

US EPA ARCHIVE DOCUMENT

**STATEMENT OF  
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U. S. ENVIRONMENTAL PROTECTION AGENCY  
BEFORE THE  
SUBCOMMITTEE ON WATER RESOURCES AND ENVIRONMENT  
COMMITTEE ON TRANSPORTATION AND INFRASTRUCTURE  
U.S. HOUSE OF REPRESENTATIVES**

**July 20, 2004**

Mr. Chairman, thank you for the opportunity to appear before the Subcommittee to address the subject of today's hearing -- "Measuring Results of EPA Grants--What is the Public Getting for Their Money?"

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 13% 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). 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 took 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 4,000 project officers, encouraged grant competition, and initiated development of an automated Integrated Grants Management System.

However, despite these improvements, the Agency continues to face key grants management challenges as noted in recent GAO and OIG reports, the Agency's own internal reviews and in Congressional hearings. The areas requiring continued attention include grantee selection, oversight, accountability, and environmental results.

To address these challenges, EPA issued its first-ever long-term Grants Management Plan (Plan), with associated performance measures, in April 2003. GAO has described the Plan in positive terms, characterizing it as a coordinated, integrated approach to improving grants management. The Plan establishes five strategic goals to guide the Agency in building an effective system of grants administration. These goals include: (1) enhance the skills of 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 realizing environmental outcomes.

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 and from Congressional hearings.

## OVERVIEW OF PERFORMANCE

I am pleased to report that EPA has made significant progress in carrying out our long-term Plan. In 2003, the Agency achieved its performance goals for 8 of the 9 measures that had 2003 targets.

Specifically:

- Virtually all (99.2%) of EPA's grants were managed by certified project officers.
- 86.4% of non-exempt new grants over \$75,000 were competed exceeding a target of 30%.
- 76.4% of non-exempt new grants over \$75,000 to nonprofit recipients were competed exceeding a target of 30%.
- 79.6% of the regional grant packages were submitted electronically exceeding a target of 65%.
- It took an average of 27.4 days to award a grant which was significantly better than the target of 57 days.
- 1000 advanced monitoring reviews were performed representing 18.4% of active recipients exceeding a target of 10%.
- Seven comprehensive internal reviews of EPA grants management operations were completed meeting a target of seven reviews.
- All post-award monitoring plans were submitted on time.

The one measure that was slightly below target was closeouts. As of October 31, 2003, 96.0% of the grants ending in FY 2001 were closed out against a target of 99%, and 83.0% of the grants ending in FY 2002 were closed out against a target of 90%. EPA requires that offices that

do not meet their closeout targets identify the steps they are taking to address closeout backlogs. EPA will closely monitor closeout performance during 2004 to ensure that any closeout backlogs are substantially reduced or eliminated.

## **KEY ACCOMPLISHMENTS, INITIATIVES AND CHALLENGES**

In addition to meeting almost all key performance targets, we have completed more than 65 action items in support of the Plan and are taking steps to steadily improve grants management.

**Enhancing Grants Management Skills -- Goal 1:** On June 29, 2004, EPA's senior-level Grants Management Council approved the Agency's first-ever long-term Grants Management Training Plan (Training Plan), which is linked to EPA's Strategy for Human Capital.

The Training Plan is designed to enhance the skills of EPA personnel (both managers and staff) involved in grants management and improve grant recipients understanding of Federal grant requirements. It includes the following major elements.

- First, building upon ongoing efforts to emphasize core competencies, the Training Plan requires expanded training for project officers and grants specialists in areas identified in audit reports and the Agency's internal reviews, such as application and budget/cost analysis, procurement review, conducting competitions, environmental outcomes, and prohibitions on the use of grant funds for lobbying or suing the Government.
- Second, in order to prevent problems from occurring, the Training Plan details the

Agency's strategy for educating recipients on their grants management responsibilities.

- Third, under the Training Plan, all managers and supervisors will be required to take mandatory on-line grants management training before they will be allowed to approve grant awards.
- Fourth, the Training Plan commits EPA to establishing an Agency-wide approach to training project officers. This will ensure consistent training by National Program Managers in key areas such as environmental outcomes, statutory authority and cost reviews, and particularly benefit project officers in Regional and field locations.
- Fifth, the Training Plan maximizes the use of on-line training. All courses for EPA staff and grantees will be available on the Internet and accessible on a 24-hour basis.

**Promoting Competition -- Goal 2:** EPA is committed to effectively implementing its Grants 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 use competition 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 exempts certain grants, 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.

The GCA recently completed an in-depth review of the Policy's effectiveness. While the review found that EPA had made substantial progress in promoting competition in the first eighteen months of the Policy, it also identified changes necessary to enhance competition. Based on the review, EPA intends to reduce the current competition threshold of \$75,000 to \$10,000, which will make approximately an additional \$8.3 million subject to the Policy. The Policy also will be changed to improve the quality of the competition process by increasing oversight of the use of non-competitive exceptions and strengthening documentation and evaluation requirements.

**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 that 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. 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 and, over the next two years, 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 for and report on Federal grants. EPA is posting synopses of competitive grant opportunities 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. The application process closed on June 22, 2004 and we received 16 electronic applications that represents about 30% of all applications received for this 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.

As a supplement to our IGMS and E-grants efforts, we are taking steps to improve the quality, consistency, completeness and accessibility of the grant award data made available to the public. This will include modifying EPA's Web site to make it easier for the public to get information about EPA grants and expanding the amount of information available on active grants.

**Strengthening Oversight -- Goal 4:** On December 31, 2002, the Office of Administration and Resources Management (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.

As noted above, the Agency completed over 1000 advanced monitoring reviews in 2003 representing 18.4% of its active recipients, which exceeded our performance target of 10%. 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 play a vital role in disseminating information to communities on EPA's voluntary programs, it is true that some of these recipients have not managed their grants properly. 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. Moreover, a recent GAO report on EPA monitoring entitled **Grants Management: EPA Actions Taken Against Nonprofit Grant Recipients in**

**2002**, analyzes grants management problems that EPA identified with non-profit recipients in 2002 and the corrective actions taken. The analysis indicates that in many cases EPA successfully 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 reviewed non-profit recipients had one or more grants management problems. In these cases, under EPA's 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 against grantees, including non-profits.

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 conducted ten comprehensive reviews in 2003/2004. In addition, EPA's program offices conducted six self-assessments in 2004. If problems are identified in these reviews, program offices must develop 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 and 2004; 2) in partnership with the OIG, distributed an instructional video to non-profit grantees in January of this year; 3) recently issued guidance to non-profit recipients on how to purchase supplies, equipment, and services under EPA grants; and, 4) developed an informational CD containing applicable regulations and guidance materials.
- 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. Non-profit organizations seeking funds above a specified threshold (e.g., \$100,000) will be required to document their administrative capability to properly manage grant funds. Documentation may be through a questionnaire which would require OMB approval under the Paperwork Reduction Act. Non-profit applicants with identified weaknesses will be required to correct them before receiving a grant award or drawing down on grant funds. Further, non-profit applicants that repeatedly refuse to take appropriate corrective action will be referred to EPA's Suspension and Debarment program for consideration. At its June 29, 2004, meeting, the Agency's Grants Management Council recognized the need for the policy, which OARM expects to have 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 mid-year performance discussions, which occurred in July 2003.

Second, starting with calendar year 2004, the performance standards of all staff and managers involved in managing grants must include their grants management responsibilities. End-of-year performance evaluations are required to include a discussion of the employee's

performance against these grants management standards. OGD monitors compliance with these requirements through its comprehensive grants management reviews.

Third, as agreed to by the Agency's Grants Management Council, EPA will be issuing a policy directive in late 2004 that will clarify the roles and responsibilities of employees involved in managing grants, including project officers, grant specialists and senior resource officials. This policy directive will strengthen accountability for effective grants management by reducing confusion regarding roles and responsibilities of staff and managers and promote consistency in the administration of grants.

Fourth, in FY 2003, the Agency required the Assistant Administrators (AAs) and Regional Administrators (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 has been carried forward into the FY 2004 FMFIA process, and will include a certification from AAs and RAs that grants management performance standards are in place.

Fifth, the Agency created in April 2003, an Excellence in Grants Management Program to recognize and reward EPA offices that substantially exceed the performance targets in the Grants Management Plan. The winners of the 2003 competition were announced at the June 29, 2004, Grants Management Council meeting, and the Agency will continue the program in 2004 focusing on competition, post-award monitoring and closeouts.

Sixth, 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.

Seventh, to ensure senior management attention to grants issues, EPA established in 2003 the Grants Management Council which is composed of the Agency's Senior Resource Officials. The Council has held three meetings to date, and provides coordination, accountability and leadership as the Agency implements the Grants Management Plan.

Eighth, 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 monitor progress.

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 also will enhance accountability by supporting mandatory, Agency-wide training for managers on their grants management responsibilities.

While we are making progress in enhancing accountability, significant challenges remain. For example, restructuring the Agency's grants management workforce, where nearly 35% of the Agency's 2,000 plus project officers manage one or two grants, is a difficult undertaking that will take years to complete. Further, employees are understandably concerned about the cumulative impact that new grants management policies and procedures will have on their already heavy workload. Addressing these challenges will require time, commitment and a sound strategic approach.

**Achieving Environmental Results -- Goal 5:** EPA has made some progress in achieving environmental results in its grants programs. For example, the Brownfields Program was evaluated recently by OMB using the Program Assessment and Rating Tool (PART). In this evaluation, OMB focused on program design, management, and performance. The Brownfields Program achieved a "results demonstrated" score, largely through the strength of "property assessment" performance measures. Brownfields program grantees report on the outcome of their activities, specifically completing property assessments, which is compiled in this program performance measure. As of July 2004, 1,052 assessments have been completed, 5,023 jobs have been leveraged and \$1.49 billion dollars have been leveraged.

Nevertheless, Goal 5 recognizes 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 a 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 issued an interim policy on environmental results in January 2004. Under the interim policy, EPA's Grants Management Offices (GMOs) do not award grants unless the program office funding package includes a description of how a project or program will further the goals of EPA's Strategic Plan.

Effective January 1, 2005, EPA will replace the interim policy with an EPA Order on environmental results under assistance agreements. Responding to concerns of Congress, GAO and the OIG and to the findings of OMB's PART reviews, the Order will ensure that EPA grants are results-oriented and aligned with the Agency's strategic goals.

The Order will affect the entire grant process starting with competitive solicitations through the review of final recipient performance reports. Specifically, it will require that:

- Competitive grant announcements describe expected outputs and outcomes and how the grant program is linked to EPA's Strategic Plan/GPRA architecture;
- Competitive grant announcements contain ranking criteria for evaluating an applicant's ability to identify, track and measure expected outcomes and an applicant's past performance in reporting on outcomes;
- Program offices negotiate grant workplans that contain well-defined outputs, and to the maximum extent practicable, well-defined outcomes that can be linked to the Agency's Strategic Plan/GPRA architecture;
- GMOs return program offices' funding packages that do not provide required assurances of well-defined outputs and outcomes or describe Strategic Plan linkages; and
- Program offices review interim and final recipient performance reports to assess progress in achieving agreed-upon outputs and outcomes.



The Order also will require EPA's National Program Offices to report on significant results information from completed grants as part of the Agency's Annual Report process and in their internal evaluation systems.

Measuring the results of EPA grants is one of the greatest challenges faced by the Agency. We had anticipated having the EPA Order, and associated grantee tutorials, in place by January 2004. We were unable to do so due to the complexity of the technical issues involved. Further, given the delay in the issuance of the Order, the Agency may be unable to meet the 2004 performance target under the Grants Management Plan (i.e., 70% of grant workplans/decision memoranda/terms and conditions containing a discussion of environmental outcomes.) Nonetheless, we recently submitted the Order into the Agency's directives clearance process and are on track to have a final policy in place by January 2005. To ensure effective implementation, we will provide training for project officers at our National Grants Management Training Conference in November and develop an Agency-wide, environmental results training curriculum under our long-term Training Plan.

## **CONCLUSION**

Under the long-term Grants Management Plan, EPA has put in place a comprehensive system of management controls and initiatives to address its grants management weakness. We have been careful to make adjustments in the design and implementation of the system to incorporate GAO, OIG and Congressional 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 that is beginning to develop within the Agency towards accountable grants management. As with any major cultural change, this shift will not occur overnight, and it will require the Agency to adopt a new way of thinking about how grants are managed. In carrying out our 5-year plan, we are putting in place the pieces necessary for success, including:

- Strong senior leadership, as evidenced by Deputy Administrator directives, Assistant Administrator/Regional Administrator commitments in the FMFIA process, and the aggressive role being played by the Agency's Senior Resource Officials on the Grants Management Council;
- Effective communication, as demonstrated by the ongoing efforts of National Program Managers to emphasize the importance of accountable grants management to staff; and
- Enforcement of new grants policies and procedures through internal reviews and performance evaluations.

In short, EPA believes that this emerging culture of accountability will allow the Agency, 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 that you may have.