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United States Senate

COMMITTEE ON SMALL BUSINESS
WASHINGTON, DC 20510-6350

July 21, 2000

The Honorable David M. Walker
Comptroller General
of the United States
Washington, D.C. 20548

Dear Mr. Walker:

The purpose of this letter is to request the General Accounting Office (GAO) examine the Environmental Protection Agency's (EPA/Agency) grants management and oversight of non-profit organizations. The number and total size of EPA grants to non-profits has exploded over the last five years. My work with government agencies including the Department of Housing and Urban Development shows me that non-profits are particularly susceptible to financial difficulties in management of grant resources. I am concerned that EPA's grants management policy and oversight are insufficient to protect federal taxpayer dollars from grantee abuse. For every dollar which is wasted or misspent by EPA grantees, the environment and our communities are robbed of that environmental protection.

EPA dramatically increased the number and total size of grants to non-profits over the last five years. Since Fiscal Year (FY) 1995, EPA awarded over \$1 billion in grants (non-construction) to non-profit organizations. Last year, EPA awarded non-profits over \$252.9 million, a record level and 50% increase over FY 1995. EPA awarded grants to 881 different non-profit recipients in FY 1999, an 85% increase over FY 1995.

In the face of this onslaught, EPA's grants management policy does not appear intended to ensure that grantees spend funds as intended or allowed. On May 14, 1998, in reaction to Congressional hearings, Inspector General audits, and EPA's own declaration to the President that its grants management was an Agency 'material management weakness,' EPA issued a new Post Award Management Policy (Policy). However, the Policy states that post award grants management and performance reviews "will serve as a customer service mechanism." Oddly, this language implies that EPA views the grantee under review as the customer and not the Agency and its resources which require customer service and protection.

EPA's grants management policy does not appear geared towards determining how grantees actually spent grant funds. While EPA may receive the product it requested at the end of the grant, routine grant oversight under the Policy will not determine if grantees misspent funds along the way. Unallowable spending on items such as litigation costs or lobbying are discoverable only from hands-on, on-site review of grantee's records and books. Indeed, according to EPA, "on-site reviews [of grantee records] are EPA's key primary method for evaluating grantees' project and fiscal performance." However, the Policy does not include on-site reviews as part of routine grant oversight. Instead, the Policy establishes only a floor of one on-site review per Region per year.

EPA rarely focuses its 'key primary method' of grants management oversight on non-profit grantees. Last year, EPA Administrator Browner testified before my Appropriations Subcommittee that EPA annually performs hundreds of post award management reviews. However, further inquiry revealed that in FY 1999, EPA performed only 24 on-site reviews of non-profit grantees. Thus, only 2.7% of non-profits received EPA reviews sufficient to determine how they actually spent their resources. Moreover, four of 10 EPA Regions did not conduct a single on-site review of a non-profit grantee. Thus, almost every non-profit grantee, and entire regions of the country, face no EPA grant oversight sufficient to determine how they actually spent their grant funds.

Nearly half of EPA grantees are failing to perform statutorily required self-audits of their grant spending. EPA claims Single Audit Reviews (SARs) provide a last line of defense against grant abuse and fraud. Unfortunately, SARs apply only to grantees which expend more than \$300,000 per year in federal funds. Grantees below this threshold escape this requirement. Additionally, EPA appears to be allowing those grantees required to perform SARs to avoid this statutory requirement. For FY 1999, EPA reported that over 600 grantees received more than \$300,000 from EPA. However, more than six months after the close of the fiscal year, federal audit clearinghouse data shows that only 325 grantees submitted single audit reports for FY 1999.

All of these factors suggest that even though EPA implemented a new grants management policy and increased its reportable activity, EPA is not doing enough to protect federal funds from grantee abuse. With such a low rate of hands-on, on-site reviews, especially for non-profit grantees, EPA cannot know the answer to this question. Therefore, I request that GAO examine EPA's post award grants management. GAO should study whether the Policy is sufficient to determine EPA grantees are not misspending EPA grant funds. Additionally, I request GAO examine EPA's implementation of the Policy and application of oversight activities towards grantees. GAO should specifically analyze whether the degree and number of oversight activities are sufficient to identify grantee spending on unallowable costs such as litigation or lobbying costs. Lastly, GAO should examine whether EPA grantees are meeting the requirements of the Single Audit Review Act and the degree to which EPA can rely on this requirement to safeguard its grant resources. GAO should focus this analysis on non-profit non-construction grantees.

This review is critically important to ensure resources appropriated to EPA go to protecting the environment and are not wasted or abused by EPA grantees. Consequently, please ensure completion of this report on or about March 1, 2001. Please contact John Stody at 224-5175 if you have any questions regarding this request. Thank you in advance for your attention to this matter.

Sincerely,



Christopher S. Bond