



U.S. ENVIRONMENTAL PROTECTION



OFFICE OF INSPECTOR GENERAL

EPA Should Improve Oversight and Assure the Environmental Results of Puget Sound Cooperative Agreements

Report No. 14-P-0317

July 15, 2014



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Abbreviations

CCMP	Comprehensive Conservation and Management Plan
CFR	Code of Federal Regulations
EPA	U.S. Environmental Protection Agency
FEATS	Financial and Ecosystem Accounting Tracking System
GMO	Grants Management Office
OGD	Office of Grants and Debarment
OIG	Office of Inspector General
OMB	Office of Management and Budget
QAPP	Quality Assurance Project Plan

Cover photos: Images of the state of Washington's Puget Sound (top) and the Duwamish River that flows into Puget Sound (bottom left). A pollution-warning sign posted by the Duwamish River (bottom right). (EPA OIG photos)

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At a Glance

Why We Did This Review

The U.S. Environmental Protection Agency (EPA), Office of Inspector General (OIG), conducted this audit to answer the following questions:

- Does the EPA ensure that grantees are effectively administering Puget Sound grants throughout the life of the grants?
- Does the EPA monitor project progress and collect data or indicators to determine whether proposed project outputs and outcomes are achieved?

The Greater Puget Sound Basin is defined as all watersheds draining into the United States waters of Puget Sound, including the southern Georgia Basin and the Strait of Juan de Fuca. The Puget Sound is one of the most ecologically diverse ecosystems in North America.

This report addresses the following EPA goals or cross-agency strategies:

- *Protecting America's waters.*
- *Embracing EPA as a high-performing organization.*

For further information, contact our public affairs office at (202) 566-2391.

The full report is at:
www.epa.gov/oig/reports/2014/20140715-14-P-0317.pdf

EPA Should Improve Oversight and Assure the Environmental Results of Puget Sound Cooperative Agreements

What We Found

Overall, the OIG found that EPA Region 10 is effectively administering cooperative agreements and monitoring project progress to determine whether proposed outputs and outcomes were achieved. However, we noted that improvements should be made in both the administration and monitoring of recipient activities. We found that Region 10:

- Documented activities conducted but did not consistently ensure that Puget Sound cooperative agreements met administrative requirements.
- Was aware of subaward monitoring activities conducted by recipients, but should improve oversight of subaward monitoring policies and activities, and lead organization oversight of subawards.

EPA should improve the administration and monitoring of Puget Sound cooperative agreements.

Recommendations and Planned Corrective Actions

We recommend that the Region 10 Administrator meet with project officers and grant specialists to discuss the results of this review and reinforce compliance with agency policies for documenting, following up and resolving oversight activities. We recommend that the Region 10 Administrator ensure that grant specialists and project officers receive training on their responsibilities for subawards, collaborate to periodically review subaward monitoring policies, and lead organizations' monitoring activity records to protect federal funds. We also recommend that Region 10 provide training to recipients regarding subaward monitoring responsibilities, as well as evaluating Puget Sound resource allocations.

In addition, we recommend that the Assistant Administrator for the Office of Administration and Resources Management (OARM) review existing grants policies to determine whether policies need to be updated to clarify project officer and grant specialist subaward responsibilities, and recipient responsibilities for subaward monitoring.

The EPA agreed with all of the recommendations and provided corrective action plans and completion dates to address all of the draft report's recommendations.

Noteworthy Achievements

Region 10 developed the Financial and Ecosystem Accounting Tracking System report for the Puget Sound program. The reports enable project officers to more easily determine the status of outputs and deliverables for tasks and subtasks, as well as determine actions taken by the recipients. The reports also help to ensure that negotiated work plan tasks are being accomplished and funds are being spent in a timely manner and within the approved budget.



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

THE INSPECTOR GENERAL

July 15, 2014

MEMORANDUM

SUBJECT: EPA Should Improve Oversight and Assure the Environmental Results of
Puget Sound Cooperative Agreements
Report No. 14-P-0317

FROM: Arthur A. Elkins Jr.

A handwritten signature in black ink, appearing to read "Arthur A. Elkins Jr.", is written over the printed name.

TO: Dennis McLerran, Regional Administrator
Region 10

Craig E. Hooks, Assistant Administrator
Office of Administration and Resources Management

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

EPA Region 10 offices responsible for implementing most of the recommendations are the Office of Water and Watersheds, and the Office of Management Programs. The headquarters Office of Grants and Debarment, within the Office of Administration and Resources Management, is responsible for implementing one of the recommendations.

Action Required

In response to the draft report, the agency provided a corrective action plan that addresses the recommendations and establishes milestone dates. Therefore, a response to the final report is not required. The agency should track corrective actions not implemented in the Management Audit Tracking System.

This report will be available at <http://www.epa.gov/oig>.

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Chapter 1

Introduction

Purpose

The U.S. Environmental Protection Agency (EPA), Office of Inspector General (OIG), conducted this audit in part due to the significant amount of federal funds that EPA Region 10 has awarded for Puget Sound. Specifically, our audit objectives were to answer the following questions:

- Does the EPA ensure that grantees are effectively administering Puget Sound grants throughout the life of the grants?
- Does the EPA monitor project progress and collect data or indicators to determine whether proposed project outputs and outcomes are achieved?

Background

According to Region 10, Puget Sound was given priority status in the 1987 amendments to the Clean Water Act and was included as one of the original programs in the National Estuary Program. The goal of an estuary program is to develop and implement a management plan, known as a Comprehensive Conservation and Management Plan (CCMP), for the designated area. For Puget Sound, the CCMP is called the Puget Sound Action Agenda (Action Agenda), which was approved by the EPA in 2009. The Action Agenda describes actions and priorities to restore and protect the Puget Sound by 2020, and it was updated in 2012.

Since 2010, federal funds totaling approximately \$110 million have been specifically appropriated for Puget Sound and for the implementation of the CCMP. Region 10 shifted to the lead organization model in 2010 due to the large influx of appropriated funds for Puget Sound. Region 10 awarded federal funds to seven lead organizations. The lead organizations implement targeted strategies mainly through the issuance of subawards. The lead organizations focus on seven areas:

- Toxics and nutrients reduction and prevention.
- Protection of at-risk watersheds.
- Pathogen reduction and prevention.
- Marine and nearshore habitat restoration and protection.
- Recovery and actions of high tribal priority.
- Overseeing the implementation of the 2020 Action Agenda for Puget Sound recovery.
- Outreach, education and stewardship.

Responsible Offices

Region 10 offices responsible for implementing four of the recommendations are the Office of Water and Watersheds, and the Office of Management Programs. The headquarters Office of Grants and Debarment (OGD), within the Office of Administration and Resources Management, is responsible for implementing one recommendation.

Noteworthy Achievements

Region 10 developed the Financial and Ecosystem Accounting Tracking System (FEATS) report. The EPA and the cooperative agreement recipients are responsible for completing specific areas of information in the FEATS reports. Specifically, recipients complete information related to:

- Funds spent to date.
- Funds drawn down from EPA.
- Issues or questions where response from the EPA is needed.
- Budget discrepancies.
- Date, status and remarks for tasks and subtasks.
- Challenges and solutions.
- Highlights, lessons learned and reflections.

The FEATS reports enable project officers to more easily determine the status of outputs and deliverables for tasks and subtasks, as well as actions taken by the recipient. The FEATS reports help to ensure that tasks in the negotiated work plan are being accomplished and that funds are being spent in a timely manner and within the approved budget.

Scope and Methodology

We conducted our performance audit from July 2013 through May 2014, 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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

As of July 2013, Region 10 had 69 open Puget Sound awards totaling more than \$125 million.¹ We initially selected a sample of four Puget Sound awards, randomly selecting two with obligations of \$1 million or more, and two from the remainder of the universe. During field work we focused on subaward monitoring by the seven lead organizations. One of the seven lead organizations had been

¹ The EPA awarded some grants using funds appropriated for the National Estuary Program.

included in the initial sample selection. As a result, the total number of Puget Sound awards we reviewed was 10 (appendix A).

To answer our audit objectives, we reviewed the project and Grants Management Office (GMO) files maintained by project officers and grant specialists. Our review included documentation of the FEATS reviews, FEATS feedback to the recipient, and baseline and advanced monitoring reports.²

We interviewed project officers and grant specialists to obtain an understanding of the activities they conducted to: (1) ensure grantees are effectively administering Puget Sound grants; and (2) monitor project progress and collect data to ascertain whether project outputs and outcomes were achieved. We also followed up on discrepancies or concerns noted during our review of the project and GMO files. We interviewed project officers to determine their knowledge of recipients' subaward monitoring activities and to determine if they reviewed recipients' documentation for subaward monitoring activities.

We interviewed recipients to determine their interaction with Region 10 and to determine whether subaward monitoring activities were conducted. In our sample of 10 awards, one recipient did not have any subawards. We obtained and reviewed the recipient subaward monitoring policies to determine if the policies complied with the award's administrative condition for subawards, and with Title 40 of the Code of Federal Regulations (CFR) Parts 30 and 31. Then we reviewed the semiannual FEATS reports for the period April 1 through September 30, 2013, to determine if recipients reported tasks, subtasks, outputs or deliverables as being behind schedule, specifically those related to subawards.

We also met with Office of Grants and Debarment staff to discuss the EPA's management expectations for: (1) recipients' subrecipient monitoring activities; and (2) staff responsibilities for ensuring subrecipient monitoring.

There are no prior OIG or U.S. Government Accountability Office audits impacting the objectives of this assignment.

² Baseline monitoring is the minimum basic monitoring that ensures award terms and conditions are satisfied. Advanced monitoring validates recipients' compliance with programmatic and financial statutes, regulations, conditions and policies.

Chapter 2

File Documentation Should Be Improved

Region 10's project officers and grant specialists generally documented activities conducted but did not consistently follow up, resolve, or document issues or concerns identified during baseline monitoring reviews. In addition, project officers did not always document review of recipients' progress reports. The assistance agreement files should include documentation so that a third party can easily follow the sequence of events regarding the project, which includes the project officers review of recipient progress reports. Region 10 management is not emphasizing follow-up and documentation of activities conducted. The lack of documentation results in incomplete information regarding decisions made and instructions given to recipients during the life of the cooperative agreements.

Documentation of Monitoring and Review Activities Is Required

The EPA's Project Officer Manual states that the project officer is responsible for maintaining the official technical project file and documenting all communication. Monitoring activities, baseline and advanced, must be documented in the project file. The assistance agreement files should include documentation so that a third party can easily follow the sequence of events regarding the project. The grant specialist is responsible for the development and maintenance of the official EPA GMO file. Both the project and GMO files serve as collections of documents and or items that provide programmatic and/or fiscal information on the purpose, performance and history of an award to a specific recipient.

EPA Order 5700.7, Environmental Results under EPA Assistance Agreements, Section 9, states project officers must review performance reports and document this review in the official project file. The EPA Project Officer Manual goes a step further and requires the project officer to provide comments to the recipient regarding the progress report, even if everything looks satisfactory.

EPA Order 5700.6A2, Policy on Compliance Review and Monitoring, Section 10, states that both the project officers and grant specialists are responsible for maintaining appropriate file documentation. In addition, monitoring reports are to be recorded in appropriate databases, such as the Post Award or Grantee Compliance databases within the Integrated Grants Management System.

Some Monitoring and Review Activities Are Not Complete

Region 10's project officers and grant specialists generally documented activities conducted for Puget Sound cooperative agreements.³ However, we found that grant specialists did not consistently follow up, resolve, or document actions taken regarding issues or potential issues identified during baseline monitoring or other contacts. In addition, all four of the project officers did not consistently document their review of the semiannual FEATS reports or inform the recipient that the reports were acceptable or needed improvements. One project officer did not document oral approval of a sole-source contract, even though a Region 10 manager said documentation should be retained in the files for such approvals. Although individually, these were minor issues, when viewed together, they indicate that monitoring and review documentation should be improved.

We found the following unaddressed issues and concerns in the administrative baseline monitoring reports conducted by the grant specialists for the four awards reviewed:

- One grant specialist noted that two recipients had delinquent Disadvantaged Business Enterprise reports. The recipients were notified but resolution was not documented.
- Two grant specialists noted the EPA-related Office of Management and Budget (OMB) Circular A-133 findings for two recipients. One grant specialist initiated action but did not complete any follow-up actions, and the other grant specialist did not document any action.
- One grant specialist noted concern about the small amount of Federal Funding Accountability and Transparency Act Subaward Reporting System reporting. Follow-up action was initiated but not completed.

We found the following issues with project officer monitoring activities:

- One project officer did not document phone calls with the recipient.
- Two project officers each had one baseline monitoring report that was 6 months late.

We found the following issues regarding project officer documentation for FEATS progress reports:

- Project officers did not always document their review of recipients' FEATS reports.

³ This section refers to the four cooperative agreements we reviewed during the preliminary research phase.

- One project officer received five semiannual FEATS reports. We found documentation that only one of the FEATS reports was reviewed.
- Two project officers each received five semiannual FEATS reports. We found documentation that only three reports were reviewed.
- One project officer received four semiannual FEATS reports. We found documentation that only three reports were reviewed.
- Project officers did not consistently discuss the FEATS reports with the recipients. Each of the four project officers documented some communication with recipients for at least one submitted FEATS report.

Documentation and Follow-Up Are Not Emphasized

Region 10 staff does not consistently pay attention to the details of grant administration by documenting actions that have been taken and following up where needed. A grant specialist explained that there was no system for ensuring follow-up would occur. A Region 10 manager stated that due to loss of staff, the region has not been able to conduct follow-up. As a result, administrative requirements not associated with the possible recovery of funds were deemphasized.

In addition, Region 10 management is not emphasizing the requirement for project officers to document the review of progress reports. One Region 10 manager stated that if the report was added to the FEATS share drive, this was good enough for documenting the report had been reviewed. Another Region 10 manager agreed that project officers should document that they reviewed the submissions and that the submissions are acceptable. However, due to time constraints, not everyone documents their reviews.

Information Is Not Complete

The lack of documentation results in incomplete information regarding decisions made and instructions given to recipients during the life of cooperative agreements. Documenting the reviews is important because project officers frequently change during the life of the cooperative agreement. In addition, the lack of follow-up can result in ongoing issues with recipients and potentially puts federal funds at risk.

Recommendation

We recommend that the Regional Administrator for Region 10:

1. Meet with project officers and grant specialists to discuss the results of this review and reinforce compliance with agency policies for documenting, following up and resolving oversight activities.

Agency Comments and OIG Evaluation

In response, Region 10 agreed with our recommendation. The Puget Sound Program will commit staff time to develop in-house training and refresher materials for project officers. After a meeting with the Region 10 Administrator, the Grants and Interagency Agreements Unit will commit to providing a mandatory refresher session for all grants specialists on baseline monitoring, including procedures for following up on issues discovered when monitoring and documenting files. These actions will be completed by December 31, 2014. When implemented, agency actions should address the recommendation.

Chapter 3

Oversight of Subawards Should Be Improved

Region 10 is generally aware of subaward monitoring activities conducted by recipients, but project officers did not monitor oversight and activities for Puget Sound cooperative agreements in a manner consistent with EPA policy and guidance. In addition, project officers did not ensure that recipients were aware of subaward monitoring expectations and did not review grant recipients' monitoring records.

Puget Sound cooperative agreement recipients are responsible for the overall management of subawardees and ensuring subawardees comply with applicable federal and EPA requirements. Project officers emphasized overall progress rather than compliance with specific subaward requirements. This emphasis on overall progress increased the risk that project officers would not detect issues needing corrective action that might impact the project meeting its goals.

Agreements Must Comply With Federal and EPA Requirements

Title 40 CFR Parts 30 and 31 provide requirements for subaward monitoring for institutions of higher education, nonprofits, and governments and local entities.

- Title 40 CFR § 30.51 (institutions of higher education and nonprofits) states that recipients are responsible for managing and monitoring each project, program, subaward, function or activity supported by the award. Recipients shall monitor subawards to ensure subrecipients have met the audit requirements as delineated in 40 CFR §30.26.
- Title 40 CFR §§ 31.26(1)-(2) (governments and local entities) states that state or local governments that provide federal awards to subgrantees that expend \$500,000 or more of federal funds in a fiscal year shall determine whether:
 - State or local subgrantees have met audit requirements and whether subgrantees covered by OMB A-110 have met audit requirements.
 - Subgrantees spent federal assistance funds provided in accordance with applicable laws and regulations.
- Title 40 CFR § 31.40 states that grantees are responsible for managing day-to-day operations of grant and subgrant supported activities. Grantees must monitor grant and subgrant activities to ensure compliance with applicable federal requirements, and ensure that performance goals are

being achieved. Grantee monitoring must cover each program, function or activity.

The EPA directs compliance requirements by attaching an administrative *National Term and Condition for Subawards*, which states the recipient agrees to:

- Maintain primary responsibility for ensuring successful completion of the EPA-approved project. (This responsibility cannot be delegated or transferred to a subrecipient.)
- Ensure that any subawards comply with OMB Circular A-133, Sections 210 (a)–(d).
- Monitor the performance of subrecipients and ensure that they comply with all applicable regulations, statutes, and terms and conditions which flow down in the subaward.

Subaward Monitoring Policies Did Not Address All Required Elements

Although Region 10 is aware of recipients' progress through regular FEATS reports, the region is not ensuring that recipients are aware of subaward monitoring expectations. We found that for eight of the nine cooperative agreements with subawards, recipients had subaward monitoring policies or informal procedures. One recipient had no policy at all. None of the policies or informal procedures addressed all of the elements from the CFR and the administrative *National Term and Condition for Subawards*, as shown in table 1.

Table 1: Cooperative agreement subaward monitoring policy or memo review

Subaward requirements	1	2	3	4	5	6	7	8	9
1. Require OMB Circular A-133 audits for subrecipients expending \$500,000 or more in federal awards during the fiscal year. Require additional monitoring activities (e.g., review an audit of the subgrantee to ensure that appropriate corrective action is taken; consider whether the audit of the subgrantee necessitates an adjustment of the grantee's own records; and require each subgrantee to permit independent auditors to have access to records and financial statements).	No Policy	X	X	X			X	X	X
2. Monitor the performance of recipients and ensure they comply with all applicable regulations, statutes, and terms and conditions.		X	X	X	X	X	X	X	X
3. Obtain the EPA's consent before making a subaward to a foreign or international organization, and before making a subaward to be performed in a foreign country.									
4. Ensure subawards to 501(c)(4) organizations do not involve lobbying activities.			X			X	X		
5. Ensure subawards are awarded to eligible subrecipients; and that costs are necessary, reasonable and allocable.		X	X	X				X	X
6. Maintain primary responsibility for ensuring the successful completion of the EPA-approved project.								X	X
7. Ensure that any subawards comply with the standards in Sections 210 (a)-(d) of OMB Circular A-133, and that the subawards are not used to acquire commercial goods or services for the recipient.								X	X

Source: OIG analysis of policies or memos provided by recipients regarding subaward monitoring.
 Note: Shaded area represents a missing requirement.

Project Officers Should Increase Awareness of Subaward Monitoring

Region 10 project officers are generally aware of recipients' subaward monitoring activities, but improvements can be made. During our interviews, we found that project officers were generally aware of, or had knowledge of, the types of subaward monitoring activities for seven of the nine cooperative agreements. However, project officers had not reviewed recipients' monitoring records. Although such a review is not required, it would be reasonable for Region 10 to review such records on a periodic basis to ensure compliance with subaward terms and conditions. This is especially important because Region 10's approach is to have lead organizations implement strategies largely through subawards, and the number of subawards could exceed 50.

We also found through our interviews with project officers that their knowledge of subaward monitoring activities varied widely. Project officers for five of the nine cooperative agreements stated that recipients were monitoring their subawards through FEATS reports. Project officers for six of the nine cooperative agreements identified additional monitoring activities that included meetings, telephone calls or site visits. Two project officers were unsure of subaward monitoring activities. Table 2 describes the results of our interviews dealing with subaward oversight.

Table 2: Summary of project officer knowledge of subaward oversight

Cooperative agreement recipient	Project officer knowledge of some subaward monitoring activities *	Project officer review of subaward monitoring documentation
1	Yes	No
2	No	No
3	Yes	No
4	Yes	No
5	Yes	No
6	Yes	No
7	Yes	No
8	Yes	No
9	Yes	No

Source: OIG interviews with project officers.

* Activities identified by project officers included communication, site visits, review of FEATS reports, and Web postings.

Recipients Should Improve Subaward Oversight

Cooperative agreement recipients rely on telephone calls, site visits, FEATS reports, and reviews of deliverables and invoices for subaward monitoring. We found that recipients were not consistently documenting monitoring activities, such as site visits, external audit reviews, etc. Two managers for one lead organization had two different practices for documenting subaward monitoring. One manager filled out an outline and put it in the database, but the other did not. One lead organization stated that a list of site visits was not retained. Another lead

organization told us monitoring activities such as site visits were not being documented, but the organization did say it was creating a form to document whether monitoring had occurred and that the form would be used going forward. Table 3 shows monitoring practices and tracking for subawards varied.

Table 3: Summary of recipient subaward oversight interviews

Cooperative agreement recipient	Subaward monitoring activities described	Document some activities
1	FEATS reports, team meetings and check-ins.	Yes
2	Correspondence, emails, telephone calls, periodic check-ins and review of external audits.	No
3	Site visits (including photos), invoices, verbal communication, spreadsheet tracking, and Quality Assurance Project Plan (QAPP) reviews.	Yes
4	Review quarterly progress and QAPP reports, monthly communication, emails, meeting attendance and notes taken, and tracking spreadsheet.	Yes
5	Site visits in standardized format, review of deliverables, QAPPs, technical reports and external audits.	Yes
6	Review of FEATS reports and deliverables, verbal and email communications, and check-ins as needed.	Yes
7	Communication via email, telephone, and in person; tracking spreadsheet; review of FEATS; QAPPs; deliverables; invoices; A-133 audits; and documented site visits.	Yes
8	Site visits, review of progress reports, invoices and meetings on deliverables.	No
9	Site visits, review of progress reports, invoices and meetings on deliverables. ⁱ	No

Source: OIG interviews with cooperative agreements recipients.

ⁱ Based on an interview with the recipient for cooperative agreement 8. The recipient did not have additional information to provide regarding oversight activities for cooperative agreement 9.

In their FEATS reports to Region 10, we found that not all lead organizations are reporting on subaward monitoring activities or when a subaward is behind schedule. For example, we found:

- Only four of seven lead organizations’ FEATS reports described activities related to subaward monitoring such as meetings attended or sites visited.
- Although most subrecipients provided project updates through FEATS reporting, only three of seven recipients reported on the status of individual subawards within the lead organization FEATS reports.
- Three of seven lead organizations reported subawards that are behind schedule, but we found four had subawards behind schedule.

Issues With Regional Resources Affect Oversight

Region 10 relies heavily on recipients, specifically lead organizations, to monitor subawards and ensure project completion. Regional staffing resources have not been sufficient to manage the large influx of Puget Sound funds. In 2010, funds

totaling \$50 million were appropriated for Puget Sound. However, according to Region 10, staffing resources were not increased.

Also, Region 10 staff was not aware of an ongoing requirement to address compliance with subaward monitoring, other than during advanced monitoring. Because the region relies on lead organizations, ensuring compliance with subaward terms and conditions should not be limited to advanced monitoring. Since Region 10 was not emphasizing subaward monitoring expectations, such as documenting subaward monitoring activities, lead organizations were not aware of the importance of conducting and documenting such activities. During our discussions with Region 10, staff stated that the Puget Sound team could provide additional guidance for subawards.

Lack of Systematic Oversight of Subawards Increases Risk

A lack of systematic oversight of activities for cooperative agreements with subawards (specifically lead organizations) potentially puts federal funds at risk and could result in avoidable, no-cost time extension requests to complete projects. These delays could result in environmental goals not being achieved. When subaward reports received by recipients are not summarized accurately for the region, projects that are behind schedule may not be addressed. We found that a number of subaward tasks were either characterized inaccurately or actually behind schedule.

- One recipient provided a spreadsheet showing subaward details reporting the status of individual tasks as complete. However, additional remarks were inconsistent with the completed status. For example:
 - On-site sewage denitrification verification subaward stated that three tasks had not been started.
 - Pesticide use survey subaward showed three tasks were less than 100 percent complete.
 - Outreach and workshops for preventing automobile leaks showed that two tasks were making progress but were reported as complete.
- Another recipient's subaward involved recruiting local businesses and providing technical advice. The subawardee was still recruiting businesses and assessing technical needs, but the recipient did not report it as behind schedule.

These difficulties result from challenges that lead organizations have managing a large number of subawards and the need to summarize information for Region 10. It is possible that subaward tasks that are behind schedule could be reduced if recipients with subawards were providing more focused oversight and tracking.

Recommendations

We recommend that the Regional Administrator for Region 10:

2. Ensure that grant specialists and project officers receive training on their responsibilities for subawards and collaborate to periodically review:
 - a. Recipients' subaward monitoring policies for compliance with terms and conditions.
 - b. Lead organizations' monitoring activity records to ensure that sufficient subaward monitoring is conducted to protect federal funds.
3. Provide training to recipients regarding subaward monitoring responsibilities and periodically check on the execution of those responsibilities.
4. Evaluate whether the resources allocated to overseeing Puget Sound cooperative agreements are sufficient to effectively achieve the Puget Sound Program's needed environmental results.

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

5. Review existing grants policies to determine whether policies need to be updated to clarify project officer and grant specialist responsibilities with subawards, as well as recipient responsibilities for subaward monitoring.

Agency Comments and OIG Evaluation

In response to recommendation 2, Region 10 agreed with the recommendation. Region 10 plans to conduct meetings or training to review requirements for recipient subaward monitoring and what requirements need to be communicated to lead organizations. The Puget Sound Program will commit staff time to develop in-house training and refresher materials for project officers to use at a training session. Grants specialists will be included in the meetings/trainings. Puget Sound project officers will include a semiannual review of lead organization subrecipient monitoring as part of their FEATS report review. This additional aspect of the FEATS review for lead organizations will begin with the reporting period ending September 30, 2014. These actions will be completed by December 31, 2014. When implemented, agency actions should address the recommendation.

In response to recommendation 3, Region 10 agreed with the recommendation and will conduct training on subaward monitoring responsibilities for the

Puget Sound Program's lead organizations. This will be completed by December 31, 2014. When implemented, the agency actions should address the recommendation.

In response to recommendation 4, Region 10 agreed with the recommendation. The Grants Streamlining Workgroup is finalizing and phasing in streamlined grants processes. This will include making sure available resources are adequately utilized to provide effective grant management and monitoring. These actions will be completed by March 31, 2015. When implemented, agency actions should address the recommendation.

In response to recommendation 5, the OGD agreed with the recommendation. The OGD plans to review existing policies, guidance and regulations to determine if further clarification is needed. This review will be completed by September 30, 2014. If needed, the OGD will work with the grants management community to provide policy updates or guidance, as appropriate, to both EPA grants management staff and recipients concerning their respective responsibilities regarding subawards. The OGD will ensure policy updates or guidance are included in training for project officers and grants specialists. These actions will be completed by September 30, 2015. When implemented, agency actions should address the recommendation.

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
1	7	Meet with project officers and grant specialists to discuss the results of this review and reinforce compliance with agency policies for documenting, following up and resolving oversight activities.	O	Regional Administrator, Region 10	12/31/14		
2	14	Ensure that grant specialists and project officers receive training on their responsibilities for subawards and collaborate to periodically review: <ul style="list-style-type: none"> a. Recipients' subaward monitoring policies for compliance with terms and conditions. b. Lead organizations' monitoring activity records to ensure that sufficient subaward monitoring is conducted to protect federal funds. 	O	Regional Administrator, Region 10	12/31/14		
3	14	Provide training to recipients regarding subaward monitoring responsibilities and periodically check on the execution of those responsibilities.	O	Regional Administrator, Region 10	12/31/14		
4	14	Evaluate whether the resources allocated to overseeing Puget Sound cooperative agreements are sufficient to effectively achieve the Puget Sound Program's needed environmental results.	O	Regional Administrator, Region 10	03/31/15		
5	14	Review existing grants policies to determine whether policies need to be updated to clarify project officer and grant specialist responsibilities with subawards, as well as recipient responsibilities for subaward monitoring.	O	Assistant Administrator for Administration and Resources Management	09/30/15		

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

Puget Sound Cooperative Agreements Reviewed by the EPA OIG

Cooperative agreement number	Project period	EPA funding	Randomly selected	Project and GMO files reviewed	Project officer and grant specialist interviewed	Subaward monitoring policy reviewed	Lead organization ^a	Number of subawards ^b
00J15001	05/01/10–04/30/14	\$600,000	X	X	X	No policy		3
00J30301	10/01/10–09/30/15	\$4,359,784	X	X	X	X		4
00J20101	02/01/11–06/30/17	\$15,584,834			X	X	X	29
00J27601	02/01/11–06/30/17	\$18,662,237			X	X	X	52
00J32601	02/01/11–01/31/17	\$15,487,586			X	X	X	45
00J29801	02/01/11–01/31/17	\$15,489,806			X	X	X	29
00J32201	01/01/11–09/30/15	\$15,700,581			X	X	X	21
00J32101	07/01/11–06/30/17	\$12,269,999	X	X	X	X	X	26
00J17601	07/01/10–06/30/15	\$6,000,000			X	X	X	52
00J13801	06/30/10–06/30/13	\$581,257	X	X	X	N/A		0
Total		\$104,736,084	4	4	10	8	7	261

Source: OIG review of EPA and cooperative agreement recipient documents.

^a The lead organizations and grant numbers were confirmed by Region 10.

^b The number of subawards provided by lead organizations does not include contracts or internal awards.

Agency Response to Draft Report

MEMORANDUM

SUBJECT: Response to Office of Inspector General Draft Report No. OA-FY13-0341 “EPA Needs to Improve Oversight and Assure Environmental Results of Puget Sound Cooperative Agreements” dated May 6, 2014

FROM: Dennis J. McLerran,
Regional Administrator

TO: Janet Kasper, Director
Contact and Assistance Agreements Audits

Thank you for the opportunity to respond to the issues and recommendations in the subject audit report. Following is a summary of the agency’s overall position, along with its position on each of the report recommendations. For those report recommendations with which the agency agrees, we have provided either high-level intended corrective actions and estimated completion dates to the extent we can or reasons why we are unable to provide high-level intended corrective actions and estimated completion dates at this time. For those report recommendations with which the agency does not agree, we have explained our position.

AGENCY’S OVERALL POSITION

We concur with the recommendations contained in this report and have already taken steps to improve oversight and assure the environmental results of Puget Sound Cooperative Agreements. However, we do not concur with all of the findings. For example, we do not concur with the generalization that all areas *need* improvements to be made. We note and agree with the finding presented in the opening statement of the “At a Glance” summary (page iii) where the first paragraph starts with “Overall, the OIG found that EPA Region 10 is effectively administering cooperative agreements monitoring project progress to determine whether proposed outputs and outcomes were achieved.” We believe that this finding warrants a rephrasing of the observation that improvements *need* to be made. We think a more accurate observation would be that improvements *can* be made.

Similarly the characterization of file documentation, consistency of monitoring activities, and EPA Project Officer’s awareness as characterized in the headings for the associated findings and recommendations are overstated as being noteworthy deficiencies. We address each of these statements separately in our responses. Finally, Region 10 does not concur with the final finding in the report that states that funds are at risk. This finding is not supported by the text in this report.

OARM, Office of Grants and Debarment, agrees with the OIG recommendation that OARM review existing grants policies to determine whether policies need to be updated to clarify project officer and grant specialist responsibilities regarding subawards, as well as recipient responsibilities for subaward monitoring. Prior to the Puget Sound audit, this was already identified as an area to review as part of OGD’s larger goal of improving assistance agreement policies and updating EPA policies to be consistent with the newly published OMB Uniform Guidance available at 2 CFR Part 200.

However, OGD would like to clarify that project officers and grant specialists do not monitor subawards as suggested by the OIG’s recommendation to Region 10 to “...ensure grant specialists and project officers receive training on their responsibilities to monitor subawards...” As described in 40 CFR Parts 30, 31 and the newly published Uniform Guidance, progress under an assistance agreement award is the prime recipient’s responsibility. The recipient is responsible for monitoring award activities, compliance and summarizing subrecipient progress for EPA review. Furthermore, EPA does not have a fiduciary relationship or privity with subrecipients.

To that end, OGD will review existing policies, guidance and regulations to determine if further clarification is needed and will provide such policy updates or guidance as appropriate to both EPA grants management staff and recipients on their respective responsibilities regarding subawards under EPA grants. OGD will also ensure the subject is included in its national training program.

AGENCY’S RESPONSE TO REPORT RECOMMENDATIONS

No.	Recommendation	High-Level Intended Corrective Action(s)	Estimated Completion by Quarter and FY
1.	The Region 10 Administrator meet with project officers and grants specialists to discuss the results of this review and reinforce compliance with agency policies for documenting, following up and resolving oversight activities.	Region 10 Response: Region 10 concurs with this recommendation. The Puget Sound Program will commit staff time to develop in-house training and refresher materials for project officers to use at a training session. After a meeting with the Region 10 Administrator, the Grants and Interagency Agreements Unit will commit to providing a mandatory refresher session for all grants specialists on baseline monitoring, including procedures for following up on issues discovered in the monitoring and documenting the files.	1 st Quarter FY 2015

2.	<p>The Region 10 Administrator ensure that grants specialists and project officers receive training on their responsibilities to monitor subawards and collaborate to periodically review:</p> <ul style="list-style-type: none"> (a) Recipients subaward monitoring polices for compliance with terms and conditions. (b) Lead organizations monitoring activity records to ensure that sufficient subaward monitoring is conducted to protect federal funds. 	<p>Region 10 Response: Region 10 concurs with this recommendation and plans meetings/trainings to review requirements for recipient subaward monitoring and what requirements need to be communicated to Lead Organizations. The Puget Sound Program will commit staff time to develop in-house training and refresher materials for project officers to use at a training session. Grants specialists will be included in the meetings/trainings. Puget Sound project officers will include review of Lead organization subrecipient monitoring semi-annually, as part of the semi-annual FEATS report and review conducted for each Lead Organization. This additional aspect of the FEATS review for Lead Organizations will begin with the reporting period ending September 30, 2014, and continue thereafter for the project period for Puget Sound Lead Organization assistance agreements.</p>	1 st Quarter FY 2015
3.	<p>The Region 10 Administrator provide training to recipients regarding subaward monitoring responsibilities and periodically check on the execution of those responsibilities.</p>	<p>Region 10 Response: The Puget Sound Program will conduct a specific training to Puget Sound Program Lead Organization assistance agreement recipients on subaward monitoring responsibilities.</p> <p>Additionally, Puget Sound Program project officers will include review of Lead organization sub-recipient monitoring semi-annually, as part of the semi-annual FEATS report and review conducted for each Lead Organization. This additional aspect of the FEATS review for Lead Organizations will begin with the reporting period ending September 30, 2014, and continue thereafter for</p>	1 st Quarter FY 2015

		the project period of Puget Sound Lead Organization assistance agreements.	
4.	The Region 10 Administrator evaluate whether the resources allocated to overseeing Puget Sound cooperative agreements are sufficient to effectively achieve the Puget Sound Program's needed environmental results.	Region 10 Response: Region 10 concurs and the region's Grants Streamlining Workgroup is finalizing and phasing in streamlined grants processes. This will include making sure available resources are adequately utilized to provide effective grant management and monitoring.	2 nd Quarter FY 2015
5.	Review existing grants policies to determine whether policies need to be updated to clarify project officer and grants specialist responsibilities with subawards, as well as recipient responsibilities for subaward monitoring.	<p>1.1 OGD Response: Review existing policies, guidance and regulations to determine if further clarification is needed.</p> <hr/> <p>1.2 If needed, work with the grants management community to provide policy updates or guidance as appropriate to both EPA grants management staff and recipients on their respective responsibilities regarding subawards.</p> <hr/> <p>1.3 Ensure policy updates or guidance is included in nation training for project officers and grants specialists.</p>	<p>4th Quarter FY 2014</p> <hr/> <p>4th Quarter FY 2015</p> <hr/> <p>4th Quarter 2015</p>

DISAGREEMENTS WITH FINDINGS

Finding	Agency Response
File Documentation Improvements are Needed	Region 10 does not concur with the generalized all inclusive statement of “improvements are needed.” Region 10 agrees that file documentation can and should be improved.
Monitoring and Review Activities are Not Consistent	Region 10 does not concur with the implied condition that (all) monitoring and review activities are not consistent. Rather, some monitoring and review activities are <u>not complete</u> .
Project Officers <i>Need</i> to Increase Awareness of Subaward Monitoring	Region 10 does not concur with this generalization. As noted in the report, Region 10 project officers are generally aware of subaward monitoring activities conducted by recipients. Only two exceptions are noted in the report, where two project officers were unsure of subaward monitoring activities. The two project officers <i>should</i> improve awareness of Subaward Monitoring.
Lack of Guidance and Oversight Puts Funds At Risk	Region 10 does not concur. The statement that implies funds are at risk is not supported by the text in this report, nor are there any amount of funds at risk indicated on the “Status of Recommendations and Potential Monetary Benefits” table on page 15 of this report. Based on the findings contained in this report, it is inaccurate to conclude that the conditions noted put funds at risk.

If you have any questions about this response, please contact Rick Parkin, Puget Sound Program Manager at 206-553-8574, Russell Harmon, Acting Manager, Region 10 Grants and Interagency Agreements Unit regarding grants issues at 206-553-1793, Jennifer Hublar, Program Analyst, OGD at 202-564-5294, or JoAnne Brendle, Acting Region 10 Audit Follow-up Coordinator at 206-553-6385.

Distribution

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