



OFFICE OF INSPECTOR GENERAL

*Catalyst for Improving the Environment*

## **Audit Report**

# **EPA Needs to Emphasize Management of Earmark Grants**

**Report No. 2006-P-00037**

**September 26, 2006**

**Report Contributors:**

Janet Kasper  
Rich Howard  
Khadija Walker

**Abbreviations**

|     |                                      |
|-----|--------------------------------------|
| EPA | U.S. Environmental Protection Agency |
| OIG | Office of Inspector General          |



# At a Glance

*Catalyst for Improving the Environment*

## Why We Did This Review

Past Office of Inspector General (OIG) audits of grants identified problems with either U.S. Environmental Protection Agency (EPA) oversight or grantee management of earmark grants. For this review, we looked at 17 prior audit and investigation products of earmark grants to determine whether, based on information in past reports, EPA should take additional actions to improve overall management of earmark grants.

## Background

A congressional earmark is a portion of an appropriation designated by Congress to be spent on a particular project. We originally reported on EPA's management of earmark grants in a 1996 report. We found that management of earmark grants was not a high priority for the Agency. Subsequently, we identified similar issues with EPA's oversight or grantee management in 17 audits and investigations of earmarks.

For further information, contact our Office of Congressional and Public Liaison at (202) 566-2391.

To view the full report, click on the following link:  
[www.epa.gov/oig/reports/2006/20060926-2006-P-00037.pdf](http://www.epa.gov/oig/reports/2006/20060926-2006-P-00037.pdf)

## ***EPA Needs to Emphasize Management of Earmark Grants***

### **What We Found**

EPA has not managed earmark grants in accordance with Agency policy and regulations. Although EPA has taken actions to improve grants management, additional steps need to be taken related to earmark grants. In particular, we noted that:

- Some EPA employees and recipients held perceptions that since earmark grants have already been approved by Congress, the Agency had limited control over them; and
- Agency policies do not provide specific options for EPA staff to follow to address concerns with earmark projects.

EPA policies require that earmarks be managed the same as any other assistance agreement. However, for earmark grants, past audits and investigations found:

- Incomplete grant workplans;
- Improper accounting and financial procedures;
- Noncompliance with grant terms and conditions;
- Noncompliance with applicable laws and regulations; and
- Conflicts of interest.

EPA's insufficient management of earmark grants over the past 10 years led the OIG to question nearly \$73 million in Federal grant funding, and EPA was unable to identify the environmental outcomes achieved from millions of additional Federal dollars.

### **What We Recommend**

We recommend that EPA issue a memorandum emphasizing the Agency's policies on earmark grants that identifies actions program offices can take to address problems encountered in awarding and overseeing earmark grants. We also recommend that EPA incorporate the memorandum's guidance into future training courses for staff that manage grants. The Agency concurred with the recommendations and plans to implement them by December 29, 2006.



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

OFFICE OF  
INSPECTOR GENERAL

September 26, 2006

**MEMORANDUM**

SUBJECT: EPA Needs to Emphasize Management of Earmark Grants  
Report No. 2006-P-00037

TO: Luis A. Luna  
Assistant Administrator for Administration and Resources Management

This is our report on the subject audit conducted by the Office of Inspector General (OIG) of the U.S. Environmental Protection Agency (EPA). This report contains findings that describe problems the OIG has identified and corrective actions the OIG recommends. This report represents the opinion of the OIG and does not necessarily represent the final EPA position. Final determinations on matters in this report will be made by EPA managers in accordance with established audit resolution procedures.

The estimated cost of this report – calculated by multiplying the project's staff days by the applicable daily full cost billing rates in effect at the time – is \$115,145.

**Action Required**

The response to the draft report indicated recommended actions will be completed by the end of 2006. As a result, no formal response to this report is necessary, but we ask that you provide us with the status of your corrective actions when they are completed. Please email an electronic version of the status of corrective actions to [kasper.janet@epa.gov](mailto:kasper.janet@epa.gov), as well as the memos you will be issuing to implement the corrective actions. We have no objections to the further release of this report to the public. This report will be available at <http://www.epa.gov/oig>.

If you or your staff has any questions regarding this report, please contact me at 202-566-0847 or [Roderick.bill@epa.gov](mailto:Roderick.bill@epa.gov); or Janet Kasper, Acting Director, Assistance Agreement Audits, at 312-886-3059 or [kasper.janet@epa.gov](mailto:kasper.janet@epa.gov).

Sincerely,

A handwritten signature in black ink, appearing to read "Bill A. Roderick".

Bill A. Roderick  
Acting Inspector General

# Table of Contents

---

|  |   |
|--|---|
| <b>Purpose</b> .....   | 1 |
| <b>Background</b> .....  | 1 |
| <b>Scope and Methodology</b> .....   | 1 |
| <b>EPA’s Management of Earmarks Needs Improvement</b> .....                | 2 |
| <b>Perceptions of Earmarks Hinder Management</b> .....                     | 2 |
| <b>EPA Policy on Earmarks Needs Improvement</b> .....                      | 3 |
| <b>EPA Has Taken Actions to Address Earmarks</b> .....                     | 3 |
| <b>EPA’s Insufficient Management of Earmarks Has Led to Problems</b> ..... | 4 |
| <i>Incomplete Grant Workplans</i> .....                                    | 5 |
| <i>Improper Accounting/Financial Procedures</i> .....                      | 5 |
| <i>Noncompliance with Grant Terms and Conditions</i> .....                 | 6 |
| <i>Noncompliance with Applicable Laws and Regulations</i> .....            | 6 |
| <i>Conflicts of Interest</i> .....   | 7 |
| <b>Grant Mismanagement Led to Misuse of Federal Funds</b> .....            | 7 |
| <b>Conclusion</b> .....  | 8 |
| <b>Recommendations</b> .....   | 8 |
| <b>Agency Response and OIG Comment</b> .....                               | 8 |
| <b>Status of Recommendations and Potential Monetary Benefits</b> .....     | 9 |

## Appendices

|  |    |
|--|----|
| <b>A Detailed List of Reports Reviewed</b> .....     | 10 |
| <b>B Issues Identified with Earmark Grants</b> ..... | 11 |
| <b>C Agency Response</b> .....                       | 12 |
| <b>D Distribution</b> .....                          | 14 |

## Purpose

The purpose of our audit was to provide a historical perspective of issues the Office of Inspector General (OIG) has identified with earmark grants. Past OIG audits of grants identified problems with either U.S. Environmental Protection Agency (EPA) oversight or grantee management of specific earmark grants. For this review, we looked at 17 prior OIG audit and investigation products on earmark grants to determine whether, based on information in past reports, EPA should take additional actions to improve the overall management of earmark grants.

## Background

A congressional earmark is a portion of an appropriation designated by Congress to be spent on a particular project. It is often referred to as a “line item” with respect to EPA’s Appropriation Acts or related reports. Agency policy indicates EPA will generally honor directions to make assistance awards for earmarks. EPA receives nearly half a billion dollars in earmarked funds each fiscal year, or about 6 percent of its annual budget. The majority of EPA earmarks are administered through assistance agreements (usually grants).

OIG originally reported on EPA’s management of earmark grants in a 1996 report.<sup>1</sup> The report noted several problems with EPA assistance agreement management, such as oversight not being a high priority and project officers having minimal involvement in managing grants. This led to \$5 million in questioned costs. Since then, we conducted an additional 17 audits and investigations that found problems with earmark grants.<sup>2</sup> Six of the 17 products found that EPA’s oversight was a cause for recipients’ misuse of Federal funds, while 12 cited recipient mismanagement as a cause for grant problems.

## Scope and Methodology

We performed this review in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. We conducted our review from April 17 through June 23, 2006. We identified and reviewed any OIG reports issued over the last 10 years that addressed earmark challenges. We also reviewed results of recent OIG investigations of earmark grants. We reviewed pertinent EPA policies, and contacted staff and managers from EPA’s Office of Administration and Resources Management, Grants Administration Division, and Region 3. We analyzed the findings from the reports and investigations, as well as our subsequent discussions with Agency personnel, and compiled the information for this report. See Appendix A for the list of the 14 reports reviewed; specifics on the 3 investigations are not provided due to confidentiality issues.

---

<sup>1</sup> *Capping Report on Audits of Congressionally Earmarked Assistance to Selected Universities*, Report No. E1FB E4-04-0261-6100313, issued September 30, 1996.

<sup>2</sup> For report purposes, the 17 audits and investigations will be referred to as OIG products.

## **EPA's Management of Earmarks Needs Improvement**

While EPA has made improvements in grants management, oversight of earmarks continues to be a challenge. Over the past 10 years, EPA did not perform adequate management and oversight of earmark grants for two primary reasons:

- Some EPA employees and recipients held perceptions that since earmark grants have already been approved by Congress, the Agency had limited control over them; and
- Agency policies do not provide specific options for EPA staff to follow to address concerns with earmark projects.

EPA policies require that earmarks be managed the same as any other assistance agreement. However, for earmark grants, past audits and investigations found:

- Incomplete grant workplans;
- Improper accounting and financial procedures;
- Noncompliance with grant terms and conditions;
- Noncompliance with applicable laws and regulations; and
- Conflicts of interest.

EPA's insufficient management of earmark grants contributed to grantee mismanagement, leading the OIG to question almost \$73 million in Federal grant funding in our prior reports, and EPA was unable to identify the environmental outcomes of millions of additional Federal dollars.

## **Perceptions of Earmarks Hinder Management**

EPA employees and recipients hold perceptions that hinder effective management of earmarks. Some EPA staff believe earmarks are "pass-through" funds that EPA should funnel on to the grantee. They believe the recipients are entitled to the funds. Thus, the EPA employees may not perform required pre-award review and oversight to the extent they do for other grants. This can also result in insufficient planning and execution of a grant project. In some instances, earmarks resulted in projects where EPA was unable to identify the environmental benefit.

For example, in 2004, OIG reported that Region 10 grants management officials believed that earmarks for the Alaska Village Safe Water Program were not subject to pre-award review and post-award monitoring. Although EPA provided Alaska with \$232 million in funding, the Region believed that EPA's goal was to provide funds for the State and grant policies did not apply because the grants were through earmarks. The Region personnel also said they believed earmarks did not need personnel or other resources for oversight, and their approach to management did not have to be as thorough. They believed programmatic (non-earmark) grant oversight needed to be more rigorous than earmark grant oversight.

EPA officials told us that grant recipients also hold the perception that earmark funding is passed through the Agency. A Senior Resource Official stated that prospective earmark recipients' perceptions of Federal funding often lead to problems when EPA exercises its authority in

awarding and managing the grants. When the Region tries to negotiate the workplans or notify the grantees that they have to submit documents to meet statutory requirements, the recipients respond by challenging EPA's authority. This can result in the Region spending more time negotiating with prospective earmark recipients, which increases the amount of resources needed to award the funds.

The perception among EPA staff that they have little control over earmark funding affects the quality of workplans and activities under the grants. One project officer told us that reviews of earmark grants were limited, with grant application packages being reviewed mainly to make certain the project funded was legally viable. Another project officer said he had participated in the review of a recipient's proposal prior to becoming the project officer and believed the scientific content was suspect, and EPA had to help the recipient reword the proposal to make it acceptable for funding. A third project officer noted difficulty in getting acceptable workplans from earmark recipients, citing a grant including outputs but not outcomes and thus making the environmental benefits unclear.

A Senior Resource Official said that earmarks are also a challenge because the money is allocated to specific recipients but EPA does not get separate resources to manage the earmarks. Consequently, resources needed to manage earmarks are taken from other priorities.

## **EPA Policy on Earmarks Needs Improvement**

Grants Policy Issuance GPI-03-01, Attachment I, *Guidance for Congressional Earmarks (Line Items)*, states:

*Awards made as a result of earmarks are subject to the applicable assistance regulations, OMB (Office of Management and Budget) cost principles and Agency policies. They must be managed as any other assistance agreement.*

Although EPA policy is that earmarks should be managed like other assistance agreements, it does not provide a mechanism for project officers to voice concerns about problematic workplans. The policy only addresses how they are to determine the statute under which to award the grant.

## **EPA Has Taken Actions to Address Earmarks**

Even though there is no specific guidance on earmarks, other guidance EPA recently issued emphasizes the importance of the pre-award management of grants. In March 2005, EPA issued Order 5700.8, *EPA Policy on Assessing Capabilities of Non-Profit Applicants for Managing Assistance Awards*. The purpose of this Order was to ensure that non-profit recipients of grants and cooperative agreements have sufficient administrative and technical capability to manage the agreement and complete the proposed workplan. As a result of this Order, there are instances where EPA has taken steps to stop funding for earmark recipients (see examples in box). These



examples show that EPA has and can exercise the authority to decline earmark funding. EPA employees' need to be aware that problems with earmark grants should be brought to the attention of senior management. EPA should issue a memorandum to identify courses of action for such instances.

#### ***Example of Earmark Canceled by Region***

In 2004, Region 3 received an earmark for \$745,600 for a nonprofit company. The goal of the project was to highlight best environmental practices in the management of golf courses and distribute the information to other golf course managers. EPA officials concluded that there was nothing new or innovative being proposed by the project. Further, in the two versions of the grant workplan that the applicant submitted to EPA, the EPA project officer noted significant deficiencies and concluded that the applicant did not have sufficient expertise to perform the work. Deficiencies included: the unallowable construction of a \$150,000 conference facility, a lack of a clear environmental objective, and a contractual budget that included \$275,000 for unspecified environmental improvements. After repeated attempts to receive an adequate application and workplan but getting no response from the applicant, the EPA grant award official notified the applicant that the grant would not be awarded. EPA also advised the staff of the congressman that provided the earmark of the grant's termination status. Although the applicant was provided the opportunity to appeal the decision, the applicant did not do so.

Source: EPA Region 3 documentation

#### ***Example of Earmark Canceled by Grants Administration Division***

In 2006, EPA returned an application for an earmark grant to perform risk assessments at a pork production facility because of concerns about the organization's ability to manage the grant. Prior to awarding the grant, in accordance with its policy, EPA requested the applicant to submit information regarding its written policies and procedures and accounting systems in order to determine if they met Federal requirements. When the applicant was, among other things, unable to demonstrate that its accounting system met Federal requirements, EPA returned the application and did not award the earmark grant.

Source: EPA Grants Administration Division documentation

## **EPA's Insufficient Management of Earmarks Has Led to Problems**

Over the past 10 years, OIG work has found that EPA did not sufficiently manage earmark grants. As a result, numerous problems occurred, such as grantees having incomplete workplans or improper financial procedures, and grantees not complying with laws, regulations, and grant conditions. Summaries on these issues as well as examples for each follow.<sup>3</sup> A detailed list of which problems applied to each OIG report or investigation is in Appendix B.

---

<sup>3</sup> The issues identified in each of these reports have been or are being resolved through the audit resolution process.

## ***Incomplete Grant Workplans***

In 4 of 17 OIG products, earmark recipients did not submit grant workplans that sufficiently outlined the work needed to accomplish the project objectives. In many cases, the EPA project officers did not perform duties EPA policies required, such as assessing technical merit and conducting cost reviews. Examples are in Table 1:

**Table 1: Examples of Incomplete Grant Workplans**

**National Rural Water Association (2006)** - The recipient received more than \$70 million over 5 years to provide training and technical assistance to rural water systems. Some of the grant work plans did not state how the outputs would result in obtaining the environmental outcomes included in the funding proposal. Therefore it was difficult to determine what environmental benefits, if any, would be accomplished by these grant projects.

**Alaska Village Safe Water Program (2005)** - In 2004, EPA awarded \$34 million in infrastructure grants for this program. Region 10 did not ensure the grant application contained environmental or public health objectives for the various projects to be funded, or provided sufficient information on particular projects being constructed. In addition, the Region's review of the application prior to awarding the grant did not assess whether there was a reasonable chance that each project funded would achieve its objective(s), and whether costs were reasonable. As a result, the Region had no assurances that the grant money would be used efficiently and effectively.

Source: Prior EPA OIG reports

## ***Improper Accounting/Financial Procedures***

In 10 of 17 OIG products, recipients did not properly account for Federal funds. A lack of internal controls and procedures resulted in improper billing, incomplete accounting records, and improper Federal reimbursements to the recipients. Examples are in Table 2:

**Table 2: Examples of Improper Accounting/Financial Procedures**

**National Association of Minority Contractors (2001)** - The recipient received \$750,000 in EPA funds to monitor States' efforts to assist minority firms in obtaining contracting opportunities and perform outreach on environmental justice activities. OIG determined that the recipient's personnel costs and related fringe and indirect costs of \$232,610 were not properly supported because employee timesheets did not represent a reasonable estimate of the actual work performed. OIG considered \$116,305 of that amount to also be ineligible. Overall, OIG determined the recipient owed EPA \$636,069.

**Association of Metropolitan Sewerage Agencies (2004)** - EPA awarded the recipient \$1,110,000 to develop a vulnerability assessment tool for municipal wastewater treatment facilities. Once the grant was received, the recipient violated a number of procurement and financial accounting requirements including: (1) awarding a contract without competition, (2) drawing down EPA funds in advance of the actual cash need, (3) not submitting any of its Reports of Federal Cash Transactions (SF-272) within 15 calendar days as required, (4) not submitting the required indirect cost rate proposal to EPA, and (5) not reporting any outlays for indirect costs.

**Alaska Village Safe Water Program (2004)** - EPA awarded \$232 million to Alaska over 9 years for the construction of rural water and sewer systems under the program. OIG found that Alaska's cash drawdowns were not in compliance with U.S. Treasury regulations regarding Federal funds. The State had an excessive cash balance of more than \$13 million as of June 30, 2002.

Source: Prior EPA OIG reports

## ***Noncompliance with Grant Terms and Conditions***

In 5 of 17 OIG products, recipients were in noncompliance with their grant terms and conditions. This led to projects not being completed and environmental outcomes and objectives not being attained. Examples are in Table 3:

**Table 3: Examples of Noncompliance with Grant Terms and Conditions**

**University of Nevada, Reno (2005)** - EPA awarded \$400,000 to the Biological Resources Research Center at the University of Nevada to create a biological baseline for the Humboldt watershed, and devise bio assessment protocols for the State of Nevada that can effectively assess the biological conditions of perennial streams and rivers. However, the recipient did not submit a final report, required under the grant terms and conditions, until OIG involvement 2½ years later. This report was not compiled or supervised by a qualified principal investigator. When the recipient submitted the final report, some of the required laboratory data was questionable and had to be re-evaluated.

**Geothermal Heat Pump Consortium (2003)** - EPA awarded \$712,500 to the recipient to increase awareness of GeoExchange (geothermal heat pump) technology through public outreach and information dissemination. However, the recipient did not comply with grant terms in several instances. This included: (1) not separately identifying and accumulating the costs for all direct activities, such as membership support and lobbying; (2) not accounting for program income generated by the activities funded by the EPA agreements; and (3) not maintaining an adequate labor distribution system. In addition to the financial management system deficiencies, the recipient also did not competitively procure contractual services or perform any of the required cost or pricing analyses, and did not comply with all reporting requirements.

Source: Prior EPA OIG reports

## ***Noncompliance with Applicable Laws and Regulations***

In 4 of the 17 OIG products, recipients were not in compliance with statutory laws or regulations due to insufficient pre-award and post-award management. Examples are in Table 4:

**Table 4: Examples of Noncompliance with Applicable Laws and Regulations**

**Investigation A** - EPA awarded \$868,242 to develop improved indicators and innovative techniques for assessing and monitoring ecological integrity at the watershed level in the western United States. The grantee received more funds than it spent, submitted the same workplan to three different Federal agencies, failed to meet Federal matching requirements, and used EPA money to fund non-EPA grant work.

**University of Nevada, Reno (2005)** - The recipient employees were paid from EPA funds for salaries, travel, and tuition for work on U.S. Fish and Wildlife Service grants, U.S. Department of Agriculture grants, and State grants. It was common for the recipient to charge one grant that had funding while waiting for funding from other grants.

**National Rural Water Association (1998)** - The recipient received approximately \$6.7 million in EPA funds under two major grant programs. The first was to assist rural and small wastewater systems in complying with Federal, State, and local regulations. The second was to provide training and technical expertise to rural and small wastewater systems to establish local groundwater protection programs. Under these grants, the recipient improperly used Federal grants and contracts to support an aggressive lobbying agenda. The recipient improperly used earmarked funds to influence the management of State associations and took actions that adversely affected the financial stability of some of those associations. Lastly, EPA and the U.S. Department of Agriculture allowed the recipient to award noncompetitive contracts to State associations contrary to Federal regulations.

Source: Prior EPA OIG reports and investigative documentation

## Conflicts of Interest

In 4 of the 17 OIG products, conflicts of interest existed between the grantee and the subcontracted entity under the grant. Examples are in Table 5:

| Table 5: Examples of Conflicts of Interest   |
|--|
| <p><b>Investigation B</b> - EPA awarded \$3.6 million to the recipient to demonstrate potential benefits of the use of a fuel additive by conducting tests. However, after award, an officer of the organization participated in the selection, award, and administration of a non-competitive contract to a company in which a relative had a financial or other interest. The recipient used EPA funds to pay for services under the contract.</p>   |
| <p><b>Investigation C</b> - EPA awarded \$441,200 to the recipient to provide technical assistance and education to industrial companies on how to reduce carbon emissions and enhance energy conservation, and to further develop outreach initiatives. A conflict of interest existed because the Executive Director of the recipient was also the president and 100-percent owner of the organization that received a sole source contract from the recipient.</p>  |
| <p><b>Lake Wallenpaupack Watershed District (2002)</b> - EPA awarded \$2.2 million to the district to perform various watershed management tasks. The District awarded a contract for performing engineering work to the engineering firm that had prepared the original application, workplan, budgets, and work schedules for the EPA assistance agreement. This firm was an agent of the district and had advance knowledge of the agreement, intended contracts, contract amounts, and proposed work schedules and forecasts for subsequent years. The District's giving the firm the "inside track" compromised the integrity of the contract award and violated EPA regulations.</p> |
| <p>Source: Prior EPA OIG reports and investigative documentation</p>   |

## Grant Mismanagement Led to Misuse of Federal Funds

EPA's insufficient management of earmark grants contributed to grantee mismanagement, leading OIG to question almost \$73 million in Federal funds. Specific examples included recipients not accounting for their activities in accordance with Federal requirements, not following Federal procurement requirements, and not performing all work agreed to under the grant. Table 6 provides a list of dollars questioned, in descending amounts, noted in OIG audits and investigations of earmark recipients.

| Table 6: List of Dollars Questioned                     |                     |
|---|---------------------|
| Report / Investigation                                  | Dollars Questioned  |
| Alaska Department of Environmental Conservation FY 2003 | \$33,887,200        |
| Alaska Department of Environmental Conservation FY 2004 | 32,976,401          |
| Investigation B   | 2,100,000           |
| MBI International                                       | 1,301,365           |
| Geothermal Heat Pump Consortium                         | 1,153,472           |
| Association of Metropolitan Sewerage Agencies           | 681,413             |
| National Association of Minority Contractors - 2001     | 636,069             |
| Investigation A   | 230,000             |
| University of Nevada, Reno                              | 21,260              |
| <b>Total Costs</b>                                      | <b>\$72,987,180</b> |

Source: Prior EPA OIG reports and investigative documentation

In addition to the costs questioned in the previous table, there were instances where EPA was unable to measure the environmental benefits of the earmark projects. Table 7 provides examples:

| <b>Table 7: Examples of Unclear Environmental Benefits</b>   |
|--|
| <b>National Rural Water Association (2006)</b> - The recipient issued Federal funds to State associations for technical assistance to rural water utilities. Without outcome measures, EPA was unable to measure the benefits of more than \$70 million in grants awarded to the recipient in the last 5 years (although we believe State associations provide valuable services).   |
| <b>Alaska Village Safe Water Program (2005)</b> - Three months after the grant was awarded, the EPA Project Officer completed a cost review and recommended that six projects totaling \$4,759,500 be eliminated; Region 10 had to amend the grant. Further, the Region was unable to provide support for its review of nearly \$1.6 million in administrative costs, as required. As noted, the Region's insufficient review of the application prior to awarding the grant led us to question whether the project funded would achieve its objective(s) and the costs were reasonable. |

Source: Prior EPA OIG reports

## Conclusion

Although EPA has taken actions to improve management of grants, additional steps are needed to manage and oversee earmark grants. Some EPA employees and grant recipients hold perceptions about earmarks that hinder effective management. Further, Agency policies do not give specific steps for employees to address concerns with projects. As a result of EPA's insufficient management over the past 10 years, OIG has questioned nearly \$73 million in Federal funds, and EPA was unable to identify the environmental outcomes of millions of additional Federal dollars.

## Recommendations

We recommend that the Assistant Administrator for Administration and Resources Management require the Office of Grants and Debarment to:

1. Issue a memorandum emphasizing EPA's policies on earmark grants that identifies actions that program offices can take to address problems encountered in awarding and overseeing earmark grants.
2. Incorporate the memorandum's guidance into future training courses for staff who manage grants.

## Agency Response and OIG Comment

The Agency concurred with our recommendations and plans to implement them by December 29, 2006. The Agency's complete response is in Appendix C.

## **Status of Recommendations and Potential Monetary Benefits**

| RECOMMENDATIONS |             |  |                     |   |                               | POTENTIAL MONETARY<br>BENEFITS (in \$000s) |                     |
|-----------------|-------------|--|---------------------|---|-------------------------------|--|---------------------|
| Rec.<br>No.     | Page<br>No. | Subject  | Status <sup>1</sup> | Action Official   | Planned<br>Completion<br>Date | Claimed<br>Amount                          | Agreed To<br>Amount |
| 1               | 8           | Require the Office of Grants and Debarment to issue a memorandum emphasizing EPA's policies on earmark grants that identifies actions that program offices can take to address problems encountered in awarding and overseeing earmark grants. | O                   | Assistant Administrator for<br>Administration and<br>Resources Management | 11/01/2006                    |  |                     |
| 2               | 8           | Require the Office of Grants and Debarment to incorporate the memorandum's guidance into future training courses for staff who manage grants.  | O                   | Assistant Administrator for<br>Administration and<br>Resources Management | 12/29/2006                    |  |                     |

<sup>1</sup> O = recommendation is open with agreed-to corrective actions pending  
 C = recommendation is closed with all agreed-to actions completed  
 U = recommendation is undecided with resolution efforts in progress

## ***Detailed List of Reports Reviewed***<sup>4</sup>

|     | <b>Report Title</b>  | <b>Report No.</b> | <b>Date Issued</b> |
|-----|--|-------------------|--------------------|
| 1.  | Single Audit Report for the State of Alaska Department of Environmental Conservation for the Year Ended June 30, 2004                                  | 2006-3-00168      | July 26, 2006      |
| 2.  | Single Audit Report for the State of Alaska Department of Environmental Conservation for the Year Ended June 30, 2003                                  | 2006-3-00167      | July 26, 2006      |
| 3.  | Congressional Request Regarding EPA Grants to the National Rural Water Association   | 2006-S-00003      | May 30, 2006       |
| 4.  | Review of Complaint on the University of Nevada, Reno, Regional Environmental Monitoring and Assessment Program Cooperative Agreement CR 826293-01     | 2006-P-00008      | December 28, 2005  |
| 5.  | Review of State of Alaska's Actions for the River Terrace Recreational Vehicle Park (RTRVP), Soldotna, Alaska  | 2005-P-00029      | September 28, 2005 |
| 6.  | Region 10's Grant for Alaska Village Safe Water Program Did Not Meet EPA Guidelines  | 2005-P-00015      | June 16, 2005      |
| 7.  | EPA Oversight of the Alaska Village Safe Water Program Needs Improvement   | 2004-P-00029      | September 21, 2004 |
| 8.  | Association of Metropolitan Sewerage Agencies – Costs Claimed Under EPA Cooperative Agreements X827577-01, X828302-01, and X829595-01                  | 2004-4-00038      | August 31, 2004    |
| 9.  | Geothermal Heat Pump Consortium, Inc. Costs Claimed Under EPA Assistance Agreement Nos. X828299-01 and X828802-01                                      | 2003-4-00120      | September 30, 2003 |
| 10. | Procurement Practices Under Grant No. X825532-01 Awarded to MBI International  | 2002-2-00008      | January 29, 2002   |
| 11. | Assistance Agreement X993795-01 Awarded by EPA to the Lake Wallenpaupack Watershed Management District   | 2002-M-00007      | January 18, 2002   |
| 12. | Grant No. X824519-01 Awarded to the National Association of Minority Contractors (NAMC)  | 2001-1-00203      | September 27, 2001 |
| 13. | Audit Report on the National Association of Minority Contractors (NAMC)  | 1999-00213        | August 23, 1999    |
| 14. | National Rural Water Association: Lobbying and Noncompetitive Contracting under Federal Assistance Agreements and Contracts No. E6DWG6-04-0048-8400017 | 1998-S-00017      | March 31, 1998     |

---

<sup>4</sup> The issues identified in each of these reports have been or are being resolved through the audit resolution process.

## *Issues Identified with Earmark Grants*

| OIG Reports/<br>Investigations<br>Reviewed                       | Incomplete<br>Grant<br>Workplans | Improper<br>Accounting/<br>Financial<br>Procedures | Noncompliance<br>with Grant Terms<br>and Conditions | Noncompliance<br>with Applicable<br>Laws and<br>Regulations | Conflicts<br>of Interest |
|--|----------------------------------|--|---|---|--------------------------|
| 1. Alaska Department of<br>Environmental<br>Conservation FY 2004 |                                  | X  | X   |   |                          |
| 2. Alaska Department of<br>Environmental<br>Conservation FY 2003 |                                  | X  |   |   |                          |
| 3. National Rural Water<br>Association 2006                      | X                                |  |   |   |                          |
| 4. University of Nevada,<br>Reno 2005                            | X                                |  | X   |   |                          |
| 5. Soldotna, Alaska 2005   |                                  |  |   | X   |                          |
| 6. Alaska Village Safe Water<br>Program 2005                     | X                                |  |   |   |                          |
| 7. Alaska Village Safe Water<br>Program 2004                     | X                                | X  |   | X   |                          |
| 8. Association of<br>Metropolitan Sewerage<br>Agencies 2004      |                                  | X  | X   |   |                          |
| 9. Geothermal Heat Pump<br>Consortium 2003                       |                                  | X  | X   |   |                          |
| 10. MBI International 2002                                       |                                  | X  |   |   | X                        |
| 11. Lake Wallenpaupack 2002                                      |                                  | X  |   |   | X                        |
| 12. National Association of<br>Minority Contractors 2001         |                                  | X  |   |   |                          |
| 13. National Association of<br>Minority Contractors 1999         |                                  |  | X   |   |                          |
| 14. National Rural Water<br>Association 1998                     |                                  | X  |   | X   |                          |
| 15. Investigation A  |                                  |  |   | X   |                          |
| 16. Investigation B  |                                  |  |   |   | X                        |
| 17. Investigation C  |                                  | X  |   |   | X                        |
| <b>Total</b>   | <b>4</b>                         | <b>10</b>  | <b>5</b>  | <b>4</b>  | <b>4</b>                 |



## Agency Response

September 15, 2006

### MEMORANDUM

**SUBJECT:** Draft Audit Report:  
EPA's Needs to Emphasize Management of Earmark Grants  
Assignment No. 2006-1187 (August 18, 2006)

**FROM:** Luis A. Luna /s/  
Assistant Administrator

**TO:** Janet Kasper  
Acting Director for Assistance Agreement Audits

Thank you for the opportunity to comment on the subject Draft Audit Report. I am pleased that the Report recognizes the steps EPA has taken to improve its pre-award management of grants, including Order 5700.8, *EPA Policy on Assessing Capabilities of Non-Profit Applicants for Managing Assistance Awards*, and that it provides specific examples of oversight actions taken by the Agency on earmark projects. I am also pleased with the ongoing support provided by the Office of the Inspector General (OIG) to the Office of Grants and Debarment's (OGD) aggressive program to ensure compliance by earmark recipients with Federal grant requirements.

The Report finds that over the past 10 years, EPA's management of earmark grants has been hampered by employee misperceptions that the Agency has limited control over earmark grants and the absence of specific remedial options in EPA policies for resolving concerns with earmark projects.

The Report recommends that OGD be required to: 1) Issue a memorandum emphasizing EPA's policies on earmark grants that identifies actions that program offices can take to address problems encountered in awarding and overseeing earmark grants; and 2) Incorporate the memorandum's guidance into future training courses for staff who manage grants.

As noted in the Report, EPA policy is clear that earmark grants are subject to the same level of oversight as other types of grants. To address the employee misperceptions mentioned in the Report, OGD will issue a short memorandum to the Agency's Senior Resource Officials reiterating existing policy and indicating the need for coordination, as appropriate, with the Office of Congressional and Intergovernmental Relations and the Office of the Chief Financial Officer on earmark issues. We do not believe a detailed memorandum outlining specific

remedial actions is necessary, since actions for non-compliance by grant applicants or recipients are already adequately covered in Agency grant regulations and Orders. We will also reference the SRO memorandum in our basic Project Officer Training course, which currently directs project officers to manage earmark grants like other assistance projects.

If you have any questions about these comments, please contact Howard Corcoran, Director, OGD, at (202) 564-1903.

cc: Senior Resource Officials  
Grants Management Officers  
Junior Resource Officials  
Richard Kuhlman  
Marguerite Pridgen  
Jeanne Conklin  
Laurice Jones  
John Nolan

## ***Distribution***

Office of the Administrator  
Assistant Administrator for Administration and Resources Management  
Agency Followup Official (the CFO)  
Agency Followup Coordinator  
Audit Followup Coordinator, Office of Administration and Resources Management  
Director, Office of Grants and Debarment  
Director, Grants Administration Division  
General Counsel  
Associate Administrator for Congressional and Intergovernmental Relations  
Associate Administrator for Public Affairs  
Acting Inspector General