



# **Office of Inspector General**

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## **Audit Report**

### **ASSISTANCE AGREEMENTS**

#### **Pre-Award Management of EPA Assistance Agreements**

**E1FMB8-11-0001-8100256**

**September 30, 1998**

**Inspector General Division(s)  
Conducting the Audit**

**Region(s) covered**

**Program Office(s) Involved**

**Headquarters Audit Division  
Washington, D.C.**

**EPA Headquarters**

**Office of the Administrator  
Office of Administration and Resources Management  
Office of Air and Radiation  
Office of Enforcement and Compliance Assurance  
Office of the Chief Financial Officer  
Office of International Activities  
Office of Prevention, Pesticides and Toxic Substances  
Office of Research and Development  
Office of Solid Waste and Emergency Response  
Office of Water**

MEMORANDUM

SUBJECT: Pre-Award Management of EPA Assistance Agreements  
Audit Report No. E1FMB8-11-0001-8100256

FROM: Elissa R. Karpf  
Deputy Assistant Inspector General  
for External Audits (2421)

TO: Assistant Administrators  
Chief Financial Officer

Our final audit report on Pre-Award Management of EPA Assistance Agreements is attached. The purpose of this audit was to review the steps the Agency takes to award assistance agreements, and identify opportunities for improvement. Our report recommends improvements in training for project officers and managers, and enhanced oversight by the Grants Administration Division and Senior Resource Officials.

We received detailed and thoughtful responses to our draft report from many program offices. These responses not only commented on our recommendations, but offered suggestions to clarify and promote the issues, along with alternate solutions when appropriate. The exit conference was attended by representatives from the Offices of Administration and Resources Management (OARM); Air and Radiation; Prevention, Pesticides and Toxic Substances; Research and Development; Solid Waste and Emergency Response; and the Office of Water. We saw a uniform desire to strengthen the Agency's assistance management. We have modified several of our recommendations to reflect the consensus which we believe was achieved at the exit conference.

The widespread desire to improve assistance management is encouraging. We strongly urge OARM to both head and channel the enthusiasm and commitment of the program offices in a direction which will result in consistent, sound Agency-wide assistance management.

We received responses to our draft report from each office represented at the exit conference and the Office of the Chief Financial Officer. These responses have

been included in their entirety as Appendix B of this final report. While the responses helped to educate us in the complexity of some of the issues as well as the diversity of opinions, preparation of a single Agency-wide response will facilitate resolution of the final report.

This audit report describes findings and corrective actions the Office of the Inspector General (OIG) recommends to strengthen assistance agreement management. It represents the opinion of the OIG. Final determination on matters in this audit report will be made by EPA managers in accordance with established EPA audit resolution procedures.

### Action Required

We have designated the Acting Assistant Administrator for Administration and Resources Management as the primary Action Official. We ask that he take all steps necessary to provide us with one response which represents an Agency-wide position. In accordance with EPA Order 2750, the Action Official is required to provide this office a written response to the audit report within 90 days of the final audit report date. The response to the final report should identify any completed or planned actions related to the report's recommendations. For corrective actions planned but not completed by the response date, reference to specific milestone dates will assist in deciding whether to close this report.

We have no objection to the further release of this report to the public. Should you or your staff have any questions, please contact Norman E. Roth, Divisional Inspector General, Headquarters Audit Division, on (202) 260-5113.

Attachment

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# EXECUTIVE SUMMARY

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## INTRODUCTION

Assistance is the transfer of anything of value for a public purpose of support or stimulation authorized by law. EPA program offices provide funding and are responsible for programmatic and technical oversight of the assistance process. The Grants Administration Division (GAD) assures assistance application completeness by performing an administrative review of the assistance application.

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## OBJECTIVES

EPA's FY 1996 Integrity Act Report to the President and Congress declared post-award oversight of assistance agreements and grants closeouts material weaknesses. The purpose of our audit was to review the Agency's pre-award process (steps the Agency takes to award assistance agreements) to identify opportunities for improvement.

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## RESULTS IN BRIEF

Project Officers (POs) did not always negotiate workplans with well-defined commitments, adequately determine and document that costs submitted with assistance applications were reasonable, or prepare decision memoranda which contained all information required to support recommendations for award. Neither POs, nor those program officials reviewing and signing assistance approval documents, were following established guidance in these areas. Senior Resource Officials (SROs), supervisors of POs and other assistance approval officials are not usually required to attend training. Therefore, they may not have recognized that additional information was needed or have seen the need to hold POs accountable. Expanded training for those involved in assistance management and enhanced oversight are needed. EPA can use the pre-award approval process to improve post-award oversight capabilities. Complete funding packages assist program officials, including the SRO, in holding recipients accountable for expected outputs, determining whether expenditures are

reasonable for the work performed, and ensuring that funded activities are accomplished.

Of 55 Environmental Justice Through Pollution Prevention (EJP2) assistance agreements awarded by the Office of Prevention, Pesticides, and Toxic Substances (OPPTS) during FY 1997, 28 were improperly funded using resources intended for other purposes. Improper use of funds happened because of poor funds controls within OPPTS, because OPPTS division directors acted to avoid carrying over excess funds, and because the Grants Administration Division's "check and balance" process did not identify the improper funding. This resulted in the reprogramming of \$1.9 million without required Congressional approval.

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## **RECOMMENDATIONS**

We recommend that the Acting Assistant Administrator for Administration and Resources Management direct GAD to take the lead in the development of PO refresher training courses; develop guidance explaining the types of omissions which will result in GAD returning incomplete assistance funding packages to the program offices; and work with program offices to develop a coordinated post-award management strategy.

We recommend that the Acting Assistant Administrator for OARM raise the need for additional grants training to the Resource Management Council, including an estimate of the minimum resources required to deliver training Agency-wide, and options for delivering the training.

We recommend that the Acting Assistant Administrator for OARM and the Chief Financial Officer, as co-chairs of the Resource Management Committee, inform program offices of the Committee's decision(s) regarding resources for grants administration training and the method(s) of delivery.

We recommend that Assistant Administrators require SROs to train all levels of staff involved in assistance awards.

We recommend that GAD rewrite EPA Order 5730.1 to assign responsibility for ensuring the use of correct program elements or program results codes exclusively to program offices.

### **Agency Response**

Written responses to the draft audit report and a subsequent meeting with OARM and program office representatives indicated support for PO refresher training and manager training, but disagreement over who should provide the training. There was support for returning incomplete assistance packages to the program offices, although not, in all cases, to the SROs. There was also support for developing post-award monitoring plans, but program offices wanted to consider options other than post-award plans for each assistance award. The program offices agreed that EPA Order 5730.1 should be revised as we recommended. See Appendix B for the full text of the responses.

### **OIG Evaluation**

We agree with the need for integrated manager training and flexibility in planning post-award oversight. We also agree that not all incomplete assistance funding packages should be returned to the SRO. Accordingly, we have revised our recommendations in these areas.

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# ABBREVIATIONS

EPCRA	Emergency Planning and Community Right To Know Act of 1986
GAD	Grants Administration Division, Office of Grants and Debarment
GICS	Grants Information and Control System
OARM	Office of Administration and Resources Management
OIG	Office of the Inspector General
OPPTS	Office of Prevention, Pesticides and Toxic Substances
PE	Program Element (identifies sources of funds)
PCIE	President's Council on Integrity and Efficiency
PO	Project Officer
PRC	Program Results Code (replaces PE, above)
SRO	Senior Resource Official

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# CHAPTER 1

## INTRODUCTION

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### **Objective**

EPA's FY 1996 Federal Managers' Financial Integrity Act Report to the President and Congress declared post-award oversight of assistance agreements and grants closeout material weaknesses. The objective of our audit was to review the Agency's pre-award process (steps the Agency takes to award assistance agreements) to identify opportunities for improvement.

### **Background**

Assistance is the transfer of anything of value for a public purpose of support or stimulation authorized by law.<sup>1</sup> EPA program offices prepare assistance funding packages. Each package includes a funding order which identifies approved funding amounts and the project officer, a commitment notice which reserves funds, and a decision memorandum which recommends the award. Program offices are also responsible for programmatic and technical review of assistance award proposals.

Within the Office of Administration and Resources Management (OARM), Office of Grants and Debarment, the Grants Administration Division (GAD) assures assistance application completeness by performing and documenting an administrative review of the assistance application. GAD senior managers are award officials for grants and cooperative agreements approved by EPA Headquarters program offices. Signature by the award official constitutes an offer from EPA to the applicant and obligates committed funds. The offer becomes an agreement

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<sup>1</sup>31 U.S.C. 6101.

when it is signed and returned by the applicant and accepted by EPA.

Within EPA program offices, Senior Resource Officials (SROs) are accountable for effective resource management, including management integrity, budget, financial management, acquisition and assistance.<sup>2</sup> The SRO is responsible for ensuring adequate review of assistance funding packages with emphasis on, among other things, use of appropriate statutory authority, selection of the proper funding instrument, the justification for assistance agreements awarded noncompetitively, content of the decision memorandum, and qualifications of project officers (POs).<sup>3</sup>

Effective October 1, 1996, EPA required that to be a PO for a grant, cooperative agreement or interagency agreement, individuals must first successfully complete the course, "Managing Your Financial Assistance Agreement – Project Officer Responsibilities."

## **Scope and Methodology**

This review was conducted from July 1997, to July 1998. The July 1997 universe of 1,118 EPA Headquarters assistance agreements, taken from EPA's Grants Information and Control System (GICS), consisted of all active assistance agreements with nonprofit organizations and all active "X"-grants.<sup>4</sup> Our judgmental sample of 30 assistance agreements included at least one award from all EPA offices headed by an Assistant Administrator, and two from the Administrator's Office. As part of our initial fieldwork, we compared the grant-making language in the cited statutes to the description of work to be

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<sup>2</sup>EPA Order 1130.2A, Senior Resource Officials and Resource Management Committee, November 6, 1995, paragraph 7(d).

<sup>3</sup>Senior Resource Official Responsibility Statement, May 31, 1994, Attachment C.

<sup>4</sup>The "X" in X-grants, is a GICS code for surveys, studies, investigations and special purpose grants.

performed, and concluded that eight awards lacked statutory authority. To address this issue, we issued a separate audit report, Statutory Authority for EPA Assistance Agreements, on September 18, 1998.

To identify opportunities to improve the pre-award process, we interviewed personnel in GAD responsible for overseeing the assistance process, and the POs for 27 assistance agreements awarded between 1992 and 1997. We reviewed PO files to determine whether they were conducting pre-award reviews specified by Agency policy and project officer training. Finally, we benchmarked EPA pre-award practices against those used by other federal agencies to identify problem recipients and issues *before* new or additional assistance awards are made.

We conducted our work in accordance with the Government Auditing Standards (1994 Revision) issued by the Comptroller General of the United States. We reviewed Federal Managers' Financial Integrity Act controls related to the audit objective. We did not evaluate controls over GICS, or the quality or integrity of GICS data, because we only relied on GICS data for sample selection.

### **Prior Audit Coverage**

Over the years the OIG has issued numerous audit reports of assistance agreements, but no previous OIG reports focused exclusively on the assistance pre-award process.

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# CHAPTER 2

## Important Information Is Needed Before Assistance Is Approved

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POs did not always negotiate workplans with well-defined commitments, adequately determine and document that costs submitted with assistance applications were reasonable, or prepare decision memoranda which contained all information required to support recommendations for award. Neither POs, nor those program officials reviewing and signing assistance approval documents, were following established guidance in these areas.

SROs, supervisors of POs and other assistance approval officials are not usually required to attend training. Therefore, they may not have recognized that additional information was needed or have seen the need to hold POs accountable. Expanded training for those involved in assistance management and enhanced oversight are needed.

EPA can use the pre-award approval process to improve post-award oversight capabilities. A complete funding package assists program officials, including the SRO, in holding recipients accountable for expected outputs, determining whether expenditures are reasonable for the work performed, and ensuring that funded activities are accomplished.

### **Workplans Should Be Well-Defined**

When EPA receives an assistance application, GAD performs an administrative review, and then forwards the application to the designated program official for technical/programmatic review.<sup>5</sup> The narrative workplan serves as the applicant's performance

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<sup>5</sup>Assistance Administration Manual, EPA Directive 5700, 1984 Edition, Chapter 12, paragraph 5(a).



commitment and should describe, as accurately as possible, what will be done, when it will be accomplished, the applicant's performance capability, and the estimated costs.<sup>6</sup> Agency guidance states that an effective workplan will list expected outputs; link outputs to funding; identify target dates and milestones; require periodic reporting; and explain how the activities will be accomplished.<sup>7</sup> The PO's goal when negotiating a workplan should be to negotiate a workable document containing well defined commitments that foster accountability on behalf of the recipient.<sup>8</sup>

We reviewed GAD files for 30 assistance awards. Three workplans did not list expected outputs. None of the five awards funded from more than one appropriation linked outputs to funding. Thirteen workplans did not include target dates and milestones. Twenty-five did not require periodic reporting, and two did not explain how activities would be accomplished. Of the 30 workplans, 28 were missing one or more of these elements.

Because program offices were not adequately evaluating workplans, the Agency's ability to hold recipients accountable for poor performance could be limited. We spoke with an Agency official who recalled a past struggle with an awarded grant having a workplan which contained no expected outputs. This individual stated it was hard to determine what the grantee was supposed to be doing, and it would have been equally difficult for the OIG to audit the grant to see if the grantee produced what EPA paid for. The Agency official believed that there was little public benefit derived from this award. One agreement in our sample included a special condition allowing the recipient to submit a workplan 90 days

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<sup>6</sup>Ibid., paragraph 5(d)(4).

<sup>7</sup>Managing Your Financial Assistance Agreements - Project Officer Responsibilities, Third Edition, EPA 202-B-96-002, October 1996, page 3.33.

<sup>8</sup>Ibid., page 3.34.

after the date of award. The initial workplan was issued at least one month late, and the final revised workplan was received six months after the date of award. For a period of time during which there was no enforceable instrument with which to hold the recipient accountable, the recipient spent \$171,288. The recipient's first quarterly progress report showed costs incurred under one task even though no activities were performed.

POs are accepting workplans that limit the Agency's ability to perform effective post-award monitoring. Approval officials and SROs should hold POs accountable for negotiating workplans that are timely and meet the requirements outlined in the PO training manual. Workplans meeting these requirements will provide useful information to enable the Agency to more effectively manage assistance agreements subsequent to award, and hold recipients accountable for accomplishing funded activities.

**Cost Reasonableness  
Should be Determined  
and Documented**

POs are required and trained to determine cost reasonableness. According to the Assistance Administration Manual, the "reviewer must determine whether all proposed project tasks are included in the budget and must review each budget item for reasonableness."<sup>9</sup> The Project Officer Training Manual explains this requirement:

The PO is responsible for reviewing the proposed budget against the Narrative/Workplan to determine whether the budget is reasonable from a programmatic perspective. In making this determination, the PO should consider the technical necessity for and price reasonableness of proposed personnel, travel, equipment, supplies, procurements, and other items in the budget. There is no one way to determine the reasonableness of any particular item. If the PO questions whether a particular item is

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<sup>9</sup>Assistance Administration Manual, EPA Directive 5700, 1984 Edition, Chapter 12, paragraph 5(b)(6)(b).

“reasonably” priced, they should ask other POs, call various suppliers, ask the [Grant Management Office] for advice, or ask the applicant how they arrived at the cost.

We found that POs did not adequately determine and document that proposed costs were reasonable. Sixteen of the 27 POs we interviewed indicated they did no assessments of whether budgeted costs were reasonable, and none of the project files that we reviewed contained evidence that proposed costs were reviewed against the narrative/workplan. The most common reasons given for making no assessments of cost reasonableness were POs: (1) did not know it was their responsibility to do so, or (2) thought it was the responsibility of the grant specialists to make these determinations. EPA employees who had been POs for a long time told us that they relied on past experience as a PO or past experience with similar types of grants.

SROs are charged with the efficient and effective use of fiscal resources. Without adequate cost reasonableness determinations prior to award, SROs lack assurance that the level of funding is appropriate for the work to be performed. The Office of Inspector General (OIG) issued a report earlier this year that addressed a similar concern.<sup>10</sup> We found that under a training assistance agreement, EPA did not always know how many students were being trained, or how much it was costing to train each student. We reported that because POs did not compare cost estimates to the number of students being trained, the Agency was unaware of the wide disparities among the agreements in the cost to train students for similar work.

**The Decision  
Memorandum Should Be  
Complete**

The Decision Memorandum, forwarded by the program office to GAD with the other components of the assistance funding package (the funding order and commitment notice), contains the program

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<sup>10</sup>Audit Report No. E1XMF6-03-0224-8100070, “EPA’s Training Assistance Agreements,” March 4, 1998, Chapter 3.

office's decision and justification for funding or rejecting an assistance proposal.<sup>11</sup> Various policies and guidance either require or suggest decision memorandum content. Required elements include:

- a brief description of the project objectives;<sup>12</sup>
- a summary of all reviews received on the project, and reconciliation of contrary views; justification for assistance agreements awarded noncompetitively;<sup>13</sup>
- why the award should be assistance (rather than procurement);<sup>14</sup>
- the statutory authority, delegation of authority, and program element;<sup>15</sup>
- foreign activities approval, if applicable;<sup>16</sup>
- quality assurance/quality control, if applicable;<sup>17</sup>
- approval for human or animal subjects, if applicable,<sup>18</sup> and
- SRO approval, for project costs totaling \$1 million or more.<sup>19</sup>

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<sup>11</sup>EPA Order 5700.1, Policy for Distinguishing Between Assistance and Acquisition, March 22, 1994, paragraph 4(c).

<sup>12</sup>Assistance Administration Manual, Figure 15-3.

<sup>13</sup>Ibid.

<sup>14</sup>EPA Order 5700.1, Policy for Distinguishing Between Assistance and Acquisition, March 22, 1994, paragraph 5(a)(2).

<sup>15</sup>EPA Order 5730.1, paragraph 4(b)(1)(f).

<sup>16</sup>Assistance Administration Manual, Chapter 7, paragraph 1(c).

<sup>17</sup>40 CFR Part 30.54 requires that grantees, whose projects involve environmentally related measurements or data generation, develop and implement quality assurance practices.

<sup>18</sup>Research and Demonstration Grants, 40 CFR Part 40.135-2.

<sup>19</sup>EPA Order 1130.2A, Senior Resource Officials and Resource Management Committee, November 6, 1995, paragraph 7(d)(7)(c).

Decision memorandum elements suggested by Agency guidance<sup>20</sup> include:

- a statement that the award does not duplicate other EPA funded efforts, or, if it does, why it should be funded;
- the substantial federal involvement if the award is to be a cooperative effort;
- justification of mixing appropriations, if applicable;
- approval of pre-award costs, if applicable; and
- explanation for workshops, conferences and symposia.

On July 19, 1996, the Acting Assistant Administrator, OARM, issued to Assistant Administrators, Regional Administrators, the Inspector General and the General Counsel, a collection of nine Grants Management Fact Sheets for Agency Leaders. Fact Sheet Number 3, Improper Expenditure of Grant Funds, pointed out that program leaders should “assure that grant applications, including the proposed budget and workplan are carefully reviewed to prevent unnecessary and unreasonable costs.” Fact Sheet Number 6, Acquisition vs. Assistance, citing guidance dating back as far as December 1992, reminded Agency managers of the need to distinguish between assistance and procurement. Fact Sheet Number 9, Competition for Assistance Agreements, advised program leaders to develop justifications for assistance agreements awarded noncompetitively. Despite these periodic reminders from GAD, we find that program offices still submit funding packages lacking the elements described in this chapter.

Not all applicable elements were addressed in the decision memoranda that we reviewed. Twelve did not include the required statement that assistance, not acquisition, was the appropriate funding instrument. Seventeen did not indicate the

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<sup>20</sup>Managing Your Financial Assistance Agreement – Project Officer Responsibilities, Third Edition, EPA 202-B-96-002, October 1996, page 4.7.

substantial federal involvement which would be the basis for awarding a cooperative agreement rather than a grant. Twenty-one of 26 noncompetitive awards we reviewed did not include the required justification for noncompetitive award in the funding package. Of the five assistance agreements funded by multiple appropriations, two lacked the justification for mixed funding.

In response to the FY 1996 declaration of grants closeout and oversight of assistance agreements as material weaknesses, the Administrator asked each SRO to perform a management effectiveness review and report the results in their Federal Managers' Financial Integrity Act assurance letters. The results confirm our findings. On February 25, 1998, the GAD Director issued a memorandum to SROs discussing the reviews and areas needing improvement, including the content of decision memoranda. For example, GAD noted that decision memoranda did not contain the required determination to use assistance rather than acquisition, and that justifications for noncompetitive awards are sometimes absent from grant funding packages. The Director asked that SROs remind approval officials and POs of the need to include this information in the decision memorandum.

### **Additional Training and Oversight Are Needed**

POs were not preparing complete funding packages. In reviewing these documents, SROs and approval officials were not consistently requiring that POs: (1) develop (if the assistance award is to be competed) or negotiate (if the award is noncompetitive) workplans containing milestones and outputs; (2) determine cost reasonableness; or (3) prepare decision memoranda which contain all the elements enumerated above. Additional training could improve the quality of funding packages.

The SRO is charged with specific training responsibilities:

Designs and implements a resource management training program aimed not only at staff with direct contracts or assistance

management responsibilities, but also [at] managers of such staff by:

- conducting ad hoc training sessions for Project Officers and Work Assignment Managers on new policies and procedures affecting grants [and] contracts management; [and]
- conducting training sessions aimed at the management level.<sup>21</sup>

### **Management Plans Can Enhance Post-Award Oversight**

While most POs have received the required training in assistance management, we know of no program office that provides refresher training for POs, and only two program offices<sup>22</sup> that have developed and presented a grants management course for supervisors.

There is also no Agency requirement for SROs to receive training in assistance-related responsibilities. The Chief of GAD's Grants Policy, Information and Training Branch told us that several years ago he participated in training EPA's Senior Executive Service (SES) members in management of extramural resources (SROs are members of the SES). He said that senior executives were given the opportunity to receive this training at one of three sessions, but the training was not required and it was poorly attended.

While training may improve the ability of managers and supervisors to perform effective oversight, it is the SRO's responsibility to see that the oversight itself improves. The SRO Responsibility Statement specifically addresses pertinent responsibilities as follows:

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<sup>21</sup>SRO Responsibility Statement, May 31, 1994, Attachment C.

<sup>22</sup>The Office of Solid Waste and Emergency Response (OSWER), and the Office of Research and Development (ORD).

Contracts and Assistance Placement: Ensuring the quality of pre-award paperwork associated with assistance agreements, contracts and inter-agency agreements. This includes establishing systems for contract and assistance awards, overseeing those systems, and establishing office priorities for procurements and assistance agreements.

Contracts and Assistance Management: Ensuring the soundness of contracts and assistance administration. This includes ensuring the availability of trained and experienced officials to manage and oversee contracts and assistance agreements; approving procedures to protect fiscal integrity; and ensuring proper control measures are used.

The Office of Water's management effectiveness review recommended that POs prepare, for any grant, cooperative agreement or interagency agreement, a post-award management plan. The plan, which should be attached to the decision memorandum, should state the actions the program will take to effectively manage the assistance award, including activities the PO will undertake on a regular basis to monitor the recipient's technical performance and the rate of expenditure of funds. We believe that developing such technical monitoring plans could significantly improve post-award management.

Effective post-award management requires a resource investment--time from the PO and money if site visits are necessary. Increasingly, program offices have acknowledged this and made adjustments. One PO told us that in the past, while working only two days per week, she was responsible for 17 grants. Now, however, this same PO (still working two days a week) is responsible for monitoring five grants and interagency agreements. We asked some POs to estimate the amount of time spent on PO-related duties per grant. Estimates ranged between 3 and 20 percent.



There is no requirement that PO files contain estimates of time and dollars necessary for effective assistance management. We believe, however, that assistance management would improve if, prior to award, the PO and supervisor formally agree on an estimate of time and money required to execute oversight responsibility. This estimate, signed by the PO and his/her supervisor, could be a part of the assistance management plan. By identifying oversight activities, the plan can provide the basis to hold recipients accountable for expected outputs, and for accomplishing funded activities.

Training for and oversight by managers and supervisors, especially SROs and approval officials, is critical to effective assistance management. Only by understanding PO responsibilities and the reasons for building specificity in workplans, assessing cost reasonableness, and preparing complete decision memoranda, can program managers provide effective oversight. Without milestones and outputs, the Agency limits its ability to hold grantees accountable. Without justifications for noncompetitive award, the Agency could give the appearance that it is giving preferential treatment to a single assistance applicant or that it is not encouraging competition to the maximum extent practicable. Without determinations of cost reasonableness, the Agency cannot demonstrate that the level of funding is appropriate for the work to be performed. Without post-award monitoring plans, SROs cannot be assured that POs will have the time and money available to adequately execute oversight responsibilities. Without all of these things, the Agency, and specifically the SRO, is not providing effective management of extramural resources.

## **Recommendations**

The Acting Assistant Administrator for OARM, the OCFO, and the Offices of Air and Radiation; Water; Solid Waste and Emergency Response; Research and Development; and Prevention, Pesticides and Toxic Substances provided written comments on the draft recommendations, which appear as Appendix B. We also discussed our draft recommendations at the September 23, 1998, exit conference. Based on the

written comments, discussions at the exit conference, and our further analysis, we have revised most of our draft recommendations, as described below.

**Draft Report  
Recommendation 2-1:**

We recommend that the Acting Assistant Administrator for Administration and Resources Management direct GAD to take the lead in the development of refresher and manager training courses, and assist SROs in training all levels of staff involved in assistance award and management.

**Agency Response**

GAD is currently preparing a One-Day Refresher course for project officers with implementation targeted for January 1999. Both Regional Grants Management Offices and Program Offices are being offered the opportunity to provide input, ensuring that GAD is creating a comprehensive refresher course. The course is designed to present new policies and regulations, reinforce proper grants management practices, and set the groundwork for continued project officer certification. It will be updated annually if warranted.

EPA manager training is a resource management issue which has broad implications. The Resource Management Committee is considering developing a comprehensive and integrated training course for Agency managers. OARM will actively participate with OIG and OCFO to develop resource management training for managers.

**OIG Evaluation**

The Agency response for PO training is acceptable. The exit conference included additional discussion of manager training. Representatives from all program offices agreed that manager training was necessary. Providing this training under the broader heading of resource management (contracts, assistance and fiscal) training as OARM suggests is a reasonable approach. The OIG is assisting the Agency in developing "Core Competencies." This effort should better define manager needs. GAD, as National Program Manager, needs to aggressively promote (or lead, in the case of stand-alone training) this effort. Regardless of the instrument-grant specific training or resource management training-managers need to

be trained in order to monitor the completeness and correctness of grants funding packages. Since this training has yet to be developed, the Agency, and in particular the SRO, will continue to be vulnerable. Grants may be funded that should not, or would not, be funded given adequate oversight. In the interim, some SROs have lowered the dollar threshold for SRO review below the \$1 million threshold established by EPA policy, and some SROs have designated knowledgeable staff to review assistance packages. We also note that GAD will develop guidance (see recommendation 2-2) explaining the types of omissions which warrant returning funding packages to program offices. This action should help encourage funding package completeness.

**Final Recommendation  
2-1**

We recommend that the Acting Assistant Administrator for OARM direct GAD to take the lead in the development of PO refresher training courses. The Agency's response to the final report should provide milestones for when the course will be completed and the instructors trained.

**Draft Report  
Recommendation 2-2**

We recommend that the Acting Assistant Administrator for OARM direct GAD to ensure the completeness of funding packages and return incomplete assistance funding packages to the program offices via the SRO.

Agency Response

Program offices agreed that assistance funding packages with significant omissions should be returned for correction, but did not agree that all returned packages should go to the SRO. GAD agreed to develop guidance on which types of errors or omissions will cause packages to be returned to the program offices.

OIG Evaluation

A revised recommendation follows.

**Final Recommendation  
2-2**

We recommend that the Acting Assistant Administrator for OARM direct GAD to develop guidance explaining the types of omissions which will result in GAD returning incomplete assistance funding packages to the program offices. Incomplete packages valued below \$1 million should be returned

to the approval official. Assistance funding packages of \$1 million or more should be returned to the SRO.

**Draft Report  
Recommendation 2-3**

We recommend that Assistant Administrators require SROs to train all levels of staff involved in assistance awards. Until supervisor, manager and refresher training courses are developed, require managers, supervisors and POs to attend the PO training course every three years.

Agency Response

There was universal consensus that those involved in awarding assistance should be trained, but disagreement over who should provide that training. Some program offices believe this is a GAD responsibility. Others believe that their requirements are such that only they can adequately teach them. GAD and program offices agree that the need for more (refresher and manager) training will strain their existing resources, and more resources have not been made available.

OIG Evaluation

The findings in this report demonstrate the need for an effective training program. It may be that the Agency will be forced to identify some or all of this training as appropriate for contractor support. (The basic project officer course for contracts is taught by a contractor.) Whatever method the Agency deems most desirable, sufficient resources must be directed to this effort.

**Final Recommendation  
2-3**

We recommend that the Acting Assistant Administrator for OARM raise the need for additional grants training to the Resource Management Committee, including an estimate of the minimum resources required to deliver training Agency-wide, and options for delivering the training.

We recommend that the Acting Assistant Administrator for OARM and the Chief Financial Officer, as co-chairs of the Resource Management Committee, inform program offices of the Committee's decision(s) regarding resources for grants administration training and the method(s) of delivery.

**Draft Report  
Recommendation 2-4**

We recommend that Assistant Administrators require SROs to hold POs and approval officials accountable for workplan specificity, adequacy of determinations of cost reasonableness, and the completeness of decision memoranda.

Agency Response

Program offices indicated that they already hold POs and approval officials accountable, or that they didn't understand OIG's expectations.

OIG Evaluation

The process improvements outlined in other recommendations make this recommendation unnecessary.

**Draft Report  
Recommendation 2-5**

We recommend that Assistant Administrators require SROs to require the program offices to develop an assistance management plan prior to approval of an award. At a minimum, management plans should identify planned oversight activities, estimated PO monitoring time and other funds (e.g. travel) required.

Agency Response

Program offices either disagreed with this recommendation or found it confusing.

OIG Evaluation

At the exit conference, we discussed alternatives to creating plans for each assistance award, including management plans for groups of awards, or plans for awards over a certain dollar threshold. While not all program offices believe that post award management plans are necessary for each award, there was consensus that whatever is done post award, should be coordinated with the Grants Management Offices' monitoring efforts.

**Final Recommendation  
2-5**

We recommend that the Acting Assistant Administrator for OARM direct GAD to work with the program offices to develop a coordinated post-award management strategy.

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# CHAPTER 3

## Assistance Agreements In One Office Cited Inappropriate Program Elements

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Of 55 Environmental Justice Through Pollution Prevention (EJP2) assistance agreements awarded by the Office of Prevention, Pesticides, and Toxic Substances (OPPTS) during FY 1997, 28 were improperly funded using resources intended for other purposes. Improper use of funds occurred because of poor funds controls within OPPTS, because OPPTS division directors acted to avoid carrying over excess funds, and because the Grants Administration Division's "check and balance" process did not identify the improper funding. This resulted in the reprogramming of \$1.9 million from authorized purposes without required Congressional approval.

### **OPPTS Utilized Funds for Unintended Purposes**

A program element (PE) is a classification within EPA's program/budget structure that represents a distinct program activity and identifies the source of funds. The PE is supported by one or more authorizing sections of law and must be associated with the grant statutory authority.<sup>23</sup> To identify the PE's distinct program activity, we reviewed the PE's authorizing sections of law and the PE description submitted with the President's budget. To decide whether a grant was properly funded, we determined whether the activities described in the recipient's workplan fell within the PE's distinct program activities.

Reprogramming is any movement of funds into or out of a program element. EPA is required to inform Congress of any reprogramming between \$500,000 and \$1 million, and is required to obtain Congressional approval for any reprogramming in

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<sup>23</sup>EPA Order 5730.1, Policy and Procedures for Funding Assistance Agreements, January 21, 1994, paragraph 3(l).

excess of \$1 million. These limitations apply to any individual reprogramming or a series of reprogrammings for the same purpose.<sup>24</sup>

Figure 1 on the next page shows 55 fiscal year 1997 EJP2 assistance agreements awarded by OPPTS. We reviewed grant X826031 to the Council on the Environment, Inc., one of nine grants funded from program element BPS, OPPTS-EPCRA-HQ<sup>25</sup>. The workplan involved intermediate and high school students working with local industries to reduce lead emissions; monitoring, letter writing, public education and promoting energy conservation; using non-toxic products; and identifying industrial polluters.

The EPCRA program element was established to provide funds to maintain the Toxic Release Inventory (TRI) and the chemical use inventory. Activities funded in the Council on the Environment grant do not fall within the scope of this PE. Therefore, the EPCRA PE was not an appropriate source of grant funds.

We reviewed the PE description (but not the grants) for program element BV6, National Program Chemicals (NPC), which indicates that the program activities for this PE include risk management activities with respect to lead, asbestos (helping states with asbestos accreditation programs), PCBs (permitting facilities for the storage and disposal of PCB wastes), and other toxic chemicals of national concern and impact; and characterizing human exposure to, and sources of, dioxin. The only public outreach mentioned is work to "improve the public's understanding of the risks posed by lead."

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<sup>24</sup>FY 1997 Advice of Allowance Letter, April 13, 1997, Attachment C.

<sup>25</sup>"EPCRA" refers to the Emergency Planning and Community Right to Know Act of 1986, which established programs to provide the public with information on hazardous and toxic chemicals in their communities.

<b>Figure 1: FY 1997 ENVIRONMENTAL JUSTICE THROUGH POLLUTION PREVENTION ASSISTANCE AGREEMENTS</b>		
<b>Program Elements (Sources of Funds)</b>	<b>No. of Awards</b>	<b>Total Awarded</b>
BV6: National Program Chemicals	19	\$ 1,301,762
BPS/PSX: OPPTS EPCRA-HQ	9	626,789
V7X: Pollution Prevention	26	1,924,198
D9X: Pollution Prevention State Grants	1	99,998

The FY 1997 PE budget requests \$2.2 million for "Lead state assistance/environmental justice initiative." However, there is no discussion of environmental justice activities in the PE narrative.

We advised OPPTS of our opinion that, because the Council on the Environment work plan does not fit with the EPCRA program element distinct program activities, the award should not have been funded from EPCRA resources, and of our concern that funding EJP2 activities from NPC resources also appears questionable. EPA's Office of General Counsel advised OPPTS that unless the EJP2 grants funded with NPC funds were for lead-related purposes, the use of NPC funds for those grants was not justified. OPPTS agreed that no EJP2 awards should have been funded from EPCRA resources. OPPTS will review whether EJP2 grants were for lead-related activities, but expects to find few, if any, that qualify for NPC funds.

Poor funds control contributed to the use of EPCRA and NPC program elements to fund EJP2 awards. First, OPPTS explained that prior to FY 1998 both the NPC and Pollution Prevention divisions were allocated environmental justice funds. Extramural coordinators (who are responsible for ensuring that funds from the proper PE are applied to extramural funding instruments) had to read the PE descriptions and the assistance work plans, and then decide among several PEs to fund awards. There was little



reference material and inadequate training for the task. Second, one OPPTS representative explained the desire to obligate year-end funds:

The previous fiscal year the Pollution Prevention Division [which awarded the Council on the Environment grant] had potential carryover funds that the office (OPPT) decided would be best spent on another immediate need, (rather than rolling forward into the next fiscal year as carryover). The pollution prevention folks agreed to 'lend' this money to a sister division to be applied to an instant need of that fiscal year with the understanding the sister division would reimburse PPD with a like amount the following fiscal year.

The money used to reimburse PPD was from a program element associated with EPCRA-related activities and it was used by PPD to fund a number of EJ/P2 grants (of which the subject grant is one). Thus, the PE description for the funds attached to this grant do not correspond to the activities it supports.

EJP2 funding from the EPCRA and NPC PEs totals \$1,928,551. This clearly exceeds the \$1 million Congressional approval limit on reprogramming. In effect, then, funds intended for maintaining the toxic release and chemical use inventories, and funds for NPC activities, were reprogrammed to the EJP2 program without the required Congressional approval.

### **Grants Administration Division Controls Need Improvement**

The Grants Administration Division's "check and balance" function does not stop erroneously funded assistance agreements because GAD's grants specialists are not checking all necessary information.

Using the Council on the Environment grant discussed on page 13, we asked two GAD grants specialists to walk us through their "check and balance" function. They confirmed that:

- the OPPTS division director was delegated authority to approve our test grant;

- the grant scope of work is consistent with the grant statutory authority, the Toxic Substances Control Act (TSCA);
- object code 41.83 is the correct object code for this grant; and
- media code “L,” representing Toxic Substances, is consistent with an award from OPPTS.<sup>26</sup>

The specialists explained that since the grant package passed all these tests, GAD would approve the award. But, as explained above, even OPPTS, which issued the grant, does not believe that the grant is properly funded.

GAD’s process leads to incorrect conclusions because it doesn’t check whether the assistance work plan fits within the program element’s “distinct program activity.” This allows program elements to fund activities other than those for which the program element was established. While checking the delegation of authority, grant statutory authority, and object codes all contribute to ensuring that awards are properly executed, checking media codes does not, because there is no way to identify errors. GAD has no policies or procedures that define improper program element/media code combinations. When we asked the grants specialists how they knew that media code “L” was consistent with an award from OPPTS, they said that it was just common sense.

As noted above, Order 5730.1 states that program elements are supported by authorizing sections of law. The grants specialists told us that they do not check the section of law. They, therefore, cannot determine whether a proposed work plan fits within the PE’s distinct program activity.

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<sup>26</sup>All EPA activities and resources fall into “media” categories, e.g., air, water quality, hazardous waste, pesticides, toxic substances and radiation. EPA’s planning and budget structure sorts resources by authorizing legislation, appropriation, media, functions, subactivities, budget elements, and program elements.

Effective October 1, 1998, the Agency plans to implement a revised budget structure which will replace PEs with Program Results Codes (PRCs). PRCs tie the Agency's operating plan to Agency goals and objectives, and tie spending to Agency subobjectives. GAD suggests that because of this change, all references to PEs are outdated.

The reprogramming issue described in this report is not resolved by the new structure. FY 1999 accounts will use a crosswalk of the existing PE codes to new PRC codes, and the use of PEs to track funds appropriated prior to FY 1999 may continue for some time. Whether funds are tracked by PEs, PRCs, or a combination of both, it will be necessary to ensure that funds are spent only for intended purposes.

Both OPPTS and GAD point out that program offices are responsible for certifying funds. Both believe that the responsibility to ensure the correctness of PEs (or PRCs) should be assigned to program offices. Our recommendation reflects this position.

### **Corrective Actions Taken**

In response to our review, the OPPTS SRO initiated an internal review of its EJP2 awards. OPPTS told us (we did not review their study) that since its environmental justice program began in 1995, Congress authorized, and OPPTS spent, \$10.2 million. So although spending has not always come from the correct source, overall spending on the environmental justice program, and such other programs as the TRI, has been at authorized levels.

For FY 1998, OPPTS created a computerized project table. Each extramural project is assigned a project code, which maps to program elements. OPPTS staff can enter a project code at their computers, which will call up a one page description of the project and identify the proper program element. Extramural coordinators no longer have discretion on funding; the project description identifies the appropriate program element. In addition, OPPTS provided training for extramural coordinators. If this process is applied as intended, it should prevent any future misapplication of funds.

Finally, OPPTS has alerted EPA's Budget Division of the improper reprogramming noted in this report. The Budget Division will advise OPPTS on whether to inform Congress of "de facto" reprogramming.

**Recommendation**

We recommend that the Acting Assistant Administrator for Administration and Resources Management:

- 3-1            Require the Grants Administration Division to rewrite EPA Order 5730.1 to assign responsibility for ensuring the use of correct program elements or program results codes exclusively to program offices.

**Agency Response**

The Agency agreed with this recommendation.

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# APPENDIX A

## Other Matters

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### **Screening Recipients Can Prevent Fraud, Waste and Abuse**

EPA's pre-award screening includes checking the General Services Administration's Suspension and Debarment Listing, and coordinating awards with other federal agencies where appropriate. A review by EPA's Office of General Counsel (OGC) is provided when requested. In general, OGC reviews awards when there are issues involving using a grant versus a contract, conflict of interest or allowable costs. Neither GAD nor the program offices review Dun & Bradstreet or similar credit checks, or check internal accounts receivable, before awarding assistance agreements, except in cases where the Suspension and Debarment Office believes such information would be helpful in the course of their work (generally post award).

The President's Council on Integrity and Efficiency (PCIE) reported in January 1998 that prior to awarding assistance agreements, of 22 agencies surveyed, 11 ran credit checks on potential recipients, and 10 performed checks of internal accounts receivable listings. Other significant pre-award checks reported involved Office of General Counsel reviews, financial capability reviews and financial cost analysis. The PCIE point of contact told us that the combination of credit checks, accounts receivable checks, and OIG/OGC checks helps agencies combat fraud, waste and abuse in awarding discretionary grants, loans, loan guarantees and cooperative agreements.

### **Benefits Derived From Credit and Receivables Checks**

The Department of Commerce has identified potential applicants who have unresolved audit problems, owe money to Commerce, have a criminal history, or have internal management or performance problems which could negatively impact grant projects. Commerce OIG's March 1997 semiannual report highlighted that

of 552 proposed awards, 19 had “major deficiencies” affecting the ability of the proposed recipients to maintain proper control over federal funds. Of these:

	Award Amount
• 14 recipients were placed on a cost-reimbursement basis	\$9,475,342
• 4 awards were delayed	648,141
• 1 inserted special award conditions	500,000

EPA might identify similar problems if the Agency conducted credit checks on at least a selected sample of potential recipients.

## **Reviewing Accounts Receivable**

The Debt Collection Improvement Act of 1996 enhances administrative offset authority and bars delinquent debtors from obtaining federal credit. It defines administrative offset as the withholding of money payable by the United States to, or held by the United States for, a person to satisfy a claim. Claims listed in the Act include payments disallowed by audits performed by the Office Inspector General of the agency administering the program.<sup>27</sup>

Reviewing accounts receivable reports can help to identify grant recipients who may be delinquent in their payments to EPA and therefore be subject to administrative offset. For example, EPA reported for the Period April 1, 1997, through September 30, 1997, 23 audits disallowing \$7,911,158 from construction grants, Superfund grants and other program grants.<sup>28</sup>

An argument for checking accounts receivable prior to assistance award is:

- Grants closeout has been declared a material weakness. One reason for slow closeout is

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<sup>27</sup>Public Law 104-134, §31001(z)(1).

<sup>28</sup>Management's Semiannual Report to Congress on Audits for the Period April 1, 1997 Through September 30, 1997.

the grantees' failure to submit final performance and financial reports.

- The Debt Collection Improvement Act of 1996 requires agencies to refer delinquent receivables to Treasury for collection.
- Administrative offset (or the threat of it) can be a tool to force grantees to clear up outstanding reports on old grants. Clearing up these reports will contribute to resolving the grants closeout material weakness, and to Agency compliance with the 1996 debt collection requirements.

### **Potential Benefits From Other Pre-award Checks**

The PCIE report points out that the Department of Labor (DOL) and Social Security Administration perform some type of financial capability review on potential recipients. DOL pre-screening has resulted in termination of current awards, imposing special conditions on grantees, opting to not renew option years, and the use of advance agreements. The report also points out that the Department of Defense withholds new awards until all delinquent financial performance reports on prior awards have been received.

We believe that EPA should consider adopting some or all of these pre-screening techniques to prevent problems.

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# APPENDIX B

## Agency Responses To The Draft Report

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September 15, 1998

### MEMORANDUM

**SUBJECT:** Response to OIG's Draft Audit Report on Pre-Award Management of EPA Assistance Agreements Draft Audit Report No. E1FMB8-11-0001

**FROM:** Alvin M. Pesachowitz  
Acting Assistant Administrator

**TO:** Elissa R. Karpf  
Deputy Assistant Inspector General  
for External Audits (2421)

Thank you for the opportunity to provide comments on the Draft Audit Report on Pre-Award Management of EPA Assistance Agreements E1FMB8-11-0001. We are eager to work with the Office of Inspector General (OIG) to improve the grants management function. We have compiled the following comments from the National Program Offices for Air and Radiation (OAR), Research and Development (ORD), Solid Waste and Emergency Response (OSWER), and Water (OW).

### RESPONSE TO RECOMMENDATIONS

#### Recommendation 2-1 (to Acting Assistant Administrator for OARM):

•Direct GAD to take the lead in the development of refresher and manager training courses, and assist SROs in training all levels of staff involved in assistance award and management.

#### OARM Response:

GAD is currently preparing a One-Day Refresher course for project officers with implementation targeted for January 1999. Both Regional Grants Management Offices and Program Offices are being offered the opportunity to provide input, ensuring that GAD is creating a comprehensive refresher course. The course is designed to present new policies and regulations, reinforce proper



grants management practices, and set the groundwork for continued project officer certification. It will be updated annually if warranted.

EPA manager training is a resource management issue which has broad implications. The Resource Management Council is considering developing a comprehensive and integrated training course for Agency managers. OARM will actively participate with OIG and OCFO to develop resource management training for managers.

#### AA Responses:

OAR agrees that GAD should take the lead in the development of management training through the creation of a workgroup, comprised of program and regional office representatives. Program offices who wished to do so could then expand the training beyond the basics outlined by the workgroup. OAR additionally agrees that GAD should provide assistance to SRO staff in training all of its employees. ORD has developed its own training for managers, but agrees that GAD should be assigned responsibility for developing a refresher course. OW concurs with this recommendation.

#### Recommendation 2-2 (to Acting Assistant Administrator for OARM):

- Direct GAD to ensure the completeness of funding packages and return incomplete assistance funding packages to the program offices via the SRO.

#### OARM Response:

OARM disagrees with this recommendation in part. In most cases, the omissions are minor, such as the field of science code or a signature on a document. GAD maintains that in these cases it is more productive for the grants office to contact the program office to obtain the code, or the form with the signature. On the rare occasion when there is a substantive problem, such as when the scope of work is clearly not authorized by statute, or when the use of an assistance agreement versus a contract is in question, GAD agrees that packages should be returned to the SRO or their designee. Before this process begins, GAD will identify the possible situations and practices, and will communicate this with the grants offices and program offices to ensure consistency and clarity.

As a result of the Management Effectiveness Reviews (MERs) conducted by the program offices and GAD in FY 1997, it was determined that funding packages were often not complete. On February 25, 1998, Gary Katz, Director of the Grants Administration Division, sent a memorandum to the SROs on the matter of assistance agreements and funding packages. This memorandum addressed the two most common errors - missing justification of awarding an assistance agreement vs. a contract, and missing justification for not competing a grant in the decision memorandum. The memorandum also included a request that SROs remind Approval Officials and POs to ensure a complete funding package with a comprehensive decision

memorandum. As a result of this memorandum, the quality of decision memoranda submitted to GAD has improved.

AA Responses:

OAR agrees that packages should be returned to the programs; however, not through the SRO except for serious problems. ORD concurs as well, but believes that packages should be returned to a delegated official other than the SRO.

Recommendation 2-3 (to Assistant Administrators):

- Train all levels of staff involved in assistance awards. Until supervisor and manager and refresher training courses are developed, require managers, supervisors, and POs to attend the PO training course every three years.

AA Responses:

ORD, OAR and OSWER and OW disagree with this recommendation. The program offices support the need to train managers and for project officer refresher training. However, as ORD notes that it would be redundant for project officers to sit through the 3-day course until the refresher course is developed. Program offices are aware that GAD plans to complete the one-day refresher course (see recommendation 2-1), and intend to offer the course as soon as the materials are available. The course is designed for project officers and contains more detail than what is needed for supervisors and managers. OAR and OW agree with the recommendation in 2-1 that GAD develop a shorter course to meet the needs of managers. OSWER and ORD have developed their own manager training. OSWER has provided this training to its managers as well as the Senior Resource Official. ORD has scheduled its training for managers for this year.

OW makes an additional recommendation that OARM support GAD in building a permanent training staff to serve the Agency's assistance training needs.

Recommendation 2-4 (to Assistant Administrators):

- Hold POs and approval officials accountable for workplan specificity, adequacy of determinations of cost reasonableness, and the completeness of decision memoranda.

AA Responses:

OAR and OSWER noted that the Agency already holds POs and Approval Officials accountable for their actions regarding assistance agreements. OSWER added that training for POs and managers outlines their responsibilities and accountability. OW concurs with this recommendation with comment. OW notes that neither the Assistance Administration Manual

nor the Project Officer Training Manual constitute training for project officers on determining cost reasonableness. It therefore recommends that training directed at determining cost reasonableness be incorporated into the Project Officer's training. (Note: OARM is currently drafting a policy on cost analysis that will address in part the issue of cost reasonableness.) ORD notes that the report states that costs were not being evaluated adequately and were not being documented. ORD addresses the concern that contracts rely on competition or negotiation to ensure that the government gets value for its money. However, in assistance agreements, the recipients are doing the work for their own benefit, not for the government, and as such there is a strong incentive for good management. ORD files may not have the same level of cost analysis seen in contract files; however, review does take place. For example, during peer review, evaluation criteria may include a note on reasonableness of the cost, and is documented in peer review comments, along with project officer review and comments.

Recommendation 2-5 (to Assistant Administrators):

- Require the program offices to develop an assistance management plan prior to approval of an award. At a minimum, management plans should identify planned oversight activities, estimated PO monitoring time and other funds (e.g. travel) required.

AA Responses:

OAR and ORD strongly disagree with this recommendation, and ORD suggests that it be deleted. OAR feels that the agency should not commit to the development of a management plan at this time. SROs should be given adequate time to develop a strategy for management improvement. The MERs conducted by program offices in FY 1997 provided them the opportunity to discover their own weaknesses and work to improve their assistance agreement management. OAR believes that program offices should have the opportunity to determine if this work has resulted in improvement, before they have to develop management plans.

ORD points out decision memoranda and funding orders cover their plans for EPA's involvement in an agreement, including technical and financial monitoring, and includes a grant condition to address the progress report requirements. ORD is concerned that a management plan for assistance agreements could be confused with a similar plan now required for contracts. Unlike contracts management, the focus in management of assistance agreements is to aid the recipient to reach its own goals in a non-intrusive manner.

OSWER and OW note that the recommendation is somewhat confusing. The report states that the IG recommends that POs develop a management plan for each grant and cooperative agreement, and references OW's current practice of requiring post award management plans for each assistance project. However, the recommendation itself specifies that program offices develop a plan without being specific as to whether the "plan" refers to a plan on a grant-by-grant basis or to a broader plan for each program office. OSWER would support assistance

management plans for each award as long as there would be a general form for POs to use as a tool to ensure standardization. OW suggests that this recommendation needs to be clarified.

OARM has circulated a draft policy for review by the program offices. It suggests the development of officewide management plans for assistance agreements. Therefore, OARM would support a requirement for program-wide post award management plans.

Recommendation 3-1 (to Acting Assistant Administrator for OARM):

- Require Grants Administration Division to rewrite EPA Order 5730.1 to assign responsibility for ensuring the use of correct program elements or program results codes exclusively to program offices.

OARM Response:

GAD concurs with this recommendation and will make the necessary changes to EPA Order 5730.1 by November 15, 1998.

AA Response:

OW concurs with this recommendation; however, notes that it seems to be inconsistent with current practice that the Grants Administration Division serves as a “check and balance” for ensuring that assistance is awarded with appropriate funding and the proper statutory authority.

**GENERAL COMMENTS**

In addition to comments on the recommendations, ORD and OW had additional comments regarding the report. What follows is a summary, the full text of their comments can be found in the attachments. ORD notes that it would be helpful to have a listing of the actual grants that were reviewed for this report. They also indicate that some Agency guidance is not current, and the report fails to mention the requirements of 40 CFR Part 30 which provides many of the standards followed by the program offices for payment and monitoring. ORD voices a concern that the report needs more clarity on the relationship that EPA has with an assistance agreement recipient, as opposed to a contract. This concern carries over to the comments made in the report regarding workplans. ORD believes the report expects workplans for assistance agreements should be held to the same standards as contracts, which is inaccurate.

OW noted that the audit report could be strengthened by an additional recommendation. This would be to recommend that the Assistance Administration Manual (AA manual) be updated. The AA manual was cited several times in the report; however, the PO training manual has evolved into the resource for project officers in implementing EPA’s assistance policies and procedures because it is the most current source of information.

We have attached for your information all of the comments sent to OARM from the Assistant Administrators. Thank you again for providing us with the opportunity to comment on the Draft Report. If you or your staff have any questions or need additional information, please contact Bruce Feldman at 202-564-5308.

#### Attachments

cc: Senior Resource Officials and Audit Liaisons:

- Office of the Administrator
- Office of Administration and Resources Management
- Office of Air and Radiation
- Office of Enforcement and Compliance Assurance
- Office of International Activities
- Office of Policy, Planning and Evaluation
- Office of Prevention, Pesticides and Toxic Substances
- Office of Research and Development
- Office of Solid Waste and Emergency Response
- Office of Water

Chief Financial Officer

Comptroller

Associate General Counsel, Finance and Operations Law Office

Director, Office of Grants and Debarment

September 8, 1998

MEMORANDUM

SUBJECTS: OAR Comments on Draft Audit Report, "Pre-Award Management of EPA Assistance Agreements

FROM: Jerry Kurtzweg, Director  
Office of Program Management Operations

TO: Gary Katz, Director  
Grants Administration Division

OAR has reviewed the draft audit report and offers the following comments on behalf of OAR's Senior Resource Official.

Recommendation 2-1. Refresher and Management Training: OAR agrees that both Project Officer refresher and management training is needed and GAD should take the lead in its development. While GAD has already taken the lead in development of the refresher training, OAR also recommends GAD Chair a workgroup, comprised of program office and regional representatives, to develop uniform agency-wide training for managers. If program offices wish to expand management training beyond the basics outlined by this workgroup, they could do so. However, without this workgroup, there is no way to ensure consistency in management training. We also agree that GAD should assist SRO staff in training its employees. At present, no OAR employees are being accepted for GAD-sponsored courses. We are at a point where we do not have sufficient number of employees requiring training to warrant a separate class. These should be allowed to sign up for GAD's course so SRO staff can focus on the many other demands being placed on them by OARM. Because of these many demands, OAR cautions GAD to be careful in answering this recommendation not to set an overly ambitious schedule for this training.

Recommendation 2-2. Completeness of Funding Packages: We agree that incomplete packages should be returned to the programs. However, unless there are serious problems with the packages, they should not routinely be sent to the SRO.

Recommendation 2-3. Train all levels of staff: We do not agree with the IG's recommendation that managers take the three-day course until such time as the managers training course is completed.

Recommendation 2-4. Hold POs and Approval Officials Accountable: OAR believes the Agency already holds its POs and Approval Officials accountable for their actions in both the contracting and grants arena. It is unclear what specifically the IG is looking for with this recommendation.

Recommendation 2-5. Develop an Assistance Management Plan: OAR does not agree with this recommendation and has serious reservations with GAD's proposed post-award management draft policy. While the Agency does need to improve its post-award management, OAR does not feel the agency should commit to the development of a management plan at this time. We agree that managers may not understand the time demands placed on grants project officers and feel this should be a significant part of the management training. OAR would recommend that OARM agree in principle with the IG recommendation, but give the SROs adequate time to develop an overall strategy for management improvement. OAR is not comfortable agreeing with the requirement of management improvement plans, especially in light of the strong comments we are developing in response to GAD's post-award management policy.

cc: Beth Craig  
Dick Wilson

(File:f:paaudit,jk)

September 9, 1998

MEMORANDUM

SUBJECT: Comments on Draft Audit Report No. E1FMB8-11-0001 - Pre-Award Management of EPA Assistance Agreements

FROM: Dana M. Minerva, Deputy Assistant Administrator for Office of Water  
And Senior Resource Official

TO: Alvin M. Pesachowitz, Acting Assistant Administrator  
Office of Administration and Resources Management

I am forwarding the following comments from the Office of Water (OW) on the draft audit report on the pre-award management of EPA assistance agreements. OW strongly supports any efforts to strengthen the management of the Agency's extramural assistance resources. The audit report notes that we have already implemented internal management policies and training requiring all OW project officers to prepare post award management plans for all assistance agreements and Interagency agreements awarded from Headquarters.

My comments focus on recommendations 2-3, 2-4, 2-5, and 3-1 - recommendations directly impacting the responsibilities of the Senior Resource Officials.

Training

Recommendation 2-1 directs GAD to take the lead in the development of refresher and manager training courses, and to assist SROs in training all levels of staff involved in assistance award and management. The OW concurs with this recommendation. Having staff that are well-trained in the rules, policies, and practices of managing these assistance agreements is key to carrying out our responsibility to the American taxpayer to fund the best projects possible with Federal assistance dollars.

Recommendation 2-3 is directly related to recommendation 2-1. It places the responsibility for delivering assistance training directly on the Program Office. It recommends that the Assistant Administrators require SROs to train all levels of staff involved in assistance awards and it recommends that until the manager's training and the refresher courses are developed, that managers and supervisors attend the PO training course every three years. As I stated, the OW strongly supports training managers and believes project officer refresher courses are necessary. However, I believe the primary responsibility for delivery of this training belongs in OARM, specifically the Grants Administration Division (GAD). When the Agency first introduced the



assistance project officer training requirement in 1995, there was a tremendous backlog of assistance project officers in the Agency needing training. At that time, the Program Offices agreed to OARM's approach to team-teach these courses to reduce the backlog (March 13, 1995 Memorandum from Sallyanne Harper to Senior Resource Officials). That agreement has resulted in the OW conducting 11 two-day project officer training sessions in two years without any additional resources. Those of us who agreed to this approach have found that we also have to purchase the training manuals. (GAD supplies these manuals when they teach the course.) The additional refresher and manager training courses added to the basic project officer training course will expand OW's training responsibilities beyond its ability to deliver. I believe it is time to revisit the March 13, 1995 agreement, and I recommend that OARM support GAD in building a permanent training staff, similar to that of OARM's Office of Acquisition Management, to service the Agency's assistance training needs. Creating a central training unit within the Grants Administration Division would appear to be a more efficient use of resources than creating one within each Agency Program Office. In addition, under the current system only some of the Program Offices (OAR, OPPTS, OW, and OSWER) do their own training, while GAD provides training for the remainder of the Agency's project officers.

The second part of recommendation 2-3 suggests managers and supervisors attend the project officer training course every three years until the Agency has developed supervisor and manager training courses. OW nonconcur with this segment of the recommendation. First, the Basic Project Officer training course is designed for assistance project officers. The level of detail on assistance processes and procedures is far more comprehensive than what is needed for direct supervisors and managers. Secondly, the length of the basic project officer training course (2 ½ days) will be problematic for managers particularly when so little of the material is necessary for them to carry out their responsibilities. I would support a recommendation requiring OARM to immediately develop a shorter course tailored to the needs of managers and supervisors. OW would be willing, in concert with others, to provide contract dollars to support developing the course.

#### Cost Reasonableness

Recommendation 2-4 holds project officers and approval officials accountable for workplan specificity, adequacy of determinations of cost reasonableness, and the completeness of the decision memoranda. The OW concurs with this recommendation with the following comment: On Page 4, the audit report states "POs are required and trained to determine cost reasonableness." The report then references the Assistance Administration Manual and quotes the Project Officer Training Manual's explanation of the "reasonableness" requirement. We do not believe that either the Assistance Administration Manual reference nor the paragraph in the Project Officer Training Manual constitute training for project officers on determining cost reasonableness. I recommend that the Inspector General's Office strengthen the recommendation by requiring that more comprehensive training directed at determining cost reasonableness be incorporated into the Project Officer's training course.

### Assistance Management Plans

Recommendation 2-5 recommends that Assistant Administrators require SROs to require the program offices to develop an assistance management plan prior to approval of an award. This recommendation, as stated, is confusing. Page 9 of the report references the Office of Water's practice of requiring post award management plans for each individual assistance project. Are individual post-award management plans being recommended in 2-5? If so, I suggest the recommendation be amended as follows: "Require the individual project officers to develop an assistance management plan....." If the assistance management plan recommended is intended to be broader than individual project officer plans, then the recommendation should be clarified.

### Responsibility for Correct Program Results Codes

Recommendation 3-1 recommends that EPA Order 5730.1 be rewritten to assign responsibility for ensuring the use of correct program elements or program results codes exclusively to program offices. The Office of Water concurs with this recommendation. However, the recommendation seems to be inconsistent with the current practice that the Grants Administration Division serves as a "check and balance" for ensuring that assistance is awarded with the appropriate funding and with the proper authority.

### Other

Finally, I would like to note that I believe the audit report could be strengthened by adding one final recommendation. In several places, the report references the Agency's official policy directive on assistance management - the Assistance Administration Manual. I am concerned that this reference is often made by the Inspector General to a manual that is very outdated for lack of maintenance. The reality is that the Project Officers Training Manual has evolved into the resource of preference by project officers and others because it contains the most current information regarding implementing EPA's assistance policies and procedures. Following the 1997 Management Effectiveness Review, the OW recommended that OARM develop a Handbook of Procedures that could be used as a desk reference for all assistance project officers and managers to "bridge the gap" between a formal assistance administration manual and a training manual. I am resolute in my belief that the Agency could improve the overall management of its extramural assistance funds if such a tool existed. I also believe that updating the Assistance Administration Manual should be a priority for OARM/GAD rather than leaving the Agency vulnerable to error by forcing reliance on a training manual for guidance. I suggest that GAD follow the model OARM's Office of Acquisition Management uses in developing and maintaining their Contracts Management Manual.

Thank you for the opportunity to comment on the report. If you have any questions regarding our comments, please contact me directly at 260-5700 or Ellen Haffa on my staff at 260-3617.

cc: Gary Katz  
Beth Craig

September 4, 1998

**MEMORANDUM**

**SUBJECT:** Comments on OIG Draft Audit Report: Pre-Award Management of EPA Assistance Agreements (No. E1FMB8-11-0001)

**FROM:** Timothy Fields, Jr.  
Acting Assistant Administrator

**TO:** Alvin M. Pesachowitz  
Acting Assistant Administrator  
Office of Administration and Resources Management

My staff has reviewed the Inspector General's Draft Audit Report: Pre-Award Management of EPA's Assistance Agreements. We have the following comments.

- ▶ **Recommendation 2-3.** This recommendation would require all managers to take the project officer assistance agreement training course until GAD develops a course specifically designed for managers. OSWER has already developed and provided training for its managers including the Senior Resource Official. We do not believe that it is a good use of resources to require managers to take the PO training course since we have already provided training. We plan to offer additional management training once the new course materials are available.
- ▶ **Recommendation 2-3.** This recommendation would require project officers (POs) to retake the assistance agreement training course every three years until the one-day refresher course is developed. It is our understanding that GAD has nearly completed the development of the PO refresher course, therefore, we don't believe it makes sense to require POs to retake a three day course when the new course will soon be available. OSWER plans to offer the refresher course once materials are available.
- ▶ **Recommendation 2-4.** OSWER will continue to hold POs and Approval Officials accountable for work plans, costs, and decision memorandums. OSWER has provided training to POs and managers which outline their responsibilities and accountability.

- ▶ **Recommendation 2-5.** The wording in this recommendation is confusing. Based on the verbiage in the report, it would appear that the IG is recommending that POs develop assistance management plans for each grant and cooperative agreement awarded. The recommendation specifies that the “program office” develop an assistance management plan which is not discussed in the body of the report. If the Agency requires the use of assistance management plans for each award, as an internal control mechanism, we would support an Agency wide tool that all POs can use. Specifically, a general form would be helpful to the POs and provide the standardization needed to be an adequate internal control mechanism. We would support flexibility built in for POs.

Thank you for the opportunity to comment. If you have any questions, please contact Elizabeth Harris, OSWER Audit Liaison, at 260-7323.

cc: Dev Barnes  
Elizabeth Harris  
Julianne Edmondson  
Bernie Davis  
Judy Vanderhoef  
Gary Katz



UNITED STATES ENVIRONMENTAL PROTECTION AGENCY  
WASHINGTON, D.C. 20460

OFFICE OF  
RESEARCH AND DEVELOPMENT

September 8, 1998

**MEMORANDUM**

**SUBJECT:** Response to OIG Draft Report of Audit No.E1FMB8-11-0001  
Pre-Award Management of EPA Assistance Agreements

**FROM:** Lek Kadeli, Acting Director *James O. Morant for*  
Office of Resources Management and Administration (8102R)

**TO:** Gary M. Katz, Director  
Grants Administration Division (3903R)

**Purpose**

This memorandum responds to the Office of Inspector General's (OIG's) request for comments on Draft Report of Audit No. E1FMB8-11-0001, Pre-Award Management of EPA Assistance Agreements, dated August 14, 1998.

**Discussion**

In general, we find the draft report reasonable and agree with the OIG's objectives of improving the management of our assistance agreements. However, we have a number of comments which, if addressed, can improve the quality and accuracy of the report. These detailed comments are attached and speak to the primary report findings and recommendations.

We appreciate the opportunity to respond to this draft report. Should your staff have any questions, or require additional information, please contact Cheryl Varkalis on (202) 564-6686 or Linda Ross on (202) 564-6683.

Attachment

cc: Deborah Dietrich (8101R)  
Peter Durant (8102R)  
Jim Morant (8102R)  
Linda Ross (8102R)  
Cheryl Varkalis (8102R)  
Chuck Cavanaugh (8102R)

**ORD Comments on OIG Draft Report**  
Audit No.E1FMB8-11-0001  
Pre-Award Management of EPA Assistance Agreements

**1. Identification of Specific Instruments**

We had difficulty in ascertaining whether ORD assistance agreements were examined during this audit. Therefore, we request the report be modified to include the identification of specific instruments. This will further allow us to remedy any deficiencies.

**2. Terminology from Agency Guidance**

In response to earlier ORMA comments, the OIG indicated that much of its terminology is taken from Agency Guidance. However, much of the Agency guidance on assistance dates back to a time before EPA became sensitive to many of the implications of the Federal Grant and Cooperative Agreement Act (FGCAA) and other issues bearing on misuse of assistance agreements. The Assistance Administration Manual dates back to 1984, for example, and is very much in need of revision or replacement.

Except for passing reference to discussion of QA, the report does not refer to the Assistance Regulations at 40 CFR part 30, which is the most current Agency guidance. That regulation is more current than and of a higher order of precedence than most of the other guidance cited, and in it the difference in handling of assistance vs. acquisition is strikingly apparent. For example, at 40 CFR 30.22(h), there is a very high standard established for any suspension of payment. At 30.25(d), it is made clear that special prior approvals are to be carefully limited. At 30.25(f)(1), recipients have a right to be paid for costs incurred up to three months before the agreement is even awarded; at 30.25(f)(2), they have a right to a one year extension in performance period.

Much of the Agency terminology in the various relevant manuals dates from long before the revised regulation and before the Agency began to revisit the intent of the FGCAA during the early-to-mid 1990's. We believe that it should be possible to use terms in a context that makes it clear that they are not to be applied in a manner like similar contractual terms.

### **3. Workplan Definition**

a. On page i, paragraph 1 under “Results in Brief”, the draft report states:

...did not always negotiate workplans with well-defined commitments...holding recipients accountable for expected outputs...and ensuring that funded activities are accomplished.

**RESPONSE: ORD requests the following addition to the beginning of paragraph 1 on page i:**

It is understood that EPA must not dictate the terms of an assistance agreement to meet EPA goals. The laws and regulations associated with assistance emphasize that the objective of EPA’s oversight and involvement is to assist the recipient to be as successful as possible in accomplishing its goals. Nevertheless, the assistance agreement and the file documentation need to present as accurate and complete a picture as possible of the plans and commitments and both parties, in order to assure a clear mutual understanding of the commitments made by both sides and to help both parties avoid inappropriate (performance) relationships.

Discussion: The report text currently suggests that there is an obligation on the recipient to accomplish the project as if it were a contract. This approach would be inappropriate for scientific research grants. In fact, the narratives required of the applicant do outline the stages of the research, as well simultaneous/sequential analyses, sampling, etc. and provide a general time frame. Peer reviewers comment on the validity of the approach and the possibility of accomplishing the research as proposed. To require more specific output and definitive milestones is not realistic for research, due to its very nature. Furthermore, requiring the process to be tightly structured at the onset indicates we are approaching the relationship as more of a contract for a product than assistance for exploring an idea or testing a hypothesis. Our suggested language would set the context and reduce the potential for misinterpreting the other comments that follow.

b. On page 5, paragraph 4 under ‘Workplans Should be Well-Defined’, the draft report states:

...The initial workplan was issued at least one month late, and the final revised workplan was received six months after the date of award....

Discussion: This statement suggests that the internal milestones of the agreement are rigid, and that there should be some significant consequences if the recipient fails to meet the delivery schedule. ORD believes that setting such rigid milestones or attempting to manage the agreement in that manner creates one of the cardinal hallmarks of an acquisition - the requirement to meet a specific schedule. ORD also notes for illustration that the EPA Assistance Regulations, at 40 CFR 30.25(f) provide the recipient with an absolute right to an overall time extension of up to one year. Since that is a regulatory right, a small slippage on an internal milestone is not evidence of deficient performance or grounds for EPA intervention. ORD believes that page 5, paragraph 4



of the draft report refers to CR826215 with Battelle Memorial Institute (Columbus Labs). Assuming we have correctly identified the agreement in question, it serves as a good illustration of the point. The workplan was about 2 to 3 weeks late, being due just before the Christmas holiday, and arriving the Monday after the New Years weekend. This is an inconsequential delay in the overall context of the 3-year agreement and would not be expected to impact the overall schedule.

The report also notes that it took another 2 to 3 months for EPA comment and revision. This seems to indicate that the workplan was a critical document that was needed in order to document the work that was to be done, and that until it was approved there was not an adequate definition of the work that was covered by the agreement. However, this agreement was based on a very good program narrative that was submitted with the initial application and favorably evaluated by a 6-member internal/external peer review panel. That program narrative effectively serves as a “Statement of Work,” to use a contract analogy. We believe this is typical of most research cooperative agreements. If the applications do not have such a narrative, they do not pass ORD’s rigorous peer review and do not receive awards. In this and most such cases, a post award workplan, if one is required, often serves only to fill in minor gaps or to address recommendations made by the peers. It would be most unusual for there to be significant issues which would have to be mutually resolved prior to initiation of the research. In the Battelle case, the initial workplan only addressed the comments of the peers. The Project Officer (PO) was satisfied with that, but asked that the workplan be amended to incorporate the details of the original program narrative too, so that it could be read on its own, without need to refer back to the narrative. This was deemed to be worth the effort, but it did not in any way indicate a fundamental flaw in the plans for the research.

c. On page 5, paragraph 3, the draft report states:

Because program offices were not adequately evaluating workplans....

Discussion: ORD believes that it is already in substantial compliance. In the majority of ORD awards, we use peer review procedures which assure that the program narrative or “workplan” is thoroughly evaluated.

d. On page 5, paragraph 4, the draft report asserts that without workplan approval:

...there was no enforceable agreement with which to hold the recipient accountable...the recipient spent \$171,288...Entering into an assistance agreement when there was no discernable public purpose (which would be described in the workplan) would appear to contravene the requirements of the Federal Grant and Cooperative Agreement Act...we are not clear why the Agency would allow funds to be spent without an approved workplan.

**RESPONSE: We request that this paragraph be re-evaluated and modified to revise the inference that assistance workplans should operate like contract workplans.**

Discussion: Again, we believe that this inadvertently conveys the impression that an assistance agreement would be treated like a contract. In a contract, it is important to be certain that the Government is fully satisfied that the plans will meet its needs, and to avoid “wasting funds on approaches that we do not accept.” It is common for the boilerplate of the contract to limit initial costs to those needed to prepare the workplan. It would be most unusual for an assistance agreement to be awarded with such a limitation, and if it were done, it would only be because of severe problems with the program narrative or with the performance history of the recipient. There would need to be so-called “special conditions.” These are normally reserved for recipients with major performance concerns, such as potential bankruptcy, etc. While definition of the workplan is not usually a pacing item in cooperative research, other items often are (such as OMB Clearance or Human Subject Approval), and in those cases we agree that it is clearly appropriate to limit activity pending approval.

Finally, the report asserts, without explanation, that the effect of not having the workplan approved was that EPA was “entering into an assistance agreement when there was no discernable public purpose....” However, the Decision Memo contained a detailed explanation of the public purpose, and as noted, the program narrative went into considerable detail regarding the purposes and benefits to the public, as evidenced by the strong support of both the internal and external peer reviewers. We believe that the OIG may have overlooked the incorporation of the program narrative into the cooperative agreement.

#### **4. Return of Incomplete Assistance Funding Packages**

a. On page ii, paragraph 1 and on page 11, Recommendation 2-2 the draft report states:

GAD should return incomplete assistance funding packages to program offices via SRO.

**RESPONSE: ORD requests the following change:**

**GAD should return incomplete assistance funding packages to program offices via the delegated official.**

Discussion: Returning an incomplete package to the program office via the SRO seems quite impractical to us, and an added burden on the SRO’s staff. However, we believe it would be more effective to return the incomplete package to the delegated official. Also, the SRO only reviews packages in excess of \$1 million. To return less than \$1 million packages to the SRO is unnecessary.

#### **5. Assistance Management Plan**

a. On page ii, paragraph 3, and on page 11, recommendation 2-5, the draft report states:

...require the development of an assistance management plan prior to approving an award. At a minimum, management plans should identify planned oversight activities, estimated PO monitoring time and other funds (e.g. travel) required.

**RESPONSE: We suggest that the recommendation be deleted.**

Discussion: Much of what the OIG recommends for inclusion in the Plan is already routinely addressed, albeit not in a separate “Plan.” ORD’s Decision Memoranda and Funding Order cover plans for EPA’s involvement in the agreement, including technical and financial monitoring, and we call for a condition to address the progress reporting requirements. We also require an indication that the Approval Official has considered the qualifications and availability of the proposed EPA PO.

We are concerned about the possibility of confusing the nature of a Management Plan for assistance with the Management Plan required for contracts. The Contracts Management Plan is addressed in the Contracts Management Manual, and is quite extensive. So much so that one is not called for unless the award is to exceed \$15 Million (or \$25 Million for some offices). In responding to the draft report, we believe that such plans will be developed only to a degree that is appropriate to an assistance relationship. In addition, the contract plan is aimed at assuring contractor accountability. While accountability is relevant, the principal focus of management in assistance is to aid the recipient in reaching its goals, and that monitoring is to be supportive, not intrusive. To require a plan for each potential agreement would substantially detract from the oversight of existing grants and would be redundant when groups of grants may be handled similarly.

We understand the new EPA Policy for Post-Award Management of Grants and Cooperative Agreements will provide the necessary flexibility for the implementation of this recommendation by permitting an annual monitoring plan to be created which aggregated activities for all an office’s agreement.

## **6. Training for Managers**

a. On page 2, paragraph 2, and on the draft report states:

...individuals must first successfully complete the course “Managing Your Financial Assistance Agreement–Project Officer Responsibilities.”

**RESPONSE: We request the following change to this portion of the report:**

**...individuals must first successfully complete the course, “Managing Your Financial Assistance Agreement–Project Officer Responsibilities” or another GAD approved course.**

Discussion: We concur that training is advisable for managers, and that recertification/ refresher training is beneficial. However, we believe readministration of the full 3-day course would be redundant, unproductive and extremely burdensome. ORD recently developed training for managers and training is scheduled this year. Consideration should be given to assigning responsibility for development and administration of such refreshers to GAD, as is done by OAM for contracts.

## **7. SRO Training**

a. On page 9, under Additional Training and Oversight Are Needed, the draft report indicates that SRO's did not take advantage of training that was offered several years ago.

Discussion: We would like to note that ORD took advantage of the training which resulted in a lot of the improvement activity that has occurred to date.

## **8. Cost Reasonableness**

a. On page 6, paragraph 3 under "Cost Reasonableness Should Be Determined and Documented", the report states:

...none of the project files that we reviewed contained evidence that proposed costs were reviewed against the narrative/workplan.

Discussion: There are two issues presented here: (1) whether costs are being evaluated adequately (or at all), and (2) whether the evaluation is adequately documented. Contracts traditionally rely on market competition or on well documented head-to-head analysis and negotiation to assure that the government gets value for its money. The dynamics in assistance are different. One of the benefits of ORD's competition policy is that we should be able to assume that recipients will put forth the best research they can for the available funds, in order to win the award. In addition, even where there is no competition we may be able to presume strong incentive for the recipient to make cost-effective use of the funding in order to maximize their research benefits. They are doing the work for their own benefit, not for the government, and therefore there is a strong incentive for good management. There is certainly a need for government review of cost reasonableness, but perhaps not at all on the same plane as for contracts.

It is true that ORD files do not contain cost analyses on the order of those that are normally seen in contract files, however there is virtually always some review performed, and it is generally documented to some degree. For example in CR826215, the reasonableness of the cost, relative to the management plan portion of the program narrative, was included in the 7<sup>th</sup> evaluation criteria, and thus was reviewed by all 6 peer reviewers, as well as by the PO and other reviewers. Traditionally, in contracts operations, the equivalent to the Decision Memorandum includes an extensive summary of the cost analysis, but in assistance the document does not contain such analyses.

ORD agrees that cost reasonableness must be considered for assistance agreements. It is normally accomplished by the Project Officer and peer reviewers and documented in peer review comments. Further action should be decided only in consultation with GAD, taking into consideration the relative roles and skills of Program and GAD employees and proper relationships with assistance applicants.

September 15, 1998

MEMORANDUM

SUBJECT: OPPTS Comments on Draft OIG Report "Pre-Award Management of EPA Assistance Agreements"

FROM: Susan H. Wayland /s/  
Deputy Assistant Administrator

TO: Gary Katz, Director  
Grants Administration Division

OPPTS has reviewed the OIG draft audit report entitled "Pre-Award Management of EPA Assistance Agreements" dated August 14, 1998, and offers the following comments:

Recommendation 2-1. Refresher and Manager Training Courses: OPPTS agrees that GAD should take the lead in developing refresher and manager training courses. Said training should allow for maximum input from program offices and subsequently adhere to uniform standards. The Resource Management Committee has recognized the need to have all relevant staff thoroughly versed in assistance awards policy and has set up a committee to develop supervisory training. Until supervisor, manager and refresher training courses are developed, OPPTS will investigate the feasibility of setting up its own short half-day orientation courses with mandatory attendance for supervisors.

Recommendation 2-2. Completeness of Funding Packages: OPPTS agrees that incomplete packages should be returned to the programs, via the SRO. In addition OPPTS, as a supplement to Agency guidance, will issue its own internal guidance.

Recommendation 2-3. Train All Levels of Staff involved in Assistance Awards: OPPTS agrees that all levels of staff involved in assistance awards should be trained, with the caveat that managers and supervisors attend an abbreviated half-day course, not the full three day course every three years. Special training should be provided to all approval officials.

Recommendation 2-4 Hold POs and Approval Officials Accountable: OPPTS believes that the Agency already holds its Project Officers and Approval Officials technically responsible for workplan specificity, adequacy of determinations of cost reasonableness, and the completeness of decision memoranda, in both contracting and grants. Further elaboration is required as to HOW to exercise this accountability.

Recommendation 2-5 Require Program Offices to Develop an Assistance Management Plan: OPPTS disagrees with this recommendation, at least until program offices have the opportunity to implement all of their Management Effective Reviews (MERS) and until GAD's post-award management policy is finalized. OPPTS identified some Post Award areas for improvement as part of last year's MER. These improvements included having OPPTS PO's negotiate and not just accept budgets as submitted, recommended quarterly versus annual reporting, encouraged site visits by staff, and urged staff to shift from grants to cooperative agreements where there is more involvement by EPA staff. Furthermore, OPPTS has required that all actual or potential assistance packages valued at over \$250K (as compared to \$1,000K for the rest of the Agency) be signed by the SRO. All packages under \$250K are reviewed by a single designated representative from each program office.

Recommendation 3-1 Require Grants Administration Division to Rewrite EPA Order 5730.1: OPPTS agrees that ensuring the use of correct program elements or program results codes are the exclusive responsibility of the program offices. OPPTS has already taken remedial steps (issuance of guidance, initial training, inclusion of PE Codes within our Program Plan, etc.), with more efforts forthcoming, to ensure correct usage of program elements and/or program results codes within OPPTS.

In Chapter 3, Figure 1, page 12, of the draft audit, funding amounts do not match the figures from our audit of the referenced documents. The differing figures however, do not materially affect the results or implications of the OIG review. Secondly, the heading on page 11, "OPPTS Utilized Funds for Unintended Purposes" may give the impression that OPPTS engaged in a deliberate diversion of funds. While OPPTS admittedly shifted funds temporarily among program elements, we believe it is important to note that the sum of money appropriated for each program element matched the actual sum of funds expended on each program.

OPPTS appreciates the opportunity to provide comments upon the draft audit.

cc: Andy Privée, OPPTS  
Steve Schwartz, OPPTS  
Barbara Cunningham, OPPT  
Jim Kearns, OPP

September 10, 1998

MEMORANDUM

SUBJECT: Pre-Award Management of EPA Assistance Agreements  
Draft Audit Report No. E1FMB8-11-0001

FROM: Sallyanne Harper /s/  
Chief Financial Officer

TO: Al Pesachowitz  
Acting Assistant Administrator  
Office of Administration and Resources Management (3101)

In response to your request, following is the Office of the Chief Financial Officer (OCFO) review of the Office of the Inspector General's (OIG) draft audit report regarding the Pre-Award Management of EPA Assistance Agreements. Overall, we agree with the OIGs recommendations; however, please refer to our suggestions.

- 2-1 Direct GAD to take the lead in the development of refresher and manager training courses, and assist SROs in training all levels of staff involved in assistance award and management.
- Suggestion A: It will be more effective to enhance the current Project Officer training in light of these findings than to develop new training for additional levels of management. If the current training is enhanced and focused then it may be suitable for managers and other attendees. The current training should highlight and provide guidance for those involved in preparing funding packages, the development of a management plan prior to award, and assignment of responsibility for ensuring the correct coding of the source of funds. Also see Suggestion C.*
- 2-2 Direct GAD to ensure the completeness of funding packages and return incomplete assistance funding packages to the program offices via the SRO.
- 2-3 Train all levels of staff involved in assistance awards. Until supervisor and manager and refresher training courses are developed, require managers, supervisors and POs to attend the PO training course every three years.



*Suggestion B: Provide each national program manager an annual listing of the POs that are certified and those that need/will need recertification along with a schedule of classes for the upcoming fiscal year.*

- 2-4 Hold POs and approval officials accountable for workplan specificity, adequacy of determinations of cost reasonableness, and the completeness of decision memoranda.  
*Suggestion C: Require all EPA POs to review and approve billings from their respective award recipient prior to payment by EPA. To avoid the potential conflict with the Prompt Payment Act, perhaps require all EPA POs to review and approve a draft bill prior to sending a final bill to Finance for payment.*

*Suggestion D: GAD should develop guidance for “workplan specificity” that is appropriate for cooperative agreements.*

- 2-5 Require the program offices to develop an assistance management plan prior to approval of an award. At a minimum, management plans should identify planned oversight activities, estimated PO monitoring time and other funds (e.g. travel) required.  
*Suggestion D: See 2-5, Suggestion C.*

- 3-1 Require the Grants Administration Division to rewrite EPA Order 5730.1 to assign responsibility for ensuring the use of correct program elements or program results codes exclusively to program offices.

Other Matters: -Credit and Receivables Checks  
-Reviewing Accounts Receivable

*Overall Suggestion E: We recommend that a checklist be included in the pre-award package which identifies all required actions by the project officer, including actions to screen the past financial performance of the potential recipient by performing a credit check, reviewing EPA accounts receivable for outstanding amounts, and checking for delinquent closeouts of previous EPA awards. Identifying potential problems before granting awards may eliminate some of the problems currently arising at award closeout.*

*Overall Suggestion F: Please refer to the new Small Grants Policy to ensure that requiring any detailed documentation in a project plan or management plan will not conflict with the new small grants policy. Requirements for the POs and their approval officials should be made clear in the training. Examples should be provided on how to document interim or final outputs and/or products in a project plan.*

Thank you for the opportunity to comment and review this draft audit report. If your staff have any questions, please call Kimberly Dubbs on 260-1291.

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# APPENDIX C

## Distribution

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### Office of Inspector General

Acting Inspector General  
Assistant Inspector General for Audit  
Deputy Assistant Inspector General for Internal Audits  
Divisional Inspectors General

### EPA Headquarters Offices

Agency Followup Official (2710)  
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Associate Administrator for Communications, Education and Public Affairs (1701)  
Associate Administrator for Congressional and Intergovernmental Relations (1301)  
Associate General Counsel, Finance and Operations Law Office (2377)  
Comptroller (2731)  
Director, Office of Grants and Debarment (3901R)  
Assistant Administrators, Senior Resource Officials and Audit Liaisons:  
    Office of the Administrator  
    Office of Administration and Resources Management  
    Office of Air and Radiation  
    Office of Enforcement and Compliance Assurance  
    Office of International Activities  
    Office of Policy, Planning and Evaluation  
    Office of Prevention, Pesticides and Toxic Substances  
    Office of Research and Development  
    Office of Solid Waste and Emergency Response  
    Office of Water