



U.S. ENVIRONMENTAL PROTECTION AGENCY
OFFICE OF INSPECTOR GENERAL

Catalyst for Improving the Environment

Audit Report

EPA's Contracts and Grants Workforce May Face Future Workload Issues

Report No. 11-R-0005

October 25, 2010



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Abbreviations

EPA	U.S. Environmental Protection Agency
FMFIA	Federal Managers' Financial Integrity Act
FTE	Full-Time Equivalent
FY	Fiscal Year
OAM	Office of Acquisition Management
OCFO	Office of the Chief Financial Officer
OGD	Office of Grants and Debarment
OIG	Office of Inspector General
OMB	Office of Management and Budget
RATB	Recovery Accountability and Transparency Board

Cover photo: Recovery Act sign in Massachusetts. (EPA OIG photo)



At a Glance

Catalyst for Improving the Environment

Why We Did This Review

We conducted this audit to determine whether the U.S. Environmental Protection Agency (EPA) has sufficient qualified contracts and grants staff to handle American Recovery and Reinvestment Act of 2009 work and non-Recovery Act work.

Background

EPA received \$7.2 billion from the Recovery Act. The Recovery Act also established the Recovery Accountability and Transparency Board. Among its responsibilities, the board determines whether there are sufficient qualified contract and grant personnel overseeing funds. EPA retained \$81.5 million of Recovery Act funds for management and oversight.

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

To view the full report, click on the following link: www.epa.gov/oig/reports/2011/20101025-11-R-0005.pdf

EPA's Contracts and Grants Workforce May Face Future Workload Issues

What We Found

EPA should ensure that it has sufficient contracts and grants staff to perform both the Recovery Act and non-Recovery Act activities. EPA emphasized Recovery Act activities, resulting in non-Recovery Act activities being delayed or not completed. The Office of Management and Budget's Recovery Act implementation guidance states that each agency is responsible for initiating risk mitigation actions, including evaluating workforce needs. The management and oversight resource allocations of the Office of Acquisition Management (OAM) and the Office of Grants and Debarment (OGD) were not always based on workforce analyses of the actual resources needed to accomplish Recovery Act activities. Factors such as the funding limitations set forth in the Recovery Act heavily influenced how Recovery Act management and oversight funds were distributed. As a result, non-Recovery Act resources were devoted to Recovery Act activities, leaving less time for staff to focus on non-Recovery Act administration, monitoring, and oversight.

Unlike OGD, OAM does not have Agency-wide performance measures, thereby making it difficult to assess the impact of the Recovery Act on its staff and workload. The Government Performance and Results Act of 1993 requires the Federal Government to establish performance measures. In response to a prior Office of Inspector General audit recommendation, OAM developed performance measures for employee job standards that tied in to its strategic goals. However, it did not develop Agency-wide performance measures for contract functions. Without Agency-wide performance measures, OAM does not have valuable information it could use to effectively and efficiently manage its workforce and workload, and quickly address emerging issues such as impacts from Recovery Act work.

What We Recommend

We recommend that the Assistant Administrator for Administration and Resources Management direct OAM and OGD to review the September 30, 2010, metrics and prepare action plans for any measure that did not meet its goal in 2010. At the exit conference, EPA stated that if we allowed flexibility for the Agency to determine what delays would reveal a control weakness, it would agree with the recommendation. EPA stated that it agreed with the recommendation as it was revised in the final report. We also recommend that OAM develop and implement organization-wide performance measures to better manage its activities. OAM agreed to implement this recommendation.



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

THE INSPECTOR GENERAL

October 25, 2010

MEMORANDUM

SUBJECT: EPA's Contracts and Grants Workforce May Face
Future Workload Issues
Report No. 11-R-0005

FROM: Arthur A. Elkins, Jr. *Mark Bialek for*
Inspector General

TO: Craig E. Hooks
Assistant Administrator for Administration and Resources Management

This is the Office of Inspector General's (OIG) report on the U.S. Environmental Protection Agency's (EPA's) contracts and grants workforce. This report contains findings that describe problems the OIG has identified and corrective actions the OIG recommends. This report represents the position of the OIG and does not necessarily represent the final EPA position. Final determinations on matters in the report will be made by EPA managers.

The estimated cost of this report – calculated by multiplying the project's staff days by the applicable daily full cost billing rates in effect at the time – is \$393,447.

Action Required

In accordance with EPA Manual 2750, you are required to provide a written response to this report within 90 calendar days. You should include a corrective actions plan for agreed-upon actions, including milestone dates. Your response will be posted on the OIG's public Website, along with our memorandum commenting on your response. Your response should be provided as an Adobe PDF file that complies with the accessibility requirements of section 508 of the Rehabilitation Act of 1973, as amended. The final response should not contain data that you do not want to be released to the public; if your response contains such data, you should identify the data for redaction or removal. We have no objection to the further release of this report to the public. This report will be available at <http://www.epa.gov/oig>.

If you or your staff have any questions, please contact Melissa Heist, Assistant Inspector General for Audit, at 202-566-0899 or heist.melissa@epa.gov; or Janet Kasper, Product Line Director, at 312-886-3059 or kasper.janet@epa.gov.

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Chapter 1

Introduction

Purpose

The U.S. Environmental Protection Agency (EPA) Office of Inspector General (OIG) conducted this audit to determine whether EPA has sufficient qualified staff to administer its contracts and grants¹ for both American Recovery and Reinvestment Act of 2009 (Recovery Act) (Pub. L. 111-5) and non-Recovery Act activities. We performed this audit in conjunction with the Recovery Accountability and Transparency Board's (RATB's) survey request for Agency workforce information.

Background

EPA received \$7.2 billion from the Recovery Act. EPA distributed Recovery Act funds through the Clean Water State Revolving Fund, Drinking Water State Revolving Fund, Brownfields, Leaking Underground Storage Tanks, Diesel Emission Reductions, and Superfund Remedial programs. The Recovery Act provided EPA 1 to 4 percent of appropriated funds for program management and oversight purposes. EPA retained \$81.5 million for Recovery Act management and oversight, which can be used for payroll, travel, awards, overtime, and compensatory time through Fiscal Year (FY) 2011.

Section 1521 of the Recovery Act established the RATB to coordinate and conduct oversight of covered funds to prevent fraud, waste, and abuse. Section 1523 of the Recovery Act directs the RATB to determine whether there are sufficient qualified contract and grant personnel overseeing funds. At the RATB's request, OIGs from a number of agencies distributed surveys to their respective agencies to obtain information on current and projected staffing levels and qualifications of staff supporting Recovery Act activities.

On behalf of the RATB, the U.S. Department of Commerce OIG presented the findings from the OIG surveys in its report, *Review of Contracts and Grants Workforce Staffing and Qualifications in Agencies Overseeing Recovery Act Funds*, issued in March 2010. The report states that the additional workload from the Recovery Act has put a strain on a significant portion of the contracts and grants workforce. It also reported on the impact of the additional workload from the Recovery Act on both Recovery Act and non-Recovery Act work, which included (1) award delays, (2) decreased postaward monitoring, (3) increased staff hours, and (4) increased use of supplemental staff. To ensure timely completion

¹ The term "grant" also refers to cooperative agreements and interagency agreements.

of the Recovery Act activities, the report found that agencies gave priority to their Recovery Act workload and devoted more full-time equivalents (FTEs) to Recovery Act contracts and grants. EPA's response to the RATB survey is discussed on page 7.

Noteworthy Achievements

In signing the Recovery Act, the President expected agencies to make additional contract and grant awards as quickly as possible while adhering to regulations and procedures that would ensure a fair and competitive process. EPA assigned resources to emphasize Recovery Act actions. Specifically:

- The Agency shifted experienced grant administration staff to handle the Recovery Act workload. Contract administration staff had other work priorities adjusted so that they were dedicated to Recovery Act work.
- The Office of Grants and Debarment (OGD) assumed the responsibility from the regions for its advanced monitoring program for grant recipients for FY 2009. This allowed the regions to focus on the priority of awarding Recovery Act funds.

The additional emphasis on Recovery Act activities resulted in EPA awarding grants quickly, which was one of the goals of the Recovery Act. The President signed the Recovery Act in February 2009 and, by September 30, 2009, EPA had awarded \$6,483,386,620 in grants and \$302,428,540 in contracts.

To ensure effective internal controls, EPA developed a stewardship plan that sets out the Agency's Recovery Act risk assessment, internal controls, and monitoring activities for Recovery Act funds. The EPA stewardship plan incorporates U.S. Government Accountability Office Internal Control Standards: control environment, risk assessment, control activities, information and communication, and monitoring. EPA monitors the risk assessment, mitigation, and oversight for its stewardship plan and prepares a quarterly report identifying any issues that arise from these monitoring reviews.

Scope and Methodology

We conducted this audit from July 2009 to May 2010 in accordance with generally accepted government auditing standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. After reviewing the results from preliminary research, we limited our audit to the Agency's contracts and grants workforce, and did not include the program office support for contract and grant functions. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Our audit included interviewing Agency managers responsible for preparing the proposals on resources needed for Recovery Act activities for the Office of Acquisition Management (OAM), OGD, Office of the Chief Financial Officer (OCFO), and the various program offices receiving Recovery Act funds: Office of Solid Waste and Emergency Response (Superfund, Brownfields, and Leaking Underground Storage Tanks); Office of Air and Radiation (Diesel Emissions Reduction); and Office of Water (Clean Water and Drinking Water State Revolving Funds). We interviewed OAM and OGD managers regarding their efforts to determine the FTEs needed to manage grants and contracts and any studies that they had performed.

We reviewed Agency performance measurement data and reports and the Agency's response to the RATB survey. We also reviewed documentation and spoke with budget managers to obtain support for the decisions made in distributing management and oversight funds. Based on this information, we selected six regional offices with which to further discuss the impact the Recovery Act is having on their respective contract and grant workloads. Specifically, we spoke with management, contracting officers, and grant specialists in Regions 1, 3, 4, 5, 8, and 9. We selected these regions based on a risk assessment formulated from information gathered during preliminary research, which included RATB survey results and interviews with various EPA managers.

Prior Audit Coverage

We reviewed prior OIG reports for recommendations related to our audit objective. We made similar recommendations in Report No. 2005-P-00006, *Office of Acquisition Management Can Strengthen Its Organizational Systems*, issued February 17, 2005. The report recommended that the OAM Director develop an action plan with milestone dates to:

- Establish measures for, and a means of measuring progress against, OAM strategic goals.
- Complete its workload analysis and perform a workforce analysis.
- Capture data needed to measure, analyze, and improve short- and long-term program performance in achieving its vision and goals, including:
 - cost and quality of its contract services
 - the extent to which OAM contracting offices are the preferred business partner for EPA offices
 - environmental and other benefits received from EPA contracts.

Per the Management Audit Tracking System, all the recommendations have been completed and closed out. However, there continue to be weaknesses in the performance measurement system as discussed in Chapter 3.

Internal Control Structure

In planning and performing our audit, we reviewed management controls related to our objective. Specifically, the Office of Management and Budget's (OMB's) Recovery Act implementation guidance (M-09-10 and M-09-15) instructed agencies to develop an overall agency plan for the Recovery Act. Such plans should describe processes in place for senior managers to regularly review the progress and performance of major programs, including identifying areas of risk. The OMB guidance instructed EPA to prepare individual program plans that were to address, among other things, barriers to effective implementation such as personnel skill gaps. EPA finalized its plans on May 15, 2009, and updated its plans June 1, 2010. We reviewed these plans to identify actions the Agency planned to take regarding staffing.

We reviewed the Agency's Recovery Act Stewardship Plan as it related to our audit objective. In its stewardship plan, the Agency identified additional steps and procedures it would follow to mitigate the risks identified for each of the programs receiving Recovery Act funds.

We reviewed documents EPA completed in compliance with the Federal Managers' Financial Integrity Act (FMFIA) for weaknesses related to staffing or workforce needs. We reviewed each of the region's FY 2009 FMFIA assurance letters and the letters for the Office of Water, Office of Air and Radiation, Office of Administration and Resources Management, Office of Solid Waste and Emergency Response, and OCFO.

Chapter 2

Potential Future Workload Issues

EPA should ensure that it has sufficient contracts and grants staff to perform both Recovery Act and non-Recovery Act activities. EPA emphasized Recovery Act activities, resulting in non-Recovery Act activities being delayed or not completed. OMB's Recovery Act implementation guidance states that each agency is responsible for initiating risk mitigation actions, which include evaluating workforce needs. OAM and OGD management and oversight resource allocations were not always based on workforce analyses of the actual resources needed to accomplish the Recovery Act. Factors such as the funding limitations set forth in the Recovery Act heavily influenced how Recovery Act management and oversight funds were distributed. As a result, EPA's current contract and grant staffing levels may not be sufficient to meet current and future non-Recovery Act contract and grant workload demands.

OMB Implementation Guidance Requires Sufficient Qualified Staff

OMB's Recovery Act implementation guidance discusses the Agency's responsibilities for initiating risk mitigation actions.² These include:

- Evaluating workforce needs to appoint qualified contracting officers, contracting officer technical representatives, and program managers with certification levels appropriate to the complexity of Recovery Act projects.
- Paying special attention to ensuring that sufficient qualified acquisition personnel are available to perform contract administration and mitigate the government's risk when using other than firm-fixed-price contracts. According to EPA's Contract Management Manual, firm-fixed-price contracts place maximum risk and full responsibility for all costs on contractors. Cost-reimbursement contracts place the risk on the government and require extensive oversight.
- Identifying mission-critical human capital needs for Recovery Act implementation and assessing the gap between the current workforce and Recovery Act human capital requirements.

The OMB guidance states that agencies were to take certain actions, beyond standard practice, when planning to award contracts and grants. The guidance states that because of the critical importance of the Recovery Act, heightened attention to acquisition planning is needed to ensure, among other things, that the

² OMB issued the original guidance on February 19, 2009 (M-09-10), and updated it on April 3, 2009 (M-09-15).

Agency uses a sufficient, adequately trained workforce to award and monitor contracts. In planning for Recovery Act grants, the guidance states that the Agency should work with managers and staff at all levels to secure the resources needed to implement the Recovery Act.

Guidance Identifies Assessing Workforce Needs and Skill Gaps

In September 2005, the Office of Personnel Management developed a workforce planning model that included a five-step process³ for identifying and addressing the skill gaps of today and the human capital needs of tomorrow. According to the model, effective workforce planning enables the organization to develop a comprehensive picture of where gaps exist between current workforce competencies and future competency requirements, identify and implement gap reduction strategies, make decisions about how to best structure the organization and deploy the workforce, and identify and overcome internal and external barriers to accomplishing strategic workforce goals.

OMB memorandum, *Acquisition Workforce Development Strategic Plan for Civilian Agencies FY 2010-2014*, dated October 27, 2009, provides a structured approach to improve the capacity and capability of the acquisition workforce. According to the memorandum, the demands on the critical federal acquisition workforce have grown substantially, while growth in the workforce has not kept pace. This increased workload leaves less time for effective planning and contract administration, which can lead to diminished acquisition outcomes. Advanced planning is necessary to develop clear requirements and performance measures that are used in the preaward phase to determine competition and negotiation strategies. Clear requirements and performance measures are also needed in the postaward phase to manage the contract and make appropriate award and incentive fee decisions.

Indicators of Future Workload Problems

The Agency has made the Recovery Act a top priority by shifting its existing contract and grant administration staff to Recovery Act activities at the expense of non-Recovery Act activities. In FY 2009, EPA awarded 576 Recovery Act grants and issued 139 Recovery Act grant amendments, for a total of 715 actions. EPA processed 162 Recovery Act contract actions, which included contract awards, modifications, delivery orders, and task orders. To give some perspective, in FY 2009, EPA processed a total of 8,130 contract actions and 10,014 grants actions.

While Recovery Act actions represented only 2 percent of contract activity and 7 percent of grant activity, we identified indicators that EPA's current contract

³ The five steps of the workforce model are (1) set strategic direction; (2) analyze workforce, identify skill gaps, and conduct workforce analysis; (3) develop action plan; (4) implement action plan; and (5) monitor, evaluate, and revise.

and grant staffing levels may not be sufficient to meet current and future non-Recovery Act contract and grant workload demands. Our conclusion is based on statements from EPA managers and staff contained in EPA's response to the RATB survey, the FY 2009 FMFIA assurance letters, interviews, OAM's Acquisition Human Capital Plan, and performance measurement information.

Workload Issues Highlighted in Response to the RATB Survey

The RATB provided EPA a survey to benchmark the contract and grant workforce communities. Each EPA program office, contract division, and region responded to the survey by identifying the number of staff for each position and the impact of the Recovery Act on their respective workloads. Overall, EPA responded that it had sufficient resources to manage Recovery Act grants and contracts. The individual survey responses provided examples of the impact Recovery Act activities were having, or may have, on non-Recovery Act contract and grant activities.

Contracts. Seven regions and one contract division responded that Recovery Act activities will have some impact on non-Recovery Act activities. For example, Region 1 responded that its workload tripled from what it had projected, and there was unanticipated workload for tracking, reporting, and stewardship. As a result, work was being delayed, sent elsewhere, or not completed. Region 7 stated that Recovery Act activities may potentially impact non-Recovery Act acquisitions through potential delays in reviewing non-Recovery Act progress reports, inability to review non-Recovery Act invoices for accuracy, and the potential inability to quickly resolve non-Recovery Act issues.

Grants. Eight regions and one program office responded that Recovery Act activities will have some impact on non-Recovery Act activities. For example, Region 3 noted that there will be some delay in reviewing applications and making awards, reduced baseline monitoring efforts, and reduced follow-up to close out completed grants. Region 3 also stated that it would reduce the number of meetings with the program offices. Region 10 indicated it was deferring or cancelling postaward monitoring activities. The Region's customer service level had dropped because the processing time for non-Recovery Act awards has increased. Region 10 also indicated that the additional workload may lead to employee stress and errors.

EPA indicated concerns throughout the survey that the regions' monitoring activities performed for Recovery Act and non-Recovery Act contracts and grants may be delayed. These monitoring activities were put into place to reduce risk to the government and to ensure that the government is getting what it paid for. In the cover letter for the RATB survey, dated September 4, 2009, EPA's Senior Accountable Official for the Recovery Act wrote:

The Survey results also show that in making Recovery Act implementation our top priority, we have had to disinvest in some of our non-Recovery Act grant and contract work. This includes, among other things, delays in non-Recovery Act awards and closeouts, less frequent post-award monitoring and extending milestones under our Grants Management Plan. The Agency will continue to carefully assess the level of disinvestment over the next two years to ensure it does not jeopardize our internal controls for effective grants and contracts management.

We asked OAM and OGD how they were continuing to assess the level of disinvestment to ensure the disinvestment does not jeopardize internal controls for effective management in the grants and contracts areas. According to OAM managers, OAM divisions were not noticeably affected by the workloads created by the Recovery Act. Regional contract officer supervisors identified some non-Recovery Act disinvestments, but they were temporary and were discussed with program offices well in advance. The OGD director stated that the office is monitoring Recovery Act and non-Recovery Act activities and that while strategic disinvestments were made, he did not believe the disinvestments were jeopardizing EPA internal controls for grants management.

EPA Identified Staffing Levels as a Management Challenge or Emerging Weakness

Some EPA regions identified staffing levels as a management challenge or emerging weakness in regional FY 2009 FMFIA annual assurance letters. Region 1's assurance letter listed staffing as a management challenge and stated, "Workload has increased at a higher pace than staffing and the current staffing level continues to be inadequate to address the Region's needs." Region 7 identified staffing issues as a management challenge and as a new or emerging issue. Region 7 indicated that the Recovery Act required higher levels of EPA oversight, State reporting, and accountability than the grants funded by regular appropriations. This higher level of grant oversight for Recovery Act grants will be a strain on existing staffing resources, as these programs will also be managing grants and programs funded by the annual appropriations. Region 9 stated that the monitoring workload is expected to be much higher than normal due to the additional requirements under the Recovery Act and extraordinary oversight.

Interviews with EPA Managers and Staff Indicated Staffing Concerns Exist

Managers in the regional contracts and grants offices identified Recovery Act impacts on non-Recovery Act activities.

Contracts. Region 1's contract manager explained that the current contract staffing level cannot perform both Recovery Act and non-Recovery Act activities.

Further, after our discussions about the lack of staff, the manager of contracts and procurement learned that an experienced contract officer was leaving the Agency. In an e-mail dated January 8, 2010, the manager wrote, “Since another CO has been unofficially detailed out of the office for other duties it is more than impossible (is that possible?) for us to do our jobs. The hiring process is too long, though we are requesting detail help from HQ or another region. We’ll see what happens.”

The Region 5 contract manager indicated that the office was down many people prior to the Recovery Act and that some work had been delayed. She stated that if things are falling behind, it is because of the lack of staff and not the increased work due to the Recovery Act. However, lack of staff still means that work is not done, and if Recovery Act work is a priority, then non-Recovery work would be the work that slips.

Grants. Region 3 managers indicated that baseline monitoring for non-Recovery Act activities may slip as a result of the additional work created by the Recovery Act. They also explained that their past practice of regularly meeting with the program offices is not being maintained. Region 5 grant personnel indicated that grant closeouts are being delayed.

Although the number of Recovery Act grant and contract actions has been small (7 and 2 percent, respectively, of all actions taken in FY 2009), Recovery Act activities have resulted in non-Recovery Act work being delayed or not completed.

OAM’s Acquisition Human Capital Plan Identified Staff Shortfall

EPA submitted an Acquisition Human Capital Plan to the Office of Federal Procurement Policy on April 1, 2010. Per Office of Federal Procurement Policy instructions, EPA used a tool kit provided by the Federal Acquisition Institute to project its workforce requirements. EPA projected that it needed 351 contracting officers, contract specialists, and procurement analysts. OAM’s submission identified its current workforce at 324 contracting officers, contract specialists, and procurement analysts – a shortage of 27. Based on OAM’s projection for FY 2010, the acquisition staffing level is to remain the same, at about 324. The plan did not include any specifics as to how OAM would address the shortfall in staffing. The staffing shortfall is especially critical since OAM used existing cost-reimbursement contracts for Recovery Act rather than the preferred fixed price contracts. While using the existing cost-reimbursement contracts saved time at the outset, they require extensive oversight, thereby creating an additional burden to the existing staff and lessening the time available for non-Recovery Act contract activities in the longer term.

Performance Measurement Information Indicates Potential Staffing Shortfalls for Grants

Performance measurement information, while limited, indicates that there may be difficulty managing the grant workload. The increase in Recovery Act activities has impacted non-Recovery Act work. The total percentage of grants closed out decreased from 95.5 percent in FY 2008 to 93.4 percent in FY 2009 (Table 2-1).

Table 2-1: Grants Closure Rates, FY 2008 and 2009

	9/30/2008	9/30/2009
Grants Ended in Period	3,511	3,403
Total Grants Closed	3,352	3,177
Percent Closed	95.5	93.4

Source: OGD FY 2008 and FY 2009 Fourth Quarter Performance Measure Reviews.

Although the overall decrease in grants closed is not yet significant, it illustrates a possible trend that could continue at an increasing rate if not addressed. The total grants remaining to be closed increased approximately 35 percent, from 221 at the end of FY 2008 to 299 at the end of FY 2009 (Table 2-2). Nine regions showed increases in grants remaining to be closed.

Table 2-2: Grants Remaining to Be Closed, FY 2008 and 2009

Region	9/30/2008 ¹	9/30/2009 ²	Difference	% Change
HQ	107	97	(10)	(9)
1	1	20	19	1900
2	13	15	2	15
3	4	13	9	225
4	6	9	3	50
5	21	57	36	171
6	12	25	13	108
7	0	0	0	0
8	27	30	3	11
9	29	28	(1)	(3)
10	1	5	4	400
Totals	221	299	78	35

Source: OGD FY 2008 and FY 2009 Fourth Quarter Performance Measure Reviews.

¹ Includes all grants ending in FY 2002 through FY 2007.

² Includes all grants ending in FY 2002 through FY 2008.

The increase in the number of grants to be closed shown in the Table 2-2 was corroborated by interview and survey responses from Regions 1, 3, 5, 6, and 10. Regions 1 and 6 responded in their RATB survey that closeouts may be delayed, which is evident in the increase in total grants remaining to be closed. During our meetings with grant managers in Regions 3 and 5, they indicated that their non-Recovery Act work is slipping. Region 5 said resources were heavily invested in implementing the Recovery Act, thereby reducing the number of grant closeouts for FY 2009. Region 3 further indicated in its response to the RATB survey that follow-up on grants closeouts would be reduced. Region 10 responded in its

RATB survey that Recovery Act work was prioritized at the expense of routine non-Recovery Act work.

In EPA's Stewardship Plan Quarterly Status Report, dated June 4, 2010, OGD identified baseline monitoring reviews for Recovery Act grants that were considered overdue as of April 29, 2010. According to the report, administrative baseline reviews showed the Agency above its target of 90 percent. However, the reviews also showed that 24 of 590 Recovery Act administrative baseline reviews (4.1 percent) were overdue. This report does not include statistics on non-Recovery Act work nor does it identify impacts to non-Recovery Act grants resulting from overdue baseline monitoring reports.

OAM Did Not Use Workforce Analysis to Establish Staffing Levels

OAM distributed Recovery Act resources to the regional offices it believed would be most impacted by the Recovery Act. However, this distribution was not based on a workforce analysis, which would have identified regions and divisions that were over- or understaffed. For example, OAM did not perform an analysis of each region and division to determine whether contract offices were short staffed prior to the Recovery Act and the subsequent implications that Recovery Act would have on their workloads. Because EPA was using existing contracts for the Recovery Act, Region 8, which was taking the lead for contract resource distribution, believed most of the additional activities would be related to monitoring and reporting requirements of the Recovery Act. Regions that were already understaffed would have more difficulty handling both Recovery and non-Recovery Act work.

OAM's workforce analysis, prepared in FY 2007 in response to a prior OIG audit report, was not Agency-wide in scope and did not specifically identify the organization's skill gaps. The analysis simply allocated the workload at the time to the existing workforce. Further, when managers met to discuss the analysis, they could not agree on the staff allocations. Therefore, OAM took no further actions to implement the workload model. When the Recovery Act was passed, the lack of a workforce analysis placed OAM at a disadvantage, since it did not have statistical information on the number of staff needed to effectively carry out the contracting activity. Without a detailed analysis of the workforce/workload ratio, it is difficult to assess the overall impact that additional work created by the Recovery Act is having or whether there is sufficient staff to handle the additional work.

In response to an OMB 2009 request on acquisition workforce planning, EPA submitted its Acquisition Human Capital Plan, dated April 1, 2010, which identified strategies and goals for increasing the capacity and capability of the workforce. The plan specifically provided an overall view of staffing and staff capabilities for OAM as a whole. OAM used data from a formal competency survey conducted in 2007 and updated its information via an informal poll of current mid-level managers to determine contract workers' strengths and areas for

improvement. Using the updated survey information, OAM determined the highest-ranked and lowest-ranked competencies of its contracting workforce and will consider the results to develop training plans for 2011. This strategy in part follows the Office of Personnel Management's workforce planning model for identifying skill gaps, particularly for determining the current workforce resources and how they will evolve over time through turnover and other means, and determining existing gaps between the current and projected workforce needs.

The plan identifies an overall summary of projected workforce needed for future contracting activities within EPA. The plan does not identify which regions, divisions, or laboratories need additional contracting staff. While the plan identified a 27 FTE gap in the contracting workforce, it did not identify whether contracting specialists or contracting officers were needed. The Office of Personnel Management's workforce planning guide suggests developing specifications for the numbers, skill levels, and location of workers and managers needed to accomplish the Agency's strategic requirements. Without the additional details, EPA cannot determine staffing shortfalls or skill gaps at the local level.

Grant Resource Allocation Not Based on Workload Study

While OGD had a study on workload, the final decision on allocation of resources for the Recovery Act was not based on the study.⁴ In anticipation of the Recovery Act's passage, the Agency established workgroups consisting of regional and program representatives to prepare program requests for funds through FY 2012, which was the timeframe in the early drafts of the Recovery Act legislation. For its initial assessment of resources needed for the Recovery Act, EPA estimated its workload using factors provided by program and regional offices. Each of the offices had the opportunity to justify its request for management and oversight funds. However, in the final legislation, the Recovery Act was only funded through FY 2011. Because the timeframe for use of the funds was reduced and the program requests exceeded the amount of funds provided in the law, OCFO revised program and regional allocation requests to, in their view, best distribute the available resources. After receiving feedback from the offices, OCFO made the final allocation adjustments of the management and oversight funds.

Potential Diminished Efforts in Monitoring and Oversight Reviews

Increasing employee workloads to focus on Recovery Act work reduces time spent on other important activities, such as monitoring and oversight of non-Recovery Act related work. Contract officers and grant specialists are concerned that they will be giving less attention to postaward monitoring and oversight for

⁴ *Management of Assistance Agreements at the Environmental Protection Agency*, April 2005 (commonly referred to as the LMI study).

non-Recovery Act work. Diminished monitoring and oversight of contract and grant vehicles leaves the Agency susceptible to errors.

When management and oversight funds expire in 2011, the Agency will have to perform monitoring and oversight of Recovery and non-Recovery grants and contracts with base program resources. According to a February 2, 2009, Congressional Budget Office cost estimate, money historically appropriated to State Revolving Funds is spent slowly, with about half being spent after the first 3 years. As of August 2010, EPA disbursed about 42.4 percent of the Clean Water State Revolving Fund Recovery Act money and 47.2 percent of Drinking Water State Revolving Fund Recovery Act money. Because Recovery Act grants and contracts may not be completed in 2011, the Agency will be required to reevaluate resource needs and plan for future contingencies.

Recommendation

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

- 2-1 Direct OAM and OGD to establish procedures to review the metrics for Recovery Act and non-Recovery Act contract and grant activities with senior managers for the period ending September 30, 2010, and quarterly thereafter. For any metrics that do not meet performance goals, senior managers should examine the reasons the goals were not met, and where a control weakness is revealed, develop a plan with corrective actions, due dates, and responsible offices to ensure that the goals are met in the future. If goals are not attained due to resource limitations, OAM and OGD should work with OCFO to reexamine the distribution of Recovery Act management resources.

Agency Comments and OIG Evaluation

Our draft report contained two recommendations for this chapter. The recommendations were:

- Develop action plans to address the delays that already have been identified, such as completion of grant closeouts and administrative monitoring reviews for Recovery Act grants.
- Direct OAM and OGD to regularly review, with senior managers, performance information such as performance measures, FMFIA reports, contract office quality assurance plans, and stewardship plan updates, to detect delays in Recovery Act and non-Recovery Act grant and contract management activities and develop appropriate written action plans. Written action plans should be developed when performance measures will not be met or when delays indicate that a weakness in internal

controls may exist. Existing workforce information should be used to develop the action plans.

The Agency did not agree that it should develop action plans to address current delays. OAM responded that action plans for contract-related delays are unnecessary at this time because there are no specific actions that have not been awarded or unduly delayed. While OGD acknowledges that delays have occurred in non-Recovery Act activities, it does not believe these impacts warrant development of an action plan at this time. OGD provided baseline monitoring data through August 31, indicating that its administrative baseline and programmatic baseline reviews are at 85.3 percent and 77.1 percent, respectively, for non-Recovery Act awards. OGD believes that both the administrative and programmatic baseline reviews will approach the 90 percent goal by year end. Both OAM and OGD contend that action plans should not be developed until an issue becomes an internal weakness. Both did agree to review performance information on a regular basis and develop written action plans, using available workforce information, where the review identifies an internal control weakness. OAM and OGD agreed to meet with senior resource officials and the OCFO in the first quarter of FY 2011 to determine whether the Agency has the proper strategy in place for managing the Recovery Act and non-Recovery Act procurement and assistance workload. OAM and OGD would brief the OIG on the results.

The OIG's recommendations in the draft report were intended to be proactive in nature in an attempt to address potential issues and problems before the issues rise to the level of an internal control weakness. The OIG believes that waiting until an issue becomes an internal control weakness is too late, and that by being proactive, the Agency can prevent some internal control weaknesses from occurring. We still believe that the indicators we reported and those contained in the response to the draft report show that EPA contracts and grants may have future workload issues and that these issues should be addressed prior to becoming an internal control weakness.

Many of the functions in which delays are occurring are critical functions. For example, programmatic baseline monitoring reviews provide important information, such as whether expended and remaining funds are reasonable, whether all programmatic terms and conditions are being met, and whether project milestones are being met. Based on EPA's response, we combined the previous two recommendations into one, and the new recommendation requests that EPA use the September 30, 2010, performance data to determine whether the Agency should take additional actions. At the exit conference, the Director, Office of Grants and Debarment, stated that if we allowed flexibility for the Agency to determine what delays would reveal a control weakness, he would agree with the recommendation. In responding to the final report, the Office of Administration and Resources Management should provide a corrective actions plan for implementing the revised recommendation.

Chapter 3

OAM Needs Agency-Wide Performance Measures

OAM does not have Agency-wide performance measures, thereby making it difficult to assess the impact of the Recovery Act on its staff and workload. The Government Performance and Results Act of 1993 (GPRA) (P.L. 103-62) requires the Federal Government to establish performance measures. In response to a prior OIG audit recommendation, OAM developed performance measures for employee job standards that tied in to its strategic goals. However, OAM did not develop Agency-wide performance measures for contract functions. Without performance measures, OAM does not have valuable information it could use to effectively and efficiently manage its workforce and workload, and quickly address emerging issues such as impacts from Recovery Act work.

Performance Measurement Is Required by Law

The Government Performance and Results Act of 1993 provides criteria for management's obligation to maintain performance measurement data. The law requires an annual performance plan that is to include:

- Performance goals to define the level of performance to be achieved.
- Goals expressed in an objective, quantifiable, and measurable form.
- A description of the operational processes, skills, and technology, and the human capital, information, or other resources required to meet the performance goals.
- Performance indicators to be used in measuring or assessing the relevant outputs, service levels, and outcomes of each program activity.
- A basis for comparing actual program results with the established performance goals.
- A description of the means to be used to verify and validate measures.

OAM Does Not Have Performance Measures

OAM does not have Agency-wide performance measures to assess relevant changes in outputs, service levels, and outcomes of contracting activity. Some regional and procurement offices do track contract closeout activity. OAM does collect some Agency-wide information on activities that could be used to develop performance measures. For example, according to OAM's FY 2009 activity report, it processed 8,130 contract awards, modifications, delivery orders, and task orders, including 162 Recovery Act actions. In response to the RATB survey, OAM stated that it had 121 contracting officers; that number would equate to about 67 contracting actions per contracting officer. While each

contracting action may require different levels of resources, OAM could use the information to identify trends in processing contracting actions that may need to be investigated further.

Without consistent performance measures, OAM cannot determine the impact that Recovery Act activities have had on contract work Agency-wide or whether required contract tasks are completed efficiently and effectively. Unlike OGD, which has established annual performance measures and goals such as number of grant closeouts and average time to award grants and amendments, OAM does not track such performance measures Agency-wide. These performance measures assist OGD in better assessing the impact that Recovery Act work has on the overall grant workload.

Past Implementation of Performance Measures Not Effective

OAM developed performance measures in response to OIG Report No. 2005-P-00006, *Office of Acquisition Management Can Strengthen Its Organizational System*, issued February 17, 2005. This report made recommendations to OAM to develop an action plan with milestone dates for establishing performance measures and a means of measuring progress against its strategic goals. In response to this recommendation, OAM developed OAM-wide performance measures for employee job standards. These measures included providing courteous customer service, leading change, and optimizing business practices.

The measures OAM developed in response to the prior report cannot be used to measure outputs, service levels, or outcomes of contracting activities, and cannot be used as a basis for comparing results with performance goals. Tracking progress against organization-wide measures can be helpful in determining how processes can be more efficient. For example, comparing fiscal year activity from 1 year to the next could indicate which regions or procurement offices may be having difficulty completing certain tasks and provide a basis for asking why actions are not completed. Tracking progress could also indicate which regions or procurement offices are performing well. The region or procurement office may have its own internal best practices that may be useful to the organization as a whole.

Recommendation

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

- 3-1 Direct OAM to develop and implement organization-wide performance measures to better manage its activities.

Agency Comments and OIG Evaluation

EPA agreed with our recommendation and will implement the recommendation through a Balanced Scorecard Management Plan and a Balanced Scorecard Performance Measurement System that will track progress in implementing the plan. EPA intends to have the plan in place by March 2011 and the system in place by September 30, 2011.

Status of Recommendations and Potential Monetary Benefits

RECOMMENDATIONS						POTENTIAL MONETARY BENEFITS (in \$000s)	
Rec. No.	Page No.	Subject	Status ¹	Action Official	Planned Completion Date	Claimed Amount	Agreed-To Amount
2-1	13	Direct OAM and OGD to establish procedures to review the metrics for Recovery Act and non-Recovery Act contract and grant activities with senior managers for the period ending September 30, 2010, and quarterly thereafter. For any metrics that do not meet performance goals, senior managers should examine the reasons the goals were not met, and where a control weakness is revealed, develop a plan with corrective actions, due dates, and responsible offices to ensure that the goals are met in the future. If goals are not attained due to resource limitations, OAM and OGD should work with OCFO to reexamine the distribution of Recovery Act management resources.	U	Assistant Administrator for Administration and Resources Management			
3-1	16	Direct OAM to develop and implement organization-wide performance measures to better manage its activities.	O	Assistant Administrator for Administration and Resources Management	9/30/2011		

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

Appendix A

Agency Response to Draft Report

September 13, 2010

MEMORANDUM

SUBJECT: Draft Office of Inspector General (OIG) Audit Report:
*EPA's Contracts and Grants Workforce
May Face Future Workload Issues*
(Project No. OA-FY09-0924, August 12, 2010)

FROM: Craig E. Hooks
Assistant Administrator

TO: Melissa M. Heist
Assistant Inspector General for Audit

Thank you for the opportunity to comment on the subject draft audit report (report).

I am pleased that the report recognizes the Agency's noteworthy achievements in implementing the Recovery Act. As described in the report, these include the award of over \$6 billion in grants and \$300 million in contracts and the development of a stewardship plan that fully incorporates Government Accountability Office internal control standards. These achievements are a tribute to EPA's acquisition and grants workforce, which did an exceptional job of workload management and prioritization in the face of the extremely challenging objectives, expectations and new administrative and reporting requirements resulting from the Recovery Act.

The report examines EPA's contracts and grants staffing for both Recovery Act and non-Recovery Act activities and finds that current staffing levels may be insufficient to meet present and future workload demands. It also finds that the Office of Acquisition Management (OAM) has not developed Agency-wide performance measures for contract functions. To address these findings, the OIG recommends that I direct OAM and the Office of Grants and Debarment (OGD) to take certain actions. My response to the recommendations is as follows.

Chapter 2 Recommendations

Recommendation 2-1: Develop action plans to address the delays that already have been identified, such as the completion of grant closeouts and administrative monitoring reviews for Recovery Act grants.

Response: In coordination with the OA Division Directors and the Regional Contracting Officer (RCO) Supervisors, OAM has determined that action plans for contract-related delays are unnecessary at this time as there are no specific actions that have not been awarded or that have been unduly delayed as a result of prioritizing Recovery Act work. However, if we determine, based on new information, that such delays have occurred or may potentially occur, OAM will coordinate with the OAM Division Directors and RCO Supervisors and develop action plans as appropriate.

In the grants areas, as demonstrated by information from OGD's performance measure reports, the Recovery Act workload has delayed non-Recovery Act activities. As described below, however, none of these impacts warrants development of an action plan at this time.

Advanced Programmatic Monitoring

To ensure adequate advance programmatic monitoring for Recovery Act awards, OGD temporarily reduced the required level of advance programmatic monitoring for Regional and Office of Air and Radiation non-Recovery Act awards from 10% of active recipients to 7% of active recipients. OGD has not identified any significant adverse effects from this reduction. At the 7% level, the Agency is still obtaining the information needed to identify grants management risk areas.

Advanced Administrative Monitoring

The Agency primarily performs advanced administrative monitoring via contract. As of July 28, 2010, we have completed 56 of the 60 Recovery Act contract reviews and will finish the remaining 4 reviews by the end of the fiscal year. Making Recovery Act advanced administrative monitoring a priority has slowed the pace of our non-Recovery Act advanced administrative monitoring reviews. As of July 28, 2010, we have completed only 3% of these reviews, but are on track to complete the remaining 97% by the end of the calendar year as required by EPA Order 5700.6A2 CHG2, *Policy on Compliance, Review and Monitoring*.

Baseline Monitoring

In 2010, OGD implemented a new post-award Baseline Monitoring tool that tracks real-time compliance with baseline monitoring requirements. As of August 31, 2010, the following chart measures Agency progress in meeting a Grants Management Plan (GMP) compliance target of 90%.

	All Awards	ARRA Awards Only	Non-ARRA Awards
Administrative Baseline	86%	91.3%	85.3%
Programmatic Baseline	77%	75%	77.1%

The data show that, to date, administrative baseline monitoring exceeds the 90% target for Recovery Act awards and is near the target for non-Recovery Act awards. While the comparable numbers for programmatic baseline monitoring are not as high, we expect that the level of monitoring will approach 90% by the end of the calendar year.

Grants Management Plan Disinvestments

The Recovery Act workload did lead to the deferral of certain activities under the Agency's GMP. This has principally involved moving scheduled completion dates for selected milestones into FY 2011 under the GMP Goals 1-3. Activities affected include enhancements to guidance on environmental results and roles and responsibilities as well as the development of a new grants policy vision. OGD believes that the existing controls in these areas (e.g., the Environmental Results order, the Roles and Responsibilities Matrix, and relying on the Grants Customer Relations Council as a key mechanism for policy feedback) have been sufficient to mitigate any adverse effects of the deferral.

Closeouts

Although the report suggests that grants closeouts could become a problem, existing data show that as of August 31, 2010, EPA was at the 86.7% and 99.3% levels towards achieving the 90%-99% GMP closeout goals. These percentages are on par with the August 31 numbers for 2009 (86.7% and 99.4) and 2008 (86.8% and 99.3). As is typically the case, OGD expects there will be significant closeout activity through the remainder of the fiscal year to allow EPA to meet, from an overall Agency standpoint, the 90%-99% goals.

In short, the delays in non-Recovery Act grant work caused by the Recovery Act workload do not rise to the level of a material or agency weakness requiring preparation of an action plan at this time. The internal controls in the GMP are currently sufficient to address the risks posed by the delays, and OGD anticipates that the Agency will return to pre-Recovery Act performance levels in FY 2011. At the same time, and as described more fully in the response to Recommendation 2-2, OGD will continue to monitor the situation through its performance measurement reports and, if circumstances change, take appropriated corrective action.

Recommendation 2-2: Direct OAM and OGD to regularly review with senior managers performance information such as performance measures, FMFIA reports, contract office quality assurance plans, and stewardship plan updates, to detect delays in Recovery Act and non-Recovery Act grant and contract management activities and develop appropriate written action plans. Written action plans should be developed when performance measures will not be met or when delays indicate that a weakness in internal controls may exist. Existing workforce

information should be used to develop the action plans.

Response: I agree with the recommendation to review performance information on a regular basis and develop written action plans, using available workforce information, where the review identifies an internal control weakness. Consistent with this recommendation, OAM and OGD will be meeting with Senior Resource Officials and the Office of the Chief Financial Officer in the first quarter of FY 2011 to determine whether the Agency has the proper strategy in place for managing the Recovery Act and non-Recovery Act procurement and assistance workload. OAM and OGD will brief you on the results of the meeting.

I disagree, however, with the recommendation to prepare written action plans whenever a performance measure is not met. Instead, similar to the case for delays in Recovery Act and non-Recovery Act activities, written action plans for performance measure shortfalls should be required only where a shortfall reveals an internal control weakness. The OIG's formulation would limit OAM's and OGD's discretion to strike an appropriated balance between recovery Act and non-Recovery Act activities by mandating action plans for deviations from performance measures that are de minimus or otherwise not material. I am therefore requesting that the OIG modify Recommendation 2-2 to apply the internal weakness standard to both contract/grant delays and performance measure shortfalls.

Chapter 3 Recommendation

Recommendation 3-1: Direct OAM to develop and implement organization-wide performance measures to better manage its activities.

Response: I agree with this recommendation and OAM will address it through a Balanced Scorecard. This will consist of two components - a Balance Scorecard Management Plan (Plan), and a Balanced Scorecard Performance Measurement and Management System (System) that will track progress in implementing the Plan. The Balanced Scorecard will establish a comprehensive framework for performance management of the Agency's acquisition programs, incorporating objectives, core measures and targets that focus on meeting EPA, OARM and OAM strategic goals. It will also allow OARM to identify opportunities to strengthen EPA's Acquisition Workforce Strategic Human Capital Plan, thereby ensuring that the Agency has the best qualified acquisition staff to support its mission.

I am confident that the Balance Scorecard will enable EPA to achieve consistency, uniformity, and continuous improvement in its acquisition programs. OAM anticipates having the Plan in place by the end of March 2011 and the System in place by the end of September 2011.

Thank you again for the opportunity to comment on the report. If you have any questions, please contact me, John Bashista, Director, OAM, at (202) 564-4310, or Howard Corcoran, Director, OGD, at (202) 564-1903.

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Appendix B***Distribution***

Office of the Administrator
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Associate Administrator for Congressional and Intergovernmental Relations
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Resources Management
Director, Office of Grants and Debarment, Office of Administration and
Resources Management
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Administration and Resources Management
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