

**GAO**

Testimony

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

---

For Release on Delivery  
Expected at 10:00 a.m. EDT  
Wednesday, June 11, 2003

**ENVIRONMENTAL  
PROTECTION AGENCY**

**Problems Persist in  
Effectively Managing Grants**

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





Highlights of [GAO-03-628T](#), testimony to the Subcommittee on Water Resources and Environment, Committee on Transportation and Infrastructure, House of Representatives

## Why GAO Did This Study

Over the years, EPA has had persistent problems in managing its grants. Grants constituted one-half of the agency's annual budget, or about \$4.2 billion in fiscal year 2002. EPA uses grants to implement its programs to protect human health and the environment and awards them to over 3,300 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 and builds in accountability.

Since 1996, GAO and EPA's Office of Inspector General have repeatedly reported on EPA's problems in managing its grants. Because these problems have persisted, in January 2003, GAO cited grants management as a major management challenge for EPA. GAO is currently reviewing EPA's efforts to improve grants management at the request of the Chairman of the House Committee on Transportation and Infrastructure and Representative Anne Northup. For this testimony GAO is reporting on results of its previously issued reports and on the grants problems EPA faces, past actions to address these problems, and recently issued EPA policies and a 5-year grants management plan to address its long-standing grants management problems.

[www.gao.gov/cgi-bin/getrpt?GAO-03-628T](http://www.gao.gov/cgi-bin/getrpt?GAO-03-628T)

To view the full testimony, click on the link above.

For more information, contact John B. Stephenson at (202) 512-3841 or [stephensonj@gao.gov](mailto:stephensonj@gao.gov).

# ENVIRONMENTAL PROTECTION AGENCY

## Problems Persist in Effectively Managing Grants

### What GAO Found

EPA faces four key problems in managing its grants: (1) selecting the most qualified grant recipients from a large applicant pool, (2) effectively overseeing grantees throughout the life of the grant, (3) measuring the results of the grantees' work, and (4) effectively managing its grants staff and resources. EPA must resolve these problems in order to improve its management of grants.

In recent years, EPA has taken a series of actions to address two of its key problem areas: grantee oversight and resource management. EPA actions include issuing several oversight policies, conducting training, and developing a new data system for grants management. However, these past actions were not consistently successful in resolving grants management problems because of weaknesses in implementation and insufficient management emphasis. For example, between 1998 and 2002, EPA issued three policies designed to improve oversight of grantees, but EPA staff did not consistently carry them out.

Late in 2002, EPA launched new efforts to address some of its grants management problems. In September 2002, EPA, for the first time, issued a policy to promote competition in awarding grants. In December 2002, it issued a new policy designed to better ensure effective grant oversight. Finally, in April 2003, EPA issued a 5-year grants management plan to address its long-standing grants management problems. GAO is still reviewing these new efforts.

Although EPA's recent actions seem promising, the agency has a long history of undertaking initiatives to improve grants management that have not solved its problems. If the future is to be different from the past, EPA must work to aggressively implement its new policies and its ambitious 5-year plan through a sustained, coordinated effort. It will be particularly important for all agency officials involved in managing grants to be committed to and held accountable for achieving the plan's goals and objectives.

---

Mr. Chairman and Members of the Subcommittee:

We are pleased to be here today to discuss the Environmental Protection Agency's (EPA) management of its grants. My testimony is based on issued GAO reports and ongoing work we are conducting at the request of the Chairman of the House Committee on Transportation and Infrastructure and Representative Anne Northup. We plan to issue our report this summer.

As you know, over the years, EPA has had persistent problems in managing its grants. Grants constituted one-half of the agency's annual budget or about \$4.2 billion, in fiscal year 2002. EPA uses grants to implement its ongoing programs to protect human health and the environment and awards grants to over 3,300 recipients, including state and local governments, tribes, universities, and nonprofit organizations. With about half of its budget devoted to grants, EPA's ability to efficiently and effectively accomplish its mission largely depends on how well it manages its grant resources and builds accountability into its efforts. Because of its grants management problems, which we and the EPA Inspector General have repeatedly reported on, we designated EPA's grants management as a major management challenge in January 2003.<sup>1</sup>

Our testimony today describes the (1) major problems EPA faces in managing its grants, (2) actions EPA has taken in the past to address these problems, and (3) recently issued EPA policies and a 5-year plan to resolve these problems. In addition to our own reports, we examined EPA's Office of Inspector General reports, EPA's internal management reviews,<sup>2</sup> and other documents to identify EPA's key grants management problems.

In summary:

- EPA faces four key problems in managing its grants: (1) selecting the most qualified grant recipients from a large applicant pool, (2) effectively overseeing grantees throughout the life of the grant, (3) measuring the results of its grantees' work, and (4) effectively managing its grants staff

---

<sup>1</sup>See U.S. General Accounting Office, *Major Management Challenges and Program Risks: Environmental Protection Agency*, [GAO-03-112](#) (Washington, D.C.: Jan. 2003).

<sup>2</sup>EPA conducts three types of internal management reviews designed to assess the effectiveness of grants management: Management Oversight Reviews, Management Effectiveness Reviews, and Post-Award Validation Reviews.

---

and resources. EPA must resolve these problems in order to improve its grants management.

- EPA has taken a series of actions in the past to correct these problems, but several of these actions were not consistently successful because of weaknesses in implementation and insufficient management emphasis. For example, EPA issued three policies designed to improve grantee oversight, but EPA staff did not consistently carry them out.
- Late in 2002, EPA launched new efforts to address some of its grants management problems. In September 2002, EPA, for the first time, issued a policy to promote competition in awarding grants. In December 2002, it issued a new policy designed to better ensure effective grant oversight. Finally, in April 2003, EPA issued a 5-year grant management plan to address its long-standing grants management problems. While these actions show promise, we are still early in our review of EPA's new efforts.

---

## Background

EPA offers two types of grants—nondiscretionary and discretionary:

- **Nondiscretionary grants** support water infrastructure projects, such as renovating municipal drinking water facilities, 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 criteria for eligibility. These continuing environmental 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 has primarily awarded these grants 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 has awarded these grants to nonprofit organizations and universities in addition to governmental entities.

EPA administers and oversees grants through the Grants Administration Division within the Office of Grants and Debarment, 12 program offices in headquarters, and EPA's 10 regional offices. The Grants Administration Division develops overall grants policy. About 102 grant specialists in headquarters and the regions are responsible for overseeing the administration of grants. EPA also has approximately 3,000 project

---

officers within headquarter program offices and the regions. These officers are responsible for overseeing the technical or programmatic aspects of the grants. While grant specialists are dedicated to grants management, EPA staff members who serve as project officers have other primary responsibilities.

The grant process has four phases:

- **Pre-award.** 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.
- **Post-award.** EPA provides technical assistance and oversight; the grantee completes the work, and the project ends.
- **Closeout of the award.** The project officer ensures that the project is completed; the grants management office prepares closeout documents and notifies the grantee that the grant is completed.

EPA has had persistent problems in managing its grants. In 1996, EPA's Inspector General testified before Congress that EPA did not fulfill its obligation to properly monitor grants.<sup>3</sup> Acknowledging these problems, EPA identified oversight, including grant closeouts, as a material weakness—a management control weakness that the EPA Administrator determines is significant enough to report to the President and Congress. EPA's fiscal year 1999 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 and the Office of Management and Budget recommended that EPA, once again, designate grants management as a material weakness. EPA ultimately decided to maintain this issue as an agency-level weakness, which is a lower level of risk than a material weakness. EPA made this decision because it believes its ongoing corrective action efforts will help to resolve outstanding grants management problems. However, in adding EPA's grants management to GAO's list of EPA's major performance and accountability challenges in

---

<sup>3</sup>Testimony of John Martin, Inspector General, U.S. Environmental Protection Agency, before the House Subcommittee on National Economic Growth, Natural Resources and Regulatory Affairs of the Committee on Government Reform and Oversight, July 30, 1996.

---

January 2003, we signaled our concern that EPA has not yet taken action to ensure that it can manage its grants effectively.

---

## EPA Continues to Face Problems in Managing Its Grants in Four Key Areas

EPA faces four major, persistent problems in managing its grants. It must resolve these problems in order to improve its grants management. Specifically, EPA has not always

- awarded its discretionary grants competitively or ensured that it solicits these grants proposals from a large pool of applicants;
- effectively overseen its grantees' progress and compliance with the terms of the grant;
- managed its grants so that they are effectively used to achieve environmental results; and
- effectively managed its grants management resources by holding its staff accountable for performing their duties, ensuring that the staff are adequately trained and appropriately allocated, and providing them with adequate management information.

---

## EPA Has Not Always Awarded Grants Competitively and Ensured Widespread Solicitations

Until September 2002, EPA did not have a policy for competing the discretionary grants that might be eligible for competition—about \$719 million of its total \$4.2 billion in grant funding in fiscal year 2002. Consequently, EPA was not promoting competition. According to EPA's own internal management reviews and an Inspector General report, EPA did not always compete its discretionary grants when competition might have been warranted. By competitively soliciting grants, EPA would be able to choose the best project at the least cost to the government and is encouraged by the Federal Grant and Cooperative Agreement Act of 1977.

EPA can award its discretionary grants noncompetitively; however, it is required by agency guidance to document the reasons for these decisions in a "decision memorandum." It has not consistently done so, according to EPA's internal management reviews. Lack of documentation raises questions about the award process and ultimately about whether EPA is providing its grant funds to the best-qualified applicants.

Furthermore, EPA has not always engaged in widespread solicitation when it could be beneficial to do so. This type of 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 opportunities. According to a 2001 EPA Inspector General report,<sup>4</sup> 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 creates 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 and therefore the public and potential applicants may not have been adequately informed of funding opportunities.

---

## EPA Has Not Always Effectively Overseen Grant Recipients

EPA has faced five persistent problems in overseeing its grants. First, EPA’s internal reviews found that grantees’ progress reports, one of the best sources of information for monitoring recipients, did not include required financial information, and grantees had not always submitted progress reports in a timely fashion. EPA generally requires recipients to submit progress reports to the project officer within a specified time frame. These reports are to include progress to date, any difficulties encountered, a discussion of expenditures compared to work completed, and an explanation of significant discrepancies. Although the recipient is responsible for submitting timely progress reports that discuss the project’s financial status, the project officer is responsible for ensuring that the recipient has done so.

Second, project officers and grant specialists did not always document their monitoring activities, which raises questions about the extent of the monitoring they did conduct. According to an EPA internal review, for example, one grants management office developed a form to ensure monitoring activities were completed, but the form was missing from 50 percent of the grant files reviewed, and when the monitoring form was used, it was not always completed. Furthermore, project officers did not

---

<sup>4</sup>EPA Office of Inspector General, *EPA’s Competitive Practices for Assistance Awards*, Report No. 2001-P-00008 (May 21, 2001).

---

always document that they had monitored required key areas, such as ensuring compliance with the terms and conditions of the grant award.<sup>5</sup>

Third, EPA has not always ensured that different types of grantees have adequate financial and internal controls to ensure that they use federal funds properly. For example, in 2001,<sup>6</sup> we reported that EPA's oversight of nonprofit grantees' costs did not ensure that grant funds were used for costs allowed under guidance published by the Office of Management and Budget.<sup>7</sup> In particular, EPA's on-site reviews were flawed. The reviews did not include transaction testing to identify expenditures that are not allowed, such as lobbying. We also found that EPA had conducted on-site reviews at only 4 percent of nonprofit grantees who might have had inexperienced staff and inadequate financial and internal controls. In 2000 and 2002, the EPA Inspector General reported that one state's department of environmental management and two tribes, respectively, lacked adequate financial and internal controls.<sup>8</sup> These problems could have been identified through EPA oversight of grantees.

Fourth, EPA has sometimes not ensured that grantees are complying with certain grant regulations, such as those pertaining to grantee procurement and conflict-of-interest. In 2002, the EPA Inspector General reported that 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.<sup>9</sup> In 1999 and 2002, the EPA Inspector General reported conflict-of-interest problems because grant recipients had awarded contracts to parties who had assisted them in preparing their

---

<sup>5</sup>The monitoring of key areas is required under EPA Order 5700.4, *Interim Grantee Compliance Assistance Initiative Policy*, (Feb. 2002).

<sup>6</sup>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).

<sup>7</sup>The Office of Management and Budget has issued three circulars defining what are allowable costs for different types of grantees: A-21, A-87, and A-122.

<sup>8</sup>EPA Office of Inspector General, *Grant Management Practices of Rhode Island Department of Environmental Management*, Audit No. 2000-1-00416 (Sep. 21, 2000); EPA Office of Inspector General, *EPA Grants Awarded to the Lower Brule Sioux Tribe*, Report No. 100370-2002-1-000099 (Mar. 29, 2002); EPA Office of Inspector General, *EPA Grants Awarded to the Crow Tribe*, Report No. 100370-2002-1-000098 (Mar. 27, 2002).

<sup>9</sup>EPA Office of Inspector General, *Procurements Made by Assistance Agreement Recipients Should Be Competitive*, Report No. 2002-P-00009 (Mar. 28, 2002).

---

grants and therefore had advance knowledge about grantees' plans to award contracts.<sup>10</sup>

Finally, EPA has not fully ensured that recipients are submitting final reports in a timely manner and meeting grant objectives. For example, in 2000, we reported that EPA had not adequately tracked its Science To Achieve Results research grants to ensure their on-time completion.<sup>11</sup> 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. Also, in 1998, EPA's Inspector General reported that EPA had not monitored training assistance grants to nonprofit grantees to determine how many students were being trained or how much the training cost.<sup>12</sup>

---

## EPA Has Not Always Managed Its Grants to Achieve Environmental Results

EPA awarded some 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 not as a tool to guide the selection of grants, but rather as a clerical tool for categorizing grants after the funds were already awarded.<sup>13</sup> By assessing the relevance of these grants to EPA's strategic plan after selecting the grantees, EPA cannot ensure that it is selecting the projects 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 Science To Achieve Results program.<sup>14</sup> Instead, EPA's management of the program focused on the procedures and processes of awarding grants. As a result, EPA was

---

<sup>10</sup>EPA Office of Inspector General, *Assistance Agreement X993795-01 Awarded by EPA to the Lake Wallenpaupack Watershed Management District*, Report No. 2002-M-00007 (Jan. 18, 2002); and EPA Office of Inspector General, *Report of Audit on the Center for Chesapeake Communities*, Report No. E6DEP8-03-0014-9100117 (Mar. 31, 1999).

<sup>11</sup>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.: Sep. 11, 2000).

<sup>12</sup>EPA Office of Inspector General, *EPA's Training Assistance Agreements*, Report No. E1XMF6-03-0224-8100070 (Mar. 4, 1998).

<sup>13</sup>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).

<sup>14</sup>[GAO/RCED-00-170](#).

---

uncertain what the program was achieving. Similarly, the Office of Management and Budget recently evaluated four EPA grant programs to assess the programs' effectiveness at achieving and measuring results.<sup>15</sup> The office found that these four EPA grant programs lacked outcome-based measures—measures that demonstrated the impact of the programs on improving human health and the environment. The office concluded that one of EPA's major challenges was demonstrating program effectiveness in achieving public health and environmental results.

EPA often does not require grantees to submit work plans that explain how a project would achieve measurable environmental results. The grantee work plan describes the project, its objectives, and the method the grantee will use to accomplish the objectives. An effective work plan should, among other things, list the grant's expected outcomes. The project officer uses the work plan to evaluate performance under the 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.<sup>16</sup> In fact, for almost half of the 42 grants 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 funding had accomplished.

---

## EPA Has Not Effectively Managed Its Grant Resources

Both EPA's internal management reviews and its Inspector General reports have noted several problems in how effectively and efficiently EPA manages its grants staff and other resources. In terms of staff, the agency has not always held accountable its staff responsible for grants management, such as project officers and grant specialists. EPA's internal management reviews have found that, in some cases, job descriptions or performance standards were inadequate. The Inspector General recently

---

<sup>15</sup>The four EPA programs assessed were the Drinking Water State Revolving Fund, Leaking Underground Storage Tanks, Nonpoint Source Grants, and Tribal General Assistance programs. The Office of Management and Budget evaluated these programs using its Program Assessment Rating Tool, 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.

<sup>16</sup>EPA Office of Inspector General, *Surveys, Studies, Investigations, and Special Purpose Grants*, Report No. 2002-P-00005 (Mar. 21, 2002).

---

reported similar findings.<sup>17</sup> According to the Inspector General, agency leadership had not always emphasized the importance of project officer duties, nor held project officers accountable for performing certain duties. More specifically, project officer responsibilities were not clearly defined in their performance agreements and position descriptions, and there were no consequences when required duties were not performed.

EPA has also not provided all grant staff with the training necessary to properly manage all aspects of grants. EPA's internal management reviews have noted that some staff who were managing grants had not completed the basic project officer training. Other staff may have completed the basic training but needed 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.

Internal management reviews also identified other staff-related problems. For example, some internal reviews stated that EPA did not have enough staff to adequately manage the number of grants it awards. Furthermore, other reviews noted that uneven distribution of workload among staff resulted in poor grants management.

EPA has also not adequately managed its resources for supporting grant staff. Some EPA internal management reviews noted a lack of resource commitment—time and money—to conduct grant management activities and develop staff. This lack of resources has hampered staff in performing their duties, according to these reviews. For example, some of these reviews noted that 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 does not use information from performance evaluations or information systems to better manage its grants. For example, one EPA

---

<sup>17</sup>EPA Office of Inspector General, *EPA Must Emphasize Importance of Pre-Award Reviews for Assistance Agreements*, Report No. 2003-P-00007 (Mar. 31, 2003).

---

region did not analyze the results of its own internal surveys, which were designed to assess the effectiveness of its internal grants management operations.

---

## EPA's Past Actions Have Targeted Some of the Key Problems but Have Not Been Consistently Successful

In recent years, EPA has taken a series of actions to address two of its key problem areas: grantee oversight and resource management. It has issued several oversight policies, conducted training, and developed a new data system for grants management. However, EPA's corrective actions have not been consistently successful because of weaknesses in their implementation and insufficient management emphasis.

---

## EPA Has Taken Actions to Improve Oversight of Grantees and Resource Management

Between 1998 and 2002, EPA issued three policies to improve its oversight of its grant recipients. These policies have tried to improve oversight by establishing, expanding, and refining the activities of EPA staff involved in managing grants. EPA took additional actions to reduce the backlog of grants needing closeout.

- EPA's first policy, issued in May 1998, required grants management office staff to monitor the financial progress and administrative compliance of grant recipients' activities. The policy also required the staff to conduct site visits or desk reviews to review the adequacy of some grantees' administrative and financial systems for managing their grants. Furthermore, the grants management offices had to submit biennial monitoring plans, which included their proposed monitoring activities. Finally, the policy included suggested criteria for selecting grantees to be reviewed and guidelines for how to conduct the oversight activities.
- EPA's second policy, issued in April 1999, added oversight responsibilities for program staff in headquarters and the regions. The policy required headquarters and regional program offices to submit annual plans outlining their proposed monitoring 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.
- EPA's third policy, issued in February 2002, further refined its oversight requirements by having grant management and program offices conduct

---

in-depth monitoring on at least 5 to 10 percent of their grant recipients.<sup>18</sup> The grant management offices had to assess grantees' financial and administrative capacity, while the program offices had to assess the grantees' activities in five key areas, such as progress of work and financial expenditures. Furthermore, the grant management offices, as well as regional and headquarters program offices, had to report quarterly on their in-depth monitoring activities. Additionally, the policy committed the Office of Grants and Debarment to the development of a database, which, according to an EPA official, the grants management offices would use to store the results of their in-depth monitoring activities. Finally, the policy included suggested guidance for how to conduct program office reviews.

One of the final steps in monitoring is "closing out" grants to ensure that the project was completed and that any remaining funds are recovered. In 1996, EPA had a backlog of over 19,000 grants needing closeout. To reduce such backlogs and prevent future backlogs, EPA, among other things, developed specific procedures for closing out nonconstruction grants and identified a strategy for closing construction grants that included assessing impediments to closing out grants.

In terms of resource management, EPA provided grants management training for its staff and some grant recipients. It developed and periodically updated a training manual for project officers. EPA also required project officers to attend a 3-day training course based on this manual and periodically take a refresher course. EPA developed a database to certify that project officers had completed this training. According to an EPA official, grants specialists have also received some training. Finally, EPA conducted a 1-day grants management training course for nonprofit grantees and pilot-tested a standard training course for grants specialists.

Finally, EPA has 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 allow electronic management throughout the life of the grant. EPA believes IGMS could help resolve some of the long-standing problems in grants management by implementing controls to prevent certain documents from being submitted without required elements and

---

<sup>18</sup>EPA calls this in-depth monitoring, "advanced monitoring."

---

providing electronic reminders of when certain activities or documents are due. Additionally, EPA designed the system to reduce the potential for data entry errors.

According to an EPA official, IGMS is being developed through modules. In 2001, EPA began implementing the system to control the application and award phases of a grant. Using IGMS, EPA will be able to review the grantee's application, prepare and review EPA's documents, and approve the award electronically. In April 2003, EPA will begin using the post-award module of IGMS. This module will allow project officers to enter project milestones into the system, communicate with other staff involved in overseeing grants, receive electronic reports from grantees, and initiate closeout activities electronically. EPA expects that all staff will be using IGMS to electronically manage grants by September 2004.

---

### EPA's Past Actions Have Had Mixed Results and Have Not Been Consistently Successful in Resolving Grants Management Problems

EPA continues to face grant management problems, despite the corrective actions it has taken to date. In 2002, EPA's Inspector General reported that EPA's corrective actions were not effectively implemented and specifically, for monitoring, found, among other things,<sup>19</sup>

- inconsistent performance of monitoring responsibilities,
- inadequate preparation of monitoring plans,
- incomplete submission of quarterly compliance reports, and
- considerable differences among the programs and the regions in the number of on-site evaluations they conducted.

As part of our ongoing review, we are assessing EPA's corrective actions for monitoring and have found mixed results. On the one hand, we have seen some problems. For example, we identified two weaknesses in the database EPA created to store the results of its in-depth reviews. First, only grant management offices—not program offices—had to enter the results of their reviews into this database, and according to an EPA official familiar with the database, not all of them did so. Second, according to the same official, EPA did not design the database so that it could analyze the results of the in-depth reviews to make management improvements.

---

<sup>19</sup>EPA Office of Inspector General, *Additional Efforts Needed to Improve EPA's Oversight of Assistance Agreements*, Report No. 2002-P-00018 (Sept. 30, 2002).

---

On the other hand, however, we found that EPA's corrective actions increased the oversight of its grant recipients. In 2002, EPA reported that it had conducted 578 on-site reviews, and 629 desk reviews, which is an increase in both the number of on-site reviews and the number of reviews some offices conducted.<sup>20</sup> In addition, EPA's 2002 internal reviews indicated some improvements in oversight compared with the prior year's performance.

On another positive note, EPA has made improvements in closing out grants. In 1998, we reported that in some instances EPA's corrective actions to close out grants were not initially successful.<sup>21</sup> For example, we had found that strategies to reduce the closeout backlog were not always consistently implemented or failed to close out a considerable number of grants, despite making some progress. However, EPA had successfully resolved its backlog problem by 2002. As a result, EPA has been able to eliminate this backlog as a material weakness and receive better assurance that grant commitments have been met.

With respect to resource management, EPA implemented corrective actions to improve training, but these actions have not been fully successful. For training, the EPA Inspector General reported that the agency did not have adequate internal controls in place to ensure that project officers were in compliance with the training requirements. 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.

In addition to the weaknesses in the corrective actions for specific problem areas, the EPA Inspector General found two other problems. First, the agency's internal grant management reviews did not consistently examine issues to identify and address systemic weaknesses, did not adequately identify the causes of specific weaknesses or how the proposed corrective actions would remedy the identified weakness, and were not sufficiently comprehensive. Furthermore, the Grants Administration Division did not assess the results of these reviews to make management

---

<sup>20</sup>EPA's Inspector General reported that EPA conducted 466 on-site evaluations in 2001.

<sup>21</sup>U.S. General Accounting Office, *Environmental Protection: EPA's Progress in Closing Completed Grants and Contracts*, GAO/RCED-99-27 (Washington, D.C.: Nov. 20, 1998).

---

improvements. Second, EPA's senior resource officials did not ensure compliance with EPA policies or sufficiently emphasize grantee oversight.<sup>22</sup> The Inspector General concluded that the lack of emphasis contributed to the identified implementation weaknesses. In response to this assertion, senior resource officials stated that monitoring is affected by the limited availability of resources, and that they lack control over how regional program offices set priorities. The Inspector General pointed out that these officials are responsible for providing adequate resources; however, none of the officials interviewed had conducted assessments to determine whether they had adequate resources.

---

## EPA Has Recently Issued New Policies and Developed a Plan to Address Its Grants Management Problems

EPA has recently issued new policies to address two of the key problems we have identified—competition and oversight—and developed a 5-year plan to address its long-standing grants management problems. In September 2002, EPA issued a policy to promote competition in awarding grants by requiring that certain grants be competed. These grants may be awarded noncompetitively only if certain criteria are met, in which case, a detailed justification must be provided. The new policy also created a senior-level advocate for grants competition to oversee the implementation of the policy. In December 2002, EPA also issued a new oversight policy that increases the amount of in-depth monitoring—desk reviews and on-site reviews—that EPA conducts of grantees; mandating that all EPA units enter compliance activities into a database; and requiring transaction testing for unallowable expenditures, such as lobbying, during on-site evaluations reviews.

In April 2003, EPA issued a 5-year Grants Management Plan. EPA's Assistant Administrator for Administration and Resources Management has called implementation of this plan the most critical part of EPA's grants management oversight efforts. The grants management plan has five goals and accompanying objectives:

- Promote competition in the award of grants by identifying funding priorities, encouraging a large and diverse group of applicants, promoting the importance of competition within the agency, and providing adequate

---

<sup>22</sup>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.

---

support for the grant competition advocate.

- Strengthen EPA's oversight of grants by improving internal reviews of EPA offices, improving and expanding reviews of EPA grant recipients, developing approaches to prevent or limit grants management weaknesses, establishing clear lines of accountability for grants oversight, and providing high-level coordination, planning, and priority setting.
- Support identifying and achieving environmental outcomes by including expected environmental outcomes and performance measures in grant workplans, and improving the reporting on progress made in achieving environmental outcomes.
- Enhance the skills of EPA personnel involved in grants management by updating training materials and courses and improving delivery of training to project officers and grants specialists.
- Leverage technology to improve program performance by, for example, enhancing and expanding information systems that support grants management and oversight.

Although we have not fully assessed EPA's new policies and grants management plan, I would like to make a few preliminary observations on these recent actions based on our ongoing work. Specifically, EPA's plan:

- Recognizes the need for greater involvement of senior officials in ensuring effective grants management throughout the agency. The plan calls for a senior-level grants management council to provide high-level coordination, planning, and priority-setting for grants management.
- Appears to be comprehensive in that it addresses the four major management problems—competitive grantee selection, oversight, environmental results, and resources—that we identified in our ongoing work. Previous EPA efforts did not address all these problems, nor did they coordinate corrective actions, as this plan proposes. EPA's plan ties together recent efforts, such as the new policies and ongoing efforts in staff and resource management, and proposes additional efforts to resolve its major grants management problems.
- Identifies the objectives, milestones, and resources needed to help ensure that the plan's goals are achieved. Furthermore, EPA is developing an annual companion plan that will outline specific tasks for each goal and objective, identify the person responsible for completing the task, and set

---

an expected completion date.

- Begins to build accountability into grants management by establishing performance measures for each of the plan's five goals. Each performance measure establishes a baseline from which to measure progress and target dates for achieving results. For example, as of September 2002, 24 percent of new grants to nonprofit recipients that are subject to the competition policy were competed—EPA's target is to increase the percentage of these competed grants to 30 percent in 2003, 55 percent in 2004, and 75 percent in 2005. The plan further builds accountability by identifying the need for performance standards for project officers and grants specialists that address grant management responsibilities.

Although these actions appear promising, EPA has a long history of undertaking initiatives to improve grants management that have not solved its problems. If the future is to be different from the past, EPA must work aggressively to implement its new policies and its ambitious plan through a sustained, coordinated effort. It will be particularly important for all agency officials involved in managing grants to be committed to and held accountable for achieving the plan's goals and objectives.

---

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

---

## Contacts and Acknowledgments

For further information, please contact John B. Stephenson at (202) 512-3841. Individuals making key contributions to this testimony were Andrea Wamstad Brown, Christopher Murray, Paul Schearf, Rebecca Shea, Carol Herrstadt Shulman, Bruce Skud, and Amy Webbink.

---

---

This is a work of the U.S. government and is not subject to copyright protection in the United States. It may be reproduced and distributed in its entirety without further permission from GAO. However, because this work may contain copyrighted images or other material, permission from the copyright holder may be necessary if you wish to reproduce this material separately.

---

---

## GAO's Mission

The General Accounting Office, the audit, evaluation and investigative arm of Congress, exists to support Congress in meeting its constitutional responsibilities and to help improve the performance and accountability of the federal government for the American people. GAO examines the use of public funds; evaluates federal programs and policies; and provides analyses, recommendations, and other assistance to help Congress make informed oversight, policy, and funding decisions. GAO's commitment to good government is reflected in its core values of accountability, integrity, and reliability.

---

## Obtaining Copies of GAO Reports and Testimony

The fastest and easiest way to obtain copies of GAO documents at no cost is through the Internet. GAO's Web site ([www.gao.gov](http://www.gao.gov)) contains abstracts and full-text files of current reports and testimony and an expanding archive of older products. The Web site features a search engine to help you locate documents using key words and phrases. You can print these documents in their entirety, including charts and other graphics.

Each day, GAO issues a list of newly released reports, testimony, and correspondence. GAO posts this list, known as "Today's Reports," on its Web site daily. The list contains links to the full-text document files. To have GAO e-mail this list to you every afternoon, go to [www.gao.gov](http://www.gao.gov) and select "Subscribe to daily E-mail alert for newly released products" under the GAO Reports heading.

---

## Order by Mail or Phone

The first copy of each printed report is free. Additional copies are \$2 each. A check or money order should be made out to the Superintendent of Documents. GAO also accepts VISA and Mastercard. Orders for 100 or more copies mailed to a single address are discounted 25 percent. Orders should be sent to:

U.S. General Accounting Office  
441 G Street NW, Room LM  
Washington, D.C. 20548

To order by Phone:   Voice:   (202) 512-6000  
                                  TDD:    (202) 512-2537  
                                  Fax:     (202) 512-6061

---

## To Report Fraud, Waste, and Abuse in Federal Programs

Contact:

Web site: [www.gao.gov/fraudnet/fraudnet.htm](http://www.gao.gov/fraudnet/fraudnet.htm)

E-mail: [fraudnet@gao.gov](mailto:fraudnet@gao.gov)

Automated answering system: (800) 424-5454 or (202) 512-7470

---

## Public Affairs

Jeff Nelligan, Managing Director, [NelliganJ@gao.gov](mailto:NelliganJ@gao.gov) (202) 512-4800  
U.S. General Accounting Office, 441 G Street NW, Room 7149  
Washington, D.C. 20548