



Office of Inspector General
Audit Report

**Additional Efforts Needed
to Improve EPA's Oversight
of Assistance Agreements**

Report No. 2002-P-00018

September 30, 2002

**Inspector General Human Resource
Center Conducting the Audit:**

**Mid-Atlantic Audit and Evaluation
Resource Center, Philadelphia, PA**

Regions Covered:

Regions 1 - 10

EPA Offices Covered:

**Administration and Resources
Management**

Administrator

Air and Radiation

**Enforcement and Compliance
Assurance**

International Affairs

**Prevention, Pesticides and
Toxic Substances**

Research and Development

Solid Waste and Emergency Response

Water

Abbreviations

EPA: Environmental Protection Agency
GAD: Grants Administration Division
GAO: General Accounting Office
GMO: Grants Management Office
MER: Management Effectiveness Review
MOR: Management Oversight Review
OARM: Office of Administration and Resources Management
OIG: Office of Inspector General
SRO: Senior Resource Official



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

OFFICE OF
INSPECTOR GENERAL

September 30, 2002

MEMORANDUM

SUBJECT: Audit Report
Additional Efforts Needed to Improve EPA's Oversight
of Assistance Agreements
Report No. 2002-P-00018

FROM: Michael A. Rickey /s/ Michael A. Rickey
Director for Assistance Agreement Audits

TO: Morris X. Winn
Assistant Administrator for Administration and
Resources Management (3101)

Attached is a copy of the final audit report on EPA's Oversight of Assistance Agreements. This is one in a series of audits that shows the need for improved EPA management of assistance agreements. This audit report contains issues that describe problems the Office of Inspector General (OIG) has identified and corrective actions the OIG recommends. This audit report represents the opinion of the OIG. Final determinations on matters in this report will be made by EPA managers in accordance with established EPA audit resolution procedures. Accordingly, the issues contained in this report do not necessarily represent the final EPA position, and are not binding upon EPA in any enforcement proceeding brought by EPA or the Department of Justice.

ACTION REQUIRED

In accordance with EPA Order 2750, you are requested to provide a written response within 90 days of the date of this report. A corrective action plan for agreed upon actions, including milestone dates, should be included. We have no objections to the further release of this report to the public. If you or your staff have any questions, please contact me at 312-886-3037 or Lisa White, Project Manager, at 215-814-2391. For your convenience, this report will be available at <http://www.epa.gov/oigearth/eroom.htm>.

Executive Summary

Purpose

The Environmental Protection Agency's (EPA's) 1996 Integrity Act Report included "Closeout and Oversight of Assistance Agreements" as a material weakness. Following this designation, EPA developed corrective actions to address the weakness. In 1999, EPA determined closeout was no longer an issue and redesignated oversight as an Agency-level weakness. We conducted this audit to determine the effectiveness of the corrective actions EPA has taken to improve its oversight of assistance agreements. Our specific objectives were to determine whether:

- Grant specialists and project officers effectively provide oversight of projects according to established guidelines.
- Senior Resource Officials effectively fulfill their responsibilities concerning oversight of assistance agreements.

Results of Review

Although EPA developed corrective actions to improve oversight controls for assistance agreements, a number of EPA Office of Inspector General, Agency, and General Accounting Office reviews determined that oversight continued to be a weakness. Therefore, to assist the Agency in implementing effective corrective action, we sought to determine the root cause of the problem. We concluded the root cause was that EPA had not sufficiently prioritized oversight as a necessary and important part of managing assistance agreements.

Specifically, corrective actions taken by EPA did not ensure grant specialists and project officers effectively monitored assistance agreements. EPA's corrective actions included the: (1) development of post-award monitoring policies; (2) establishment of training requirements for project officers; and (3) performance of management effectiveness reviews. However, weaknesses continued to exist in each area.

Also, Senior Resource Officials did not fully meet their responsibilities as stewards of government resources, including ensuring adequate controls over assistance agreement funds and compliance with policies.

Further, these officials, who are generally Deputy Assistant Administrators in headquarters offices and Assistant Regional Administrators, did not emphasize the importance of effective post-award monitoring. These officials must ensure a sufficient level of personnel, training, and travel funds are available.

Without adequate oversight controls for assistance funds, EPA and the public may not be receiving anticipated benefits from EPA-funded projects. As a result, EPA's ability to achieve its environmental mission and goals through these assistance agreements is limited. Further, assistance agreement funds may not be safeguarded against misuse.

Recommendations

We recommend that the Assistant Administrator for the Office of Administration and Resources Management ensure all corrective actions are effectively implemented, documents required through post-award management policies are submitted timely and meet policy requirements, and timely and effective guidance and oversight is provided to each headquarters program and regional office. We also made a number of recommendations regarding SRO responsibilities and improvements to EPA's internal management reviews.

Agency Response and OIG Evaluation

EPA agreed with all of our recommendations and outlined actions it intends to take to correct the deficiencies noted. EPA indicated it will prepare a long-term strategic plan for grants management, for which it intends to have a final plan by January 2003. The plan will address SRO roles and responsibilities, workload analyses, and SRO resource commitments to ensure effective oversight. Also, EPA indicated the 2002 post-award monitoring plans have significantly improved over prior year plans. The proposed actions should be effective if EPA places sufficient emphasis on ensuring those actions are fully implemented.

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Introduction

Purpose

The Environmental Protection Agency's (EPA's) 1996 Integrity Act Report included "Closeout and Oversight of Assistance Agreements" as a material weakness. Following this designation, EPA developed corrective actions to address the weakness. In 1999, EPA determined closeout was no longer an issue and redesignated oversight as an Agency-level weakness. EPA continued to treat oversight as an Agency-level weakness into fiscal year 2002. We conducted this audit to determine the effectiveness of the corrective actions EPA has taken to improve its oversight of assistance agreements. Our specific objectives were to determine whether:

- ◆ Grant specialists and project officers effectively provide oversight of projects according to established guidelines.
- ◆ Senior Resource Officials effectively fulfill their responsibilities concerning oversight of assistance agreements.

Post-Award Monitoring (Oversight):
Occurs after an award is made and includes the evaluation of grantee:

- ◆ performance
- ◆ compliance with terms and conditions
- ◆ scope of work

EPA Policy 98-6 – May 14, 1998

Background

When EPA transfers funds for a public purpose, it uses a legal instrument called an assistance agreement, which may be in the form of a grant or cooperative agreement. In fiscal year 2001, EPA awarded \$4.5 billion in assistance agreements to state and local governments, tribes, universities, nonprofit recipients, and other entities. This amount accounted for more than half of the Agency's \$7.8 billion budget. Assistance agreements are the primary vehicles through which EPA delivers environmental and human health protection.

In September 1995, the Office of Inspector General (OIG) issued an audit report, *EPA's Controls Over Assistance Agreements*, that disclosed significant weaknesses regarding EPA's oversight of assistance

Findings from EPA's Controls Over Assistance Agreements audit included:

- ◆ Improved oversight by grant specialists and project officers needed.
- ◆ Insufficient number of site visits.
- ◆ Inadequate file documentation.
- ◆ Incomplete projects - no final reports.

agreements. In June 1996, EPA's Inspector General testified before a Congressional subcommittee that EPA did not fulfill its obligation to properly monitor assistance agreements. As a result, EPA's 1996

Material Weakness – A management control weakness that the Administrator determines is significant enough to report to the President and Congress pursuant to the Integrity Act.

Agency-Level Weakness – A management control weakness that merits the attention of the Administrator on a periodic basis.

EPA Order 1000.24 – May 13, 1998

Integrity Act Report indicated a material weakness existed regarding EPA's closeout and oversight of assistance agreements. The report included corrective actions to remove the material weakness such as the: 1) development of post-award monitoring policies; 2) establishment of project officer training requirements; and 3) performance of management effectiveness reviews.

EPA's fiscal year 1999 Integrity Act Report indicated the material weakness had been corrected. However, in November 1999, the Inspector General, in testimony before a Congressional subcommittee, indicated recent audits disclosed the same oversight weaknesses as reported in the 1996 testimony. Additionally, over the past few years, the OIG has listed *EPA's Use of Assistance Agreements to Accomplish its Mission* as a key management challenge confronting the Agency.

To provide assurance that the corrective actions were successful, EPA created a new Agency-level weakness in fiscal year 2000 – "Validation of Corrective Actions to Improve EPA's Oversight of Assistance Agreements." Subsequently, EPA performed management oversight reviews and post-award validation reviews. Upon completion of these reviews, EPA determined further improvement was needed in the oversight of assistance agreements and decided to carry over the weakness into fiscal year 2002. The corrective actions planned for fiscal year 2002 consisted of six new validation reviews and follow-up on the 2001 validation reviews.

Types of EPA Internal Reviews

Management Oversight Reviews – Part of the quality assurance efforts of the Grants Administration Division's annual regional oversight program; these reviews evaluate assistance agreement management for the grants management offices. Generally, each region is reviewed by the Grants Administration Division every third year.

Post-Award Validation Reviews – Conducted for the first time in 2001 with the purpose of validating the corrective actions developed to fix oversight weaknesses; these reviews focus on post-award monitoring activities.

Management Effectiveness Reviews – A self-assessment performed by each headquarters and regional program office of their management of assistance agreements.

Roles and Responsibilities

EPA officials are responsible for providing oversight throughout the various phases of the assistance agreement process:

- ◆ **Pre-award** – reviewing the application paperwork and making an award decision.
- ◆ **Award** – preparing the assistance agreement documents and instructing the recipient on technical requirements.
- ◆ **Post-award** – providing technical assistance and oversight.
- ◆ **Closeout** – ensuring project completion and initiating closeout documents.

The Office of Administration and Resources Management (OARM) is responsible for enhancing public health and environmental protection through effective management of EPA's human, financial, and physical resources. Within OARM, the Office of Grants and Debarment is responsible for ensuring EPA's financial resources are protected against waste, fraud, abuse, mismanagement, and poor performance. The Office's Director is the National Program Manager for assistance agreement management. Further, within the Office of Grants and Debarment, the Grants Administration Division (GAD) is responsible for issuing all assistance program policies and assuring quality assistance agreement information.

Various offices and officials at EPA headquarters and regional levels are involved in managing assistance agreements:

Grants Management Offices – Located in each of EPA's regions, personnel at these offices are responsible for the review, negotiation, award, and administration of assistance agreements, including audit resolution and final closeout. GAD has this responsibility for all headquarters-administered assistance.

Senior Resource Officials (SROs) – These officials, charged with strengthening Agency-wide fiscal resource management, are located in each headquarters program and regional office. They are responsible for ensuring compliance with laws and regulations, while furthering program mission. SROs are typically Deputy Assistant Administrators in headquarters offices and Assistant Regional Administrators.

Grant Specialists – These specialists work within grants management offices, including GAD, and are primarily responsible for administration of assistance agreements from application to closeout. They are also responsible for developing and maintaining the official grant file, which should consist of programmatic and fiscal information on the purpose, performance, and history of an assistance agreement.

Project Officers – These officers work within regional and headquarters program offices, and are responsible for the review, negotiation, award, and administration of assistance agreements as they relate to the programmatic and technical requirements. They are also responsible for developing and maintaining the official technical project file.

On-going communication between the project officers, grant specialists, and recipients regarding all aspects of the assistance agreement is essential.

Corrective Action Could Be More Effective

Overview

Although OARM developed corrective actions to improve oversight controls for assistance agreements, oversight continued to be a weakness throughout the Agency. Because of these continued weaknesses, the corrective actions became a major focus of our audit. We concluded the root cause was EPA had not sufficiently prioritized oversight as a necessary and important part of managing assistance agreements. Specifically: (1) corrective actions were often ineffective and their implementation not enforced, and (2) SROs did not ensure compliance with policies. In addition, some of EPA’s guidance needs improvement. Without adequate oversight controls for assistance funds:

- ◆ EPA and the public may not be receiving anticipated benefits from EPA-funded projects. As a result, EPA’s ability to achieve its environmental mission and goals through these assistance agreements is limited.

- ◆ Assistance agreement funds may not be safeguarded against misuse.

The corrective actions taken since 1996 by EPA did not ensure grant specialists and project officers effectively provided oversight of assistance agreements. Several reports issued by the EPA OIG and the General Accounting Office (GAO) indicated oversight continued to be a weakness. Further, internal reviews conducted by EPA also noted oversight weaknesses. Details follow:

Year	Review Type:	Weaknesses identified included:
1997	Internal Management Effectiveness Reviews	<ul style="list-style-type: none"> • Files lacked documentation of post-award monitoring. • Minimal on-site evaluations performed. • Training needed by staff on monitoring assistance agreements.
1998	Internal Management Oversight Reviews	<ul style="list-style-type: none"> • Files lacked documentation of post-award monitoring. • Minimal on-site evaluations performed. • Training needed by staff on monitoring assistance agreements.

Year	Review Type:	Weaknesses identified included:
1999	Internal Management Oversight Reviews and Internal Management Effectiveness Reviews	<ul style="list-style-type: none"> Files lacked documentation of post-award monitoring. Minimal on-site evaluations performed. Training needed on conducting on-site evaluations and tracking expenditures.
2000	Internal Management Oversight Reviews	<ul style="list-style-type: none"> Files lacked documentation of post-award monitoring. Minimal on-site evaluations performed. Training needed on conducting on-site evaluations.
	OIG Audit on Tribal Assistance Program	<ul style="list-style-type: none"> The Region did not hold recipients accountable for grant requirements. Inadequate post-award monitoring of expenditures and progress reports.
2001	GAO Audit on EPA's Oversight of Nonprofit Grantees	<ul style="list-style-type: none"> Minimal on-site evaluations performed. Training needed on how to conduct on-site evaluations and determine unallowable costs.
	Internal Management Oversight Reviews and Internal Post-Award Validation Reviews	<ul style="list-style-type: none"> Files lacked documentation of post-award monitoring. Minimal on-site evaluations performed. Training needed on conducting on-site evaluations and tracking expenditures.
2002	OIG Audit of Surveys, Studies, Investigations, and Special Purpose Grants	<ul style="list-style-type: none"> EPA did not measure whether some awards achieved results and contributed to the Agency's overall mission.
	OIG Audit of Procurements Made by Assistance Agreement Recipients	<ul style="list-style-type: none"> Minimal communication between project officers and the recipients. Files lacked documentation of post-award monitoring of recipient procurements.

We recognize that OARM has taken action to correct the weakness in oversight of assistance agreements through the development and deployment of corrective actions. We found these corrective actions could be more effective. Also, while several EPA Senior Resource Officials indicated assistance agreement oversight is important for the Agency to accomplish its mission, these officials did not ensure policies established to improve oversight were effectively implemented.

EPA Action

In its 1999 Integrity Act Report, EPA removed the material weakness based on corrective actions it had taken. However, EPA's determination was based solely on the development of the corrective actions, not its success or effectiveness. The corrective actions included:

- ◆ Development of post-award monitoring policies.

- ◆ Establishment of training requirements for project officers.
- ◆ Performance of management effectiveness reviews.

Post-Award Monitoring Policies

OARM developed post-award monitoring policies (see box) as a corrective action. However, we noted instances of noncompliance with these policies, as well as evidence that the policies were not adequately enforced. Examples included:

- ◆ Inconsistent performance of baseline/post-award monitoring responsibilities.
- ◆ Inadequate preparation of post-award monitoring plans.
- ◆ Incomplete submission of quarterly compliance assistance reports.
- ◆ Insufficient performance of on-site evaluations.
- ◆ Inconsistent usage of the grantee compliance activities database.

Baseline Monitoring

Under Policy 98-6, grant specialists are required to perform baseline monitoring (i.e., post-award monitoring) for every assistance award. Baseline monitoring is the minimum routine oversight of a recipient's performance and compliance with the requirements of assistance agreements. Without sufficient baseline monitoring, EPA has little assurance assistance

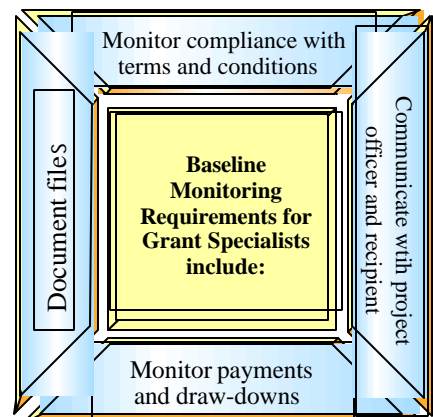
Post-Award Monitoring Policies require grants management and program offices to perform various oversight activities.

Policy 98-6 — *Policy, Procedures and Guidelines for the Post-Award Management of Grants and Cooperative Agreements by Grants Management Offices* — May 14, 1998

Policy 5700.3 — *EPA Policy for Post-Award Management of Grants and Cooperative Agreements by Headquarters and Regional Offices* — April 5, 1999

Policy 5700.4 — *Interim Grantee Compliance Assistance Initiative Policy* — June 7, 2001

Proposed Policy — *Policy on Compliance Review and Monitoring* — currently in draft and consolidates the previous three policies



agreement recipients are following regulations and are appropriately using EPA funds.

Many grant specialists did not perform baseline monitoring when administering their awards. For example, according to the 2001 post-award validation reviews, some grants management officials said they believed baseline monitoring adds little value and should only be conducted once during the life of the award. One official said baseline monitoring need not be conducted at all. Some grants management officials reported to GAD that they only intend to conduct baseline monitoring for a specified number of assistance awards. All of these beliefs are contrary to the policy requiring monitoring for *all* assistance awards.

GAD is responsible for enforcing compliance with policies, but we found no evidence of any action taken when baseline monitoring was not performed. Further, SROs are responsible for ensuring implementation of post-award monitoring policies, however, we found a lack of compliance with baseline monitoring requirements. If grants management officials believe baseline monitoring adds little value, GAD and the SROs must take action to address these misconceptions.

The 1995 OIG audit report disclosed EPA grant specialists were not performing the minimum requirements for monitoring their assistance agreements. Seven years later they are still being cited for not performing this monitoring and debating whether baseline monitoring adds any value.

EPA has been working on a new policy to consolidate existing post-award monitoring policies. In the proposed monitoring policy, baseline monitoring is defined as the minimum basic monitoring that should take place on *every award on an ongoing basis* throughout the lifetime of the award. We agree baseline monitoring must be *ongoing*, and at any given time during the project, evidence of monitoring should exist in the file.

Post-Award Monitoring Plans

Policies 98-6 and 5700.3 require each headquarters program and regional office SRO to submit a Post-Award Monitoring Plan listing what, how, and when

"Post-award monitoring is a crucial component in ensuring the success of the Agency's many assistance agreement programs...the Region can only be successful in its mission to protect the environment if its award recipients are meeting the terms and conditions of their assistance agreements."

Region 10's 2000 Post Award Monitoring Plan

post-award monitoring activities will be performed by grant specialists and project officers. These Plans, if prepared properly, could assist EPA’s programs and regions with improving the effectiveness of post-award monitoring activities. However, when we reviewed seven Plans submitted in January 2000, we noted deficiencies such as the Plans being:

<p>Untimely</p> <p>4 of 7 (Completed as much as 7 months late)</p>	<p>Not Finalized</p> <p>1 of 7 (Issued in draft)</p>	<p>Insufficient</p> <p>6 of 7 (Omitted required information or details)</p>	<p>Not Inclusive</p> <p>1 of 7 (Excluded regional program office activities)</p>
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For example, several of the Plans did not include the specific office’s planned course of action regarding post-award monitoring, but rather restated policy requirements. While the Plans indicated project officers and grant specialists would perform on-site evaluations, the Plans did not indicate which recipients or how many would be evaluated.

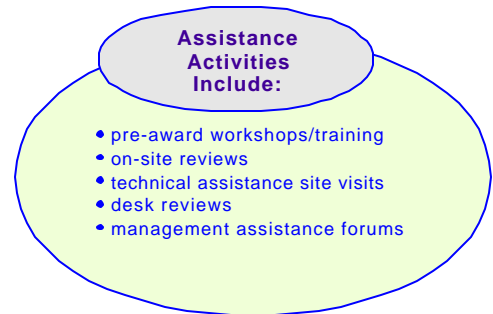
Also, GAD did not provide written feedback to the SROs about the content of their Plans. When we spoke to several SROs, they generally recalled receiving minimal feedback on their Plans. It was not until the performance of the management oversight reviews and post-award validation reviews, occurring more than a year after the Plans were due, that GAD provided some written feedback. The remaining offices or regions who were not reviewed, but submitted Plans, did not receive written feedback.

Further, the SROs are required to approve their specific regional or program Plan. However, due to the quality of the Plans, it is unlikely that all SROs were ensuring adequate preparation of these Plans. In effect, the SROs were not prioritizing the importance and need for effective post-award monitoring of assistance agreements.

After we discussed our concerns about the Plans with EPA officials, GAD provided the Agency with draft guidance on how to prepare future Plans. GAD told us the guidance has been widely accepted by the headquarters program and regional offices.

Quarterly Reports on Post-Award Activities

EPA's post-award monitoring Policy 5700.4 requires each headquarters program and regional office (includes grants management and program offices) to submit quarterly Grantee Compliance Assistance Initiative reports to GAD indicating the number and type of assistance activities each office performed. Once each office submits its quarterly report, GAD consolidates them and forwards the grants management offices' totals to Congress, which has requested this information because of EPA's continuing grants management weaknesses. Regional offices reported incomplete and inaccurate information to GAD, which limits the usefulness of the reports as tools to monitor the level of assistance agreement oversight. Subsequently, EPA reported the same inaccurate assistance agreement activity information to Congress.



Each SRO designates an official to report all assistance activities performed by the office. However, at the regional level, we found the designee was usually from the grants management office and generally did not incorporate the activities performed by project officers. Although the policy requires all activities be reported, one region indicated it was not the grants management office's responsibility to track activities performed by project officers.

Specifically, of the 10 regions, only 4 complied with the policy by submitting separate totals for grants management office and program office activities. Four regions only reported the grants management office activities. The remaining two regions combined the number of grants management and program office activities into one report, but did not distinguish which activities were reported by which office. Reporting accurate information on the number of assistance activities is important because GAD can monitor whether adequate oversight is being performed by the Agency nationwide and report accurate information to Congress.

On-Site Evaluations

On-site evaluations are comprehensive reviews of recipients' management and financial systems. These reviews ensure recipients' systems are capable of documenting and accounting for funds under EPA assistance awards. Despite the importance of these reviews, EPA continued to be cited for conducting a minimal number of on-site evaluations:

- ◆ The OIG 1995 oversight report indicated EPA needed to improve the number of on-site evaluations performed of assistance recipients.
- ◆ In 1999, a Congressional subcommittee questioned EPA on why it had only conducted 84 on-site evaluations during fiscal year 1999 when there were approximately 8,800 award transactions.
- ◆ In 2001, GAO reported EPA seldom conducted on-site evaluations of non-profit assistance agreement recipients.
- ◆ Also in 2001, GAD reported through its post-award validation reviews that a number of offices were unlikely to meet the minimum requirement of 5 to 10 percent for conducting assistance activities, including on-site evaluations.

In 2001, EPA reported there were 466 on-site evaluations performed. However, 265 of those evaluations, or 57 percent, were performed by 2 of the 19 headquarters program and regional offices – GAD and the Office of Research and Development. The remaining 17 headquarters program and regional offices performed the rest. Two hundred on-site evaluations by the vast majority of the Agency does not represent significant improvement. Agency leaders must prioritize the need to conduct on-site evaluations as part of effective post-award monitoring. By doing so, EPA will be providing significantly more assurance that assistance agreements are adequately monitored.

On-site evaluations are necessary to learn if work is on schedule and is of adequate quality. Moreover, good business practice would dictate performing on-site evaluations. 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. Not performing on-site evaluations weakens EPA's

ability to monitor progress, to ensure recipients comply with the terms and conditions of their agreements, and to safeguard Federal assets.

The limited number of on-site evaluations may continue to be a weakness unless EPA reevaluates the proposed post-award monitoring policy. This policy currently requires both GMOs and program offices to conduct at least one on-site evaluation each year. We believe EPA should use risk analysis techniques when selecting recipients for on-site evaluations.

Not getting out there sends the message to the grantees that *they* are in control. Increasing the percentage of evaluative on-site visits sends the message to the grantees that they are going to be physically evaluated and follow up will be done.

Subcommittee on Oversight, Investigations, and Emergency Management — November 4, 1999

Grantee Compliance Activities Database

Under Policy 5700.4, the Grantee Compliance Activities Database was developed for the grants management offices to track all their assistance initiatives. The grants management office personnel are required to list recipients selected for on-site evaluations, as well as planned and actual evaluations performed. However, they are not consistently reporting information in the database. As shown, the number of post-award activities included in the quarterly reports significantly exceeded the totals contained in the database.

2001 Assistance Activities		
	Reported Quarterly Activities	Activities in Database
On-site Evaluations	126	70
On-site Technical Evaluations	53	4
Desk Reviews	93	44
Total Activities	272	118

We believe these discrepancies resulted because GAD, as well as the SROs, had not taken sufficient action to ensure the grants management offices consistently reported assistance activities in the database. As a result, minimal benefits are received from the database.

Although not currently required, the proposed post-award monitoring policy will require program offices to enter their assistance activity

information into the database. The policy also states GAD will provide necessary direction for using the database. If EPA officials ensure all assistance activities are entered in the database, we believe EPA will have a good tool for obtaining information about assistance recipients, and comparing the level of activities throughout the Agency.

Training Requirements

Project Officers

EPA's 1999 Integrity Act Report indicated, as a corrective action, that each project officer must take *Basic Project Officer Training*, as well as a refresher course. However, SROs and GAD did not ensure adequate controls were in place to determine project officer compliance with the training requirements. Additionally, GAD did not have an appropriate system in place to monitor the training of project officers, and did not enforce training policies.

Grant Policy Issuance 01-1, *Continued Training Requirements for EPA Project Officers*, states an individual must complete the basic course "Managing Your Financial Assistance Agreement - Project Officer Responsibilities" prior to becoming a project officer. It also requires taking a refresher course. It is the SRO's responsibility to ensure project officers receive the basic course prior to managing an assistance agreement, and are re-certified every 3 years.

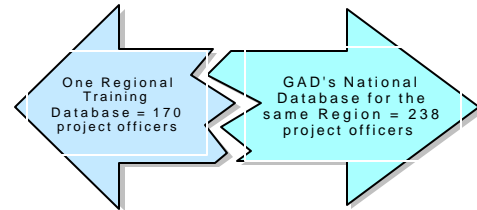
However, during a 2001 management oversight review, GAD found that a region did not track the dates and names of staff who received project officer training, nor report this information to GAD. Also, several SROs disclosed they did not know who received project officer training. Not having an adequate system in place impedes the ability of SROs to ensure designated project officers are certified prior to managing an assistance agreement.

"It is important that you have a mechanism for ensuring that education and training are one of the stones in your foundation for improving organizational performance."

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GAD is to serve as the Agency's focal point for this training and should receive the dates of training sessions and names of participants.

However, we found GAD's Agency-wide database on training for project officers was inaccurate. For example, we compared one regional project officer list to GAD's national database and found conflicting totals of certified project officers (see illustration). Duplicate entries and names of former EPA employees were found in GAD's database. We also found the functionality of this database is limited because it does not indicate staff who still need project officer training, as well as which project officers are actively managing assistance agreements.



Further, while project officers can take the refresher course on-line, the course does not have adequate controls to prevent someone from skipping through the training and still receiving the certification. For example, an OIG auditor accessed the on-line course and within 60 seconds was able to get an inappropriate certification that she completed the course. This was accomplished without ever reading the on-line course material.

Grant Specialists

Although not part of the corrective action, training for grant specialists is crucial for successful oversight of assistance agreements. EPA has not specified training requirements for grant specialists, although we found that most grant specialists do take the basic project officer training course. Their proficiency in performing the business aspects of assistance administration is as crucial as project officer functions. A workgroup has been formed to develop a core curriculum, but this has yet to be finalized. The Agency should finalize a core curriculum for grant specialists and ensure required training is provided and taken.

Management Effectiveness Reviews

As part of the corrective action, OARM required each headquarters program and regional office to conduct a management effectiveness review (MER), which is a self-assessment of their management of assistance agreement programs. However, EPA did not evaluate the results of these MERs prior to removing the oversight material weakness from the 1999 Integrity Act Report. The 1999 MERs disclosed weaknesses that would have justified keeping the material

weakness intact. A vast majority of EPA’s headquarters program and regional offices reported continued weaknesses in how they manage their assistance agreements. Weaknesses included:

Specific Post-Award Monitoring Weaknesses Identified in 1999 MERs	
✓ Insufficient training on conducting on-site evaluations and tracking expenditures with project progress.	✓ Minimal communication between project officers, grant specialists, and recipients.
✓ Limited on-site evaluations being performed.	✓ Minimal to no evidence in files of post-award monitoring activities.

In addition to the post-award monitoring weaknesses identified by the Agency in the MERs, we found weaknesses in the oversight and performance of these reviews. Collectively, these weaknesses support our belief that oversight of assistance agreements is not adequately prioritized throughout EPA. Details on weaknesses follow.

OARM’s Guidance and Feedback

OARM provided limited guidance and feedback on the performance of MERs. OARM issued one correspondence regarding MER requirements, which provided each headquarters program and regional office with a list of five topics for their MERs. However, this guidance only required one of the five topics be reviewed and did not require they select a topic identified as a material weakness. OARM should require a consistent MER focus that ensures systemic weaknesses are identified and addressed. The MER results can then be used as adequate support for any decisions regarding EPA’s material weaknesses for assistance agreements. For example, only 10 of the 18 MERs we reviewed looked at post-award monitoring, even though OARM knew this was a material weakness (and 9 of the 10 MERs still reported weaknesses in the area). Therefore, OARM should have ensured all MERs evaluated post-award monitoring.

Topic Choices for 1999 MERs
1. Pre-Award
2. Statutory and Delegation Authority
3. SRO Review Level
4. Post-Award
5. Closeout
<i>Memorandum from Assistant Administrator of OARM – May 20, 1999</i>

OARM also has a responsibility to provide timely and appropriate feedback on the MERs, which should include an emphasis on the importance of correcting any reported weaknesses. OARM informed us

they issued no written feedback for the 1999 MERs, but did meet with program office and regional officials to discuss the MER results. However, we learned from several of these officials that the feedback was limited and often untimely.

SRO Role in the Performance of the 1999 MERs

We believe SROs are responsible for ensuring MERs are of sufficient quality. This includes taking steps to ensure the MERs are appropriately planned and corrective action is taken. The planning should consist of identifying the appropriate focus or scope of the MER, which should address potentially weak areas, not the strengths, of the program or region. For the 1999 MERs, this focus should have included post-award monitoring of assistance agreements; however, only half of the MERs focused on this topic.

"SROs are required to monitor, periodically, the effectiveness of management control practices to safeguard programs from mismanagement and promote the achievement of environmental results."

SRO Responsibility Statement – May 31, 1994

Of the MERs that reported weaknesses in post-award monitoring, most did not clearly identify the causes for the specific weaknesses, or how the proposed corrective action would remedy the identified weaknesses and improve oversight of assistance agreements. Instead, the corrective action consisted of emphasizing the post-award management responsibilities. For example, some reports identified weaknesses that were also identified in the respective 1997 MERs, without addressing the cause for why these findings were uncorrected or allowed to continue for more than 2 years. Without addressing the causes for the weaknesses, it is unlikely the corrective action will be successful. By providing the appropriate level of priority to the quality of the MERs, the SROs will be providing a higher level of priority to making sure grant specialists and project officers effectively monitor assistance agreements.

Recommendations

We recommend that the Assistant Administrator for the Office of Administration and Resources Management ensure:

1. All corrective actions cited in the Integrity Act Report are effectively implemented and the importance and benefits of such actions are clearly stated.
2. Documents required by post-award management policies are submitted timely and meet policy requirements.
3. Timely and effective guidance and oversight is provided to each headquarters program and regional office. Specifically:
 - a. The proposed post-award monitoring policy should require baseline monitoring be ongoing for all awards.
 - b. The proposed policy should increase the minimum requirement for the number of on-site evaluations conducted by grants management and program offices.
 - c. An appropriate and reasonable time frame should be established for providing feedback to the Agency on submitted documents and reports.
 - d. Controls should be established to ensure information is consistently and accurately reported by all headquarters program and regional offices in the Grantee Compliance Activities Database.
 - e. Controls should be established to ensure project officers receive the required training prior to managing an assistance agreement. These controls must include documenting training information.
 - f. Controls should be established to ensure the on-line project officer refresher course prevents the user from obtaining an unearned certification.
 - g. A core curriculum for grant specialists should be finalized and all required training should be provided and taken.
 - h. The management effectiveness review guidance should require a consistent focus to identify and address systemic weaknesses.
 - i. The management effectiveness reviews should be appropriately planned. Once these reviews are performed, adequate corrective action should be taken to address identified weaknesses.

Agency Response and OIG Evaluation

OARM agreed with all our recommendations and outlined action it intends to take to correct the deficiencies noted. OARM indicated that our draft report did not always describe the good things EPA was doing in grants management. We agree that positive actions were being taken, but generally those actions were made as a result of our continual communication with EPA officials during our review. For example, OARM required baseline monitoring to be ongoing for every award after we noted the need for such monitoring.

Regarding the specific recommendations, OARM agreed with Recommendation 1 and stated that the analysis for the FY 2002 Integrity Act Report will include an evaluation of EPA's progress in improving post-award monitoring.

OARM also agreed with Recommendation 2 advising them to ensure documents required by post-award management policies are submitted timely and meet policy requirements. OARM stated they are pleased with the quality of the final 2002 post-award monitoring plans and will continue to work to address timeliness issues. However, we believe the true success of post-award monitoring plans should be measured by how effectively they are implemented. OARM should provide details on how they intend to address timeliness issues.

Regarding Recommendation 3a and 3c-i, OARM agreed by indicating they will or already have taken actions to:

- ◆ Require baseline monitoring be performed for all awards.
- ◆ Establish a 60-day feedback standard.
- ◆ Require all Regional and Headquarters program offices and GMOs to report post-award activities in the Grantee Compliance Assistance Database.
- ◆ Develop an enhanced training database that will eliminate duplicate names or the names of individuals no longer with the Agency and provide notification of the need for the refresher training.

- ◆ Establish controls to the on-line refresher course that should prevent unearned certifications.
- ◆ Develop a core curriculum and pilot training for grant specialists and fully deploy the training to the Regional GMOs in June 2003.
- ◆ Develop guidance for the next set of management effectiveness reviews to assure programs identify any weaknesses in grants management and correct them.

Regarding Recommendation 3b, OARM responded that the proposed post-award monitoring policy will increase the level of advanced monitoring by GMOs and the program offices from a minimum of 5-10 percent of active recipients to a minimum of 10 percent of active recipients annually. The response further stated this will include, for both GMOs and program offices, a requirement for conducting at least one on-site evaluation each year. In addition, each GMO will be required to conduct a minimum number of desk reviews equal to the number of its grant specialists. As stated in our comments, the proposed post-award monitoring policy does not indicate how minimum levels of advanced monitoring were developed, and may not be sufficient to reduce the risk of failed projects and misspent funds. Therefore, we cannot determine whether the proposed level of advanced monitoring is sufficient to improve oversight. We believe EPA should use risk analysis techniques when selecting recipients for on-site evaluations and desk reviews.

OARM stated that our report suggests on-site evaluations should occur for virtually every major EPA grant. OARM further indicated they have reservations about conducting on-site evaluations when other less costly forms of monitoring, such as desk reviews, may suffice. The report does not suggest OARM perform on-site evaluations on every major grant. We believe EPA should use risk analysis to establish criteria to determine when to use on-site evaluations or desk reviews. Desk reviews do not provide the same level of review as on-site evaluations.

Senior Resource Officials Did Not Ensure Compliance with Policies

SROs did not fulfill their responsibilities as stewards of government resources to ensure adequate controls over assistance funds and compliance with policies. Further, SROs did not emphasize the importance of effective post-award monitoring to their respective headquarters and regional offices. In effect, SROs allowed noncompliance with post-award monitoring requirements, including:

“... results-based planning and budgeting, fiscal accountability, and careful stewardship of our resources provide the foundation for everything EPA does to advance the protection of human health and the environment.”

EPA's Strategic Plan - September 2000

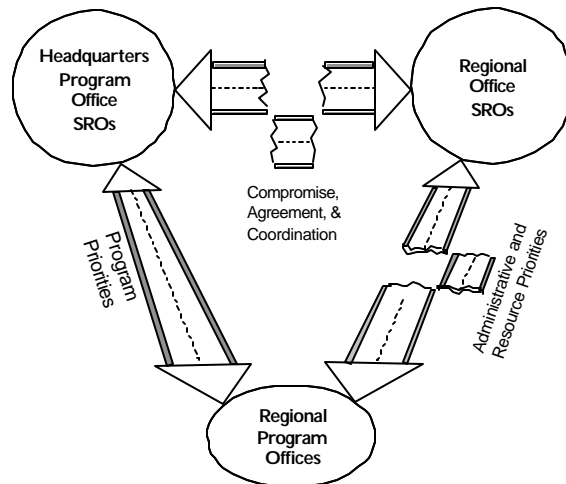
- ◆ Inconclusive and vague post-award monitoring plans.
- ◆ Nonspecific or incomplete quarterly reports of grantee compliance assistance initiatives taken by program and grants management offices.
- ◆ Inconsistent use of the grantee compliance activities database.
- ◆ Insufficient monitoring of project officer training.

Some SROs stated that the level of post-award monitoring is affected by the limited availability of resources, including: (1) funding for a sufficient number of people to monitor awards; (2) travel costs for on-site evaluations; and (3) training for project officers and grant specialists.

SROs must ensure a sufficient level of personnel, training, and travel funds are available to safeguard EPA's assistance funds. Resources must be available for the accomplishment of administrative activities because the success of programmatic activities is often dependent on adequate administration. Without the appropriate resource mix, it is likely that assistance programs will not yield the intended results and ultimately complement EPA's environmental mission.

Several SROs said another factor affecting the level of oversight is the minimal control they have regarding regional program office oversight

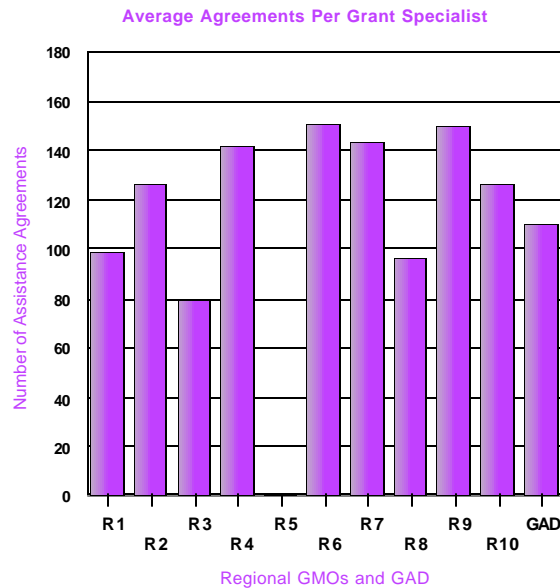
activities. Regional SROs said they have little control over the priorities established by the regional programs, including the level of assistance agreement oversight these offices administer. Headquarters SROs also claim limited control over the regional program offices' priorities for oversight. This leaves the Agency with no one specifically assuming responsibility for monitoring the regional program offices' priorities as they relate to oversight of assistance agreements. We believe the regional SROs should be responsible for managing the assistance agreement resources for both the program offices and grants management office in their region.



Regional SROs are responsible for ensuring local resources are used appropriately and assistance funds are adequately monitored. Since a majority of the Agency's budget is used for assistance agreements, an appropriate level of resources should also be dedicated for effective oversight controls. These resources may be in the form of additional employees available for oversight, increased training, and additional travel funds. Even if additional resources are not available, SROs should work within the resource constraints that exist. For example, one region, recognizing its resource limitations, decided to analyze the specific functions of the grants management office and develop "operation efficiencies." As a result of these efficiencies, the region redesignated or revised many grant specialist functions to improve their efficiency.

SRO responsibilities include working with managers to ensure sufficient staff are devoted to resources management. One way this could be accomplished, as recommended by the SRO Responsibility Statement, is by periodically performing workload analyses to determine baseline workload expectations and where additional resources may be needed. Of the seven SROs we interviewed, all indicated they had not established workload limits for their grant specialists and/or project officers.

We contacted personnel from GAD and each regional grants management office (GMO) to determine the average number of assistance agreements per grant specialist; all but one region provided data. As shown in the chart, we learned that regional and headquarters grant specialists are responsible for managing anywhere from 80 to 150 assistance agreements. We believe it would be beneficial for the SROs to conduct a workload



analysis to determine the appropriate number of assistance agreements grant specialists, as well as project officers, can effectively manage. We recognize the level of difficulty varies with the type of assistance agreement. However, this analysis, coupled with the SROs adjusting resources accordingly, will assist the Agency in its efforts to correct the weaknesses associated with oversight of assistance agreements.

SROs are responsible for continuously monitoring and improving the effectiveness of management controls associated with their regions and programs. This continuous monitoring, as well as other evaluations, provide the basis for the Administrator’s annual statement and report to the President as required by the Integrity Act. Therefore, it is crucial that SROs take necessary action to ensure their regional and program resources are properly managed. EPA limits its ability to deliver environmental results to the public whenever it does not adequately administer assistance agreements.

Recommendations

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

4. Clearly define which SRO (headquarters or regional) is responsible for the oversight priorities of the regional program offices.

5. Direct SROs to ensure compliance with post-award monitoring policies.
6. Require SROs to conduct workload analyses to determine the appropriate number of assistance agreements that their grant specialists and project officers can effectively manage.
7. Require SROs to dedicate an adequate level of resources to ensure effective oversight of assistance agreements.

Agency Response and OIG Evaluation

OARM agreed with Recommendations 4, 6, and 7 and indicated they will prepare a long-term strategic plan for grants management. This plan will address SRO roles and responsibilities, workload analyses, and SRO resource commitments to ensure effective oversight. The Agency anticipates having a final plan in place by January 2003. OARM's efforts to create a long-term strategic plan is a positive step forward. However, implementation as well as creation of the strategic plan is critical to improving EPA's accountability and oversight of assistance agreements.

Regarding Recommendation 5, OARM believes the SROs are firmly committed to post-award monitoring due to the high quality of the post-award monitoring plans submitted in 2002. However, ensuring compliance with the policies does not only include submitting post-award monitoring plans. A true commitment by the SROs would include compliance with all post-award monitoring policy requirements along with effective implementation.

Internal Management Reviews Need Improvement

We noted several areas in which EPA's internal management reviews could be improved. These reviews include management oversight reviews and post-award validation reviews, which can be valuable tools for EPA to identify any vulnerable areas in the management of assistance agreements. In particular, EPA can determine whether post-award monitoring needs improvement and then take necessary steps to correct the weaknesses.

Management Oversight Reviews

During our evaluation of management oversight reviews (MORs) dating back to fiscal year 1998, we identified the following areas for improvement:

- ◆ Focus of the MORs.
- ◆ Addressing prior MOR findings.
- ◆ Using MOR results for the Integrity Act Report.

Focus of MORs

MORs are intended to evaluate the quality of EPA's assistance agreement management. As a result, we believe these reviews should include a cradle-to-grave evaluation of assistance agreement management. However, when we examined the review protocols used for the 2001 MORs, we learned that GAD did not satisfactorily address completed or closed projects. Of the approximately 63 assistance agreements sampled by GAD for the MORs, only 6 agreements were closed. Further, the checklists completed by GAD for these agreements did not indicate an assessment of whether the assistance agreement objectives were achieved or the individual projects were successful. A project's level of success could provide a good indication of the quality of post-award monitoring.

We also found that although in many cases a weakness was apparent, review comments were often vague and GAD did not draw conclusions about the quality of post-award monitoring performed. Further, GAD

representatives indicated the MORs are strictly of the grants management office oversight activities. We believe these reviews also need to include program offices' oversight activities to get a complete picture of how well the Agency is monitoring assistance agreements.

Prior MOR Findings

In the MORs conducted from 1998 through 2001, GAD identified weaknesses in EPA's oversight of assistance agreements that were repeat findings for certain regional offices. We learned that there were several instances of previously-reported weaknesses going uncorrected and GAD took no action to enforce compliance. Additionally, GAD did not always address how the weaknesses reported in MORs should be corrected. We believe GAD should make recommendations to correct all weaknesses reported in the MORs.

Using MOR Results for the Integrity Act Report

In the 1999 Integrity Act Report, the 1999 MORs were listed as "results indicators" to support the correction of the oversight material weakness. We examined these reviews and found that the issues noted in the reports identified several oversight areas where the Agency needed improvement, and the decision to report the oversight weakness as corrected was contrary to the review findings. In the future, MOR results should be used when making decisions regarding Integrity Act weaknesses.

Post-Award Validation Reviews

In 2001, GAD performed 10 post-award validation reviews (6 in headquarters and 4 in the regions). These reviews were performed to verify that corrective actions were effective in improving post-award monitoring. We have concerns with: (1) the scope of the reviews, and (2) how the results were reported.

Scope of the Validation Reviews

GAD limited its reviews of headquarters programs to project officer files. To get a complete picture of post-award monitoring activities and determine where oversight weaknesses may exist, GAD should have also reviewed the corresponding grant specialist files. In addition, GAD also limited its reviews of headquarters programs to active assistance

agreements. Like the MORs, closed or completed awards should have been reviewed. EPA's determination that a final product was unsatisfactory could be indicative of the quality or level of oversight provided.

Validation Review Reports

A key concern with the 10 reports we reviewed was that GAD did not draw overall conclusions on the effectiveness of post-award monitoring by the grants management offices and program offices. Also, GAD did not quantify its review results in the reports. During each validation review, GAD reviewed a sample of assistance agreements. However, the reports did not stipulate how many of those agreements received post-award monitoring or whether the monitoring was effective. GAD's conclusions regarding the quality of oversight, including the severity of the weaknesses, are crucial for determining improvements needed to correct the current Agency-level weakness.

Recommendations

We recommend that the Assistant Administrator for the Office of Administration and Resources Management improve the internal management reviews. Specifically for the:

8. Management Oversight Reviews –
 - a. Require a cradle-to-grave review of assistance agreements, including an evaluation of closed awards. This review should also include the grants management office responsibilities, as well as program offices.
 - b. For prior review findings that continue to exist, ensure corrective action is implemented.
 - c. Ensure the results are used to support decisions regarding Integrity Act weaknesses.

9. Post-Award Validation Reviews –
 - a. Include an evaluation of closed or completed awards to determine the effectiveness and usefulness of the final products.
 - b. Quantify the results of the reviews and provide conclusions concerning the effectiveness of post-award monitoring.
10. Conduct a study to determine whether the existing internal management reviews can be combined into one review to improve their effectiveness.

Agency Response and OIG Evaluation

OARM agreed with Recommendations 8a and 10, indicating it will combine the Management Oversight Reviews with the Post-Award Validation Reviews to perform a cradle-to-grave review of assistance agreements.

For Recommendation 8b, OARM stated follow-up of prior review findings has always been part of the MOR process and the MOR reports have identified corrective actions needed for any prior review findings. Based on this information, we are modifying the recommendation to include the need for OARM to ensure the corrective actions are implemented and the prior MOR findings are corrected.

For Recommendation 8c, OARM indicated they will use the results of the internal reviews in making decisions on Integrity Act weaknesses. However, it should be noted that while the 2001 Regional post-award validation reviews were conducted by OARM in April - June 2001, the final reports were not issued to the Regional offices until March 2002. OARM must ensure the reports are prepared timely in order for the results to be used in making decisions on Integrity Act weaknesses.

OARM agreed with Recommendation 9a and 9b and stated the validation reviews being performed in FY 2002 will include a limited review of product accomplishment. OARM also stated that, in 2003, it will provide more quantitative data in the internal review reports.

Appendix A

This audit included tests of the program records and other auditing procedures we considered necessary. We performed this audit in accordance with the *Government Auditing Standards*, issued by the Comptroller General of the United States.

We did not take a sample of assistance agreements; therefore, we did not review project officer or grant specialist files. However, we reviewed GAD files and interviewed staff pertaining to MERs, MORs, and post-award validation reviews and relied on the results of these reviews. We also interviewed SROs from headquarters program and regional offices. We did not review the internal controls associated with the input and processing of information in EPA's Grant Information Control System or any other system.

We reviewed EPA's fiscal year 1995 and 1997 through 2001 Assurance Letters that were prepared to comply with the *Federal Managers' Financial Integrity Act*. In addition to the Assurance Letters, we reviewed EPA's fiscal year 1996, 1998, and 1999 Integrity Act Reports to the President and Congress; EPA's fiscal year 2000 Annual Report; the fiscal year 2001 and 2002 Annual Plans; and EPA Order 1000.24 on Management Integrity. We did not evaluate the corrective action taken to remove "Closeout of Assistance Agreements" from the Integrity Act Report.

We also examined EPA's post-award monitoring policies, as well as several post-award monitoring plans. As part of this review, we looked at fiscal year 2001 assistance activity quarterly reports, and information stored in the Grantee Compliance Activities Database. We reviewed the Project Officer's Handbook and project officer training policies, and also interviewed 65 project officers and grant specialists. Regarding SRO responsibilities, we reviewed the following: EPA Order 1130.2A – SRO Responsibility Statement, dated May 31, 1994; the President's Management Agenda, issued August 2001; and OARM's Management Action Plan through Fiscal Year 2000.

Our fieldwork was conducted from October 16, 2001, to April 5, 2002. On February 25, 2002 we provided a finding outline with recommendations to the Office of Grants and Debarment and GAD for review. They did not provide a written response, but requested a conference call to discuss the finding outline. During our conference call on April 2, 2002, these officials indicated they believe EPA has made many improvements in their oversight of assistance agreements, but also agreed more is needed. We issued the draft report on July 3, 2002 and received OARM's response

on September 9, 2002. We held an exit conference with OARM on September 26, 2002. Agency comments and our evaluation are summarized at the end of each chapter, and a copy of the Agency response is provided in Appendix B. Due to the volume of the attachments to the Agency response, we did not include them in the final audit report. These attachments are available upon request.

Prior Audit Coverage

- ◆ ***EPA's Controls Over Assistance Agreements***
EPA-OIG – Report No. E1FMF4-03-0141-5100513, September 28, 1995.
- ◆ ***Increased Focus on Grant Management and Internal Relationships Would Improve Region 8's Tribal Assistance Program***
EPA-OIG – Report No. 2000-P-000615-00021, September 29, 2000.
- ◆ ***EPA's Oversight of Nonprofit Grantee's Cost is Limited***
GAO – Report No. GAO-01-366, April 6, 2001.
- ◆ ***EPA's Competitive Practices for Assistance Awards***
EPA-OIG – Report No. 2001-P-00008, May 21, 2001.
- ◆ ***Surveys, Studies, Investigations, and Special Purpose Grants***
EPA-OIG – Report No. 2002-P-00005, March 21, 2002.
- ◆ ***Procurements Made by Assistance Agreement Recipients Should Be Competitive***
EPA-OIG – Report No. 2002-P-00009, March 28, 2002.

Appendix B
Agency Response

September 6, 2002

MEMORANDUM

SUBJECT: Response to Office of Inspector General Draft Audit Report,
“EPA’s Oversight Controls for Assistance Agreements,”
Assignment #2001-001105

FROM: Morris X. Winn
Assistant Administrator for Administration and
Resources Management

TO: Michael A. Rickey
Director for Assistance Agreement Audits

This provides the response of the Office of Administration and Resources Management (OARM) to the Office of the Inspector General’s (OIG) draft audit report (report) on EPA’s Oversight Control’s for Assistance Agreements dated July 3, 2002. As noted in the report, the objectives of the audit were to determine whether: 1) Grants specialists and project officers effectively provide oversight of projects according to established guidelines; and 2) Senior Resource Officials (SRO) effectively fulfill their oversight responsibilities for assistance agreements.

A. Background

In Fiscal Year (FY)1996, based on findings made by the OIG, EPA declared Grants Closeouts and Oversight of Assistance Agreements a Material weakness. In response, the Agency implemented a post-award corrective action strategy, including closing out a backlog of approximately 20,000 grants, providing extensive project officer training, and issuing formal post-award management policies. As a result of these efforts, EPA, with the concurrence of the OIG, redesignated this weakness as an Agency weakness in FY 1999 and eliminated it in FY 2000.

However, in FY 2001, the OIG included assistance agreements on its list of management problems requiring high-level Agency attention, citing audits suggesting the need for EPA to validate its post-award management strategy. EPA therefore designated a new Agency weakness for FY 2001 entitled “Improved Management of Assistance Agreements” and conducted a formal

validation study covering five Headquarters program offices and four Regional offices. The study indicated that while the Agency had made progress in grants management, further improvement was needed. Based on the results of the study, EPA carried forward the weakness into FY 2002.

The OIG conducted this audit to evaluate the effectiveness of the Agency's corrective strategy to improve the oversight of assistance agreements. Examining the Agency's policies and procedures for post-award monitoring, training, management effectiveness reviews and other internal reviews, the report finds that the corrective action taken by EPA since 1996 was often ineffective and its implementation not enforced. The report also reviews the role of SROs and finds that they did not ensure compliance with post-award monitoring policies. Based on these findings, the report presents a number of recommendations for my consideration.

B. EPA's Progress in Grants Oversight

At the outset, let me state that I fully agree with the OIG that strong, sustained oversight controls are needed to ensure that taxpayers receive the benefit of the government's investment in environmental protection and that funds are safeguarded against misuse. I also agree with many of the report's recommendations. At the same time, I believe that report's central premise -- that the Agency's oversight controls have been generally ineffective -- does not provide an accurate picture of grants oversight at EPA. In my opinion, the Agency has made, and continues to make, forward progress in this area and with continued improvement, will become a "best practices" agency.

In response to the FY 1996 Material weakness designation, EPA has worked hard to create an effective oversight program composed of post-award monitoring policies, grants management training, and formal internal management reviews. Considering that there was minimal oversight prior to 1996, and given the absence of best practices for grants oversight in the Federal Government,¹ the transition to a new system has not been easy. Nevertheless, as discussed below, there is clear evidence that the Agency is moving in the right direction.

First, a March 2001 report issued by the OIG on non-profit grants awarded by headquarters and Region IV exemplifies the progress EPA is making in grants oversight. See OIG Report No. 2001-P-00005 (March 29, 2001). There, the OIG found that Headquarters and Region IV had undertaken initiatives to improve the grants administration process, including training of grant specialists and project officers, issuance of new or revised policy guidance, selective on-site reviews of recipient organizations to assess their performance, and implementation of an internal review process that analyzed specific aspects of grant programs on an ongoing basis. It also found that the Agency

¹ As noted in the General Accounting Office report entitled "**Environmental Protection: EPA's Oversight of Nonprofit Grantees' Cost is Limited**," (GAO-01-366, April 2001), Federal agencies have experienced difficulties in identifying best practices for grantee oversight.

maintained appropriate relationships with recipient organizations and avoided conflicts of interest situations, and that specific grants reviewed complied with the Federal Grant and Cooperative Agreement Act. In light of these findings, the audit concluded that a review of additional grant agreements based on the same objectives was not warranted.

Second, while the OIG takes issue with the Agency's system for training project officers, the fact remains that the Agency's basic three-day project officer training course has been, and continues to be, highly successful, as evidenced by the number of employees trained and course evaluations. Nationwide, using the training manual developed by the Office of Grants and Debarment (OGD), the Agency has trained more than 5000 EPA employees. The course covers the entire grants process and gives project officers a thorough grounding in their responsibilities for post-award monitoring. Moreover, based on a validation study conducted in FY 1998, OGD made improvements to the course in FY 1999 and is in the process of expanding it to provide greater detail on application, budget and procurement review as well as planning for environmental results. To date, at least twenty-five individuals from the OIG have taken the course, and the course evaluations on file from OIG staff are very favorable.

Third, although the report leaves the impression that little or no post-award monitoring is occurring, the results of OGD's internal reviews demonstrate otherwise. It is clear from OGD's Post-Award Validation Reviews, for example, that project officers generally are very familiar with their projects, and frequently monitor project progress through meetings and conference calls with recipients, as well as through review of progress reports. While monitoring is in fact occurring, OARM recognizes that project officers must do a better job of documenting the work in the project file.

Fourth, despite the report's criticism of the Agency's 2000 post-award monitoring plans, it must be noted that the quality of post-award monitoring plans increased dramatically in 2002. The vast majority of the final 2002 plans received by OGD are very comprehensive and demonstrate a commitment to post-award monitoring. For example, the Office of Air and Radiation (OAR) prepared its plan based on a template developed by OGD. The plan outlines an aggressive program of baseline monitoring by requiring project officers, upon the receipt of progress reports, to perform a review that answers the following questions:

- Is the recipient work progress to date satisfactory?
- Are the recipient's funds expenditures consistent with work performed to date?
- Does the information available in EPA's Financial Data Warehouse indicate any areas of concern?
- Is the recipient in compliance with programmatic terms and conditions?
- Did the recipient encounter any difficulties during the period reported?
- If difficulties were encountered, did the recipient propose satisfactory remedies?
- Did the recipient discuss activities planned for the next reporting period?
- Did the recipient procure equipment?

- If the recipient did procure equipment, did the recipient provide appropriate information, such as the make, model, and serial number?

In addition to baseline monitoring requirements, the plan commits OAR to performing advanced monitoring of 10% of its recipients. It also contains an innovative feature providing for special reviews of recipients receiving Federal funding for the first time, and requires project officers with grants of \$750,000 or more to develop a monitoring strategy for the life of the award.

Two other excellent examples of post-award monitoring plans include the plans submitted by EPA Regions II and X. These plans cover both grants management and program personnel. The Region X plan contains an extensive discussion of baseline monitoring, while the Region II plan identifies non-profit organizations as the primary focus for advanced monitoring. I am attaching for your information copies of the OAR (Attachment 1), Region II (Attachment 2) and Region X (Attachment 3) plans.

Fifth, while the report questions the effectiveness of EPA's system for internal assessments, I believe that the system has served the Agency well in many cases by identifying oversight problems or other grant vulnerabilities and facilitating necessary corrective action. For example, OGD's FY 2002 Post-Award Validation Review/Management Oversight Review for Region I examined the Region's post-award management policies and procedures and provided clear recommendations on needed changes, including changes in baseline monitoring, the development of a Region-wide post-award management plan, and grants specialist training. In response, the Region: 1) fully embraced the baseline monitoring program by developing a baseline monitoring checklist for both grants specialists and project officers; 2) submitted a post-award management plan that applies to both the grants management and program offices and identifies specific agreements subject to advanced monitoring; and 3) provided training to all of its grants specialists on post-award management.

Similarly, in FY 2001, OGD conducted validation reviews of a number of Headquarters program offices to determine their compliance with the Agency's post-award policies. Among other things, the reviews identified problems in documenting post-award monitoring, including documenting files to reflect conversations or correspondence with recipients and placing copies of award and monitoring materials in the project file. In FY 2002, OGD is conducting follow-up reviews to determine whether corrective action has been taken. The preliminary results of these reviews reveal significant improvements in file documentation and integrity. Further, with regard to Management Effectiveness Reviews (MERs), a number of program offices have used the results of MERs to implement necessary corrective actions. OSWER, for example, responded to the documentation weakness identified in its 1999 MER by developing a documentation checklist to be used by all OSWER project officers. Additionally, based on the results of its 1997 MER, the Office of Water adopted a policy requiring quarterly reporting on all of its Headquarters assistance agreements in order to strengthen post-award monitoring.

Sixth, any assessment of the risk to EPA and the taxpayers of mismanagement by EPA grantees must be viewed in the context of the Agency's overall assistance program. Significantly, none of the OIG or General Accounting Office reviews listed in the report cite EPA's administration of State and local government program grants, which comprise over 87% of the grant funds awarded by EPA annually, as an oversight weakness. This means that the primary area of oversight risk involves other categories of grants that receive relatively small amounts of funds (e.g., grants to non-profit organizations, which receive about 6% of EPA's grant dollars each fiscal year.) As the OIG is aware, EPA is strengthening its internal management controls to mitigate this risk through new initiatives on grant competition, post-award monitoring, and training/technical assistance.

While I believe the report minimizes, and in some instances does not describe, the good things that EPA is doing in grants oversight, I personally concur with its conclusion that further work remains to be done. For that reason, OARM is developing a long-term strategic plan to strengthen all aspects of grants management. The plan will focus on: developing and retaining a skilled grants management workforce; promoting grant competition; further enhancing grants oversight; providing training and technical assistance to non-profit and Tribal recipients; and improving accountability, coordination and resource management in the grants area. The Agency anticipates having a final plan in place by January 2003. Needless to say, implementation of the strategic plan is the most critical part of our oversight efforts. Successful implementation will require that OGD, the GMOs, the SROs and the program offices double their efforts to plan their work and work their plan in order to provide high level, effective and sustained oversight.

C. Specific Comments

We have the following comments on specific sections of the report.

Overview (page 6)

We recommend that the second sentence be revised as follows: **Although this corrective action has resulted in improvements in grants oversight, we found that further improvement and management attention is needed to strengthen EPA's oversight program."**

Roles and Responsibilities (pages 3-4)

This discussion should be modified to accurately reflect the relative roles of the Grants Management Offices (GMOs), grant specialists and project officers in post-award monitoring. The report states that "project officers are responsible for monitoring project performance under the terms of the agreement," while the GMO is "responsible for the review, negotiation, award, and administration of assistance agreements, including audit resolution and final closeout." In fact, both project officers and staff from the GMO are responsible for the review, negotiation, and administration (including post-award monitoring and close-out) of assistance agreements. Project officers are primarily responsible for these functions as they relate to the programmatic and technical requirements

of the assistance agreement while grant specialists are principally responsible for the administrative and financial aspects.

The last sentence of the description of “Grants Specialist” should be revised to make clear that specialists are responsible for developing and maintaining the official **grant** file. The following sentence should also be added to “Project Officer” description: **“They are also responsible for developing and maintaining the official technical project file.”**

Baseline Monitoring (pages 7-8)

The report criticizes concerns expressed by a number of GMOs over the utility of baseline monitoring. However, those concerns were not, as the report suggests, aimed at reducing the Agency’s commitment to grants oversight. Instead, they reflected an honest difference of opinion over the effectiveness of baseline monitoring vis-a-vis other forms of monitoring. EPA formally included baseline monitoring as a type of monitoring in EPA Order 5700.3 with the expectation that it would be an efficient way of detecting problems. Initially, baseline monitoring did not meet that expectation, since most reviews indicated that grantees were in compliance with administrative requirements. This prompted some GMOs to ask whether baseline monitoring was a good use of grants specialists’ time and whether the Agency should rely instead on alternative methods of monitoring to identify problem grantees. After carefully considering the views of the GMOs, and based on further experience, OARM has determined that baseline monitoring is critical to an effective oversight program and has incorporated it in the proposed consolidated post-award monitoring policy. That policy is currently in the Directives Clearance process. Under the new policy, baseline monitoring will be required on an ongoing basis for every award.

Post-Award Monitoring Plans (pages 9-10)

The report states that post-award monitoring plans, if properly prepared, can assist programs and Regions in improving the effectiveness of post-award monitoring activities. Based on a review of seven plans submitted in 2000, the report finds that plans are not always timely or complete, may omit required information, and may not include program office activities. In the OIG’s opinion, these deficiencies suggest a lack of commitment on the part of the SROs to grants oversight.

I agree with the report that post-award monitoring plans are the cornerstone for effective post-award management. However, I understand that the OIG has not had the benefit of reviewing the final 2002 plans submitted by the SROs. As I explained previously, the vast majority of these plans are significantly improved over previous year plans. Although there are still some timeliness issues, which OARM will take steps to address, the 2002 plans, on balance, provide a solid basis for the implementation of post-award monitoring activities. In short, these plans are proof of the importance that SROs attach to post-award monitoring.

Quarterly Reports on Post-Award Activities (page 10)

The report questions the usefulness of the quarterly reports to Congress on post-award activities prepared by the Grants Administration Division (GAD). It is true that these reports have focused almost exclusively on GMO, as opposed to program office, activities. However, GAD structured the reports in this fashion to respond to Congress' overriding concern with grantee violations of allowable cost principles (e.g., the costs of lobbying or suing the Federal Government) or other administrative requirements, areas that fall within the purview of the GMOs. OARM agrees with the OIG that it is appropriate to expand the reports to identify programmatic activities so that Congress has a complete picture of EPA's oversight efforts. In the recent third quarter report to Congress (Attachment 4), the Agency provided a partial listing of program activities and will include a full listing beginning with the fourth quarter report.

On-Site Evaluations (pages 11-12)

The report states that on-site reviews are necessary to ensure that Federal assets are safeguarded, funded work is on schedule and of adequate quality, and recipients comply with award terms and conditions. I agree with the OIG that on-site reviews are important. At the same time, I have significant and strong reservations about the report's suggestion that on-site reviews must be conducted on virtually every major EPA grant, even when other, less costly forms of monitoring, such as desk reviews, may suffice. As described below, in those cases where desk reviews or other less costly forms of monitoring identify significant problems, Agency managers will be expected to take appropriate corrective action or refer the recipient for an on-site review.

Baseline monitoring is the minimum monitoring performed by grants specialists and project officers. For grants specialists, baseline monitoring consists of ensuring, to the best of their ability, that recipients are: 1) complying with the terms and conditions of the award, including the submission of progress reports; 2) filing audits, if applicable, under Office of Management and Budget Circular A-133; and 3) submitting financial status reports in a timely fashion. Additionally, grants specialists review expenditures by the recipient against project progress. Conversely, project officers focus baseline monitoring on compliance with programmatic award terms and conditions, including but not limited to, receipt of progress reports and Quality Assurance.

In contrast to baseline monitoring, advanced monitoring involves a more detailed process for measuring a recipient's compliance with applicable administrative and programmatic requirements. GMO advance monitoring includes an extensive evaluation of a recipient's general financial and administrative management systems. This entails a review of all the assistance agreements with the recipient as well as a search of the recipient's web pages for policies and procedures related to financial management, property, procurement, personnel, and other systems (e.g., timekeeping, payroll, overtime, travel). If the web site does not contain this information or no web site is available, the GMO asks the recipient to provide necessary documentation. The GMOs conduct these reviews and invite participation by the project officer and other interested parties. In conducting the reviews, GMOs follow established protocols to ensure all relevant areas are covered with consistency.

In carrying out advanced monitoring, project officers review the project work plan, recipient progress reports and any products produced to date. They also review the EPA role under the agreement and the recipient's payment history, assess whether the recipient has met programmatic reporting requirements, and determine whether the recipient's progress is commensurate with payments made by the Agency. As with GMO advanced monitoring, project officers follow established protocols.

Off-site evaluations (i.e., desk reviews) include the above areas of review and are accomplished in the office, telephonically. GMOs/Project officers provide recipients with advance notice and ask them to provide documents, as appropriate. They then schedule the call and identify key participants. Once the review has been completed, the Agency develops findings, generates a report, and either institutes corrective action or takes other appropriate follow-up action, including referral for an on-site evaluation.

Performed at the recipient organization, on-site evaluations are the most resource-intensive form of post-award monitoring. For the GMOs, they include an assessment of a recipient's management and financial systems, with transaction testing for unallowable costs performed during the review. These reviews are conducted by a team similar in composition to that used in a desk review. Reviews are typically three to five days in length. Travel costs can be substantial, particularly for recipients in remote locations.

Given the large number of EPA assistance agreements and budgetary constraints, it is crucial for the Agency to prioritize which recipients are subject to on-site reviews. On-site reviews may be appropriate, for example, if there is clear potential for the misuse of EPA grant funds. Nonetheless, not every recipient or project warrants an on-site review. In many cases, the Agency can identify problems or issues through baseline monitoring or desk reviews, and then determine whether an on-site review with transaction testing is warranted. Moreover, as in the case of an on-site review, the scheduling, substantive planning and actual performance of an off-site review sends a strong signal to recipients that EPA takes its fiduciary obligations seriously.

I believe that the proposed consolidated policy on post-award monitoring creates a monitoring program that is both strong and cost-effective by: 1) requiring GMOs and program offices to increase the level of advanced monitoring from a minimum of 5-10% of active recipients to a minimum of 10% of active recipients; 2) requiring each GMO and program office to perform at least one on-site review a year; and 3) requiring each GMO to perform annually a minimum number of desk reviews equal to one per grant specialist. Where desk reviews identify significant problems, GMOs and program offices will be expected to take necessary corrective action or target the matter for an on-site review.² OGD is currently evaluating the comments submitted on the proposed policy, and will have discussions with you before the policy is finalized.

² For example, in FY 2001, GAD referred five recipients for on-site reviews as a result of significant issues identified during desk reviews. Thus far in FY 2002, GAD has referred six recipients based on the results of desk reviews.

Training requirements (pages 13-14)

The report finds inefficiencies in GAD's system for monitoring projects officer training, citing problems with GAD's Agency-wide training database and the lack of adequate controls over the on-line project officer refresher course. While I agree that the current system should be upgraded, I want to emphasize that it does contain safeguards to help prevent uncertified project officers from managing an assistance agreement. Specifically, before an award is made, GMOs check the database to ensure the project officer has been certified (or re-certified as necessary). If there is any doubt about a listing (or no listing at all), the GMO contacts the program office for either verification of current training status or the name of a new project officer whose training is complete. In no event is an award made without the designation of a (re)certified project officer as the program manager for the agreement. With regard to the on-line refresher course, although the OIG has not provided any evidence to OARM of misuse by project officers, GAD has made changes that should prevent unauthorized certifications.

The report also states that EPA has not specified training requirements for grant specialists, but acknowledges that most specialists do take the basic project officer training course. In addition to the basic course, the GMOs have provided a significant amount of contractor-delivered training to specialists and encouraged them to participate in a private sector grants management certification program. OARM recognizes that the core body of knowledge required for grants specialists has increased significantly over the years. To address this issue, GAD has updated the core body of knowledge and incorporated it in a curriculum that was presented at a pilot training session in June 2002 for thirty specialists from Headquarters and the Regions. Based on the results of the pilot, GAD is in the process of making adjustments to the training program and will have it fully deployed in the GMOs by June 2003.

Management Effectiveness Reviews (pages 15-17)

The report criticizes the Agency's process for internal Management Effectiveness Reviews (MERs) that Headquarters program and Regional offices periodically perform of their grant programs. As noted above, I believe that the Agency's system for internal assessments, including the MERs, has had the salutary effect of focusing senior management attention on post-award management issues. Nevertheless, I agree with much of the report's analysis, particularly the need for OARM to provide more frequent guidance and timely feedback. Under the proposed consolidated policy on post-award monitoring, GAD will address that issue by providing comprehensive guidance in advance of the next round of MERs in 2004.

I would like to comment on two points raised by the report's discussion of MERs, namely: 1) that EPA should have reviewed the results of the 1999 MERs before removing the Material weakness designation in FY 1999; and 2) that OARM should have required programs to focus the 1999 MERs exclusively on post-award monitoring.

FY 1999 Integrity Act Process: The 1999 MERs were still ongoing at the time of the Agency's FY 1999 Integrity Act deliberations. Thus, the results of the MERs were not available when the Agency

decided to redesignate grants management from a Material to an Agency weakness.³ Although that decision did not have the benefit of the MER results, it did reflect the Agency's considered judgment -- a judgment concurred in by the OIG-- that EPA had substantially eliminated a closeout backlog of nearly 20,000 grants and had put in place sufficient internal controls to address post-award management, including requirements for MER corrective action plans and post-award monitoring plans.

Scope of the 1999 MERs: OARM allowed program offices to choose one of the five topics for the FY 99 MERs. These topics included: 1) Pre-Award Negotiations; 2) Post-Award Monitoring; 3) Closeouts; 4) Statutory Authority/Delegations of Authority; and 5) SRO Review Levels. OARM did not require programs to limit the MERs to post-award monitoring for two reasons.

First, in 1999, OARM developed EPA Order 5700.3 prescribing requirements for post-award monitoring plans, and also directed the Directors of OGD and GAD to meet with all SROs to discuss and evaluate their post-award monitoring activities. OARM believed these measures would ensure continued program focus on post-award monitoring independent of the MERs process.

Second, OARM determined that it was critical for the Agency, as it addressed post-award monitoring, to ensure that problems did not arise in other important areas of grants management. It therefore gave programs the flexibility in the MERs process to address issues besides post-award monitoring. Looking at the additional topics authorized by OARM, I am sure you would agree that the Agency must continue to be vigilant (1) in reviewing its grants closeouts procedures, which prompted the original Material weakness designation, and (2) in addressing statutory authority and pre-award management, which have been, or currently are, the subject of OIG audits.⁴

While I will not second-guess the judgment made by my predecessor Assistant Administrator in 1999, I will consider the concerns of the OIG as GAD develops the guidance for the 2004 MERs.

³ By memorandum dated May 20, 1999, OARM asked program offices to submit a report on their 1999 MERs by December 31, 1999. Typically, Agency decisions on Material weakness candidates are made in the September-November time frame.

⁴ **See Statutory Authority for EPA Assistance Agreements**, E3AMF8-11-0008-8100209, issued September 18, 1998, and **Awarding Assistance Agreements**, Assignment No. 2002-000346.

Senior Resource Officials Did Not Ensure Compliance with Policies (pages 19-21)

The report states that the SROs did not fulfill their stewardship responsibilities for assistance management, failed to emphasize the importance of effective post-award monitoring, and allowed non-compliance with post-award monitoring requirements. According to the report, the inability of SROs to meet their responsibilities may be attributable to a number of factors such as a lack of resources and limited control of Regional/Headquarters SROs over Regional program oversight priorities. The report offers a number of potential solutions, including more resources, more efficient use of existing resources, giving Regional SROs the responsibilities to manage assistance agreement workloads for both program offices and the GMOs, and the development of workload limits for grants specialists and project officers.

Notwithstanding the report's criticism, I am convinced that the SROs are firmly committed to effective post-award monitoring, as evidenced by their submission in 2002 of excellent post-award management plans. Fundamentally, the issues raised by the OIG are a subset of the larger challenge faced by the Agency of ensuring effective regulatory programs and appropriate grants oversight in an era of limited resources. It is precisely because of that challenge, and the fact that grants comprise over 50% of the Agency's budget, that OARM is preparing a long-term strategic plan for grants management. Two of the major objectives of the plan will be to clarify the roles and responsibilities of the SROs for post-award monitoring and establish a partnership between OARM and the program offices to improve accountability, coordination and resource/workload management in the grants area. OARM will consult with the OIG as it develops and implements the plan.

Management Oversight Reviews (pages 23-24)

The report criticizes the quality and usefulness of EPA's Management Oversight Reviews (MORs), claiming that: 1) their scope is too narrow by excluding closed or completed projects and program offices; 2) they are vague and fail to address prior review findings; and 3) their results are not used in the Integrity Act process.

The Agency instituted MORs to provide GAD with a vehicle to assess grants management practices in the Regional GMOs. GAD conducts three or four MORs every year on a rotating basis. While I agree that there is room for improvement in the MORs process, I believe that a number of the OIG's criticisms are misplaced.

Scope of the MORs: GAD properly limited the scope of the MORs to active projects because at the time the post-award monitoring policies were relatively new and thus would have minimal or no impact on closed or completed projects. It was also proper for GAD to generally exclude program offices from the review since their activities were the subject of a separate analysis under the Post-Award Validation Review (PAVR) process. In this regard, although the MORs did not evaluate program activity, they did include interviews with program representatives to determine the extent of communication between the programs and the GMOs and opportunities for GMO customer service improvements.

Vagueness and Prior Review Findings: The MORs represent a detailed assessment of GMO operations and place great emphasis on prior review findings. For example, the 2001 MOR for Region I carefully analyzed whether all prior review recommendations had been implemented and found that the Region had done so. It then proceeded to examine the GMO's organizational effectiveness, its commitment to quality grants management, and whether the GMO was complying with national grants policies. The document concluded with six specific recommendations for corrective action addressing customer service, training, monitoring provisional indirect cost rates, and program coordination. While the document did not scrutinize the quality of post-award monitoring by grants specialists, it clearly explained that monitoring would be evaluated under the parallel PAVR process.

Use in Integrity Act Reports: In FY 2001, OARM used the results of the MORs and other internal reviews to evaluate the existing grants management weakness. Based on those results, OARM carried over the weakness into FY 2002. OARM will also consider the results of the MORs when making decisions in the FY 2002 Integrity Act process.

Post-Award Validation Reviews (pages 24-25)

The report examines ten Post-Award Validation Reviews (PAVRs) conducted by GAD in 2001 to verify compliance with post-award monitoring policies. It makes three major findings: 1) the reviews of headquarters program offices should have covered corresponding grants specialist files and examined closed assistance agreements for product accomplishment; 2) the reviews failed to draw overall conclusions on the effectiveness of post-award monitoring by project officers and grant specialists; and 3) the reviews did not quantify the number of assistance agreements receiving adequate post-award monitoring. OARM's response to these findings is as follows.

Scope of Headquarters Program Office Reviews: GAD specifically designed the Headquarters Program reviews to measure program office monitoring. The reviews therefore did not cover Headquarters grant specialist monitoring, which was the subject of a separate GAD review. In addition, as in the case of the MORs, GAD did not include closed or completed agreements in the reviews because the post-award monitoring policies were relatively new.

Conclusions on Monitoring Effectiveness: The PAVRs both contained and facilitated overall conclusions as to the adequacy of post-award monitoring. For example, findings common to virtually all of the Headquarters PAVRs were that project officers needed to engage in more proactive monitoring and pay greater attention to progress reports. Similarly, the 2001 Regional PAVRs concluded that Regional project officers needed to address all of the core areas identified by the Grantee Compliance Assistance Initiative and that grant specialists needed to place greater emphasis on baseline monitoring. More importantly, OARM used the results of all the PAVRs to develop conclusions on the state of post-award management at EPA. These findings were summarized in OARM's Agency's FY 2001 Integrity Act Assurance letter and served as a basis for carrying forward the Agency-level weakness into FY 2002.

Quantified Results: The Headquarters PAVRs do contain quantitative data, including the number of files reviewed and the number of deficient files. That information is supported by additional quantitative data contained in the work papers of the GAD review teams. In addition, the Regional PAVRs identified the number of files reviewed and are supported by work papers providing detailed information noting the deficiencies in individual files.

In short, I believe that the FY 2001 PAVRs served their intended purpose by influencing the Agency's FY 2001 Integrity Act process. GAD is continuing to perform PAVRs in FY 2002 and is including in them a limited review of product accomplishment. For FY 2003, GAD will expand its analysis of product accomplishment, provide more quantitative data in the reports themselves, and, in the interest of streamlining, combine the MORs and PAVRs into one review.

D. Response to Recommendations

The report contains a number of recommendations directed to the Assistant Administrator for OARM. OARM's response to each recommendation is outlined below.

Recommendation 1 (page 17): All corrective action cited in the Integrity Act Report is effectively implemented and the importance and benefits of such actions are clearly stated.

OARM Response: OARM agrees with this recommendation. We are currently developing the analysis for FY 2002 Integrity Act Report, which will include an evaluation of EPA's progress in improving post-award management.

Recommendation 2 (page 17): Documents required by post-award management policies are submitted timely and meet policy requirements.

OARM Response: OARM agrees with this recommendation and is pleased with the quality of the final post-award monitoring plans that it received in 2002. OARM will continue to work to address timeliness issues.

Recommendation 3 (pages 17-18): Timely and effective guidance and oversight is provided to each headquarters program and regional office. Specifically:

a. The proposed post-award monitoring policy should require that baseline monitoring be ongoing for all awards.

OARM Response: The proposed policy submitted by OARM in the Directives Clearance process includes this requirement.

b. The proposed policy should increase the minimum requirement for the number of on-site evaluations conducted by the grants management and program offices.

OARM Response: As discussed in our comments, the proposed policy will increase the level of advanced monitoring by GMOs and the program offices from a minimum of 5-10% of active recipients to a minimum of 10% of active recipients annually. This will include, for both GMOs and program offices, conducting at least one on-site evaluation each year, and for each GMO, conducting a minimum number of desk reviews equal to the number of its grant specialists. GMOs and program offices may conduct additional on-site reviews where justified by the results of baseline monitoring or desk reviews. OARM believes the policy will strengthen post-award monitoring in a cost-effective way. GAD is currently reviewing the comments received on the policy during the Directives Clearance process and will consult with the OIG before the policy is finalized.

c. An appropriate and reasonable time frame should be established for providing feedback to the Agency on submitted documents and reports.

OARM Response: OARM agrees with this recommendation and will establish a minimum 60 day feedback standard.

d. Controls should be established to ensure information is consistently and accurately reported by all headquarters and regional offices in the Grantee Compliance Activities Database.

OARM Response: OARM agrees with this recommendation. GAD has already put procedures in place to ensure that reports submitted by the Regional GMOs include activities conducted by the Regional program offices. The proposed consolidated post-award monitoring policy will require all Regional and Headquarters program offices and GMOs to report post-award activities in the Grantee Compliance Assistance Database. As pointed out in the report, GAD will be providing guidance on the format, content and timing of the reporting.

e. Controls should be established to ensure project officers receive the required training prior to managing an assistance agreement. Those controls must include documenting training information.

OARM Response: OARM agrees with this recommendation. GAD is developing an enhanced database that will eliminate duplicate names or the names of individuals no longer with the Agency and provide notification of the need for refresher training.

f. Controls should be established to ensure that the on-line refresher course prevents the user from obtaining an unearned certification.

OARM Response: OARM has already made changes to the course that should prevent unearned certifications.

g. A core curriculum for grant specialists should be finalized and all required training should be provided and taken.

OARM Response: As discussed in our comments, GAD has developed a core curriculum and pilot training and will fully deploy the training to the Regional GMOs in June 2003.

h. The management effectiveness review guidance should require a consistent focus to identify and address systemic weaknesses.

OARM Response: The next set of management effectiveness reviews will be performed in 2004. GAD will develop guidance for the reviews to assure programs identify any weakness in grants management and correct them. GAD will consult with the OIG before issuing the guidance.

i. The management effectiveness reviews should be appropriately planned. Once these reviews are performed, adequate corrective action should be taken to address identified weaknesses.

OARM Response: OARM agrees with this recommendation and will address the need for corrective action in the 2004 MER guidance.

Recommendation 4 (page 21): Clearly define which SRO (headquarters or regional) is responsible for the oversight of the regional program offices.

OARM Response: OARM is addressing the issue of the roles and responsibilities of the SROs for post-award monitoring in its long-term strategic plan. for grants management. OARM will consult with the OIG as it develops and implements the strategic plan.

Recommendation 5 (page 22): Direct the SROs to ensure compliance with post-award monitoring policies.

OARM Response: As indicated by the high quality of final post-award monitoring plans submitted in 2002, OARM believes the SROs are firmly committed to effective post-award monitoring. OARM is addressing the issue of the roles and responsibilities of the SROs for post-award monitoring in its long-term strategic plan for grants management. We will consult with the OIG as we develop and implement the plan.

Recommendation 6 (page 22): Require SROs to conduct workload analyses to determine the appropriate number of assistance agreements that their grant specialists and project officers can effectively manage.

OARM Response: The GMOs have been compiling data on grant specialist and project officer workloads. The workload issue is complex one. For example, some grant specialists and project officers may also be responsible for duties other than assistance management. Other important variables include the complexity and size of assistance agreements. OARM is addressing this issue in the strategic planning process. We will consult with the OIG as we develop and implement the strategic plan.

Recommendation 7 (page 22): Require the SROs to dedicate an adequate level of resources to ensure effective oversight of assistance agreements.

OARM Response: OARM is addressing this issue in the strategic planning process. We will consult with the OIG as we develop and implement the strategic plan.

Recommendation 8 (page 25): Management Oversight Reviews -

a. Require a cradle-to-grave review of assistance agreements, including an evaluation of closed awards. This review should also include grants management office responsibilities, as well as program offices.

OARM Response: OARM agrees with this recommendation. Viewing the Management Oversight Reviews (MORs) and Post-Award Validation Reviews (PAVRs) together, OARM believes it has conducted cradle-to-grave reviews of assistance agreements. Based on two years of experience of conducting these reviews simultaneously, we have now determined that they can be combined, which will make the cradle-to-grave coverage more apparent. The combined review will begin in FY 2003 and address both project officers and the GMOs and include an evaluation of closed awards.

b. Include corrective action that should be taken for prior review findings that continue to exist.

OARM Response: Follow-up of prior review findings has always been part of the MOR process and the MOR reports have identified corrective actions needed for any prior review findings. GAD will continue this practice in future reviews. No further action is required.

c. Ensure the results are used to support decisions regarding Integrity Act weaknesses.

OARM Response: OARM has used, and will continue to use, the results of its internal reviews in making decisions on Integrity Act weaknesses. No further action is required.

Recommendation 9 (pages 25-26): Post-Award Validation Reviews -

a. Include an evaluation of closed or completed awards to determine the effectiveness and usefulness of the final products.

OARM Response: In FY 2002, GAD is focusing its reviews on post-award monitoring of open agreements, but will also include a limited review of product accomplishment. In FY 2003, GAD will take a broader look at product accomplishment.

b. Quantify the results of the review and provide conclusions concerning the effectiveness of post-award monitoring.

OARM Response: OARM will continue to provide conclusions on post-award monitoring effectiveness in its internal review reports and Integrity Act Reports. While internal reports are currently supported by quantitative data, in FY 2003, OARM will provide more quantitative data in the report themselves.

Recommendation 10 (page 26): Conduct a study to determine whether the existing internal management reviews can be combined into one review to improve their effectiveness.

OARM Response: OARM will combine the existing reviews (see response to Recommendation 8.a.).

E. Conclusion and Commitment

It is clear that the findings in this report reflect longstanding OIG concerns that the Agency's efforts to date have not, as a factual matter, been effective and or given sustained management attention and priority by OGD, GAD, the Regions and Headquarters program offices.

This response intends to provide a balanced report of the actual practices that are in place and the Agency's progress in accomplishing many of the recommendations made by the OIG. It also recognizes that further progress is needed and desired to eliminate documented or perceived weaknesses. This response also provides a necessary glimpse into the compliance activities already underway and, in our opinion, already working.

New to this corrective action equation is a further commitment to accountability demonstrated by the strategic planning process. This accountability starts with: 1) the assignment and redeployment by OARM of resources to the oversight process; 2) requiring programs and Regions to develop and implement effective post-award monitoring plans; 3) cooperative efforts between OARM and the Regions and Headquarters programs to identify additional resources needed to address oversight problems; and 4) holding offices singularly responsible for providing the leadership to accomplish this effort.

We have cited several areas where we firmly believe efforts to correct previously identified weaknesses are well underway or working. As the Assistant Administrator for OARM, I believe that excellent stewardship of Federal assistance dollars is critical. In this regard, I have redeployed resources to OGD to assist with these oversight efforts and stand ready to work with the OIG and others to strengthen the Agency's internal system for evaluating its oversight strategy, including the performance of internal audits.

Thank you for the opportunity to comment on the report. If you have any questions about OARM's comments, please contact Howard Corcoran, Director, OGD at (202) 564-1903.
Attachments

cc (w/o attachments):

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Appendix C

Office of Inspector General

Inspector General (2410)

EPA Headquarters

Assistant Administrator for Air and Radiation (6101A)

Assistant Administrator for Enforcement and Compliance Assurance (2201A)

Assistant Administrator for International Activities (2610R)

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

Assistant Administrator for Research and Development (8101R)

Assistant Administrator for Solid Waste and Emergency Response (5101)

Assistant Administrator for Water (4101M)

Comptroller (2731A)

Agency Followup Official (2710A)

Agency Audit Followup Coordinator (2724A)

Associate Administrator for Congressional and Intergovernmental
Relations (1301A)

Director, Office of Regional Operations (1301A)

Associate Administrator for Office of Public Affairs (1701A)

Director, Office of Grants and Debarment (3901R)

Director, Grants Administration Division (3903R)

Director, Office of Executive Support (1104A)

Regional Offices

Senior Resource Officials (Regions 1-10)

Regional Audit Follow-up Coordinators (Regions 1-10)