

EPA's Controls Over Assistance Agreements

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CHAPTER 1

INTRODUCTION

PURPOSE

The purpose of the audit was to determine whether EPA properly awarded assistance agreements, whether grants specialists and project officers effectively reviewed applications, administered awards and amendments, and closed projects in accordance with all established guidelines.

BACKGROUND

The mission of EPA is to protect the health and welfare of the American people by preventing and abating pollution hazards. In addition to its work force of almost 18,000 people, EPA uses contracts and assistance agreements to accomplish its mission. The Grants Administration Division (GAD) and Region 3 awarded assistance agreements to states, non-profit organizations, universities and other entities for projects such as:

continuing environmental programs;

construction of wastewater treatment plants;

hazardous waste site cleanups;

environmental education projects;

research; and

training for non-Federal personnel.

GAD predominantly awarded assistance agreements to non-profit organizations and universities, while Region 3 primarily awarded agreements to states, local governments and universities. These agreements were awarded through Grants Management Offices (GMOs) whose fundamental role is to complement the technical knowledge of project officers. The GMOs are responsible for all business management aspects associated with the review, negotiation, award and administration of assistance agreements including audit resolution and final close out.

The GMOs are located in the EPA regions and Headquarters. GMOs are required to document administrative and legal reviews of an assistance application to assure it is complete. These reviews are also intended to determine that the project is acceptable. Within each GMO, there are grants specialists that are primarily responsible for the administration of the assistance agreements from the application phase to close out. In a June 1, 1990 memorandum the Deputy Administrator explained that:

The GMOs will provide full "cradle to grave" assistance management, from receipt of application through award and monitoring of projects, to audit resolution, and close out.

In EPA Headquarters, the Grants Administration Division performed the GMO functions. In GAD, 11 grants specialists were responsible for processing more than 2,900 awards and amendments each year. The total value of these actions was over \$380 million each year. The GMO in Region 3 had four grants specialists, five grants assistants, and three Senior Environmental Employment Program grants specialists. The Region 3 GMO was responsible for over 640 awards and amendments in each of the last two fiscal years. Associated funds in Region 3 were also more than \$300 million each year.

The grants specialists were responsible for developing and maintaining the official file. This file is in three parts: GAD maintains the administrative file; the Financial Management Center has the financial; and the project officer has the technical file. These three files serve as a composite collection of documents that provide programmatic and fiscal information on the purpose, performance and history of an agreement. The grants specialists should work closely with the project officers to ensure successful completion of the projects.

The EPA project officers are also critical to the successful completion of work done under assistance agreements. They have the basic charge to manage and monitor the recipient's performance under the terms of the assistance agreement. There is basically no difference between the responsibilities of regional and Headquarters project officers.

On-going communication between the project officers, grants specialists and the recipients regarding all aspects of the agreement is essential. The Agency established the Assistance Administration Manual to provide consistent administrative policies and procedures for grants specialists and project officers to use for monitoring recipient performance. This manual provides highly detailed policies and procedures for managing administrative aspects of assistance programs. These policies and procedures encompass every stage of the grant process from solicitation, pre-application, review and award through performance monitoring, project administration, close out and records retention.

In 1991, GAD completed the Grants Management Basic Program Manual, which consolidated assistance agreement policies and procedures. According to this Manual, GMOs were responsible for evaluating applications, ensuring recipients submit reports indicating the use of funding, monitoring the status of accomplishments, and ensuring compliance with administrative and program requirements. It was the responsibility of GMOs to ensure that the project officers received the necessary reports from the recipient and that follow-up actions were taken if reports were overdue, incorrect, or deficient. This Manual also explained that GMOs should help project officers with the review and analysis of recipient reports and maintain the official administrative file.

SCOPE AND METHODOLOGY

This audit was performed in accordance with the *Government Auditing Standards* (1994 Revision) issued by the Comptroller General of the United States as they apply to economy and efficiency and program results audits. Our review included tests of EPA program records and other auditing procedures we considered necessary.

To accomplish our objectives, we performed reviews at the EPA Grants Administration Division (GAD) in Washington, D.C. and at the Region 3 Grants Management Section (GMS) in Philadelphia, PA. Both these GMOs were responsible for all management aspects associated with the review and negotiation of applications, as well as the award and administration of assistance agreements through audit resolution and close out. We interviewed Section Chiefs, senior grants specialists and grants specialists. In GAD, we also interviewed the Division Director and Branch Chiefs. Additionally, in the Headquarters program offices we interviewed project officers and other program personnel.

During our survey and audit, we reviewed statutory authorities for awarding assistance agreements, the Assistance Administration Manual, Code of Federal Regulations (CFR), and various other EPA policies, procedures and guidance applicable to assistance agreements. To evaluate EPA's controls over assistance agreements, we examined various records, reports, correspondence and files, which included administrative and project officer files. We reviewed project officer files for assistance agreements awarded by the Office of International Activities, Office of Water, Office of Research and Development, Office of Prevention, Pesticides, and Toxic Substances, and the Office of Administration and Resources Management.

During our review, we judgmentally selected 54 assistance agreements from EPA's Grants Information Control System. This sample included both active and inactive agreements with a total value of more than \$95 million. The inactive projects were completed but not closed. The breakdown of our sample by location is shown below.

Grants Management Office	<u>Assistance Agreements Sampled</u>			<u>Total Funds Awarded</u>
	<u>Active</u>	<u>Inactive</u>	<u>Total</u>	
GAD	16	15	31	\$59,100,000
Region 3	<u>7</u>	<u>16</u>	<u>23</u>	<u>36,400,000</u>
Totals	23	31	54	\$95,500,000

During our review of GMO and project officer files, we compared what was required by the Assistance Administration Manual and the EPA Grants Management Basic Program Manual to the documents in the file. We also reviewed the assistance agreements to determine their purpose, requirements, and compliance with applicable laws and regulations. We also evaluated GAD's internal control environment as it related to assistance agreements.

Our review evaluated the economy, efficiency and program results expected only in relation to the procedures used by EPA to award, monitor and close assistance agreements. Our audit also included an evaluation of management controls and procedures specifically related to the audit objectives. The internal control weaknesses that we noted and related recommendations to strengthen controls within the scope of this audit are included in Chapters 2 through 6. Except as noted in these Chapters, nothing came to our attention that caused us to believe GAD's and Region 3's remaining procedures were not adequate for our purposes.

As part of this audit, we reviewed the Office of Grants and Debarment's Quality Assurance Letters on Internal Controls for the eight fiscal years ended September 1994, prepared to comply with the Federal Managers' Financial Integrity Act. We found that none of the weaknesses cited in this audit report were disclosed in these annual assurance letters.

During this audit, we obtained various printouts from the Grants Information Control System. Although we used information maintained by EPA on computers, we did not audit the general and application controls of the data processing system. The main purpose of our audit was not to express an opinion on the accuracy of the data processing system, but to evaluate the Agency's implementation of policies and regulations as they deal with the administration and close out of assistance agreements.

As a result of our survey, we initiated an in-depth review on June 24, 1994. The fieldwork for this audit was completed on March 31, 1995. We submitted "Position Papers" to the Office of Grants and Debarment and Region 3 on June 19, 1995. On June 29, 1995, Region 3 provided written comments to these position papers. During July 1995, we met with personnel from OARM and Region 3 to discuss the issues contained in the position papers. The draft report was issued on August 11, 1995. EPA submitted their response to us on September 19, 1995. We did not conduct an exit conference because GAD personnel indicated it was unnecessary. EPA's comments are summarized at the conclusion of each finding, and the complete response is included as Appendix B to this report.

PRIOR AUDIT COVERAGE

EPA's Office of Inspector General (OIG) has issued numerous audits and special reviews regarding the inadequate administration of assistance agreements by grants specialists and project officers ([footnote 1](#)). Our recent reviews disclosed that grants specialists and project officers did not comply with the Agency's Assistance Administration Manual and other policies, procedures and regulations.

During 1994, EPA's OIG issued final audit reports on Cooperative Agreement (CX-818257-01) awarded to Temple University (E3CML3-03-0201-4100523), and on Cooperative Agreement (T007356-01) awarded to the University of Kansas (E1FMF4-19-0618-4100407). Both reports addressed improper administration and oversight of the cooperative agreements by the project officers and grants specialists. The OIG recommended that senior management be held accountable for ensuring documented management controls are in place and that project officers and grants specialists comply with the Assistance Administration Manual.

CHAPTER 2

PREAMBLE

The OIG has performed literally hundreds of audits and special reviews on EPA assistance agreements. A number of these have disclosed that the recipients of assistance agreements have at times misspent and wasted millions of dollars. Occasionally, these recipients even defrauded EPA. For example, our 1988 Capping Report on Superfund Cooperative Agreements, which summarized the results of 33 OIG audit reports, disclosed:

Recipients often did not attain performance goals and objectives under the Superfund Cooperative Agreements.

Widespread noncompliance with procurement regulations, and the disregard for the special conditions in cooperative agreements.

The extent of the financial management deficiencies encountered casts doubt on the recipients' ability to account for the \$136 million EPA spent.

There were numerous reasons why these situations occurred, not the least of which was inadequate oversight by grants specialists and project officers.

Other more recent audits have amplified the need for the grants specialists in GAD, and the project officers to improve their oversight of assistance agreements. For example:

The March 1993, audit on the Environmental Research Laboratory in Athens, Georgia reported that inadequate oversight by Headquarters components, such as GAD, precluded the early detection and correction of the misuse and abuse of cooperative agreements.

Our September 1994 reports on the assistance agreements awarded to the Center for Earth Resource Management Applications (CERMA), revealed details about:

CERMA's violation of conflict of interest regulations;

financial management and internal control deficiencies;

the recipient's failure to obtain annual audits as required by OMB Circular A-133;

EPA suspending CERMA from all Federal and non-Federal procurement; and,

more than \$200,000 that CERMA needed to repay EPA because the amounts claimed were ineligible, unsupported, and unreasonable.

Audit reports on the cooperative agreements awarded to Kansas University and Temple University highlighted serious problems concerning EPA's national conferences. For example, one of these audits noted that, despite the expenditure of thousands of dollars, there were virtually no records to indicate the Agency reviewed the University's proposal to host the conference, as well as contracts and invoices. Moreover, numerous unreasonable and unnecessary costs in the proposal should have been disallowed. This responsibility was shared by the project officer and GAD's grants specialists. Unfortunately, none successfully carried out their responsibility.

Our review concluded that neither EPA nor the University complied with applicable Federal cost principles. Moreover, the University did not follow its own procedures for safeguarding public funds. Overall, we identified almost \$541,000, which were considered ineligible, unsupported, or unnecessary and unreasonable. These costs included string bands, cowboy hats, and limousines.

Two of the 31 assistance agreements we reviewed during this current audit were awarded to the West Virginia University Research Corporation. Concurrently, we also performed an audit of the costs claimed under two other assistance agreements that provided \$6.5 million to this same recipient. This second audit of costs disclosed that the project officer and the grants specialist neither reviewed nor approved the training manuals that cost EPA an estimated \$900,000. After paying almost \$61,000 for one course, the University informed its subcontractor that the final training package remained inadequate and unacceptable.

All of these OIG audit reports disclosed serious conditions that occurred, in part, because the project officers and grants specialists usually did not perform site visits, review payment requests, obtain audit reports, or ensure compliance with the terms of the assistance agreements. These conditions still adversely affect the assistance agreements we reviewed during this audit. Chapter 3 of this report discusses why we believe GAD's administration of assistance agreements needs improvement. Chapter 4 discusses the need for project officers to improve their administration procedures.

CHAPTER 3

GAD ADMINISTERED ASSISTANCE AGREEMENTS INCONSISTENTLY

Administration procedures for EPA's assistance agreements were not performed consistently. Extensive differences existed between the functions performed by the GAD and Region 3 personnel who managed assistance agreements. We found that GAD personnel did not comply with Agency requirements. For example, GAD did not perform post award management of assistance agreements. While both organizations administered the same types of assistance agreements, various functions performed by the Region 3 GMO were not performed by GAD. Personnel in GAD stated this situation occurred because there was a shortage of grants specialists in Headquarters.

The 23 Region 3 assistance agreement files we reviewed generally contained sufficient information to evidence that EPA's administration requirements were satisfied. However, for the 31 assistance agreements awarded by GAD there was insufficient evidence to document that grants specialists: (a) reviewed the recipients' proposals; (b) monitored progress on the projects; or (c) required recipients to complete projects and submit the required close out documentation. GAD performed annual evaluations to ensure that the regions completed this type of post award management, but did not follow similar standards themselves. Chapter 5 provides more details about these annual evaluations.

On August 20, 1990, the Assistant Administrator for the Office of Administration and Resources Management issued guidance that described the roles and responsibilities of personnel who administer assistance agreements. This guidance also delineated five major areas of responsibility. The duties associated with each of these areas are described below:

PREAWARD/AWARD Encompasses providing guidance to applicants and project officers, reviewing assistance applications, ensuring the allowability of costs, as well as assuring a recipient's financial, procurement, and property management systems are adequate.

ACTIVE GRANTS MANAGEMENT

Entails reviewing payment requests, obtaining reports, assessing project status, ensuring compliance with terms and conditions, including the receipt of all deliverables. It also requires maintaining the official grant management award file, providing guidance to the recipient, and ensuring compliance with Agency regulations such as EPA procurement regulations.

OVERSIGHT Requires on-site reviews of the recipient's financial, procurement, and property management systems, as well as meetings with recipients and project officers.

CLOSE OUT Consists of ensuring accountability of property, obtaining, reviewing and distributing final reports and Financial Status Reports (FSRs), processing close out documents, as well as reviewing and approving final payments.

AUDIT Involves attending entrance and exit conferences, receiving, reviewing, and resolving audit reports, providing assistance to auditors, and ensuring corrective action was initiated.

It is important to note that many of the grants specialists' duties described above could not be completed without documentary evidence. For example, to properly reconcile FSRs with other financial reports, the grants specialist would need either copies of the FSRs and reports, a work sheet comparing figures from these documents, or documentation showing the date and the results of the review. Similar documentation should be available to evidence: conducting on-site reviews and preparing reports; reviewing procurements and expenditures; verifying the receipt of deliverables; and, ensuring compliance with the terms and conditions of the assistance agreements. GAD files contained little or none of this type of information.

INAPPROPRIATE REVIEWS OF PROPOSALS/APPLICATIONS

The content of every proposal must be reviewed in the program office and by the grants specialists. For all awards, the official assistance agreement file must contain written documentation to show that reviews have been favorable and any deficiencies have been addressed. EPA's Assistance Administration Manual states in part that:

When an application is received by EPA, it will receive an administrative review by the Assistance Administration Unit [in this case Headquarters GAD] and immediately be forwarded to the designated program official for technical/programmatic review....The reviewer must determine whether all proposed project tasks are included in the budget and must review each budget item for reasonableness.

...[GAD] must...maintain a complete and accurate record in the official file of all actions on each application....

The Assistance Administration Manual requires GAD to complete among other things, legal and administrative reviews for all new assistance agreements, as well as amendments. A sample checklist for these reviews is provided in Chapter 15 of this Manual.

Despite the requirements in the Assistance Administration Manual, GAD's files did not contain documentation to evidence their review of the assistance agreement applications. Specifically, 10 of the 31 files we evaluated did not contain the checklists discussed in the Assistance Administration Manual or other evidence that the applications were reviewed. Ironically, several of the checklists completed were for smaller dollar value assistance agreements, while checklists were not completed for those involving more substantial amounts of money. For example, checklists were completed for four agreements valued at less than \$100,000 each, while four agreements without checklists were for amounts ranging from \$3 million to \$10 million.

GAD personnel acknowledged that frequently they neither completed administrative review checklists nor performed the required reviews for all proposals. One grants specialist did not recall completing the checklist, but indicated the checklist was in his head. When asked if he ever completed checklists, he stated that he tried to do them. A second grants specialist explained that she also should have completed a checklist, but sometimes there was not enough time, especially at the end of the fiscal year. Two other specialists confirmed that checklists were not always completed during the "crunch period" at the end of the fiscal year. Interestingly enough, seven assistance agreements without checklists were awarded during the last month of the fiscal year.

INADEQUATE MANAGEMENT AND OVERSIGHT BY GAD

EPA's management and oversight responsibilities continue after the application is processed and the assistance agreement is awarded. According to the August 20, 1990, guidance issued by the Assistant Administrator for the Office of Administration and Resources Management, and the Assistance Administration Manual, GAD and the GMOs--GAD's regional counterparts--were responsible for grants management and oversight of EPA assistance agreements. Their duties included the numerous functions described previously. However, the assistance files we reviewed in GAD frequently did not contain documentation to indicate that grants specialists fulfilled these duties.

For the most part, GAD files contained only the documents needed to award or amend assistance agreements. These included documents such as: applications, assistance agreements, amendments, funding orders, commitment notices, decision memorandum and approvals for amendments to the assistance agreements. There was neither evidence of correspondence with recipients nor indications that GAD provided management and oversight of the assistance agreements. Moreover, there was generally no correspondence between GAD personnel and project officers regarding project performance, site visits, progress reports, and interim financial reports. In effect, GAD's files did not contain documentation evidencing that GAD fulfilled their responsibilities for:

The review and analysis of recipient reports to ensure reports were received and the recipient's efforts were on schedule and complied with Agency objectives.

Comparing payment requests with progress reports to ensure payments were justifiable.

Monitoring recipient activities, both on-site and "in-house." These activities included reviewing recipient's financial, procurement, and property management systems, as well as meetings with the recipient and the project officer.

Ensuring the recipient complied with special conditions in the assistance agreement.

Assuring the recipient followed Single Audit Act requirements and completed recommended corrective actions.

Maintaining the official grants management file and providing guidance to the recipient.

PERFORMING SITE VISITS

Site visits and the associated reviews performed during these visits should be GAD's greatest resource to monitor recipient performance. OMB Circular A-110 provides that Federal agencies shall make site visits to review program accomplishments and management control systems, and to provide technical assistance.

EPA's Assistance Administration Manual, Chapter 44, Section 5.b., also emphasizes the use of site visits as a tool to monitor assistance agreements. This reference explains that on-site reviews should be performed to evaluate financial, procurement and property management systems. GMOs need to prepare review protocols, coordinate reviews, test transactions, and follow-up on findings and corrective actions. Also, they need to assure that EPA project officers are performing technical site visits.

Despite these requirements, GAD's grants specialists performed no site visits for the 31 projects we reviewed. Our discussions with four grants specialists corroborated that the management and oversight required by Agency guidance was not performed. They did not perform on-site reviews or site visits, but believed these reviews would be beneficial for GAD and the recipients. The specialists indicated a desire to ensure recipients fulfilled requirements, but stated they could not perform site visits because travel funds were not available. We do not agree that, in all cases, the lack of travel funds prevented sites visits. Moreover, performing site visits should have precluded some of the conditions we discussed in the Preamble.

The specialists we interviewed also did not know if project officers performed site visits, because GAD did not normally receive documentation evidencing site visits or progress evaluations from the project officers. Only one of the 31 GAD files we reviewed contained a project officer site visit report, even though project officers were also required to perform site visits and send GAD a site visit report. Unfortunately, it appears that most project officers also did not visit recipients. The lack of project officer site visits is discussed in Chapter 4.

PROCESSING FINANCIAL REPORTS

According to 40 CFR 30.505, recipients must submit FSRs within 90 days after each budget period and within 90 days after the end of the project. The EPA Assistance Administration Manual, Chapter 44, Section 5.c., provides that FSRs must be reviewed by the GAD to assure that the recipient uses EPA funds properly. Our review included 15 completed projects, but GAD received FSRs for only seven. However, GAD did not process these FSRs timely. Processing included verifying mathematical accuracy, determining the amount paid to the recipient, and initiating the deobligation of unused funds.

GAD grants specialists explained that FSRs were put in piles when received. When the piles became too large, the specialists stopped all other work, and processed FSRs during what they termed were "FSR Parties." One such party started in early February 1994. Three of the seven FSRs we found in GAD's files were processed then. Even after processing the FSR, GAD usually did nothing further to close the assistance agreements. Only one of the seven projects for which FSRs were received was closed, even though these projects were completed as long ago as 1989. The chart below shows that these FSRs were not processed in a timely manner.

AGREEMENT DATE PROJECT DATE OF DATE PROCESSING

NUMBER COMPLETED FSR COMPLETED

CX819154 09/30/92 12/21/92 02/02/94

CX816377 02/15/91 05/30/91 02/01/94

CR813043 12/30/90 09/07/92 02/02/94

We asked the grants specialist responsible for project CX819154 why GAD received an FSR in 1992, but did not deobligate the funds until 1994. The specialist agreed this was a problem, and explained that GAD had an "FSR Party" in February 1994, during which many FSRs were processed. During October 1994, we asked another specialist if she received an FSR for a project that ended over a year ago. After searching through three large stacks of FSRs, she was unable to locate one for this agreement. A third grants specialist told us he had not processed FSRs since February 1994, which was more than eight months ago.

GAD had not received FSRs for the remaining eight projects. Moreover, their files did not indicate any attempts to obtain the missing FSRs, even though these projects were completed as many as three years ago. For example, one recipient should have submitted an FSR by December 1992. The grants specialist told us that she could not find the FSR, and explained that she received FSRs, but did not have time to file them.

Because GAD personnel did not obtain FSRs for eight projects and none of the progress reports for all 15 completed projects, they could not compare FSRs to progress reports to ensure payments were justified. Unfortunately, GAD did not send the FSRs they received to the project officers. In effect, the recipients expended over \$6 million under these 15 completed assistance agreements, and the Agency did not know if the recipients used EPA funds properly. This same omission occurred for all assistance agreements that we reviewed.

One of the assistance agreements discussed in the Preamble is an example of what happens when EPA does not review the status of a recipient's work before making payments. The West Virginia University Research Corporation paid a contractor almost \$61,000 even though the contractor's work was "completely inadequate or unacceptable."

COMPLYING WITH FEDERAL AUDIT REQUIREMENTS

GAD was responsible for assuring recipients complied with Single Audit Act requirements and that recommended corrective actions were completed. According to the Grants Management Basic Program Manual

(Module VII, page 7.19), EPA is authorized to audit the financially assisted activities of any recipient organization. However, it is Federal policy to rely on a recipient's own audits if performed in accordance with applicable Federal audit standards.

GAD personnel stated that they did not assure recipients complied with Single Audit Act requirements, but relied on the recipients to have the required audits completed--usually annual audits. GAD personnel further explained that they did not request copies of audit reports from recipients, and if received, the reports were not reviewed. Our review of GAD's files confirmed that GAD did not fulfill their responsibility. Only one of the 31 GAD files we reviewed contained an audit report. The project officers did not fare much better in this regard. There were only two audit reports in the 13 project officer files we reviewed.

According to the Chief, Grants Operation Branch almost all assistance agreements were closed without GAD seeing an audit report. One grants specialist explained that she had never seen or requested an audit report. A second grants specialist told us that few recipients submit audit reports, and explained that specialists were not instructed to obtain audit reports, and therefore did not request them.

Again one of the examples in the Preamble points out the essentiality of reviewing and following up on audit reports. The recipient's single audit report for fiscal year 1992 disclosed the need for the University to conduct a "wall to wall" inventory of its property. The 1993 single audit disclosed the results of this inventory, and reported that over 7,000 items were missing. These two audit reports disclosed findings that were important to EPA because the recipient charged EPA's two cooperative agreements almost \$190,000 for equipment, including a number of computers. EPA did not obtain these audit reports and did not know about these significant findings. As a result, EPA did not ensure corrective action was taken to safeguard its equipment.

OBTAINING FINAL REPORTS

The project officer is expected to certify to GAD that the project is completed. According to the Assistance Administration Manual, Chapter 44, paragraph 5.j., if the agreement requires a final report, the project officer must review the draft of the final project report and notify GAD when the final report for the completed project is approved.

As discussed previously, 15 of the GAD files we reviewed were for completed projects; however, none contained project officer certifications regarding receipt and approval of the final product. Moreover, there was no evidence in GAD's files to indicate any communication with the project officers to obtain the needed certifications. It is noteworthy that several of these projects were completed as many as five years ago, and neither GAD's grants specialists nor the project officers communicated with one another regarding the final products.

MANAGEMENT AND OVERSIGHT IMPROVEMENTS NEEDED

Our review of GAD's procedures showed a very low priority was assigned to the management and oversight of assistance agreements. GAD personnel explained that their omissions regarding management and oversight were caused by a shortage of resources. In May 1993, GAD performed a workload study, and concluded that because of substantial workload increases, they needed about 15 more grants specialists. Specifically, the report stated:

Unfortunately, because of the work overload, the quality of our grants operation has suffered. We simply are not doing everything we should--

Our pre-award management is less than perfect.

We do very little post award management.

Our backlog of unclosed out projects is growing daily.

As a consequence--

We suffer from low morale.

Our ability to respond to IG's recommendations is limited.

Client services suffer.

Without additional FTE resources, GAD's work quality will suffer and frustration, low morale, and large backlogs will continue.

It appears that the study was correct in several respects--the quality of GAD's work did continue to suffer, the large backlogs continued, as well as the frustration levels. It is noteworthy that many of the issues we reported concerning GAD were not new. Their own workload study and several other audits we previously issued referred to GAD's inadequate management. It is also noteworthy that GAD developed the *3-Year Action Plan for Improving Grants Practices* during early 1993. Despite the workload study, the past audit reports, and improvement plans, GAD has not been able to adequately perform post award management of assistance agreements.

While we did not validate GAD's workload study, we did confirm the need for improvement. As a result, the Agency needs to determine if added resources should be furnished to alleviate the conditions reported. However, with or without added resources, GAD needs to initiate actions that go beyond those already proposed in their workload study, 3-Year Plan, and in their responses to previous audit reports. For example, GAD should consider developing different levels of management for assistance agreements. In this way, grants specialists could concentrate their efforts on the higher dollar value agreements, and provide not as much effort to less significant agreements.

We acknowledge that EPA has a number of initiatives in development, such as issuing the Implementation Order to Streamline Small Grants, revising the Integrity Act requirements, updating the Assistance Administration Manual, and establishing Performance Partnerships with states. Since many of the initiatives are in development, Headquarters and the regions are in the process of developing guidelines for implementation by fiscal year 1996.

In addition to these initiatives, the Agency should take aggressive action to ensure project officers perform their existing responsibilities, and to transfer more of GAD's oversight responsibilities to the project officers. This could include requiring project officers to provide GAD all needed documents, as well as comparing payment information to the recipient's progress. GAD should also consider developing different levels of management for assistance agreements. For example, the current oversight required for the smaller dollar value assistance agreements could be reduced in order to concentrate GAD's efforts on the higher dollar value assistance agreements.

RECOMMENDATIONS

The Assistant Administrator for Administration and Resources Management should require GAD to comply with established procedures and controls for the oversight and management of assistance agreements. To accomplish this, the Agency needs to determine if additional resources should be devoted to the oversight and management of assistance agreements to correct the conditions reported. However, with or without the addition of increased resources, the Agency should initiate action to improve GAD's management and oversight of assistance agreements. In this regard, the Agency should consider:

Transferring selected GAD responsibilities to project officers.

Using additional Senior Environmental Employees to assist GAD.

Transferring the responsibility for selected assistance agreements to regional GMOs, if they are providing the same level of oversight as Region 3. GAD should be able to provide information about regional capabilities from their past reviews.

Developing different levels of management for assistance agreements with a view toward concentrating GAD's efforts to the higher dollar value assistance agreements.

OARM RESPONSE

We have updated our application checklist and advised our specialists to use it on all projects. Although experienced specialists can remember the items on the checklist, we agree the checklist should provide an official record of our review.

The report says there was a lack of correspondence in GAD's files, but project officers receive most the correspondence from recipients during the performance of the projects, and they do a great deal of the monitoring. All progress reports are sent to them. This is consistent with your recommendation that GAD consider transferring responsibilities to project officers.

The report says a review of GAD's files failed to show that we met our responsibilities for the following: review and analysis of recipient reports; comparing payment requests with progress; and monitoring recipient activities. We believe these activities are primarily project officer responsibilities, and it is consistent with your recommendation to let project officers do them.

Concerning the recommendations:

- We agree that GAD should transfer more responsibility to project officers, and we believe project officers keeping their files is one aspect of this. We also acknowledge that this responsibility must be stressed to project officers. However, the report does not indicate which responsibilities could be transferred to project officers. It would be helpful if the report were more specific. Also, the report says "This could included requiring project officers to provide GAD all needed documents...." We recommend against requiring that documents be sent to GAD.
- GAD has seven Senior Environmental Employees, and they have been invaluable. However, they require funds, and it is doubtful that we will be able to get any more of them.
- Transferring the responsibility for selected assistance agreements to regional GMOs has already taken place to the fullest extent practicable. The regional delegations have been broadened in recent years to permit regions to fund projects that formerly were awarded out of Headquarters. I believe this provides the appropriate incentive. I believe this recommendation should be deleted.
- Developing different levels of management for assistance agreements--It would help us if the report were more specific. We cannot tell from this statement what level of management is recommended for varying dollar levels.

OIG EVALUATION

We do not agree with OARM's comments concerning the lack of correspondence in GAD's files. Our report explains that GAD does not usually perform post award management and that the project officers do not

generally inform GAD of their oversight activities. Our review also showed that in many cases, the oversight by the project officers was lacking. The Assistance Administration Manual requires the project officer to send GAD "...documentation...that have a significant bearing on...the project." This Manual also requires the project officer to send GAD a report for site visits. These documents are essential if GAD is going to oversee post award activities of assistance agreements as required by Agency policies.

We do not agree that the review and analysis of recipient reports; comparing payment requests with progress; and monitoring recipient activities are solely project officer responsibilities. The Grants Management Basic Program Manual clearly indicates that these activities are also the responsibility of GAD.

Our report did not specify which responsibilities could be transferred to project officers because there are numerous possibilities. The Agency should decide what will work best to ensure that someone performs at least some of the post award management GAD should have accomplished. During our review we found little or no evidence that GAD performed oversight activities such as: site visits, close out, ensuring the receipt of reports, project status assessments, procurement action reviews, information management, and file management. We believe this list offers several possibilities for transferring responsibilities to the project officers.

We do not agree that the recommendation concerning transferring the responsibility for selected assistance agreements to regional GMOs should be deleted. Although our review did not evaluate whether or not regional delegations have been expanded to the fullest extent possible, we believe other possibilities exist. Our review included 16 active grants. In some cases, these assistance agreements were awarded to state agencies that received other assistance agreements from the regions. As a result, EPA has two GMOs responsible for post award management of one recipient. It would be more efficient to have oversight provided by one GMO.

We intentionally did not include the specific levels of management that GAD should afford to assistance agreements of varying dollar levels. Our concern was that there was little or no evidence that GAD performed oversight activities for assistance agreements. Moreover, GAD personnel indicated oversight was limited because they lacked the necessary staff. That being the case, we believe one option is to provide whatever oversight was possible--using the existing GAD staff, an augmented GAD staff, or other Agency personnel such as the project officers--to a smaller number of assistance agreements. The specific levels we believed were best determined by GAD. However, we are willing to work with Agency personnel on this issue.

CHAPTER 4

PROJECT OFFICERS MANAGED ASSISTANCE AGREEMENTS INADEQUATELY

The Agency's project officers need to improve their oversight of assistance agreements. The projects we examined in EPA Headquarters showed that project officers did not follow EPA's requirements. Similar to GAD, the project officers' files contained limited documentation to show they performed required reviews and evaluations of planned events and costs. As a result, it was not apparent if the Agency's assistance agreements were being managed.

Most project officers did not visit or correspond with recipients, review financial matters and audit reports, as well as notify GAD when the projects were completed. In some cases, the project officers destroyed or lost the Agency's records, instead of safeguarding and preserving the sparse Agency records that they did have. Without these documents, we could neither determine whether project officers monitored recipient activities and progress, nor substantiate that EPA received what it paid for under these agreements.

According to the EPA Assistance Administration Manual Chapter 44, the project officer is the recipient's main point of contact with EPA for technical guidance and is responsible to:

Manage and monitor the performance of work under the terms of the assistance agreement. Establish a "working file" for the project and maintain the official technical record of activities.

Provide documentation to the GAD of correspondence, meetings, and phone calls, which have a significant bearing on the performance of either the project, the recipient or its contractors.

Perform site visits to monitor actual versus scheduled performance, and determine the condition of equipment and property. These visits should also ensure personnel, equipment, and facilities charged to the agreement are used on the project, and identify any conditions adversely affecting EPA's interest.

Prepare a trip report that evaluates the quality of work performed. Copies of the trip reports must be provided to GAD for inclusion in the official file.

INCOMPLETE PROJECT OFFICER FILES

We requested that the project officers provide us their files for 17 of the 31 assistance agreements included in our review of GAD. Because the project officers could not locate four files, we limited our review to 13 project officer files. Nine of these were ongoing projects and four were completed. We compared the contents of the project officers' files to the documents required by the EPA Grants Management Basic Program Manual, and interviewed each project officer.

Our review indicated that project officers' files did not contain 47 percent of the required documents. Moreover, many documents the project officers did have, did not end up in GAD's files. The Assistance Administration Manual, Chapter 44, requires that the project officers provide these documents to GAD. The table below presents the details concerning the documents missing from the project officers' files.

<u>DOCUMENTS REQUIRED BY THE GRANTS WITHOUT MANAGEMENT BASIC PROGRAM MANUAL</u>	<u>FILES THAT REQUIRED SPECIFIED DOCUMENTS</u>	<u>FILES SPECIFIED DOCUMENTS</u>
Application	13	2
Program Review	13	8
Decision Memorandum	13	2
Assistance Agreement	13	3
Amendment*	9	3
Site Visit Report	13	9
Progress Report*	12	0
Audit Report	13	11
Financial Status Report*	10	10
Final Report*	4	4
Certification to GAD*	4	4
TOTALS	117	56
PERCENTAGE OF DOCUMENTS MISSING		47%

* Not required for all files.

The extent of the missing documents shows the disregard of basic management techniques needed to properly manage assistance agreements. For example, the assistance agreement and amendments are in actuality the contract between EPA and the recipient. Without these documents the project officer--EPA's project manager--did not have the "contract" terms that enumerated the recipient's responsibilities. This was especially troubling because often the assistance agreements contained not only the recipient's general responsibilities, but many "special conditions" requiring compliance with government regulations.

The extremely limited interaction between the project officers and the recipients indicated that the Agency's management of its assistance agreements needed significant improvement. For nine projects, totaling almost \$12 million, there were no indications the project officers performed site visits. The project officers told us they did not perform site visits because either they just do not perform visits, or travel funds were not available. For example, one project officer said she does not normally perform site visits. A second project officer told us she

has performed visits, but not for the two projects we asked about. Another explained that occasionally she attended recipients' workshops, but did not perform site visits. She believed that site visits should be conducted for larger assistance agreements, and she added that travel funds were usually limited.

The fourth project officer we interviewed indicated she did not do site visits, and she believed site visits were only necessary for certain recipients. However, she did say that she may have gone out and reviewed a training course conducted by a recipient.

Another project officer told us he did not visit the recipient for two projects because travel funds were frequently not available for site visits. However, he believed that site visits were important and he did visit recipients whenever travel funds were available. He told us he has been a project officer for 24 years, and the product received is of much higher quality when project officers visited the site. During site visits, he reviewed financial information, project status, and on-site work. He believed that project officers should do at least one site visit on projects over \$100,000.

It was noteworthy that three of the nine recipients not visited were located in Washington, D.C., literally blocks from the project officers' desks. Another recipient received three of the assistance agreements included in our review. EPA provided this recipient more than \$1 million, but the project officer did not perform a site visit, even though the recipient was located only about 30 miles from EPA Headquarters.

It was also troubling that other project officers said they just did not do site visits, while EPA's guidance establishes that site visits are needed to monitor performance and expenditures under assistance agreements. Not performing site visits weakens EPA's ability to monitor progress, to ensure that recipients comply with their agreements, and to safeguard Federal assets.

The lack of interaction between project officers and recipients was not limited to site visits and correspondence. Eleven of the 13 project officer files reviewed did not contain required audit reports. According to the EPA Grants Management Basic Program Manual, Agency personnel managing assistance agreements should perform audit follow-up. Also, this manual lists audit reports as a document to be incorporated in the GAD and the project officer's files. As discussed in Chapter 3, GAD also did not obtain audit reports or even verify that recipients complied with Single Audit Act requirements. If unsolicited audit reports were provided by the recipient, GAD did not include them in their files or forward the report to the project officer.

Audits are essential oversight devices that test the financial transactions of the recipient, as well as compliance with applicable laws and regulations. Unfortunately, neither GAD nor the project officers obtained copies of the recipients' audit reports. As a result, the Agency spent millions of dollars without availing itself of an essential resource--the examination of recipients' financial and compliance reports that affected the expenditure of EPA's funds.

Audit reports were not the only resource the project officers did not use to monitor recipients. They also did not use FSRs although Chapter 44 of the Assistance Administration Manual discusses the need to compare FSRs with progress reports. Ten of the 13 project officer files did not contain FSRs (FSRs were not yet required for the remaining three files). Without FSRs, project officers had little or no knowledge of a recipient's expenditures, because the progress reports they received usually did not contain financial information. Moreover, GAD did not receive the progress reports; therefore, they also did not compare payments to the work accomplished.

The omissions discussed were unfortunate because for assistance agreements awarded by GAD, recipients sent payment requests directly to EPA's Financial Management Center (FMC), in Las Vegas. FMC verified the math, and paid the recipient. However, FMC was not responsible for verifying that the payment was justified by the work accomplished. Consequently, EPA paid recipients millions of dollars, without comparing accomplishments to payments.

Our discussions with several project officers confirmed the need to improve the Agency's monitoring of payments and work accomplishments. One project officer told us she received quarterly progress reports, but did not retain copies. She rarely received FSRs, and assumed GAD monitored the financial aspect of the project. She did not receive payment vouchers or expenditure reports, and did not know whether the money was spent appropriately. A second project officer explained that a few years ago, project officers stopped approving payment requests because it took too much time. However, he believed the project officers should receive financial reports.

In addition to not monitoring expenditures while the work was being performed, the project officers did not obtain final reports from recipients for the four completed projects, and therefore, could not provide certifications to GAD. As discussed previously in Chapter 3, GAD did not obtain certifications from project officers attesting to the receipt and approval of the final product as required by EPA's Assistance Administration Manual, Chapter 44, paragraph 5.

MISSING PROJECT OFFICER FILES

Not only were the project officers' files incomplete, but some project officers did not preserve the records they did have. Two project officers told us they destroyed three files, because they were unaware of the requirement to keep files after the project was completed. A fourth missing file was for an assistance agreement awarded by the Office of Pollution Prevention and Toxics. Personnel from this office said they did not destroy the file, but misplaced it.

One project officer explained that when his two projects were completed, he forwarded important information to GAD and then destroyed two of the files. The information in GAD's files for these projects was just as sparse as the rest of GAD's files. We asked the second project officer how she determined that the assistance agreement was completed prior to destroying the file. She told us she received a copy of the brochure the recipient developed, and was given feedback regarding the workshop to be conducted. However, she did not have firsthand knowledge that the workshop was conducted, or if the brochures were distributed to the appropriate persons.

Contrary to what the project officers believed, there were numerous directives prohibiting the destruction of records. For example, EPA Directive 2100, Information Resources Management Policy Manual, Chapter 10, establishes that records, created or acquired by EPA officials when conducting Agency business, are the property of the United States Government. Title 18 U.S.C. 2071 prescribes penalties for willful and unlawful destruction of official government records.

EPA's Final Closeout Policy for Assistance Agreements, issued August 27, 1992, provides that the retention period for EPA records is at least seven years after closing assistance agreements. For Superfund assistance agreements, the retention period is thirty years after close out. According to EPA Directive 2160, the Records Management Manual, all EPA employees are responsible for complying with the Agency's records control schedules.

EPA Ethics Advisory 92-24, dated December 10, 1992, issued by the Deputy General Counsel, included National Archives and Records Administration Bulletin No. 93-2, entitled "Proper disposition of Federal records and personal papers." Section 8 of this Bulletin stated:

As specified under 36 CFR 1222.42, nonrecord materials, including extra copies of agency records kept only for convenience of reference, may be removed (permanent removal or destruction) from Government agencies only with the approval of the agency head or other agency officials, such as the records officer or legal counsel.

Any destruction, removal or concealment of records in a way that is inconsistent with established Agency schedules violates Agency policy and Federal law. The project officers' improper disposal of Agency files

adversely impacted EPA's management accountability of the funds provided to the recipients of these assistance agreements.

SUMMARY

All of the records to be maintained by the project officers are in effect components of the Agency's control system for assistance agreements. This control system is needed to ensure that recipients of assistance agreements spend EPA's money properly. For example, site visits are necessary to learn if work is on schedule and is of adequate quality. Moreover, good business practice would dictate performing site visits. They provide the EPA presence. It is not reasonable to give recipients hundreds of thousands of dollars, sometimes even millions, to complete projects and not visit them to review progress.

EPA's control was further decreased because the project officers and GAD personnel generally did not compare payments to physical progress. They also did not usually: determine if audit reports contained issues affecting EPA; obtain final reports required by assistance agreements; verify that all the administrative and technical requirements were completed; close the assistance agreement and send the project files to storage. Agency procedures required EPA personnel managing assistance agreements to complete these functions. Nonperformance of these duties negated EPA's control system for the assistance agreements we reviewed. In effect, EPA merely awarded the assistance agreements and paid the recipients.

RECOMMENDATIONS

The Assistant Administrator for Administration and Resources Management should:

1. Emphasize to project officers the necessity to comply with Agency policy and directives concerning the management of assistance agreements. This emphasis needs to address:
 - a. Performing site visits, as well as completing site visit reports and forwarding them and other required documents to GAD.
 - b. Monitoring expenditures adequately by performing documented comparative evaluations of progress reports, payments, FSRs and recipient audit reports.
 - c. Safeguarding assistance records through compliance with EPA's Records Management Manual and other Agency directives concerning records retention.
2. Perform periodic evaluations to ensure project officers adequately manage assistance agreements and perform the functions required by references such as the OMB Circular A-110, the EPA Grants Management Basic Program Manual, and the EPA Assistance Administration Manual.

OARM RESPONSE

OARM's response did not address the recommendations. However, certain points were raised as to the content of this Chapter. The response indicated:

We do not have a lack of the basic Management techniques. This refers to the report statement "The extent of the missing documents shows a disregard of the basic management techniques needed to..."

We believe site visits are over emphasized. Site visits are a tool and it is up to the Agency to exercise judgement in deciding which tools to use.

The percentage (47%) of required documents were missing cannot be substantiated because;

- Site visits--maybe there were none.
- Audit reports--are not developed for every project.

We believe the value of the A-133 audits is overstated. The audits are usually not available until the work is completed. It is usually difficult or impossible to identify the parts of the audits that relate to individual projects.

We believe that FSR's should be sent to the project officers. However, the report leaves the false impression that sending the FSRs to the project officers would have been helpful to them in comparing progress to expenditures. Since the FSRs are not submitted until after each budget period, they are not helpful in comparing expenditures to progress. We believe the report should stress that progress reports should be used for this purpose.

OIG EVALUATION

We stand by our statement that the project officers disregarded basic management techniques for two reasons. First, as we explained in our audit report the assistance agreement is the contract between EPA and the recipient. We believe that the most basic management technique requires EPA's project monitor to have a copy of this contract which specifies the recipient's responsibilities. Second, we also believe basic management techniques require EPA's project monitors to visit recipients periodically to insure they are accomplishing the objectives for which the Agency provides, in some cases, millions of dollars.

We agree that the Agency does not have a requirement to visit every project, however, we disagree that site visits are over emphasized in our report. We interviewed project officers that monitored assistance agreements for which the Agency provided significant amounts of money to recipients. These project officers told us they do not perform site visits. We believe that this is not a beneficial management approach. Site visits should be performed periodically for at least the Agency's more significant projects.

We disagree that the 47 percent in our report overstates the amount of documents missing from the project officer's files for two reasons. First, based on the dollar value of the assistance agreements EPA awarded to the 54 recipients in our review, 49 recipients were required to have single audits performed. Moreover, the remaining 5 recipients also had single audits performed. As a result, contrary to OARM's contention, audit reports were required or prepared by all of the recipients we reviewed. Second, whether or not site visits were performed for all the projects would not appreciably affect the 47 percent we reported. For example, our chart was based on the premise that at least one site visit should have been performed for each project. Using the premise that no site visits were required, the percentage of missing documents in the project officers' files would have declined a negligible amount to 45 percent. However, we do not believe that is a valid premise. The significant dollar value of the assistance agreements awarded to the recipients mandates at least some site visits.

We do not agree that the value of A-133 audits are overstated and usually not available until the work is completed. To the contrary A-133 audits often are issued before the projects were completed. This occurred because many assistance agreements are awarded with project periods that can span several years, and the audits are performed either annually or biennially.

Regarding OARM's contention that it is difficult or impossible to identify the parts of the audit reports that relate to individual projects, we believe that this identification is often unnecessary. A-133 audits many times contain systemic or cross-cutting issues that affect all of the recipient's assistance agreements. For example, GAD and the project officers did not have the A-133 audit report for one of the recipients in this review. We obtained a copy of this report and found that it contained a significant finding relating to the recipient's property management system. This audit disclosed that over 7,000 equipment items were missing, and indicated the

recipient would investigate the missing equipment. At the time of our review, the recipient had not completed its investigation. This finding is important to EPA because the recipient charged EPA's cooperative agreements approximately \$190,000 for equipment, including computers. This is just one example that demonstrates the value of A-133 audits.

We do not dispute OARM's contention that progress reports would be more helpful than FSR's for comparing recipient's expenditures to progress. Our only concern was that this comparison was not being made.

CHAPTER 5

COMPLETED ASSISTANCE AGREEMENTS NOT CLOSED

GAD and Region 3 need to close 5,000 assistance agreements that were shown on EPA's Grants Information and Control System as inactive. By closing these assistance agreements that provided almost \$700 million to recipients, we estimated that \$33 million of unused funds may have been utilized to pay for current Superfund projects, as well as other Government programs or EPA initiatives. Moreover, by not closing these agreements, the Agency bypassed the control process, by which EPA should have ensured that all required technical work and administrative requirements were completed.

The EPA Final Closeout Policy for Assistance Agreements, dated August 27, 1992, requires the Agency to close assistance agreements within 180 days after receiving required reports and deliverables. This policy also provides that delaying close outs unnecessarily encumbers obligated but unexpended funds. Also, close out becomes more difficult with the passage of time because persons responsible for managing various aspects of a project may resign, retire, or transfer; memories of events are less clear; the interests of the project officer and recipient shift to other priorities; and award documents may become lost or destroyed.

The EPA Grants Management Basic Program Manual also emphasizes the need for expeditiously closing assistance agreements. This manual explains that close out ensures a final accounting of expenditures, and a determination from the project officer that all technical work was satisfactorily completed. Close out also ensures that any remaining unliquidated obligation balances are promptly deobligated for possible use on other projects.

We reviewed 15 completed assistance agreements awarded by GAD and 16 from Region 3. These 31 agreements provided over \$29 million to recipients. Twenty-five of the 31 agreements were not closed as of June 1, 1994, even though the projects were completed for several years. Had these projects been closed, EPA could have deobligated over \$700,000 as long as five years ago. Moreover, almost \$550,000 of this amount was Superfund monies that EPA may have used for other projects. We calculated the \$33 million that may have been deobligated, based on the average amounts unused for the 31 agreements and the total number of agreements to be closed at each location.

	AGREEMENT NUMBER	CLOSE OUT REQUIRED	MONTHS OVERDUE	UNUSED \$ NOT DEOBLIGATED
1	819144-01	03/30/94	2	\$ 47,500
2	003545-01	06/30/93	11	0
3	902508-01	04/12/93	13	0
4	819154-01	04/30/93	13	0
5	819282-01	04/24/93	13	0

6	003435-01	03/31/93	14	0
7	818557-01	03/30/93	14	0
8	819346-01	03/30/93	14	114,900
9	901920-01	03/30/93	14	0
10	901925-01	03/30/93	14	0
11	003302-01	12/31/92	17	207,000
12	003585-01	12/30/92	17	14,600
13	819584-01	10/28/92	19	0
14	003460-01	06/30/92	23	0
15	003503-01	06/30/92	23	23,900
16	901864-01	03/30/92	26	0
17	816377-01	09/15/91	32	0
18	813043-03	06/30/91	35	0
19	003471-01	03/30/91	38	0
20	003429-01	08/28/90	45	61,500
21	815431-01	04/15/90	49	0
22	815356-01	03/30/90	50	0
23	003377-01	03/30/90	50	141,000
24	003316-01	09/30/89	56	110,700
25	814031-01	06/30/89	59	0

Total Available for Deobligation \$721,100

Of the thirty-one projects, five were closed, but four of these were closed late. The following table provides details concerning the untimely closing and amounts not deobligated. Closing these projects sooner would have allowed EPA to deobligate over \$161,800 in a more timely manner. It is noteworthy that \$152,800 of this amount could have been available sooner for other Superfund projects.

AGREEMENT NUMBER	DATE COMPLETED	CLOSE OUT REQUIRED	CLOSE OUT COMPLETED	MONTHS LATE	EXCESS FUNDS
003517-90	12/31/91	06/30/92	07/07/92	0	\$ 0
003456-89	12/31/91	06/30/92	10/26/93	16	9,000
003464-01	09/30/90	03/31/91	10/21/93	31	24,800
003578-01	12/31/91	06/30/92	01/11/93	6	0
003412-02	05/31/90	11/30/90	04/08/93	28	128,000

Amount Deobligated Late \$161,800

GAD managers contended that because grants specialists have an overwhelming workload they do not have time for close outs. These managers also indicated there was more pressure to award assistance agreements and that close outs were a low priority. The May 1993, workload study by GAD showed that each grants specialist managed 180 assistance agreements. This study also noted:

Our backlog of unclosed...projects is growing daily....The overload restricts grants specialists' ability to adequately perform all required duties and the effect of the resulting inadequate grants management is multiplied by the high dollar value of grants managed.

According to other GAD employees close out was a "sore subject" throughout GAD because there were not enough specialists to handle the awards and do close outs. One employee explained that usually after the Office of Inspector General or someone brings up this issue, GAD would assemble a team to reduce the backlog; then in another 10 years the same thing happens again. This employee hoped the process could be changed to avoid this situation in the future.

A Region 3 senior grants specialist echoed many of the same opinions expressed by GAD personnel. This specialist explained they are busy awarding assistance agreements. Close outs are not the highest priority because unused money that is left on the grant has probably expired and cannot be used by EPA. Region 3 personnel also contended that close outs were delayed because project officers and recipients did not always submit documentation in a timely manner. During our review, we did note instances that confirmed their contention.

MANAGEMENT OVERSIGHT REVIEWS

GAD was responsible for ensuring that EPA's regional GMOs performed close out. This oversight was performed during the Management Oversight Reviews (MORs) that GAD performed in all EPA regions. The MORs are intended to evaluate not only the effectiveness of close out, but the regions' overall management of their assistance programs and implementation of GAD's policies. MORs evaluate activities such as, post award management, whether site visits and expenditure reviews were performed, as well as audit report resolution. Examples of GAD's recommendations to the regions concerning close out are shown below:

...GMS should...close out its non-construction grants in a timely fashion. (June 1992, Region 3 MOR Report)

...develop and implement an aggressive plan-of-action, including milestones, for the close out of administratively/physically completed grants, including all grant projects. (March 1994, Region 2 MOR Report)

...ensure close out of administratively completed grants. (August 1994, Region 9 MOR Report)

The recommendations that resulted from GAD's MORs of the regions were sound guidance that GAD should apply to its own operations. Close out becomes increasing more difficult with the passage of time. Some recipients are required to keep their records for only three years after the project is completed. Project officers' files are at times destroyed or misplaced. Personnel administering assistance agreements are reassigned or leave the Agency. Without a systematic approach the number of projects that need to be closed will continue to grow until the workload becomes unmanageable. GAD is already in an untenable position because it has over 4,500 assistance agreements awaiting close out. Region 3's predicament was not as overwhelming because the number of projects awaiting close out was about 500.

It is noteworthy that GAD has recently initiated action to streamline the processing of FSRs and to deobligate unused funds more timely. During April 1995, GAD entered into a Memorandum of Understanding (MOU) to

shift some of the responsibilities for obtaining and reviewing FSRs to the Las Vegas Financial Management Center. This MOU was intended to help alleviate any additional growth to the existing backlog. However, additional action is needed by GAD to reduce the existing backlog.

RECOMMENDATIONS

We recommend that the:

1. Assistant Administrator for Administration and Resources Management develop a systematic plan to close out the assistance agreements. If it is determined that GAD resources are inadequate to both manage and close assistance agreements, this plan should consider shifting selected responsibilities for close out to project officers or other Agency personnel.
2. Region 3 Administrator should initiate action to close its completed projects. This action is needed to comply with Agency policies, and to ensure unused funds are deobligated in a timely manner.

OARM RESPONSE

OARM's response did not discuss developing a plan to close out assistance agreements, but noted they would appreciate clarification on which responsibilities for close out should be shifted from GAD to project officers.

OIG EVALUATION

Part II of GAD's "Final Closeout Policy For Assistance Agreements," outlines seven basic roles and responsibilities of the Grants Management Office. For example, these include:

Ensuring receipt of the final certification of project completion, financial reports, invention disclosure reports and property management reports.

Providing property disposition instructions and ensuring compliance with all conditions of the assistance agreement.

Receiving, approving and distributing the final FSR. This encompasses reviewing and analyzing the contents, including the recipient's cost share, reconciliation with information on EPA's systems, determining the allowability of indirect costs, and disposing of unliquidated obligations.

Requesting the final audit.

Preparing the close out amendment. This includes the review and approval of the final payment and notifying the Financial Management Office to process or deny payment.

Preparing and issuing the close out letter.

Retiring Agency files in accordance with record retention requirements.

We did not specify which of these responsibilities could be transferred because OARM's personnel are most aware of the nuances of their operations, and should decide what will work best.

CHAPTER 6

GAD DID NOT COMPLY WITH THE INTEGRITY ACT

GAD did not comply with the Federal Managers' Financial Integrity Act (Integrity Act) by not identifying and reporting its weaknesses. During the past seven years, GAD failed to report that it did not comply with Agency administration policies and procedures for assistance agreements. Accurate reporting would have been the early warning mechanism for the conditions discussed in this report. It is also essential to properly safeguard Agency resources, such as assistance monies, against fraud, waste and abuse.

A generally recognized management principle is that good internal controls improve operations and provide reasonable assurance that Government resources are protected against fraud, waste, mismanagement, and misappropriation. The Integrity Act requires agencies to establish and maintain control systems in accordance with Comptroller General standards. These standards require control systems and other significant events to be clearly documented in management directives, administrative policy, and accounting manuals. The Integrity Act also requires agencies to perform ongoing control system evaluations and to report the results annually.

GAD managers understood the need to implement an effective internal control system. They established the administration and closing of assistance agreements as internal control objectives under the Integrity Act. However, GAD grants specialists were not performing many of these internal controls, which included among other items, assuring: projects progressed properly; recipients complied with assistance agreements; on-site visits were conducted; financial reports were reviewed; and, projects were closed timely. As a result, significant internal control weaknesses were not reported in GAD's annual Integrity Act assurance letters even though management was aware of these weaknesses.

During the past eight fiscal years, GAD management did not report their inability to administer and close assistance agreements as a weakness. However, GAD had declared not closing assistance agreements as a weakness in fiscal year 1986, when only 79 projects needed to be closed. Since then the number of agreements not closed has increased substantially. In 1994, there were over 4,500 Headquarters projects awaiting close out.

GAD personnel told us they did not report their inability to administer and close assistance agreements in their annual assurance letter. These conditions were not considered a material weakness because GAD's omissions were not a process problem, but were a resource problem that needed additional staff to correct. To compensate for their lack of control, GAD relied on the project officers and the recipients to manage assistance agreements.

We do not agree that GAD's omissions were a resource problem that alleviated the need to inform Agency management of the conditions occurring in GAD. Instead, we believe that the inability to administer and close assistance agreements was a significant weakness. GAD has not complied with numerous Agency policies and procedures established to manage assistance agreements. These Agency requirements were the control systems designed to ensure recipients spent EPA funds wisely. It is essential that this occurs. For that reason, GAD should have used the Integrity Act process as an early warning system to inform Agency management that the administration of assistance agreements needed improvement.

RECOMMENDATION

We recommend that the Assistant Administrator for Administration and Resources Management instruct the Director of Office of Grants and Debarment to use the Integrity Act process to identify and report all weaknesses, not only those contained in this report.

OARM RESPONSE

OARM did not respond to this recommendation.

APPENDIX A

THE MANAGEMENT OF ASSISTANCE AGREEMENTS

Special Review on Assistance Agreements Administered by the Office of Small and Disadvantaged Business Utilization (Report No. E3FMP2-03-0364-3400017), January 25, 1993.

Management of Extramural Resources at the Environmental Research Laboratory, Athens, Georgia (Audit Report No. E1JBF2-04-0300-3100156), March 31, 1993.

Management of Cooperative Agreements: Office of Research and Development, Environmental Research Laboratory, Gulf Breeze, Florida (Audit Report No. E1JBF2-04-0386-4100237), March 31, 1994.

Audit of Cooperative Agreement T007356-01 Awarded to the University of Kansas (Audit Report No. E1FMF4-19-0618-4100407) June 17, 1994.

Special Review of Cooperative Agreement Number CR-817670-01 Awarded to the Center for Hazardous Materials Research (CHMR), Pittsburgh, PA (Report No. E3FBG4-03-0132-4400102), August 29, 1994.

Special Review of Center for Earth Resource Management Applications, Inc. (Report No. E3FEP3-03-0057-4400106), September 12, 1994.

Audit Report on Cooperative Agreement CX-818257-01 Awarded to Temple University (Audit Report No. E3CML3-03-0201-4100523), September 15, 1994.

APPENDIX B

AGENCY RESPONSE

APPENDIX C

DISTRIBUTION

Recipient

Office of Inspector General

Inspector General (2410)

EPA Headquarters Office

Assistant Administrator for Administration and Resources Management (3101)

Agency Followup Official (3101), Attn: Assistant Administrator for Administration and Resources Management

Agency Followup Coordinator (3304), Attention: Director, Resource Management Division

Director, Office of Grants and Debarment (3901F)

Director, Grants Administration Division (3903F)

Director, Facilities Management and Services Division (3204)

Director, Program and Policy Coordination Office (3102)

Audit Followup Coordinator (3102)

Headquarters Library (3404)

Assistant Administrator for International Activities (2610)

Assistant Administrator for Water (4101)

Assistant Administrator for Research and Development (8101)

Director, Office of Research Program Management (8102)

Assistant Administrator for Prevention, Pesticides, and Toxic Substances (7101)

Associate Administrator for Regional Operations and State/Local Relations (1501)

Associate Administrator for Congressional and

Legislative Affairs (1301)

Associate Administrator for Communications, Education, and Public Affairs (1701)

EPA Region 3 Office

Regional Administrator, Region 3 (3RA00)

Chief, Grants Management Branch (3PM70)

Audit Followup Coordinator (3PM70)

Regional Library (3PM52)

Footnotes:

1. See Appendix A for a partial list of the more recent reports concerning assistance agreements.