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COMPTROLLER GENERAL OF THE UNITED STATES  
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Chairman, Committee on Government Operations,  
House of Representatives  
Chairman, Committee on Government Operations,  
United States Senate  
Chairman, Committee on Appropriations,  
House of Representatives  
Chairman, Committee on Appropriations,  
United States Senate  
Chairman, Committee on Public Works and  
Transportation, House of Representatives  
Chairman, Committee on Public Works,  
United States Senate

As a part of our continuing review of the Environmental Protection Agency's (EPA's) management of the waste treatment construction grant program under the Federal Water Pollution Control Act Amendments of 1972 (Public Law 92-500), we would like to point out our concern over how the program is being administered and the deadlines and constraints imposed by the 1972 amendments.

Top EPA management officials have also been concerned over EPA's ability to manage the program to insure meeting the program's goals and still maintain the program's fiscal integrity. The officials have asked our assistance in these efforts.

BACKGROUND

The 1972 amendments authorized EPA to allocate \$18 billion to States--\$5 billion, \$6 billion, and \$7 billion for fiscal years 1973, 1974, and 1975, respectively--to finance 75 percent of the cost to construct publicly owned waste treatment plants. The amounts allocated were to be immediately available for obligation and were to continue to be available for a period of 1 year after the close of the year for which allocated. EPA was to reallocate funds remaining unobligated at the end of the 1-year period to those States which had used their full allocation.

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In November 1972 and January 1974, the President instructed EPA to allocate \$2 billion, \$3 billion, and \$4 billion for fiscal years 1973, 1974, and 1975, respectively, a total of \$9 billion. The President impounded the remaining \$9 billion.

In our report to the Subcommittee on Environmental Pollution, Senate Committee on Public Works, entitled "Implementation of Federal Water Pollution Control Act Amendments of 1972 is Slow" (B-166506, Dec. 20, 1974), we pointed out that the President's impoundment could seriously hamper achieving the 1972 amendment's goal of eliminating pollutant discharge into navigable waters by 1985. We also pointed out that funds needed by municipalities to construct facilities eligible under the 1972 amendments--\$342 billion, according to EPA's latest estimate--far exceeded the funds authorized.

In February 1975, pursuant to the decision of the Supreme Court and Train v. City of New York, 420 U.S.C. 35 (1975), the remaining \$9 billion was released and allocated to the States for fiscal year 1976. EPA is to reallocate funds not obligated by September 30, 1977. EPA now has more funds available for obligation than at any time in its history, and its construction grant program has become the Nation's largest public works program.

#### SLOW PACE OF OBLIGATING FUNDS

Our December 20, 1974, report also discussed the slow pace at which EPA was awarding Federal grants for constructing waste treatment plants. The 1972 amendments required grantees to meet many new and changing requirements. We stated that many States and municipalities were not meeting EPA's administrative requirements in carrying out legislative provisions and were unable to qualify projects for available Federal funds.

Recently there has been major congressional and public interest in accelerating EPA's construction grant program, both to speed up the Nation's water pollution control effort and to create jobs during a recession.

As of July 31, 1975, only \$6.8 billion, about 38 percent of the \$18 billion authorized, had been obligated; expenditures totaled about \$1.1 billion, or about 16 percent of the total obligations.

Construction grant fund obligations, authorized under the 1972 amendments, are shown below.

<u>Quarter Ended</u>		<u>Number of Projects</u>		<u>Total (Millions)</u>
March	1973	44	\$	501
June	1973	434		1,089
Sept.	1973	163		137
Dec.	1973	34		35
March	1974	193		119
June	1974	641		1,091
Sept.	1974	402		421
Dec.	1974	507		467
March	1975	716		625
June	1975	918		<u>2,106</u>
Total as of June 30, 1975				6,591
July 1975				217
Current total				\$ <u><u>6,808</u></u>

In a March 1975 memorandum, the Administrator, EPA, told the regional administrators that the monthly obligation rate was far below his expectations. The Administrator announced that henceforth the monthly obligation goal would be \$500 million.

For the months of April, May, and June 1975, obligations totaled \$125 million, \$658 million, and \$1.3 billion, respectively. Monthly obligations for the 12-month period ended June 30, 1975, averaged \$301 million. The July 1975 obligations totaled \$217 million.

Although the obligations for May and June exceeded the Administrator's goal of \$500 million, the high rate of obligations might have been due to the normal seasonal variations in the program. EPA has traditionally obligated large amounts during the last 2-month period before allocations expire. (Allocations for fiscal year 1974 funds expired June 30, 1975.)

For example, in April, May, and June 1974, the obligation totals were \$31 million, \$178 million, and \$883 million, respectively, but the obligations for the preceding 3-month period averaged about \$39 million a month. The July 1974 obligation fell to about \$76 million.

We believe that EPA may not be able to consistently meet its goal of obligating \$500 million a month, and still maintain the program's fiscal integrity. At the fiscal year 1975 average rate of monthly obligations--\$301 million--it would require about 3 years to obligate the funds available at June 30, 1975. Even if EPA were to obligate all remaining construction grant funds by September 30, 1977, we still would be concerned over the program's administration.

#### NEED FOR IMPROVED COST CONTROL PROGRAM

One major concern is that EPA's limited resources should not be directed toward awarding grants as fast as possible with little or no attention being given to whether treatment facilities are constructed efficiently and at least cost.

In our report to the Congress entitled "Potential of Value Analysis for Reducing Waste Treatment Plant Costs" (B-166506, May 8, 1975), we pointed out that the sheer magnitude of the estimated billions of dollars to construct municipal waste treatment facilities called for cost controls to insure that Federal funds were used effectively. We stated that value analysis--a systematic approach to identifying opportunities to reduce construction and operating cost--showed potential for greatly reducing waste treatment plant costs without sacrificing essential requirements. A value analysis study of a \$4 million waste treatment plant identified estimated potential initial capital cost savings of \$1.2 million and operation, maintenance, and replacement cost savings of \$1.4 million projected over the estimated life of the plant.

Before our review neither EPA, nor States, nor consulting engineers had systematically reviewed design plans and specifications using value analysis to insure that plants were designed at lowest cost. We understand that EPA has recently incorporated value analysis into its program.

#### EPA STUDIES OF THE CONSTRUCTION GRANT PROGRAM

In a report entitled "Review of the Municipal Waste Water Treatment Works Program" dated November 30, 1974, an internal EPA construction grants review group concluded that the slow pace of obligating construction grants had been influenced by

- the complexity of program requirements;
- the grantees' inability to comply with requirements, causing States and EPA to return many submissions for reworking;
- the limited degree to which EPA had delegated review functions to the States; and
- the inadequacy of State and EPA staffing.

The November 1974 report also stated that EPA had not managed the program as a nationally consistent system and that the 10 EPA regions had chosen to put priorities on different aspects of the program. The review group attributed EPA's management shortcomings to (1) inadequate manpower in the regions and (2) inadequate guidance from EPA headquarters.

The review group also found that EPA had not protected the overall integrity of the program. They pointed out that the program's quick growth to its present size afforded many opportunities for misusing funds. The review group said that a coordinated system of controls, involving grantees, States, and EPA, was needed for

- improving guidance for grantees;
- expanding construction inspection and audit programs;
- improving education for EPA employees and grantees;
- improving procedures for reporting and investigating suspected cases; and
- improving controls over selection of consultants and contractors.

A report by the EPA Office of Audit, dated December 13, 1974, on tentative results of 41 interim construction grant audits, noted deficiencies in (1) controls over the quality of construction, (2) procurement practices for obtaining construction contracts, material and supplies, and consulting engineering services, and (3) accounting systems and internal control. Consequently, (1) grantees accepted poor quality and partially inoperative facilities, (2) excessive

costs were incurred under the grant program, and (3) substantial ineligible costs were claimed for Federal participation.

EPA has taken steps to improve the program's administration. For example, on May 9, 1975, EPA published proposed regulations governing grantees' procurement of personal and professional services such as those provided by architectural and engineering consultants. The proposed regulations cover such matters as the (1) types of acceptable contracts, (2) requirements for public notice of requests for proposals for negotiated procurements, (3) evaluation criteria to be used in selecting eligible consultants, and (4) price and cost considerations in negotiating contracts. An EPA official estimated that the final regulations would be promulgated by November 1, 1975.

#### NEED FOR ADDITIONAL EMPLOYEES

One of the contributing factors to EPA's program management problems and its slow pace of obligating construction grant funds has been insufficient staffing.

Even though inflation has had an impact on construction costs during recent years, the construction grant program funding levels have experienced a dramatic increase, however, staffing has not kept pace with the program's rapid expansion. In fiscal year 1968 EPA obligated \$191 million and had 320 construction grants program employees, and in 1975, it obligated \$4 billion but had only 595 employees --more than a 20-fold increase in obligations but less than a 2-fold increase in employees.

The following table compares the number of program employees with program funds obligated for fiscal years 1968 to 1975.

<u>Fiscal</u> <u>year</u>	<u>Employees</u>	<u>Funds obligated</u> <u>(millions)</u>
1968	320	\$ 191
1969	320	201
1970	360	424
1971	420	1,152
1972	402	860
1973	452	2,989
1974	595	2,633
1975	595	4,133

In a letter to the Director, Office of Management and Budget, dated March 10, 1975, about the program's employees, the Administrator said that EPA's employee resources for the program were not reasonable for a program of its size. He pointed out that the Federal Highway Program, which provided financial assistance to the States for highway construction, had about 2,300 field employees to administer a program of about \$4.5 billion. He asked for 500 additional program positions--200 for fiscal year 1975 and the remainder for fiscal year 1976.

On July 12, 1975, the President authorized 300 additional program positions--250 new positions and 50 positions reprogrammed from other EPA activities. These additional employees could be used in various areas, such as reviewing and approving plans and specifications, monitoring design and construction of waste treatment facilities, and auditing the program.

NEED TO DELEGATE MORE RESPONSIBILITY  
TO THE STATES

The Congress has traditionally recognized that the States have the primary responsibility for controlling, abating, and preventing water pollution. A January 1974 EPA administrative order set forth EPA's policy of using the staff capabilities of State agencies to the maximum extent practicable to eliminate duplicative review of specific documents that are part of the program. According to the order, EPA would delegate review functions to the States and would rely upon State certification that documentation was adequate.

EPA has delegated some of its review functions to some States. Because of the slow rate at which EPA has been obligating funds and the likelihood that the remaining grant funds may not be obligated before they must be reallocated at the September 30, 1977, deadline, we believe consideration should be given to placing a greater responsibility on the States for administering the program. We believe that a

greater State involvement not only would help in meeting the September 30, 1977, deadline for obligating existing allocations but also would provide greater assurance that additional funds requested after that date would also be promptly and efficiently obligated. We noted that the Administrator, in a letter dated July 31, 1975, to the Director, Office of Management and Budget, requested authorization for \$42 billion in Federal funds to be obligated for the 6-year period 1978 through 1983, or about \$7 billion a year.

Expanding the States' responsibility depends on two factors: (1) the States capabilities to carry out these functions and (2) the need to financially support the States assuming responsibility. The States have traditionally been less involved in most of the program functions. Many do not possess the technical and/or administrative experience and manpower to effectively carry out program functions necessary to assume new responsibilities. At best, developing this capability requires time; at worst, it is inhibited, or even made impossible, by a number of constraints, including (1) State personnel ceilings, (2) State inabilities, in some cases, to attract qualified personnel because of low pay scales and other reasons, and (3) lack of State interest or incentive, in some cases, in assuming new responsibilities.

The States are plagued by the same fiscal problems as is the Federal Government and find it difficult to increase their water pollution control budgets to cover inflationary costs and to assume new or expanded program functions.

The Cleveland bill (H.R. 7418, 94th Cong., 1st sess.) introduced on May 22, 1975, proposes allowing the EPA Administrator to delegate many present EPA responsibilities to the States. For example, States could review facility plans, including environmental assessments, cost-effectiveness studies, infiltration inflow analysis, project plans and specifications, and bidding procedures. The Cleveland bill would authorize the EPA Administrator to reserve an amount not to exceed 2 percent of the allocation made to each State for each fiscal year under section 205 of the act, to increase the administrative capabilities of the States. This could be about \$224 million for the total of remaining unobligated funds.

The Cleveland bill would financially help the States assume new responsibilities.



CONCLUSIONS

We recognize that EPA has been under considerable pressure to expedite the implementation of the program. Various study groups--within EPA and from other organizations having an interest in the program--have addressed the problem of the slow pace of obligating funds. Congressional hearings by Senate and House oversight committees have emphasized the need to expedite the program to achieve its environmental goal and to create jobs in recessionary times.

Although we agree that the waste treatment construction grant program should move as expeditiously as possible, we believe that the prime objective should be to obtain the maximum number of efficient projects with the available funds. Funds should be only obligated for projects which are supported by sound applications and good plans and specifications, and which will result in effective, efficient, and economical waste treatment facilities.

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During our reviews, we met with EPA officials on many occasions to discuss problem areas noted, and we plan to continue this dialogue during our current and future reviews.

We are sending copies of this report today to the Director, Office of Management and Budget, and the Administrator, Environmental Protection Agency.



Comptroller General  
of the United States