

GAO

Report to the Chairman, Subcommittee
on Water Resources and Environment,
Committee on Transportation and
Infrastructure, House of
Representatives

May 2006

GRANTS MANAGEMENT

EPA Has Made Progress in Grant Reforms but Needs to Address Weaknesses in Implementation and Accountability





Highlights of [GAO-06-625](#), a report to the Chairman, Subcommittee on Water Resources and Environment, Committee on Transportation and Infrastructure, House of Representatives

Why GAO Did This Study

The Environmental Protection Agency (EPA) has faced challenges for many years in managing its grants, which constitute over one-half of the agency's budget, or about \$4 billion annually. EPA awards grants through 93 programs to such recipients as state and local governments, tribes, universities, and nonprofit organizations. In response to concerns about its ability to manage grants effectively, EPA issued its 5-year *Grants Management Plan* in 2003, with performance measures and targets.

GAO was asked to assess EPA's progress in implementing its grant reforms in four key areas: (1) awarding grants, (2) monitoring grantees, (3) obtaining results from grants, and (4) managing grant staff and resources. To conduct this work, GAO, among other things, examined the implementation of the reforms at the regional level for two Clean Water Act programs in 3 of EPA's 10 regional offices.

What GAO Recommends

GAO's recommendations are primarily directed toward establishing new performance measures and targets for ongoing monitoring, closeouts, and environmental results.

In commenting on a draft of this report, EPA stated that it generally agreed with GAO's recommendations and will incorporate them into its *Grants Management Plan*, policies, and procedures.

www.gao.gov/cgi-bin/getrpt?GAO-06-625.

To view the full product, including the scope and methodology, click on the link above. For more information, contact John B. Stephenson at (202) 512-3841 or stephensonj@gao.gov.

GRANTS MANAGEMENT

EPA Has Made Progress in Grant Reforms but Needs to Address Weaknesses in Implementation and Accountability

What GAO Found

EPA has made important strides in achieving the grant reforms laid out in its 2003 *Grants Management Plan*, but weaknesses in implementation and accountability continue to hamper effective grants management in four areas. First, EPA has strengthened its award process by, among other things, (1) expanding the use of competition to select the most qualified applicants and (2) issuing new policies and guidance to improve the awarding of grants. Despite this progress, EPA's reviews found that staff do not always fully document their assessments of grantees' cost proposals; GAO also identified this problem in one region. Lack of documentation may hinder EPA's ability to be accountable for the reasonableness of the grantee's proposed costs. EPA is reexamining its cost review policy to address this problem.

Second, EPA has made progress in reviewing its in-depth monitoring results to identify systemic problems, but long-standing issues remain in documenting ongoing monitoring and closing out grants. EPA and GAO found that staff do not always document ongoing monitoring, which is critical for determining if a grantee is on track in meeting its agreement. Without documentation, questions arise about the adequacy of EPA's monitoring of grantee performance. This lack of documentation occurred, in part, because managers have not fulfilled their commitment to improve monitoring documentation. In addition, grant closeouts are needed to ensure that grantees have met all financial requirements, provided their final reports, and returned any unexpended balances. For fiscal year 2005, EPA closed out only 37 percent of grants within 180 days after the grant project ended, as required by its policy. EPA also did not always close out grants properly in the regional files GAO reviewed.

Third, EPA has initiated actions to obtain environmental results from its grants, but these efforts are not complete. For example, EPA's 2005 environmental results policy establishes criteria grants should meet to obtain results. However, EPA has not established a performance measure that addresses these criteria. Furthermore, EPA has not yet identified better ways to integrate its grant reporting systems. Finally, the Office of Management and Budget's 2006 assessment indicates that EPA needs to continue its concerted efforts to achieve results from grants.

Finally, EPA has taken steps to manage grant staff and resources more effectively by analyzing workload, providing training, assessing the reliability of its grants management computer database, and holding managers and staff accountable for successfully fulfilling their grant responsibilities. Management attention is still needed because, among other things, EPA has just begun to implement its performance appraisal system for holding managers and staff accountable for grants management.

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Abbreviations

EPA Environmental Protection Agency
 OMB Office of Management and Budget
 PART Program Assessment Rating Tool

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United States Government Accountability Office
Washington, DC 20548

May 12, 2006

The Honorable John J. Duncan, Jr.
Chairman
Subcommittee on Water Resources and Environment
Committee on Transportation and Infrastructure
House of Representatives

Dear Mr. Chairman:

The Environmental Protection Agency (EPA) has faced challenges for many years in managing its grants, which constitute over one-half of the agency's budget, or about \$4 billion annually. To support its mission of protecting human health and the environment, EPA awards grants through 93 programs to a variety of recipients, including state and local governments, tribes, universities, and nonprofit organizations. As of September 30, 2005, EPA was administering grants through headquarters and regional offices to 4,075 grant recipients. Given the size and diversity of EPA's grant programs, its ability to efficiently and effectively accomplish its mission depends to a large extent on how well it manages its grant resources and builds accountability for results into its efforts.

In response to concerns about its ability to manage grants effectively, EPA issued its *Grants Management Plan*.¹ In this plan, EPA for the first time presented goals, objectives, milestones, and performance measures with targets for tackling the agency's long-standing grants management problems. The 5-year plan was comprehensive in that it set forth five major goals that the agency sought to achieve. These goals addressed major concerns we had identified in our 2003 report on grants management.² EPA has also issued a series of policies to implement the plan and other grant reforms.³ The plan's goals are to (1) strengthen the award of grants by using competition to select grantees for certain awards

¹EPA, *Grants Management Plan, 2003-2008*. EPA-216-R-03-001 (Washington, D.C.: April 2003).

²GAO, *Grants Management: EPA Needs to Strengthen Efforts to Address Persistent Challenges*, [GAO-03-846](#) (Washington, D.C.: Aug. 29, 2003).

³For this report, grant reforms include EPA's *Grants Management Plan*, policies issued just prior to and after the issuance of the plan, and related efforts.

to ensure that the best applicants are chosen; (2) monitor grants to ensure that grantees are making progress toward their objectives and, at the end of the project period, to ensure that recipients have provided all financial and technical reports before closing out the grants; (3) obtain results from grants by identifying and measuring their environmental and public health outcomes; (4) enhance the skills of EPA personnel involved in grants management; and (5) leverage technology to improve program performance. Each of these goals is challenging, especially measuring the outcomes of environmental activities, but EPA needs to demonstrate the results achieved through its \$4 billion annual investment in grant programs. EPA is currently revising this plan to reflect accomplishments achieved and to address remaining issues.

You asked us to assess EPA's progress in implementing its grant reforms for (1) awarding grants, (2) monitoring grantees, (3) obtaining results from grants, and (4) managing grant staff and resources.

To address these issues, we conducted our work at EPA's headquarters and regional offices. EPA conducts its grant activities through its Office of Grants and Debarment—the office primarily responsible for grant policies—and program offices, located in both headquarters and 10 regional offices—offices primarily responsible for implementing the grant policies. At EPA headquarters, we reviewed EPA documents, including the *Grants Management Plan*, policies and guidance, internal reviews of management operations,⁴ and annual post-award monitoring plans.⁵ We also interviewed Office of Grants and Debarment officials. In addition, we interviewed officials and obtained information from EPA's Office of Water, one of the program offices involved with grants. We reviewed EPA's Office of Inspector General reports as well as the Office of Management and Budget's (OMB) Program Assessment Rating Tool (PART).⁶ We also reviewed prior GAO reports.

⁴EPA's internal grants management reviews consist of (1) comprehensive grants management reviews of headquarter and regional offices conducted periodically by the Office of Grants and Debarment; (2) grants performance measure reviews performed annually by the Office of Grants and Debarment, using documentation in the agency's grants databases; and (3) periodic grants management self-assessments conducted by EPA program and regional offices.

⁵EPA policy requires that offices provide annual post-award monitoring plans that address how the offices plan to manage their monitoring activities for the upcoming year.

⁶OMB's PART is a diagnostic tool meant to provide a consistent approach to evaluating federal programs.

In conducting our work, you asked us to address the implementation of EPA's grant reforms at the regional level for Clean Water Act programs. We selected Wetland Program Development Grants (wetland grants) because it is a discretionary grant program—that is, EPA decides who receives the award and its amount, and the program is subject to competition. We selected Nonpoint Source Management Program Grants (nonpoint source grants) because it is a type of formula-based grant program—grants that are often awarded on the basis of formulas prescribed by law or agency regulation.⁷ We reviewed EPA's progress at the regional level by selecting grants in 3 of EPA's 10 regional offices: Region 1 (Boston), Region 5 (Chicago), and Region 9 (San Francisco). We selected these regions, in part, because, collectively, they represent a significant share of regional grant funding for the two programs we reviewed and geographic dispersion. At the regional offices, for these two grant programs, we reviewed grant files, and interviewed EPA grant specialists—who are responsible for overseeing the grantees' administrative and financial activities—and EPA project officers—who are responsible for overseeing the grantees' programmatic and technical activities. Our regional work provides insights into regional grant activities in the two Clean Water Act programs in the three regions we visited, but it is not generalizable to all grants in all regions because we (1) selected only two of the programs conducted in these offices and (2) incorporated nonprobability sampling into our grant selection process. In conducting our review, we did not assess the implementation of some of EPA's policies because they had been issued too recently. Finally, we obtained EPA data used in this report from the agency's grants computer databases (Grants Information and Control System and the Integrated Grants Management System), which have not had a complete data reliability review. However, we determined that the data elements we used in this report were sufficiently reliable for our purposes in this report. (App. I provides a more detailed description of our scope and methodology.) We performed our work between February 2005 and April 2006, in accordance with generally accepted government auditing standards.

Results in Brief

EPA has made progress in achieving the grant reforms laid out in its *Grants Management Plan*, but weaknesses in implementation and accountability continue to hamper effective grants management in four

⁷EPA has two types of formula-based programs, nondiscretionary and continuing environmental programs, which is hybrid of nondiscretionary and discretionary grant programs. The nonpoint source grant program is a continuing environmental program.

areas. First, EPA has strengthened its award process by, among other things, expanding the use of competition to select the most qualified applicants. EPA also issued new policies and guidance to improve the awarding of grants. For example, EPA now requires that certain nonprofit organizations document that they have administrative and financial systems to manage grants. While EPA has made notable progress, its internal reviews in program and regional offices have found that staff do not always fully document their reviews of grantees' cost proposals. We also found this problem in one of the three regions we visited. This documentation problem may hinder EPA's ability to be accountable for the reasonableness of the grantees' estimated costs for performing the proposed work. Because of the continuing problems with documenting cost reviews, EPA is reexamining its cost review policy for grants.

Second, EPA has improved some aspects of monitoring, but long-standing problems in documentation and grant closeouts remain. Specifically, EPA has begun to review the results of its in-depth monitoring to identify systemic grantee problems, but staff do not always document whether grantees have taken corrective actions. Similarly, EPA and we found that grant specialists and project officers do not always document ongoing monitoring. Ongoing monitoring is critical because, at a minimum, EPA conducts it on every grant at least once a year throughout the life of the grant and uses the results to determine whether the grantee is on track in meeting the terms and conditions of the grant. A lack of documentation raises questions about the adequacy of the project officers' and grant specialists' ongoing monitoring of grantee performance. This lack of documentation occurred, in part, because managers have not fulfilled their commitment to ensure adequate documentation. Concerning grant closeouts, EPA uses closeouts to ensure that (1) grant recipients have met all financial requirements and have provided final reports and (2) any unexpended balances are returned to the agency. EPA's policy states that closeouts should occur within 180 days after the grant's project end date. However, agency officials do not always comply with this policy. Specifically, for fiscal year 2005, EPA (1) closed out only 37 percent of the grants within the 180 days and (2) did not always properly close out grants in the regional files we reviewed. EPA has formed a work group to review its monitoring and closeout policies and plans to revise these policies in 2006.

Third, EPA has initiated actions to obtain environmental results from its grants, but its efforts are not complete. EPA has included a performance measure in its *Grants Management Plan* for identifying expected environmental results from grants. In addition, EPA issued an

environmental results policy, effective in January 2005. This policy, for the first time, requires EPA staff to ensure that grant workplans specify well-defined environmental results, which enables EPA to hold grantees accountable for achieving them. To assess the agency's effectiveness in implementing its environmental results policy, EPA identified seven criteria that grant agreements should meet. However, EPA's current performance measure does not take into account the new criteria for identifying and measuring results from grants established by the policy. Furthermore, EPA acknowledges that it has not identified better ways to integrate its systems for reporting on the results of grants. While EPA has taken positive steps, OMB's evaluation of EPA grant programs in 2006 indicate that EPA must continue its concerted efforts to achieve results from its grants.

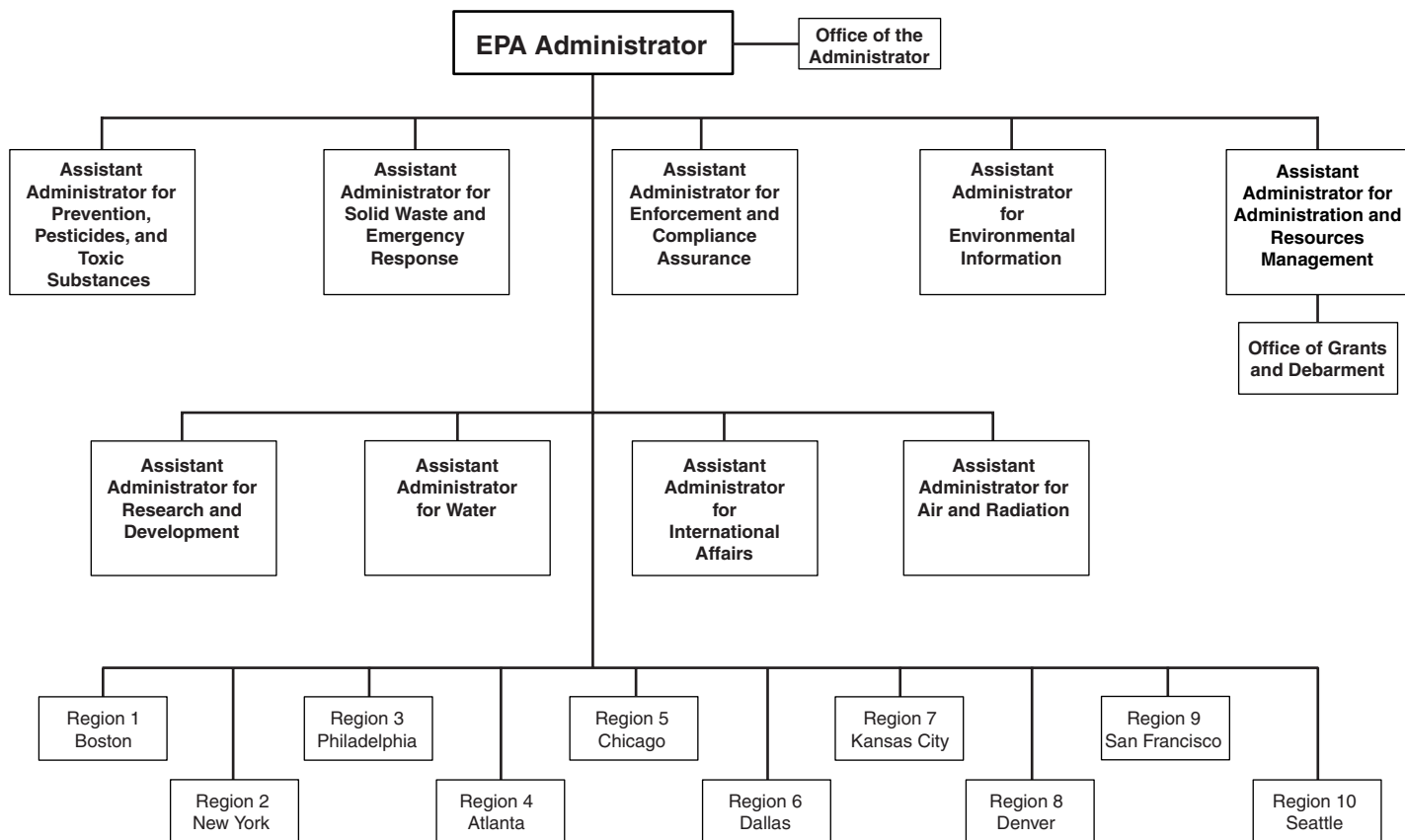
Finally, EPA has taken steps to manage grants staff and resources more effectively by analyzing workload, providing training, assessing the reliability of data from the agency's grants computer database, and holding managers and staff accountable for successfully fulfilling their grant responsibilities. Nevertheless, management attention to these issues is still needed because, among other things, EPA has not completed its data reliability assessment of the database and has just begun to implement its performance appraisal system for holding managers, supervisors, and staff accountable for grants management.

EPA is currently revising its *Grants Management Plan*. In doing so, the agency now has an opportunity to address the problems in documentation, grants closeout, and environmental results presented in this report. We are making recommendations in these areas.

Background

EPA administers and oversees grants primarily through the Office of Grants and Debarment in the Office of Administration and Resources Management, 10 program offices in headquarters, and program offices and grants management offices in EPA's 10 regional offices.⁸ Figure 1 shows the key EPA offices involved in grants activities for headquarters and regions, and figure 2 shows the states covered by the 10 regional offices.

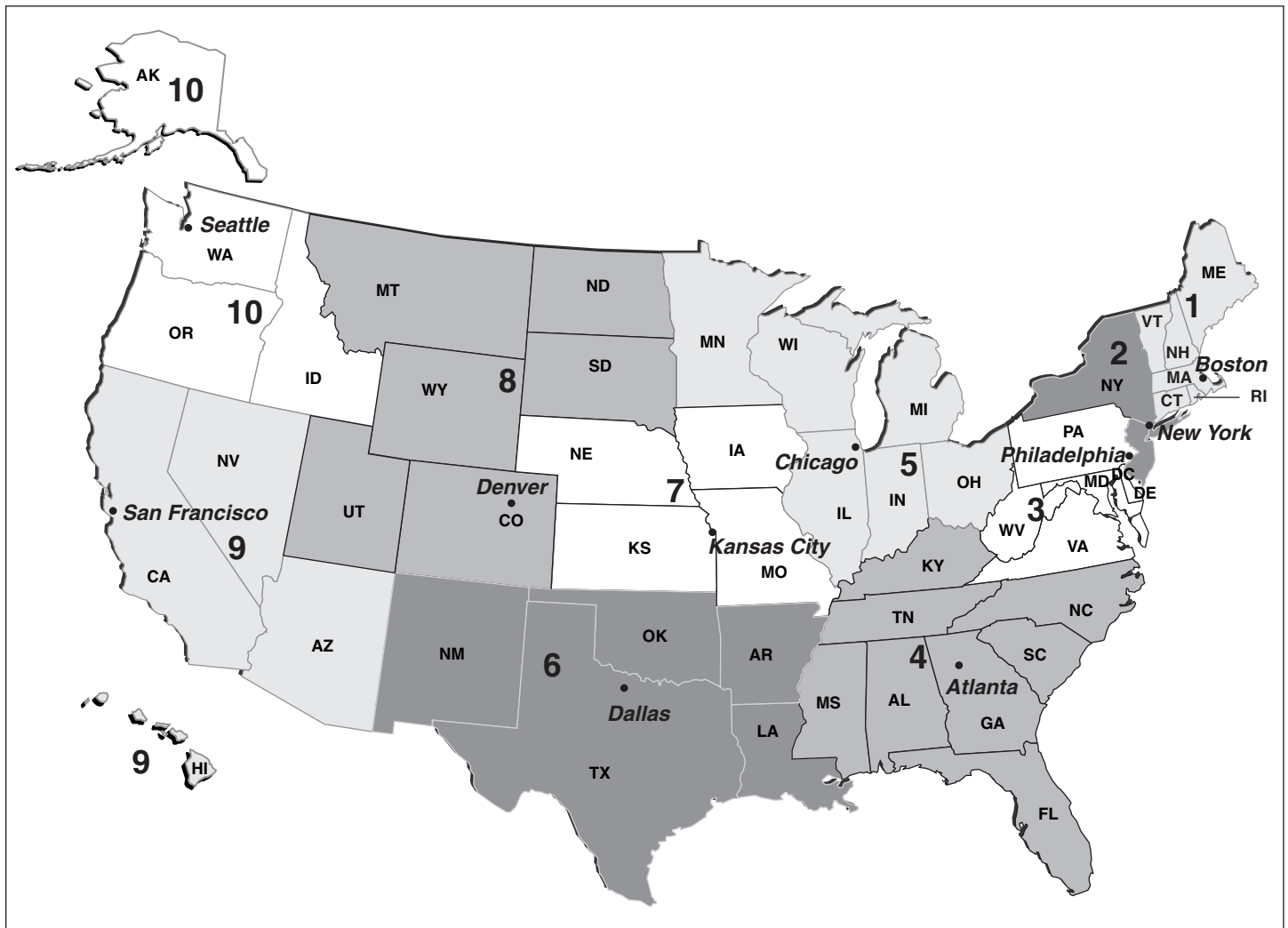
Figure 1: EPA's Key Offices Involved in Grant Activities



Source: GAO analysis of EPA information.

⁸In addition, EPA's Office of the Chief Financial Officer conducts limited grant activity.

Figure 2: States Covered by EPA's 10 Regional Offices



Source: EPA.

The Office of Grants and Debarment develops national grant policy and guidance. This office also carries out certain types of administrative and financial functions for the grants approved by program offices, such as awarding headquarter grants and overseeing the financial management of program office and regional grants. On the programmatic side, national program managers are responsible for establishing and implementing national policies for their grant programs, for setting funding priorities, and for identifying specific environmental results from grant programs. They are also responsible for technical and programmatic oversight of

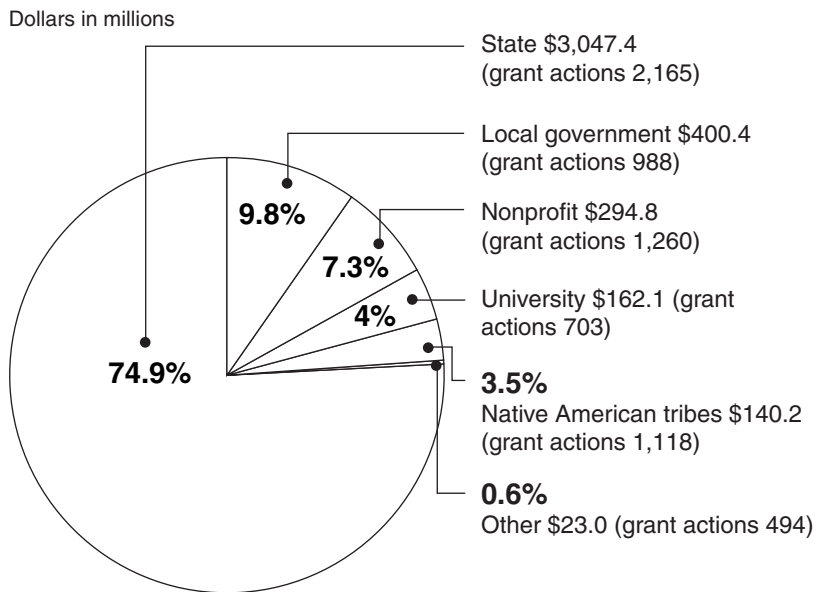
headquarter grants. Regional grants management offices provide administrative management for regional grants, while regional program offices provide technical and programmatic oversight. Both headquarters and regional program offices conduct grant competitions. EPA has designated officials—referred to as senior resource officials—who are typically deputy assistant administrators in program offices and assistant regional administrators. These senior resource officials are in charge of strengthening agencywide fiscal resource management while also ensuring compliance with laws and regulations and are responsible for effective grants management within their units.

As of September 30, 2005, 119 grant specialists in the Office of Grants and Debarment, and the regional grants management offices, were largely responsible for administrative and financial grant functions. Furthermore, 2,064 project officers were actively managing grants in headquarters and regional program offices. These project officers are responsible for the technical and programmatic management of grants. Unlike grant specialists, however, project officers also have nongrant responsibilities, such as using the scientific and technical expertise for which they were hired.

In fiscal year 2005, EPA took 6,728 grant actions involving funds totaling about \$4 billion.⁹ These awards were made to six main categories of recipients, as shown in figure 3.

⁹Grant actions involving funding include new awards, and increase and decrease amendments. The 6,728 grant actions involving funding were composed of 3,583 new grants, 2,628 increase amendments, and 517 decrease amendments. In addition, in fiscal year 2005, EPA awarded 3,042 no cost extensions, which did not involve funding.

Figure 3: Percentage of EPA Grant Dollars Awarded by Recipient Type, Fiscal Year 2005



Source: EPA.

Note: Percentages may not add up to 100 due to rounding.

EPA offers three types of grants—discretionary, nondiscretionary, and continuing environmental grants:

- Discretionary grants fund a variety of activities, such as environmental research and training. EPA has the discretion to independently determine the recipients and funding levels for these grants. EPA has awarded these grants primarily to state and local governments, nonprofit organizations, universities, and Native American tribes. In fiscal year 2005, EPA awarded about \$644 million in discretionary grants.
- Nondiscretionary grants are awarded primarily to state and local governments and support water infrastructure projects, such as the drinking water and clean water state revolving fund programs. For these grants, Congress directs awards to one or more classes of prospective recipients who meet specific eligibility criteria, or the grants are often awarded on the basis of formulas prescribed by law or agency regulation. In fiscal year 2005, EPA awarded about \$2.4 billion in nondiscretionary grants.

-
- Continuing environmental program grants contain both nondiscretionary (formula) and discretionary features. These grants are nondiscretionary in the sense that (1) they are awarded noncompetitively to the same government units to support ongoing state, tribal, and local programs that do not change substantially over time, and (2) allotments of funds are initially made on the basis of factors contained in statute, regulation, or agency guidance. These grants are also discretionary in the sense that allotments are not entitlements, and EPA exercises judgment in determining what the final award amount should be. In fiscal year 2005, EPA awarded about \$1 billion in grants for continuing environmental programs.

In this report, we focused on two EPA programs under the Clean Water Act:

- **Wetland Program Development Grants (Wetland grants)** Wetlands are areas where water covers the soil, or is present either at or near the surface of the soil throughout the year or for various portions of the year, including during the growing season. Wetlands, such as bogs, swamps, and marshes, support a number of valuable functions—controlling floods, improving water quality, and providing wildlife habitat, among other things. The wetland grants provide applicants with an opportunity to carry out projects to develop and refine comprehensive wetland programs. The authority for the program is under section 104(b) (3) of the Clean Water Act.¹⁰ Grant funding must be used to improve the wetlands program by conducting or promoting the acceleration of research and studies relating to the causes, effects, and other aspects of water pollution. Wetland grants provide states, tribes, local governments, interstate agencies, intertribal consortia, nonprofits, and nongovernmental organizations an opportunity to carry out wetland projects and programs. Wetland grants are discretionary grants.
- **Nonpoint Source Management Program (Nonpoint source grants).** Nonpoint source pollution is pollution that does not have a well-defined source but instead originates from a number of sources, such as acid mine drainage, agricultural runoff, and roads and highways. Under section 319(h) of the Clean Water Act, EPA makes grants to states, territories, and Indian tribes to support a wide variety of activities, including technical and financial assistance, education, training, technology transfer,

¹⁰33 U.S.C. § 1254(b)(3).

demonstration projects, and monitoring.¹¹ Nonpoint source grants are continuing environmental program grants.

Grants from these two programs can be incorporated into the National Environmental Performance Partnership System, which was established in response to state needs for greater flexibility in using and managing their continuing grant funds.¹² Under this system, states may enter Performance Partnership Agreements with EPA and into Performance Partnership Grants. The agreements set out jointly developed priorities and protection strategies, including innovative solutions for addressing water, air, and waste problems. The partnership grants allow states to combine continuing environmental program grant funds to implement those solutions. States can also enter into Performance Partnership Grants without a Performance Partnership Agreement. Under traditional continuing environmental program grants, states received funds to implement particular waste, air, water or other program—such funding can only be spent on activities that fall within the statutory and regulatory parameters of that program. Under Performance Partnership Grants, states can combine up to 21 separate grant programs into one award, and move funds from one media, such as air, to another.

Both the wetland and nonpoint source grants are under the auspices of EPA's Office of Water in headquarters, but grants under these programs are carried out by water program staff in regional offices. Moreover, in its national guidance, the Office of Water states that it is committed to accomplishing the goals that the Office of Grants and Debarment has identified in its *Grants Management Plan*. To do this, for example, the Office of Water provided regions with information on revised competition and environmental results policies.

¹¹33 U.S.C. § 1329(h).

¹²Omnibus Consolidated Rescissions and Appropriations Act of 1996, Pub. L. No. 104-134, 110 Stat. 1321, 1321-299.

EPA Has Strengthened the Award Process, but Lack of Key Documentation Raises Accountability Concerns

EPA has strengthened its award process by, among other things, (1) expanding the use of competition to select the most qualified applicants and (2) issuing new policies and guidance to improve the awarding of grants. However, EPA's internal reviews of program and regional offices have found weaknesses in documenting the review of grantees' cost proposals. We also found this weakness in one of the three regions we visited. This documentation weakness may hinder EPA's ability to ensure the reasonableness of its grantees' expenditure of federal funds. Because of the continuing problems with documenting cost reviews, EPA is reexamining its cost review policy for grants.

EPA Has Expanded the Use of Competition to Select the Most Qualified Applicants

To promote widespread competition for grants, in September 2002, EPA issued a policy that for the first time required competition for many discretionary grants.¹³ Before 2002, even though EPA had a competition policy, it did not compete grants extensively or provide widespread notification of upcoming grant opportunities.

EPA's 2002 policy was designed to promote competition in awarding grants to the "maximum extent practicable" and to ensure that the competitive process was "fair and open." This policy represented a major cultural shift for EPA managers and staff, requiring EPA staff to take a more planned, rigorous approach to awarding grants. Specifically, the policy

- was binding on managers and staff throughout the agency;
- required EPA staff to determine evaluation criteria for grant solicitations and publish a grant announcement at least 60 days before the application deadline; and
- created the position of a senior-level competition advocate for grants. The advocate oversees the policy's implementation and compliance and evaluates its effectiveness.

¹³EPA, *EPA Order 5700.5: Policy for Competition in Assistance Agreements*, (Sept. 12, 2002).

According to EPA’s Inspector General, the 2002 policy was a “positive step” toward promoting competition, and competitions under the policy were generally fair and open.¹⁴

Specifically, for the 38 grants that the Inspector General reviewed, EPA had (1) published an announcement soliciting proposals, (2) written procedures to ensure an objective and unbiased process for reviewing and evaluating applications, and (3) selected recipients according to reviewers’ recommendations.

In 2004, EPA’s grants competition advocate reviewed the policy, as required, and reported, among other things, that steps should be taken to improve justifications for not competing certain grants by (1) increasing review and approval requirements for exceptions to competition and (2) clarifying the language in the policy to ensure appropriate use of exceptions. The advocate also found that the threshold for requiring competition for grants of \$75,000 or more in the 2002 policy was too high.

In response, EPA issued a revised competition policy, effective January 2005.¹⁵ It enhanced competition by, among other things,

- increasing review and approval requirements for justifying exceptions and clarifying the language to ensure appropriate use of these justifications;
- reducing the threshold for competition from \$75,000 to \$15,000; and
- strengthening requirements for documenting the competition process and results.

In addition, EPA added (1) conflict-of-interest provisions to increase awareness of situations that could arise for applicants, reviewers, and others involved in competition matters; and (2) dispute procedures.

In commenting on both the 2002 and 2005 policies, the Inspector General stated that the policies did not fully promote competition and recommended that EPA could further expand competition in the 2005 policy by eliminating certain remaining exemptions and exceptions for

¹⁴EPA Office of Inspector General, *EPA Needs to Compete More Assistance Agreements*, Report no. 2005-P-00014 (Washington, D.C.: Mar. 31, 2005).

¹⁵EPA, *EPA Order 5700.5A1: Policy for Competition of Assistance Agreements, 5700.5A1* (Jan. 11, 2005).

which the Inspector General believed competition is practicable. EPA responded, however, that further expansion was not practicable for reasons of congressional intent, regulatory limitations, and program effectiveness.

EPA's *Grants Management Plan* lays out goals, objectives, milestones, and performance measures with targets for promoting competition. For one of these objectives, EPA planned to improve the accuracy and specificity of information available to the public on the agency's grant opportunities in the federal government's *Catalog of Federal Domestic Assistance*—a listing of available grants and other federal funding opportunities (available at www.CFDA.gov).¹⁶ However, as we reported in 2005, EPA was not consistently providing this information.¹⁷ Without such information, potential applicants might not apply, and EPA would not have the broadest applicant pool from which to select grantees. EPA officials were unaware of continuing problems with funding priorities and funding levels in the *Catalog of Federal Domestic Assistance* until we brought them to their attention during our review. In response to our recommendations, in April 2005, EPA implemented revised guidance for providing complete and accurate information in the *Catalog of Federal Domestic Assistance*. For example, EPA now strongly encourages its offices to provide information on the funding priorities on an ongoing basis, instead of annually, so that the public has up-to-date information in the *Catalog of Federal Domestic Assistance*.

For the competition goal, the agency developed a performance measure for increasing the percentage of new grants subject to the competition policy that are actually competed and set increasing targets for achieving this measure. According to EPA, about \$249 million of the approximately \$3.1 billion it awarded in new grants in fiscal year 2005 were eligible for competition. EPA exempts certain grant categories from competition, including all nondiscretionary grants, certain discretionary grants, and most continuing environmental programs grants. EPA also established a

¹⁶The General Services Administration and OMB's *Catalog of Federal Domestic Assistance* is a governmentwide compendium of federal programs, projects, and activities that provide assistance or benefits to the American public. Assistance includes, but is not limited to, financial assistance such as grants and cooperative agreements. EPA uses other tools for announcing some grant programs, such as the *Federal Register*, and competitive funding opportunities are announced on www.grants.gov.

¹⁷GAO, *Grants Management: EPA Needs to Strengthen Efforts to Provide the Public with Complete and Accurate Information on Grant Opportunities*, [GAO-05-149R](#) (Washington, D.C.: Feb. 3, 2005).

separate measure for nonprofit grantees. The first performance measure is for all new eligible grants, including new grants to nonprofit recipients, and the second is only for new eligible grants to nonprofit recipients, as table 1 shows. EPA established a separate measure for competing grants to nonprofit organizations because it believes that selecting the most qualified nonprofit applicants through a competitive process could address concerns about the effectiveness of nonprofit grantees in managing grants.

Table 1: EPA’s Performance Targets and Measures for Promoting Grants Competition, All New Grants and Nonprofit Grants, Fiscal Years 2002-2005

Fiscal year	All new grants		New grants to nonprofit grantees	
	Performance target	Performance measure	Performance target	Performance measure
	Percent of new grants competed	Reported percent of new grants competed	Percent of new grants competed	Reported percent of new grants competed
2002 baseline	Not applicable	27	Not applicable	24
2003	30	86	30	76
2004	60	91	55	85
2005	85	93	75	88

Source: EPA documents.

As the table shows, EPA reports it now competes a higher percentage of eligible grants, up from 27 percent in fiscal year 2002 to 93 percent in fiscal year 2005, exceeding its targets for fiscal years 2003 through 2005.¹⁸ The 7 percent of new grants that EPA reported it did not compete—which totaled about \$10 million of the \$249 million eligible for competition in fiscal year 2005—resulted from exceptions to the policy. EPA’s competition policy provides for exceptions that meet criteria specified in the policy, if supported by a written justification and approved by an appropriate official. Even after taking the exceptions into account, EPA exceeded the 85 percent target it set for new grants in 2005. It has also exceeded its target for new grants to nonprofit recipients in 2005.

¹⁸In fiscal year 2005, EPA competed 1,414 new grants or 93 percent of the 1,526 new grants eligible for competition.

EPA Has Issued New Policies and Guidance to Improve Grant Awards

To improve the award of grants, EPA issued additional policies and guidance. Specifically:

- In January 2005, EPA issued a policy to improve the description of the grant in its grants database so that the description would be understandable to the public.¹⁹ EPA now presents this information on the Office of Grants and Debarment's Web site—www.epa.gov/ogd—so that the public has improved access to grant information.
- In March 2005, EPA issued a policy establishing additional internal controls for awarding grants to nonprofit organizations.²⁰ The policy addresses both the programmatic capability of a nonprofit applicant to carry out a project and its administrative capability to properly manage EPA grant funds—problems EPA and the Inspector General have identified. Under the policy, EPA assesses programmatic capability for both competitive and noncompetitive grants. The policy also requires the agency to conduct different types of administrative capability reviews based on the amount of the grant to the nonprofit organization. For grants of \$200,000 or more, applicants must complete a questionnaire and provide documents to show that they have administrative and financial systems to manage grants. For grants below the \$200,000 threshold, EPA staff must query the agency's grants database for any findings of problems in the applicant's administrative capability. If problems are identified in any of these reviews, the applicant must take corrective actions before receiving the grant. In 2005, EPA approved 75 of the 87 nonprofit organizations it reviewed; the remaining 12 nonprofit organizations are taking steps to address problems identified.
- Also in March 2005, EPA issued a memorandum clarifying the criteria that must be documented to justify the use of a grant or a contract as the award mechanism.²¹ EPA issued this guidance in response to a

¹⁹EPA, *Data Quality Standard for the Project Description Field in the Integrated Grants Management System*, GPI-04-05, (Jan. 27, 2005).

²⁰EPA, *EPA Order 5700.8: EPA Policy on Assessing Capabilities of Non-Profit Applicants for Managing Assistance Awards*, (Mar. 24, 2005).

²¹EPA Office of Grants and Debarment, *Memorandum: Written Justifications for Selecting Assistance Agreements*, (Mar. 16, 2005). This memorandum was written as a supplement to EPA Order 5700.1 *Policy for Distinguishing between Assistance and Acquisition* (Mar. 22, 1994).

recommendation in our 2004 report to better document the justification for using grants rather than contracts.²²

- In April 2005, EPA issued a policy memorandum and interim guidance establishing a certification process that applies to certain discretionary grant programs (currently 58).²³ The new policy and guidance instruct senior EPA officials—assistant administrators and regional administrators—to certify, among other things, that (1) certain grant awards and amendments identify environmental outcomes that further the goals and objectives in the agency’s strategic plan and (2) there is no questionable pattern of repeat awards to the same grantee. For competitive announcements, these officials must certify that the (1) expected outcomes from the awards under the proposed competitive announcement are appropriate and in support of program goals and (2) proposed competitive announcement is written in a manner to promote competition to the maximum extent practicable.²⁴ The Office of Grants and Debarment has assigned a grant specialist to conduct random spot checks of these certifications and provide assistance to program offices in implementing this new policy.

Lack of Cost Review Documentation Could Compromise Accountability

While EPA has improved its award process, both EPA and we found weaknesses in the agency’s documentation of its cost reviews before awarding grants. EPA policy requires both the grants management and program offices to conduct a cost review for every grant before awarding it to ensure that the grantee’s proposed costs are necessary, reasonable, allowable, allocable, and adequately supported. These reviews are central to ensuring that EPA carries out its fiduciary responsibilities. However, in 2004 and 2005, in six of the seven program and regional offices it reviewed, the Office of Grants and Debarment either found no documentation of cost reviews or found that documentation was not sufficient.²⁵ As a result of

²²GAO, *Grants Management: EPA Needs to Better Document Its Decisions for Choosing between Grants and Contracts*, [GAO-04-459](#) (Washington, D.C.: Mar. 31, 2004).

²³EPA, *Review and Announcement of Discretionary Grants*, (Apr. 5, 2005) and EPA, *Interim Guidance for New Policy on the Review and Announcement of Discretionary Grants*, (Apr. 28, 2005).

²⁴In response to the Government Performance and Results Act of 1993, EPA has developed a strategic plan that is built around five goals to protect human health and the environment: (1) clean air and global climate change, (2) clean and safe water, (3) land preservation and restoration, (4) healthy communities and ecosystems, and (5) compliance and environmental stewardship. EPA, *2003-2008 Strategic Plan: Direction for the Future*, EPA-190R-03-003 (Washington, D.C.: Sept. 2003).

²⁵The site visits occurred in 2004 and 2005, and reports were issued later.

these continuing documentation problems, EPA is reexamining its cost review policy for grants.

We also found problems with cost review documentation in one of the three regions we visited—Region 5. This region has a checklist to ensure that staff members who are responsible for each aspect of the cost review had completed and documented their review before awarding a grant. The checklist requires approval from both the grant specialist and the project officer on certain items and requires supervisors to review the checklist to ensure that any concerns raised by the project officer or grant specialist were addressed.²⁶ While a project officer and grant specialist could initially disagree on some aspects of the checklist, the regional office expects them to resolve their differences and document the final resolution on the checklist. However, for most of the 12 approved award files we reviewed, we found instances in which the resolution of the issues was not documented. Specifically,

- the grant specialist and the project officer had both neglected to answer the same two questions on the cost review checklist, or
- the grant specialist and the project officer did not agree on the answers to multiple questions on the checklist and did not document any resolution of their disagreements.

According to regional staff, these problems occurred because of workload and errors. Nevertheless, the lack of documentation for awarded grants raises concerns about the appropriateness of the award. More effective supervisory review might have resulted in a documented resolution of these differences.

²⁶In Region 5, the supervisors are “team leaders” who are responsible for reviewing the cost review checklists, among other award documents; the grants management officer also reviews the award documentation.

EPA Has Improved In-depth Monitoring to Identify Agencywide Problems, but Weaknesses Remain in Ongoing Monitoring and in Closing Out Grants

EPA has improved some aspects of monitoring, but long-standing problems in documentation and grant closeouts continue. EPA has made progress in using in-depth monitoring to identify grantee problems agencywide, but it does not always document whether corrective actions have been taken.²⁷ Furthermore, for ongoing monitoring, the agency found, as we did in the regional offices, that in some cases agency staff do not consistently document their monitoring of grantees, which hinders accountability for effective grants management.²⁸ Finally, we found that grant closeouts were often delayed and sometimes improperly carried out, which diminishes EPA's ability to ensure that grantees met the terms and conditions of their award and that grant funds were spent appropriately. EPA has formed a work group to review its monitoring and closeout policies and plans to revise these policies in 2006.

In-depth Monitoring Results Can Be Analyzed Nationwide to Identify Problems, but Staff Do Not Always Document Whether Corrective Actions Have Been Taken

EPA has made progress in conducting in-depth monitoring since it issued a new monitoring policy in December 2002, which it revised in 2004 and 2005.²⁹ Under its monitoring policy, grants management offices and program offices in headquarters and the regions conduct in-depth monitoring either (1) at the grantee's location (on-site) or (2) at an EPA office or at another location (off-site)—referred to as desk reviews. EPA's policy for these reviews requires the following, among other things:

- Grants management offices must conduct in-depth administrative reviews, on a minimum of 10 percent of grantees annually, to evaluate the grantee's administrative and financial capacity. For on-site administrative reviews, EPA conducts "transaction testing"—that is, reviewing a grantee's accounting ledgers and underlying documentation for unallowable costs, such as lobbying and entertainment expenditures.
- Program offices must conduct programmatic reviews on a minimum of 10 percent of grantees annually to assess the grantees' activities in key areas,

²⁷The agency refers to in-depth monitoring as "advanced monitoring."

²⁸The agency refers to ongoing monitoring as "baseline monitoring."

²⁹In this report, we refer to EPA's policy that addresses monitoring as "the monitoring policy." See EPA, *EPA Order 5700.6: Policy on Compliance, Review and Monitoring* (Dec. 31, 2002). In January 2004, EPA revised the monitoring policy. See EPA, *EPA Order 5700.6 A1 Policy on Compliance, Review and Monitoring* (Jan. 8, 2004). Subsequently, EPA extended the policy through December 31, 2006, so that EPA could consider changes. See EPA, *EPA Order 5700.6A1 CHG 1* (Sept. 28, 2005).

such as the progress the grantees are making in conducting the work and in meeting the grant's terms and conditions.

In 2003, we reported that although the in-depth review is a useful tool for monitoring a grantee's progress, the agency lacked a way to systematically identify grantee problems agencywide because the information from its in-depth monitoring was gathered in a form that could not be readily analyzed.³⁰ We also found that the policy did not incorporate a statistical approach to selecting grantees for review. Without a statistical approach, EPA could not evaluate whether 10 percent was appropriate, nor could it project the results of the reviews to all EPA grantees.

We recommended that EPA take action to address these issues. EPA has since incorporated the data from its in-depth monitoring into a database, analyzed the information to identify key problems, and taken corrective actions to address systemic problems. By taking these actions, EPA has found, among other things, that grantees have not had documented policies and procedures for managing grants. Without these policies and procedures, grantees may not be able to operate their financial and administrative systems appropriately. As a result of this finding, EPA is conducting the preaward reviews discussed earlier to ensure that nonprofit grantees have required financial and administrative systems in place. EPA has also increased training to grantees.

Since issuing its most recent revision to the monitoring policy in 2005, EPA has initiated several practices that should further strengthen in-depth monitoring. In 2006, it began incorporating a statistical approach for selecting grantees for administrative in-depth reviews. In 2007, EPA plans to use a statistical approach to select grants for programmatic in-depth reviews. When the statistical approach is fully implemented, it should significantly reduce the percent of grantees reviewed, according to an agency official. Furthermore, the statistical approach will enable the agency to project results among various types of grantees. EPA also began incorporating transaction testing into administrative desk reviews in 2006 because it found that administrative desk reviews were not otherwise yielding adequate financial information about grantees.

While EPA has improved its in-depth monitoring, the Office of Grants and Debarment has found that staff do not always take corrective actions, or

³⁰[GAO-03-846](#).

document actions taken, to address findings identified during this monitoring. The office found that corrective actions were documented for only 55 percent of the 269 problems identified through administrative and programmatic reviews. We reported similar results in August 2003. According to an Office of Grants and Debarment official, while some EPA staff took corrective actions, they did not document those actions in EPA's grantee computer database. Until this problem is addressed, the Office of Grants and Debarment will not be able to fully assess the extent to which corrective actions have or have not been taken to address identified grantee problems. Without these assessments, EPA cannot be assured that grantees are in full compliance with the terms and conditions of their grants.

Inadequate Documentation of Ongoing Monitoring Hinders Accountability

Ongoing monitoring is critical because, in contrast to in-depth monitoring, it is conducted on every grant at least once a year throughout the life of the grant, and the results are used to determine whether the grantee is on track to meeting the terms and conditions of its grant agreement. EPA's grant specialist and project officer manuals—used as training tools for EPA staff involved in grants—emphasize that staff should properly document grant monitoring activities to maintain an official agency record. Agency officials state that proper documentation of monitoring is necessary to ensure that third parties—such as other EPA staff who assume responsibility for the grant or a supervisor—can fully understand and review the actions that have occurred during the project period. Moreover, a lack of documentation raises questions about the adequacy of project officers' and grant specialists' ongoing monitoring of grantee performance. Despite the importance of documenting ongoing monitoring, the absence of documentation in grant files has been a long-standing problem that we reported on in 2003.

To conduct ongoing monitoring, EPA policy requires the following:

- Grant specialists should ensure that administrative terms and conditions of the grants are met and review the financial status of the project. The grant specialist is to speak with the project officer and the grantee at least annually during the life of the grant.
- Project officers should ensure that programmatic award terms and conditions are being met, including ensuring that they have received progress reports from the grantee. Project officers are also to speak with the grant specialists and the grantee at least annually during the life of the grant.

According to the monitoring policy, the grant specialists and project officers must document the results of their ongoing monitoring in their grant files.

Despite this policy, the lack of documented ongoing monitoring remains a problem. EPA's recent internal reviews in program and regional offices demonstrate—as did our review in three regional offices—that EPA grant specialists and project officers still do not consistently document ongoing monitoring. In 2004 and 2005, the Office of Grants and Debarment found limited or incomplete documentation of ongoing monitoring in internal reviews it conducted in seven program and regional offices.³¹ In addition, self-assessments completed by 11 program and regional offices during this period identified the same lack of documentation. Our analysis of these reviews indicates that several offices experienced recurring problems in 2004 and 2005. For example, an August 2004 Office of Grants and Debarment internal review cited one regional office as having “very limited” documentation of ongoing monitoring; and in the following year, the regional office's self-assessment found the same documentation problem with project officer files.

Because of these documentation problems, two of the three regional offices we visited have committed to using checklists to document their ongoing monitoring. Regions 1 and 9 had implemented such checklists at the time of our review. As table 2 shows, however, of the 40 project officer and grant specialist files we reviewed in Regions 1 and 9, more than half of the checklists were either missing, blank, or incomplete.

³¹The internal reviews were those based on the dates of the site visits which occurred in 2004 and 2005.

Table 2: Use of Ongoing Monitoring Checklist in Region 1 and 9 Grant Files for Two Programs

Checklist status	Project officer file	Grant specialist file
Missing or blank checklist ^a	14	3
Incomplete checklist	0	5
Complete checklist or checklist not yet applicable ^b	6	12
Total	20	20

Source: GAO analysis of EPA documents on selected wetland and nonpoint source grants awarded between January 1, 2004, through June 30, 2005. See app. I.

^aThese files should have contained checklists documenting ongoing monitoring.

^bChecklists may legitimately be left blank until 1 year has elapsed assuming no grant activity occurred that would warrant EPA staff to conduct monitoring.

The water program office in Region 5 also developed a checklist for documenting ongoing monitoring but had not yet implemented it at the time of our review. Consequently, in Region 5, we examined other documentation of ongoing monitoring in the grant files and found similar omissions. None of the six files requiring annual contact with the grantee—three grant specialist files and three project officer files—had documentation showing that this contact had occurred.

In the three regions, we also found that project officers' files did not always contain grantees' progress reports, which can be required quarterly, semiannually, or annually, as defined by an individual grant's terms and conditions. Thirteen of the 32 project officer grant files we reviewed in these regions were missing at least one or more progress reports required by the grant's terms and conditions. According to EPA's project officer manual, progress reports are the project officer's primary mechanism for determining if the grantee is fulfilling its grant agreement obligations. In general, progress reports should contain information that compares grantee progress with the stated grant objectives, identify problems with meeting these objectives, and state the reasons for those problems. While the submission of progress reports is clearly the grantee's responsibility, it is also the project officer's responsibility to work with the grantees to ensure that they provide their progress reports in accordance with the terms of the grant. When EPA staff do not obtain progress reports, they cannot monitor effectively, which may hinder accountability.

In the three regions we visited, the lack of documentation for ongoing monitoring occurs because of weaknesses at the staff, supervisory, and

management level. First, grant specialists and project officers do not consistently document key monitoring efforts. For example, several staff stated that they had not printed out their e-mail correspondence with grantees or recorded those contacts in the official grant files. Other staff cited their workload as a reason for not documenting monitoring. Lack of documentation also occurs because grant specialists and project officers rely on other staff with technical expertise, known as “technical contacts,” to assist with ongoing monitoring, and these technical contacts may not provide the documented results of their monitoring for inclusion in the grant file. We found this situation had occurred in two of the three regions we visited. For example, one administrative project officer—a project officer who maintains files but is not necessarily knowledgeable about the technical aspects of the project—had asked for key monitoring documentation from a technical contact, who did not provide it. The technical contact had the monitoring documents in his work area and said he would routinely provide them to the project officer in the future.

Second, the lack of ongoing monitoring documentation may occur, in part, because supervisors do not always effectively review grant files for compliance with grant policies. According to staff we interviewed in the three regions, to their knowledge, their supervisors had not reviewed their files to assess compliance with the agency’s monitoring policies, which could contribute to the lack of documentation. A regional project officer told us that he would have completed the ongoing monitoring checklist if his regional program supervisor had made it a priority. In another region, officials told us that some supervisors do review some files, but they do not have enough time to review every file.

In contrast, supervisory review can contribute to complete documentation of ongoing monitoring. For example, Region 5 was cited as having “excellent” documentation for ongoing monitoring in an Office of Grants and Debarment 2003 internal review. According to the EPA supervisor in Region 5 at the time of the 2003 review, she had notified staff that she would review their grant files to assess compliance with EPA policy for ongoing monitoring, among other things. She believes that her review contributed to the region’s excellent rating.

Third, senior EPA managers in the regions do not always ensure that their commitments to improve monitoring documentation are being met. For example, in the post-award monitoring plans submitted to the Office of Grants and Debarment for two of the EPA regions we visited, the plans stated that the regions would place a checklist in the grant specialist and project officer files documenting ongoing monitoring activities. Although

the two regions developed the checklists, more than half of the checklists we reviewed were missing, blank, or incomplete. This occurred, in part, because senior managers did not ensure that the commitments they made were met in their post-award monitoring plans.

Despite the importance of ongoing monitoring, EPA has not created a performance measure for documenting ongoing monitoring that would underscore its importance to managers and staff. Furthermore, EPA's Integrated Grants Management System has a field for recording information about ongoing monitoring that could enable the agency to systematically identify whether this monitoring is documented agencywide, but recording this information is optional. Establishing a performance measure and/or requiring the entry of information could enhance accountability for implementing the monitoring policy.

EPA Has Reduced Its Closeout Backlog, but Grant Closures Are Often Delayed and Sometimes Improperly Carried Out

As part of its grant reforms, EPA incorporated grant closeout into its monitoring policy and its *Grants Management Plan*.³² During closeout, EPA ensures that the grant recipient has met all financial requirements and provided final technical reports, and ensures that any unexpended balances are “deobligated” and returned to the agency. Delays in closing out the grant can unnecessarily tie up obligated but unexpended funds that could be used for other purposes. Furthermore, according to EPA's closeout policy, closeout becomes more difficult with the passage of time because persons responsible for managing various aspects of the project may resign, retire, or transfer; and memories of events are less clear.

The monitoring policy states that the agency is committed to closing out grants within 180 days after the end of the grant's project period. Under its monitoring policy, EPA provides 180 days for closeout because (1) grantees—by regulation and policy—have up to 90 days after the grant project period to provide all financial and technical reports;³³ and (2) by policy, agency staff—grant specialists and project officers—have 90 days to review grantee information and certify that financial and technical requirements have been met. Following certification, the grant specialist closes out the grant with a letter to the grantee stating that the agency

³²EPA has had a closeout policy in effect since 1992. See EPA, *EPA Closeout Policy for Grants and Cooperative Agreements*, GPI-92-04 (Aug. 27, 1992).

³³40 C.F.R. § 31.50 (grants to state and local governments); 40 C.F.R. § 30.71 (grants to nonprofit organizations). Each regulation grants EPA authority to extend the deadline upon the grantee's request.

closed out the grant. EPA's *Grants Management Plan* identified measures with targets that were developed to assess EPA's closeout performance.

In reviewing EPA's management of grant closeouts, we found that EPA (1) has effectively reduced its historic backlog of grants due for closeout; (2) does not always close out grants in a timely way—within 180 days after the project period ends, as required by agency policy; and (3) does not always close out grants properly based on the regional files we reviewed.

EPA Has Effectively Reduced Its Historic Closeout Backlog

In the past, EPA had a substantial backlog of grants that it had not closed out. EPA reported that by 1995, the agency had amassed a backlog of over 18,000 completed grants that had not been closed out from the past 2 decades. In fact, EPA had identified closeout, among other things, as a material weakness—an accounting and internal control weakness that the EPA Administrator must report to the President and Congress.³⁴ As we reported in 2003, however, EPA improved its closeout of backlogged grants, eliminating backlog as a material weakness. Specifically, for fiscal year 2005, using its historic closeout performance measure, EPA reported that it had closed 97.8 percent of the 23,162 grants with project end dates between the beginning of fiscal year 1999 and the end of fiscal year 2003. EPA came close to its 99-percent target of closing out this backlog.

EPA Does Not Always Close Out Grants in a Timely Manner

EPA developed a second closeout performance measure—which we call the current closeout performance measure—to calculate the percent of grants with project end dates in the prior fiscal year that were closed out by the end of the current fiscal year (September 30). For example, as table 3 shows, EPA closed out 79 percent of the grants with project end dates in fiscal year 2004 by the end of reporting fiscal year 2005 (September 30, 2005) but did not meet its performance target of 90 percent.

³⁴31 U.S.C. § 3512.

Table 3: EPA’s Current Closeout Performance Target Compared with Percent EPA Reported as Meeting That Target, Reporting Fiscal Years 2003-2005

Reporting fiscal year	Project end dates	Current closeout performance target (percent)	Percent of grants meeting the current closeout performance target
2003 (baseline)	10/01/2001 through 9/30/2002	90	83
2004	10/01/2002 through 9/30/2003	90	85
2005	10/01/2003 through 9/30/2004	90	79
2006	10/01/2004 through 9/30/2005	90	Data will be available in October 2006

Source: EPA documents.

Note: The reporting fiscal year reflects grants that had project period end dates from the prior year.

EPA’s current closeout performance measure does not calculate whether EPA closed the grant within 180 days. Rather, this measure only reports whether EPA closed the grant by the end of the following fiscal year (the fiscal year in which it reports on closeouts—the reporting year). The measure, in fact, can allow for a much more generous closeout time, from 183 days beyond the 180 days to as much as 547 days (18 months) beyond the 180 days—because EPA does not report the performance measure until September 30, the end of the current fiscal year, as shown by hypothetical examples in table 4.

Table 4: Minimum and Maximum Times Allowed under EPA’s Current Closeout Performance Measure

Time allowed under policy beyond 180 days for grant closeouts	Project period end date	Closeout due date (180 days allowed after project ends)	Reporting date for performance measure	Number of days elapsed between the closeout due date and the reporting date
Minimum time	Sept. 30, 2004	Mar. 31, 2005	Sept. 30, 2005	183 (6 months)
Maximum time	Oct. 1, 2003	Apr. 1, 2004	Sept. 30, 2005	547 (18 months)

Source: GAO.

Note: EPA routinely waits about 1 month after the end of the fiscal year—in this case, until October 2005—to allow sufficient time for end-of-fiscal year data to be entered into its system.

EPA’s current performance measure for closing out grants is a valuable tool for determining if grants were ultimately closed out. However, we believe that this performance measure—taken alone—is not a sufficient way to measure closeout because it does not reflect the 180-day standard specified in EPA policy.

To determine the percentage of grants that were closed within 180 days, we examined EPA’s analysis of closeout time frames for regional offices,

headquarter offices, and agencywide. As table 5 shows, EPA is having significant difficulty in meeting the 180-day standard.

Table 5: Percent of Grants Closed Out Agencywide and for Program and Regional Offices, by Length of Time to Closeout, Fiscal 2005 Reporting Year

Length of time to closeout for projects ending in fiscal year 2004	Percent of grants closed out											
	Agencywide	Program offices	Regional offices									
			1	2	3	4	5	6	7	8	9	10
On time (0-180 days)	37	35	30	26	51	43	16	49	44	45	32	52
Late (181-270 days)	19	15	26	9	26	31	9	15	29	28	21	18
Significantly late (271+ days)	25	34	40	14	21	17	14	21	18	27	26	20
Not closed	19	16	4	51	2	9	61	14	9	1	21	10
Total	100	100	100	100	100	100	100	100	100	100	100	100

Source: GAO analysis of EPA information from EPA's Grant Information and Control System database, as of December 31, 2005.

Note: Totals may not add up to 100 due to rounding.

As the table shows, agencywide, only 37 percent of grants with project end dates in fiscal year 2004 were closed out within 180 days, 25 percent were significantly late—at least 3 months beyond the 180-day standard, and 19 percent were not closed.

Table 6 shows that EPA's current performance measure is masking the fact that the agency is having significant difficulty in closing out grants within 180 days.

Table 6: Comparison of EPA’s Performance against the Current Closeout Measure and the 180-Day Standard, Fiscal 2005 Reporting Year

Unit	Percent of grants meeting the current measure and 180-day standard	
	Current closeout performance measure	180-day standard
Agencywide	79	37
Program offices	81	35
Region 1	96	30
Region 2	49	26
Region 3	97	51
Region 4	91	43
Region 5	37	16
Region 6	85	49
Region 7	90	44
Region 8	99	45
Region 9	76	32
Region 10	89	52

Source: EPA data.

Notes: For the current closeout performance measure, GAO’s analysis of information from EPA’s Grant Information and Control System database, as of November 30, 2005; for the 180-day standard, GAO’s analysis of information from EPA’s Grant Information and Control System database, as of December 31, 2005.

In guidance on preparing the annual post-award monitoring plans, the Office of Grants and Debarment has indicated that agency offices should use the agency’s current closeout performance measure—90 percent of the grants with project end dates in the prior fiscal year—as the closeout goal.³⁵ In effect, as a regional grants management office manager stated, the performance measure, not the 180-day standard, is the target EPA is working toward for closing out grants.

At the regional level, our analysis of closeout data for the wetland and nonpoint source grant programs indicates that grants were closed out late because of (1) grantee delays and/or (2) internal delays within the agency. We reviewed 34 closed grants in three regions. First, as table 7 shows,

³⁵EPA, Office of Grants and Debarment, Grants Administration Division, *Guidance for Preparation of 2005 Post-Award Management Plans* (Nov. 8, 2004).

grantees often submit their final financial and technical reports after the 90 days that they are allowed.³⁶

Table 7: Length of Time It Took Grantees to Deliver Final Financial and Technical Reports for Two Grant Programs in Regions 1, 5, and 9

Days for grantees to deliver final reports	Number of grants
1-90 days (on time)	9
91-180 days	10
181-270 days	6
271-450 days	4
451 + days	1
Report missing from file or date of receipt could not be determined	4
Total	34

Source: GAO analysis of EPA documents on selected wetland and nonpoint source grants for grants closed out between January 1, 2004, and June 30, 2005.

Note: Technical reports and financial reports are submitted separately. Our analysis is based on the date of the last report submitted.

According to regional staff, different types of grantees may be submitting their reports late for different reasons. Specifically:

- States do not always provide their final technical and financial closeout reports on time. The states may not be on time because, for example, they (1) are understaffed; (2) are awaiting the completion of work conducted by sub-grantees or subcontractors—which can be legitimately delayed because of weather conditions that affect the project’s progress; or (3) consider closeout a lower priority than applying for new grants. Furthermore, states do not believe there will be any consequences if they submit final reports late because their grants are for continuing environmental programs.
- Tribes may submit their final reports late because of high turnover among tribal staff and limited organizational capacity, and because tribal councils, which meet intermittently, must approve the reports.

³⁶The financial and technical reports are key, but not the only, documents required to closeout a grant. Other documents may include the (1) Lobbying and Litigation Certification Form and (2) Minority Business Enterprise/Women Business Enterprise report.

While grantees are responsible for providing final reports within 90 days, EPA staff are responsible for working with the grantees to ensure that the reports are received on time. Under EPA's 1992 closeout policy, grant specialists must notify grantees 90 days before the project end date that final reports will be due 90 days thereafter. However, we found that regional staff do not always send out these letters. For example, Region 5 adopted the practice of reminding grantees 45 days before the project end date because the grants management office believes that the 90 days is too long in advance to be effective. However, several Region 5 grant specialists stated that their workload is also preventing them from sending out the 45-day letter to grantees.

According to EPA's closeout policy, if a grantee is late with the final financial or technical report, the region should send reminder letters that escalate in tone as time progresses. In Region 1, for example, if the grantee does not submit its materials within 90 days, the grants management office sends a letter asking that the grantee contact its grant specialist to discuss the reasons for the overdue reports; if the region does not receive the reports within 120 days after the project has ended, the grants management office sends a certified letter that more strongly calls for the submission of these required reports.

When these letters do not result in grantee compliance, regional staff and managers told us that they have no realistic option for taking strong action against states that are late—such as withholding money—because these grantees have continuing grants for environmental programs.

Second, late closeouts result from a variety of internal agency delays. As shown in table 8, of those files that had information that we could use to determine the dates the reports were submitted, regional staff closed out about half within the 90 days provided for in EPA guidance. For 9 of the 30 files that had this report information, it took the project officers or the grant specialists over 180 days to close out the grant after receiving the final reports from the grantees.

Table 8: Length of Time Elapsed for Grants Management Offices to Close Out Grants after Grantee Provides Final Reports for Two Grant Programs, Regions 1, 5, and 9

Days from receipt of final report from grantee to closeout	Number of grants
1-90 days	14
91-180 days	7
181-270 days	3
271-450 days	2
451 + days	4
Report missing from file or date of receipt could not be determined	4
Total	34

Source: GAO analysis of EPA documents on selected wetland and nonpoint source grants for grants closed out between January 1, 2004, and June 30, 2005.

For grant closeouts, generally, regional staff often cited workload as a factor contributing to delays in agency closeout. Delays also occurred because of peak workload periods during the year, such as the fourth quarter of the fiscal year, when regions generally give priority to awarding new grants. Officials in the three regions we visited also told us that they have transferred or will transfer the administrative and financial functions of grants closeout to EPA’s Las Vegas Finance Center, which should reduce the grant specialists’ workload, allowing them to focus on other aspects of grants management.

Regional practices also may have contributed to delays in two of the three regions we reviewed. Region 5 had two practices that contributed to delays in closing out grants. First, the region uses technical contacts to assist with monitoring the wetland and nonpoint source grant programs, including closeouts. The project officer first reviews the grantee’s final reports to ensure they are complete and then asks the technical contact to comment on specific points and certify in writing that technical requirements have been met. The project officer then certifies in writing to the grant specialist that the grantee has met programmatic terms and conditions and, from that perspective, the grant can be closed out. Regional staff stated that in certain cases the added step of getting signoff by the technical contact resulted in closeout delays because the technical contact did not always review the grantee’s final reports in a timely way.

Second, to address its closeout problem, the region’s grants management office attempted an administrative change to expedite closeout—having a

single grant specialist manage closeout. When this approach did not prove effective, the region returned to its practice of having the original grant specialists responsible for closing out grants. According to regional staff, the transition to and from this process exacerbated delays in grant closeouts. The original grant specialists had other grant work and waited until that work was completed before closing out the grants that were returned to them. Region 5 had the lowest percentage of grants closing out within 180 days for all its programs among EPA's 10 regions (16 percent for fiscal year 2005 as shown in table 5).

Region 9 had delayed closures for continuing nondiscretionary grants, in part, because of a practice, discontinued in November 2004, of routinely carrying over unspent funds from these grants. That is, the region would not close out a grant until it had awarded a new grant. The unspent funds from the old grant would then be processed as an amendment to the new grant, in order to allow grantees to keep their unspent funds. For example, one state nonpoint source grant was closed 278 days beyond the 180 days because the project officer had asked the grant specialist to carry over \$426,000 in unspent funds to the following year's grant.

Overall, a combination of grantee lateness and internal inefficiencies contributed to late closeouts. For example:

- In Region 5, it took 795 days—615 days beyond the 180-day standard—to close out a 2-year wetland grant for \$56,778. The grantee submitted the final financial status report 114 days late because a key grant contact had died. However, it took the region an additional 591 days after the grantee provided the final reports to close out the grant. According to the grant specialist, closeout was delayed, in part, because of internal administrative delays and because the grant was “lost” under a stack of other closeout files.
- In Region 1, closure of a nonpoint source grant that provided \$796,532 over 10 years was delayed primarily because of a lack of documentation. According to the project officer who inherited the file from a retiring employee, the file had unusually poor documentation, with no assurance that the grant's terms and conditions had been met. Moreover, the state employee who assumed responsibility for the grant could not locate all the reports detailing how the grant money had been used. Consequently, it took the project officer nearly 5 months beyond the allotted 180 days to review available information, ascertain that grant activities had been completed, and close out the grant.

According to some of the project officers and grant specialists staff with whom we spoke, the 180 days allowed for closeout in EPA's policy is a reasonable amount of time. Moreover, some staff said that if more days were allowed, EPA might take longer. As noted in the closeout policy, as more time passes and the original grant specialists and project officers move on, it becomes more difficult to close out a grant. Finally, one regional official pointed out that if the deadline for closeout were extended, then unexpended funds would go unused for longer periods of time, which would tie up funds that could have been used for other purposes.

We note, however, that EPA still has a 1992 closeout policy that is not consistent with its current monitoring policy. Specifically, although both the 1992 closeout policy and the monitoring policy state that closeout should occur within 180 days after the end of the project period, the 1992 policy also states that closeout should occur within 180 days after receipt of all required reports and other deliverables. This aspect of the 1992 policy could be construed to mean that EPA has up to 270 days to close out grants since grantees have up to 90 days to submit their reports. Office of Grants and Debarment officials stated that EPA has formed a work group to review its monitoring and closeout policies. As part of its review, the office plans to examine this inconsistency and the reasonableness of the 180-day closeout requirement. It expects to revise these policies in 2006.

Grants Were Not Always Closed Out Properly

Adding to the agency's closeout problems, 8 of the 34 closed grants we reviewed in the regions were not closed out properly. Specifically:

- Region 1 grant specialists had not adequately reviewed the indirect cost rate grantees submitted as part of their final financial status report which, in turn, led to improper closeout in 5 of the 10 files we reviewed. Reviewing the files' final financial report checklist, we found instances in which the question on the checklist that addresses indirect cost rates had been left blank or had been answered incorrectly. This problem occurred, in part, because the grant specialists did not adequately review the work of student interns who initially reviewed the financial status reports and completed the checklists. These "noncore" employees were used to help reduce the grant specialists' workload and the grant specialists were expected to review their work before they signed off on the checklist.
- In Region 5, one grant specialist's file was missing the final financial status report, which is a key report that describes how the grantee spent the

grant funds and whether any unspent funds remain that need to be deobligated.

- In Region 9, Lobbying and Litigation Certification Forms—whose purpose is to ensure that federal dollars are not spent for lobbying or litigation activities—were missing from two grant files. After waiting some time, the grant specialist decided to close out the grants without the forms. The grant specialist manual states that grant specialists are responsible for notifying the grants management office if the grantee has not complied with this certification requirement.

EPA's guidance states that inadequate file documentation, among other things, (1) violates the file management requirement that all significant actions must be documented, (2) provides an incomplete historical record of a grant project, (3) prevents staff from substantiating facts if a dispute arises, and (4) creates the appearance of poor grant administration and oversight.³⁷ Furthermore, the guidance specifically states that the file should include evidence of closeout, including the final report or product.

In Region 1, we also identified an accountability concern when grants were closed out by administrative project officers. An administrative project officer for a Performance Partnership Grant had not always received written approval from the technical contacts, who evaluated grantee documents before the administrative project officer certified that the grantee had met all the terms and conditions of the grant. According to a regional official, technical contacts at times tell the project officer that they have reviewed technical documents but do not provide written approval. Although the administrative project officer certified that grantees met their programmatic obligations, the administrative project officer was "uncomfortable" doing so without written approval from technical contacts that they had reviewed final documents.

As with monitoring, without effective supervisory review of the grant and project officer files, grants may be improperly closed out. With more effective supervision, grants would be more likely to be properly closed out.

³⁷EPA, *Grants Management Fact Sheet for Agency Leaders: Number 10: Assistance Agreement File Documentation* (May 1, 1998).

EPA Has Initiated Actions to Obtain Results from Grants, but Its Efforts Are Not Complete

EPA has taken steps to obtain environmental results from its grants, but its efforts are not complete. First, EPA included a performance measure in its *Grants Management Plan* for identifying expected environmental results in grant workplans. In 2004, EPA was far from meeting its performance target. Although EPA does not yet have final data for 2005, EPA officials told us that their preliminary data indicate they are closer to meeting this performance target. Second, EPA issued an environmental results policy, effective in January 2005 that for the first time requires EPA staff to ensure that grants specify well-defined environmental outcomes.³⁸ However, EPA's current performance measure does not take into account the new criteria for identifying and measuring results from grants established by the policy. EPA acknowledges that it has not yet fully identified better ways to integrate the agency systems for reporting on the results of grants. While EPA has taken these positive steps, OMB's evaluations of EPA grant programs in 2006 indicate that EPA must continue its concerted efforts to achieve results from its grants.

EPA Has Developed a Performance Measure and Issued a New Policy for Specifying Environmental Results

The *Grants Management Plan* established a performance measure for identifying environmental outcomes from grants: the percent of grant workplans that discusses how grantees plan to measure and report on environmental outcomes.³⁹ In 2004, EPA was far from meeting its performance target. Although EPA does not yet have final data for 2005, an EPA official told us that their preliminary data indicate that the agency is closer to meeting this performance target of 80 percent for 2005.⁴⁰

³⁸EPA, *EPA Order 5700.7: Environmental Results under EPA Assistance Agreements* (Nov. 30, 2004).

³⁹The *Grants Management Plan's* performance measure sets a target for the percentage of grant workplans, decision memorandum, and terms of conditions that will include a discussion of how grantees plan to measure and report on environmental outcomes. However, an Office of Grants and Debarment official told us that, in practice, the grant workplan is assessed because it is the primary indicator of compliance with the policy.

⁴⁰EPA's assessment of the implementation of this performance measure had not been completed by the end of our review.

Table 9: Extent to Which EPA Met Its Target for the Percent of Grant Workplans with Environmental Outcomes, 2003-2005

Calendar year	Performance measure	
	Percent target	Percent of grant workplans with environmental outcomes
2003 (baseline)	Not applicable	31
2004	70	45
2005	80	Not yet available

Source: EPA documents.

EPA also issued an environmental results policy in 2004, which was effective in January 2005, or about 2 years later than proposed in the *Grants Management Plan*. The policy is promising in that—for the first time—it requires EPA staff to ensure that grant workplans specify well-defined environmental outputs (activities) and environmental outcomes (results), which enables EPA to hold grantees accountable for achieving them. However, planning for grants to achieve environmental results, and measuring results, is a difficult, complex challenge. As we have reported, while it is important to measure the results of environmental activities rather than just the activities themselves, agencies face difficulties in doing this.⁴¹ Environmental outputs are inherently easier to develop and report on than environmental outcomes.

The policy is also promising because, among other things, it (1) is binding on managers and staff throughout the agency; (2) emphasizes environmental results throughout the grant life cycle—awards, monitoring, and reporting; and (3) requires that grants be aligned with the agency’s strategic goals and linked to environmental results.

To align grants with the agency’s strategic goals and link the grants to results, the policy requires for the first time that EPA program offices ensure that (1) each grant funding package includes a description of the EPA strategic goals and objectives the grant is intended to address and (2) the offices provide assurance that the grant workplan contains well-defined outputs and, to the “maximum extent practicable,” well-defined outcome measures. Outcomes may be environmental, behavioral, health-related, or programmatic in nature, and must be quantitative. EPA included the provision to “the maximum extent practicable” in the policy

⁴¹[GAO-03-846](#).

because it recognized that some types of grants do not directly result in environmental outcomes. For example, EPA might fund a research grant to improve the science of pollution control, but the grant would not directly result in an environmental or public health benefit. In June 2005, the EPA Inspector General found that the agency's results policy was generally consistent with leading nongovernmental organizations that fund environmental projects and that emphasize grants performance measurements.⁴²

Efforts to Obtain Results from Grants Are Not Yet Complete

EPA's performance measure and the new results policy are positive steps, but the agency's efforts to address results are not yet complete. Although EPA has issued an environmental results policy, its current performance measure does not take into account the new criteria for identifying and measuring results. EPA has identified the following seven criteria that grant agreements should meet and is using these seven criteria as the basis for assessing the implementation of the policy.⁴³ That is, the agreements should

- include a description of how the grant is linked to EPA's *Strategic Plan*,
- specify at least one EPA goal and its related objective that the project addresses,
- identify the appropriate program results code—a code applied to new grant awards that aligns the grant with EPA's strategic goals and objectives,
- include an assurance that the program office has reviewed the workplan and that the workplan includes well-defined outputs and outcomes,
- include a requirement for performance reports from recipients,
- include well-defined outputs in the workplans, and
- include well-defined outcomes in the workplans.

⁴²EPA, Office of Inspector General, *EPA's Efforts to Demonstrate Grant Results Mirror Nongovernmental Organizations' Practices*, Report No. 2005-P-00016 (June 2, 2005).

⁴³EPA plans to complete its first review of the implementation of the new environmental results policy based on these seven criteria in 2006.

According to an Office of Grants and Debarment official, the results policy calls for outcomes that are not only well defined but that also include quantitative measures. However, recognizing the difficulty and complexity posed by applying such measures, the official said, for the purposes of assessment, EPA modified its criteria to include well-defined outcomes *with or without* quantitative measures.

Since EPA has adopted new criteria for assessing environmental results from grants based on its environmental results policy, its current performance measure—the percentage of grant workplans that discuss how grantees plan to measure and report on environmental outcomes—may not be sufficient to assess the implementation of the policy. EPA’s current performance measure does not take into account the new criteria for identifying and measuring results from grants established by the policy. Establishing a new performance measure and target to reflect the new policy would enhance EPA’s ability to assess the agency’s effectiveness in implementing the policy.

In addition, EPA continues to face difficulties in ensuring that its grants are achieving public health and environmental results. Specifically, EPA acknowledges that it has not yet fully identified better ways to integrate the agency systems for reporting on the results of grants. EPA does not have a systematic way of collecting information about the results of its grants agencywide. As stated in the results policy, the Office of Grants and Debarment convened a workgroup to (1) examine existing EPA systems for collecting results from grant programs, (2) identify better ways to integrate these systems, and (3) potentially amend the policy to reflect its findings. The workgroup has begun an inventory of existing EPA systems. Until recently, EPA recognized—but had not addressed in its results policy—the known complexities of measuring environmental outcomes: (1) demonstrating outcomes when there is a long lag time before results become apparent and (2) linking program activities with environmental results because of multiple conditions that influence environmental results. In April 2006, the Office of Grants and Debarment provided an online training course for project officers on environmental results with guidance on how to address these measurement complexities.

Furthermore, OMB has found that EPA has problems in demonstrating results from its grants. Using its Program Assessment Rating Tool (PART), OMB annually evaluates federal programs in four critical areas of

performance: program purpose and design, planning, management, and results, each scored from 0 to 100.⁴⁴ OMB combines these scores to create an overall rating: effective, moderately effective, adequate, and ineffective. In addition, programs that do not have acceptable performance measures or have not yet collected performance data generally receive a rating of “results not demonstrated.” As table 10 shows, the PART ratings have found that some of EPA’s programs are “ineffective” or “results not demonstrated,” although there has been some improvement from 2004 through 2006.⁴⁵

Table 10: Combined OMB PART Ratings of EPA Grant Programs, 2004-2006

Year	Number of grant programs by combined rating				Total
	Moderately effective	Adequate	Ineffective	Results not demonstrated	
2004	0	2	0	8	10
2005	0	9	2	5	16
2006	1	12	3	2	18

Source: OMB documents.

Despite this progress, a closer examination of the ratings for 2006 indicated that, with one exception, the scores for the results component were lower than the scores given to other components. (See table 11).

⁴⁴Although we are using OMB information, we have identified concerns about OMB’s PART. See GAO, *Performance Budgeting: OMB’s Performance Rating Tool Presents Opportunities and Challenges for Evaluating Program Performance*, [GAO-04-550T](#) (Washington, D.C.: Mar. 11, 2004). OMB’s reviews can occur about a year before they are reported as part of the President’s budget.

⁴⁵These assessments, which were part of the President’s fiscal year 2005 to 2007 budget submissions, were published in February 2004, 2005, and 2006, respectively.

Table 11: OMB PART Scores for All Components of the Combined Rating, Fiscal Year 2006

Grant program	Component scores (0 to 100)			
	Program purpose and design	Planning	Management	Results
Air Quality Grants and Permitting	60	44	77	13
Alaska Native Villages	100	50	11	7
Brownfields Revitalization	100	50	90	17
Clean Water State Revolving Fund	100	50	78	26
Drinking Water State Revolving Fund	100	63	89	33
Endocrine Disruptors	80	70	91	26
Environmental Education	60	75	90	13
Lead-Based Paint Risk Reduction Program	100	78	77	72
Leaking Underground Storage Tank Cleanup Program	100	75	100	42
Nonpoint Source Pollution Control Grants	80	88	100	40
Ocean, Coastal, and Estuary Protection	100	44	85	27
Pesticide Enforcement Grant Program	100	63	89	8
Pesticide Field Programs	80	13	44	13
Public Water System Supervision Grant Program	100	75	78	17
Tribal General Assistance Program	100	50	78	25
U.S.–Mexico Border Water Infrastructure	100	63	89	20
Underground Injection Control Grant Program	100	75	89	17
Water Pollution Control Grants	60	75	89	40

Source: OMB document.

While EPA has taken positive steps, OMB’s 2006 assessment indicates that EPA must continue its concerted efforts to achieve results from its grants.

EPA Has Taken Steps to Manage Grants Staff and Resources More Effectively but Still Faces Major Management Problems

EPA has taken steps to manage grants staff and resources more effectively in four key areas: (1) analyzing workload; (2) providing training on grant policies; (3) assessing the reliability of the agency’s grants management computer database—the Integrated Grants Management System; and (4) holding managers and staff accountable for successfully fulfilling their grant responsibilities. Because much remains to be accomplished, management attention to these issues is still needed.

EPA Is Examining Grants Staff Workload

As we reported in 2003 and found again in this review, regional grants managers and staff are concerned that staff do not have sufficient time to devote to effective grants management. They pointed out that the new policies increased the time needed to implement each step of the grants process, such as the more planned, rigorous approach now required for competing grants. However, one regional official pointed out that this increased workload has not been offset with an increase in resources or the elimination of other activities.

Fulfilling an objective identified in the *Grants Management Plan*, in April 2005, an EPA contractor completed a workload analysis of project officers and grant specialists.⁴⁶ The analysis showed that EPA had an overall shortage of project officers and grant specialists, expressed in full-time equivalents. However, the contractor recommended that before EPA adds staff, it take steps to improve the effectiveness and efficiency of its grants management operations. For example, the contractor recommended that EPA review its grant activities and assign “noncore” activities where possible to auxiliary federal or nonfederal staff to improve operations, freeing EPA staff to conduct their core work. It defined noncore activities to typically include those that are related to grant closeouts.

The Office of Grants and Debarment asked the grant offices to prepare project officer workforce plans—due in 2006—that incorporate the workload analysis to promote “accountable” grants management.

EPA Has Provided Some Training on Grant Policies

As outlined in the *Grants Management Plan*, EPA has developed a long-term grants management training plan.⁴⁷ Under the plan, EPA continues to certify project officers for grant activities by requiring them to take a 3-day project officer course before they are allowed to conduct grant management activities, and thereafter take a refresher course to maintain their certification.

To address the grant reforms, the agency provided additional training. For example, EPA held a grants management conference in 2004, attended by 465 EPA staff, which included workshops on new policies. In 2005, the

⁴⁶LMI Government Consulting, *Management of Assistance Agreements at the Environmental Protection Agency: Workload Analysis and Models*, April 2005.

⁴⁷EPA, Office of Grants and Debarment, *Long-term Grants Management Training Plan, 2004-2008*, EPA-216-R-04-001 (Washington, D.C.: Aug. 2004).

Office of Grants and Debarment conducted agencywide training on the new competition policy. It also conducted training on the environmental results policy.

However, according to EPA staff, the amount of training has not been sufficient to keep pace with the issuance of new grant policies. For example:

- A 2006 self-assessment conducted by one program office found that project officers and managers expressed frustration that both the pace and complexity of new policy requirements left project officers vulnerable because they were not properly trained in the policies.
- A 2005 Region 9 self-assessment found that the region's project officers did not believe that they had received sufficient guidance from their programs in headquarters.
- A Region 1 official stated that the rapid pace of new policies and brief lead time between issuance and the effective date made it too difficult for the regions to adequately train staff on all the new policies related to grants management. Nevertheless, Region 1 developed a training course for its project officers on the award process to address new grant reform policies issued in 2005. However, only about 25 of the region's 200 project officers attended the optional 90-minute course, although there were three opportunities to do so.

Regional officials also noted that the grant reforms are changing the skill mix required of both project officers and grant specialists. According to a Region 5 official, the grant specialist was once a clerical position, but additional responsibilities required under the new grants policies indicates that a business degree or financial background would be helpful. Region 9 officials told us that traditionally project officers had technical and scientific skills. However, the grant reforms had increased the need for interaction with grantees, which required more skills in oral communications, organization, and analysis. An Office of Grants and Debarment official explained the agency is weighing what should be considered as the right skill mix for agency staff involved in grant activities.

EPA Has Developed a Grants Database but Has Not Completed a Data Quality Review

In 1997, EPA began developing the Integrated Grants Management System to better manage its grants, and EPA now also uses this database to inform the public and the Congress about its \$4 billion investment in grants. Data quality problems in this database could impair the agency's ability to effectively manage grants and provide accurate information. In 2005, we recommended that EPA conduct a comprehensive data quality review of its Integrated Grants Management System.⁴⁸ EPA undertook a review, which it expects to be completed in 2006.

EPA Has Taken Steps to Enhance Staff and Management Accountability, but Concerns Remain

EPA's *Grants Management Plan* included an objective of establishing clear lines of accountability for grants management, including performance standards that address grants management responsibilities for project officers. As we reported in 2003, project officers did not have uniform performance standards; instead, each supervisor set standards for each project officer, and these standards may or may not have included grants management responsibilities.

Later in 2003, EPA's Assistant Administrator for the Office of Administration and Resources Management asked all senior resource officials to review the current performance standards of all employees below the senior executive service who had grants management responsibilities.⁴⁹ This review was to ensure that the complexity and extent of these employees' grants management duties were reflected in their performance standards and position descriptions. The Assistant Administrator asked senior resource officials to ensure that such standards were in place. The Office of Grants and Debarment is assessing the extent to which the guidance was implemented; the assessment is to be completed in May 2006.

As we reported in 2003, the Office of Grants and Debarment faces some difficulties in holding managers and staff accountable for effective grants management. The office does not directly oversee many of the managers and staff who perform grants management duties, particularly the approximately 2,100 project officers in headquarter and regional program

⁴⁸ [GAO-05-149R](#).

⁴⁹ According to the memorandum, the Office of Administration and Resources Management had determined that senior executive services standards adequately addressed grants management responsibilities.

offices. This division of responsibilities makes it more difficult to hold these staff accountable for grants management.

In 2005, EPA's Inspector General reported that EPA was not holding supervisors and project officers accountable for grants management.⁵⁰ Specifically:

- *EPA does not have a process to measure an individual project officer's performance in carrying out grants management duties.* In practice, supervisors relied on project officers to inform them of grants management weaknesses.
- *EPA managers and supervisors are not discussing project officer grants management responsibilities during end-of-year evaluations.* Managers were not discussing project officers' grants management responsibilities during year-end evaluations; and, if grant issues were addressed, the discussion focused on the grant recipient's performance, rather than on the project officer's performance. Supervisors provided various reasons for rating project officers without discussing grants management responsibilities, stating, for example, that the year-end evaluation should focus on problems or issues with grantee performance, and project officers' responsibilities should be discussed at staff meetings or at other times through the year.
- *EPA managers had not conveyed weaknesses from the agency's internal reviews and self-assessments to project officers.* EPA managers did not communicate weaknesses identified in internal reviews, such as a lack of documentation of cost reviews and ongoing monitoring, and supervisors were not aware of these identified weaknesses.

Our review is consistent with the Inspector General's findings. As previously discussed, EPA grants staff told us that their supervisors were not reviewing their grant files to determine compliance with grant monitoring policies. It is possible that the awarding, monitoring, and closeout problems we found would have been mitigated by effective supervisory review.

⁵⁰EPA Office of Inspector General, *EPA Managers Did Not Hold Supervisors and Project Officers Accountable for Grants Management*, Report No. 2005-P-00027 (Washington, D.C.: Sept. 27, 2005).

In response to the Inspector General's concerns, EPA issued a plan in January 2006 to ensure that the agency's new performance appraisal system—Performance Appraisal and Recognition System—addresses grants management responsibilities. The new system requires that (1) appraisals of project officers and supervisors/managers include a discussion of grants management performance; (2) performance agreements and associated mid-year and end-of-year performance discussions focus on key areas of preaward reviews of nonprofit grantees, competition, post-award monitoring, and environmental results; and (3) performance discussions take into account the results of internal reviews, such as those conducted by the Office of Grants and Debarment, self-assessments, and performance measure reviews. For the 2007 performance appraisal process, EPA plans to establish a workgroup to develop final performance measures to assess the grants management performance of project officers and supervisors and plans to incorporate these measures into 2007 performance agreements.

More broadly, to address the growing demands of the grant reforms and enhance accountability, the Office of Grants and Debarment formed a senior-level grants management council that cuts across the organization by including representatives from program offices, such as the Office of Water, and regional offices. The council is to help develop and implement new policies agencywide. Similarly, the regional offices we visited have formed grants management councils to coordinate and implement grant reforms with the region's grants management office and various program offices.⁵¹

Despite the efforts of these various national- and regional-level offices, managers, and councils to identify problems and undertake corrective actions, some grants management problems still persist. For example, although some of the regions we visited had implemented checklists as internal controls to ensure the documentation of ongoing monitoring, the regions did not ensure they were actually completed. Closeout problems that were identified by EPA's current performance measure have not been effectively addressed.

⁵¹To further assist regional grants staff in understanding new policies, Regions 1 and 9 appointed a project officer and water program manager, respectively, to serve as regional office experts on grant policies.

Conclusions

About 3 years into its *Grants Management Plan, 2003-2008*, EPA has made important strides in achieving its grant reforms, particularly in competing a higher percentage of grants and trying to identify results from its grants. However, EPA has not resolved its long-standing problems in documenting ongoing monitoring and closing out grants. As it revises its management plan, EPA has an opportunity to tackle these continuing problems.

Without adequate documentation of ongoing monitoring, EPA cannot be fully assured that grantees are on track to fulfilling the terms and conditions of their grants. Furthermore, the agency's lack of documentation indicates weaknesses at all levels: staff do not always document their monitoring; supervisors do not always effectively review grant files; and managers are not always meeting their commitments to address known problems with lack of documentation. Despite the importance of ongoing monitoring, EPA has not created a performance measure and target for documenting monitoring, which should elevate the importance of ongoing monitoring to the agency. EPA is also not taking full advantage of its grants management database, which has a data field for documenting ongoing monitoring. That is, EPA does not require project officers and grant specialists to enter monitoring documentation information into its database. With the information in the database, EPA would be better able to determine that staff are meeting documentation requirements. Use of performance measures and targets for ongoing monitoring as well as the database could enhance accountability.

EPA's current performance measure and target for closing out grants is a valuable tool for determining if grants were ultimately closed out, but it is not a tool for determining whether grants were closed out within the 180-days now specified in EPA's monitoring policy. EPA needs an accompanying measure that accurately reports whether grants are closed out within the 180 days or other standard EPA may establish. EPA's current measure and target mask the fact that, agencywide, almost two-thirds of grants are not closed out within 180 days. A specific performance measure and target will enable EPA to oversee and manage the timeliness of grant closeout. We recognize that grantees' late submission of required reports is a common problem that contributes to the lack of timeliness in closing out grants. Because fixing this problem on a case-by-case basis is difficult, the agency needs an overarching strategy to address it.

Furthermore, in the three regions we visited, we found instances in which appropriate documentation was missing from the closeout files. While we do not know the extent of this problem agencywide, these problems could

indicate a major weakness that EPA may need to address. In responding to a draft of this report, EPA acknowledged that it does have a problem in closing out grants properly. Finally, we note that inconsistencies in EPA's monitoring and closeout policies may hinder EPA's ability to close out grants in a timely fashion.

While EPA has made strides in trying to identify and obtain results from its grants by issuing an environmental results policy, it has not yet established a performance measure and target that reflect the policy's direction.

Finally, the lack of effective supervision may have contributed to the problems we identified. EPA has issued a plan in January 2006 to ensure that the agency's new performance system addresses grants management responsibilities. It is too early to tell whether this plan will effectively hold managers and staff accountable for grants management.

Recommendations

As EPA revises its *Grants Management Plan*, the agency has an opportunity to strengthen the management of its grants. We recommend that the Administrator of EPA direct the Office of Grants and Debarment to take action in the following three areas:

Ongoing monitoring.

- Develop a performance measure and a performance target for ongoing monitoring, and
- Consider requiring project officers and grant specialists to document ongoing monitoring in the agency's grants database so that the managers can monitor compliance agencywide.

Grant closeout.

- Establish a standard for the timely closeout of grants and ensure that EPA's monitoring and other policies are consistent with that standard.
- Develop a performance measure and target for the grant closeout standard.
- Develop a strategy for addressing grantees' late submission of required final documentation.
- Issue revised policies and procedures to ensure proper closeout of grants.

Environmental results.

- Develop a performance measure and target that better reflects the new environmental results policy.


Agency Comments and Our Response

We provided a draft of this report to EPA for review and comment. We received oral comments from EPA officials, including the Director of the Office of Grants and Debarment. Overall, EPA officials agreed with our recommendations, and they stated that the agency has begun to take steps to implement them and will incorporate them into the agency's and *Grants Management Plan*, policies, and procedures. In addition, EPA officials provided some clarifying language for our recommendations, which we incorporated as appropriate. Furthermore, EPA officials acknowledged that proper closeout of grants is an agencywide problem that needs to be addressed. Based on this acknowledgement, we strengthened our recommendation to state that EPA needs to issue revised policies and procedures to better ensure the proper closeout of grants, rather than determine the extent of improper closeouts at the agency. EPA agreed. Finally, EPA provided additional information about the agency's efforts to address the complexities of measuring environmental results and other clarifying comments, which we incorporated into this report, as appropriate.

As agreed with your office, unless you publicly announce the contents of this report earlier, we plan no further distribution until 6 days from the report date. At that time, we will send copies of this report to the congressional committees with jurisdiction over EPA and its activities; the Administrator, EPA; and the Director, Office of Management and Budget. We will also make copies available to others upon request. In addition, the report will be available at no charge on the GAO Web site at <http://www.gao.gov>.

If you have any questions about this report, please contact me at (202) 512-3841. Key contributors to this report are listed in appendix II. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report.

Sincerely yours,

A handwritten signature in black ink, reading "John B. Stephenson". The signature is written in a cursive style with a long horizontal flourish extending to the right.

John B. Stephenson
Director, Natural Resources and Environment

Appendix I: Scope and Methodology

This appendix details the methods we used to assess the progress the Environmental Protection Agency (EPA) has made in implementing its grant reforms.

To assess EPA's progress, we reviewed information from both headquarters and the regions. At headquarters, we reviewed EPA's *Grants Management Plan, 2003-2008* and EPA policies that address awarding, monitoring, and obtaining results from grants. We also reviewed reports on EPA's grants management, including prior GAO reports; EPA's Inspector General reports; the Office of Management and Budget's Program Assessment Rating Tool; EPA's internal management reviews, including comprehensive grants management reviews, post-award monitoring plans, grants management self-assessments from 2003 to 2005; an April 2005 workload analysis conducted by LMI, a government consultant; and a closeout analysis prepared for GAO by the Office of Grants and Debarment. We also interviewed officials in the Office of Grants and Debarment and at the Office of Water.

In addition, we reviewed EPA performance metric information. These metrics are based on data from the agency's Integrated Grants Management System, which is currently undergoing a data quality review, and the Grant Information and Control System, which has not undergone a data quality review. Given EPA's ongoing data quality review of the Integrated Grants Management System—and because we present EPA's performance metric data as documentary evidence and do not use it as the sole support for findings, conclusions, or recommendations—we did a limited reliability review of the two systems. Our assessment included (1) information from GAO's prior data reliability assessment work on the two systems and (2) interviews with an Office of Grants and Debarment official about the data systems and data elements. We determined that the performance information we used is sufficiently reliable for our purposes.

To assess the progress and problems EPA has experienced from a regional perspective, we selected EPA Office of Water programs under the Clean Water Act, at the Subcommittee's request. We selected Wetland Program Development Grants (wetland grants) because it is a discretionary grant program—that is, EPA decides who receives the award and its amount, and the program is subject to competition. We selected Nonpoint Source Management Program grants (nonpoint source grants) because it is type of formula-based grant program—grants that are often awarded on the basis

of formulas prescribed by law or agency regulation.¹ We reviewed EPA's progress at the regional level by selecting grants in 3 of EPA's 10 regional offices: Region 1 (Boston), Region 5 (Chicago), and Region 9 (San Francisco). We selected these regions because collectively they represent a significant share of grant funding for the two programs we reviewed, geographic dispersion, and a significant share of Performance Partnership Grants among the regional offices.

To ensure coverage of the grant life cycle—from awarding to closing out grants, we conducted a case study review of a nonprobability sample of these two programs. Specifically, we asked EPA Regions 1, 5, and 9 to provide lists of wetlands and nonpoint source grants awarded between January 1, 2004, and June 30, 2005, and those grants officially closed during this period. We targeted recently awarded and recently closed grants because the grant reforms began in 2002. To complete the case study, we reviewed two files per grant—the project officer file and the grant specialist file—using a detailed data collection instrument. All data entered in the data collection instrument was verified by a second party to ensure the accuracy and validity of each entry. Additionally, we conducted semistructured interviews with project officers and the grant specialists in order to understand the files. Overall, we reviewed the files for 32 active grants and 34 closed grants; and we interviewed administrative project officers, project officers, and technical contacts, and grant specialists about those files. We also interviewed senior resource officials and grants management office managers in the three regions we visited.

We were limited in the number of grants we could review because the case study approach required multiple, detailed file reviews and interviews for each grant. Consequently, we selected a nonprobability sample of active and closed grants in the wetland and nonpoint source programs to review in each of the three regions. For active grants in our nonprobability sample, we sorted the grants by recipient type, project officer, and grant specialist to provide a distribution, and then randomly selected grants for review. For closed grants, we sorted the grants similarly, but we also selected grants based on the length of time it took to close out the grant. Because the case study design is nonprobabilistic, the findings are not generalizable to all grants in all regions. However, the case study design provides insights into regional grant activities for the two Clean Water Act

¹EPA has two types of formula-based programs, nondiscretionary and continuing environmental programs, which is a hybrid of nondiscretionary and discretionary grant programs. The nonpoint source grant program is a continuing environmental program.

programs in three regions, and it offers an in-depth perspective on some of the successes and continuing problems EPA faces in implementing its grants management reforms. Table 12 shows the population of wetland and nonpoint program grants in Regions 1, 5, and 9, and the number of those grants we reviewed.

Table 12: Number of Active and Closed Wetland and Nonpoint Source Grants from January 1, 2004, through June 30, 2005, in the Universe and the Number of Grants GAO Reviewed in Three Regions

Active grants	Region 1	Region 5	Region 9	Total
Number of grants in universe	13	18	33	64
Number of grants reviewed	10 ^a	12	10	32
Closed grants				
Number of grants in universe	26	16	60	102
Number of grants reviewed	10	13	11	34

Source: GAO.

^aWe requested 11 files, but EPA Region 1 was unable to locate 1 of the files.

We experienced some limitations in conducting our review. For example, we were not able to assess the implementation of some EPA policies at the regional level because they had been issued too recently to assess during our file review time frame. We also found evidence in two of the three regions we visited that staff had added materials to their files after we had requested the files and before our review, despite the fact that we had taken precautions to avoid this situation. That is, we had asked the regions to inform staff not to add documents to files once they were requested, and we limited the time frame between our request for specific files and our review of the files. When we determined that these additions had occurred, we took mitigating steps to “restore” the grant files to their original state. Specifically, we checked the dates of documents to detect any widespread updating of files, asked all project officers and grant specialists we interviewed who were assigned to the grants in our sample whether they added anything to the file in preparation for the GAO visit, asked managers to tell their staff to point out materials added to the file, and, in one region, shortened the time between file request and our visit. To adjust for the alterations, we used a special code in our data collection instrument to denote “additions,” and later subtracted the information in our analysis. The file alteration mitigation strategies and the analysis adjustments afford us confidence in the accuracy and validity of our file review results.

We conducted our work between February 2005 and April 2006, in accordance with generally accepted government auditing standards.

Appendix II: GAO Contact and Staff Acknowledgments

GAO Contact

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Staff Acknowledgments

In addition to the contact named above, Andrea Wamstad Brown, Assistant Director; Bruce Skud, Analyst-in-charge; Rebecca Shea; Lisa Vojta; Carol Herrnstadt Shulman; Omari Norman; David Bobruff; Matthew J. Saradjian; and Jessica Nierenberg made key contributions to this report.

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