



## **Office of Inspector General**

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### **Audit Report**

# **GRANTS**

## **REGION 4's IMPLEMENTATION AND OVERSIGHT OF PERFORMANCE PARTNERSHIP GRANTS**

**Report No. 1999-P00216**

**September 27, 1999**

Inspector General Division  
Conducting the Audit:

Southern Audit Division  
Atlanta, Georgia

Region Covered:

Region 4

Program Office Involved:

Performance Partnership  
Grants

September 27, 1999

MEMORANDUM

SUBJECT: Region 4's Implementation and Oversight of Performance Partnership Grants  
Audit Report No. 1999-P00216

FROM: Mary M. Boyer  
Divisional Inspector General for Audit  
Southern Division

TO: John H. Hankinson, Jr.  
Regional Administrator  
Region 4

Attached is our final report on Region 4's implementation and oversight of performance partnership grants. We discussed our findings with your staff and issued a draft report on August 3, 1999 for your review and comments. We extended the standard 30-day response period by an additional two weeks, but still did not receive any written comments. Therefore, we issued the final report without your comments.

This audit report contains findings that the Office of Inspector General (OIG) has identified and corrective actions the OIG recommends. This audit report represents the opinion of OIG, and the findings in this audit report do not necessarily represent the final EPA position. Final determinations on matters in this audit report will be made by EPA managers in accordance with established EPA audit resolution procedures.

ACTION REQUIRED

In accordance with Environmental Protection Agency (EPA) Order 2750, you, as the action official, are required to provide this office a written response to the audit report within 90 days of the final audit report date. Your response to the final report should identify any completed or planned actions related to the report's recommendations. For corrective actions planned but not completed by the response date, specific milestone dates are necessary to decide whether to close this report.

We have no objections to the release of this report to the public. If you have any questions, please call me or Ken Craiger, Team Leader at (404) 562-9830.

Attachment

## EXECUTIVE SUMMARY

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### INTRODUCTION

President Clinton announced the performance partnership grant (PPG) program on March 16, 1995, as part of his Administration's effort to "Reinvent Environmental Regulation." A PPG is a multi-program grant awarded to a state from funds otherwise available for categorical grant programs.

PPG advocates envisioned a new type of grant which provided: (a) greater flexibility; (b) improved environmental performance; (c) administrative savings; and (d) strengthened federal-state partnerships. The key principle underpinning these expected benefits was that funds from different programs or media were combined and lost their identity. A PPG had a single, integrated budget and recipients did not need to account for grants funds in accordance with the original environmental program sources. Guidance issued by Region 4 in September 1997 also stated that a PPG recipient could move funds to benefit selected projects or programs if it had met negotiated commitments. This flexibility in using grant funds was expected to make PPGs more attractive to grant recipients.

This audit is one in a series of PPG audits conducted by the OIG to provide an overall assessment of EPA's PPG program.

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### OBJECTIVES

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Our audit objectives were to determine if Region 4:

- P Had effectively implemented the PPG program to ensure that recipients accomplished overall PPG objectives;
- P Negotiated PPG work plans that included adequate financial and programmatic accountability;
- P Maintained appropriate oversight to ensure that recipients met work plan commitments and used PPG funds efficiently and effectively.

**RESULTS IN BRIEF**

Although Region 4's oversight of PPGs ensured that recipients met work plan commitments, it had opportunities to implement a more effective program that realized the flexibility and benefits that PPGs offered. The Revised Interim Guidance (Guidance) published by EPA in the October 6, 1998 Federal Register envisioned a new type of grant which provided the recipient greater flexibility, improved environmental performance, generated administrative savings, and strengthened federal-state partnerships. By fiscal year 1998, three of the eight delegated states responsible for carrying out major environmental programs in Region 4 had applied for and received PPGs. In addition, all eight state agencies responsible for carrying out Pesticides programs in Region 4 had applied for, and received relatively small agricultural PPGs.

However, we identified several factors that may have reduced participation in Region 4's PPG program and prevented grant recipients from taking full advantage of the benefits and flexibility that PPGs offered. For its part, Region 4 disseminated information about PPG benefits and flexibility that enabled grant recipients to determine if they wanted to participate in the PPG program or retain their separate categorical grants. Our audit disclosed circumstances that led us to believe that improved communications between Region 4 and its grant recipients would have a positive impact on Region 4's overall PPG program. At least two state agencies had misconceptions about PPG benefits and requirements that discouraged their participation in the program. Another state agency reported that its PPG actually increased administrative costs and delayed receipt of EPA funds. The same state agency adhered to the more rigid requirements of categorical grants and was reluctant to undertake multi-media planning and prioritization of work because existing funds were generally needed to meet commitments in the specific media areas that provided the funds and state reporting requirements required that state funds be tracked by media. Collectively, these factors made PPGs less attractive to some of the potential recipients and caused other recipients to restrict their use of grant funds to the specific media that provided the funds.

Although Region 4 officials assured us that negotiating Core Performance Measures (CPMs) with PPG recipients that focused on the measurement of environmental results was a high priority, the goal had not been realized for fiscal year 1998. Two factors that contributed to the delay in negotiating CPMs were the absence of specific controls at Region 4 for confirming that CPMs were included in work plans and multi-year work plans that were negotiated before CPMs were fully developed. These delays in negotiating CPMs made it more difficult to measure progress in meeting environmental goals.

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## RECOMMENDATIONS

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We recommend that the Regional Administrator:

- P Develop a plan for discussing the PPG concept with grant recipients to ensure that they fully understand the benefits and flexibility offered by this type grant. We further recommend that the Regional Administrator consider designating a specific Region 4 representative that is responsible for maintaining ongoing communications with current and potential PPG recipients.
- P Strongly encourage PPG recipients to initiate cross-media planning and prioritization of work in order to take full advantage of opportunities to use funds more effectively.
- P Work with South Carolina Department of Health and Environmental Control (DHEC) to determine if the specific barriers related to limited funding and state reporting requirements can be resolved or mitigated.
- P Work with DHEC to determine if there are options for reducing administrative costs.
- P Consider partial funding of PPGs at the beginning of the fiscal year if it is not practical to fully fund all media programs included in the PPG at that time.
- P Assign responsibility for monitoring progress in getting applicable CPMs in PPG recipients' work

plans to a specific individual or office. This individual or office should make periodic reports to the Regional Administrator on the progress that is being made and any obstacles that need to be overcome.

- P** Determine if it is feasible to renegotiate multi-year work plans with PPG recipients in order to incorporate CPMs that are better indicators of environmental performance.

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**REGION 4's  
COMMENTS AND  
OIG EVALUATION**

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We discussed the proposed draft report with Region 4 officials and made some changes based on their input. On August 3, 1999, we issued a draft report to the Regional Administrator for review and comment. We extended the standard 30-day response period by an additional two weeks, but still did not receive any written comments. Therefore, we issued the final report without a response from the Regional Administrator.



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## CHAPTER 1

### INTRODUCTION

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#### PURPOSE

President Clinton announced the performance partnership grant (PPG) program on March 16, 1995, as part of his Administration's effort to "Reinvent Environmental Regulation." A PPG is a multi-program grant awarded to a state from funds otherwise available for categorical grant programs.

PPG advocates envisioned a new type of grant which provided: (a) greater flexibility; (b) improved environmental performance; (c) administrative savings; and (d) strengthened federal-state partnerships. The key principle underpinning these expected benefits was that funds from different media were combined and lost their identity. A PPG had a single, integrated budget and recipients did not need to account for grants funds in accordance with the original environmental program sources. Guidance issued by Region 4 in September 1997 also stated that a PPG recipient could move funds to benefit selected projects or programs if it had met negotiated commitments. This flexibility in using grant funds was expected to make PPGs more attractive to grant recipients.

This audit is one in a series of PPG audits conducted by the OIG to provide an overall assessment of EPA's PPG program.

Our audit objectives were to determine if Region 4:

- P Had effectively implemented the PPG program to ensure that recipients accomplished overall PPG objectives;
- P Negotiated PPG work plans that included adequate financial and programmatic accountability; and

- P Maintained appropriate oversight to ensure that recipients met work plan commitments and used PPG funds efficiently and effectively.

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## BACKGROUND

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Congress authorized the award of PPGs in the Omnibus Consolidated Rescissions and Appropriations Act of 1996 and EPA's fiscal year 1998 Appropriations Act. As detailed in EPA's Guidance, a PPG was a multi-program grant awarded to a state or tribe from funds otherwise available for categorical grant programs. A state or tribe could apply for a PPG that combined funds from two or more of the 17 eligible grant programs into one or more PPGs. PPG recipients could then use the combined funds to carry out any of the program activities covered by the PPG. Each PPG had a single, integrated budget and recipients did not need to account for grant funds by the specific program or media that provided the funds.

The Guidance identified four specific types of benefits that were expected to be realized from PPGs: (a) greater flexibility; (b) improved environmental performance; (c) administrative savings; and (d) strengthened partnerships.

PPGs were intended to provide states and tribes with the flexibility needed to address their most pressing environmental priorities across all media and establish resource allocations based on those priorities. PPG recipients were also expected to develop innovative multi-media programs and activities that would be difficult to fund with separate categorical grants. Finally, PPG recipients had the option of negotiating work plans with EPA that covered more than one year.

PPG recipients were expected to improve environmental performance because they were able to establish priorities across all environmental programs, and integrate strategic goals such as pollution prevention and community-based environmental protection into their program planning. The Guidance made specific reference to the expectation that PPG recipients would be able to coordinate and integrate activities which were fragmented under many statutes, regulations and programs.

PPG recipients were also expected to lower their administrative costs by reducing the overall number of grant applications, work plans, reports and certifications associated with traditional, single media grants. Finally, a PPG was expected to strengthen partnerships between EPA and the PPG recipient because they were able to share the same environmental and program goals and jointly deploy their unique resources and abilities to accomplish those goals.

The Guidance described various types of PPGs. The simplest type of PPG was one in which essentially all of the recipient's commitments were contained in separate categorical work plans. This type of PPG is often referred to as an "administrative PPG" because the purpose in obtaining this type of PPG was primarily administrative flexibility. The Guidance indicated that this type of PPG was appropriate for PPG applicants seeking administrative flexibility only based on categorical grant work plans.

A non-administrative PPG is one that replaces the different categorical work plans with a performance partnership agreement (PPA). The Guidance defined a PPA as a negotiated agreement signed by the EPA Regional Administrator and an appropriate state official. These agreements typically set out: (1) jointly developed goals, objectives, and priorities; (2) specific work plan commitments and the strategies to be used in meeting them; (3) the roles and responsibilities of EPA and the recipient; and (4) the measures to be used in assessing progress. The Guidance indicated that this type of PPG was appropriate for applicants seeking administrative and program flexibility. However, the revised PPG Guidance issued in October 1998 no longer mentions the different types of PPGs.

PPGs could also be categorized according to whether their function is agricultural or environmental. An agricultural PPG combines minor grants or cooperative agreements within a single media such as Pesticides. Region 4 awarded pesticide agricultural PPGs to each of its eight states that totaled approximately \$5.2 million. An environmental PPG

combines major multi-media grants such as Air and Water. In 1998, Region 4 awarded PPGs in both of these broad categories. Region 4 awarded environmental PPGs totaling approximately \$18.2 million to the states of Georgia, Mississippi and South Carolina. Grant recipients that did not apply for a PPG in fiscal year 1998 received categorical grants that totaled approximately \$50 million.

According to a General Accounting Office (GAO) report published in June 1999 participation in PPGs and PPAs at the national level grew from six pilot states in 1996 to 45 states by the end of fiscal year 1998. GAO included a state in its statistics if it had an agricultural PPG, environmental PPG or both. Of the 45 states, 31 states had both PPAs and PPGs, 12 states had PPGs only, 2 states had PPAs only and 5 states did not participate at all. The GAO report also noted that on a national scale \$217 million of the \$745 million in state environmental program grants for fiscal year 1998 were consolidated in PPGs.

One of EPA's fundamental goals was to design and incorporate accountability provisions in PPGs that began the process of moving federal, state, and tribal programs toward the use of results-oriented measures of environmental and program performance that were understandable and meaningful to the public. This goal was to be achieved by negotiating work plan commitments that focused on the measurement of program and environmental outcomes and outputs.

On August 20, 1997, EPA's Deputy Administrator and the President of the Environmental Council of the States (ECOS) signed a memorandum detailing their efforts to develop a revised set of CPMs for use in measuring environmental progress. Although the memorandum stated that states were expected to use the CPMs in their PPAs, EPA and the state had the flexibility to modify, substitute, or eliminate a particular measure in order to meet specific needs of the parties involved.

**SCOPE AND  
METHODOLOGY**

The audit was conducted in accordance with Government Auditing Standards issued by the Comptroller of the United States. The audit scope was limited to the specific objectives cited above and the management controls related to these objectives. We did not extend the audit to include verification of the specific outputs and outcomes reported by the PPG recipients. Findings in the report discuss the control weaknesses identified during the audit. Actions recommended to address these and other weaknesses are included in the recommendation section of this report.

To accomplish the audit objectives, we reviewed EPA regulations applicable to the PPG program and the related policies and procedures. We interviewed the Deputy Regional Administrator, the Regional Project Officers (RPOs), Program Project Officers (PPOs) for the respective media areas and representatives from the Grants Administration Branch. We visited the two South Carolina entities (South Carolina Department of Health and Environmental Control and Clemson University's Department of Pesticide Regulation) that received PPGs and discussed the PPG program with their representatives. For these two entities, we also obtained the CPMs applicable to each PPG media area and determined if they had been incorporated in the PPG recipient's work plans for fiscal years 1998. Finally, we interviewed officials from the states of Alabama and Kentucky to determine why they elected to continue receiving categorical grants in lieu of converting to PPGs which offered recipients more flexibility in addressing environmental issues.

The audit fieldwork was conducted from February 1999 to July 1999. The audit focused primarily on PPG activities that occurred during fiscal year 1998. We incorporated certain information from a joint management assistance review of the fiscal year 1997 PPG awarded to the Georgia Environmental Protection Division (EPD). At the request of Region 4 representatives, we also extended the audit period to include a selective review of fiscal year 1999 PPG work plans to determine progress with respect to the inclusion of applicable CPMs.

**PRIOR AUDIT  
EXPERIENCE**

The Office of Inspector General (OIG) has not issued any audit reports related to Region 4's PPG program. However, the OIG and Region 4 program officials performed a joint management assistance review of the fiscal year 1997 PPG awarded to EPD. The joint memorandum, issued in April 1999, concluded that the PPG reduced administrative burden, provided needed flexibility for moving funds between media programs and fostered improved attitudes of working together. However, the memorandum pointed out that Region 4 and EPD needed to place additional emphasis on negotiating CPMs that focused on program outcomes and environmental results rather than outputs. The memorandum also concluded that Region 4's expectations concerning the content of EPD's annual reports and the roles and responsibilities of participants involved in mid-year and end-of-year program reviews needed to be clarified. EPD concurred with all suggestions for improvement made by the review team.

The GAO issued an audit report on the National Environmental Performance Partnership System (NEPPS) in June 1999. GAO reported that participation in PPAs and PPGs at the national level grew from six pilot states in 1996 to 45 states by 1998. GAO acknowledged that EPA and the states had made progress in developing results oriented performance measures, but pointed out that obstacles still needed to be overcome. The majority of state officials that GAO interviewed felt that participation in NEPPS provided worthwhile benefits even though it had not brought about any significant reduction in reporting requirements or EPA oversight.



## CHAPTER 2

# REGION 4 COULD IMPROVE THE OVERALL EFFECTIVENESS OF ITS PPG PROGRAM

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Region 4 management had opportunities to implement a more effective PPG program that offered the flexibility and benefits envisioned by the Revised Interim Guidance published in the Federal Register on October 6, 1998. For fiscal year 1998, three of the eight delegated state agencies responsible for carrying out major environmental programs applied for and were awarded PPGs. Although the eight state agencies responsible for carrying out Pesticides programs applied for and were awarded agricultural PPGs in 1998, these grants had a relatively low dollar value and did not offer the recipient flexibility for using funds to address environmental problems in other media areas. Progress in implementing an effective PPG program in Region 4 was affected by several factors. Specifically, delegated state agencies: (1) did not fully understand the PPG benefits and requirements; (2) did not fully utilize the flexibility offered by PPGs for cross-media planning or prioritization of work; (3) encountered funding problems and other barriers at the state level that made PPGs less attractive; and (4) did not consistently realize the administrative savings expected from PPGs. As a result, Region 4 and its delegated state agencies had not taken full advantage of PPG opportunities to effectively address environmental problems outside the specific media area that provided the grant funds or consistently realized the administrative savings that were expected.

Participation in the PPG program was voluntarily. Grant recipients had the option of keeping their categorical grants or applying for a PPG. However, the Guidance indicated that EPA officials should encourage states to take advantage of PPGs and Regional officials should work in partnership with states that were interested in pursuing PPGs that funded solutions to the highest environmental

priorities and ensured that EPA statutory and program requirements were met.

In 1998, Region 4 awarded both agricultural and environmental PPGs. The agricultural PPGs related to a single media and combined separate cooperative agreements for various activities such as Pesticides enforcement and certification. In 1998, all eight of Region 4's grantees applied for and received agricultural PPGs that totaled approximately \$5.2 million. The environmental PPGs combined major multi-media programs such as Air and Water and offered recipients opportunities for multi-media planning and prioritization of work. In 1998, three of Region 4's delegated states applied for and received environmental PPGs that totaled approximately \$18.2 million. Region 4 also awarded approximately \$50 million in categorical grants to recipients that did not apply for a PPG during fiscal year 1998.

The specific barriers that slowed participation in Region 4's environmental PPG program and reduced its overall effectiveness are discussed in the following sections of our report.

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**RECIPIENTS DID NOT FULLY UNDERSTAND PPG BENEFITS AND REQUIREMENTS**

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Certain delegated state agencies in Region 4 had misconceptions about PPG benefits and requirements that may have discouraged them from participating in the program or limited their ability to use grant funds more effectively. Because the PPG concept combined various media funds and made them indistinguishable, a grantee was not required to account for funds by the specific program or media that originally provided the funds. Guidance issued by Region 4 in September 1997 further stated that a PPG recipient could move funds to benefit selected projects or programs if it had met negotiated commitments. However, South Carolina, Alabama and Kentucky officials expressed uncertainty about Region 4's expectations concerning their use and accountability of PPG funds.

A South Carolina official, who played a key role in deciding whether DHEC applied for a PPG, indicated he was not sure whether Region 4 representatives expected the state to

maintain records which would enable a federal auditor to verify that funds from a specific media were used to meet a commitment in the work plan for that same media. He initially stated "his perception" was the state was expected to maintain such records. He then amended his statement and said his "fear" was the state was expected to maintain this information.

Several other South Carolina officials who were involved with PPGs also indicated they were not certain whether their offices should maintain these types of detailed records. An Assistant Bureau Chief told us about an inquiry made by Region 4 officials concerning how the state used EPA funds. EPA Headquarters needed the information to satisfy Government Performance Results Act (GPRA) requirements. Region 4 officials made it clear that the state was not required to report this information and they were prepared to use a formula to estimate how the funds were spent. However, if the state had more accurate information readily available and was willing to provide it voluntarily, Region 4 would use the state's data. We were told about the inquiry in the context of our questions concerning the type of records which the Assistant Bureau Chief thought the state needed to maintain. This inquiry may have influenced the state's perception of what records it needed to maintain in order to promote goodwill with Regional counterparts.

Aside from officials in South Carolina, officials in Alabama and Kentucky also had misconceptions about basic PPG principles. The Director of the Alabama Department of Environmental Management (ADEM), who was a key figure in deciding whether ADEM applied for a PPG, thought the state still needed to maintain records which would enable a federal auditor to verify that federal dollars provided by a specific media were spent on commitments in the work plan of the same media even if a PPG was awarded. The Director also thought the state would need to get EPA's approval to shift PPG money from the work plan of one media to the work plan of a different media even if the commitments in both media work plans had already been met.

Similar views were expressed by the Manager of Kentucky's Planning and Program Coordination Branch, the entity which was responsible for evaluating the merits of applying for a PPG. The Branch Manager also indicated that the same views were held by other Kentucky officials involved in deciding whether the state should apply for a PPG.

The lack of ongoing communications between Region 4 and its delegated states may have contributed to misconceptions about the PPG program. For example, the Director of ADEM indicated that he has not had a significant discussion about PPG or PPA concepts with any federal official during the preceding year. Moreover, he did not recall having such a discussion in the prior year. According to the Director, he and his staff had waited to hear how other states' felt about their PPGs and PPAs before evaluating the concepts to determine potential benefits to ADEM. At the time of our discussion, his understanding was that PPG benefits had not met expectations and were not worth the extra effort. The Director could not estimate the likelihood that ADEM would apply for a PPG, or request the opportunity to negotiate a PPA in the future.

In our opinion, grant recipients were less likely to apply for a PPG when they did not fully understand the benefits and flexibility such a grant offered. Also, recipients that had PPGs may have been less likely to employ innovative concepts such as cross-media planning and prioritization of work if they did not fully understand the flexibility that a PPG offered.

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**PPG BENEFITS AND  
FLEXIBILITY NOT  
FULLY UTILIZED  
BY RECIPIENTS**

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Although the PPG concept offered grant recipients great flexibility in addressing multi-media environmental problems, delegated states were reluctant to use the flexibility and generally adhered to the same rigid constraints imposed by categorical grants. When a PPG replaces two or more categorical grants, funds from different media are combined in a common pool and become indistinguishable. Some Region 4 officials described this as a process of converting Air or Water dollars to "vanilla dollars." When conceptualized this way, PPG advocates

expected recipients to conduct planning across media lines in order to direct funds to the most critical environmental problems regardless of the specific media involved.

Aside from the impact of multi-media planning, PPG recipients had opportunities for prioritizing the effective use of “excess funds.” Under the categorical grant process, any media funds that remained after all media work plan commitments were met, had to be spent on a commitment for the same media. Once all commitments in media work plans had been met, Region 4 guidance permitted PPG recipients to move funds to benefit selected projects or programs. Despite these opportunities, we did not see any evidence that DHEC officials did anything different under their fiscal year 1998 PPG than under their fiscal year 1997 categorical grants, except for the administrative activity that combined six categorical grants into a single PPG. For example, DHEC media officials negotiated separate work plans exactly as they did when they received categorical grants, and they monitored the execution of these work plans exactly as they did when they received categorical grants. At the end of the PPG period, DHEC retained all carryover (unspent) funds in the same media that originally provided the funds, exactly as it did under the previous categorical grants.

We recognize that DHEC chose the simplest type of PPG, an “administrative PPG,” which contemplated the continued use of separate categorical media work plans. We further recognize that the major reason for obtaining the PPG was to obtain administrative savings. However, this did not preclude DHEC officials from conducting cross-media planning and prioritization of work. For fiscal year 1998, DHEC basically followed the more rigid categorical grant requirements even though the Assistant Deputy Director told us that part of his intent in applying for a PPG was to position the state to take advantage of the flexibility and benefits the program offered.

In a joint management assistance review of the PPG awarded to the Georgia EPD, grantee officials told us that they liked the flexibility that the grant offered, but had not

yet used any funds outside the specific media that provided the funds.

To the extent that PPG grant recipients continue to operate the same way they operated under categorical grants, they are not participating in the opportunity to redefine and improve the state/federal partnership. If a recipient is not examining opportunities for multi-media planning or shifting funds across media to address higher priorities, it may be missing an opportunity to use grant funds more effectively in protecting human health and the environment.

Region 4 officials pointed out that grant recipients had the discretion of using innovative techniques such as multi-media planning and prioritization of work, but it was not a program requirement. Region 4 officials also pointed out that a PPG recipient (Mississippi) that we did not review during our audit was moving forward with multi-media planning initiatives.

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**FUNDING PROBLEMS  
AND BARRIERS MADE  
PPGs LESS  
ATTRACTIVE TO  
RECIPIENTS**

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One PPG recipient encountered specific barriers that limited its opportunity for prioritizing work and cross-media planning. Another PPG recipient, that was pleased with the flexibility and benefits the grant offered, reverted back to separate categorical grants in order to avoid payment of indirect costs. Correspondingly, these same barriers limited Region 4's ability to bring about positive change through their efforts to implement the PPG concept.

DHEC officials indicated that over the last four or five years, the amount of EPA grant money declined, existing work commitments were retained, and new commitments were added. As a result, all funds provided for each media were needed to meet the media-specific commitments in the categorical work plans, many of which were required by law, regulation, or policy. Region 4 officials acknowledged DHEC's concerns, but pointed out that reduced funding was an Agency-wide problem. Accordingly, funds were not generally available during the planning phase for application to new cross-media initiatives. Further, there were no excess funds at year end, or discretionary funds during the

year which could theoretically be targeted to meet prioritized needs of different media.

The second flexibility barrier reported by DHEC related to state reporting requirements that obligated officials to keep track of state funds by specific media. DHEC officials maintained records which enabled them to tell the State Legislature exactly how funds were spent and the source of the funds. DHEC traced expenditures to activities for specific media. The source of funds was traced back to the state appropriation or, in the case of EPA funding, to the media which provided the funds through the PPG. Tracing funds from “cradle-to-grave” discouraged DHEC officials from engaging in cross-media activity or shifting funds from one media to another. DHEC was also reluctant to report to the South Carolina Legislature that funds provided under an appropriation for one media were used to fund an activity in a different media. This reluctance also carried over to EPA funds.

Clemson University’s Department of Pesticides Regulation (DPR) reported that it was well pleased with the flexibility, benefits and administrative savings provided by its PPG during fiscal year 1998, but reverted back to three separate cooperative agreements for fiscal year 1999 for reasons beyond the control of Region 4 or itself. State and Clemson University policy required that large grants and cooperative agreements (\$200,000 or more) absorb a portion of the University’s indirect costs. In 1998, the indirect cost rate was approximately 15.5 percent. Combining the three cooperative agreements in a single PPG placed DPR in the large grant category and obligated it to pay indirect costs. For fiscal year 1999, DPR concluded the benefits realized from the PPG did not offset the obligation to pay indirect costs and reverted back to separate cooperative agreements because none of the three cooperative agreements individually exceeded the \$200,000 threshold that triggered payment of indirect costs.

**ADMINISTRATIVE  
SAVINGS NOT  
CONSISTENTLY  
REALIZED**

The Guidance made it clear that PPGs were expected to reduce administrative costs, in terms of both dollars and time, by reducing the overall number of grant applications, work plans, reports and certifications associated with traditional, single media federal grants. The three PPG recipients that we reviewed reported mixed results. Grantee officials from EPD and DPR reported that the PPG reduced their overall administrative burden. However, grantee officials from DHEC reported that their PPG actually increased administrative costs even though their primary objective in applying for a PPG was administrative savings. Although grantee officials could not precisely quantify the administrative time spent on their PPG, they estimated it to be approximately 11 staff days more than they spent on all six categorical media grants for the previous year.

DHEC officials also expressed concern that the fiscal year 1998 PPG increased their overall financing costs because Region 4 did not award the grant timely. Region 4 did not award DHEC any PPG funds until all six media programs could be fully funded. This obligated DHEC to spend state funds to finance the EPA portion of five media programs that could have been funded sooner if categorical grants had been awarded. Specifically, the fiscal year 1998 PPG was awarded 40 days after the average date of award for the six categorical media grants for fiscal year 1997. Some of the delay may be attributed to the fact that EPA and state officials were just learning how to process PPGs in 1998. Region 4 also encountered special circumstances that delayed all grants awards at the beginning of fiscal year 1998. However, the funding delay was partially attributed to Region 4's decision to not award any funds to DHEC until all necessary paper work had been completed for all six media that were ultimately included in the PPG. Regardless of the specific reasons for delaying the PPG award, DHEC officials felt that it increased their overall financing costs compared to prior year categorical grants. We recognize that partially funding a PPG or otherwise advancing PPG funds before full funding is available for all PPG media may entail significant effort. However, we believe the issue needs to be clearly addressed because potential PPG



recipients contemplating applying for a PPG will likely need to know when EPA funding will be made available to them.

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## CONCLUSION

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Misconceptions and uncertainties about PPG benefits and requirements made some categorical grant recipients less likely to apply for PPGs. Two delegated states that were awarded environmental PPGs basically adhered to the more rigid categorical grant requirements and had not taken advantage of opportunities to use funds outside the specific media that provided the funds. Uncertainties about Region 4's expectations concerning the use of PPG funds combined with state reporting requirements may have discouraged at least one delegated state from considering the flexibility of cross-media planning and prioritization of work in order to use grant funds more effectively. The same delegated state reported that the process of replacing categorical grants with a PPG actually increased its administrative and financing costs because it delayed EPA funding for that fiscal year. Collectively, these factors adversely affected the opportunity for Region 4 and its state agencies to take full advantage of the benefits and flexibility that PPGs offered.

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## RECOMMENDATIONS

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We recommend that the Regional Administrator:

- 2-1 Develop a plan for discussing the PPG concept with grant recipients to ensure that they fully understand the benefits and flexibility offered by this type grant. We further recommend that the Regional Administrator consider designating a specific Region 4 representative that is responsible for maintaining ongoing communications with current and potential PPG recipients.
- 2-2 Strongly encourage PPG recipients to initiate cross-media planning and prioritization of work in order to take full advantage of opportunities to use funds more effectively.
- 2-3 Work with DHEC to determine if the specific barriers related to limited funding

and state reporting requirements can be resolved or mitigated.

- 2-4 Work with DHEC to determine if there are options for reducing administrative costs.
- 2-5 Consider partial funding of PPGs at the beginning of the fiscal year if it is not practical to fully fund all media programs included in the PPG at that time.

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**REGION 4's COMMENTS  
AND OIG EVALUATION**

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We discussed the proposed draft report with Region 4 officials and made some changes based on their input. On August 3, 1999, we issued a draft report to the Regional Administrator for review and comment. We extended the standard 30-day response period by an additional two weeks, but still did not receive any written comments. Therefore, we issued the final report without a response from the Regional Administrator.

## CHAPTER 3

# REGION 4 COULD IMPROVE PROGRAMMATIC ACCOUNTABILITY BY INCREASING THE USE OF CORE PERFORMANCE MEASURES

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Region 4 needs to emphasize the inclusion of applicable CPMs in the work plans of PPG recipients consistent with the EPA/ECOS memorandum dated August 20, 1997. The fiscal year 1998 work plans for the environmental PPG awarded to DHEC did not include 29 of the 47 applicable CPMs. Also, the fiscal year 1998 work plans for the eight agricultural PPGs awarded to various state agencies did not specifically include the three CPMs that the RPO determined were applicable. Although Region 4 made substantial progress during fiscal year 1999, the negotiated work plans still did not include all applicable CPMs. There were two primary reasons for the omission of CPMs from the work plans of PPG recipients: (1) the responsibility for negotiation of PPG recipients' work plans was shared by several PPOs with no single individual or office having overall responsibility for confirming that all CPMs were included; and (2) multi-year work plans had been previously negotiated for several media programs and PPOs were reluctant to renegotiate existing agreements. When CPMs were omitted from work plans, PPG recipients generally measured and reported performance based primarily on the accomplishment of specific activities rather than environmental results. This made it more difficult to measure progress in meeting environmental goals.

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### **SHARED RESPONSIBILITY FOR NEGOTIATION OF CPMs SLOWED PROGRESS**

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The Guidance for PPGs stated that one of EPA's fundamental goals was to design and incorporate accountability provisions in PPGs that began the process of moving programs toward the use of results-oriented measures of environmental and program performance that were understandable and meaningful to the public. On August 20, 1997, EPA's Deputy Administrator and the President of ECOS signed a memorandum detailing their

efforts to develop a revised set of CPMs for use in measuring environmental progress of PPG recipients.

We reviewed the fiscal year 1998 work plans for the environmental PPG awarded to DHEC and agricultural PPG awarded to DPR to determine what progress Region 4 had made in negotiating CPMs with PPG recipients. The fiscal year 1998 environmental PPG awarded to DHEC covered six different programs. Representatives from DHEC and Region 4's PPOs negotiated work plans for the six programs. The following table summarizes the number CPMs applicable to each program and the number of CPMs actually included in the negotiated work plans. Region 4's PPOs assisted us in compiling the statistics presented in the table below because: (1) CPMs were periodically added, deleted, combined or modified, (2) the applicability of some CPMs to specific programs was subject to interpretation, and (3) not all CPMs were incorporated verbatim in the work plans of PPG recipients.

<b>Media</b>	<b>Number of CPMs Applicable To DHEC</b>	<b>Number CPMs That Were In FY 1998 Work Plans</b>
Air	19	0
RCRA	4	2
Surface Water	17	9
Ground Water	1	1
PWSS	3	3
UIC	3	3
<b>TOTALS</b>	<b>47</b>	<b>18</b>

Region 4 officials pointed out that negotiation of DHEC's fiscal year 1998 work plans began in April or May of 1997 and was probably completed by August 20, 1997 when the EPA/ECOS agreement was finalized. They also felt that DHEC's fiscal year 1999 work plans would be more representative of their progress in negotiating CPMs. We performed a less detailed review of DHEC's fiscal year

1999 work plans to confirm progress had been made, but the CPMs negotiated for each media could not be easily identified and the overall progress quantified. Although Region 4's PPO for the Air program successfully incorporated all applicable CPMs in DHEC's fiscal year 1999 work plan, DHEC gave only "conditional acceptance" to more than a third of the commitments. DHEC's reasons for the "conditional acceptance" included inadequate funding and disagreement with commitment dates. PPOs for other media areas also voiced concerns that DHEC would have difficulty meeting CPM commitments. For example, Region 4's PPO for the Resource Conservation Recovery Act (RCRA) was concerned that a year 2005 commitment could not be met because the baseline data had not been developed in 1997.

The fiscal year 1998 agricultural PPG awarded to DPR replaced three separate Pesticides cooperative agreements that covered enforcement, certification and a special Pesticides program. The RPO acknowledged that at least three CPMs were applicable to the Pesticides program, but were not specifically included in DPR's negotiated work plan for fiscal year 1998. According to the RPO, fiscal year 1998 negotiated work plans for the other seven agricultural PPGs awarded by Region 4 also omitted specific references to CPMs. The RPO offered two possible explanations for not specifically addressing CPMs when negotiating work plans: (1) agricultural PPG recipients were not part of ECOS and had not been involved in the discussions and decisions related to CPMs; and (2) national guidance for agricultural PPGs still had not been updated to address EPA's expectations related to the negotiation of CPMs even though the guidance for fiscal year 2000 had been issued. Although the negotiated work plans did not specifically include CPMs, the RPO felt that the goals and objectives described by the CPMs were being met. For example, state reporting requirements associated with categorical grants such as certification and training were continued under the PPG program. The RPO felt that these reporting requirements captured the philosophy and intent of most CPMs.

Although Region 4 officials assured us that negotiating work plans with PPG recipients that included applicable CPMs was a high priority, Region 4 had not established specific controls to ensure that this goal was achieved. In our opinion, a significant factor was that singular responsibility had not been established for ensuring that all applicable CPMs were incorporated in the media work plans. Region 4 had not designated a specific individual or office that was responsible for determining if applicable CPMs were incorporated in the work plans of PPG recipients. To obtain this information, we needed to ask the PPOs for each media about the CPMs that were in their specific work plan. As discussed above, the emphasis placed on negotiating CPMs varied by PPO. When CPMs were not included in media work plans, we did not see any reports to upper management concerning the progress that was being made, or the obstacles that were being encountered, regarding Region 4's goal of negotiating CPMs with PPG recipients. This caused us to believe that making a specific individual or office responsible for confirming that media work plans contained all applicable CPMs would help Region 4 meet its goal.

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**REGION 4 WAS  
RELUCTANT TO  
RENEGOTIATE MULTI-  
YEAR WORK PLANS  
THAT EXCLUDED CPMs**

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The existence of multi-year work plans that preceded the award of a PPG was another factor that slowed progress in negotiating CPMs with PPG recipients. At the time the fiscal year 1998 CPMs were finalized and the PPG was awarded to DHEC, several of the media already had negotiated work plans in place that covered more than one fiscal year, including 1998. According to the PPOs that were responsible for negotiating the CPMs, they were reluctant to attempt to renegotiate the existing agreements. Instead, they concluded it would be appropriate to wait until a new work plan was negotiated to include the applicable CPMs.

The joint management assistance review that the OIG and Region 4 performed on the PPG awarded to the EPD disclosed a similar delay in negotiating CPMs. In this case, a PPA was used to replace the specific media work plans. However, all program-specific negotiations for fiscal year 1998 PPA had been completed before the EPA/ECOS

agreement on CPMs was finalized. Although Region 4 and EPD made a commitment to implement the EPA/ECOS agreement, neither party chose to reopen negotiations to include the new CPMs in the fiscal year 1998 PPA.

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**CONCLUSION**

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Region 4 and its PPG recipients had not fully implemented the agreement that EPA negotiated with ECOS concerning the use of CPMs that were intended to make work plan commitments more results-oriented and measure progress in terms of environmental outputs and outcomes. Although Region 4 officials assured us that negotiating CPMs with PPG recipients was a high priority, the fiscal year 1998 work plans that we reviewed did not consistently include all applicable CPMs. This occurred because several PPOs shared responsibility for negotiating CPMs and Region 4 did not have specific controls for confirming that work plans included all applicable CPMs. Progress in negotiating CPMs was also slowed by the reluctance of Region 4 and PPG recipients to renegotiate multi-year work plans. These delays in negotiating CPMs made it more difficult to measure progress in meeting environmental goals.

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**RECOMMENDATIONS**

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We recommend that the Regional Administrator:

- 3-1. Assign responsibility for monitoring progress in getting applicable CPMs in PPG recipients' work plans to a specific individual or office. This individual or office should make periodic reports to the Regional Administrator on the progress that is being made and any obstacles that need to be overcome.
- 3-2. Determine if it is feasible to renegotiate multi-year work plans with PPG recipients in order to incorporate CPMs that are better indicators of environmental performance.

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**REGION 4's COMMENTS  
AND OIG EVALUATION**

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We discussed the proposed draft report with Region 4 officials and made some changes based on their input. On August 3, 1999, we issued a draft report to the Regional Administrator for review and comment. We extended the

standard 30-day response period by an additional two weeks, but still did not receive any written comments. Therefore, we issued the final report without a response from the Regional Administrator.



**APPENDIX I**

**ABBREVIATIONS & DEFINITIONS**

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**ABBREVIATIONS**

ADEM	Alabama Department of Environmental Management
DHEC	Department of Health and Environmental Control, State of South Carolina
DPR	Department of Pesticides Regulation, Clemson University
EPA	Environmental Protection Agency
EPD	Environmental Protection Division, State of Georgia
GAO	General Accounting Office
GPRA	Government Performance Results Act
OIG	Office of Inspector General
PWSS	Public Water Supply Supervision
RCRA	Resource Conservation Recovery Act
UIC	Underground Injection Control

**DEFINITIONS**

**Administrative PPG**

An Administrative PPG is the simplest type of PPG where essentially all of the grantee's commitments are contained in separate categorical media work plans. The purpose of this type PPG is primarily to obtain administrative flexibility.

**Agricultural PPG**

A single grant that combines multiple grants or cooperative agreements that were previously awarded to funds different activities related to a specific media. Region 4 used this type PPG to combine various Pesticides activities such as certification and enforcement. Agricultural PPGs were sometimes referred to as Pesticides PPGs by Region 4.

**Categorical Grant**

Media-specific or multi-media grant for a particular program or narrowly defined activities.

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**Core Performance Measures (CPMs)**

CPMs are environmental indicators, program outcomes and program outputs used by EPA and states to track environmental and program progress and to explain accomplishments to the public. Yearly, EPA's national program offices and ECOS agree to a set of national core performance measures to be used in developing PPGs and performance partnership agreements (PPAs).

**Environmental PPG**

A single grant to a delegated state that combines multi-media funds such as Air or Water and replaces multiple categorical grants.

**Environmental Council of States (ECOS)**

ECOS is a national nonpartisan, nonprofit association of state and territorial environmental commissioners.

**National Environmental Performance Partnership System (NEPPS)**

A national agreement between EPA and states which focuses joint efforts on environmental results and accountability. PPAs/PPGs are tools used to implement NEPPS.

**Outcome**

The environmental result, effect, or consequence that will occur from carrying out an environmental program or activity that is related to an environmental or programmatic goal or objective.

**Output**

An environmental activity or effort and associated work products related to an environmental goal or objective that will be produced or provided over a period of time or by a specified date.

**Performance Partnership Agreement (PPA)**

A strategic document with negotiated environmental priorities and goals agreed to by the Regional Administrator and a state which may also be used as a work plan for a grant.

**Performance Partnership Grant (PPG)**

A single grant made to a state from grant funds allocated and otherwise available for more than one existing categorical grant program. PPGs are voluntary and provide states the option to combine funds from two or more of their categorical grants into one or more PPGs.

**Program Project Officer (PPO)**

The official designated as EPA's program contact with a grant recipient. PPOs are responsible for monitoring the program-specific aspects of PPGs.

**Regional Project Officer (RPO)**

The individual appointed by the Regional Administrator to serve as Project Officer for a PPG.

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**APPENDIX II**

**DISTRIBUTION**

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Region 4

Deputy Regional Administrator  
Assistant Regional Administrator for Policy & Management  
Regional Project Officer  
Audit Followup Coordinator