

**Statement of Nikki L. Tinsley  
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Before the  
Subcommittee on Water Resources  
and the Environment  
Committee on Transportation and Infrastructure  
U.S. House of Representatives  
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Good afternoon, Mr. Chairman and Members of the Subcommittee. I am pleased to be here today to discuss the work the Office of Inspector General (OIG) has done in reviewing the Environmental Protection Agency's (EPA) management of assistance agreements, more commonly known as grants, and the need for ensuring value from EPA grants.

I'd like to begin by reading the Committee a quote. "First the good news: I believe EPA has the most talented, dedicated, hardest working professional staff in the Federal government. What's more, I think this Agency does an exemplary job of protecting the nation's public health and the quality of our environment. Now the bad news: I can't prove it...." You might be surprised to know that the author of that statement was the then EPA Administrator William K. Reilly, and he said it in 1989.

Since its creation in 1970, protecting human health and improving the environment has always been the reason for EPA and its programs. With the enactment of the Government Performance and Results Act in 1993, Congress made it clear that it expected Agencies to plan for and measure results. This Administration has further focused attention on program results through the Program Assessment Rating Tool (PART) evaluations. As part of many of our audits, we look to see how EPA is measuring results and whether programs are having an environmental impact. Also, we have stressed cost accounting in our financial audit work and EPA has made great strides in its efforts to provide program managers cost information to use in managing their programs. By pairing program results or impacts with cost information, both EPA and Congress can make informed judgments on which programs, or which approaches to delivering environmental programs, provide the most environmental impact for each tax dollar spent. Unfortunately, the news is still bad, as we frequently find that EPA had not planned to measure for results when it designed its programs or, if it does try to measure, it does not have the data necessary to do so.

EPA uses grants as the primary means of fulfilling its mission of protecting human health and the environment. In fiscal year 2003, EPA awarded approximately \$4.4 billion dollars in grants to state, local and tribal governments; universities; and non-profit organizations. This represents more than half of the Agency's budget. Given this large amount, it is imperative that EPA be able to measure how these grants contribute toward fulfilling its mission. Our work indicates that while EPA has made progress in

this area over time, more can be done to ensure that the grants awarded are better managed and that they produce their intended results.

## **Grants Management**

Grants management refers to how well EPA oversees the grants it awards to various entities. We have made grants management and results a focus of our attention and have noted this as a management challenge facing EPA since 1997. Specifically, the OIG has focused on four major issues in this area: 1) competition; 2) oversight; 3) financial accountability; and 4) measuring environmental results.

### **Grant Competition**

In my testimony before this Committee last summer, I reported that past OIG reviews have found that EPA did little to promote competition and often failed to provide adequate justifications for not competing grant awards. For example, our 2001 report, *“EPA’s Competitive Practices for Assistance Awards,”* we reported that EPA did not have a policy in place requiring that program officials competitively award discretionary grant funding. Grants were awarded without competition based on the project officer’s opinion that the recipient was uniquely qualified. Without competition, EPA cannot be assured that it is funding the best products based on merit, or accomplishing its mission with a reasonable return on the taxpayer’s investment. In 2002, EPA established a policy that promoted competition to the maximum extent possible. We are now in the process of doing a follow up review to see how well the new competition policy is working, and we plan to issue our report later this year.

### **Grant Oversight**

The OIG has reported more than once that project officers were not adequately overseeing grants. Despite EPA guidance, project officers were not adequately monitoring recipient activities or project progress. Senior EPA resource officials also did not ensure that adequate controls were in place over grants and did not emphasize the importance of post-award monitoring to their staffs (*“Additional Efforts Needed to Improve EPA’s Oversight of Assistance Agreements,” September 2002*). These deficiencies in grant oversight were not due to a lack of policies but rather, existing policies and guidance were not being followed, and people were not being held accountable. In response to our audits, EPA issued an Order in 2002 on compliance review and monitoring with the goal of providing more effective oversight of recipient performance and management. In addition, in 2003 EPA conducted a review of the performance agreements for all project officers and their supervisors to ensure that the agreements properly reflected grants management responsibilities.

## **Financial Accountability**

The OIG has found that EPA is not ensuring that grant recipients are using funds in accordance with all applicable Federal regulations. We have testified before this Subcommittee and others about several financial audits we conducted that resulted in questioned costs of over \$8.2 million<sup>1</sup>. In these reports, we identified problems with the recipients not adequately separating the costs associated with lobbying activities from those allowable under the EPA grant. We also found that the recipients were not following Federal procurement regulations when obtaining contractual services under the grant. In one instance, the recipient claimed that it had not always followed Federal regulations because EPA directed them to use a particular contractor.

## **Measuring Environmental Results**

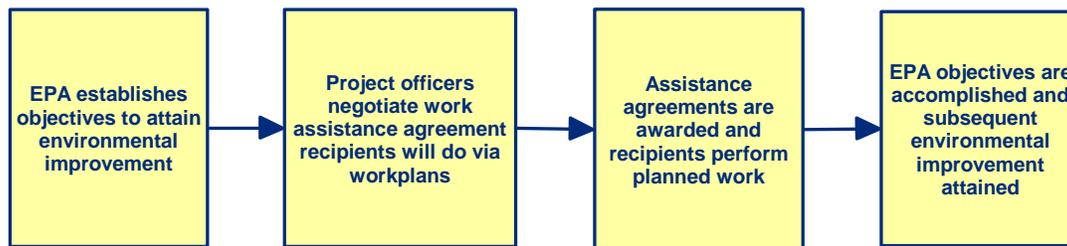
While much of the systematic analysis of grants management issues the OIG has performed has focused on grants to non-profits, the issue of measuring environmental results is not limited to these grants. EPA faces formidable challenges in measuring results for all grant-supported programs, including those programs operated by state, local and tribal governments. We have not evaluated EPA's measurement of results for all of its grant programs, but we have reviewed the adequacy of measures and program impact in many of our recent audits and evaluations. Our work shows the following common reasons why EPA has not always been successful in measuring the results of its grants:

- EPA project officers did not identify expected results and a means of measuring whether these results were achieved in grant award documents;
- EPA program managers either had not worked with grant recipients or had been unable to reach an agreement on what measurement data was needed and how it would be used;
- EPA program managers did not include an environmental performance measurement component when establishing new assistance programs.

### **Include Expected Results and Measurement Activities in Grant Award Documents**

It is important to establish requirements to measure grant results prior to awarding the grant. This is when EPA is most able to influence how recipients measure and report their results. EPA needs to include expected results and a means of measuring environmental results in grant award documents. Project officers in particular play a key role in ensuring that EPA is able to measure the results from projects funded through grants as diagrammed in the figure below.

## Project Officer Negotiations Link EPA Objectives to Environmental Improvement



Prior to awarding a grant, project officers are required to: 1) consider how well proposed projects would help achieve program priorities; 2) recommend funding the projects that will contribute most effectively to EPA program objectives and priorities; and 3) document the link between the projects funded and EPA’s mission. Project officers are also responsible for negotiating what recipients will accomplish and setting appropriate timeframes for completion.

A 2003 OIG review (*“EPA Must Emphasize Importance of Pre-Award Reviews for Assistance Agreements,”*) found that project officers were not linking projects to the achievement of EPA goals and were not negotiating outcomes. In 19 percent of the grants we reviewed, project officers did not determine the relevance of the proposed work plans to EPA program objectives and in 42 percent of the grants reviewed, project officers did not negotiate outcomes. For example, EPA awarded a recipient \$200,000 to analyze, discuss and promote energy efficiency and renewable energy. The work plan only provided possible activities, and stated specific projects would be established later. The project officer wrote on the application, “Why this, why now?” yet still approved the work plan. Without outcomes, it was not clear how these Federal funds would benefit the public or contribute to EPA’s mission.

### Work With Grantees to Identify Necessary Measurement Data

EPA’s largest grant program is the Clean Water State Revolving Fund. EPA annually allocates funds to states for their revolving loan fund programs. No one would argue that the program contributes to public health and a healthy environment. Nevertheless, EPA is struggling to determine how it will measure program results. To successfully measure the results of this \$47 billion grant program, it is critical that EPA work closely with its State partners to agree on results to be achieved with EPA grant funds and a means for measuring whether these results were achieved. When the program began in 1988, funds were used to construct or update wastewater treatment facilities. More recently, States and communities have begun using the funds for a broader range of projects including non-point source projects, such as developing stream bank buffer zones, and estuary management projects, such as restocking fish. In fact, 35% of the loans and 4% of the funds have been for nonpoint and estuary projects. EPA and the states have been working on developing environmental measures for this program since 1998. Unfortunately, they still have not established a uniform set of measures to

assess the environmental impact of the program. While it is recognized that the revolving loan funds play a vital role in achieving and maintaining water quality, EPA does not yet have the ability to measure or quantify the environmental impact of these funds. Even worse, neither EPA nor its partners can compare the environmental benefits of funding different types of projects or determine how they can achieve the most impact per dollar spent (*“Stronger Leadership Needed to Develop Environmental Measures for Clean Water State Revolving Fund,”* June 2004).

### Include Performance Measurement Component When Establishing Grant Programs

Obviously, it is best for EPA to determine what environmental results it intends to achieve when it creates a grant program, then environmental goals and components for measuring the environmental results of the program can be built in. While EPA has agreed with our recommendations that it should measure program results, it did not include performance measures in major grant programs.

The 1996 amendments to the Safe Drinking Water Act created EPA’s second largest grant program, the \$8 billion Drinking Water State Revolving Fund. From the Drinking Water State Revolving Fund, Congress provided funding for capacity development to address the significant challenges facing community water systems including aging infrastructure, under-funding, and meeting drinking water regulations. Capacity development is a way of structuring drinking water protection programs to assist water systems in attaining the technical, managerial, and financial capacity to achieve and maintain long-term sustainability. The amendments identified accountability as an attribute necessary to ensure that capacity development programs were successful, and Congress directed that EPA annually assess states' capacity development programs and withhold part of their drinking water state revolving fund grant if they were making insufficient progress developing the capacity of utilities. The withholding determination is meant to give EPA some control over states' progress in designing and implementing capacity development programs.

As a part of our evaluation of the capacity development grant program, *“Impact of EPA and State Drinking Water Capacity Development Efforts Uncertain,”* we looked to see how EPA planned to assess the performance of capacity development initiatives. We found that EPA has not developed or implemented a plan to assess the performance of the initiative, and is currently unable to report on the results that the program is achieving on a national basis. Specifically, EPA has not:

- Identified capacity development goals;
- Developed performance measures to assess progress toward the goals;
- Collected data on capacity development performance measures; and
- Analyzed data and reported on capacity development performance results.

Further, due to inadequate review of the program, EPA has not made effective grant withholding determinations. We recommended that EPA ensure states' accountability for their capacity development programs by strengthening its annual assessments and withholding determinations.

In response to our draft report, EPA also did not support measuring capacity development progress. However, we think that having an established national measure for capacity is critical for EPA and Congress to determine the extent to which systems are becoming and staying healthy. Without this information, EPA cannot report to Congress on its success in implementing the capacity development provisions of the 1996 SDWA Amendments. Further, EPA ultimately does not know whether it is, in fact, maximizing its efforts to improve the ability of water systems to deliver safe water to the public. Given the severe budgetary circumstances that many States face, EPA and the States must be able to demonstrate that the financial investment in capacity development is yielding results and deserves continued support. EPA has not yet provided an adequate response to this recommendation from our September 2003 report.

Our May 2004 report on source water assessment, *“States Making Progress on Source Water Assessments, But Effectiveness Still to Be Determined,”* also highlights the need to develop results measures early in the life of a program. States used drinking water state revolving loan funds to pay for source water assessments. We found that EPA measures seem to evaluate the process rather than the result, and those interviewed believed that the current measures are not a good way of capturing the true value of the program. This is due to a wide variety of approaches, criteria, and level of detail used by states to assess susceptibility and protections; difficulty in quantifying such concepts as susceptibility and protection; lack of baseline data from which to evaluate trends; and challenges and limitations (technical, financial, time) in trying to conform the data collected to fit the EPA format. At the outset of the program, EPA did not identify how to measure various outputs or outcomes. Consequently, when EPA did establish the measures, states had to re-categorize and re-analyze their databases to conform to the EPA-required format.

EPA does not yet know what type of environmental results have been obtained from the \$1.5 billion Brownfields grants program, although the program has been in existence since 1995. In 2002, we reported that EPA’s measures for the Brownfields program were only defined in terms of activities completed or economic outputs, such as jobs generated (*“Observations on EPA’s Plan for Implementing Brownfields Performance Measures,”* May 2002). These measures did not indicate EPA’s progress in reducing or controlling the risk to human health or the environment; EPA’s stated objective of the program. In our June 2004 evaluation, *“Substantial Progress Made, But Further Actions Needed in Implementing Brownfields Program,”* we reported that EPA still had not revised the program measures to incorporate environmental results, even though it had obtained the approval of the Office of Management and Budget to collect data that would allow EPA to measure numerous aspects of the environmental results of the Brownfields program.

### **EPA Actions to Improve Results Measurement**

EPA is taking action to improve the measurement of grant results, in part, in response to OIG recommendations. EPA developed a Grants Management Plan in 2003 that contains five goals designed to strengthen the management and oversight of grants.

One of the goals in this Plan is to “Support Identifying and Achieving Environmental Outcomes,” a reflection of EPA’s new focus on environmental results. Key objectives EPA has identified to achieve this goal are: 1) including expected environmental outcomes and performance measures in grant work plans; and 2) improving reporting on progress made in achieving environmental outcomes. EPA must determine what data is needed, how it will be used, and then hold its staff accountable not just for getting the information but also for using it effectively. The OIG will monitor EPA’s progress in implementing this Plan and will evaluate whether the actions are effective in improving the accountability of recipients.

EPA also issued an interim policy in 2004 designed to improve the environmental results obtained by grant recipients. Under this policy, all grants funding packages must describe how the project/program work plan supports the Agency’s strategic plan. In addition, while not required under this interim policy, offices are encouraged to identify specific EPA goals the grant project will support or its anticipated outputs or outcomes. However, this interim policy does not require EPA to ensure that grants include methods for measuring the environmental results of the funded project or program. EPA is currently working on a new Order on environmental outcomes, and we will evaluate its effectiveness once it is issued.

### **Conclusion**

Mr. Chairman, our work has brought to light the need for EPA to improve grants management and the measurement of environmental outcomes as areas where EPA can and should do better. This Subcommittee, through hearings and other oversight activities, has had an impact on moving EPA forward in these areas as well. The OIG is committed to working with you and EPA to ensure that the billions of dollars awarded every year produce their intended environmental and public health benefits.

This concludes my prepared remarks. I would be happy to respond to any questions you may have.

1. Costs Claimed by Tribal Association on Solid Waste and Emergency Response Under EPA Assistance Agreement No. CR827181-01, Sept. 2003.  
Geothermal Heat Pump Consortium, Inc. Costs Claimed Under EPA Assistance Agreement Nos. X828299-01 and X828802-01, Sept. 2003.  
Consumer Federation of America Foundation Costs Claimed Under EPA Cooperative Agreements, March 2004.

