

**Statement of Bill A. Roderick**  
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**Before the**  
**Subcommittee on Water Resources and Environment**  
**Committee on Transportation and Infrastructure**  
**U.S. House of Representatives**  
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Good morning Mr. Chairman and Members of the Subcommittee. I am Bill Roderick, Acting Inspector General for the U.S. Environmental Protection Agency (EPA). I am pleased to be here today to discuss the work the Office of Inspector General (OIG) has done to help EPA identify and correct deficiencies in the management of its grant programs. EPA uses assistance agreements, more commonly known as grants, as the primary means of fulfilling its mission of protecting human health and the environment. In fiscal year 2005, EPA awarded approximately \$4 billion dollars in grants to State, local and tribal governments; universities; and non-profit organizations. This amount represents more than half of EPA's budget.

A recent OIG report, done at the request of Chairman Young and issued in September 2005, reviewed whether EPA held supervisors and their project officers accountable for grants management. This work showed that while EPA has made progress to establish accountability, more needed to be done to measure supervisor and staff performance of their grants management responsibilities.

This accountability report is part of a larger body of work we have done on grants management at EPA over the years. We have also focused on the need for EPA to compete more of its discretionary grants, and the need for performance indicators to ensure that the grants awarded produce their intended results. We have testified before this Subcommittee on these issues in the past.

**Accountability Within EPA's Grants Management Process**

The Grants Administration Division (GAD) within the Office of Administration and Resources Management serves as the lead office for grants management, which includes responsibility for grant regulations, policy, and guidance; and for grant-related training. GAD is also responsible for cradle-to-grave administrative management for all grant programs administered by EPA headquarters.

There are three key groups of officials involved in the grants management process: project officers, grants specialists, and senior resource officials. Project officers have a large role because of their direct interaction with grantees as the designated EPA program points of contact. Project officers work within regional and headquarters program offices and are responsible for the review, negotiation, award, and

administration of grants as they relate to programmatic and technical requirements. They are also responsible for developing and maintaining the official technical project file. According to a 2004 study on EPA's grants workforce, there were 2,383 active project officers managing grants. Most managed five or fewer grants while 29 percent managed only one. About one-third of the project officers spent less than 10 percent of their time on project officer responsibilities.

Grants specialists work within GAD in headquarters and the Grants Management Offices in the regions and provide administrative guidance and direction from application to closeout. They are also responsible for developing and maintaining the official grant file, which should consist of programmatic and fiscal information on the purpose, performance, and history of a grant agreement.

Finally, senior resource officials, which are typically Senior Executive Service managers such as Deputy Assistant Administrators in headquarters offices and Assistant Regional Administrators, oversee and guide the resource management activities within their organizations. They maintain fiscal resource management practices, and are EPA's primary points of accountability.

#### Findings on Grant Accountability

In 2005, the Chairman asked the OIG to examine the issue of accountability in EPA's grants management process with a focus on project officers and mid-level managers. This request stemmed from a July 2004 hearing before this Subcommittee when EPA's then-Acting Assistant Administrator for the Office of Administration and Resources Management testified that EPA had begun to address grants management weaknesses and that one of EPA's goals was to increase accountability among grants management staff. In response, our objective was to answer the following question: Is EPA holding project officers and supervisors accountable for their grants management responsibilities?

In our report, we differentiate between the terms "manager" and "supervisor." We use "manager" to define high-level EPA managers who are typically Assistant Administrators, Regional Administrators, senior resource officials, or division directors. We use "supervisor" to define project officers' first-line supervisors, who typically are branch or section chiefs.

We found that EPA had made some progress in establishing accountability. According to the Office of Personnel Management model on accountability, a system of accountability should include four elements: 1) establishing requirements; 2) communicating the requirements; 3) measuring employee performance against those requirements; and 4) rewarding or correcting employee performance. EPA has made significant progress on the first two elements. For example, EPA has issued policy statements that detail grants management responsibilities for project officers and establish the role of senior resource officials as EPA's primary points of accountability.

Despite this progress, we found that EPA managers did not sufficiently hold supervisors and project officers accountable for grants management. This is because there is no process to measure most grants management activities. Project officers are responsible for performing about 140 grants management tasks. However, EPA has no methodology to measure whether the project officer performs these tasks effectively. Effective project officer performance increases the likelihood that the grant will be successful. In addition, supervisors did not gather information on project officer performance but instead relied on project officers to inform them of grants management weaknesses. While EPA officials believe that measurement information exists in current systems such as the Integrated Grants Management System and will be enhanced by new processes such as the Performance Appraisal and Recognition System (PARS), these systems and processes are either not fully implemented or have not been effectively used.

Supervisors generally did not discuss project officer responsibilities during year-end evaluations. If grant issues were addressed, the discussion focused on the grant recipient's performance rather than on specific project officer tasks. Out of 26 project officers we interviewed, only five said their supervisor had a discussion with them about their project officer responsibilities during their year-end evaluation. Supervisors provided various reasons for rating project officers as successful without discussing grants management responsibilities. For example, supervisors stated that the year-end evaluation should focus on problems or issues with grantee performance; or that project officer responsibilities should be discussed at staff meetings or other times throughout the year. Other supervisors stated that the focus of performance evaluations should be on EPA program accomplishments and not on project officer duties.

Managers also did not discuss grants management during supervisors' year-end evaluations. Of 22 supervisors interviewed, 18 did not have a discussion of their project officers' grants management responsibilities. Managers also did not effectively communicate grants management weaknesses to supervisors when identified. In turn, supervisors who were not aware of the identified weaknesses could not instruct their project officers to correct them. Examples of some identified weaknesses included grants without documentation that cost reviews, baseline monitoring, or technical reviews had been conducted. These weaknesses were identified through management reviews conducted by GAD or self-assessments conducted by program or regional offices.

Of 26 project officers we interviewed, only eight were made aware of their weaknesses identified in the management reviews and self-assessments, and only two corrected their identified weaknesses. Some project officers said they would have corrected their weaknesses if they had known about them.

## OIG Recommendations and EPA's Response

We made three recommendations to help EPA fully establish a system of accountability for grants management: 1) establish a process to measure project officer, supervisor, and manager performance against grants management requirements to form the basis for performance ratings and discussions; 2) ensure managers and supervisors review and discuss grants management during performance evaluations; and 3) ensure that the weaknesses identified in a management review or self-assessment are communicated to the appropriate project officer and supervisor.

EPA agreed with our recommendations. In January 2006, EPA provided us a detailed 12-step action plan that outlined the tasks and milestone dates necessary to carry out our recommendations. This plan includes taking steps to ensure that PARS addresses grants management responsibilities. For example, 2005 appraisals of project officers, supervisors, and managers with grants management responsibilities were to include discussions about grants management performance. For 2006 performance agreements and mid- and end-year evaluations, discussions will also cover competition, environmental results, post-award monitoring, and pre-award reviews of non-profit organizations. For the 2007 appraisal process, EPA intends to establish a workgroup to develop final performance measures to assess grants management performance of project officers, supervisors, and managers. These final measures are to be incorporated into 2007 performance agreements. We believe that EPA's proposed action plan is comprehensive and when implemented will adequately address our recommendations. We will continue to monitor EPA's progress in implementing their action plan.

### **Other Grants Management Issues of Concern**

The OIG has looked at other grants management issues the last few years beyond accountability. We have evaluated EPA's progress in opening more discretionary grants to competition and promoting competition to the maximum extent possible. We have also reviewed whether EPA adequately measures the environmental results of its grants to ensure that they are having a positive impact on human health and the environment. EPA has taken positive steps to address both issues but it can do more to improve these important grants management areas.

#### Grant Competition

In 2001, we reported that EPA did not have a policy in place requiring that program officials competitively award discretionary grant funding. Grants were awarded without competition based on the project officer's opinion that the recipient was uniquely qualified. Without competition, EPA could not be assured that it was funding the best products based on merit or accomplishing its mission with a reasonable return on taxpayer's investment. In response to our report, EPA issued an Order in 2002 to compete some grants to the maximum extent practicable. In 2005, we issued a followup report that assessed whether the Order promoted competition and if those competitions were fair and open.

We found that the Order was a positive step in promoting competition and that the competitions reviewed were generally open and fair. However, the Order did not promote competition to the maximum extent possible. The Order only applied to \$161 million (about 19 percent) of the more than \$835 million of discretionary grants awarded in fiscal year 2003. This was mostly because the Order overemphasized exemptions and justifications, requiring competition only after those two options were exhausted. For example, the Order exempted from competition over 40 pollution abatement and control programs; programs available only to Indian Tribes and Intertribal Consortia; programs that have standards and procedures for competition established by regulation or rule; and awards to foreign governments. As a result of overemphasizing exemptions and justifications, EPA did not ensure that it awarded discretionary grants to the most qualified recipients or for the most innovative projects, thus potentially diminishing EPA's efforts to accomplish its mission.

We made several recommendations directed at increasing the number of grants subject to competition. Most notably we recommended eliminating blanket exemptions for programs where EPA uses discretionary funds and competition is practicable. We also recommended that EPA eliminate the justification for organizations that represent the interests of States, tribal, or local governments, also known as co-regulators or co-complementers. EPA disagreed with these specific recommendations but did revise the Order to include numerous procedural changes. We continue to believe that EPA needs to increase the pool of discretionary grants subject to competition, even those to States and Tribes. Competition does not preclude eligible recipients from receiving Federal funding, and can help ensure that funding decisions are merit based and transparent. By continuing to award funds to the same recipients when competition is possible may create the appearance of bias or favoritism.

### Measuring Environmental Results

Testimony by the OIG and the Government Accountability Office (GAO) before this Subcommittee in July 2004 indicated that EPA faced challenges in demonstrating environmental results for all its grant-supported programs. EPA has made some progress in this area, yet we continue to see this as a management challenge based on work we have conducted since then.

In 2004 we looked at the Clean Water State Revolving Fund (CWSRF), EPA's largest grant program. This multi-billion dollar program funds a wide variety of water quality projects, including all types of non-point source, watershed protection or restoration, and estuary management projects, as well as more traditional municipal wastewater treatment projects (point sources). While no one would argue that the program does not make an important contribution to public health and a healthy environment, EPA was nevertheless struggling to determine how it would measure program results. We noted that EPA had been working on developing environmental measures since 1998 but still had not established a uniform set of measures to assess the environmental impact of the program. Further, EPA had not developed a comprehensive

plan for measuring results. The result was that EPA did not know the actual environmental impact of the CWSRF nor could it compare the impact of individual water quality programs and make informed resource allocations in a tight budget environment. Some States were even questioning the value of measuring for results and therefore did not emphasize it. We recommended that EPA develop an environmental measurement plan based on stakeholder input and then implement the plan, which EPA agreed to do.

In response to our report, EPA and States developed and agreed to use a suite of measures to assess the potential benefits from CWSRF loan projects. Some of the measures used are population served, the volume of wastewater treated or processed, and whether the affected water body is impaired, threatened, or meets standards. These measurements rely on environmental data reported to EPA by States and local communities that started in 2005. All 50 States and Puerto Rico have agreed to submit data to EPA. To date, 42 States have already done so. As of March 1, 2006, EPA had received data for about 1,250 projects totaling \$7.2 billion. EPA has already begun to use this data to produce reports on CWSRF environmental accomplishments and have highlighted the environmental impact of CWSRF loans in its 2005 Annual Report. EPA also expects that the measures established will serve as a tool to help States examine, challenge, and improve their own funding decisions. From these measures, EPA has estimated that \$2.2 billion in costs have been saved. EPA estimated that the 834 communities that have reported data would have spent about \$2.2 billion more to conduct the same projects if those communities had gone to a private bank for a loan instead of using the CWSRF loan program.

The impact of not measuring environmental results was also noted in two recent reports we conducted on the Alaska Village Safe Water Program. This program provides grants to small native and rural Alaskan villages to help pay for the development and construction of public water systems and wastewater systems to improve health and sanitation conditions; and for the training and technical assistance needed to operate those systems. Grants to the State of Alaska have been funded by EPA's annual appropriation. The U.S. Department of Agriculture and the State of Alaska also provide funding for the program. Since 1995, EPA has awarded over \$230 million in grants for the program.

We found that EPA did not provide sufficient oversight of the grants awarded to the State of Alaska to ensure effective results. Specifically, EPA did not develop goals, objectives, and measures for the grants as required by EPA policy, nor did they sufficiently monitor progress because EPA considered them to be earmarks and that earmarks were not subject to the same rigorous oversight as programmatic grants. EPA did not evaluate whether facilities were being used for their intended purpose, or if they were abandoned or not being used. As a result, EPA could not determine whether the grants met the objectives of the Safe Drinking Water Act, nor could it quantify the benefits of improved health and sanitation resulting from the projects. We recommended that EPA include goals, objectives, and outcomes within all grants; and develop measures to gauge whether the grants are meeting their intended purposes. EPA agreed with our recommendations and indicated it would take corrective action.

We conducted a followup review of the Alaska Village Safe Water Program to determine whether EPA met guidelines before awarding an additional \$34 million grant to the State of Alaska. We found that some of the same conditions we identified earlier still existed. Specifically, EPA did not ensure that the grant application contained environmental or public health objectives for the various projects to be funded, or provided sufficient information about particular projects being constructed. Also, EPA's review of the application prior to awarding the grant did not assess whether there was a reasonable chance that each project funded would achieve its objectives. As a result, there were no assurances that the grant money would be used efficiently or effectively. In response, EPA said that it awarded the grant despite knowing these concerns because of financial concerns over the State's program.

Since our initial Alaska report was issued in 2004, EPA and the State of Alaska have taken steps to address the findings in our reports. For example, EPA has established measures for output and outcomes for future program projects. In addition, in an April 2006 response to our followup report, EPA said that it recently conducted a joint study with the Center for Disease Control's Arctic Investigation Program and the Alaska Native Tribal Health Consortium to verify and examine the impact the projects have had on improving public health. The study examined the relationship between respiratory tract and skin infections with improved sanitation service in rural Alaskan villages. The results showed that those areas with improved sanitation services had significant health improvements over those areas without them. Such results clearly demonstrate the importance and impact the program can have on improving public health.

When examining the need to measure for results, we looked beyond EPA to determine how nongovernmental organizations (NGOs) that fund environmental projects seek to improve grantee performance in hopes that there might be some lessons that EPA could learn and incorporate. In a 2005 report, we found that EPA's policies intended to ensure a clear link between grant results and goals and to enhance oversight of grantee qualifications and performance mirrored the practices of NGOs. We also found additional NGO practices that EPA could adopt to improve grant effectiveness. One is to look at a grantee's past performance or ability to manage grant funds as a ranking criterion when making decisions about future grants to help ensure the selection of successful applicants. Another is to conduct a retrospective evaluation of grant projects, which can provide valuable information about how grants in the past contributed to improving human health and the environment. EPA agreed with our recommendations but suggested conducting the retrospective evaluations in three to four years, which would provide more information about grant results than an evaluation conducted at that time.

## **Additional Suggestions to Improve Grants Management at EPA**

Throughout the reports we have issued over the years on grants management, we have made numerous recommendations to EPA that we believed would help strengthen its grants management process. To its credit, EPA leadership has made improving grants management a priority and has implemented many of our recommendations—ranging from developing new policies, orders, and plans; to implementing or enhancing training for grants staff. However, improving accountability for grants management is an area where EPA could still improve.

There are several underlying factors that affect accountability at EPA. One is EPA's organizational structure. Responsibility for grants is divided between the program offices and the grants offices. EPA's national grants office does not have authority over project officers that are within the national program and regional offices. The national program offices also do not have authority over the regional offices. EPA has dealt with this authority issue by elevating grants policies to EPA orders that all are required to follow. EPA has also established a Grants Management Council consisting of senior managers from national and regional offices that serves as a high-level forum for planning and coordination of grants management activities. While these actions have served to elevate the importance of grants management within EPA, the decentralized organizational structure of EPA remains a barrier that it will continually have to deal with.

Accountability is also impacted by how EPA has defined project officer and grants specialist functions. EPA has placed primary management of grants on project officers. As mentioned earlier, the project officer is responsible not only for the technical aspects of the grant, but also for monitoring activities such as ensuring that reports are submitted and reviewed timely. Project officers are responsible for about 140 grants management tasks yet the project officer function is often considered an additional responsibility for staff, with most managing five or fewer grants. We believe that EPA needs to continue to look for ways to better balance the work required to manage grants between the project officer and grants specialist.

### **Conclusion**

Mr. Chairman, EPA has made progress overall in improving grants management during the last few years. There is clearly a commitment from EPA's leadership to address many of the problems and weaknesses identified by us, GAO, and this Subcommittee. However, more can and should be done to improve grant accountability, increase grant competition, and measure environmental results. Given the billions of dollars EPA awards every year, we will continue to monitor EPA's progress to ensure that it builds on the improvements made in managing its grants.

This concludes my prepared remarks. I would gladly answer any questions the Subcommittee may have.