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**STATEMENT OF
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BEFORE THE
COMMITTEE ON ENVIRONMENT AND PUBLIC WORKS
UNITED STATES SENATE**

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Mr. Chairman, thank you for the opportunity to appear before the Committee to address the subject of today's hearing -- Grants Management Practices within the Environmental Protection Agency (EPA).

Each fiscal year (FY), EPA awards an average of \$4 billion in grants, approximately 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 grant funds -- about 89% -- go to States, Tribes and local governments. The remaining dollars are divided between non-profit organizations (6.6%), educational institutions (4.2%) and individuals, foreign recipients and profit-making organizations (.2%). Some of EPA's funding is the result of Congressional earmarks. For example, in FY 2003, funding for earmarks comprised approximately 21% of EPA's total grant dollars and 51% 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 criticized by Congress, the General Accounting Office (GAO) and EPA's Office of the Inspector General (OIG). Before discussing in more detail the problems EPA faces in grants management, and the Agency's progress in solving those problems, it is important to recognize the contributions that EPA's grants to our governmental partners have made to environmental

protection over the past three decades. For example, in the 1970s and 1980s, working with this Committee, 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 2003, the CWSRF program has supported over 14,000 projects totalling \$43.5 billion for secondary treatment, advanced treatment, combined sewer overflow correction, stormwater treatment and nonpoint source needs. Similarly, through FY 2003, the newer DWSRF program has provided \$6.4 billion which has resulted in more than 3,000 loans for drinking infrastructure needs to protect public health and ensure compliance with the Safe Drinking Water Act.

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 2003, EPA awarded over \$1 billion for these grants. This included \$193.6 million under section 106 of the Clean Water Act to support water quality planning, water quality monitoring, the development of water quality standards and Total Maximum Daily Loads, the issuance of National Pollution Discharge Elimination System permits, compliance and enforcement activities, and ground water protection.

EPA is also 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, adopt multi-media approaches, and better address national and State environmental priorities. In FY 2003, EPA awarded over \$300 million in PPGs to States and Tribes.

Additionally, as part of the FY 2005 budget, the Administration is proposing a new \$23 million State and Tribal Performance Fund that will award grants on a competitive basis for environmental programs. These funds will allow States and Tribes that can link their proposed activities to public health and environmental outcomes to receive additional assistance. EPA is pleased to be able to provide States and Tribes with another tool to protect and restore the environment.

Despite these success stories, EPA's credibility in grants management has been jeopardized by its inability to resolve longstanding concerns expressed by Congress, GAO and the OIG. These concerns have largely centered on non-State grants, particularly grants to non-profit organizations, with an emphasis on grant competition, pre-award review, oversight, environmental results and accountability. Over the period 1995 to 2001, the Agency did take steps to respond to these concerns. 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, encouraged grant competition, 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. As noted in GAO’s August 2003 report, the Agency continues to face key grants management challenges in the areas of grantee selection, oversight, resources and environmental results. To address these challenges, EPA issued its first-ever long-term Grants Management Plan, with associated performance measures, in April 2003. GAO has described the Plan in positive terms, characterizing it as coordinated, integrated approach to improving grants management. As discussed below, the Agency is moving aggressively to implement the Plan, refining our corrective actions as necessary to incorporate recommendations for improvement contained in the GAO and OIG reports.

I am pleased to report that EPA has made significant progress in carrying out our long-term Plan. To date, we have met almost all of our performance measure targets and have completed more than 60 actions items in support of the Plan.

The Plan commits EPA to accomplishing five goals, namely: 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: A key component of our strategy to enhance skills is to ensure that all project officers are certified to manage grants. Project officers must complete the basic grants management training program and take a refresher course every three years to maintain their certification. As of December 31, 2003, nearly 100% of our grants are being managed by certified project officers. We expect the mandatory certification program to equip project officers with the skills needed for proper grants oversight and will assess the effectiveness of the program in achieving that result.

We are also taking a systematic approach to improving our training programs through the development of a long-term training plan that is linked to EPA's Strategy for Human Capital. As suggested by GAO, the long-term plan will establish an Agency-wide process for ensuring that grant specialists, project officers and managers are timely trained on new policies and regulations and contain measures for determining how our training activities contribute to improved grants management. Building upon ongoing efforts to emphasize core competencies, the plan will require expanded training in areas identified in OIG audit reports, such as application, budget, and procurement review, conducting competitions, environmental outcomes,

and prohibitions on the use of grant funds for lobbying or suing the Government. EPA recently updated its Project Officers Training Manual to address these issues and anticipates issuing a final version of the training plan later this year.

Promoting Competition -- Goal 2: EPA is committed to increasing competition for grant awards under its new Competition Policy, which went into effect on October 1, 2002. In concurring in the Policy, the Office of Management and Budget (OMB) described it as "...a strong step in the right direction that should increase competition." The Policy is designed to promote fairness in the grant award process and help ensure that EPA funds high priority projects at the least cost to the taxpayer.

While the Policy contains a number of exemptions, such as State and Tribal program grants and Congressional earmarks, it covers a wide range of EPA grant activities, including many grants to non-profit organizations. It also created a Grants Competition Advocate (GCA) position within the Office of Grants and Debarment. The GCA has broad authority to administer the Order, including issuing interpretive guidance, approving specified exemptions and resolving disagreements between program and grants management offices.

In the first year of implementation, the Agency competed 75% of new awards to non-profit organizations covered by the Policy. This exceeded the Agency's performance target of 30%. The GCA is currently conducting an independent review of the Policy's effectiveness, and in June of this year will be making recommendations for strengthening the Policy to the Assistant Administrator for Administration and Resources Management (OARM).

Given the Agency's limited experience with grant competition, we agree with GAO that the Policy represents a "major cultural shift" for EPA managers and staff and expect that the GCA's review will identify areas for improvement. Nevertheless, we are encouraged by the first year's statistics and are confident that as the Policy is revised to incorporate the GCA's recommendations, the Agency will achieve even higher levels of competition.

Leveraging Technology -- Goal 3: EPA believes that the deployment and enhancement of the Integrated Grants Management System (IGMS) is essential to strengthening grants management. IGMS is a paperless, programmatic and administrative system which fully automates the grant process from cradle to grave. It provides a structured format for reviewing the key factors that must be considered and documented in awarding a grant, including competition and environmental results. It also provides electronic tracking of grant milestones, products and post-award activities, thereby strengthening project officers' oversight capabilities, and will accept applications and reports from Grants.gov, the Federal electronic portal for grant application and reporting. IGMS is now deployed in all ten EPA Regions, which in FY 2003 submitted 80% of grant funding packages electronically. This exceeded our performance target of 65%. Over the next two years, IGMS will be fully deployed at EPA Headquarters.

In addition, EPA continues to participate in the interagency Grants.gov initiative under Public Law 106-107. This initiative is designed to streamline and simplify the award and administration of Federal grants by creating a simple, unified source to electronically find, apply and report on Federal grants. EPA is posting synopses on Fedgrants.gov (E-Find) and complying with the OMB mandate to begin providing electronic applications (E-Apply) through Grants.gov for selected grant programs. I am pleased to announce that the Office of Grants and Debarment

and the Office of Research and Development recently posted an electronic application for the Science to Achieve Results (STAR) program. Other programs will be posted later this year. The STAR program pilot will provide valuable experience as we prepare to make all EPA-competitive grant programs available for electronic application on Grants.gov.

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 EPA's active grantees and mandatory reporting of these activities in a Grantee Compliance Database.

The 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 active grantees.

Under the new policy, the Agency completed over 1000 advanced monitoring reviews in 2003 or 18% of its recipients. This exceeded our performance target of 10% of recipients. Moreover, we have implemented, or are in the process of implementing, major GAO recommendations for strengthening post-award monitoring. In this regard, effective for calendar year 2004, we have required EPA staff to use a standard reporting format when entering advanced monitoring reviews in the Grantee Compliance Database and have included in the Database

information on OIG and GAO reports, Agency advanced monitoring reviews, significant compliance actions taken by the Agency and A-133 audits. This will make it easier for EPA to identify systemic issues early on and take appropriate corrective action. Moreover, after consulting with statisticians, the Agency will pilot test in 2005 a statistical approach to selecting grantees for advanced monitoring. Based on the results of the pilot, we will implement a statistical approach Agency-wide.

In implementing its post-award monitoring program, EPA has increasingly focused on taking actions against non-profit recipients that are poorly performing from either an administrative or programmatic standpoint. While non-profit recipients have played a vital role in disseminating information to communities on EPA's voluntary programs, it is true that some of these recipients have not properly managed their grants. In calendar year 2003 alone, EPA conducted 408 advanced monitoring reviews of non-profit recipients, or 37% of the total 1093 advanced monitoring reviews conducted. Where noncompliance by non-profit recipients is identified, EPA has successfully, in many cases, required recipients to correct their financial management systems, or placed controls on recipient expenditures pending resolution of audit issues.

We have continued to take significant actions against specific non-profit grant recipients to address grants management performance problems. In 2003, our advanced monitoring reviews revealed that about 22% of our non-profit recipients had one or more grants management problems. In these cases, under EPA's new post-award monitoring policy, we require recipients to develop corrective action plans to address the deficiencies. If the grant management weaknesses are not addressed in the specified time frames through corrective action plans, we

take more significant action. This includes placing recipients on reimbursement payment, issuing stop work orders, imposing special terms and conditions, terminating awards, and making referrals to the OIG to initiate comprehensive audits. For example, the Agency recently placed two large non-profit recipients on reimbursement payment while we conduct further investigations into apparent financial irregularities involving commingling of Federal grant funds, statutory consultant cap violations, and violations of the Federal Cash Management Act. We are currently in the process of modifying our Grantee Compliance Database to track the number of significant actions that we have taken, so that starting in 2004, we will be able to provide the Congress with a statistical summary of our actions.

While post-award monitoring is an important objective under Goal 4, the Plan also commits the Agency to take a variety of “early warning” approaches to prevent problems from occurring. This includes revamping EPA’s internal grants management reviews, increasing technical assistance and training to recipients and developing a pre-award review program.

EPA is making substantial progress in all of these areas. For example,

- In 2003, the Agency instituted a new approach to internal reviews that provides EPA with an early warning system to detect emerging grant weaknesses. The approach consists of three types of reviews: Comprehensive Grants Management Reviews performed by the Office of Grants and Debarment (OGD); Grants Management Self-Assessments performed by headquarters and regional offices based on OGD guidance; and Grants Performance Measure Reviews conducted by OGD, which use information in Agency databases to assess progress against Grants Management Plan performance measures. OGD completed seven

comprehensive reviews in 2003 and is requiring offices with identified problems to submit and carry out corrective action plans.

- To educate recipients about their grants management responsibilities, OGD: 1) conducted several classroom training sessions for non-profit and Tribal recipients in 2003, 2) in partnership with the OIG, distributed an instructional video to non-profit grantees in January of this year, and 3) recently issued guidance to non-profit recipients on how to purchase supplies, equipment, and services under EPA grants.
- The Agency is developing a pre-award policy to help ensure that grants are not awarded to non-profit organizations that have weaknesses in their administrative capability to manage grant funds or the programmatic capability to carry out a project. The policy will focus on requiring non-profit applicants with identified weaknesses to correct them before receiving an award. Further, applicants that repeatedly refuse to take appropriate corrective action will be referred to EPA's Suspension and Debarment program for consideration. The Agency expects to have the new policy in place in 2005.

A major objective under Goal 4 is to strengthen accountability for quality grants management. Historically, the Agency has not always managed its grants in accordance with sound business principles, which has contributed to accountability problems. However, as evidenced by our work in the following areas, EPA is beginning to create a culture of accountable grants management.

First, in 2002, then Deputy Administrator Linda Fisher issued two directives requiring

senior managers to hold employees accountable for effective grants management and to include compliance with grants management policies as part of midyear performance discussions, which occurred in July 2003.

Second, as a supplement to these directives, EPA reviewed the performance standards of employees involved in grants management. The review found that the performance standards of Senior Executive Service (SES) employees adequately addressed grants management while the standards of non-SES employees did not. Based on the results of the review, the Assistant Administrator for OARM directed EPA's Assistant Administrators (AAs) and Regional Administrators (RAs) to revise the performance standards of their non-SES employees to properly reflect grants management responsibilities. In accordance with this directive, the Agency is putting revised standards in place and will use them to evaluate employee performance during calendar year 2004.

Third, in FY 2003, the Agency required the AAs and RAs, for the first time, to outline in their assurance letters under the Federal Managers' Financial Integrity Act (FMFIA) the steps they are taking to address the grants management weakness. In these letters, the AAs and RAs commit to the Administrator of EPA that they will ensure effective grants management in their offices. This requirement will be carried forward into the FY 2004 FMFIA process.

Fourth, the Agency created in April 2003 an Excellence in Grants Management Program that will recognize and reward EPA offices that substantially exceed the performance targets in the Grants Management Plan. The AA for OARM and the Chief Financial Officer will announce the first winners of this competition in May 2004.

Fifth, EPA's new Strategic Plan includes language emphasizing the importance of grants

management and links the activities in the Grants Management Plan with the attainment of the Agency's strategic goals. The need for this linkage is reinforced by the Agency's FY 2003 Annual Report, which, as recommended by GAO, outlines performance targets and results achieved under the Grants Management Plan.

Sixth, to ensure senior management attention to grants issues, EPA established in 2003 the Grants Management Council, composed of the Agency's Senior Resource Officials. The Council has held two meetings to date, and under its charter, will provide coordination and leadership as the Agency implements the Grants Management Plan.

Seventh, we have developed a Tactical Action Plan, which outlines commitments and milestone dates under the Grants Management Plan and identifies who is responsible for completing these commitments. OGD reviews this Tactical Plan on a quarterly basis to ensure that actions are completed on a timely basis.

Finally, the Agency is addressing resource issues for accountable grants management on two fronts. To determine the most efficient use of existing resources, EPA initiated in 2003 an analysis of grant specialist and project officer workloads. The Agency expects to complete the analysis in 2004 and based on the results, will make appropriate changes to the structure of its grants work force. Additionally, as part of the President's FY 2005 budget, we plan to invest an additional \$1 million to further strengthen grants management. These resources will assist Regional Grants Management Offices by providing funding for an additional 60 on-site reviews, an on-line training program for at-risk recipients, and critical indirect cost rate negotiations for non-profit recipients. This investment will also enhance accountability by supporting mandatory, Agency-wide training for managers on their grants management responsibilities.

Achieving Environmental Results -- Goal 5: Goal 5 is a recognition that EPA must improve its ability to plan, measure, and report 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 assessing how its programs contribute to realizing environmental outcomes. Goal 5 commits the Agency to incorporating outcome measures in grant work plans and strengthening performance reporting by grantees.

In support of Goal 5, EPA recently issued an interim policy on environmental results. The interim policy applies to grant funding packages submitted by the Agency's program offices to the Grants Management Offices (GMOs) on or after February 9, 2004. Under the interim policy, GMOs may not act on proposed funding packages unless the packages include a description of how a project or program will further the goals of EPA's Strategic Plan. As a follow-up to the interim policy, an Agency-wide work group is developing an EPA Order that will require program offices to consider environmental results in funding packages, competitive solicitations, grant work plans, and grant performance reports. The Agency expects to issue this Order in 2004. As a part of these efforts, and in response to a recommendation from GAO, EPA will be working to revise its advanced monitoring protocols to include questions on measuring and achieving environmental outcomes.

In conclusion, under the long-term Grants Management Plan, EPA has put in place a comprehensive system of management controls and initiatives to address the grants management weakness. We have been careful to make adjustments in the design and implementation of the system to incorporate GAO and OIG recommendations. Given EPA's past uneven performance

in reforming grants management, it is fair to ask whether this system will be any more successful than previous efforts. The answer, I believe, lies in the cultural shift within EPA towards accountable grants management. While the Agency cannot solve all of the challenges identified by GAO overnight, this emerging culture of accountability will allow EPA, over time, to become a “best practices” agency for grants management. As we continue to implement our long-term Plan, we remain committed to working with Congress, GAO, the OIG, and our partners, including States, Tribes, local governments, non-profit organizations and educational institutions, to eliminate the grants management weakness.

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 that may have.