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Committee on Small Business,
U.S. Senate

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ENVIRONMENTAL PROTECTION

EPA's Oversight of Nonprofit Grantees' Costs Is Limited



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Abstract The Environmental Protection Agency (EPA) provides millions of dollars to various types of grantees to conduct research, demonstrate pollution control techniques, and perform other activities. Oversight of this large pool of grantees has proven to be difficult. Some grantees have spent all of their grant funds but completed only a portion of the work required in the grant agreement. In addition, some grantees, particularly nonprofit organizations with inexperienced staff, may not have adequate controls in place to ensure that funds are spent as intended or allowed. The wide-ranging problems with grant oversight have been identified in congressional hearings and EPA Office of Inspector General (OIG) reviews. These problems included spending funds for unallowable activities such as lobbying. In recognition of these problems, EPA had identified grants oversight as an agency-wide material weakness and is now in the process of validating whether the steps taken by EPA have addressed the weakness.		
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Contents

Letter		1
Appendix I	Oversight Activities Under the Post-award Management Policy	18
Appendix II	Average Number of EPA Nonprofit Grantees and Funds Awarded, Fiscal Years 1998-2000	21
Appendix III	GMO On-Site Evaluative Reviews and Other Post-award Oversight and Management Activities, May 1, 1998-July 6, 2000	22
Appendix IV	Summary of Findings Contained in Single Audit Reports of Nonprofit Grantees Received by the EPA’s OIG, Fiscal Years 1997-2000	23
Appendix V	Scope and Methodology	25
Appendix VI	Comments From the Environmental Protection Agency	27
Tables		
	Table 1: On-Site Reviews by GMOs, Fiscal Years 1998-2000	8



United States General Accounting Office
Washington, DC 20548

April 6, 2001

The Honorable Christopher S. Bond
Chairman, Committee on
Small Business
United States Senate

Dear Mr. Chairman:

The Environmental Protection Agency (EPA) provides millions of dollars to various types of grantees to conduct research, demonstrate pollution control techniques, and perform other activities. Oversight of this large pool of grantees has proven to be difficult. Some grantees have spent all of their grant funds but completed only a portion of the work required in the grant agreement. In addition, some grantees, particularly nonprofit organizations with inexperienced staff, may not have adequate controls in place to ensure that funds are spent as intended or allowed. The wide-ranging problems with grant oversight have been identified in congressional hearings and EPA Office of Inspector General (OIG) reviews. These problems included spending funds for unallowable activities such as lobbying. In recognition of these problems, EPA had identified grants oversight as an agency-wide material weakness and is now in the process of validating whether the steps taken by EPA have addressed the weakness.

To address this material weakness, EPA has issued and periodically updated a post-award policy to require proactive grant monitoring by agency staff after grants had been awarded. The monitoring is designed to ensure that grantees are meeting the conditions required by agreements, statutes, and regulations. In June 2000, EPA established agency-wide targets for performing on-site and off-site reviews of grantees. In addition to the reviews by EPA, grantees may be required to have an annual audit of their operations. Under the Single Audit Act Amendments of 1996, grantees that spend \$300,000 or more federal dollars annually must be audited. In conducting these audits, auditors select which federal program expenditures made by the grantees to review, based on criteria that combine level of expenditure and perceived risk.

In light of problems highlighted in congressional hearings and the fact that EPA grants to nonprofit entities have increased to about \$250 million annually, you asked us to determine the extent to which (1) EPA's post-award management policy, as implemented, helps identify whether EPA's

nonprofit grantees are incurring unallowable costs and (2) reviews under the Single Audit Act help EPA ensure proper expenditure of its grant dollars by these grantees. In making these determinations, we gathered information on the implementation of EPA's oversight policy and single audits, both in general and specifically for nonprofit grantees.

Results in Brief

While EPA has implemented a new oversight policy to improve grants management, its oversight activities are not likely to identify unallowable costs involving nonprofit grantees. In addition, EPA's funds provided to nonprofit grantees are usually too small to be covered in single audits. The on-site reviews that are a major component of EPA's post-award grant management policy are not focused on identifying unallowable costs. EPA's selection criteria for the on-site reviews are heavily influenced by the amount of the grant award, and those to nonprofits tend to be relatively small. Since the policy went into effect, total on-site reviews were conducted for only 36 of EPA's approximately 900 nonprofit grantees available for review each year. In those 36 EPA questioned the allowability of certain costs for 5 of the 36 grantees. During 33 of these reviews, EPA officials selectively reviewed expenditure records to determine whether the grantee had systems in place to record costs, but these reviews did not include verifying that expenditures were allowable. As an incidental result of these reviews, EPA did, however, question the allowability of costs. While awards to nonprofit grantees are relatively small and EPA's approach of verifying that systems are functioning to record costs is reasonable, greater assurance is needed that unallowable costs will be detected for effective grantee oversight. In light of the current low potential for identification of unallowable costs during on-site reviews, we are recommending that EPA revise its post-award management policy so that testing for unallowable costs is included as a suggested practice during on-site reviews of grantees.

EPA grants to nonprofit entities are not likely to be covered by single audits because the level of EPA funding provided to each grantee is usually too low for the grants to be included in the audit scope. Single audits can provide additional assurance that grantees are properly expending federal funds. The audits address whether the grantees' financial statements are presented fairly, whether internal controls are effective in preventing noncompliance with major federal program requirements, and whether the grantees are in compliance with laws and regulations that have a direct and material effect on major federal programs. Questioned costs and other findings are included in audit reports, and EPA has a process for follow-up and resolution of these

findings. From fiscal year 1997 through 2000, about 400 audit reports contained findings related to EPA grants, but only 50 reports concerned nonprofit grantees. EPA, like other federal agencies, has difficulty identifying grantees that annually expend \$300,000 or more in federal funds and thus are required to have a single audit. EPA relies on various sources to identify grantees requiring a single audit, but limited training and EPA's inaccurate grantee identification information hamper using one of these sources, the Federal Audit Clearinghouse Internet site. Accordingly, we are recommending that increased training be provided to EPA officials on accessing and using the information available at this site.

We provided a draft of this report to EPA for its review and comment. EPA agreed with the report's conclusions and recommendations.

Background

EPA's administration and oversight of grants is conducted by its Grants Administration Division within the Office of Grants and Debarment, by its approximately 3,000 grant project officers, and by its 10 regional grants management offices (GMO), all acting in partnership. The Grants Administration Division develops overall grants policy and is responsible for the review, award, and management of headquarters' grants. The grants project officers are responsible for oversight of the technical or programmatic aspects of the grants. The GMOs are responsible for providing oversight in the following four phases of the grant process:

- pre-award—EPA reviews the application paperwork and makes an award decision;
- award—EPA prepares the grant documents and instructs the grantee on technical requirements, and the grantee signs an agreement to comply with all requirements;
- post-award—the GMO provides technical assistance, oversight, and payments to the grantee; the grantee completes the work; and the project ends; and
- closeout of the award—the project officer ensures project completion, the GMO initiates grant closeout documents, and the grant closeout letters are issued to the grantee.

In the pre-award phase, the GMO reviews the grantee's application for costs that may be unallowable. EPA officials stated that reviewing the detailed listing of the costs for which the grantee proposes to seek reimbursement from EPA is the primary means used by GMOs to identify unallowable costs. EPA's revised oversight policy for GMOs focuses on the

post-award phase, when an EPA project officer is responsible for each grant and provides ongoing grant oversight.

Various audits by EPA's OIG have disclosed problems with EPA's oversight of grantees, including nonprofit grantees. For example, the OIG found that a nonprofit organization had spent all of EPA's grant funds but had completed only a small portion of the work required under the grant.¹ In November 1999, the OIG noted several weak areas in EPA's oversight during testimony before the Subcommittee on Oversight, Investigations, and Emergency Management, House Committee on Transportation and Infrastructure. The OIG pointed out that many of the recent audits disclosed the same problems as reported in 1996, prior to EPA's new post-award policy. In November 2000, the OIG identified the use of grants to accomplish EPA's mission as one of ten key management challenges confronting EPA. Specifically, the OIG noted that recent audits of EPA's grant recipients disclosed that some grantees did not have adequate financial and internal controls to ensure federal funds were managed properly. As a result, EPA had limited assurance that grant funds were used properly and accomplished the intended results. The OIG has ongoing work related to grants oversight, and for one review it noted that EPA headquarters and one regional office had undertaken several initiatives designed to improve the grants administration process.

The Single Audit Act, as amended, requires each nonfederal entity that expends \$300,000 or more federal dollars in a year to be audited. The single audit of the entity as a whole replaces multiple grant audits. The objectives of the Single Audit Act, as amended, are to

- promote sound financial management, including effective internal controls, with respect to federal awards;
 - establish uniform requirements for audits of federal awards;
 - promote the efficient and effective use of audit resources;
 - reduce audit and administrative burdens on state and local governments, Indian tribes, and nonprofit organizations; and
 - ensure that federal departments and agencies, to the maximum extent practicable, rely on and use audit work done pursuant to the act.
- Office of Management and Budget (OMB) Circular A-133 details how single audits are to be conducted. During a single audit, generally not all of the programs receiving federal dollars are audited. Auditors use criteria based

¹EPA/OIG, *The National Association of Minority Contractors* (1999-00213, Aug. 23, 1999).

on level of expenditure and risk to determine which programs to include in the scope of a single audit. This gives auditors greater freedom in targeting risky programs and allows for more efficient use of auditing resources.

To assist federal agencies, the Chief Financial Officer Council's Grant Management Committee (GMC) has addressed various financial issues relevant to efficiently managing the federal government's approximately \$300 billion in grant awards. The GMC, which was first convened in 1997, is composed of federal chief financial officers and other financial personnel. Currently, the GMC's primary task is to coordinate and oversee the government-wide implementation of the provisions of the Federal Financial Assistance Management Improvement Act of 1999 (P.L. 106-107, Nov. 20, 1999). Two of the act's purposes are to improve the effectiveness and performance of federal financial assistance programs and to simplify the application and reporting requirements for federal financial assistance. As part of its efforts, the GMC is working on issues relating to the single audit process.

EPA's Oversight of Nonprofit Grantees Is Limited and Is Not Focused on Identifying Unallowable Costs

EPA has taken several actions to improve its oversight of nonprofit and other grantees. However, on-site reviews of nonprofit grantees are limited and do not directly address the issue of unallowable costs. Any such identification is incidental to the activities conducted at the grantee's offices, in part because EPA believes that there is greater value in assessing a grantee's system for safe-guarding EPA funds than in examining for unallowable costs. Another limiting factor in identifying unallowable costs for nonprofit grantees is the small number of times that such entities are selected for post-award monitoring. Because a large amount of grant dollars may be one of the criteria for selecting grantees for in-depth review, nonprofit grantees face a very low risk of being selected. EPA data indicate that annually the average grant amount awarded to nonprofit grantees was less than 5 percent of the average amount awarded all other grantees during fiscal years 1994 through 1999, and the average number of grants to nonprofit grantees represented less than 16 percent of all EPA's grant awards. Moreover, the on-site review teams often are not trained to identify unallowable costs. In addition, some GMO officials believe that EPA's OIG is responsible for identifying unallowable costs. While OIG officials do conduct reviews involving unallowable costs, OIG officials stated that neither GMO officials nor project officers are precluded from conducting unallowable cost reviews during their grantee on-site reviews. EPA is making efforts to improve its oversight of grantees; however, like other federal agencies, it has not been

able to identify best practices for testing for unallowable costs during grant oversight.

EPA's Grantee Oversight Strategy Does Not Focus on Unallowable Costs

EPA's grant oversight policy for GMOs prescribes basic monitoring activities, requires GMOs to develop biennial grant monitoring plans, and establishes guidance for an on-site review of at least one grantee each year. The policy classifies activities as "Tier I" or "Tier II" and calls for different levels of monitoring for each tier. The GMOs implement the policy according to risk-based priorities described in the biennial monitoring plans. In general, Tier I includes 10 monitoring activities relating to the grantees' administrative compliance with the laws, rules, regulations, and procedures for administering grant funds. These activities do not address unallowable costs. The GMOs review grantees' documents during these activities and do not need to conduct on-site reviews. Tier II activities comprise on-site reviews of the grantees' procurement, property, and financial systems; on-site training or technical assistance; and in-depth reviews of selected procurement, property, or financial issues. These activities also do not focus on unallowable costs.

Both Tier I and Tier II reviews are intended to provide oversight information to EPA and assistance to the grantee. Appendix I contains a detailed description of activities associated with each tier. EPA's policy specifically states that the reviews serve as a customer-service mechanism and are not geared toward disallowing costs. Rather, the reviews are designed to verify that the grantee has systems in place that allow expenditures to be identified, captured, and traced to the appropriate ledgers and other financial records. GMO officials stated that only the most obvious unallowable costs are identified during the review process. Grant recipients are, however, notified of any unallowable costs identified during a review and are given an early opportunity to resolve the problem. EPA also works with grantees to improve or correct expenditure tracking systems as necessary.

EPA officials believe that post-award monitoring and oversight is a responsibility of both the GMOs and program offices. As a result, in 1999, EPA issued a second and companion policy focusing on the post-award responsibilities of EPA's program offices. In June 2000, EPA modified both of these policies and established the grantee compliance assistance initiative, which in part established agency-wide targets of 5 to 10 percent for performing evaluative on-site and off-site visits of EPA grant recipients. EPA is currently developing a new policy on post-award monitoring that will consolidate and build upon existing policies.

On-Site Reviews Are Seldom Conducted for Nonprofit Grantees

EPA has conducted very few on-site reviews of nonprofit organizations—only a total of 36 out of approximately 900 nonprofit grantees available for reviews each year received such a review between May 1, 1998, and July 6, 2000, the period representing the most recent data available when we conducted our review. One on-site nonprofit grantee review was conducted during the last 5 months of fiscal year 1998, 14 were conducted in fiscal year 1999, and 21 during the first 9 months of fiscal year 2000. The number of nonprofit grantees available for review in each of these years was 969, 915, and 811, respectively. EPA officials stated that they plan to increase on-site reviews of nonprofit grantees in fiscal year 2001. EPA officials also said that between October 2000 and February 2001, the Grants Administration Division performed on-site reviews of 10 nonprofit organizations and that an additional 10 such reviews are scheduled between March and September, 2001. The grantees were selected by headquarters and regional office officials based on the criteria indicated in the agency's policy, including dollar size of the grants and the officials' judgments as to which grantees posed the greatest risk of noncompliance with grant requirements. For example, because of the need to focus their resources on problems involving tribal grants, two regional GMOs had each visited only two nonprofit grantees between May 1998 and July 2000. Furthermore, the nonprofit grantees are only a small proportion of EPA's grantee population. The number of grants awarded by EPA headquarters and regions for fiscal years 1998 through 2000 is shown in appendix II. According to EPA data for fiscal years 1994 through 1999, the average dollar value of awards to nonprofit grantees—about \$172,000—amounted to less than 5 percent of average awards to other grant recipients.

Even though the allowability of grantee costs was not focused on during EPA on-site visits, questions concerning the allowability of costs arose for 5 of the 36 nonprofit grantees that received the on-site reviews. For two of the grantees, the questioned costs involved small claims for potentially unallowable meal costs in which the grantees were requested to repay the funds. One grantee agreed to repay the funds. Whether the questioned meal costs for the other grantee were, in fact, unallowable is not known because EPA did not follow up on the report. Action involving two other cases of questioned costs was still pending as of March 2001, and the last case was dropped pending follow-up during the next on-site review. Table 1 contains details on the number of nonprofit grantees, on-site reviews, and questioned costs by the GMOs.

Table 1: On-Site Reviews by GMOs, Fiscal Years 1998-2000

Grants management office	Number of nonprofit grantees	On-site reviews conducted for nonprofit grantees	On-site reviews with questioned costs
Region 1	84	0	
Region 2	51	2	
Region 3	55	3	1
Region 4	49	0	
Region 5	76	2	
Region 6	42	0	
Region 7	35	0	
Region 8	63	2	
Region 9	78	1	
Region 10	43	0	
Headquarters	323	26	4
Total	898	36	5

Source: GAO's analysis of EPA's data.

In reference to the low number of on-site reviews of nonprofit grantees, EPA officials stated that the post-award policy is just one of the tools intended to assist in the management and oversight of grant funds. Other tools are programmatic reviews by project officers, and audits by EPA's OIG and other independent auditors. EPA officials said that none of the tools alone provides sufficient oversight of nonprofit grantees.

EPA Regional Grant Specialists Are Not Trained to Identify Unallowable Costs

EPA generally uses teams of individuals knowledgeable about a grantee to conduct on-site reviews. However, the composition of these teams differs between headquarters and the regions. Headquarters' GMO awards the largest number of grants to nonprofit organizations and has established a grant compliance team to work with grant specialists and project officers to conduct grantee on-site reviews. Members of this compliance team have special experience or training in accounting or auditing techniques. According to EPA officials, the headquarters team is qualified to review transactions and perform tests to identify unallowable costs. Compliance team personnel conducted all 26 of the headquarters' GMO on-site reviews, and these accounted for 4 of the 5 grant cases that questioned spending by nonprofit grantees.

On-site reviews of nonprofit grantees within the regions are generally conducted by teams consisting of a grant specialist, project officer, and if available, a staff member from the regional finance or budget office. Generally transaction testing focuses on evaluating the adequacy of the

grantee's financial management system and is not performed during the regional on-site reviews unless a staff member from the region's finance or budget office is on the team. GMO officials do not consider the grant specialists or project officers qualified to independently test transactions.

Some GMO officials stated that identifying unallowable costs is a responsibility of the OIG. OIG officials said, however, that there are no EPA policies or regulations that preclude reviews of unallowable costs by GMO officials during on-site reviews. The OIG does not routinely conduct reviews of nonprofit grantee financial records unless requested to do so by a GMO. For 2 of the 36 on-site reviews conducted by GMOs, the team referred the grantee to the OIG for further review.

EPA Has Taken Other Actions to Improve Grant Oversight, but It Is Too Early to Determine Their Effectiveness

In addition to implementing its post-award grant management policies, EPA is developing a new grants data management system to improve its post-award oversight and management, and it has developed a training course for grant project officers. These efforts affect oversight of all EPA grants including those to nonprofit recipients and are not focused on identifying unallowable costs.

EPA's current grant management data system—the Grants Information Control System (GICS)—has not provided consistent and accurate data, according to GMO officials. Furthermore, the system does not generate the management reports needed to effectively monitor the agency's oversight activities. EPA has recently developed a new Integrated Grants Management System (IGMS) that is expected to capture administrative information on grant awards such as funding amounts and project periods. The database is expected to become fully operational in January 2003, at which time all offices will directly enter grant information into the database. EPA's OIG plans to review the IGMS once it is fully implemented. In addition to the IGMS, EPA has developed a grants compliance database that will generate management reports showing, among other things, the number of on-site and off-site reviews and technical assistance reviews conducted by each GMO. An example of this type of information is contained in appendix III. The database will also provide the GMOs with data on grantee performance and will allow the users direct access to key information such as funds used for a particular grant and grantee single audit information. The database, however, does not indicate whether a single audit was conducted for a particular grantee. EPA officials stated that this was useful information and agreed that it should be added to the database. As of March 2001, the grantee

compliance database contained data from EPA headquarters and five regional GMOs.

EPA has developed and implemented an extensive training course for project officers. These officers serve as the technical managers and work with grant recipients on matters relating to project performance. They also have responsibility for periodic contact with grantees to discuss progress of the grant activities and to review financial reports provided by grantees. EPA's training covers all aspects of the grant process requirements, and EPA requires all project officers to attend the course. As of February 2001, about 4,800 project officers had received the training, but EPA has not assessed the impact of this training on grant oversight. In addition, EPA issued a policy in 1999 that specifically addresses the post-award responsibilities of project officers. EPA is hindered in its efforts to improve its grant oversight in part because of a lack of available best practices in other federal agencies. According to an official from the Chief Financial Officers' Council, the council is not aware of any federal agency that has an on-site review program that could be used as a model for post-award grant management.

Single Audits Provide Additional Assurance of Proper Expenditures, but Difficulties Exist in Identifying All Grantees Required to Have Audits

Single audits provide additional assurance to EPA that nonprofit grantees are properly spending grant funds, but EPA's funds provided to its grantees were usually too small to be included in the audit scope. The audits assure EPA that grantees' financial management and internal control systems have been reviewed and indicate whether the financial statements are fairly presented. The audits also assess whether grantees are complying with laws and regulations that have a material effect on their major programs. However, EPA is unable to readily identify grantees that yearly expend \$300,000 or more in either EPA funds or total federal funds, requiring a single audit. EPA relies on other sources to identify grantees requiring a single audit, but limited staff training and inaccurate grantee identifying information hamper these efforts. Other federal agencies have similar difficulties in determining whether their grantees must have a single audit. Recognizing the need for more information on single audits throughout the federal government, the Chief Financial Officers' Council has created workgroups that are currently focusing on issues such as identification of grantees required to have a single audit.

Single Audits Address Financial Statements, Internal Controls, and Compliance with Laws and Regulations

Single audits of grantees are intended to provide EPA and other federal agencies additional assurances that their grant funds are being spent in accordance with requirements governing federal awards.² Single audits are conducted in accordance with generally accepted government auditing standards and cover the entire operations of the grantee. During a single audit, the auditor examines the grantee's financial management systems and internal controls and tests their adequacy. The auditor also determines whether the financial statements of the grantee are presented fairly and whether the grantee has complied with certain laws, regulations, and the provisions of contracts or grant agreements. Lastly, the auditor follows up on prior audit findings to ensure that the findings have indeed been addressed. The auditor's own findings are presented in a single audit report.

The Single Audit Act, as amended in 1996, established the concept of the single audit to replace multiple grant audits with one overall audit of a grant recipient. The Single Audit Act Amendments of 1996 have resulted in the establishment of an automated database of single audit information. This database provides potential users (including program managers, auditors, and other interested parties) with information on award recipients' financial management and internal control systems and on their compliance with federal laws and regulations. The Bureau of the Census' Federal Audit Clearinghouse maintains the database and paper copies of single audit reports.

Auditors determine which federal programs to include in the scope of a single audit based upon level of federal expenditures and risk. In assessing risk, auditors consider current and prior audit experience with the grantee, oversight by federal agencies and pass-through entities,³ and other factors. At a minimum, the audit will cover all of the major programs receiving significant funding unless the auditor deems the programs to be low-risk. As described in OMB Circular A-133, if a federal agency's program is not included in the scope of the audit, the federal agency may request to have the program included as a major program but must agree to pay the full incremental cost of the additional audit work. According to

²Federal awards consist of federal cost reimbursement contracts and federal financial assistance, including grants, loans, loan guarantees, property, cooperative agreements, interest subsidies, insurance, food commodities, and direct appropriations.

³A pass-through entity means a nonfederal entity that provides a federal award to a subrecipient to carry out a federal program.

a senior EPA Grants Administration Division official, EPA has not exercised this option. If EPA has concerns about a particular grantee or program, the grantee could be referred to EPA's OIG for an audit rather than incurring the additional costs associated with expanding the scope of a single audit, according to the official.

Single Audit Report Findings Seldom Focus on EPA Nonprofit Grantees

For calendar year 1997 through 2000, approximately 5,940 single audits were conducted that involved all EPA grantees. However, only 2,346 of these audits included EPA funds in the audit scope.⁴ We could not readily determine how many of the EPA grantees were nonprofit because they are not separately identified in the single audit database. However, EPA's OIG receives single audit reports that contain findings involving all EPA grantees, and we could identify reports for the nonprofit entities. Of the approximately 400 audit reports the OIG received from fiscal year 1997 through fiscal year 2000, only 50 involved nonprofit grantees. For these 50, EPA contacted the grantees to determine how findings and recommendations were addressed. We reviewed 41 of the 50 audit reports;⁵ 7 of the reports questioned the allowability of costs totaling approximately \$76,000. The questions were resolved in five cases by the grantees providing additional documentation. In two cases, representing about \$6,000 of the questioned costs, the grantees adjusted their accounts to reflect the correct charges to the government. Forty of the 41 audit reports contained nonfinancial findings, which varied from audit to audit but were in three general categories: segregation of duties, timely submittal of reports, and policies and procedures. Problems associated with segregation of duties included having the same person preparing invoices for payment and balancing the accounts, or having one person responsible for requesting, approving, and receiving purchases. Reports that needed to be submitted on a more timely basis included federal financial reports and progress reports. Policies and procedures that needed strengthening related to matters such as inventory schedules, reconciling accounts, and time and attendance.

⁴The number of audits was obtained in February 2001 from the Bureau of the Census's Federal Audit Clearinghouse database. The database contains information on audits of grantees with fiscal years beginning on July 1, 1996. Because of grantee reporting requirements, it did not include, at the time of our review, all grantee audits with fiscal years ending as of June 30, 2000. Therefore, all audits are not included in the database for 1997 and 2000.

⁵Reports for nine audits were not available.

EPA GMO officials and regional audit coordinators stated that audit findings are generally easily correctable. Upon the completion of an audit, the grantee is required to prepare a corrective action plan to address each audit finding, including the anticipated completion date. EPA officials stated that the planned corrective action is often completed by the time EPA receives a copy of the audit report. Most of these officials further stated that the single audits are useful in that they provide reasonable assurance that a grantee has adequate systems in place to appropriately use and track grant dollars. Appendix IV contains additional information on the nonprofit grantee audit reports.

EPA Is Unable to Readily Identify Grantees That Are Required to Have Single Audits

EPA, like other federal agencies, does not have an effective mechanism to readily determine if a grantee should have a single audit conducted. According to EPA grants management officials, as part of EPA oversight activities, EPA grant specialists are encouraged to ask grantees if they have had or are required to have a single audit because it is difficult for EPA to determine alone if a grantee has expended \$300,000 or more total in federal funds during a given year and thus requires a single audit. EPA GMO officials and regional audit coordinators stated that systems are not in place to track grantee expenditures. EPA's Integrated Financial Management System is used to monitor grantees. It tracks funds that have been awarded and provided to grantees on an individual grant level, but it does not track funds on an aggregate basis by grantee. Further, the system tracks funds provided to the grantees, but does not track funds expended by the grantees. This distinction is significant because a grantee may be awarded funds in a given year and not necessarily expend all of those funds in the same year.

Determining which grantees need single audits is complicated by the fact that grantees may receive funds from more than one federal agency in a given year. A grantee may receive and spend only a small amount of funding from EPA, but larger sums from other agencies, putting the grantee over the \$300,000 threshold and necessitating a single audit. According to Federal Audit Clearinghouse and OMB officials, there are no current government-wide systems that routinely collect data on nonfederal recipients' expenditures of federal awards during a given year. OMB plans to work with federal agencies to explore ways to identify recipients that are required to have a single audit.

EPA has taken or plans to take several actions to identify grantees subject to the Single Audit Act. Specifically, in July 2000 a memorandum of understanding was signed between the OIG and EPA's Office of Grants

and Debarment. One purpose of the memorandum was to clarify the responsibilities concerning single audits, including identifying headquarters and regional staff responsible for ensuring that the nonprofit grantees, required to conduct single audits, have done so. In addition, the Office of Grants and Debarment recently sent a letter to all grantees subject to the single audit requirements clarifying the grantees' responsibilities to have the audits. Lastly, the Office of Grants and Debarment has developed a single audit procedural flow chart for the GMOs. The flow chart includes, among other things, a method for determining whether a recipient needs to conduct a single audit.

Improved Training and Grantee Identification Could Enhance EPA's Use of Single Audit Information

The Federal Audit Clearinghouse database is the primary repository for single audit information. Grant oversight personnel can search the database to determine if a grantee completed a single audit in the past and whether additional inquiries of a specific grantee may be warranted. However, according to EPA, efforts to use the database are hampered in part by the limited amount of training grant specialists and project officers receive on accessing and using the site. EPA officials stated that the training provides basic information on accessing the site, but it is not extensive. For example, project officers receive approximately 1 1/2 hours of training using the clearinghouse information and this does not cover all aspects of how to access and use all of the available information. EPA officials further stated that more training on the use of the clearinghouse would allow EPA to better use its limited grantee oversight resources. For example, if EPA could use the information to identify particular grantee problems, EPA could further investigate the problems during an on-site review.

Accessing information for a specific grantee is not always possible, however, because it requires an Employer Identification Number (EIN), and there have been problems with the EINs for some of EPA's nonprofit grantees. Specifically, (1) EINs are not readily known for some grantees, (2) some grantees were receiving grants under several different EINs, and (3) multiple grantees were receiving grants under one EIN. EPA's Grants Administration Division Branch Chief attributes these problems to the fact that EPA has had problems in the past with its grants management tracking systems. EPA's IGMS is being designed to address these problems, with each grantee having only one proper name and EIN. Currently, even the slightest variation in grantee names causes the system to recognize the grantee as two separate entities.

Efforts Are Under Way Government-wide to Examine the Single Audit Implementation Process

The Chief Financial Officers' Council, representing over a dozen federal agencies, established an audit oversight workgroup as one of four workgroups that will be implementing the grant streamlining objectives of the Federal Financial Assistance Management Improvement Act of 1999 (P.L. 106-107). The act's purposes include improving the effectiveness and performance of federal financial assistance programs and simplifying application and reporting requirements for federal financial assistance. To improve audit oversight, the workgroup has created an audit coverage team and a single audit clearinghouse/delinquent audits team.

The audit coverage team, which first met in November 2000, is just getting under way but anticipates that it will look at the process auditors use to select review areas and how agencies can better inform auditors of the areas needing audit coverage. The team also expects to look at the process of reviewing auditors' work to determine audit quality. Schedules for completing the team's work and publishing the results have not been established.

The single audit clearinghouse/delinquent audits team, which also began meeting in the fall of 2000, is exploring ways to assist agencies in determining if grantees are obtaining required single audits. According to the team leader, the findings were planned for presentation to the Chief Financial Officers' Council in March 2001, but no time frames for the actual implementation of the plan have been established.

Conclusions

As currently implemented, EPA's post-award grant management policy provides minimal assurance that unallowable costs for nonprofit grantees will be identified. Identification of such costs is important for effective oversight of EPA's nonprofit grantees. EPA's on-site grantee visits could provide agency officials with a valuable opportunity to test for unallowable costs while they are testing the adequacy of the grantees' financial and administrative systems. While additional time may be required to perform tests for unallowable costs and additional training may be required for regional personnel, the tests would provide greater assurance that grant funds are spent in accordance with OMB requirements.

The single audit is an important tool for ensuring that federal funds are properly spent. EPA has taken several steps to identify grantees that need a single audit, but it is difficult to identify them definitively because information on total federal expenditures by each grantee is not available. As a result, EPA is using other information sources to identify grantees

that are required to have a single audit. One of these sources is the Federal Audit Clearinghouse Internet site. This source could be used more effectively if EPA officials were better trained in using the site.

Recommendations

To provide greater assurance that EPA grant funds are spent in accordance with OMB requirements, we recommend that the Administrator of EPA direct the Assistant Administrator for Administration and Resources Management to

- revise the 1998 post-award management policy to provide that transaction testing focused on identification of unallowable costs be included as a suggested practice during on site reviews of grantees, and
- increase the amount of training provided to grants specialists and project officers on accessing and using the Federal Audit Clearinghouse database to enhance their capabilities for obtaining single audit information.

Agency Comments

We provided EPA with a draft of this report for its review and comment. The agency agreed with the findings in the report and suggested several changes to improve clarity, which we incorporated into the report, where appropriate. EPA agreed with our recommendations to include transaction testing for unallowable costs as a suggested practice during on-site reviews and to increase staff training on use of the Federal Audit Clearinghouse database and its capabilities for improving grants management.

The full text of EPA's comments is included as appendix VI.

We conducted our review from September 2000 through April 2001 in accordance with generally accepted government auditing standards. See appendix V for the details of our scope and methodology.

As agreed with your office, unless you publicly announce the contents of this report earlier, we plan no further distribution of it until 30 days from the date of this letter. We will then send copies to other appropriate congressional committees and to The Honorable Christine Todd Whitman, Administrator of EPA. We will also make copies available to others who request them.

Should you or your staff need further information, please call me at (202) 512-6225 or John A. Wanska at (312) 220-7628. Key contributors to this report were Willie Bailey, Mary Nugent, Mary Ellen Chervenec, Richard Johnson, and Laura Shumway.

Sincerely yours,

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

John B. Stephenson
Director, Natural Resources
and Environment

Appendix I: Oversight Activities Under the Post-award Management Policy

EPA's post-award management policy provides policy, procedures and guidelines for the post-award management of grants and cooperative agreements by Grants Management Offices (GMO). The policy establishes baseline requirements (Tier I activities) to be followed by all GMOs. It also includes optional steps (Tier II activities), that could improve grant management if adopted. In addition, the policy requires that each GMO conduct at least one on-site review of a grantee each year.¹ The policy also directs each GMO to develop a biennial plan that sets forth oversight and management activities for the coming two-year period, with updates to the plan due annually.

Tier I – Baseline Requirements

1. Monitor recipients: GMOs should monitor compliance with all terms and conditions in all grants and use a post-award checklist to review compliance. Grant specialists should be directly responsible for ensuring that administrative terms and conditions are met. GMOs should be responsible for confirming that project officers' programmatic terms and conditions have been satisfied.
2. Communicate with the project officer and the recipient: GMOs must communicate with each grant recipient and the project officer for each grant at least once during the life of the grant award.
3. Monitor payments and drawdowns: GMOs should work with project officers to monitor the rate of payments and drawdowns by recipients.
4. Assess the need for audits: GMOs should assess the need for audits under the Single Audit Act and other provisions.
5. Monitor unliquidated obligations: GMOs should remove unobligated funds from the grants as soon as possible after the grants are no longer active.
6. Monitor compliance with reporting requirements: GMOs should determine whether recipients are submitting required reports, such as interim and final financial status reports.

¹Nonprofit grantees makeup an average of less than 16 percent of EPA's universe of grantees, and the funds awarded to nonprofit grantees are significantly less than those awarded most other organizations. Consequently, the grantees selected for the one on-site visit may not be a nonprofit organization.

7. Respond to relevant findings in audit reports: GMOs should ensure implementation of audit follow-up recommendations.
8. Ascertain the need for changes to the grant agreements and initiate such action: If baseline checklists reveal the need for change, the GMOs must take steps to ensure action is taken.
9. Document files: GMOs should document files by making brief notations or records of communication with project officers and grant recipients.
10. Provide satisfactory customer service: GMOs should ensure that concerns and requests of grant recipients and project officers are expeditiously addressed.

Tier II – Beyond Baseline Monitoring Activities for Selected Grantees

Tier II monitoring activities include and exceed those listed under Tier I and generally are recipient-specific. Factors to be considered in planning Tier II monitoring activities include, but are not limited to, whether grantees are considered high risk; whether there are special statutory requirements to perform periodic reviews; grantees' prior experience with federal grants; complexity of the projects; grant award amounts; past performance of grantees; political and special programs; and known financial and management deficiencies.

On-site reviews using protocols are the best way to conduct in-depth reviews of the grantee. Protocols are predeveloped data collection instruments seeking specific grantee performance and financial information. If on-site reviews are not feasible or cost effective, however, other available tools include desk reviews, telephone surveys, project officer questionnaires, and technical assistance reviews. The following tools and techniques are used during in-depth monitoring activities.

1. On-site reviews: On-site review involves a GMO visit to review the grantee's entire operations including, among other things, property management, procurement, financial management, and general administration. As part of the on-site review, it is suggested that transaction testing be conducted in at least one of several areas, namely travel, payroll, purchases, procurement or property. Transaction testing involves reviewing a judgmental sample of source documents to verify that systems and procedures are in place to trace financial transactions.

2. Desk reviews: These reviews reflect a combination of the activities under Tier I and Tier II. These tasks, however, are performed largely by telephone.
3. Technical assistance reviews: Technical assistance is another post-award monitoring technique used by GMOs. It consists of training grantee staff about grant administration.

Appendix II: Average Number of EPA Nonprofit Grantees and Funds Awarded, Fiscal Years 1998-2000

As indicated in the following table, for fiscal years 1998-2000 an average of 898 grantees were awarded funds annually, with grant funding totaling about \$254.6 million per year.

Dollars in millions								
Number of EPA nonprofit grantees and funds awarded								
GMO/Region	Fiscal year 1998		Fiscal year 1999		Fiscal year 2000		Grantees	Funds
	Grantees	Funds	Grantees	Funds	Grantees	Funds		
1	96	\$4.5	86	\$5.4	71	\$4.8	84	\$4.9
2	62	5.6	50	9.0	41	2.4	51	5.7
3	69	13.8	56	7.1	40	7.4	55	9.4
4	44	1.9	56	9.3	46	5.0	49	5.4
5	92	6.9	79	5.0	58	5.2	76	5.7
6	46	1.6	39	12.5	40	48.2	42	20.8
7	27	2.0	36	1.9	41	3.7	35	2.5
8	62	2.2	63	2.1	65	2.6	63	2.3
9	88	7.3	82	10.7	64	9.3	78	9.1
10	57	2.9	39	3.6	32	1.7	43	2.7
HQ	326	199.7	329	185.5	313	173.0	323	186.0
Total	969	\$248.3	915	\$252.2	811	\$263.3	898	\$254.6

Source: GAO's analysis of data provided by EPA.

Appendix III: GMO On-Site Evaluative Reviews and Other Post-award Oversight and Management Activities, May 1, 1998-July 6, 2000

Grants management office	Fiscal Year	Post-award grant management activities				
		On-site reviews				Total monitoring activities
		All grantees	Nonprofit grantees	Technical assistance	Desk reviews	
Region 1	1998	1	0	0	0	1
	1999	10	0	16	0	26
	2000	0	0	14	0	14
Region 2	1998	14	0	0	0	14
	1999	14	1	5	2	21
	2000	3	1	7	1	11
Region 3	1998	4	0	0	0	4
	1999	6	2	0	5	11
	2000	4	1	2	28	34
Region 4	1998	6	0	0	0	6
	1999	1	0	0	0	1
	2000	1	0	2	0	3
Region 5	1998	5	0	0	0	5
	1999	5	0	0	0	5
	2000	2	2	2	210	214
Region 6	1998	0	0	0	0	0
	1999	1	0	0	9	10
	2000	0	0	8	7	15
Region 7	1998	2	0	0	0	2
	1999	0	0	5	0	5
	2000	3	0	4	243	250
Region 8	1998	4	0	2	1	7
	1999	7	1	0	5	12
	2000	1	1	1	0	2
Region 9	1998	16	0	14	0	30
	1999	16	0	33	0	49
	2000	16	1	20	4	40
Region 10	1998	0	0	1	0	1
	1999	3	0	1	0	4
	2000	1	0	1	0	2
Headquarters	1998	6	1	0	0	6
	1999	20	10	0	0	20
	2000	19	15	0	1	20
Total		191	36	138	516	845

Source: GAO's analysis of data provided by EPA.

Appendix IV: Summary of Findings Contained in Single Audit Reports of Nonprofit Grantees Received by the EPA's OIG, Fiscal Years 1997-2000

Grantee	Audit period	Findings	Questioned costs
Adirondack Lakes Survey Corp., NY	1995	Not available ^a	
Hudson Region Health Commission, NJ	1995	Not available	
Rensselaerville Institute, NY	1995	Not available	
Northwest Renewable Resource Center, WA	1995	Not available	
National Academy of Sciences, DC	1996	Submit reports more timely.	None
Center for Watershed Protection, MD	1996	Not available	
NEBHE, MA	1996	Not available	
American National Standards Institute, Inc., NY	1996	Submit reports more timely.	\$5,574 Account adjusted.
Engineers Research & Education Cooperative Trust, DC	1996	Submit reports more timely.	None
Center for Watershed Protection, MD	1996		Overbilled EPA for \$163 and underbilled EPA for \$427. Account adjusted.
Gulf Coast Research Laboratory, MS	1996	Better segregate duties. Submit reports more timely. Strengthen policies and procedures.	None
Lake Michigan Air Directors Consortium, MI	1997	Better segregate duties.	None
Utah Association of Conservation Districts, UT	1997	Strengthen policies and procedures.	None
Marine Biological Laboratory, MA	1997	Strengthen policies and procedures.	\$6,295 Costs allowed.
Love Canal Revitalization, NY	1997	Not available	
National Council on the Aging, Inc., DC	1997	Submit reports more timely. Strengthen policies and procedures.	
State and Territorial Air Pollution Program and Association of Local Air Pollution Control Officials, Inc., D.C.	1996	Submit reports more timely.	\$952 Costs allowed.
American Forestry Association, DC	1997	Better segregate duties.	\$28,272 Costs allowed.
Alliance for the Chesapeake Bay, Inc., MD	1997	Better segregate duties.	None
Interstate Commission on the Potomac River Basin, MD	1997	Strengthen policies and procedures.	None
West Virginia High Technology Consortium Foundation, WV	1997	Better segregate duties.	None
Bay Area Air Quality Management District, CA	1997	Strengthen policies and procedures.	None
National Asian Pacific Center on Aging, WA	1997	Not available	
Ecumenical Ministries of Oregon, Or.	1996	Not available	
Lake Michigan Air Directors Consortium, IL	1998	Better segregate duties. Strengthen policies and procedures.	None
National Medical Association, DC	1997	Submit reports more timely.	None
International Institute for Energy Conservation, DC	1997	Strengthen policies and procedures.	None
Woods Hole Oceanographic Institution, MA	1997	Strengthen policies and procedures.	None

**Appendix IV: Summary of Findings Contained
in Single Audit Reports of Nonprofit Grantees
Received by the EPA's OIG, Fiscal Years 1997-
2000**

Grantee	Audit period	Findings	Questioned costs
Northeast Energy Efficiency Partner, Inc., MA	1997	Strengthen policies and procedures.	None
National Council of the Churches of Christ in the USA, NY	1997	Strengthen policies and procedures.	None
Environmental Council of States, Inc., DC	1998	Submit reports more timely.	None
National Academy of Sciences, DC	1998	Strengthen policies and procedures.	None
Canaan Valley Institute, WV	1998	Strengthen policies and procedures.	None
American Council for an Energy-Efficient Economy, DC	1998	Submit reports more timely. Strengthen policies and procedures.	None
U.S. Environmental Training Institute, DC	1997	Strengthen policies and procedures.	None
Education Development Center, Inc., MA	1997	Strengthen policies and procedures.	None
Interstate Commission on the Potomac River Basin, MD	1998	Strengthen policies and procedures.	\$19,412 Costs allowed.
ILSI Research Foundation, DC	1998	Submit reports more timely. Strengthen policies and procedures.	None
Great Lakes Commission, MI	1999	Strengthen policies and procedures.	None
Lane Regional Air Pollution Authority, OR	1998	Better segregate duties. Strengthen policies and procedures.	None
Northeast States for Coordinated Air Use Management, Inc., MA	1998	Strengthen policies and procedures.	None
Environmental Careers Organization, Inc., MA	1997	Submit reports more timely. Strengthen policies and procedures.	None
National Safety Council, IL	1998	Strengthen policies and procedures.	None
National Safety Council, IL	1997	Strengthen policies and procedures.	None
SETAC Foundation for Environmental Education, Inc., FL	1998	Strengthen policies and procedures.	\$14,773 Costs allowed.
National Senior Citizen Education & Research Center, Inc., MD	1998	Submit reports more timely.	None
National Council of the Churches of Christ in the USA, NY	1998	Strengthen policies and procedures.	None
Kaiser Foundation Health Plan, Inc., CA	1998	Strengthen policies and procedures.	None
Environmental Alliance for Senior Involvement, VA	1999	Strengthen policies and procedures.	None
Child & Family Resources, Inc., AZ	1999	Better segregate duties. Strengthen policies and procedures.	None

²⁹The clearinghouse was not able to provide copies of nine of the audits. The clearinghouse sends their older audits to a storage facility and was not able to retrieve them for our review.

Source: GAO's analysis of data provided by Bureau of the Census's Federal Audit Clearinghouse.

Appendix V: Scope and Methodology

To determine the extent to which EPA's post-award management policy, as implemented, helps identify whether EPA's nonprofit grantees are incurring unallowable costs, we reviewed the policy requirements, interviewed EPA officials on policy implementation, and gathered information from EPA's headquarters and its 10 regional GMOs. We analyzed the annual grantee monitoring plans prepared by headquarters and all 10 regional GMOs. Further, we reviewed and analyzed the 36 reports of on-site reviews that had been conducted by headquarters and five of the regional GMOs for nonprofit organizations since the post-award policy was implemented in 1998. We also discussed with GMOs the role that project officers play in oversight of nonprofit grantees and the extent to which their on-site review activities are able to identify unallowable costs. In addition, we analyzed data output from EPA's Grants Information Control System, and evaluated the planned output from the new Integrated Grants Management System and the grants compliance database.

To determine the extent to which the reviews under the Single Audit Act help EPA to ensure proper expenditures of its grant dollars by nonprofit grantees, we reviewed the relevant OMB circulars to determine what is required of nonprofit grantees. In addition, we conducted interviews with grants management officials in EPA's headquarters and with audit coordinators in 5 of its regional offices: Region I (Boston), II (New York), III (Philadelphia), V (Chicago), and X (Seattle). We asked these officials about how audit findings are resolved, how useful the audits are in identifying unallowable costs, and how grantees needing single audits are identified, among other things. We also analyzed the Federal Audit Clearinghouse database to identify the number of EPA grantees that (1) had single audits and (2) had EPA-related findings during calendar years 1997-2000. We did not test the reliability of data from the Federal Audit Clearinghouse. In 2000, we reported¹ that based upon OMB's request, the Department of Commerce's Office of Inspector General performed a review of the database to assist OMB, the Census Bureau, and other users in assessing the accuracy of audit report information in the database. At that time, we reviewed the office's sampling and methodology, monitored the audit scope and the progress of the review, and discussed the preliminary results with OMB and Office of Inspector General officials. In addition, we obtained a list of all single audits that EPA's Office of Inspector General had received for fiscal years 1997-2000 that required

¹ *Single Audit: Update on the Implementation of the Single Audit Act Amendments of 1996* (GAO/AIMD-00-293, Sept. 29, 2000).

EPA follow-up, and with the assistance of EPA's National Single Audit Coordinator, we identified those that pertained to nonprofit grantees. We also obtained copies of the single audit reports with EPA-related findings for these nonprofit grantees from the Federal Audit Clearinghouse and summarized the findings and questioned costs contained in these audit reports. We did not review the quality of these single audit reports or the underlying audits. Lastly, we obtained information pertaining to the Chief Financial Officers' Council's efforts, specifically those pertaining to the Grants Management Committee. We also interviewed the audit coverage team and the single audit clearinghouse/delinquent audits team leaders to discuss the teams' objectives and schedules.

Appendix VI: Comments From the Environmental Protection Agency



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

OFFICE OF
ADMINISTRATION
AND RESOURCES
MANAGEMENT

March 26, 2001

Mr. John B. Stephenson
Director, Natural Resources and Environment
U. S. General Accounting Office
Washington, DC 20548

Dear Mr. Stephenson:

Thank you for the opportunity to comment on the U.S. General Accounting Office (GAO) draft report "*Environmental Protection: EPA's Oversight of Nonprofit Grantees' Costs is Limited (GAO-01-366, code 360012)*".

We agree with your recommendations to include transaction testing for unallowable costs as a suggested practice during on-site reviews and to increase the training to staff on the Federal Audit Clearinghouse database and its capabilities for improving grants management.

Our comments on the draft report are enclosed. Thank you for the professional, courteous manner in which you and your staff conducted this review.

Sincerely,

A handwritten signature in black ink, appearing to read "Howard F. Corcoran", is positioned above the typed name.

Howard F. Corcoran
Director
Office of Grants and Debarment

Enclosure

cc: David J. O'Connor, Acting Assistant Administrator, OARM
Jane S. Moore, Acting Deputy Assistant Administrator, OARM
David Osterman, Acting Director, Office of Policy and Resources Mgmt., OARM
Marty Monell, Director, Grants Administration Division
OARM/OGD Audit Follow-up Coordinators

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EPA Comments on GAO Draft Report (GAO-01-366, Code 360012)
“Environmental Protection: EPA’s Oversight of Nonprofit Grantees’ Costs is Limited”

GENERAL COMMENT:

We recommend that the report acknowledge that EPA has issued a post-award monitoring policy for program offices. EPA issued a Post-Award Monitoring Policy for Grants Management Offices in May 1998. The Agency believes post-award monitoring and oversight is a responsibility of both Grants Management Offices and EPA Program Offices, in partnership, and thus issued in April 1999 a second and companion policy focusing on the post-award responsibilities of Program Offices. The Agency is currently developing a new policy on Post-Award Monitoring that will consolidate and build upon existing policies. The Agency will include in the new policy GAO’s recommendation to include transaction testing for unallowable costs as a suggested practice during on-site reviews of grantees.

SPECIFIC COMMENTS:

1. **Page 1, 1st paragraph.** The report states that “... in 1998 EPA identified grants oversight as an agency-wide material weakness.” In December 1996, EPA designated “Grants Closeout and Oversight of Assistance Agreements” as a material weakness under the Federal Managers Financial Integrity Act of 1982 (P.L. 97-255). This was reduced to an agency-level weakness in 1999 and eliminated in December 2000. In December 2000, EPA designated a new-agency level weakness entitled “Validation of Corrective Actions to Improve EPA’s Oversight of Assistance Agreements.” EPA has developed a corrective action plan to address the validation concerns and eliminate this weakness.
2. **Page 2, 1st paragraph under Results in Brief.** The report states that “... we are recommending that EPA revise its post-award management policy to increase the likelihood that such costs will be disclosed by directly focusing the allowability of expenditures”. We suggest that this sentence be modified to reflect GAO’s recommendation on page 16, namely that transaction testing for unallowable costs be included as a **suggested practice** during on-site reviews of grantees. As noted in our cover letter, EPA agrees with that recommendation.

Page 6, Discussion on EPA’s grant oversight policy. This two-paragraph discussion describes post-award policies governing Grants Management Offices (GMOs). It states in the last sentence of the first full paragraph that “[i]n June 2000, EPA established a minimum goal of performing on-site or off-site reviews for 5 to 10 percent of EPA grant recipients.” As the 5 to 10 percent goal applies to both GMOs and Program Offices, we recommend that the reference to the goal be moved to a new third paragraph that would read as follows: “In 1999, EPA issued a second and companion policy to the GMO policy, focusing on the post award responsibilities of EPA’s program offices. In June 2000, EPA modified both these policies, and established the Grantee Compliance Assistance Initiative, which in part established Agency-wide targets of 5 to 10 percent for performing evaluative on-site and off-site visits of EPA grant recipients.”

4. **Pages 9 and 10 Discussion of Grants Data Management Systems.** The report states on page 9 that “[a]s of March 2000, the IGMS contained data from EPA headquarters and four regional GMOs.” The data described in this sentence involve compliance data contained in EPA’s Grantee Compliance Database, as opposed to IGMS. We therefore recommend that you delete this sentence and add the following at the end of discussion on the top of page 10: *As of March 2001, the Grantee Compliance Database contained data from EPA headquarters and five regional GMOs.*
5. **Page 10, 1st full paragraph.** The report states that “... EPA is developing a policy specifically addressing the grant oversight roles and responsibilities of project officers.” We recommend that this statement be modified as follows: **“In addition, EPA issued in 1999 a policy that specifically addresses the post-award responsibilities of project officers.”** See General Comment.
6. **Page 13, 1st paragraph under new section.** We recommend that the first sentence be amended as follows: *“EPA, like other federal agencies, does not have an effective”*

Also in the 1st paragraph, to reflect how the Agency’s Integrated Financial Management System operates, we recommend that the fifth sentence be changed as follows: *“It tracks funds that have been awarded and expended at the individual grant level, but it does not track funds awarded and expended on an aggregate basis at the grantee organization level.”*

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