allowable costs for different types of grantees: A-21, A-87, and A-122.

[22]EPA Office of Inspector General, *Procurements Made by Assistance Agreement Recipients Should Be Competitive*, Report No. 2002-P-00009 (Philadelphia, PA: Mar. 28, 2002).

[23]EPA Office of Inspector General, *Report of Audit on the Center for Chesapeake Communities*, Report No. E6DEP8-03-0014-9100117 (Philadelphia, PA: Mar. 31, 1999) and EPA Office of Inspector General, *Assistance Agreement X993795-01 Awarded by EPA to the Lake Wallenpaupack Watershed Management District*, Report No. 2002-M-00007 (Philadelphia, PA: Jan. 18, 2002).

compliance problems persist. (See table 7 in app. III.) For example, EPA found accounting problems in 37 of 189 administrative reviews and procurement problems in 70 of 189 of these reviews.

- *Meeting grant objectives*. EPA has not fully ensured that recipients are meeting grant objectives. For example, in 2000, we reported that EPA had not adequately tracked its Science To Achieve Results (STAR) research grants to ensure that the grantees had submitted the results of their scientific investigations—the objective of the grant—in a timely manner.[24] We found that 144 of the nearly 200 grants we reviewed had missed their deadline for submitting final reports, even after some extensions had been given.

EPA's Past Actions to Improve Oversight Have Had Mixed Results

To address oversight problems, EPA issued three oversight policies—in 1998, 1999, and February 2002—designed to promote proactive and well-documented oversight of grantees to ensure compliance with grant regulations and objectives. For the first time, these policies required the following:

- Baseline monitoring of all grantees at least once during the life of the grant. EPA staff are responsible for contacting the grantee, reviewing the grantee's reports, assessing compliance with terms and conditions, and monitoring payments to the grantee.

- In-depth reviews for at least 5 to 10 percent of grant recipients. Both grants management offices and program offices conduct these reviews either at the grantee's location (on-site) or at EPA's office or another location (off-site). The grant management offices conduct administrative reviews, which are designed to evaluate grantees' financial and administrative capacity. The program offices conduct programmatic reviews, which are designed to assess the grantees' activities in five key areas: assessing progress of work, reviewing financial expenditures, meeting the grant's terms and conditions, meeting all programmatic and statutory and regulatory requirements, and verifying that equipment purchased under the award is managed and accounted for. The policy required that programmatic staff use a suggested protocol in conducting their in-depth reviews. Furthermore,

[24]U.S. General Accounting Office, *Environmental Research: STAR Grants Focus on Agency Priorities, but Management Enhancements Are Possible*, GAO/RCED-00-170 (Washington, D.C.: Sept. 11, 2000).

the policy included suggested criteria for selecting grantees to be reviewed.

- Annual monitoring plans submitted by headquarters and regional offices that outline the offices' proposed oversight activities. The policy also suggested activities to be included in these plans, such as monitoring grantees' progress of work, documenting their efforts, and closing out grants in a timely manner.

- Grantee compliance database—developed by the Office of Grants and Debarment—that the grants management offices would use to store the in-depth reviews.

We found that EPA's design and implementation of its actions to improve grantee oversight have had mixed results. In particular, we found both improvements and weaknesses in EPA's in-depth reviews and its ability to track grantee compliance.

On the positive side, EPA's policies required headquarters and regional offices to conduct a minimum number of in-depth reviews. According to our analysis of EPA's in-depth reviews, the agency conducted 1,232 reviews in 2002. Table 1 shows that these reviews were conducted almost equally on-site and off-site, and for a variety of different types of grantees.

Table 1: Number of In-depth Reviews by Type of Grantee and Review, 2002

	Type of review			
Type of grantee	**Off-site**	**On-site**	**Total reviews**	**Percentage of total reviews**
Nonprofits	110	134	244	20
State	140	198	338	27
Native American tribes	190	137	327	27
Local government	82	44	126	10
University	105	55	160	13
Other	17	20	37	3
Total	**644**	**588**	**1,232**	**100**

Source: GAO analysis of EPA's in-depth reviews.

EPA also more evenly distributed, and increased the number of, on-site reviews among its program and regional offices between 2001 and 2002. According to the Inspector General, EPA conducted 466 on-site, in-depth reviews in 2001, but 265 of these, or 57 percent, were conducted by only two of EPA's offices.[25] However, according to our analysis of the 2002 in-depth reviews, on-site reviews were more evenly distributed: 588 on-site reviews, with the two EPA offices that conducted the most reviews representing approximately 28 percent of the total. (See table 6 in app. III.)

Furthermore, about half of EPA's in-depth reviews found problems with grantees. (See table 11 in app. III.) According to our analysis, in 2002, EPA grants specialists and project officers identified 1,250 problems in 21 areas. (See table 7 in app. III.) Tables 2 and 3 show the most frequently identified problems for the 189 administrative and 1,017 programmatic reviews. For example, 73 of 189 administrative reviews found problems with grantees' written procedures, while 308 of the 1,017 programmatic reviews identified technical issues.

Table 2: Most Frequently Identified Problems, by Problem Area for Administrative Reviews, 2002

Type of problem	Number of reviews with reported problem
Written procedures	73
Procurement	70
Personnel/payroll	51
Accounting	37

Source: GAO analysis of EPA's in-depth reviews.

[25]EPA Office of Inspector General, *Additional Efforts Needed to Improve EPA's Oversight of Assistance Agreements*, Report No. 2002-P-00018 (Washington, D.C.: Sept. 30, 2002).

Table 3: Most Frequently Identified Problems, by Problem Area for Programmatic Reviews, 2002

Type of problem	Number of reviews with reported problem
Technical issues	308
Progress reports	167
Personnel/payroll	92
Quality assurance	71

Source: GAO analysis of EPA's in-depth reviews.

The differences in types of problems frequently identified, as shown in tables 2 and 3, reflect differences in the focus of administrative and programmatic reviews. Table 4 describes the nature of these problems. (See table 12 in app. III for a description of all the problems.)

Table 4: Description of Most Frequently Identified Problems in EPA's In-depth Reviews

Problem	Types of problems included in EPA's in-depth reviews
Accounting	Any failure of a grantee's financial management system or shortcomings in the procedures it used to ensure the proper accounting of federal funds. For example, EPA found cases in which a grantee: • could not compare budgeted amounts to actual expenditures, • did not properly reconcile report balances to the general ledger, or • did not separately track funds for different grants.
Personnel/ payroll	Problems varied depending on the type of review conducted. Administrative reviews included cases in which a grantee did not track the amount of time its employees spent on specific grant activities. Programmatic reviews included cases in which grantees did not have sufficient staff resources to perform the grant activities.
Procurement	Grantees lacked documentation to support sole-source contracts, and grantees did not report their efforts to encourage procurement from minority- and woman-owned businesses.
Progress reports	A grantee's progress report was missing, late, or did not include all the necessary information.
Quality assurance	A grantee needed to revise its quality assurance plan, which is required to ensure the quality of data collected during the grant work.
Technical issues	A grantee was behind in the progress of his or her work.
Written procedures	A grantee's written policies or procedures were either missing or inadequate.

Source: GAO analysis of EPA's in-depth reviews.

In response to these problems, EPA required or recommended that grantees take corrective actions for about half, or 640, of the 1,250 problems identified. (See table 13 in app. III.) For example, EPA found that one grantee had not adequately separated duties to provide checks and

balances with the grantee's organization. That is, the executive director was also the project manager, payment authorizer, contract executor, and payroll officer. EPA recommended that the organization separate these responsibilities to ensure proper handling of federal funds.

EPA also took more significant actions against some grantees. These significant actions include the following:

- *Suspension order*—EPA requires a grantee to stop work and take action to minimize its grant-related expenditures until it resolves EPA's areas of concern.

- *Payment holds*—EPA decides it will not make any more payments to a grantee until the grantee has resolved an area of concern.

- *Disallowance of costs*—EPA disallows a grantee's expenditures when it determines that the grantee did not spend its grant funds in accordance with federal cost principles or its particular grant agreement.

- *Debarment*—EPA declares that a particular organization or individual is not eligible to receive grants for a specific period of time.

- *Termination*—EPA cancels the grant.

In our analysis of EPA's 2002 in-depth reviews, we identified 47 significant actions against its grantees. The most frequent action taken was withholding payment: 15 of the 47 significant actions. In no cases did EPA debar a grantee. Nonprofit organizations and tribes each received 21 of these actions, states received 5, and local governments and universities received none. (See table 16 in app. III.) EPA's significant actions included the following, for example:

- Region 8 issued a payment hold against one of its tribal grantees after questioning costs because the recipient appeared to be performing work outside the scope of the grant agreement. The region determined that the remaining $27,459 in the grantee's account should be withheld until the tribe submitted documentation to demonstrate that the questioned costs were allowable.

- Region 3 disallowed costs for one of its nonprofit grantees. The region disallowed $51,085 based on a conflict-of-interest, lack of competition in

the subagreement, and lack of supporting documentation in accounting records.

- The Grants Administration Division terminated a grant for a nonprofit grantee. EPA took this action because the grantee actually had no paid employees of its own but instead used the employees of a for-profit company to conduct the work. This arrangement created an apparent conflict of interest.

- Region 4 withheld $40,000 of funding from a state because it found that the state had not agreed to fully implement its responsibilities as defined by the grant.

EPA data also showed that the agency took other significant actions in 2002 that did not result from in-depth reviews. According to our analysis, EPA took 24 other significant actions because of problems identified during an investigation by EPA's Inspector General or during oversight of grantees in actions other than in-depth reviews.

On another positive note, EPA improved its closeout of grants after it developed specific procedures for closing out nonconstruction grants and identified a strategy for closing out construction grants.[26] This strategy assessed impediments to closing out grants and actions to address these impediments. EPA had successfully resolved its backlog by 2002. As a result, EPA has eliminated this backlog as a material weakness, and thus it better ensures that grant commitments have been met.

Despite these positive steps, EPA's actions did not address the need to develop information on systemic problems with grantees to better target its oversight efforts—a weakness in policy design. EPA could not develop systemic information for three reasons. First, EPA did not use a statistical approach to selecting grantees for in-depth reviews. In particular, EPA allowed each of its offices to determine how many in-depth reviews the office would conduct—from at least 5 to 10 percent of grantees—and what criteria the office would use to select grantees for in-depth reviews. The policy's flexibility in selecting grantees was premised on the belief that

[26]Construction grants are grants used for designing and constructing facilities such as wastewater treatment plants. Nonconstruction grants are grants such as those awarded to states for conducting air quality monitoring or grants to universities for conducting environmental research.

those closest to grantees, such as a program or regional office, could best decide on which grantees to select for oversight. However, if EPA used a statistical approach to grantee selection, it could then project the results of the reviews to all EPA grantees.[27] Since EPA did not use such a sampling plan in conducting its 2002 reviews, neither EPA nor we could use data from these reviews to determine the overall compliance of grantees. Furthermore, without a statistical approach, EPA cannot determine whether 5, 10, or any other percentage, adequately provides it with a comprehensive assessment of its grantees.

Second, EPA does not have a standard reporting format to ensure consistency and clarity in reporting review results. Review results include such items as problems identified and corrective actions required to address these problems. As we found in our analysis of the 2002 in-depth reviews, EPA officials across the agency report in various formats that do not always clearly present the results of the review. For example, some EPA officials provided a narrative report on the results of their reviews, while others completed a protocol that they used in conducting their review. We found 349 instances where the project officer or grants management specialist did not clearly explain whether he or she had discovered a problem or not.

Finally, EPA did not develop data elements for its grantee compliance database or a plan for using that data to identify and act on systemic problems. We found that valuable information could be collected from the 2002 in-depth reviews for assessing such issues as the (1) types of grantees having problems, (2) types of problem areas needing further attention, (3) types of reviews—on-site or off-site—that provide the best insights into certain problems areas, and (4) corrective actions required or recommended to resolve problems.

With such information, EPA could, over time, identify problem areas and develop trends to assess the effectiveness of corrective actions in order to better target its oversight efforts. In particular, according to our analysis of EPA's 2002 in-depth reviews, administrative reviews identify more problems when conducted on site, while the number of problems identified by programmatic reviews does not differ by on-site or off-site reviews. (See table 10 in app. III.) However, nearly half of the programmatic reviews,

[27]A probability sample is one in which each member of the population has a known, nonzero probability of selection.

which constituted more than 80 percent of the 2002 reviews, were conducted on site. (See table 5 in app. III.) Since on-site reviews are resource intensive because of travel costs and staff used, a systematic analysis could enable EPA to better target its resources. Similarly, EPA could incorporate other information into its grantee compliance database, such as Inspector General reports, to identify problem areas, and target oversight resources. In addition, EPA could use the database to track the resolution of problems.

The weaknesses in the policies are compounded by the fact that EPA did not always effectively implement its oversight policies. Specifically, EPA used its database to collect and store in-depth reviews, but not all EPA offices were required under the policies to enter the results of their reviews into the database, and not all of the offices required to enter information into the database did so. Moreover, EPA officials acknowledged the agency did not have an effective method to verify the number of in-depth reviews it reported to Congress. We found that our total number of in-depth reviews—1,232—was about the same as EPA's total—1,208—but we found discrepancies, on an office-by-office basis, in the number of reviews conducted. (See table 6 in app. III.) For example, in one office we identified 176 more reviews than EPA did, and in another office we identified 76 fewer reviews than EPA did. Finally, we found that EPA's in-depth reviews did not always indicate whether these reviews had used a protocol. For example, in 294 of the 893 nonmandated reviews, it was unclear whether the grants specialist or project officer used a protocol.[28] (See tables 14 and 15 in app. III.)

The Inspector General has also reported on problems with EPA's implementation of its actions to address oversight problems. In 2002, the Inspector General found, among other things, inconsistent performance of monitoring responsibilities, inadequate preparation of monitoring plans, and inadequate internal management reviews.[29] For example, the Inspector General found that EPA did not use the internal management reviews to draw overall conclusions on the effectiveness of oversight and did not quantify its review results. Furthermore, some senior resource officials did

[28]Nonmandated reviews were defined in our analysis as reviews conducted for reasons other than statutory or periodic programmatic requirements. Of the 893 nonmandated reviews, for 91 of the administrative reviews, 191 of the programmatic reviews, and 12 of the joint reviews, it was unclear if a protocol was used.

[29]EPA Office of Inspector General, Report No. 2002-P-00018.

not emphasize the importance of grants oversight.[30] According to these officials, the minimal control they have over the regional program offices' priorities contributes to problems in effective grants management oversight. The Inspector General found that EPA lacked an official who is clearly responsible for monitoring the regional program offices' priorities for overseeing grants.

EPA's Efforts to Address the Complex Problem of Measuring Environmental Results Have Not Consistently Ensured That Grantees Achieve Them

Planning for grants to achieve environmental results—and measuring results—is a difficult, complex challenge. As pointed out in an earlier report,[31] while it is important to measure outcomes of environmental activities rather than just the activities (outputs) themselves, agencies face challenges in doing this. Output measures are inherently easier to develop and report on than environmental results measures. In contrast, defensible outcome measures are substantially more difficult to develop because of the (1) absence of baseline data against which environmental improvements can be measured, (2) inherent problems in quantifying certain results, (3) difficulty of linking program activities with environmental results because multiple conditions influence environmental results, and (4) resources needed for measurement.

Nonetheless, EPA has focused on grants' environmental results in its partnership with the states under the National Environmental Performance Partnership System. Under this system, states may enter into "Performance Partnership Agreements" with their EPA regional offices. The partners use a common set of national environmental indicators ("core performance measures"). In developing these performance measures, EPA and state officials have sought to move beyond counting the number of actions conducted and toward environmental outcomes.

However, EPA has awarded some discretionary grants before considering how the results of the grantees' work would contribute to achieving environmental results. In 2001, we reported that EPA program officials treated EPA's strategic goals and objectives as a clerical tool for

[30]Senior resource officials are typically deputy assistant administrators in headquarters offices and assistant regional administrators, and are in charge of strengthening agencywide fiscal resource management while also ensuring compliance with laws and regulations.

[31]U.S. General Accounting Office, *Managing for Results: EPA Faces Challenges in Developing Results-Oriented Performance Goals and Measures*, GAO/RCED-00-77 (Washington, D.C.: Apr. 28, 2000).

categorizing grants after the funds were already awarded rather than as a tool to guide grant selection, although the grants generally were aligned with EPA's strategic goals and objectives.[32] By assessing the relevance of these grants to EPA's strategic plan after awarding the grant, EPA cannot ensure that it is awarding grants that will best help it accomplish its mission.

EPA has also not developed environmental measures and outcomes for all of its grant programs. In 2000, we reported that EPA did not have program criteria to measure the effectiveness of its STAR program.[33] Instead, EPA focused on the procedures and processes for awarding grants. As a result, EPA was uncertain about what the program was achieving. Similarly, OMB recently evaluated four EPA grant programs to assess their effectiveness in achieving and measuring results.[34] According to this evaluation, these four programs lacked outcome-based measures—measures that demonstrated the impact of the programs on improving human health and the environment. It concluded that one of EPA's major challenges was demonstrating program effectiveness in achieving public health and environmental results. Furthermore, as we reported in 1999, the National Environmental Performance Partnership System was hampered by the technical problems we noted earlier, such as the absence of baseline data against which environmental improvements could be measured.[35]

Finally, EPA often does not require grantees to submit work plans that explain how a project will achieve measurable environmental results. The grantee work plan should describe the project, its objectives, the method the grantee will use to accomplish the objectives, and expected outcomes. The project officer uses the work plan to evaluate performance under the

[32]U.S. General Accounting Office, *Environmental Protection: Information on EPA Project Grants and Use of Waiver Authority*, GAO-01-359 (Washington, D.C.: Mar. 9, 2001).

[33]GAO/RCED-00-170.

[34]The four EPA programs assessed were the Drinking Water State Revolving Fund, Leaking Underground Storage Tanks, Nonpoint Source Grants, and Tribal General Assistance programs. OMB evaluated these programs using its Program Assessment Rating Tool (PART), a questionnaire that evaluated four critical areas of performance: purpose and design, strategic planning, management, results and accountability. These assessments were included in the President's 2004 budget submission.

[35]U.S. General Accounting Office, *Environmental Protection: Collaborative EPA-State Effort Needed to Improve New Performance Partnership System*, GAO/RCED-99-171 (Washington, D.C.: June 21, 1999).

grant agreement. In 2002, EPA's Inspector General reported that EPA approved some grantees' work plans without determining the projects' long-term human health and environmental outcomes.[36] In fact, for almost half of the 42 discretionary grants the Inspector General reviewed, EPA did not even attempt to measure the projects' outcomes. Instead, EPA funded grants on the basis of work plans that focused on short-term procedural results, such as meetings or conferences. In some cases, it was unclear what the grant had accomplished. In 2003, the Inspector General again found the project officers had not negotiated environmental outcomes in work plans. The Inspector General found that 42 percent of the grant work plans reviewed—both discretionary and nondiscretionary grants—lacked negotiated environmental outcomes.[37]

EPA Has Not Always Effectively Managed Its Grants Staff and Resources despite Some Past Efforts

EPA has not always appropriately allocated the workload for staff managing grants, provided them with adequate training, or held them accountable. Additionally, EPA has not always provided staff with the resources, support, and information necessary to manage the agency's grants. To address these problems, EPA has taken a number of actions, such as conducting additional training and developing a new electronic grants management system. However, implementation weaknesses have meant that EPA has not completely resolved its resource management problems.

EPA Has Not Always Effectively Managed Its Grant Resources

In terms of staff, EPA faces workload problems, according to its internal management reviews. EPA has not had enough staff in some locations to adequately manage the number of grants it awards. Furthermore, workload was sometimes unevenly distributed. For example, in one program office, 29 project officers had more than 4 grants to manage, while 11 had more than 20. Additionally, in one regional office, project officers and grant specialists did not promptly provide required approvals for certain grants management tasks, in part because their competing workloads prevented them from processing approvals on time. Finally, in 2002, the Inspector General reported that there was considerable uncertainty over the size of

[36]EPA Office of Inspector General, *Surveys, Studies, Investigations, and Special Purpose Grants*, Report No. 2002-P-00005 (Philadelphia, PA: Mar. 21, 2002).

[37]EPA Office of Inspector General, *EPA Must Emphasize Importance of Pre-Award Reviews for Assistance Agreements*, Report No. 2003-P-00007 (Washington, D.C.: Mar. 31, 2003).

the workload that grants specialists and project officers could manage effectively.[38] These workload problems could, in some instances, result in poor grants management.

EPA requires all project officers to certify their grants management skills by attending a 3-day training course; this course is based on a training manual that EPA periodically updates. Even though EPA has this requirement, it has not always provided grants staff with the training necessary to properly manage all aspects of grants. According to EPA's internal management reviews from 1997 through 2002, some staff managing grants had not completed the basic training required to manage grants. Other staff may have completed the basic training but need additional training to refresh their skills or to become familiar with all of their grants management responsibilities and requirements. For example, in some instances, project officers were not familiar with the five key areas they were to review when monitoring grantees, such as the financial aspects of a grantee's performance. According to a senior EPA official, with such a small percentage of some project officers spending time on grants management duties, it is difficult for EPA to ensure that its 1,835 project officers who are actively managing grants have the level of training they need.

Furthermore, the agency has not always held its staff—such as project officers—accountable for fulfilling grants management responsibilities. According to the Inspector General and internal management reviews, EPA has not clearly defined project officers' grants management responsibilities in their position descriptions and performance agreements. Without specific standards for grants management in performance agreements, it is difficult for EPA to hold staff accountable. It is, therefore, not surprising that, according to the Inspector General, project officers faced no consequences for failing to effectively perform grants management duties. Compounding the problem, agency leadership has not always emphasized the importance of project officers' grants management duties.[39]

It may be difficult to hold project officers accountable because many project officers spend only a small proportion of their time managing grants. For example, a recent EPA workload assessment noted that

[38]EPA Office of Inspector General, Report No. 2002-P-00018.

[39]EPA Office of Inspector General, Report No. 2003-P-00007.

approximately 35 percent of the agency's project officers manage only one grant, instead devoting the bulk of their time to their scientific and technical responsibilities.

EPA has also not adequately managed its resources to support grant staff in performing their duties. Some EPA internal management reviews noted a lack of resource commitment—time and money—to conduct grant management activities and develop staff. For example, in some cases, grantee oversight, particularly the on-site reviews, was limited by the scarcity of such resources as travel funds.

Finally, staff did not always have the information they needed to effectively manage grants. According to several EPA internal management reviews, staff lacked accessible or useable reference material—such as policy and guidance documents, and other information resources, such as reports of grantee expenditures. Additionally, we and others have reported that EPA did not use information from performance evaluations or information systems to better manage its grants. For example, one EPA region did not analyze the results of its own internal surveys, which were designed to assess the effectiveness of its grants management operations.

Efforts to Improve the Management of Grant Resources Have Had Mixed Results

EPA has taken actions to address concerns that all of its grants management staff receive training. EPA developed a database to document which project officers had received the required 3-day basic training and began to require that all project officers take an on-line refresher course every 3 years. While these steps were primarily designed to improve the training of project officers, grants specialists also have received some training, and EPA has recently pilot-tested a standard training course specifically designed for them. EPA managers and staff have also received other types of training to enhance grants management skills. For example, EPA has piloted a 1-day course on grants management for managers and supervisors. The Office of Grants and Debarment also provides training on specific aspects of grants management—such as postaward monitoring—as requested by program or regional offices. Finally, in response to concerns that some grantees did not have the skills required to manage grants, EPA developed a 1-day grants management training course for nonprofit grantees.

However, these actions have not been fully successful. In 2002, EPA's Inspector General reported that the agency did not have adequate internal controls in place to ensure that project officers complied with the training

requirements.[40] Specifically, one region did not track the names and dates of project officers who received training, the agencywide database on training for project officers was inaccurate and had limited functionality, and the on-line refresher course did not have the controls necessary to prevent staff from obtaining false certifications.

EPA's training efforts have also needed strengthening to better ensure that staff receive and retain the skills necessary to manage grants. In particular, while offices can request specific training from the Office of Grants and Debarment, EPA does not have a process to ensure that all staff receive the training needed to implement new policies and regulatory requirements in a timely manner. For instance, when EPA issued new post-award monitoring policies to improve its grants oversight, project officers did not receive training on these new requirements unless their program or regional office specifically requested that training or it was time for the officers to take the refresher course. EPA also does not measure the impact of its training programs by determining the baseline level of skills that employees possess before taking training and determining what, if any, skills have improved as a result of the training. Nor does EPA link its training activities with improved performance on the job, especially in targeted areas such as monitoring contacts with grantees and documentation of files. As a result, EPA cannot hold either the trainers or the trainees accountable for improving grants management skills and performance.

EPA has also taken steps to improve another critical resource—its primary data system for managing grants. In 1997, it began developing the Integrated Grants Management System (IGMS), which, according to an EPA official, will facilitate oversight by allowing electronic management throughout the life of a grant. EPA is developing the system through a series of modules (databases). EPA estimates that once IGMS becomes fully operational, it will save roughly $1.6 million annually. EPA believes IGMS could help resolve some of the long-standing problems in grants management by implementing controls to prevent the submission of certain documents without required elements and to provide electronic reminders of when certain activities or documents are due. Additionally, EPA designed the system to reduce the potential for data entry errors. In 2001, EPA began implementing the module for the application and award phases of a grant. Using IGMS, EPA expects to electronically review the

[40]EPA Office of Inspector General, Report No. 2002-P-00018.

grantee's application, prepare and review EPA's documents, and approve the award. In April 2003, EPA began using IGMS' postaward module. This module allows project officers to electronically enter project milestones into the system, communicate with other staff involved in overseeing grants, receive reports from grantees, and initiate closeout activities. EPA expects that grants specialists and regional program staff will use IGMS to electronically manage grants by September 2004 and headquarters program staff by the end of 2006.

Despite this promising development, the implementation period for IGMS has been lengthy. This delay was due in part to Y2K concerns, the complexity of the system for grants management, and the addition of other major business processes into the system. Consequently, EPA has had to plan a lengthy implementation schedule in order to ensure that it can properly roll out the system to all of the programs and regions with its available training and user-support resources. Therefore, while those offices that have received IGMS are using it to manage grants, EPA cannot yet determine whether IGMS has solved some of the agency's resource management problems.

New Policies and Plan Show Promise but Require Strengthening, Enhanced Accountability, and Sustained Commitment to Succeed

EPA's recently issued policies on competition and oversight and a 5-year plan to address its long-standing grants management problems are promising and focus on the major management challenges, but these policies and plan require strengthening, enhanced accountability, and sustained commitment to succeed. In particular, EPA's policy generally requiring competition for discretionary grants should encourage selection of the most qualified applicants. However, successful implementation of this policy requires a more planned, rigorous approach to awarding some grants than in the past, which is a major cultural shift for EPA managers and staff. Similarly, EPA's new oversight policy should increase the agency's monitoring of individual grantees, but it does not enable the agency to identify and address systemic problems. Finally, EPA's new grants management plan takes significant steps toward improving grant management, but the plan will be difficult to implement if EPA does not demonstrate that it is committed to carrying out the plan over the 5-year period and if it does not hold managers and staff accountable for their grants management performance.

Competition Policy Should Encourage the Selection of the Most Qualified Applicants if Successfully Implemented

In September 2002, EPA issued a policy to promote competition in grant awards by requiring that most discretionary grants be competed. Discretionary grants totaled about $719 million of the $4.2 billion in grants awarded in fiscal year 2002. The policy applies to most discretionary grant programs or individual grants of more than $75,000.[41] It exempts individual grants only if they meet certain criteria, such as national security interests. Exemptions require detailed, written justification and approval. The policy also promotes widespread solicitation for competed grants by establishing specific requirements for announcing funding opportunities in, for example, the *Federal Register* and on Web sites.

Because the competition policy represents a major change in the way EPA awards discretionary grants, the agency created the position of a senior-level competition advocate for grants. This advocate oversees the policy's implementation and compliance and evaluates its effectiveness. Among other things, the competition advocate is responsible for developing implementation guidance and coordinating training to ensure successful implementation. The competition advocate ensures compliance, in part, by reviewing any requests for programs to be exempted from competition. The advocate will also have to work with headquarters and regional offices as well as staff and management officials at all levels throughout EPA to successfully implement the policy.

The competition policy faces implementation barriers because it represents a major cultural shift for EPA staff and managers, who have had limited experience with competition, according to the Office of Grants and Debarment. The policy requires EPA officials to take a more planned, rigorous approach to awarding grants. That is, EPA staff must determine the evaluation criteria and ranking of these criteria for a grant, develop the grant announcement, and generally publish it at least 60 days before the application deadline. Staff must also evaluate applications—potentially from a larger number of applicants than in the past—and notify applicants of their decisions. These activities will require significant planning and take more time than awarding grants noncompetitively. Office of Grants and Debarment officials anticipate a learning curve as staff implement the policy and will evaluate the policy's effectiveness, including the threshold dollar level in 2005. While the policy has been in effect for a number of

[41]In certain circumstances exempted programs may conduct a competition; when they do, they must be conducted in a manner consistent with the competition policy.

months, it is too early to tell if the policy has resulted in increased competition over the entire fiscal year. EPA officials believe that preliminary results indicate that the policy is increasing the use of competition.

Oversight Policy Makes Important Improvements but Requires Strengthening to Identify Systemic Problems

EPA's December 2002 oversight policy makes important improvements, but it does not fully address the weaknesses in previous oversight policies that we noted earlier. The new policy, among other things, requires the following:

- Offices to increase baseline monitoring from at least once during the life of the grant to annually throughout the life of the grant;
- Offices to increase the percentage of in-depth monitoring to at least 10 percent of grant recipients;
- Grant management specialists conducting on-site, in-depth reviews to include "transaction testing" for unallowable costs, such as lobbying and entertainment expenditures. Transaction testing consists of reviewing grantees' accounting ledgers and underlying documentation;
- Offices to identify their criteria for selecting recipients for in-depth reviews and submit these criteria as part of their annual plans;
- Offices to enter in-depth reviews into the grantee compliance database; and
- The Office of Grants and Debarment's Grants Administration Division to have a work group recommend database enhancements to make the database more useful for program offices. This work group plans to report its findings in August 2003.

While the new policy makes these refinements in oversight, it still does not enable EPA to identify systemic problems in grants management that we noted earlier. Specifically, the policy does not do the following:

- *Incorporate a statistical approach to selecting grantees for review.* EPA's new policy annually selects 10 percent of grant recipients for in-depth review. EPA officials believe that a single, higher percentage, rather than a range, will eliminate variation among its offices and provide better coverage. However, without a statistical approach, EPA

cannot evaluate whether this 10 percent is appropriate. With such an approach, EPA could adjust the number and allocation of in-depth reviews to match the level of risk associated with each type of grant recipient and project the results of the reviews to all EPA grantees.

- *Require a standard reporting format for in-depth reviews*. EPA needs the clear and precise information from its in-depth reviews that a standard reporting format would provide—and which was absent from the 2002 in-depth reviews we analyzed. Standard information is important so that EPA can use the information to guide its grants oversight efforts agencywide.

- *Maximize use of information in the grantee compliance database*. While EPA has recognized the importance of the information in the database by forming a database work group and collecting a limited amount of data from in-depth reviews, it has not yet developed a plan for using data from all its oversight efforts—in-depth reviews, corrective actions, and other compliance efforts—to fully identify systemic problems and then inform grants management officials about oversight areas that need to be addressed.

New Plan Focuses on the Four Major Management Challenges but Will Require Strengthening, Sustained Commitment, and Enhanced Accountability

According to EPA's Assistant Administrator for Administration and Resources Management, the agency's April 2003 5-year grants management plan is the most critical component of EPA's efforts to improve its grants management.[42] The plan has five goals and accompanying objectives, as follows:

- *Promote competition in awarding grants*. Identify annual funding priorities, encourage a large and diverse group of applicants, promote the importance of competition within the agency, and provide adequate support for the grant competition advocate.

- *Strengthen EPA's grants oversight*. Improve internal management reviews of EPA's offices, improve and expand reviews of grant recipients, develop approaches to prevent or limit grants management weaknesses, establish clear lines of accountability for grants oversight, and provide high-level coordination, planning, and priority setting.

[42]For further details on the grants management plan see app. IV.

- *Support the identification and achievement of environmental outcomes*. Ensure that grantees include expected environmental outcomes and performance measures in grant work plans and improve reporting on progress made in achieving environmental outcomes.

- *Enhance the skills of EPA personnel involved in grants management*. Update training materials and courses and improve delivery of training to project officers and grants specialists.

- *Leverage technology to improve program performance*. Enhance and expand information systems that support grants management and oversight, among other things.

In addition to the goals and objectives, the plan establishes performance measures, targets, and action steps with completion dates for 2003 through 2006. For example, to strengthen EPA's grants oversight, the plan calls for conducting consolidated management reviews[43] of headquarters and regional offices to review the operations of grants management activities and for completing reviews for three regional offices and four headquarters offices in 2003. These reviews will examine EPA offices' oversight of grantees throughout the life of the grant. (See app. IV.)

We believe the grants management plan is comprehensive in that it focuses on the four major management challenges—grantee selection, oversight, environmental results, and resources—that we identified in our work. For the first time, EPA plans a coordinated, integrated approach to improving grants management. The plan is also a positive step because it (1) identifies objectives, milestones, and resources to achieve the plan's goals; (2) provides an accompanying annual tactical plan that outlines specific tasks for each goal and objective, identifies the person accountable for completing the task, and sets an expected completion date; (3) attempts to build accountability into grants management by establishing performance measures for each of the plan's five goals; (4) recognizes the need for greater involvement of senior officials in coordinating grants management throughout the agency by establishing a senior-level grants management

[43]EPA stated that its internal grants management reviews consist of (1) comprehensive management reviews of headquarters and regional offices conducted by the Office of Grants and Debarment; (2) grants performance measure reviews performed by the Office of Grants and Debarment, using performance measures and documentation in the central databases; and (3) grants management self-assessments conducted by EPA offices.

council to coordinate, plan, and set priorities for grants management; and (5) establishes best practices for grants management offices.

EPA has already begun implementing several of the actions in the plan or meant to support the plan; these actions address previously identified problems. For example, EPA now ensures that grants are adequately solicited by posting its available grants on the federal grants Web site http://www.fedgrants.gov. To enhance oversight, it initiated the consolidated grants management reviews of headquarters and regional offices. To better manage for results, EPA formed an Environmental Outcomes Work Group to address concerns about focusing on environmental outcomes. Finally, for training, EPA (1) instituted verification procedures to ensure that only certified project officers manage grants; (2) drafted its long-term plan for grants management training; (3) updated the project officer training manual; and (4) launched a new training course for grants managers. In addition, EPA is implementing an office award program to promote effective grants management.

Although EPA's plan lays out a road map for improving grants management, it has two weaknesses. First, in terms of measuring results, while the plan supports identifying and achieving environmental outcomes, the suggested protocol for in-depth reviews does not call for project officers to ask grantees about their progress in using measures to achieve environmental outcomes. Second, EPA's plan may not fully address long-standing training problems. Specifically, it is too early to tell whether EPA's effort to develop a long-term training plan will provide (1) a process to ensure that all staff members receive the training necessary to implement new policies and regulations in a timely manner or (2) a mechanism to evaluate the impact of its training efforts on improving staff's grants management knowledge and skills, the extent to which staff's performance improves over time, and demonstrated results in improving grants management performance. The impact of training could be measured by indicators such as the proportion of financial or other problems identified early on by ongoing monitoring, thereby avoiding potentially greater losses in the long run. Furthermore, the plan's performance measures for evaluating training are output-oriented—how many staff are trained—rather than outcome-oriented—how much skills have improved.

Successful implementation of the new plan requires more than addressing these two weaknesses, however. It requires all staff—senior management, project officers, and grants specialists—to be fully committed to, and accountable for, grants management. Recognizing the importance of

commitment and accountability, EPA's 5-year grants management plan has as one of its objectives the establishment of clear lines of accountability for grants oversight. The plan, among other things, calls for (1) ensuring that performance standards established for grants specialists and project officers adequately address grants management responsibilities in 2004; (2) clarifying and defining the roles and responsibilities of senior resource officials, grant specialists, project officers, and others in 2003; and (3) analyzing project officers' and grants specialists' workload in 2004.

In implementing this plan, however, EPA faces challenges to enhancing accountability. Although the plan calls for ensuring that project officers' performance standards adequately address their grants management responsibilities, agencywide implementation may be difficult. Currently, project officers do not have uniform performance standards, according to officials in EPA's Office of Human Resources and Organizational Services. Instead, each supervisor sets standards for each project officer, and these standards may not include grants management responsibilities. It could take up to a year to establish and implement a uniform performance standard, according to these officials. Instead, the Assistant Administrator for the Office of Administration and Resources Management is planning to issue guidance in October 2003 on including grants management responsibilities in individual performance agreements for the next performance cycle beginning in January 2004. Once individual project officers' performance standards are established for the approximately 1,800 project officers, strong support by managers at all levels, as well as regular communication on performance expectations and feedback, will be key to ensuring that staff with grants management duties successfully meet their responsibilities.

Although EPA's current performance management system can accommodate development of performance standards tailored to each project officer's specific grants management responsibilities, the current system provides only two choices for measuring performance—satisfactory or unsatisfactory, which may make it difficult to make meaningful distinctions in performance. Such an approach may not provide enough meaningful information and dispersion in ratings to recognize and reward top performers, help everyone attain their maximum potential, and deal with poor performers.

Furthermore, it is difficult to implement performance standards that will hold project officers accountable for grants management because these officers have a variety of responsibilities and some project officers manage

few grants, and because grants management responsibilities often fall into the category of "other duties as assigned." To address this issue, EPA officials are considering, among other options, whether the agency needs to develop a smaller cadre of well-trained project officers to oversee grantees, rather than rely on approximately 1,800 project officers with different levels of grants management responsibilities and skills. Some EPA officials believe that having a cadre may help the agency more effectively implement revised grants management performance standards because fewer officers with greater expertise would oversee a larger percentage of the grants.

EPA will also have difficulty achieving the plan's goals if all managers and staff are not held accountable for grants management. The plan does not call for including grants management standards in managers' and supervisors' agreements. In contrast, senior grants managers in the Office of Grants and Debarment as well as other Senior Executive Service managers have performance standards that address grants management responsibilities.[44] However, middle-level managers and supervisors also need to be held accountable for grants management because they oversee many of the staff that have important grants management responsibilities. According to Office of Grants and Debarment officials, they are working on developing performance standards for all managers and supervisors with grants responsibilities.

Further complicating the establishment of clear lines of accountability, the Office of Grants and Debarment does not have direct control over many of the managers and staff who perform grants management duties—particularly the approximately 1,800 project officers in headquarters and regional program offices. The division of responsibilities between the Office of Grants and Debarment and program and regional offices will continue to present a challenge to holding staff accountable and improving grants management, and will require the sustained commitment of EPA's senior managers.

[44]The senior managers include the Director of the Office of Grants and Debarment, the Director of the Grants Administration Division, and the Grants Competition Advocate.

Promising Practices Could Assist EPA in Addressing Its Grants Management Challenges

Although information on successful grants management practices is limited, we identified promising practices in the five federal agencies that award the largest amount of grant dollars, as well as in other organizations, that may help EPA address its grants management challenges. These practices include (1) screening grantees and assessing some grantees' financial and internal controls before awarding a grant; (2) using an information system to track and manage in-depth grantee reviews, identify problems, and analyze trends; and (3) incorporating a results orientation throughout the grants process, including the preaward phase and the final reporting of results achieved. In addition, we have developed a guide to assist federal agencies in developing effective training programs and performance management systems.[45]

Screen and Select the Best Applicants

According to some grants management officials we spoke with, screening and reviewing the adequacy of grantees' financial and internal controls before awarding a grant helps to avoid problem grantees. For example,

- The Robert Wood Johnson Foundation conducts preaward desk reviews of some applicants to learn about the organization and assess its fiscal health. Specifically, for grants under $200,000, the foundation may check a Web site that contains financial information on nonprofit organizations. For grants larger than $200,000, especially when the grantee is newly formed or has never received money from the foundation, staff may request more detailed information—such as an organizational chart, copies of audit reports, accounting policies, investment policies, and a conflict-of-interest statement. In rare cases, the foundation's financial staff may visit the applicant to assess its systems.

- The Department of Commerce (Commerce) Office of Inspector General conducts a three-step screening process to identify deficiencies that could hinder the ability of nonprofit applicants to properly control federal funds: (1) a name check, through the Federal Bureau of Investigation, to determine whether the individuals connected with a

[45]U.S. General Accounting Office, *Human Capital: A Guide for Assessing Strategic Training and Development Efforts in the Federal Government*, GAO-03-893G (Washington, D.C.: July 2003) and U.S. General Accounting Office, *Results-Oriented Cultures: Creating a Clear Linkage Between Individual Performance and Organizational Success*, GAO-03-488 (Washington, D.C.: Mar. 14, 2003).

proposed award have been convicted of embezzlement or other crimes; (2) a review of the single audit clearinghouse database to determine if the applicant had a single audit performed and subsequent follow-up to determine if any findings were resolved; and (3) a review of a credit report to determine whether the applicant is financially viable. For the last two reporting periods—April 2002 to March 2003—Commerce's Inspector General screened 1,657 proposed awards; delayed 67 until concerns were satisfactorily resolved; and established special conditions for 42 awards to adequately safeguard federal funds.

- The Department of Health and Human Services (HHS) uses an internal "alert list," accessible to grants management staff throughout the department, to help identify potential grantees who (1) previously had not complied with grant regulations or the terms and conditions of a grant, (2) failed to have had a single audit performed, or (3) have significant single audit findings that need correction. For these potential grantees, HHS may incorporate special terms and conditions into their agreements and more closely monitor them throughout the grant. Applicants may be put on the alert list by agencies within the department or at the recommendation of the Office of Inspector General. According to HHS officials, the alert list should be used for problem grantees so that the department has the necessary controls in place to safeguard federal funds rather than be used to prohibit grantees from receiving grant funding.

- HHS's Substance Abuse and Mental Health Services Administration (SAMHSA) uses the alert list and also conducts pre-award reviews to assess applicants' ability to manage grant funds. Like the Department of Commerce, SAMHSA screens some nonprofit grantees to ensure they have the financial systems needed to manage grant funds. SAMHSA examines the database for the single audit clearinghouse and its own audit database to determine if the grant applicant has received a single audit and whether the audit had significant findings. If the applicant has no significant findings, SAMHSA assumes that the applicant has adequate financial systems in place. However, if an audit found significant problems that the applicant did not adequately address, SAMHSA may designate the applicant as high risk and add it to the HHS alert list. SAMHSA may still award grant funds but set restrictions to safeguard the funds. For example, the grantee may be required to draw funds on a reimbursement basis, that is, after it submits documentation on its expenses. Grantees who have not received a single audit must

provide copies of their policies and procedures. SAMHSA assesses this information to determine if it is sufficient for managing federal funds.

Use an Information System to Manage In-Depth Reviews, Identify Problems, and Analyze Trends

The Federal Transit Administration, within the Department of Transportation, uses an information system to track and manage its reviews of grantees. This system contains information on problems identified in the reviews and a schedule of corrective actions that the grantee needs to take. Using this system, officials can track correspondence between the agency and grantee and document the resolution of problems. In addition, officials can use this system to analyze trends, such as the compliance of individual grantees over time, the compliance of all grantees or a group of grantees (such as those in a region), compliance issues found in different types of reviews, and areas where grantees may require additional technical assistance. This information system could serve as a model for enhancing EPA's grantee compliance database.

Incorporate a Results Orientation throughout the Grants Process

Several agencies consider grant results in awarding and reviewing grantees, including the following:

- Rural Development, within the U.S. Department of Agriculture, takes outcomes into account by requiring applicants to provide information on the results they expect to achieve and by selecting grantees, in part, on the basis of this information. For instance, when job creation is a goal of the grant, the Rural Business Enterprise Grant Program gives applicants points for jobs they expect to create or save with a grant and requires them to provide written commitments from businesses that plan on creating jobs as a result of the grant. Rural Development then gives points to applicants based on the grant dollars per job they expect to create.

- HHS's Health Resources and Services Administration incorporates information on the results its grantees have achieved into its annual performance report. The administration collects data directly from its grantees and surveys a sample of the people its grantees serve to determine the results the grantees have achieved. Because of the agency's success in managing its health center grants to achieve

results,[46] OMB rated the program "effective" in its governmentwide performance and assessment-rating tool. Out of 79 grant programs evaluated, this was one of only two rated "effective," OMB's highest rating category.[47] According to OMB, the health center program uses performance information to improve annual administrative and clinical outcomes. The agency also conducts its own evaluations and has a contractor regularly evaluate the program; these evaluations indicate the program is effective at achieving its goal of extending high-quality health care to underserved populations.

Train and Hold Staff Accountable for Grants Management

We have developed a guide that can assist federal agencies in planning, designing, implementing, and evaluating effective training and development programs.[48] This guide may help EPA address a training weakness in the plan that we identified—EPA's lack of a mechanism to determine the extent to which training improves staff's grant management skills. For example, the guide suggests evaluating the impact of training based on such measures as changes in employee skills, knowledge, or abilities; changes in on-the-job behaviors; the impact of the training on program or organizational results, including, in some cases, assessing the return on investment by comparing training costs with benefits.

In terms of accountability, we developed key practices that federal agencies can use to establish effective performance management systems.[49] These systems can be used to drive internal change and achieve desired results. The key practices have helped public sector organizations in the United States and abroad create a clear linkage between individual performance and organizational success. They are also critical for ensuring individual accountability for results throughout the organization. Key

[46]The health center program provides grants to health centers to provide medical care to uninsured, underserved, and vulnerable populations in rural and urban areas.

[47]OMB's PART tool rates programs on a four-point scale from "effective" to "moderately effective" to "adequate" to "ineffective." A fifth rating possibility comes into play with "results not demonstrated" if adequate measures or data to gauge the program's performance were not available. The other grant program rated "effective" was the Medicare Integrity Program, which funds a variety of efforts to fight fraud and abuse in the Medicare program.

[48]GAO-03-893G.

[49]GAO-03-488.

practices of an effective performance management system include, for example:

- *Align individual performance expectations with organizational goals*. An explicit alignment helps individuals see the connection between their daily activities and organizational goals.

- *Use competencies to provide a fuller assessment of performance*. Competencies define the skills and supporting behaviors staff need to effectively contribute to organizational results.

- *Make meaningful distinctions in performance*. Effective performance management systems strive to provide candid and constructive feedback and the necessary objective information and documentation to award top performers and deal with poor performers.

Conclusions

If EPA is to better achieve its environmental mission, it must more effectively manage its grants programs—which account for more than half of its annual budget. EPA's new policies and 5-year grants management plan show promise, but they are missing several critical elements necessary for the agency to address past grants management weaknesses. Specifically, EPA's new oversight policy lacks (1) statistical methods to identify grantees for review, (2) a standard reporting format to ensure consistency and clarity in report results, and (3) a plan for integrating and analyzing compliance information from multiple sources. These actions would help EPA identify systemic problems with its grantees and better target its oversight resources. EPA's plan does not adequately address the need to assess grantees' progress towards achieving environmental outcomes. If project officers tracked grantees' progress during in-depth reviews, they would better help the agency manage grants for results. Finally, in our view, EPA's plan does not go far enough to ensure that all managers and staff with grant management responsibilities are held accountable for fulfilling their grants management responsibilities. Until EPA holds all managers and staff accountable for these responsibilities, it cannot be assured that it will achieve the objectives of its grants management plan.

EPA recognizes the importance of continuously improving its grants management practices. To this end, we believe EPA could benefit from considering the practical approaches successfully implemented by other federal agencies and organizations. It could also benefit from using our guide to establish effective training programs to develop relevant staff

skills and a performance management system to hold staff accountable for using these skills to carry out their grants management responsibilities.

Given EPA's uneven performance in improving its grants management, it is too early to tell if its new policies and comprehensive 5-year grants management plan will succeed more than past initiatives. While the plan shows promise, we believe that congressional oversight is important to ensure that EPA's Administrator, managers, and staff implement the plan in a sustained, coordinated fashion to meet the plan's ambitious targets and time frames. To help facilitate this oversight, EPA's annual report to Congress could serve as a vehicle for EPA to report on its achievements in improving grants management.

Recommendations for Executive Action

To ensure that EPA's recent efforts to address its grants management challenges are successful, we recommend that the Administrator of EPA provide sufficient resources and commitment to meeting the agency's grants management plan's goals, objectives, and performance targets within the specified time frames. Furthermore, to strengthen EPA's efforts we recommend

- incorporating appropriate statistical techniques in selecting grantees for in-depth reviews;
- requiring EPA staff to use a standard reporting format for in-depth reviews so that the results can be entered into the grant databases and analyzed agencywide;
- developing a plan, including modifications to the grantee compliance database, to use data from its various oversight efforts—in-depth reviews, significant actions, corrective actions taken, and other compliance information—to fully identify systemic problems, inform grants management officials of areas that need to be addressed, and take corrective action as needed;
- modifying its in-depth review protocols to include questions on the status of grantees' progress in measuring and achieving environmental outcomes;
- incorporating accountability for grants management responsibilities through performance standards that address grants management for all managers and staff in headquarters and the regions responsible for

grants management and holding managers and staff accountable for meeting these standards; and

- evaluating the promising practices identified in this report and implementing those that could potentially improve EPA grants management.

To better inform Congress about EPA's achievements in improving grants management, we recommend that the Administrator of EPA report on the agency's accomplishments in meeting the goals and objectives developed in the grants management plan and other actions to improve grants management, beginning with its 2003 annual report to Congress.

Agency Comments and Our Evaluation

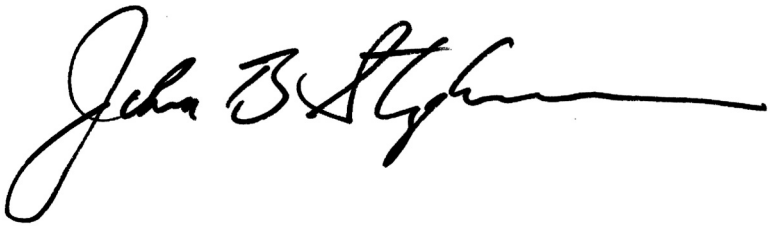
We provided a draft of this report to EPA for its review and comment. In response, EPA stated that it agreed with our recommendations and that it will implement them as part of its 5-year grants management plan. EPA further pointed out that it has demonstrated commitment to grants management as evidenced by its (1) issuance of directives from the Deputy Administrator/Acting Administrator requiring senior managers to hold employees accountable and to include compliance with grants management policies as part of midyear performance discussions; (2) ongoing review of performance standards, which will ensure that performance agreements of all employees involved in grants management adequately reflect their grants management responsibilities; (3) requirement for assistant administrators and regional administrators to address in the assurance letters under the Federal Managers' Financial Integrity Act the steps they are taking to address grants management weaknesses; and (4) development of a tactical action plan, which outlines commitments and milestone dates under the grants management plan and identifies who is responsible for completing those commitments. EPA also provided the Office of Grants and Debarment's Fiscal Year 2003 Federal Managers' Financial Integrity Act assurance letter, which describes in detail the actions the office has taken.

In technical comments, EPA added that it had redeployed resources to the Office of Grants and Debarment and anticipates receiving new resources in fiscal year 2004 to conduct grants management oversight. Other technical comments have been incorporated into the report, as appropriate.

EPA's written comments are presented in appendix V.

As agreed with your offices, unless you publicly announce the contents of this report earlier, we plan no further distribution until 30 days from the report date. At that time, we will send copies of this report to the congressional committees with jurisdiction over EPA and its activities; the Honorable Marianne Lamont Horinko, Acting EPA Administrator; and the Honorable Joshua B. Bolten Director, Office of Management and Budget. We will also make copies available to others upon request. In addition, the report will be available at no charge on the GAO Web site at htpp://www.gao.gov.

If you have any questions about this report, please contact me at (202) 512-3841. Key contributors to this report are listed in appendix VI.



John B. Stephenson
Director, Natural Resources and Environment

Objectives, Scope, and Methodology

This appendix details the methods we used to determine the (1) major challenges the Environmental Protection Agency (EPA) faces in managing its grants and how it has addressed these challenges in the past, (2) extent to which EPA's recently issued policies and grants management plan address these challenges, and (3) promising practices, if any, that could assist EPA in addressing these challenges.

To identify the challenges EPA faces in managing its grants and how it has addressed these challenges in the past, we identified and analyzed 93 reports written on EPA's grants, including our reports, EPA's Inspector General reports, and EPA's internal management reviews conducted from 1996 through 2003. To analyze the findings from these reviews, we summarized the findings from each report and then grouped the findings using the long-table method of analysis. From those groups, we identified four broad grants management challenges. We next interviewed and obtained documents from EPA officials to determine the actions they have taken in the past to address these challenges. We also obtained the records of 1,232 in-depth grantee reviews conducted in 2002 and analyzed each one using a data collection instrument. We conducted inter-rater reliability tests to ensure that information from in-depth reviews was entered consistently by each reviewer. In the event a document item was unclear, reviewers flagged the case and consulted to determine the appropriate response. We requested that EPA send documents for all evaluative reviews conducted in calendar year 2002. Since EPA does not have information on the exact number of reviews it conducts each year, we were not able to verify whether we received information on the total population of evaluative reviews conducted in 2002. Because we could not verify the total number of reviews conducted and because some regions and program offices conduct a small number of reviews, we requested documents for all in-depth evaluative reviews in 2002 (rather than a sample) to ensure coverage of all 10 regions and 10 program offices.

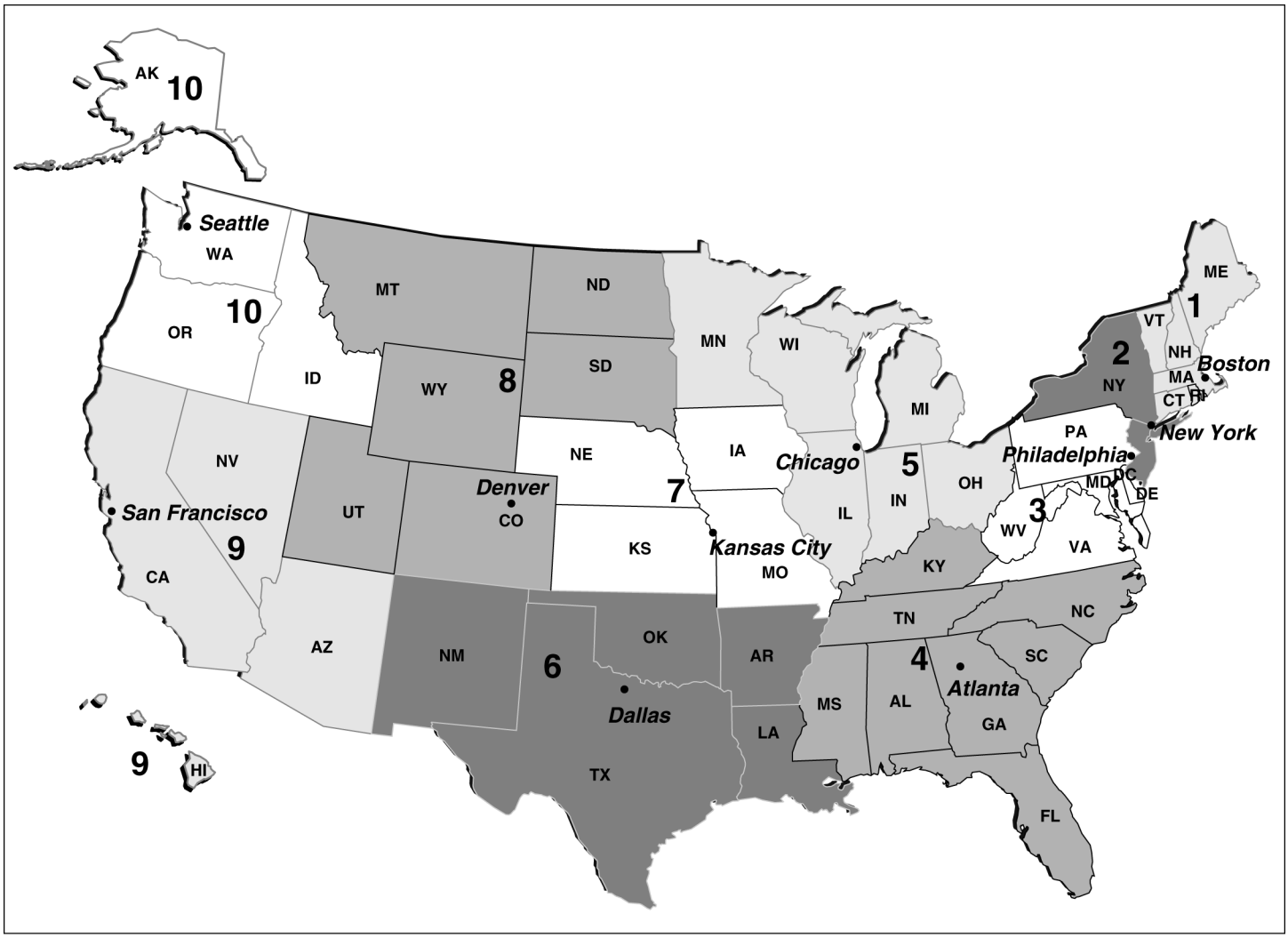
To determine the extent to which EPA's recently issued policies and grants management plan address these challenges, we reviewed the new policies and plan and interviewed EPA officials responsible for implementing key aspects of the plan. We also attended EPA's grants management training course for project officers both before and after they revised their project officer training manual and EPA's training course for nonprofit organizations. We also observed several of EPA's in-depth reviews of grantees: one administrative on-site review conducted by EPA headquarters, two on-site joint reviews conducted by EPA's Region 1 office, and two joint desk reviews conducted by EPA's Region 1 office. In addition,

we interviewed officials in EPA's Office of Human Resources and Organizational Services to discuss the agency's performance management system.

To identify what promising practices, if any, could assist EPA in addressing its grants management challenges, we interviewed and obtained documentation from grants management officials, and other officials, in the federal government and from private sector organizations. For the federal government, we met with officials from the five largest granting agencies: the Departments of Agriculture, Education, Health and Human Services, Housing, and Transportation. At the recommendation of these and other officials, we interviewed other agency officials, including those from Agriculture's Rural Development, the Department of Commerce, Health and Human Service's Health Resources and Services Administration and Substance Abuse and Mental Health Services Administration, and Transportation's Federal Transit Administration. We also interviewed officials from the Council on Foundations, a membership organization, and two foundations: the Robert Wood Johnson Foundation and the Ford Foundation. We asked these officials for examples of their grant practices that might address the types of challenges EPA faces in managing grants. We also reviewed two GAO reports that describe effective training and performance management systems for federal agencies.

We conducted our work from June 2002 through June 2003 in accordance with generally accepted government auditing standards.

EPA'S 10 Regions and Regional Office Locations



Source: EPA.

Note: Region 2 also includes Puerto Rico and the Virgin Islands. Region 9 also includes Guam, American Samoa, Trust Territories, and the Commonwealth of the Northern Mariana Islands.

Results of Our Analysis of EPA'S 2002 In-depth Reviews

This appendix presents tables that provide detail on the in-depth reviews that the Environmental Protection Agency (EPA) conducted in 2002. In-depth reviews include both on-site reviews conducted at the grantee's location and off-site reviews conducted at an EPA office or another location. Tables 5 and 6 show the number of different types of reviews and how many reviews each EPA office conducted. Tables 7 to 12 show the number and types of problems EPA found and how many problems were found for each type of grantee and size of grant. Table 13 shows the number of times EPA required or recommended action to correct a problem. Tables 14 and 15 show how many reviews EPA conducted with or without a protocol. Tables 16 and 17 show how many and what types of significant actions EPA took against grantees.

Analysis of Number and Types of EPA's In-depth Reviews

Table 5: Number of Reviews by Type of Reviews

Type of review	Off-site review	On-site review	Total	Percentage of total
Administrative	100	89	**189**	15
Programmatic	526	491	**1,017**	83
Joint	18	8	**26**	2
Total	**644**	**588**	**1,232**	**100**

Source: GAO's analysis of EPA's in-depth reviews.

Table 6: Number of Off-site and On-site Reviews and Number of Reviews EPA Indicated It Performed, by Program and Regional Office

	Off-site review		On-site review	
Program/regional office	**GAO**	**EPA**	**GAO**	**EPA**
Office of Grants and Debarment	42	45	30	43
Office of the Administrator	43	66	9	10
Office of Air and Radiation	6	6	17	23
Office of Enforcement and Compliance Assurance	1	0	2	6
Office of Environmental Information	2	2	0	1
Office of International Affairs	0	0	3	3
Office of Prevention, Pesticides and Toxic Substances	5	6	3	2
Office of Research and Development	72	137	43	54
Office of Solid Waste and Emergency Response	5	0	2	7
Office of Water	22	17	24	20
Region 1	11	13	16	18
Region 2	3	6	12	13
Region 3	34	62	55	35
Region 4	107	137	104	107
Region 5	12	0	28	62
Region 6	63	64	59	60
Region 7	26	32	36	33
Region 8	21	20	54	25
Region 9	145	3	57	23
Region 10	24	13	34	34
Total	**644**	**629**	**588**	**579**

Source: GAO's analysis of EPA's in-depth reviews.

Note: The columns with a GAO heading represent the review totals we found in the documents EPA provided. The columns with an EPA heading represent the review totals EPA officials reported to Congress.

Analysis of Problems Identified in EPA's In-depth Reviews

Table 7: Number of Problems Identified by Type of Review

Problem	Administrative (N=189)	Programmatic (N=1,017)	Joint (N=26)	Total
Accounting	37	26	1	**64**
Administrative	16	23	1	**40**
Approval of modifications	2	4	0	**6**
Conflict of interest	5	0	0	**5**
Cost sharing	10	4	0	**14**
Financial expenditures	20	35	0	**55**
Indirect costs	12	2	5	**19**
Internal controls	13	1	0	**14**
Lobbying	0	0	0	**0**
Missing required audit	4	2	2	**8**
Personnel/payroll	51	92	5	**148**
Procurement	70	41	12	**123**
Program income	1	1	0	**2**
Progress reports	13	167	4	**184**
Property management	12	0	0	**12**
Quality assurance	0	71	1	**72**
Subagreements	1	9	0	**10**
Technical issues	20	308	6	**334**
Terms and conditions of work	3	30	2	**35**
Travel	16	3	0	**19**
Written procedures	73	11	2	**86**
Total	**379**	**830**	**41**	**1,250**

Source: GAO's analysis of EPA's in-depth reviews.

Table 8: Number of Problems by Type of Grantee

Problem	Nonprofits (N=244)	States (N=338)	Native American tribes (N=327)	Local government (N=126)	Universities (N=160)	Other (N=37)	Total
Accounting	17	17	27	2	1	0	**64**
Administrative	12	13	14	0	0	1	**40**
Approval of modifications	1	3	0	1	1	0	**6**
Conflict of interest	4	0	1	0	0	0	**5**
Cost sharing	1	3	7	2	1	0	**14**
Financial expenditures	13	18	20	2	2	0	**55**
Indirect costs	7	0	12	0	0	0	**19**
Internal controls	10	1	3	0	0	0	**14**
Lobbying	0	0	0	0	0	0	**0**
Missing required audit	2	2	4	0	0	0	**8**
Personnel/payroll	27	43	58	11	7	2	**148**
Procurement	37	18	39	19	7	3	**123**
Program income	1	1	0	0	0	0	**2**
Progress reports	28	26	88	24	14	4	**184**
Property management	2	0	9	0	1	0	**12**
Quality assurance	5	16	18	26	6	1	**72**
Subagreements	1	8	0	1	0	0	**10**
Technical issues	48	117	119	33	12	5	**334**
Terms and conditions of work	8	16	8	1	2	0	**35**
Travel	4	1	14	0	0	0	**19**
Written procedures	40	8	27	6	5	0	**86**
Total	**268**	**311**	**468**	**128**	**59**	**16**	**1,250**

Source: GAO's analysis of EPA's in-depth reviews.

Table 9: Number of Problems by Dollar Amount of Grants

Dollars in thousands

Problem	Dollar amount not identified[a] (N=537)	1-99 (N=222)	100-299 (N=200)	300-999 (N=128)	1,000 + (N=145)	Total
Accounting	$30	$7	$5	$4	$18	**$64**
Administrative	19	5	3	5	8	**40**
Approval of modifications	3	0	1	0	2	**6**
Conflict of interest	1	0	1	1	2	**5**
Cost sharing	10	1	1	1	1	**14**
Financial expenditures	28	8	4	1	14	**55**
Indirect costs	10	0	1	3	5	**19**
Internal controls	4	0	3	2	5	**14**
Lobbying	0	0	0	0	0	**0**
Missing required audit	4	0	1	0	3	**8**
Personnel/payroll	68	13	25	18	24	**148**
Procurement	53	12	25	16	17	**123**
Program income	0	0	1	1	0	**2**
Progress reports	80	39	34	16	15	**184**
Property management	3	0	2	3	4	**12**
Quality assurance	39	8	17	4	4	**72**
Subagreements	4	0	3	0	3	**10**
Technical issues	139	60	68	23	44	**334**
Terms and conditions of work	21	4	1	2	7	**35**
Travel	9	3	2	2	3	**19**
Written procedures	41	7	16	10	12	**86**
Total	**$566**	**$167**	**$214**	**$112**	**$191**	**$1,250**

Source: GAO's analysis of EPA's in-depth reviews.

[a]We could not identify the value of the grant award for these reviews.

Table 10: Number of Problems by Type of Review

	Off-site			On-site			
Problem	**Administrative (N=100)**	**Programmatic (N=526)**	**Joint (N=18)**	**Administrative (N=89)**	**Programmatic (N=491)**	**Joint (N=8)**	**Total**
Accounting	2	9	1	35	17	0	**64**
Administrative	6	9	0	10	14	1	**40**
Approval of modifications	1	1	0	1	3	0	**6**
Conflict of interest	0	0	0	5	0	0	**5**
Cost sharing	1	3	0	9	1	0	**14**
Financial expenditures	2	17	0	18	18	0	**55**
Indirect costs	2	0	3	10	2	2	**19**
Internal controls	3	0	0	10	1	0	**14**
Lobbying	0	0	0	0	0	0	**0**
Missing required audit	1	0	2	3	2	0	**8**
Personnel/payroll	11	39	3	40	53	2	**148**
Procurement	26	14	8	44	27	4	**123**
Program income	1	0	0	0	1	0	**2**
Progress reports	3	88	3	10	79	1	**184**
Property management	2	0	0	10	0	0	**12**
Quality assurance	0	48	1	0	23	0	**72**
Subagreements	0	4	0	1	5	0	**10**
Technical issues	5	165	5	15	143	1	**334**
Terms and conditions of work	0	19	1	3	11	1	**35**
Travel	0	0	0	16	3	0	**19**
Written procedures	27	5	2	46	6	0	**86**
Total	**93**	**421**	**29**	**286**	**409**	**12**	**1,250**

Source: GAO's analysis of EPA's in-depth reviews.

Table 11: Number of Problems Per In-depth Review

Number of problems Identified	Number of reviews (N=1,232)	Percentage of reviews
0	623	51
1	286	23
2	166	13
3	83	7
4	36	3
5	17	1
6	9	1
7	4	0
8	4	0
9	1	0
10	2	0
11	1	0
Total	**1,232**	**100**

Source: GAO's analysis of EPA's in-depth reviews.

Note: Percentage does not add up to 100 due to rounding.

Table 12: Description of Problems Identified in EPA's Reviews

Problem	Description of problems included in EPA's in-depth reviews
Accounting	Any failure of a grantee's financial management system or shortcomings in the procedures it used to ensure the proper accounting of federal funds. For example, EPA found cases in which a grantee: • could not compare budgeted amounts with actual expenditures, • did not properly reconcile report balances to the general ledger, or • did not separately track funds for different grants.
Administrative	Cases in which a grantee's record keeping system was inadequate.
Approval of modifications	Any instance in which a grantee had begun performing tasks outside its original scope of work without seeking prior approval from EPA.
Conflict of interest	Cases in which a grantee, using grant funds, entered into a contract with a closely affiliated organization.
Cost sharing	Cases in which a grantee failed to appropriately track and document its cost-sharing expenditures.
Financial expenditures	Cases in which the grantee did not sufficiently document expenses to determine the eligibility of costs or charged ineligible costs to the grant.
Indirect costs	Cases in which a grantee did not have an approved indirect cost rate, or indirect cost allocation plan.
Internal controls	Cases in which a grantee did not adequately segregate financial responsibilities.
Lobbying	No instances of lobbying problems.
Missing required audit	Cases in which a grantee did not have its required audit performed or had not submitted a copy of its audit to EPA.
Personnel/ payroll	Problems varied depending on the type of review conducted. Administrative reviews included cases in which a grantee did not track the amount of time its employees spent on specific grant activities. Programmatic reviews included cases in which grantees did not have sufficient staff resources to perform the grant activities.
Procurement	Cases in which grantees lacked documentation to support sole-source contracts and did not report their efforts to encourage procurement from minority- and woman-owned businesses.
Program income	In one case, a grantee generated income through the use of grant funds but did not manage the funds in accordance with the grant agreement, and in another the grant agreement did not allow the grantee to generate such income.
Progress reports	Instances in which a grantee's progress report was missing or late, or did not include all the necessary information.
Property management	Cases in which the grantee did not properly control property, such as equipment.
Quality assurance	Instances in which a grantee needed to revise its quality assurance plan. Quality assurance plans are required to ensure the quality of data collected during the grant work.
Subagreements	Cases in which a grantee did not properly monitor subgrantees, or when a subgrantee's files were incomplete.
Technical issues	Cases in which a grantee was behind in the progress of its work.
Terms and conditions	Cases in which a grantee was not meeting the terms and conditions of a grant agreement. Terms and conditions vary depending on the grant agreement and in some cases overlap with the other problem categories.
Travel	Cases in which grantee lacked documentation to support travel expenditures or did not obtain written approval from the appropriate official prior to incurring travel expenses.
Written procedures	Cases in which a grantee's written policies or procedures were either missing or inadequate.

Source: GAO's analysis of EPA's in-depth reviews.

Analysis of Corrective Actions Identified in EPA's In-depth Reviews

Table 13: Number of Problems and Corrective Actions

Problem	Number of problems	Number of corrective actions	Percentage of problems with corrective action
Accounting	64	51	80
Administrative	40	25	63
Approval of modifications	6	5	83
Conflict of interest	5	2	40
Cost sharing	14	10	71
Financial expenditures	55	35	64
Indirect costs	19	13	68
Internal controls	14	13	93
Lobbying	0	0	0
Missing required audit	8	7	88
Personnel/payroll	148	65	44
Procurement	123	81	66
Program income	2	0	0
Progress reports	184	74	40
Property management	12	10	83
Quality assurance	72	18	25
Subagreements	10	8	80
Technical issues	334	124	37
Terms and conditions of work	35	14	40
Travel	19	17	89
Written procedures	86	68	79
Total	**1,250**	**640**	**51**

Source: GAO's analysis of EPA's in-depth reviews.

Analysis of Protocols Used for EPA's In-depth Reviews

Table 14: Number of Mandated and Nonmandated Reviews

	Number	Percentage
Mandated	339	28
Nonmandated	893	72
Total	**1,232**	**100**

Source: GAO's analysis of EPA's in-depth reviews.

Note: Mandated reviews were defined in the GAO analysis as evaluations conducted as a result of statutory or periodic programmatic requirements.

Table 15: Number of Nonmandated Reviews With or Without a Review Protocol, by Program and Regional Office, and by Type of Review

	Administrative		Programmatic		Joint	
Program/regional office	**Protocol used**	**Unclear/no protocol**	**Protocol used**	**Unclear/no protocol**	**Protocol used**	**Unclear/no protocol**
Office of Grants and Debarment	35	37	0	0	0	0
Office of the Administrator	0	0	51	1	0	0
Office of Air and Radiation	0	0	22	1	0	0
Office of Enforcement and Compliance Assurance	0	0	3	0	0	0
Office of Environmental Information	0	0	2	0	0	0
Office of International Affairs	0	0	0	3	0	0
Office of Prevention, Pesticides and Toxic Substances	0	0	8	0	0	0
Office of Research and Development	0	0	68	47	0	0
Office of Solid Waste and Emergency Response	0	0	7	0	0	0
Office of Water	0	0	38	8	0	0
Region 1	8	3	1	1	3	3
Region 2	1	4	0	7	1	0
Region 3	16	0	17	11	0	1
Region 4	0	0	112	29	0	0
Region 5	8	4	0	11	0	0
Region 6	8	1	28	33	0	0
Region 7	12	1	27	7	7	0
Region 8	8	4	51	2	0	0
Region 9	2	32	12	27	1	1
Region 10	0	5	40	3	2	7
Total	**98**	**91**	**487**	**191**	**14**	**12**

Source: GAO's analysis of EPA's in-depth reviews.

Analysis of Significant Actions Taken Against Grantees as a Result of In-depth Reviews

Table 16: Number of Significant Actions Taken Against Grantees by Type of Grantee

Action taken	Nonprofits (N=244)	States (N=338)	Native American tribes N=327)	Local government (N=126)	Universities (N=160)	Other (N=37)	Total
Agreement termination	1	0	0	0	0	0	**1**
Annulment	0	0	0	0	0	0	**0**
Disallowance of costs	5	1	1	0	0	0	**7**
Grantee debarment	0	0	0	0	0	0	**0**
High risk designation/ special condition	3	0	1	0	0	0	**4**
Payment hold	4	4	7	0	0	0	**15**
Referral for investigation	2	0	2	0	0	0	**4**
Stop work orders	3	0	2	0	0	0	**5**
Threat to take action	3	0	6	0	0	0	**9**
Other	0	0	2	0	0	0	**2**
Total	**21**	**5**	**21**	**0**	**0**	**0**	**47**

Source: GAO's analysis of EPA's in-depth reviews.

Table 17: Number of Significant Actions Per In-depth Review

Number of significant actions	Number of reviews	Percentage of reviews
0	1,202	98
1	20	2
2	4	0
3	5	0
4	1	0
Total	**1,232**	**100**

Source: GAO's analysis of EPA's in-depth reviews.

Summary of EPA's Grants Management Plan, 2003-2008

Goal 1: Enhance the Skills of EPA Personnel Involved in Grants Management

Objectives:

1.1 Update and enhance training materials and course curricula to emphasize high priority areas.

1.2 Improve delivery and availability of training programs.

1.3 Provide training to managers and supervisors.

Table 18 shows the performance measures for goal 1.

Table 18: Goal 1 Performance Measures

Performance measure	Baseline	Target
Percentage of grants managed by certified project officers	85%	2003: 100%
Percentage of grants managed by project officers who have taken enhanced project officer refresher course	0%	2004: 30% 2005: 60% 2006: 100%

Source: EPA.

Action steps:

2003:

- Issue *Project Officer Training Manual* (fifth edition), which will focus on core competencies needed to manage grants.
- Conduct project officer training with special emphasis on the core competency areas that were enhanced in the fifth edition of the training manual.
- Issue first edition of the *Grants Specialist Training Manual*.
- Conduct grants specialist training focusing on core competency areas.
- Develop long-term Grants Management Training Plan.
- Issue guidance on the proper use of amendments.

- Ensure that project officers receive basic and refresher grants management training on a timely basis (ongoing).

- Develop a pilot grants management training program for managers and supervisors.

2004:

- Enhance and update on-line reference materials for grant specialists in core competencies.

- Implement on-line training for grants specialists in core competency areas.

- Enhance on-line training for refresher project officers course to include additional materials on preapplication review, competition, post-award monitoring, environmental outcomes, and other new areas covered in the *Project Officer Training Manual*, as well as verification of completion at each step.

- Conduct grants management classroom training for managers and supervisors.

2005:

- Implement on-line basic project officers course, including verification of completion at each step.

- Conduct grants management on-line training for managers and supervisors.

2006:

- Establish certification program for grants specialists based on an examination of skills and core competencies required to manage grants.

Goal 2: Promote Competition in the Award of Grants

Objectives:

2.1 Improve the agency's process for identifying annual funding priorities and planning for competition.

2.2 Encourage a large and diverse group of grant applicants.

2.3 Promote agencywide understanding of the importance of competition.

2.4 Provide adequate support to the Grants Competition Advocate.

Table 19 shows the performance measures for goal 2.

Table 19: Goal 2 Performance Measures

Performance measure	Baseline	Target
Percentage of new grants subject to the competition order that are competed	27%	2003: 30% 2004: 60% 2005: 85%
Percentage of new grants to nonprofit recipients subject to the competition order that are competed	24%	2003: 30% 2004: 55% 2005: 75%

Source: EPA.

Action steps:

2003:

- Provide guidance to national program managers on Catalog of Federal Domestic Assistance (CFDA) descriptions that publicize funding priorities and opportunities.
- Include national program managers funding priorities in the CFDA on an annual basis to ensure they are well advertised and linked to the agency's Government Performance and Results Act goals.
- Develop guidelines and make postcompetition award information available to the public through the Internet.
- Develop a central grants competition Web page linked to program office Web sites to make grant solicitations easily available to the public.
- Post all grant solicitations on the Fed Biz Opps Web site.
- Develop standard agencywide grants competition training materials and incorporate them into project officer and grant specialist training.

- Provide full staffing for the Grants Competition Advocate.

2004:

- Develop a structured annual planning process for grant competitions.
- Expand public awareness of funding opportunities by improving the accuracy and specificity of program descriptions in the CFDA.
- Research innovative grants competition strategies performed by federal, state, or local governments and determine suitability for adapting them for the agency's use.

2005:

- Implement a structured annual planning process for grant competitions.

Goal 3: Leverage Technology to Improve Program Performance

Objectives:

3.1 Continue deployment of the Integrated Grant Management System (IGMS).

3.2 Integrate IGMS with federal-wide e-grant initiatives.

3.3 Enhance and expand information systems that support grants oversight.

Table 20 shows performance measures for goal 3.

Table 20: Goal 3 Performance Measures

Performance measure	Baseline		Target	
Percentage of grants funding packages that are submitted electronically	Regions	53%	Regions	2003: 65% 2004: 85% 2006: 25%
	HQ	0%	HQ	
Average number of days to process a grant	60 days		Regions	2003: 57 days 2004: 51 days
			HQ	To be established
Percentage of award transactions transmitted electronically into the Integrated Financial Management System (IFMS)	Regions	0%	Regions	2004: 100%
			HQ	100%
Number of electronic applications received in IGMS from e-grants portal			Target to be established	

Source: EPA.

Action steps:

2003:

- Complete deployment of IGMS in Regions 2, 4, 5, and 8 and of pilot in headquarters component.
- Develop an interface between IGMS and the IFMS so that commitment notice information need be entered only once.
- Complete analysis of changes required to IGMS and Grants Information Control System to enable these systems to interface with federal e-grants portal.
- Develop and implement an IGMS postaward module.
- Correct inconsistencies and inaccuracies in the naming of grantees, grant specialists, and project officers so that accurate reports of workload and recipients counts are available.
- Enhance the IGMS electronic grant file reporting views for the reports needed to monitor grant specialist and project officer workloads.

- Expand the project officer database to track certification and recertification activities.
- Establish a tracking system to identify competition status of grants.

2004:

- Enable electronic transmission of award data from IGMS to the IFMS.
- Develop an interface to federal e-grants portal to enable IGMS to accept applications.
- Develop a project officer interface to simplify use of IGMS.
- Ensure that agency information technology systems make grants information readily available to EPA personnel.
- Create an agency Web site to allow grant specialists and project officers to access best practices and other tools for postaward management.

2005:

- Expand e-grants portal to enable IGMS to accept reporting.
- Modify IGMS data elements to e-grants standards for reporting.
- Develop an administrative review checklist in IGMS to ensure that grant packages are complete, comprehensive and in compliance with EPA orders and policies.

2006:

- Complete deployment of IGMS in headquarters.

Goal 4: Strengthen EPA Oversight of Grants

Objectives:

4.1 Improve grants management reviews of EPA offices.

4.2 Improve and expand external reviews of grant recipients.

4.3 Develop approaches to prevent or limit grants management weaknesses.

4.4 Establish clear lines of accountability for grants oversight.

4.5 Provide high-level coordination, planning, and priority setting for grants management.

Table 21 shows the performance measures for goal 4.

Table 21: Goal 4 Performance Measures

Performance measure	Baseline	Target
Percentage of grants awarded in the fourth quarter of the agency's fiscal year	67%	2004: 57%
Number of comprehensive internal reviews of EPA grants management operations	0	Regions 2003: 3 HQ 2003: 4
Percentage of active recipients who receive advanced monitoring	5%	2003: 10%
Percentage of active recipients who have on-site reviews conducted by program office and/or grants management offices	Establish in 2003	2004: 5% increase over baseline
Percentage of offices that submit post-award monitoring plans on time	60%	2003: 100%
Percentage of eligible grants closed out	FY 2001: 89% FY 2002: 51%	FY 2001: 99% FY 2002: 90%

Source: EPA.

Action steps:

2003:

- Combine the management oversight and postaward validation grants management review protocols of offices.
- Conduct cradle-to-grave management reviews of headquarters and regional offices starting in 2003.
- Issue revised guidance on grants management self-assessments.

- Require all offices to conduct baseline monitoring of all active grantees (ongoing).
- Increase the level of advanced monitoring of grantees by offices, including desk reviews and on-site reviews, to a minimum of 10 percent annually of active recipients.
- Ensure that all offices record their activities in the agency's compliance database including documentation of the results of compliance reviews.
- Ensure that all offices submit timely annual postaward monitoring plans.
- Ensure that all offices, on an annual basis, define and identify categories of at-risk grantees requiring technical and/or compliance assistance.
- Complete development, with the EPA's Office of Inspector General, of an instructional video for nonprofit recipients on how to manage their grants.
- Provide training courses for nonprofit recipients.
- Develop grants management tribal training manual and provide training to tribes.
- Develop guidance on required procurement processes under grants, including competition, cost and price analyses, and avoidance of conflicts of interest, and make available to grantees.
- Clarify roles and responsibilities of senior resource officials.
- Issue grants policy document defining roles and responsibilities of grants management officers, program office officials, and project officers.
- Establish senior-level Grants Management Council.
- Update Grants Management Office business plans in 2003 and annually thereafter.

2004:

- Establish a preaward financial systems review program for at-risk grantees.
- Establish grants clearinghouse/hotline for grant recipients.
- Review and update EPA's indirect cost rate policies.
- Ensure that performance standards established for grant specialists and project officers adequately address grants management responsibilities.
- Develop workload analysis of project officers and grant specialists.
- Establish standard operation procedures and best practices for grants management offices.

2005:

- Provide guidance to grants management offices and program offices on how resources should be allocated to ensure effective and efficient grants management oversight.

2006:

- Develop grants management resource tool to replace the *Assistance Administration Manual*.

Goal 5: Support Identifying and Achieving Environmental Outcomes

Objectives:

5.1 Include expected environmental outcomes and performance measures in grant work plans.

5.2 Improve reporting on progress made in achieving environmental outcomes.

Table 22 shows the performance measures for goal 5.

Table 22: Goal 5 Performance Measures

Performance measure	Baseline	Target
Percentage of grant work plans, decision memoranda, and terms of condition that include a discussion of how grantees plan to measure and report on environmental progress	Establish in FY 2003	2004: 70% 2005: 80% 2006: 100%

Source: EPA.

Action steps:

2003:

- Develop a tutorial for grantees on how to develop performance measures for work plans.
- Issue grants policy guidance to ensure that all grant work plans, decision memoranda, and/or terms of condition include environmental outcomes and how to measure them.

2004:

- Require a discussion of expected environmental outcomes and performance measures in grant solicitations.

2005:

- Establish reporting on environmental outcomes as a criterion for approval of interim and final reports.
- Incorporate success in reporting on outcomes into the criteria for awarding new grants.

Comments from the Environmental Protection Agency

UNITED STATES ENVIRONMENTAL PROTECTION AGENCY
WASHINGTON, D.C. 20460

AUG 19 2003

OFFICE OF
ADMINISTRATION
AND RESOURCES
MANAGEMENT

Mr. John B. Stephenson
Director, Natural Resources and the Environment
U. S. General Accounting Office
Washington, D.C. 20548

Dear Mr. Stephenson:

Thank you for the opportunity to comment on the U. S. General Accounting Office (GAO) draft report entitled "Grants Management: EPA Needs to Strengthen Efforts to Address Persistent Challenges (GAO-03-846)."

I am pleased to note that the draft report recognizes the steps EPA is taking to improve grants management, including the development of a five-year Grants Management Plan (Plan) and associated policies on grant competition and post-award monitoring. The Plan and these policies will help ensure that the Agency meets its fiduciary obligation to the taxpayers and awards grants that produce measurable environmental results.

The draft report contains a number of recommendations for strengthening grants management. We agree with those recommendations and will implement them as part of our five-year Plan. Under the Plan, we are a conducting a workload analysis of project officers and grants specialists. This analysis will identify, with greater specificity, potential resource needs that will then be addressed within the confines of the Agency's budget.

A major theme of the draft report is that EPA must exhibit a sustained commitment to accountable grants management. I believe this commitment is firmly in place, as evidenced by:

- Directives from the Deputy Administrator/Acting Administrator requiring senior managers to hold employees accountable for effective grants management and to include compliance with grants management policies as part of mid-year performance discussions;

- The Agency's ongoing review of performance standards, which will ensure that the performance agreements of all employees involved in grants management adequately reflect their grants management responsibilities;

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- The requirement for Assistant Administrators and Regional Administrators to address in their assurance letters under the Federal Managers' Financial Integrity Act (FMFIA) the steps they are taking to address the grants management weakness; and

- The development of a Tactical Action Plan, which outlines commitments and milestone dates under the Grants Management Plan and identifies who is responsible for completing those commitments.

Our technical comments on the report are enclosed. I am also enclosing for your information a copy of the Office of Grants and Debarment's (OGD) Fiscal Year 2003 FMFIA assurance letter. The letter describes in detail the actions OGD is taking to strengthen grants management this fiscal year, including activities that we have undertaken or completed since the development of the draft report.

I want to thank you for the courteous and professional manner in which GAO conducted its review, and would like to commend Andrea Brown, Bruce Skud, Chris Murray and Paul Schearf of your staff for their excellent work. If you have any questions about these comments, please contact Howard Corcoran, Director, Office of Grants and Debarment, at (202) 564-1903.

Sincerely,

Morris X. Winn
Assistant Administrator

Enclosures

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Related GAO Products

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