



**Office of Inspector General**

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**Audit Report**

# **Surveys, Studies, Investigations, and Special Purpose Grants**

**Report No. 2002-P-00005**

**March 21, 2002**

**Inspector General Divisions  
Conducting the Audit:**

**Mid-Atlantic Division  
Philadelphia, PA**

**Eastern Division  
Boston, MA**

**Central Division  
Dallas, TX Office**

**Northern Division  
Chicago, IL**

**Regions Covered:**

**Regions 1, 3, 4, 5, 6, 8, 9 and 10**

**EPA Offices Covered:**

**Administration and Resources  
Management**

**Air and Radiation**

**Enforcement and Compliance  
Assurance**

**International Affairs**

**Policy**

**Prevention, Pesticides and  
Toxic Substances**

**Research and Development**

**Solid Waste and Emergency Response**

**Water**



**UNITED STATES ENVIRONMENTAL PROTECTION AGENCY  
OFFICE OF INSPECTOR GENERAL  
MID-ATLANTIC DIVISION  
1650 Arch Street  
Philadelphia, Pennsylvania 19103-2029  
(215) 814-5800**

March 21, 2002

**MEMORANDUM**

**SUBJECT:** Audit Report:  
Surveys, Studies, Investigations, and Special Purpose Grants  
Report No. 2002-P-00005

**FROM:** Lisa White /s/ Lisa White  
Project Manager  
Mid-Atlantic Division (3AI00)

**TO:** Morris X. Winn, Assistant Administrator  
for Administration and Resources Management (3101)

Attached is our final audit report on the use of assistance agreements by the Environmental Protection Agency (EPA) awarded under Catalog of Federal Domestic Assistance (CFDA) number 66.606, "Surveys, Studies, Investigations, and Special Purpose Grants." This is one of a series of audits that shows the need for improved EPA management of assistance agreements. The objectives of the audit were to determine whether: (1) the results of the assistance agreements awarded under CFDA 66.606 are useful and contribute to protecting human health and the environment; (2) the same CFDA 66.606 assistance recipients were funded year after year; and (3) CFDA 66.606 assistance agreements could have been awarded under a program-specific CFDA number.

This audit report contains issues that describe problems the Office of Inspector General (OIG) has identified and corrective actions the OIG recommends. This audit report represents the opinion of the OIG. Final determinations on matters in this report will be made by EPA managers in accordance with established EPA audit resolution procedures. Accordingly, the issues contained in this report do not necessarily represent the final EPA position, and are not binding upon EPA in any enforcement proceeding brought by EPA or the Department of Justice.

## **ACTION REQUIRED**

In accordance with EPA Order 2750, you are requested to provide a written response within 90 days of the date of this report. A corrective actions plan for agreed upon actions, including milestone dates, should be included. We have no objections to the further release of this report to the public. If you or your staff have any questions, please contact me or Carl Jannetti at (215) 814-5800. This report will be available at <http://www.epa.gov/oigearth/eroom.htm>.

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## ***Executive Summary***

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### **Purpose**

During a prior audit, we found that more than \$617 million of the Environmental Protection Agency's (EPA's) \$1.3 billion in discretionary assistance agreements was not awarded under a program-specific Catalog of Federal Domestic Assistance (CFDA) number. Instead, these agreements were awarded under CFDA number 66.606 - "Surveys, Studies, Investigations, and Special Purpose Grants." This is a non-specific CFDA number used by all program offices for miscellaneous projects. The purpose of this audit was to determine whether:

- ! The results of the assistance agreements awarded under CFDA 66.606 are useful and contribute to protecting human health and the environment.
- ! The same CFDA 66.606 assistance recipients were funded year after year.
- ! CFDA 66.606 assistance agreements could have been awarded under a program-specific CFDA number.

### **Results in Brief**

EPA did not measure whether the CFDA 66.606 assistance agreements it awarded achieved results that contribute to protecting human health and the environment. Further, EPA frequently funded the same assistance agreement recipients year after year. Also, EPA could have awarded many of the agreements under a program-specific CFDA number. One reason these deficiencies occurred is because program offices generally focused on outputs – not the actual results achieved. Individual assistance agreement results must be planned and measured to determine the usefulness and success of the assistance agreement. Consequently, EPA had no assurance that money used for assistance agreements was awarded for projects that were useful in achieving EPA's mission of protecting human health and the environment.

During our review, we also noted several instances of apparent conflicts of interest. These involved a nonprofit organization awarding a contract to the company that created it, and another organization using agreement funds to pay one of its own employees as a consultant.

## **Recommendations**

We made recommendations to EPA to require its personnel to award assistance agreements with measurable results that contribute to protecting human health and the environment, develop clear policy on the use and purpose of assistance agreement amendments, and provide EPA personnel with sufficient training on negotiating assistance agreement work plans. We also recommended that EPA take action on the noted instances of apparent conflicts of interest.

## **Agency Response and OIG Comment**

EPA agreed to attempt to award assistance agreements with measurable results, develop clear policy on the use and purpose of amendments, and provide EPA personnel with sufficient training on negotiating work plans. EPA also agreed to act on the noted instances of apparent conflicts of interest.

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# Introduction

## Purpose

As a result of a prior audit, *EPA's Competitive Practices for Assistance Awards*, issued in May 2001, we found that EPA did not have written policy requiring program offices to award their discretionary assistance funding competitively. Further, we found that more than \$617 million of EPA's \$1.3 billion in discretionary assistance agreements was not awarded under a program-specific Catalog of Federal Domestic Assistance (CFDA) number. Instead, these agreements were awarded under CFDA number 66.606 - "Surveys, Studies, Investigations, and Special Purpose Grants." This is a non-specific CFDA number used by all program offices for miscellaneous projects.

The *Catalog of Federal Domestic Assistance* is a government-wide compilation of Federal programs, projects, services, and activities that provide assistance or benefits to the American public.

The purpose of this audit was to determine whether:

- ! The results of the assistance agreements awarded under CFDA 66.606 are useful and contribute to protecting human health and the environment.
- ! The same CFDA 66.606 assistance recipients were funded year after year.
- ! CFDA 66.606 assistance agreements could have been awarded under a program-specific CFDA number.

## Background

The *Government Performance and Results Act (GPRA)* was passed in 1993 to focus on the outcomes of government performance. The intent was to improve government performance and hold Federal agencies accountable for achieving program results.

According to the General Accounting Office's (GAO's) 1998 GPRA Guide, program managers need to prepare performance plans with detailed strategies that identify the links between outputs and

outcomes. Outputs are the direct products and services delivered by a program, while outcomes are the *results* of those products and services. The Guide also explains the importance of the link between budget requests and performance planning efforts to improve federal program effectiveness and public accountability.

An assistance agreement is used to transfer money that supports or stimulates an activity to accomplish a public purpose authorized by Federal statute. During fiscal year 1999, EPA awarded more than \$4 billion in assistance agreements to state and local governments, tribes, universities, non-profit recipients, and other entities. These awards are administered under EPA's CFDA programs, which are comprised of 10 continuing environmental and 37 discretionary assistance programs. Continuing programs make awards in accordance with formulas prescribed by law or an agency regulation. Discretionary programs have the legislative authority to independently determine the recipients and funding levels of financial assistance awards. During fiscal year 1999, EPA awarded \$2.7 billion in continuing environmental assistance program agreements and \$1.3 billion in discretionary program agreements.

In 1997, EPA created CFDA 66.606 to provide program offices a place for miscellaneous discretionary assistance awards. Program offices fund these awards with discretionary money received in their budget through the Environmental Programs and Management Account. The narrative of this CFDA includes the following objectives:

- ! To support Surveys, Studies, Investigations, and Special Purpose assistance associated with Air, Water Quality, Hazardous Waste, Toxic Substances, and Pesticides.
- ! To identify, develop, and demonstrate necessary pollution control techniques to prevent, reduce, and eliminate pollution.
- ! To evaluate the economic and social consequences of alternative strategies and mechanisms for use by those in economic, social, governmental, and environmental management positions.

## Scope and Methodology

During fiscal year 1999, EPA awarded 1,749 assistance agreements under CFDA 66.606, totaling more than \$617 million. Of that amount, we determined that almost \$300 million was earmarked funds and \$155 million was for construction grants. Both earmarked and construction grant funds were excluded from our sample. For our review, we used a nationwide statistical sample of 42 CFDA 66.606 assistance agreements, awarded by Headquarters and 8 EPA Regions. Our approach was designed to determine whether systemic problems existed so that, if needed, a correction could be made through an Agency-wide initiative. Details on our scope and methodology are in Appendix A.



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## **EPA Not Measuring CFDA 66.606 Agreement Results**

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EPA did not measure whether the CFDA 66.606 assistance agreements it awarded achieved results that contribute to protecting human health and the environment. Further, EPA frequently funded the same assistance agreement recipients year after year. Also, EPA could have awarded many of the agreements under a program-specific CFDA number. One reason these deficiencies occurred is because program offices generally focused on outputs – not the actual results achieved. Consequently, EPA had no assurance that money used for assistance agreements was awarded for projects that were useful and contributed to achieving EPA’s mission of protecting human health and the environment.

### **Measures Needed to Achieve Desired Results**

Measures are often expressed as outputs, intermediate outcomes, and end outcomes. Outputs are typically activities or products used to attain an ultimate outcome, and do not directly measure results. End outcomes are the program results that lead to improved protection of human health and the environment, such as achieving safe drinking water. Intermediate outcomes show progress toward achieving end outcomes, and are often used when end outcomes are not immediately clear, easily delivered, or quickly achieved.

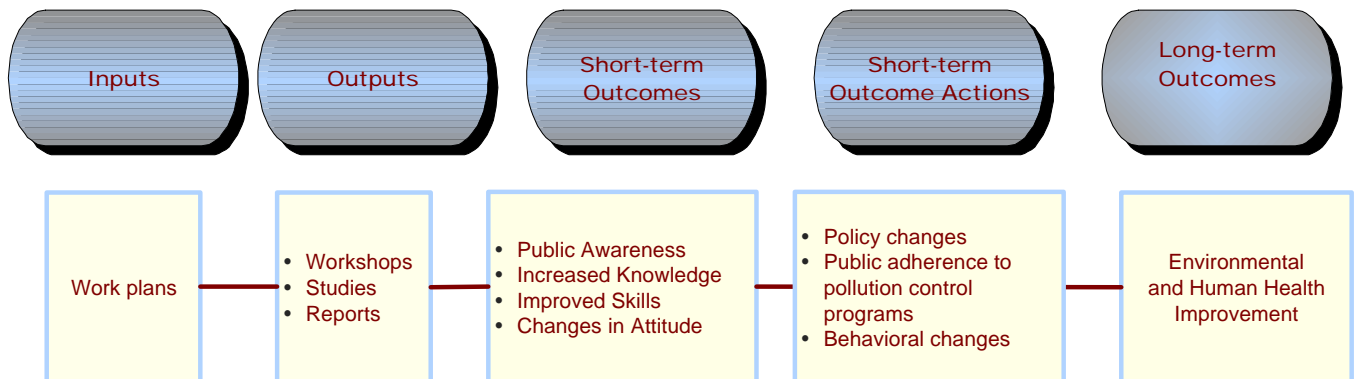
According to the EPA Project Officers’ Manual, a recipient is required to include a work plan as part of the award application. A good work plan is essential to receive a useful product and ensure recipient success. Without one, assistance agreement outputs usually will be vague and difficult to measure. It will also be difficult for project officers to appropriately manage and monitor their assistance agreements. According to EPA guidance, an effective narrative work plan will:

- ◆ list expected outcomes of the grant,
- ◆ quantify outputs,
- ◆ link outputs to funding,

- ◆ identify target dates and milestones,
- ◆ require periodic reporting, and
- ◆ explain how the activities will be accomplished.

In the planning phase of assistance agreements, it is important to anticipate the expected outcomes so that activities are planned to achieve behavioral changes that lead to desired programmatic or environmental results. We recognize that outcome measurement is difficult, especially for this type of miscellaneous award. However, whenever possible, the short-term outcomes should be quantitatively or qualitatively measured to demonstrate that the award contributed to the long-term outcomes. This is accomplished by beginning with the end in mind, as shown in the following chart:

### Begin With the End in Mind



For example, the Office of Air and Radiation awarded an assistance agreement to a nonprofit organization in 1996 to provide an outreach program to building code officials on indoor air quality features and to develop building codes for homes, emphasizing radon-resistant techniques. This agreement had planned outputs, such as a new code manual and training for code officials on the benefits and implementation of radon-resistant construction for their communities. The project officer demonstrated that the results of these outputs led to the construction of radon-resistant homes in various communities, which represented the assistance agreement outcomes.

## Results Not Being Measured

The majority of assistance agreements we reviewed that were awarded under CFDA 66.606 were for miscellaneous projects, such as outreach, workshops, and conferences.

These activities should have been linked to measurable assistance agreement outcomes. The results should be quantitatively or qualitatively measured to demonstrate that the award was useful. However, almost half of the 42 assistance agreements reviewed did not measure the project outcomes. Several examples follow.

Did we accomplish what we planned? Did we achieve the environmental results we desired?  
To answer these questions, we believe assistance agreements need to be clear, measurable and outcome-oriented.

- ◆ The Office of Prevention, Pesticides and Toxic Substances awarded \$34,000 to a nonprofit organization for a conference in Oxford, England, related to the development of safer chemicals. According to the decision memorandum, the chemical industry would benefit due to the shared knowledge of the participants. However, due to the confidentiality of the discussions, no information from the conference was published. Thus, the benefits of this conference were unknown. By funding activities that cannot be shared, it is impossible to determine whether the results contributed to the protection of human health and the environment. EPA had funded two additional assistance agreements on the same topic to the same recipient totaling \$110,000 combined.
- ◆ The Office of Water awarded two assistance agreements totaling \$80,000 to a nonprofit organization to support a public outreach campaign on the importance of clean beaches. The grantee charged public beach communities a \$1,995 membership fee and awarded the community a flag to fly at its beach entrance to symbolize, among other things, clean water. This award did not generate assistance agreement outcomes that could be measured to determine its

### Examples of Criteria for a Flag:



- ✓ Water Quality - beaches meet EPA's water quality standards.
- ✓ Safety - lifeguards on duty, record of emergency incidents.
- ✓ Services - easy and safe access, working public telephones, public parking.

contribution to protecting human health and the environment. Further, it was not clear how the program's activities contributed to the public taking additional steps to keep beaches clean. Also, EPA has been using Water Quality Standards to conduct beach survey activities, including beach closings and exposure to contaminated recreational waters, which have been publicized on its web site since 1997.

- ◆ The Office of Water awarded a \$60,000 assistance agreement in 1995 to a nonprofit organization to facilitate public participation in the development of a Lakewide Management Plan. The seven amendments that followed were essentially to continue the existing project, and brought the cumulative total of the assistance agreement to \$332,000. The work plan for this agreement was vague and did not list expected outcomes, quantify outputs, link outputs to funding, or identify milestones. While this agreement had outputs, such as forum meetings, its results were never planned and measured. What benefits were achieved from these forum meetings? What changed as a result of these funds? These types of results need to be planned and measured to determine the usefulness and success of an assistance agreement.

One reason these deficiencies occurred is because program offices generally focused on outputs – not actual results achieved. Individual assistance agreement outcomes must be planned and measured to determine the usefulness and success of the assistance agreement. However, EPA program offices do not adequately measure the outcomes generated from such awards. The outcomes that should result from outputs are often overlooked or not even expected. For a project to be effective, it is necessary to identify the usefulness of the service or product and determine what has changed as a result of the activities funded.

When asked why outcomes are not identified in the planning phase of assistance agreements, some project officers indicated they had not been the project officer for the entire duration of the assistance agreement. Therefore, they said they were unfamiliar with what was initially negotiated with the agreement recipient. While we understand staff changes are inevitable, project officers need to take responsibility for the assistance agreements they are managing by documenting outputs and outcomes, as well as how the results will be measured.



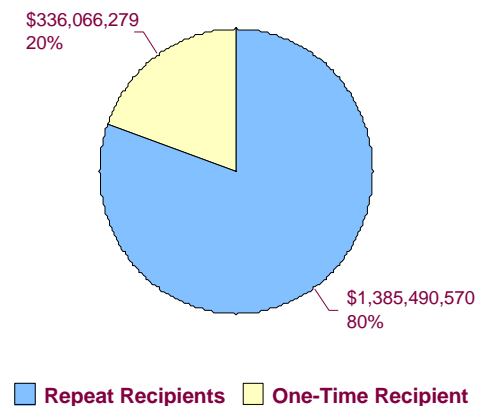
EPA's Grants Administration Division management said the program offices determine which subobjectives within their accounting structure the assistance agreement scope of work should benefit. While Program Result Codes connect the outputs to funding sources, they do not address potential outcomes. Many subobjectives have long-term strategies that may take more than 10 years to accomplish. It is for these assistance agreements, which are directly linked to achieving the subobjectives, that planning and measuring the outcomes is most important.

## EPA Made Awards Year After Year to Same Recipients

EPA awarded assistance agreement funds to the same recipients year after year. Objectives were often broad and vague, and without clearly defined expectations for final results.

Consequently, EPA continuously amended awards, sometimes for as long as 6 years. The amendments were usually a combination of no-cost time extensions or additional funds for different projects that were not necessary to complete the original objectives.

### Funding for CFDA 66.606 Fiscal Years 1996-2000



During our review, we found that 21 out of the 42 awards in our sample had multiple amendments. To determine whether this was a consistent practice, we reviewed a database of all awards made under CFDA 66.606 for fiscal years 1996 through 2000. We found that 80 percent of the funding for CFDA 66.606 went to repeat recipients. By providing funding to the same organizations year after year, EPA is creating the appearance of preferential treatment and limiting other potential entities from providing similar, if not better, services. For example, EPA provided a nonprofit organization with an assistance award for \$50,000 to support a recycling forum. The eight amendments that followed over the next 6 years were for activities –

such as outreach efforts, publications, and workshops – that were not part of the original proposal or needed to accomplish the objectives of that same proposal. This brought the cumulative total of the assistance agreement to \$279,000. The fact that EPA amended the award eight times demonstrates that EPA did not properly plan the project and the benefits to be realized. In the CFDA 66.606 narrative, all special projects are to be limited to 5 years, but this limitation is not always followed.

EPA's Grants Administration Division personnel acknowledged that many of the awards reviewed had amendments, but said appropriate reasoning existed for their approval. They also said that, in some instances, amendments were made due to circumstances that were not anticipated at the time of the original award. While we agree that unanticipated circumstances sometimes arise and amendments may be needed occasionally, we do not believe this was generally the case. The amendments often were not necessary to complete the objectives of the initial projects. This demonstrates poor planning in the pre-award phase of assistance agreements, and makes it more difficult to measure whether the agreements achieved desired outcomes.

Grants Administration Division personnel have agreed to ensure that future amendments are adequately justified by the program offices. They said that, if necessary, they will develop a grants policy to encourage program offices to submit "renewal" funding packages in lieu of amending projects when it is evident that the amendment modifies the intent of the initial project.

## **More Program-Specific Awards Can Be Made**

EPA funded many awards under CFDA 66.606 that could have been awarded under program-specific CFDA numbers. For example, in fiscal year 1999, the Office of Air and Radiation (OAR) awarded more than \$21 million under CFDA 66.606 because OAR does not have program-specific CFDA numbers for discretionary funding. We believe these awards could have been more appropriately placed under a newly created CFDA number(s) for OAR because the explanatory narrative for CFDA 66.606 is too broad. Creation of a new CFDA number for OAR would clearly advertise OAR's funding priorities to the public and provide an accurate account of their total assistance awards. We noted a similar situation in the Office of Water, which has initiated corrective action.

During the audit of *EPA's Competitive Practices for Assistance Awards*, issued May 2001, we noted that EPA's CFDA process does not adequately inform the public of potential funding opportunities or provide the Agency with accurate funding information for particular programs. In response to this audit, the Office of Grants and Debarment issued a memorandum in October 2001 to Senior Resource Officials. This memorandum indicated that during 2002, the Grants Administration Division will determine whether CFDA 66.606 should be broken down into several new program descriptions to enhance the public's awareness of funding opportunities. For this reason, this current report does not include a recommendation concerning this issue.

## **Conclusion**

This report indicates that assistance agreements should have measurable results. However, when it is not feasible to quantitatively measure results, there should be at a minimum qualitative results that demonstrate that the award was worthwhile. Without results, EPA could be subject to accusations of waste in managing assistance agreement funds.

## **Recommendations**

We recommend that the Assistant Administrator for Administration and Resources Management:

1. Require EPA personnel to award assistance agreements with quantitative or qualitative measurable results that contribute to protecting human health and the environment.
2. Develop clear policy on the use and purpose of amendments for assistance agreements so that personnel more carefully plan the intended results of the original agreements.

## Agency Response and OIG Comment

### *Agency Response to Recommendation 1*

The Office of Administration and Resources Management (OARM) generally agreed with this recommendation. OARM suggested that the OIG change both the recommendation and the wording in the report to clarify that environmental results may be either quantitative or qualitative in nature. The response indicated that given the current state of outcome measurements, this may not be possible for every project. The response cited a previous OIG review that stresses the difficulties in obtaining and measuring environmental outcomes.

The response further indicated that in asking project officers to document outcomes for 66,606 projects, the OIG should recognize that the requirements of the Paperwork Reduction Act and Office of Management and Budget regulations may affect the Agency's ability to request recipients to conduct surveys and other information-collection activities designed to measure the environmental results of their EPA-funded activities.

The response also stated that while it is ultimately the responsibility of the program offices to plan and measure the results of their assistance agreements, OARM will work with the programs to improve the Agency's performance in this area. Specifically, they will revise the work plan guidance in the Project Officers' Manual to cover environmental outcomes. They will also include the importance of planning for environmental results in the Project Officer Training courses and the new training initiative for managers. Finally, the response indicated they will explore with the program offices the possibility of having the decision memorandum outline the program's plan for measuring environmental results.

### *OIG Comment*

While OARM generally agreed with the recommendation, they suggested that the OIG revise the wording of the report and the recommendation to indicate that environmental results may be either quantitative or qualitative in nature to be consistent with the conclusion. We agree that outcomes cannot be quantitatively measured for every project, and added this to the report.

We also agree with OARM that these miscellaneous awards may not always result in a *direct* environmental improvement, such as cleaner air. Nonetheless, for a project to be effective, it is necessary to identify the usefulness of the service or product and determine what has changed as a result of the activities funded. As described on page 6 of our report, the short-term outcomes and outcome actions are what lead to the long-term outcomes of environmental improvement. If the Agency cannot measure the short-term results of the assistance agreements awarded and how the results *contribute* to protecting human health and the environment, then the Agency cannot determine whether taxpayers' dollars are being adequately spent.

Further, regarding potential barriers from the Paperwork Reduction Act and Office of Management and Budget regulations, we believe the measurement and monitoring of outcomes, if properly planned for, will not place a burden on any party.

We agree with the revision to the Project Officers' Manual guidance and planned additions to the training courses. We strongly urge that the decision memorandum be used to outline their plan for measuring environmental results.

### ***Agency Response to Recommendation 2***

OARM agreed with the underlying intent of the recommendation. They agreed to work with the program offices to develop clear guidance that distinguishes between the types of changes suitable for amendments and those that should be handled by a funding renewal package. OARM stated they believe they retain the flexibility to use amendments, rather than paper-intensive renewal packages, to make mid-course project adjustments or other appropriate changes.

### ***OIG Comment***

We agree that clear guidance on when to use amendments is needed. The response indicated our report suggests that amendments cannot be used to make changes to the original objectives of a project, and that multiple amendments can never be justified absent unanticipated circumstances. That was not our contention. Our concern was that many of the assistance agreements reviewed included work plans with very broad objectives and no clearly defined results. As stated on page 10, we agree unanticipated circumstances arise requiring the need for amendments. However, we found that in many cases,

amendments were not awarded due to unforeseen circumstances but rather for different activities when the current funds expired. Instead of awarding a new assistance agreement, program offices simply funded the project with an amendment.

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## Apparent Conflicts of Interest Noted

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During our review, we noted several instances of apparent conflicts of interest that EPA needs to address.

OAR awarded an assistance agreement and five amendments totaling \$210,000 to a nonprofit organization. The purpose of the assistance agreement was to provide programs and announcements on environmental health issues through Hispanic radio stations nationwide. The assistance agreement recipient contracted with a radio network for air time through sole-source contracts totaling almost \$60,000. However, we determined that the assistance agreement recipient had been created as a nonprofit organization by the radio network given the \$60,000. A review of the members on the Board of Directors for the two organizations disclosed that the same individual serves as the Chairman and Treasurer for the nonprofit and as the Chairman and Chief Executive Officer for the radio network.

According to 40 Code of Federal Regulations Part 30.42:

*No employee, officer, or agent shall participate in the selection, award, or administration of a contract supported by Federal funds if a real or apparent conflict of interest would be involved. Such a conflict would arise when the employee, officer, or agent, any member of his or her immediate family, his or her partner, or an organization which employs or is about to employ any of the parties indicated herein, has a financial or other interest in the firm selected for an award.*

We also found that EPA awarded \$26,000 to a nonprofit organization for its effort to increase the use of clean energy resources to reduce air pollution and greenhouse gas emissions. The recipient used \$24,650, or 95 percent of the funds, to pay one of its own employees as a consultant. Office of Management and Budget Circular A-122, Attachment B, paragraph 39, prohibits the costs of professional consultant fees rendered by persons who are employees of the organization that received the award.

## Recommendation

3. We recommend that the Assistant Administrator for Administration and Resources Management perform an on-site review of the recipient awarding contracts to the radio network that created it to determine whether the recipient complied with 40 Code of Federal Regulations Part 30.

## Agency Response and OIG Comment

### *Agency Response to Recommendation 3*

The response indicated that the Office of Grants and Debarment is in the process of evaluating the findings, in consultation with affected program officials, and has decided to conduct an on-site review of the first recipient, which has an ongoing assistance relationship with EPA. For the second recipient, the Office of Grants and Debarment may request the OIG to conduct an audit of all costs before instituting a recovery action.

### *OIG Comment*

We agree with the Agency's response. We determined that the assistance agreement to the second recipient has been closed. Therefore, we deleted the portion of the recommendation in the report that related to recovering those costs.



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## Appendix A

# Details on Scope and Methodology

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This audit included tests of the program records and other auditing procedures we considered necessary. We performed this audit in accordance with the *Government Auditing Standards*, issued by the Comptroller General of the United States. We also conducted this audit according to the guidelines and procedures established in the Office of Inspector General Audit Process Handbook.

We reviewed management controls and procedures specifically related to our objectives. However, we did not review the internal controls associated with the input and processing of information in EPA's Grants Information Control System or any other automated records system. We also reviewed EPA's fiscal years 2000 and 2001 Assurance Letters prepared to comply with the *Federal Managers' Financial Integrity Act*, and noted no weaknesses that address the issues noted in this report.

We reviewed the *Government Performance and Results Act* of 1993. We obtained and reviewed other audits and reports that addressed GPRA issues within the Agency. We reviewed the Catalog of Federal Domestic Assistance, and EPA guidance regarding assistance agreements.

We interviewed managers from the Grants Administration Division to learn about the history of CFDA 66.606. We conducted interviews and teleconferences with key personnel from Headquarters and Regional program offices to learn how the awards were managed. We reviewed the project files maintained by the program officials to determine whether the awards had adequate work plans, useful outputs, and measurable outcomes. We obtained copies of the program decision memoranda and other pertinent award information.

We selected a statistical sample of 42 assistance agreements. Following is a breakdown by program of the agreements reviewed.

Office	Total Number of Awards
Enforcement and Compliance Assurance	2
Research and Development	1
Solid Waste and Emergency Response	3
Prevention, Pesticides and Toxic Substances	3
International Affairs	2
Policy	2
Air and Radiation	16
Water	13
<b>Total</b>	<b>42</b>

Our fieldwork was conducted from August 1, 2001 to December 7, 2001. On October 25, 2001, we provided a finding outline with recommendations to personnel in OARM. Generally, they agreed with our recommendations and we incorporated their response into our draft report. We issued the draft report on January 28, 2002 and held an exit conference with OARM on March 15, 2002. OARM's comments and our evaluation are summarized at the end of each section, and the complete response is provided in Appendix B.

## Prior Audit Coverage

On May 21, 2001, EPA OIG issued an audit report titled: *EPA's Competitive Practices for Assistance Awards (2001-P-00008)*. This audit disclosed that EPA did not have a policy that requires program officials to award discretionary assistance funding competitively. The OIG recommended that EPA issue a policy stating that program offices compete their assistance agreements to the maximum extent possible, and ensure there are sufficient written justifications to support non-competitive awards. The OIG also recommended that EPA develop and implement CFDA program guidance and training to help ensure that EPA personnel record correct CFDA program numbers for their assistance awards and update the Catalog of Federal Domestic Assistance with current program information.

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Appendix B  
**Agency Response**

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March 5, 2002

**MEMORANDUM**

**SUBJECT:** Response to Draft Audit Report: Surveys, Studies,  
Investigations, and Special Purpose Grants  
Assignment No. 2001-000772

**FROM:** Morris X. Winn /s/  
Assistant Administrator

**TO:** Carl A. Jannetti  
Divisional Inspector General for Audit  
Mid-Atlantic Division  
Office of Inspector General (3AI00)

This is to provide the response of the Office of Administration and Resources Management (OARM) to the Office of Inspector General's (OIG) draft audit report (draft report) on assistance agreements awarded under Catalog of Federal Domestic Assistance (CFDA) number 66.606. As noted in the draft report, the objectives of the audit were to determine whether: 1) 66.606 assistance agreements achieved results contributing to the protection of human health and the environment; 2) the same 66.606 assistance recipients were funded year after year; and 3) 66.606 agreements could have been awarded under a program-specific CFDA number. During its review of 66.606 agreements, the OIG also identified instances of apparent conflicts of interest that the Agency needs to address.

66.606 is a non-program specific CFDA number that includes a broad range of miscellaneous assistance agreements. OARM understands that the 66.606 audit was prompted in part by the results of a prior OIG audit on "EPA's Competitive Practices for Assistance Awards." In the prior audit, the OIG found that a large portion of EPA's discretionary grant funds were awarded non-competitively under 66.606. In addition, the prior audit found that in many cases, potential recipients were not adequately informed of funding opportunities due to the Agency's use of 66.606 as opposed to program-specific CFDA numbers.

I am pleased to note that OARM has taken steps to address competition in assistance agreements which should help resolve a number of the concerns raised in the draft report.

Specifically, OARM has initiated the directives clearance process for a proposed EPA Order entitled “Policy for Competition in Assistance Agreements.” The Order will identify categories of assistance agreements and dollar levels for which competition is required, establish standard procedures for competitive awards, and require properly supported written justifications for non-competitive awards.

Additionally, as acknowledged in the draft report, the Office of Grants and Debarment (OGD), through an October 2001 memorandum to Senior Resource Officials, has instituted a process to improve the accuracy of the Agency’s CFDA program descriptions. Moreover, OGD is working with the program offices to review the use of 66.606 and generally replace it with program-specific CFDA numbers. Taken together, these actions should increase the pool of potential new recipients, expand the public’s knowledge of EPA funding opportunities, and increase the number of awards with program-specific CFDA numbers.

The draft report contains a number of recommendations addressed to the Assistant Administrator for OARM. We have the following comments on those recommendations.

Recommendation 1:

Require EPA personnel to award assistance agreements with measurable results that contribute to protecting human health and the environment.

OARM Response:

OARM generally agrees with this recommendation. In carrying out EPA’s fiduciary obligations, it is critically important that 66.606 agreements funded with taxpayers’ dollars contribute to the Agency’s mission of protecting human health and the environment. We would suggest, however, that the wording of the recommendation be revised to indicate that environmental results may be either quantitative or qualitative in nature. This change will make the recommendation consistent with the **Conclusion** paragraph on page 11, which notes that it may not be feasible in some cases to quantitatively measure results for 66.606 projects.

We would also recommend a similar change to the discussion on pages 5-8 of the draft report. This discussion implies that for all 66.606 projects, the Agency will be able to quantitatively measure both short-term outcomes, short-term outcome actions, and long-term outcomes. Given the current state of outcome measurement, this may not be possible for every project. **See Office of Inspector General Special Review, EPA’s Progress in Using the Government Performance and Results Act to Manage for Results** (citing the difficulties in obtaining and measuring environmental results). Further, in asking project officers to document outcomes for 66.606 projects, the OIG should recognize that the requirements of the Paperwork Reduction Act and Office of Management and Budget regulations may affect the Agency’s ability to request recipients to conduct surveys and other information-collection activities designed to measure the environmental results of their EPA-funded activities.

While it is ultimately the responsibility of the program offices to plan and measure the results of their assistance agreements, OARM will work with the programs to improve the Agency's performance in this area. Specifically, chapter 3 of the Project Officer Training Manual "Managing Your Financial Assistance Agreement - Project Officers Responsibilities" provides that an effective narrative/workplan :

- ! Will list expected outputs
- ! Quantify outputs;
- ! Link outputs to funding;
- ! Identify target dates and milestones;
- ! Require periodic reporting; and
- ! Explain how will the activities be accomplished.

In response to the draft report, OGD will revise this workplan guidance to cover environmental outcomes. OGD will also include in its Project Officer Training courses and its new training initiative for managers a discussion on the importance of planning for environmental results. In addition, OGD will explore with the program offices the possibility of having the decision-memorandum for awards outline the program's plan for measuring environmental results.

#### Recommendation 2:

Develop clear policy on the use and purpose of amendments for assistance agreements so that personnel more carefully plan the intended results of the original agreements.

#### OARM Response:

OARM agrees with the underlying intent of this recommendation, namely that the Agency should be careful about using amendments for changes that bear no relationship to the original project scope of work. Accordingly, OGD will work with the program offices to develop clear guidance that distinguishes between the types of changes suitable for amendments and those that should be handled by a funding renewal package. Moreover, the new EPA Order on competition contains requirements that will prevent amendments from being used to circumvent the competitive award process.

At the same time, OARM recommends that the OIG revise or clarify the discussion on amendments on pages 9-10 of the report in two respects.

First, the statement on page 9 that multiple amendments to 66.606 awards create the appearance that recipients are extensions of the federal government should be deleted in light of the requirements of the Federal Grant and Cooperative Agreement Act. Under the legal standards in that statute, 66.606 recipients are carrying out a non-federal public purpose rather than providing services for the direct use of the federal government. As such, and assuming a proper assistance relationship, they should not be viewed as agents or representatives of the federal government, regardless of the number of amendments to their assistance agreements.

Second, the draft report appears to suggest: (1) that amendments cannot be used to make changes to the original objectives of a project; and (2) that multiple amendments to an award can never be justified absent unanticipated circumstances. If that is the OIG's position, we would like to discuss it with you prior to the issuance of the final audit report. Consistent with the government-wide grant regulations on project changes, we believe the Agency retains the flexibility to use amendments, rather than paper-intensive renewal packages, to make mid-course project adjustments or other appropriate changes. Further, multiple amendments may be justified, for example, where a recipient conducts a broad range of studies involving numerous program offices. In that case, it may be more efficient for the Agency to fund the work through amendments as opposed to awarding a separate assistance agreement for each study.

Recommendation 3:

Take action on all apparent conflicts of interest noted in the report. Specifically, the OIG suggests that: a. OARM perform an on-site review of the recipient awarding contracts to the radio network that created it to determine whether the recipient complied with 40 C.F.R. Part 30; and b. Recover the costs incurred by the recipient to pay one of its employees, which was prohibited by the Office of Management and Budget Circular, A-122.

OARM Response:

OGD is in the process of evaluating the OIG's findings, in consultation with affected program officials. As suggested by the OIG, OGD has decided to conduct an on-site review of the first recipient, which has an ongoing assistance relationship with the Agency. With regard to the second recipient, OGD may request the OIG to conduct an audit of all costs before instituting a recovery action.

Besides our comments on the draft report's recommendations, we note that the OIG did not distribute the draft report beyond OARM. In the future, we would ask that the OIG also provide copies of grant-related draft reports addressed to OARM for response to affected program offices. This will facilitate our coordination with the programs on draft reports as well our efforts to provide you with a timely response, and help to further highlight the importance of grants management issues to the Agency.

Thank you for the opportunity to comment on the draft report. If you or your staff have any questions or need additional information, please contact Howard Corcoran at (202) 564-1903 or Marty Monell at (202) 564-5387.

cc: Dave O'Connor Senior Resource Officials  
Grants Customer Relations Council Sandy Womack-Butler  
Jane Moore

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## Appendix C

# Distribution List

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