

US EPA ARCHIVE DOCUMENT

**Written Testimony of
Morris X. Winn
Assistant Administrator for
Administration and Resources Management
U. S. Environmental Protection Agency
before the
Subcommittee on Water Resources and Environment
Committee on Transportation and Infrastructure
U.S. House of Representatives**

June 11, 2003

Mr. Chairman and Members of the Subcommittee, thank you for the opportunity to appear before the Subcommittee to address the subject of today's hearing: **Environmental Protection Agency (EPA) Grants Management: Persistent Problems and Proposed Solutions.**

Each fiscal year, EPA awards an average of \$4 billion in grants, over half of the Agency's budget. This funding is a key mechanism by which EPA's national media program managers, in partnership with grant recipients, deliver environmental protection to the public. Most of the funds - about 89%- go to States, Tribes and local governments. The remaining dollars are divided between non-profit organizations (6.1%), educational institutions (4.2%) and individuals, foreign recipients and profit-making organizations (0.6%). Some of EPA's funding is the result of Congressional earmarks. For example, in Fiscal Year (FY) 2002, funding for earmarks comprised approximately 11% of EPA's total grant dollars and 30% of the total grant dollars to non-profit organizations.

EPA has an obligation to the taxpayer to manage its grant dollars effectively and ensure they further the Agency's mission. However, since 1995, EPA's grants management practices have been roundly criticized by Congress, the General Accounting Office (GAO) and EPA's Office of the Inspector General (OIG). This criticism has largely focused on non-State grants (e.g., grants to non-profit organizations), with a particular emphasis on grant competition, pre-award review, oversight, and environmental outcomes. EPA is committed to addressing these issues so that its grants meet the highest management and fiduciary standards and further EPA's mission of protecting human health and the environment. Our efforts are designed to cultivate and foster an effective system for grants management - one in which Federal funds are used responsibly and produce measurable environmental results.

Before discussing in more detail the problems EPA has faced in grants management, and the Agency's strategy for addressing those problems, it is important to recognize the contributions that EPA grants, especially grants to States and local governments, have made to environmental protection over the past three decades. For example, in the 1970s and 1980s, EPA administered the multi-billion dollar wastewater treatment works construction grant program under Title II of the Clean Water Act. This program, the second largest public works

program in the nation's history, resulted in significant water quality improvements for thousands of municipalities.

Further, the Agency continues to provide critically needed infrastructure funding through its two State Revolving Fund (SRF) programs, the Clean Water SRF (CWSRF) and Drinking Water SRF (DWSRF). These two programs comprise nearly half of the Agency's grant dollars. Through FY 2002, CWSRFs have leveraged \$19.5 billion in capitalization grants to States into more than \$38.7 billion in assistance to municipalities and other entities for wastewater treatment projects. Similarly, the newer DWSRFs have leveraged \$4.4 billion in capitalization grants into more than \$5.2 billion in loan assistance for drinking water projects.

Moreover, EPA's grants for State and Tribal environmental programs have been a key factor in allowing States and Tribes to administer delegated or authorized regulatory programs across all environmental media. In FY 2002, EPA awarded \$1.1 billion for these grants, including \$193 million under section 106 of the Clean Water Act to support the issuance of National Pollution Discharge Elimination System permits, water quality monitoring, and the development of water quality standards and Total Maximum Daily Loads.

EPA is a recognized innovator in the State funding area as evidenced by its highly successful Performance Partnership Grant (PPG) program. PPGs provide States with the flexibility to combine funds from various EPA categorical grant programs into one grant. This allows States to streamline grant paperwork and better address national and State environmental priorities. In FY 2002, EPA awarded \$272 million to States for PPGs.

In response to the events of September 11, EPA has been a leader in awarding homeland security grants. In FY 2002 and early FY 2003, the Agency awarded over 500 water security grants totaling approximately \$78 million. This included grants to large publicly-owned and privately-owned water systems to evaluate their vulnerability to potential threats and to States for water protection programs. These grants will help water systems and States address the risk of serious consequences from sabotage or terrorist attacks.

Despite these success stories, EPA's credibility in grants management has been seriously jeopardized by its inability to resolve longstanding concerns expressed by Congress, GAO and the OIG. For example, in 2002, at the request of EPA's Office of Grants and Debarment, the OIG performed an audit of a \$6 million grant made by the Agency to a non-profit corporation to develop and market environmentally friendly technologies. The report found that the grantee had awarded 20 sole source contracts without adequate justification and that some of the contracts were signed after work had begun. The report also identified apparent conflicts of interest, noting that officers of the grantee organization or its for-profit subsidiary had awarded contracts to companies where they served as a member of the Board of Directors. Based on these and other findings, the OIG determined that the grantee had incurred \$1,301,365 in ineligible costs.

Over the period 1995 to 2001, the Agency did take steps to respond to the concerns of Congress, GAO, and the OIG. EPA issued formal post-award monitoring policies, virtually eliminated a grant closeout backlog of some 20,000 grants, provided grants management training to over 4000 project officers, and initiated development of an automated Integrated Grants Management System.

As evidenced by an OIG audit report entitled “**Review of Assistance Agreements Awarded to Nonprofit Organizations**” (Report No. 2001-P-00005, dated March 29, 2001), these actions produced improvements in some areas. In that audit, the OIG examined a sample of grants to nonprofit organizations awarded by EPA Headquarters and EPA’s Atlanta Regional Office (Region 4). The report noted that EPA Headquarters and Region 4 had undertaken initiatives to improve the grants administration process. These included training of grants specialists and project officers, issuance of new or revised policy guidance, selective on-site reviews of recipient organizations to assess their performance, and implementation of an internal review process that analyzed specific aspects of grant programs on an ongoing basis. The report found that EPA maintained appropriate relationships with recipient organizations, avoided conflicts of interest, and that the specific grants reviewed complied with the Federal Grant and Cooperative Agreement Act, which prohibits the use of assistance agreements for acquisition activities. Based on these findings, the report concluded that a review of additional grant agreements based on the same objectives was not warranted.

These findings, however, are not representative of the total universe of EPA grants. I agree with the Subcommittee that problems persist in EPA grants management. The OIG and GAO continue to find weaknesses, such as examples of inadequate grant competition, incomplete pre-award reviews by project officers, non-competitive procurements by grant recipients, lax EPA oversight resulting in unallowable grant expenditures, a lack of accountability for effective grants management, and grants that have no link to environmental outcomes. These findings undermine the public’s confidence in the integrity of EPA’s grant programs and underscore the need for sustained and decisive action.

To address the grants management weakness, I am pleased to inform the Subcommittee that Administrator Whitman and I recently approved the Agency’s first long-term Grants Management Plan. The Plan will serve as a road map to help manage EPA’s grant resources in a fiscally responsible and productive manner. It incorporates comments from the OIG and the Office of Management and Budget, and contains specific performance targets to measure progress. Through the activities in the Plan, the Agency will create a more accountable system for managing grants, including enhanced systems for administering the information and resources that make grant programs work.

The Plan outlines five goals: 1) Enhance the Skills of EPA Personnel Involved in Grants Management; 2) Promote Competition in the Award of Grants; 3) Leverage Technology to Improve Program Performance; 4) Strengthen EPA Oversight of Grants; and 5) Support Identifying and Achieving Environmental Outcomes.

Enhancing EPA Grants Management Skills - Goal 1: Linked to EPA's Strategy for Human Capital, the Agency will improve its training program for project officers and grants specialists by focusing on core competencies to ensure effective grants management. This will include expanded training in areas identified in OIG audit reports, such as application, budget, and procurement review, conducting competitions, and environmental outcomes. EPA recently updated its Project Officers Training Manual to address these issues.

Promoting Competition - Goal 2: EPA will pursue increased competition in grant awards, particularly in awards to non-profit organizations. This will be achieved by: training project officers in conducting competitions; expanding public awareness of EPA funding opportunities through the "Catalog of Federal Domestic Assistance", and posting solicitations on www.FedGrants.gov, a Federal internet site.

To initiate improvements in this area, EPA issued a new grant competition policy, EPA Order 5700.5, which went into effect on October 1, 2002. The policy is designed to promote fairness in the grant award process and help ensure that EPA funds projects that further its mission at the least cost to the taxpayer.

While the Order contains a number of exemptions, such as State and Tribal program grants and Congressional earmarks, it covers a wide range of EPA grant activities. It will significantly affect awards to non-profit organizations by opening up to competition 80% of the money available for non-profit grant programs subject to the Order. From October 1, 2002 to date, EPA has doubled the percentage of competitive grants made to non-profit organizations over the level achieved in FY 2001. Further, under the long-term Grants Management Plan, the Agency will continue to increase the percentage of grants awarded competitively to non-profit organizations over the next two fiscal years.

The policy establishes effective controls to ensure compliance by creating a Grants Competition Advocate position within the Office of Administration and Resources Management (OARM). I appointed to this Senior Executive Service position the former Director of EPA's Superfund Procurement Division, who has broad authority to issue interpretive guidance, approve program-specific procedures and specified exemptions, resolve disagreements between program and grants management offices, and intervene in solicitation processes if necessary.

Both the OIG and the Office of Management and Budget (OMB) concurred in the policy, with OMB describing it as "...a strong step in the right direction that should increase competition."

Leveraging Technology - Goal 3: EPA will continue to participate in government-wide initiatives to streamline the grants process and develop a central electronic portal for grant application and reporting. EPA will also continue to deploy and enhance its Integrated Grants Management System (IGMS). When completed, IGMS will fully automate the grants process within the Agency. It will provide electronic tracking of grant milestones, products and post award activities, thereby strengthening project officers' oversight capabilities.

Strengthening Oversight - Goal 4: On December 31, 2002, OARM issued a comprehensive post-award monitoring policy, EPA Order 5700.6, that significantly expands the Agency's post-award monitoring program. It requires baseline monitoring for all active awards on an ongoing basis. It also provides for advanced monitoring (i.e., on-site reviews and desk reviews) on a minimum of 10% of the Agency's active grantees and mandatory reporting of these activities in a new Grantee Compliance Database.

This new Order is a substantial improvement over previous post-award monitoring policies, which required baseline monitoring only once during the lifetime of an award, established a minimum 5% advanced monitoring goal, and did not mandate uniform compliance reporting. Program offices have responded positively to the new policy by submitting to OARM timely and comprehensive post-award monitoring plans that emphasize advanced monitoring of at-risk grantees.

The long-term Grants Management Plan includes a series of steps that will complement the new policy. These steps include revamping EPA's internal grants management reviews, developing early warning systems to quickly identify problem areas, helping project officers and grants specialists improve their monitoring of grantee performance, increasing technical assistance to recipients to prevent problems from occurring, examining the workload of project officers and grants specialists, and developing a coordinated approach to planning to resolve significant policy issues and establish strategic directions.

A major objective under this Goal is to strengthen accountability for quality grants management. To that end, EPA will work to develop and enforce uniform performance standards for project officers, grant specialists and managers, reward employees for superior grants management, and clarify the roles and responsibilities of the Agency's Senior Resource Officials.

Achieving Environmental Results - Goal 5: EPA recognizes that it must improve its ability to measure and report on the results of its grants and align them with the achievement of goals and objectives in the Agency's Strategic Plan. This is a subset of the larger issue faced by EPA under the Government Performance and Results Act (GPRA) in measuring how its programs contribute to realizing environmental outcomes. To better link grant performance to GPRA objectives, EPA will incorporate environmental outcomes and performance measures in grant work plans and enhance performance reporting by grantees.

EPA's long-term Grants Management Plan is a direct response to the issues raised by Congress, the OIG and GAO. Nevertheless, given the Agency's track record over the past seven years, it is fair to ask why this Plan will be any more successful than previous efforts.

The answer, I believe, lies in the commitment that EPA's program and management

offices have now made to effective grants management. This commitment formed the basis for the Administrator's recent decision not to elevate grants management to a Material Weakness. It is reflected in the issuance of the long-term Grants Management Plan and the new policies on competition and post-award monitoring. It is also reflected in the Administration's FY 2004 budget request, which seeks a substantial increase in resources for grants management, and in my decision to redeploy Full-Time Equivalents (FTEs) to the Office of Grants and Debarment to support grant competition and oversight. Finally, it is reflected in the Agency's new Excellence in Grants Management Program, which will reward and recognize Regions and Headquarters program offices that substantially exceed the performance targets in the long-term Grants Management Plan.

EPA has dealt with numerous investigations and audits of its grants management activities. These audits and investigations have had the salutary effect of identifying for the Agency the full range of problems that must be addressed. What EPA needs now is time to implement its long-term Grants Management Plan. While all of the problems cannot be solved overnight, I am confident that with the Plan in place, EPA will be able to eliminate the grants management weakness and become a "best practices" agency.

Implementing the actions in our long-term Grants Management Plan is a continuing process, and Administrator Whitman and I look forward to working with the Congress and our State, local and Tribal partners, and other recipients to address the challenges before us.

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