

**FY 2000  
ANNUAL REPORT**

**MANAGEMENT  
ACCOMPLISHMENTS  
AND CHALLENGES**

**SECTION III**



## MANAGEMENT ACCOMPLISHMENTS AND CHALLENGES

One of the most critical challenges facing federal managers today is preserving the public's trust in the integrity of government programs. The U.S. Environmental Protection Agency (EPA) is strongly committed to achieving its goals and objectives in a manner that maintains this integrity. Over the past several years EPA senior managers have placed a high priority on strengthening results-based management and overall accountability and on improving the efficiency and effectiveness of environmental programs.

Section III provides a comprehensive discussion of EPA's management and performance challenges and the Agency's strategy to resolve these issues. (The most significant of these, and their relevance to the achievement of the Agency's mission, are also addressed in the preceding goal chapters.) This section also meets reporting requirements of the *Federal Managers Financial Integrity Act (FMFLA)*, *The Inspector General Act Amendments*, and the *Reports Consolidation Act of 2000*, as discussed below.

Integrity weaknesses and major management challenges represent deficiencies in program policies, guidance, or procedures that may impair the Agency's ability to achieve its mission and weaken the safeguards against fraud, waste, abuse, and mismanagement. These issues are identified through internal Agency reviews and through independent reviews and audits by the General Accounting Office (GAO), the Office of Management and Budget (OMB), and EPA's Office of Inspector General (OIG). EPA managers work diligently to identify strategies to address these issues, set milestones, and take prompt corrective action. For some management problems the Agency has put annual performance goals in place to track progress. Currently, two of the five integrity weaknesses and five of the 19 management challenges are linked to Government Performance and Results Act (GPRA) goals. Although the Agency does not have specific goals for all integrity weaknesses and major management challenges, EPA's senior leadership monitors all problems closely.

Under FMFLA, all federal agencies must submit an annual Integrity Act Report to the President and Congress and provide reasonable assurance that policies, procedures, and guidance are adequate to support the achievement of their intended mission, goals, and objectives. Agencies also must report material weaknesses—those deficiencies that are found to impair achievement of their missions—and

identify corrective action strategies being instituted to remedy the problems. EPA senior managers periodically report to the Administrator on efforts under way to address material weaknesses and other less serious but important problems. EPA's record in correcting its integrity weaknesses has steadily improved over the past decade. Since 1990 EPA has corrected 27 integrity weaknesses and numerous major management challenges.

### FISCAL YEAR 2000 ANNUAL ASSURANCE STATEMENT\*

I am pleased to report that EPA's annual self-assessments of the Agency's internal controls, management and financial control systems, with the exception of noted material weaknesses, provide reasonable assurance that the Agency's programs and resources are protected from fraud, waste, and mismanagement.



Carol M. Browner  
Administrator

\* Assurance statement is required by December 31, 2000 under the Federal Managers Financial Integrity Act.

The *Inspector General Act Amendments of 1988* require federal agencies to report to Congress twice a year on the status of efforts to carry out corrective actions and reach final action on OIG audits. EPA managers are vigilant in carrying out timely and effective audit management practices. Since 1996 the number of audits without final action one year after the management decision has decreased by nearly 50 percent. In FY 2000 EPA was responsible for 503 audits; by year's end 40 were without final action one year after the management decision date.

As required by the *Reports Consolidation Act of 2000*, OIG's list of top management challenges facing the Agency along with its assessment of EPA's progress in addressing these challenges is included at the end of this section. The Agency's response to the OIG statement is included as part of the discussion of corrective action strategies for integrity weaknesses and major management challenges.

## INTEGRITY ACT REPORT

The Agency is declaring three new material weaknesses for FY 2001 on Title VI and VII of the *Civil Rights Act of 1964* and Information Systems Security and is continuing to address two weaknesses from the previous fiscal year: National Pollutant Discharge Elimination System (NPDES) Permits and Construction Grants Closeout. These are described below, along with a summary of corrective actions and expected completion dates.

**1. Backlog of Title VI (Civil Rights Act of 1964) Discrimination Complaints (Goal 10):** Title VI prohibits discrimination on the basis of race, color, or national origin by any entity that receives federal financial assistance. The number of Title VI administrative complaints that require an investigation or a jurisdictional determination by EPA is 61 and growing. EPA's program to investigate Title VI complaints generally does not meet regulatory deadlines for processing and investigating complaints.

*Corrective Action Strategy:* In addition to the four temporary employees hired as Title VI case managers for 2-year terms, four employees will be detailed to the Office of Civil Rights from regions and programs to complete a civil rights investigation. By the end of the third quarter FY 2001 EPA will improve the long-term efficiency of the program by finalizing Draft Revised Investigations Guidance, issuing final guidance regarding alleged discrimination against persons with limited English proficiency, issuing standardized procedures on preparing complaints for the investigation process, and drafting protocols for conducting adverse impact analyses and statistical demographic analyses. Completion of corrective actions is expected by the end of FY 2001.

**2. Deficiencies in Internal Employment Discrimination Complaints Resolution Process under Title VII (Civil Rights Act of 1964) (Goal 10):** Title VII requires that EPA implement and manage an effective federal discrimination complaints process that provides employees and applicants for employment an opportunity to seek redress. Difficulty in managing the Equal Employment Opportunity (EEO) process in a timely manner is attributable to several factors, including inadequately trained counselors; lack of accurate and timely data in the tracking system; late, incomplete, and/or missing discussion of allegations in counselors' reports; an inability to utilize the automated data

tracking system effectively; insufficient contractor support to manage the investigations process; and a lack of staff to handle the current inventory of 269 complaints.

*Corrective Action Strategy:* Corrective actions currently under way include utilizing attorneys from the Civil Rights Law Office to review and provide advice on final Agency decisions; to provide regions with monthly status reports on the inventory of complaints and overdue reports and with feedback on inadequate submissions; and to devote more attention to each area of the process currently needing improvement. Completion of corrective actions is expected by September 2001.

**3. Information System Security (Goal 7):** EPA needs a centralized security program with strong oversight processes to address risks adequately and ensure that valuable information technology resources and environmental data are secure. The Agency is strengthening its information security program by instituting a comprehensive strategy that addresses all security-related deficiencies, including currently identified weaknesses covering Information Systems Security Plans and Cyber Security. In doing so, EPA is taking a systematic approach to correct its information security weakness by FY 2002. (*FY 1997–2000 OIG major management challenge; FY 2000 GAO and OMB major management challenge; declared a material weakness FY 1997 and an expanded material weakness FY 2000.*)

*Corrective Action Strategy:* Though EPA has corrected the most serious security vulnerabilities, several significant milestones remain. Corrective actions currently under way include completing security risk assessments of critical applications and systems, evaluating network and data security, installing network intrusion detection and monitoring controls, conducting training, certifying security plans for all critical security systems, finalizing EPA's National Network Security Policy, validating success of policy and guidance, and conducting random program office formal security plan reviews of mission-critical systems. All corrective actions are expected to be completed by the end of FY 2002. (*Also see OIG List of EPA Top Management Challenges.*)

**4. National Pollutants Discharge Elimination System Permits (Goal 2):** The backlog in EPA-issued major permits has tripled over the past 10 years, and the backlog in state-issued permits has doubled over that time. As the universe of NPDES permits expands to cover storm water and concentrated animal feeding operations, the backlog is likely to increase unless additional effort is exerted. The expanding backlog threatens the environment, because expired NPDES permits may not reflect the most recent applicable effluent limitation guidelines, water quality standards, or Total Maximum Daily Loads. EPA headquarters and regional offices are working together closely to track both Agency and state-issued permit efforts. *(FY 1998–2000 OIG Management Challenge; declared a material weakness FY 1998.)*

**Corrective Action Strategy:** During the past year EPA’s Deputy Administrator sent a memorandum to Regional Administrators directing them to submit a current backlog reduction plan for every state and territory in each region by May 15, 2000. The backlog reduction strategies developed by the regions reaffirm regional and state commitments to meet the Agency’s backlog reduction targets. During FY 2000 the backlog of NPDES permits was reduced from 46 percent to 30 percent. EPA expects to eliminate the backlog by FY 2005. *(Also see OIG List of EPA Top Management Challenges.)*

**5. Construction Grants Close Out (Goal 2):** Without timely closeout of construction grants, millions of dollars in potentially ineligible program costs cannot be recovered for use in other high-priority state clean water projects. *(FY 1992 OMB candidate material weakness; declared an Agency weakness FY 1992; elevated to a material weakness FY 1996.)*

**Corrective Action Strategy:** The Construction Grants Completion/Closeout Strategy developed in 1990 required EPA to assess the remaining workload in each region every year, to identify the bottlenecks, and to enter into agreement on a closeout plan and follow-up actions. States are required to submit annual work plans and closeout strategies. The number of open grants has decreased from 5,860 in 1990 to 177 in 2000, and EPA expects to complete corrective actions in FY 2002.

As shown in the accompanying table, EPA has made significant progress over the years to correct integrity weaknesses reported to the President and Congress. Since 1997 the Agency has not reported any new financial nonconformances, which are failures of a financial system to comply with government requirements.

STATISTICAL SUMMARY OF PERFORMANCE							
Material Weaknesses Section 2				Financial Nonconformances Section 4			
	Reported	Corrected	Pending		Reported	Corrected	Pending
1988-1996	44	39	5	1988-1996	18	15	3
1997	1	3	3	1997	0	3	0
1998	1	0	4	1998	0	0	0
1999	0	1	3	1999	0	0	0
2000	3	1	5	2000	0	0	0
<b>Total</b>	49	44	5	<b>Total</b>	18	18	0

## MAJOR MANAGEMENT CHALLENGES

This portion of Section III presents a brief description and summary of activities planned in response to 19 management challenges identified by GAO, OMB, OIG, and EPA itself. The Agency will continue to use the tools available under GPRA and other management statutes to assist in addressing these issues. Five of the 19 major management challenges are linked to GPRA goals and measures. Twelve of EPA's management challenges are being addressed as internal Agency weaknesses for which the Agency develops specific and measurable corrective actions and reports on progress to the Administrator.

**1. Relationships with States (NEPPS) (Cross-goal, addressed in the "Overview and Analysis"):** Under the National Environmental Performance Partnership System (NEPPS), the Agency committed to long-term collaboration with state agencies to improve EPA and state management of national environmental programs. (FY 1999 GAO major management challenge; FY 2000 GAO and OIG major management challenge.)

**Corrective Action Strategy:** A national EPA-state workshop reviewed evaluations and developed the following recommendations for strengthening NEPPS: (1) recommit to the fundamental principles of NEPPS; (2) coordinate and integrate systems/programs; and (3) improve performance measures. Actions taken in response to these recommendations include reaffirming EPA's commitment to NEPPS; designating "NEPPS Leaders" at the senior management, mid-management, and staff levels; producing a crosswalk of GPRA annual performance measures and NEPPS core performance measures; completing an internal training survey to help strengthen the skills of NEPPS practitioners; and implementing a work plan that commits to developing better tools for NEPPS practitioners. (Also see OIG List of EPA Top Management Challenges.)

**2. Safe Drinking Water Information System (SDWIS) (Goal 2):** The Agency established SDWIS to serve as the central repository for data on both the states' implementation of and compliance with existing and new drinking water regulations. In 1998 EPA supported a series of data verification audits, the results of which pointed out serious data quality and reliability issues. (FY 1999 OMB candidate material weakness; declared an Agency weakness FY 1999.)

**Corrective Action Strategy:** EPA is implementing a data reliability action plan developed in 1999 as a multi-step approach to improve data in SDWIS. Two important steps completed by the end of 1999 included (1) an industry survey analysis in which water utilities examined and compared data in SDWIS with the utilities' own data, and (2) a study of the variety of ways that states are organized to carry out drinking water program responsibilities and the effects of these organizations on data collection. This effort laid the groundwork for state-specific, on-site training that is expected to enhance and improve the completeness, accuracy, and timeliness of the data in SDWIS. Completion of corrective actions is expected during FY 2001.

**3. Water Quality Standards (Goal 2):** The Agency must reduce the backlog of actions to approve, disapprove, and promulgate water quality standards. This backlog includes 43 water quality standards from 20 states, one territory, and six tribes that EPA has not yet approved or disapproved, and 23 disapprovals in 15 states that have not been resolved. In addition to the overdue standards there is a backlog of 40 Endangered Species Act consultations with 15 states and two tribes on standards provisions that EPA has approved. Another 16 states, three territories, and eight tribes have not completed triennial reviews in the past 3 years as required by the Clean Water Act. EPA identified these backlogs through routine reporting and program reviews and is concerned that without corrective action the backlogs may grow. (Declared an internal Agency weakness FY 1999.)

**Corrective Action Strategy:** EPA is employing a two-tiered strategy in an effort to eliminate the existing backlog. In the short term EPA is giving high priority to resolving the outstanding disapprovals and unreviewed standards. EPA made considerable progress in FY 2000, reducing both the number of outstanding disapprovals and the number of unreviewed standards. In the longer term the Agency is working to identify and eliminate the problems that have led to the backlogs and other concerns. Completion of corrective actions is expected by FY 2004.

**4. Resource Conservation and Recovery Act (RCRA) Corrective Action Program (Goal 5):** EPA and other stakeholders, including GAO, have identified several factors impeding timely and cost-effective cleanups under

RCRA. To address the problem, GAO recommended that EPA devise a strategy for ensuring that cleanup managers in EPA's regions and states have a consistent understanding of new approaches outlined in guidance or regulation and that EPA oversee program implementation to determine whether cleanup managers are using the new approaches appropriately. *(FY 1999 GAO major management challenge; declared an internal Agency weakness FY 1999.)*

**Corrective Action Strategy:** EPA has already undertaken a number of regulatory, guidance, and oversight initiatives consistent with GAO's suggestions. A number of additional actions are planned for the near future and the long term, including providing new results-oriented cleanup guidance with clear objectives; encouraging maximum use of program flexibility and practical approaches through training, outreach, and new uses of enforcement tools; and enhancing community involvement and greater public access to information on cleanup progress. Completion of corrective actions is expected by FY 2001.

**5. Superfund 5-Year Reviews (Goal 5):** Without timely and adequate 5-year reviews Congress and the public are not assured of the continued effectiveness of remedial actions at sites where waste left on site exceeds that allowed for unlimited use of and unrestricted exposure to land where cleanups took place. *(FY 1999 OIG major management issue; declared an internal Agency weakness FY 1999.)*

**Corrective Action Strategy:** During the first quarter of FY 2000 EPA established the Superfund Consolidated Accomplishments Plan (SCAP), which targeted for completion 92 5-year reviews due in FY 2000 and 46 of the backlogged 5-year reviews (one-third of the backlog) for a total of 138 reviews. A total of 183 5-year reviews were completed that included 75 reviews due in FY 2000, 69 backlogged reviews, and 39 additional regional reviews. A total of 86 reviews (17 from FY 2000 and 69 of the remaining backlog) are still overdue and are targeted for completion during FY 2001 and 2002, along with the reviews due for each year. Completion of corrective actions is expected by FY 2002. *(Also see OIG List of EPA Top Management Challenges.)*

**6. Superfund Independent Government Cost Estimates (IGCEs) (Goal 5):** GAO believes that EPA is too reliant on contractors' own cost estimates and definitions of work in providing cost-reimbursable work

to the Agency. *(FY 1997 and 1999 GAO major management challenge; declared an internal Agency weakness FY 1997.)*

**Corrective Action Strategy:** The Agency established a national IGCE workgroup to develop and implement corrective actions to address this issue. The U.S. Army Corps of Engineers conducted in-depth reviews of IGCEs in every EPA region and issued its final report in December 1999, which identified problems and guidance needed. Additional actions taken include sharing best practices for preparing IGCEs and lessons learned, providing additional training to personnel who prepare IGCEs, expanding the review of IGCEs during regional contract reviews, expanding the use of regional databases to provide historical data to be used in IGCE preparation, and standardizing statements of work and baselines for recurring activities. EPA and GAO agree that the Agency should monitor the corrective actions closely and keep IGCEs a high priority. Completion of corrective actions is expected in FY 2001.

**7. Superfund Remedial Action Contracts (Goal 5):** Routine contract oversight and monitoring activities have found that the percentage of total contract costs expended for program management under response action contracts (RACs) may be too high. *(FY 1997 GAO major management challenge; declared an internal Agency weakness FY 1997.)*

**Corrective Action Strategy:** During FY 2000 the Agency continued to take significant steps to increase the capacity utilization of RACs and to contain and minimize program management costs. The most recent quarterly report for actual costs through September 2000 shows that the overall national program management percentage has been reduced to 6.9 percent. This represents a dramatic decrease from September 1999, when the national program management percentage stood at 14.6 percent, and reflects the Agency's continuing efforts to monitor closely and reduce RAC program management costs. Completion of corrective actions is expected by FY 2002.

**8. Great Lakes Program (Goal 6):** The U.S.-Canada Great Lakes Quality Agreement calls for Lakewide Management Plans (LaMPs) and Remedial Action Plans (RAPs) to support the restoration and maintenance of the chemical, physical, and biological integrity of the Great Lakes. At the Agency's request OIG evaluated the Great Lakes Program to provide advice and assistance on how to improve the LaMP and RAP processes and develop

and implement effective national strategies and agreements. (FY 1999 OIG major management challenge.)

**Corrective Action Strategy:** Agency progress over the past year included implementing a tracking system to address the issues, re-instituting the Great Lakes U.S. Policy Committee to increase attention to RAP issues, and drafting a Great Lakes Strategy that emphasizes goals and measures. In addition the Agency and its partners issued LaMPs for each lake in April 2000. EPA will continue to respond to the need to accelerate RAP progress and complete the Great Lakes Strategy. (Also see OIG List of EPA Top Management Challenges.)

**9. Data Management Practices (Goal 7):** EPA needs to improve the management, comprehensiveness, consistency, reliability, and accuracy of its data to help better measure performance and achieve environmental results. In addition, EPA needs to develop error detection processes to ensure that errors in Agency databases are addressed appropriately and in a timely and documented fashion. EPA broadened the scope of an existing internal Agency data management weakness, consolidating Agency efforts to address the multiplicity of issues related to information management, data accuracy, and error correction. (FY 1998–1999 GAO and OIG major management challenge; FY 2000 GAO, OMB, and OIG major management challenge; IRM data management declared an Agency weakness FY 1994; scope of weakness expanded FY 2000.)

**Corrective Action Strategy:** EPA is working internally and in partnership with the states to improve data management, comprehensiveness, consistency, reliability, and accuracy for better performance measurement and achievement of environmental results. EPA, states, and tribes formed the Environmental Data Standards Council to promote further development and implementation of data standards. Work is under way to develop standards for permitting, enforcement and compliance, tribal identifiers, and geolocational data that are expected to be approved in FY 2001. All six data standards that EPA adopted previously are now being implemented, as appropriate, in Agency information systems, and EPA has engaged the managers of scores of data systems in helping to develop implementation plans. The systems are at varying stages of standards implementation, but all of the thirteen major data systems have completed implementation of at least one of the six data standards, and at least one system has implemented all of the

applicable standards. In addition, as part of its environmental information integration effort, EPA developed a 5-year Integration Management Plan that includes a series of planning documents and specific actions.

To further achievement of shared Agency-state objectives for improving data management integration, EPA collaborated with the states to develop a Network Blueprint that outlines the plans and components required to establish a national network for data exchange of environmental information and defines how it will operate. The components include data standards, data exchange templates, trading partner agreements, a central data exchange infrastructure, a Facility Registry System, and other data registries. EPA is also working to expand implementation of its Integrated Error Correction Process, developed in July 2000. Since that time, 195 errors have been reported, of which 78 have been resolved. (The reporting or allegation of an error does not imply that it is an error. In fact almost 100 data points reported as errors have been investigated and found to be correct.) EPA is also developing a Data Quality Strategic Plan to improve the quality and reliability of environmental data, as well as an Agency-wide Enterprise Architecture that will guide the creation and revision of EPA's programmatic and regional information systems. The Agency anticipates that all corrective actions will be completed by the end of FY 2002. (Also see OIG List of EPA Top Management Challenges.)

**10. Laboratory Quality System Practices (Goal 7):** Through internal reviews and OIG investigations, the Agency has found management control weaknesses and some cases of misconduct in laboratories concerning data quality that could impact environmental and enforcement decisions. (FY 1999–2000 OIG major management challenge; declared an internal Agency weakness FY 2000.)

**Corrective Action Strategy:** EPA completed independent technical reviews of its regional laboratories in FY 2000 to assess the Agency's ability to produce data of known and documented quality. The Agency will complete reviews of the remaining laboratories by the end of FY 2001. Ongoing actions include assembling a workgroup consisting of both EPA and non-EPA members that will (1) identify weaknesses in laboratory quality systems that produce analytical data used for Agency decision making; (2)

establish methods to detect and deter misconduct in labs; and (3) promote best practices in laboratory performance, documentation, and implementation. In addition each EPA organization will be responsible for establishing management controls to ensure that environmental measurement data supplied by laboratories is of known and documented quality. This effort includes monitoring and oversight of the development and implementation of Agency-approved quality systems by third parties. Completion of corrective actions is expected by December 2003. (*Also see OIG List of EPA Top Management Challenges.*)

**11. Results-Based Information Technology Project Management (Goal 7):** EPA and its partners need to plan strategically for implementing a common data architecture, data standards, geospatial information, and one-stop electronic reporting in order to share environmental information with EPA's diverse partners and stakeholders and facilitate environmental protection efforts. In addition the Agency needs to ensure that information technology projects are timely, cost-effective, and results-based. (*FY 2001 OIG major management challenge.*)

**Corrective Action Strategy:** EPA has already begun to address the systemic issues of information technology project planning and management. For example EPA's environmental information integration effort provides a new approach to state-data relationships and new technologies. Over the next few years EPA plans to develop a more robust and rigorous program to meet the architectural and investment management requirements of the Clinger-Cohen Act. As part of this effort EPA plans to expand its project management review criteria for projects with annual costs greater than \$1 million or more than \$5 million over the life-cycle of the system to ensure greater accountability and capability to produce results. (*Also see OIG List of EPA Top Management Challenges.*)

**12. Reinventing Environmental Regulation (Goal 8):** In January 1999 GAO reported that EPA's current regulatory system is costly and occasionally inflexible and that the Agency faces challenges in making changes to the current system. These challenges include helping employees understand and support changes and reaching consensus among stakeholders on objectives and approaches for addressing important reinvention issues and policies. (*FY 1999-2000 GAO major management challenge.*)

**Corrective Action Strategy:** Efforts are under way to achieve better environmental results with less burden through the use of innovative and flexible approaches. Actions taken to date include:

- Reorganizing the Agency's policy and reinvention staff into one organization focusing on innovation, economic analysis, and support for business and community environmental approaches.
- Building Agency capacity for evaluating innovative policies and approaches.
- Finalizing 50 Project XL (eXcellence and Leadership) agreements, continuing follow-through on XL and state innovation projects, and implementing an annual cycle of evaluation for Project XL pilots.
- Initiating the Performance Track Program to recognize high-performance companies.
- Establishing regular forums and networks with small businesses and industrial sectors.

**13. Permit Compliance System (PCS) (Goal 9):** OMB believes that, because of missing data and data quality problems, PCS is not a reliable source of information for the management and oversight of the Clean Water Act NPDES program. (*FY 1999 OMB candidate material weakness; declared an internal Agency weakness FY 1999.*)

**Corrective Action Strategy:** EPA has been aware of problems with PCS and, over the past few years, has worked with the states to identify problems and define the systems revisions needed for effective NPDES program management and oversight. In conjunction with the states, EPA has three major initiatives under way that are intended to improve the usefulness of the system as a management tool: PCS modernization, interim data exchange format, and electronic reporting. EPA is monitoring progress carefully and will gauge success by the level of state participation, improvements in the quality and comprehensiveness of the data, and reliability of the analyses generated. Completion of corrective actions is expected by FY 2003.

**14. Accountability (Goal 10):** OIG describes this major management challenge broadly to encompass the Agency's planning, budgeting, and accountability functions overall and points specifically to issues related to managerial cost accounting, performance partnership agreements, and the Great Lakes Program. (*FY 1997-2000 OIG major management challenge.*)

**Corrective Action Strategy:** EPA has made significant progress over the past few years in strengthening results-based management, including development of a goal-based budget and planning and accountability functions to support it. In FY 2000 EPA issued its revised Strategic Plan for FY 2000–2005 that reflects lessons learned about performance measurement and Agency priorities for protecting the environment and human health, improved performance measures to reflect better programmatic and environmental outcomes, and strengthened cost accounting to link more clearly Agency budgetary resources with the achievement of environmental results. It must nevertheless be kept in mind that the resources identified with a particular environmental outcome will rarely, if ever, fully capture the relevant costs. For example, the Great Lakes program benefits greatly from work done in other programs, including overall water quality protection and the acid rain program. Since resources cannot be double-counted, such omissions are inevitable. (*Also see OIG List of EPA Top Management Challenges.*)

**15. Agency Process for Preparing Financial Statements (Goal 10):** According to OIG, EPA's process for preparing financial statements needs improvement to enable the Agency to submit audited financial statements by March 1 of each year. (*FY 1999–2000 OIG major management challenge; declared an internal Agency weakness FY 1999.*)

**Corrective Action Strategy:** In an effort to deliver timely financial statements and obtain clean audit opinions by March 1, 2001, EPA has issued policies and procedures on the Agency's financial statement preparation process, prepared interim financial statements, reached agreement with OIG on the timeline for key milestones, established formal controls with OIG to address audit questions and adjustments, and provided technical training to staff responsible for financial statements. In addition, the Agency is examining options for automating the preparation of statements. Completion of corrective actions is expected in FY 2001, and OIG has issued an unqualified opinion on the Agency's FY 2000 statements.

**16. Managerial Cost Accounting (Goal 10):** OIG believes that EPA needs to improve its cost accounting systems and processes to provide Agency managers with timely and reliable information on the cost of carrying out EPA's programs and administrative activities. In the Agency's FY 1999 financial statement audit, OIG

reported that EPA did not comply with the Managerial Cost Accounting Standard requirements to (1) determine the full cost of its activities, (2) accumulate and report on a regular basis the cost of activities for management information and other stakeholder purposes, and (3) use appropriate costing methodologies to accumulate and assign costs to outputs. (*FY 2000 OIG major management challenge.*)

**Corrective Action Strategy:** EPA believes that it substantially complies with the Managerial Cost Accounting Standards. Since FY 1999 all new obligational authority has been budgeted and accounted for in the Agency's GPRA 10-goal structure using a Program Results Code (PRC). The PRC provides the structure whereby all the costs that benefit the activities in a particular goal and objective, regardless of national program manager or program office, are accumulated to show the cost of the Agency's outputs. Some indirect costs are accumulated in distribution accounts and allocated to the appropriate PRC. Obligations made before FY 1999 are accounted for in the old program element structure. Cost information from both accounting structures is available for use by managers to review how resources are spent to achieve expected results and to help them make future budgeting decisions.

Cost accounting is a process that will continue to evolve as a result of on going improvements and enhancements. EPA has taken a number of actions and has planned others to strengthen cost accounting further. The Agency has:

- Linked resources in the Annual Plan and Budget with the GPRA goal structure, beginning with FY 1999.
- Issued policy and guidance and provided training on budget restructuring and cost accounting.
- Issued Superfund indirect cost rates that comply with the Managerial Cost Accounting Standards.
- Issued the FY 2000 Statement of Net Costs by goal in the Agency's Annual Financial Statements.

The Agency is currently:

- Developing reports on outputs that combine both the old and new structure.
- Working with individual program offices to address specific accounting needs.

- Assisting programs in developing indirect costs for user fees.

*(Also see OIG List of EPA Top Management Challenges.)*

**17. Improved Management of Assistance Agreements (Goal 10):** OIG audits have found that EPA needs to validate the effectiveness of its strategy for ensuring effective management of its assistance agreements. *(FY 2000 OIG major management challenge; grants closeout and oversight of assistance agreements was declared a material weakness in FY 1996, reported substantially corrected in FY 1999 and redesignated as an internal Agency weakness; grants closeout was corrected in FY 2000; and improved management of assistance agreements was declared an internal Agency weakness in FY 2000.)*

**Corrective Action Strategy:** The Agency closed the grants closeout portion of this weakness in FY 2000, reporting that all but 26 grants of the estimated backlog of 19,000 reported to Congress in July 1996 were closed. Twenty-four of the remaining 26 grants will be closed out as the Agency resolves an outstanding indirect cost rate issue. The remaining two grants will be closed out as the Agency completes the audit resolution process. To manage grant closeouts more efficiently, EPA has established interim closeout goals for each year. Each Grants Management Office submitted its FY 2000 grants closeout strategy as required. In addition the Agency developed and implemented policies to ensure effective post-award management of EPA assistance agreements.

During FY 2001 EPA will assess whether the Agency manages its assistance agreements appropriately, both administratively and programmatically. The Agency will examine quarterly reports and information from the Grantee Compliance Assistance Database; conduct evaluations of Management Effectiveness Reviews, post-award plans, and the Grantee Compliance Assistance Initiative; and consult with Senior Resource Officials in conducting the assessments and with OIG to validate corrective actions. Completion of corrective actions is expected by FY 2002. *(Also see OIG List of EPA Top Management Challenges.)*

**18. Human Capital Strategy Implementation (Goal 10):** EPA must devote considerable attention to building a workforce with the highly specialized skills and knowledge required to accomplish the Agency's work or risk seriously weakening its ability to fulfill even the most basic of its legal, regulatory, and fiduciary

responsibilities. With its Human Capital Strategic Plan in place, the Agency has a blueprint for the initial and longer-term steps needed to begin addressing this impending weakness. *(FY 1998–1999 OIG major management challenge; FY 2000 GAO and OIG major management challenge; declared an internal Agency weakness FY 2000.)*

**Corrective Action Strategy:** The Agency's workforce planning efforts call for identifying the skills needed in every program unit based on an assessment of future program needs, determining the gap between those needs and the current state, and tying those needs to future budget development. Developmental programs aimed at support staff, mid-level professionals, managers, and the Senior Executive Service (SES) are being implemented or are in final design. The first SES Candidate Development Program to be offered in more than a decade will begin this spring. Completion of corrective actions is expected by FY 2003. *(Also see OIG List of EPA Top Management Challenges.)*

**19. Performance Partnership Grants (PPG) (Goal 10):** During regional audits on PPGs, OIG found that (1) Agency officials had difficulty determining how to provide flexibility while ensuring accountability for performance and environmental results; (2) some PPGs did not include quantifiable, verifiable, measurable, and time-specific measures; and (3) some PPGs included activity-based measures rather than outcome-based measures. OIG concluded that EPA and states have not been able to redirect scarce resources to improving environmental results and that the lack of goals and performance measures contributed to the poor integration of NEPPS. OIG believes that greater integration and acceptance of NEPPS in the Agency, combined with meaningful performance measurement, would result in rapid environmental improvements. *(FY 1997 OIG issue addressed as part of management challenge on accountability.)*

**Corrective Action Strategy:** Following the promulgation of regulations to establish the PPG program for states and to add a new regulation specifically for Indian tribes, EPA is working to implement and provide training on the state and tribal PPG regulations. The Agency anticipates publishing the final rules in FY 2001, pending concurrence from OMB. In addition EPA will include PPGs in its administrative Management Oversight Reviews. Completion of corrective actions is expected in FY 2001.

## MANAGEMENT'S REPORT ON AUDITS

During FY 2000 EPA made significant progress in reducing the number of audits without final action as well as strengthening its audit management practices Agency-wide. EPA reduced the number of audits without final action after 1 year by 35 percent, from 62 in FY 1999 to 40 in FY 2000. Overall, EPA was responsible for addressing OIG recommendations and tracking follow-up activities on 503 audits in FY 2000. The Agency achieved final action on more than half of these audits within 1 year.

In addition to strengthening Agency-wide audit follow-up activities for promptly addressing audit issues, EPA began to develop a new web-based system to improve its efficiency in audit management practices. The Agency plans to implement the new system in FY 2001. EPA continues to work with OIG and senior managers to emphasize the importance of timely and effective audit management practices. Following is a

summary of the Agency's audit management activities for FY 2000.

**Final Action Taken:** EPA achieved final action on 32 performance audits and 244 financial audits. Of the 244 financial audits, OIG questioned costs of more than \$59.6 million. After careful review OIG and the Agency together agreed to disallow \$29.8 million of these questioned costs. For this period EPA management and OIG did not identify audits for which resources could be better utilized (that is, put to better use) based on findings in a performance audit.

**Final Action Not Taken:** As of September 30, 2000, 227 audits were without final action (excluding those audits with management decisions under administrative appeal by the grantee). Of these 227 audits, EPA officials had not completed final action on 40 audits (18 percent) within 1 year after the management decision.

### DISALLOWED COSTS AND FUNDS PUT TO BETTER USE

Category	Disallowed Cost (Financial Audits)		Better Use (Performance Audits)	
	Number	Value	Number	Value
Audits with management decisions but without final action at the beginning of FY 2000 <sup>1</sup>	196	\$ 166,793,646	57	\$0
Audits for which management decisions were reached in FY 2000	228	\$ 23,263,486	22	\$0
Total audits pending final action during FY 2000	424	\$ 190,057,132	79	\$0
Final action taken during FY 2000:	244	\$ 29,811,957	32	\$0
(i) Recoveries				
a) Offsets		\$ 18,182,932		
b) Collection		\$ 4,142,067		
c) Value of Property		\$ 0		
d) Other		\$ 191,000		
(ii) Write-Offs		\$ 5,375,496		
(iii) Reinstated Through Grantee Appeal		\$ 1,920,462		
(iv) Value of recommendations completed				\$0
(v) Value of recommendations management decided should/could not be completed				\$0
Audits without final action at end of FY 2000	180	\$ 160,245,175	47	\$0

<sup>1</sup> Differences in number of reports and amounts of disallowed costs and funds put to better use between this report and our previous semiannual report result from adjustments made to follow-up data in the tracking system.

**Audits Awaiting Decision on Appeal:** EPA regulations allow grantees to appeal management decisions on financial assistance audits that seek monetary reimbursement from the recipient. In the case of an appeal, EPA must not take action to collect the account receivable until the Agency issues a decision on the appeal. As of September 30, 2000, there were 74 management decisions in administrative appeal status.

**Audits Pending Final Action Beyond 1 Year:** Due to the complexity of the issues, Agency management often requires longer than 1 year to complete corrective action on audits conducted by OIG. Beginning October 1, 2000 management will track 40 audits with outstanding corrective actions after the 1-year period. These audits are discussed below by category—contracts, single audits, assistance agreements and program performance—and identified by title and responsible office.

**Contracts:** Final action for contract audits occurs when the contract is awarded, the solicitation is canceled, repayments to EPA are received, or corrective actions are implemented. EPA is tracking completion of one audit taking longer than 1 year to complete.

**Office of Acquisition Management:**  
10040 CMC, Inc.

**Single:** Single audits are those that affect nonprofit organizations, universities, and state and local governments. Final action for single audits occurs when nonmonetary compliance actions are completed. This process may take longer than 1 year to implement if the findings are complex or if the grantee does not have the resources to take corrective action. EPA is tracking completion of corrective actions on three single audits.

**Region 9:**  
85018 Arizona  
85053 Colorado River Indian Tribes, Arizona  
85059 Colorado River Indian Tribes, Arizona

**Assistance Agreements:** Final action for assistance agreement audits occurs when all corrective actions have been implemented. Final action may take longer than a year because the grantee may appeal, refuse to repay, or be placed on a repayment plan that spans several years. EPA is tracking 11 audits with financial or associated corrective actions taking longer than 1 year to complete.

**Region 3:**  
12023 Bath County Service Authority  
20207 Center for Environment,  
Commerce Engineering

**Region 4:**  
73023 Atlanta, Georgia

**Region 7:**  
13038 Metro St. Louis Sewer District

**Region 5:**  
13084 Strongsville, Ohio  
13115 Galion, Ohio  
14038 Gary, Indiana  
14042 Cass County, Michigan  
14047 Indianapolis, Indiana  
24077 Gary, Indiana  
34038 Flint, Michigan

**Program Performance:** Program performance audits include reviews of Agency programs and audits of EPA's financial statements. Final action for program performance audits occurs when all corrective actions have been implemented. This process may take longer than 1 year when corrections are complex and lengthy. EPA is tracking 25 audits in this category.

**Office of the Administrator:**  
61301 Environmental Education  
71277 Regional Labs Office of  
Environmental Information:  
51240 PCIE Application Maintenance  
81240 Field Sampling Capping Report

**Office of the Chief Financial Officer:**  
21660 Superfund FY91 Trust Fund  
81058 FY 1997 Financial Statement  
81166 FY 1997 Financial Statement

**Office of Prevention, Pesticides, and Toxic Substances:**  
11378 Pesticides Inerts  
34030 Pesticides Banned (follow-up)  
41205 Pesticides Theme Report

**Office of Research and Development:**  
P0217 Selection of Peer Reviewers

Office of Water:

71142 Animal Waste Disposal Issues

71223 Mining Financial Assurance

Office of Solid Waste and Emergency Response:

51512 Manifesting Requirements

71114 Audit of RCRA Hazardous Waste Data

71132 Lab Data Quality - Federal Facilities

81090 Replacement Housing

81234 Audit of Deferrals to States

Region 5:

10058 Tribal Water Grants

P0055 RCRA SIG Non-Compliers

P0210 Ohio Water Quality

P0212 GLNPO

Region 9:

83004 Physical Environmental

Region 10:

81094 Air Enforcement Program, Washington

81252 Region X LANS

# MAJOR MANAGEMENT CHALLENGES NEEDING HIGH-LEVEL AGENCY ATTENTION

(Prepared by EPA's Office of Inspector General)

## ACCOUNTABILITY

EPA's stated mission is to protect human health and safeguard the environment. Accountability, a critical part of the Agency's overall system, is needed for EPA to accomplish its mission effectively. Over the years OIG has recommended improvements in a number of areas that will help EPA achieve greater accountability. However EPA needs to take further action to develop accountability systems that tie performance to the Agency's organizational goals.

EPA can be viewed as a business which must endeavor to deliver high quality products and services to its customers. To do this EPA needs to integrate its management systems better. These systems encompass leadership to define the Agency's mission, values, and products; strategic planning to establish goals and measures of success; customer focus to ensure expectations are met; management information systems to report progress in achieving goals; streamlined work processes; and effective human capital management. These components should all work together so that EPA can meet customer needs and achieve desired environmental and business results.

EPA was consciously organized with ten largely autonomous regional offices so that the Agency could be more sensitive to local environmental concerns. With this organizational structure it is very important that regional offices be held accountable for implementing national environmental policies. Resources budgeted for environmental programs by EPA Headquarters should be controlled and accounted for to ensure they are used for designated purposes. This can be achieved through clearly defined goals, performance measures, and areas of responsibility; better tracking of how employees spend their time; and greater commitment to achieving national goals.

EPA needs to work with its state, tribal, and federal agency partners to identify roles and responsibilities for carrying out environmental protection. For example, in work on the Great Lakes Program, we found that plans to address the Great Lakes ecosystems would benefit from clarifying the organizational roles and responsibilities for the offices, divisions, and teams involved. Another example is the 1998/1999 RCRA

Implementation Plan, which did not include specific expectations regarding basic permit program maintenance. Clarification of roles and responsibilities for this program would establish accountability and help the program achieve success.

The availability of management information also greatly impacts accountability. EPA needs to work with its partners to identify and agree on what data is needed to measure the health of the environment and assess progress. As further discussed under the information resources data management weakness, the Agency has a number of ongoing activities to improve the quality and availability of its environmental data; however, it is unlikely EPA will have the foundation it needs to share comparable information, monitor environmental activities, or compare progress across the nation in the near future.

## RESULTS-BASED INFORMATION TECHNOLOGY PROJECT MANAGEMENT

As the Agency looks to its future it is increasingly apparent that EPA has not adequately planned an information technology (IT) infrastructure to support an integrated approach to managing environmental information. To facilitate improvements in environmental protection EPA needs to provide and share environmental information with its diverse partners and stakeholders. To achieve that goal EPA and its partners need to plan strategically for implementing a common data architecture, data standards, geospatial information, and one-stop electronic reporting. Although EPA has initiated numerous IT projects in recent years, they were not evaluated to assess how they support the Agency's programmatic and operational goals. In the last 2 fiscal years, EPA has dedicated approximately \$822 million to IT projects. The Agency expects it will spend at least \$472 million in FY 2001. To ensure projects are timely, cost effective, and results-based, it is imperative that EPA better plans, develops, approves, and manages its IT projects.

We have significant concerns regarding the current structure of EPA's investment process and the Agency's ability to track IT development and implementation

effectively. For several years EPA has attempted to address these problems but has been unable to craft an adequate project management process for IT capital investments that will enable the Agency to support its environmental mission. Instead EPA appears to have an evolving approach to integrating information using existing IT projects, which in themselves have not incorporated reasonable project management controls. This approach has resulted in many stops and starts over the last several years and does not meet the intent of the Clinger-Cohen Act of 1996. The Act requires a comprehensive approach to capital planning and a disciplined budget process for managing a portfolio of assets to meet Agency goals and objectives.

Our concerns regarding the lack of IT project management at EPA are echoed in the special report, *Federal Agency Compliance with the Clinger-Cohen Act*, issued by the Senate Governmental Affairs Committee. This report noted that EPA could produce no evidence of mission-related reviews or assessments regarding IT projects that discussed programmatic or operational goals. EPA's own 1999 analysis of 49 major IT investment proposals found that:

- Project milestones were too general, non-measurable, and not tied to key life-cycle milestones.
- Projects were still being planned, developed, and managed in a stovepipe fashion.
- EPA had not established Agency-wide priorities for IT investments.
- EPA's Information Resources Management Strategic Plan was outdated and did not track with the Results Act.

EPA created the Office of Environmental Information (OEI) 2 years ago to consolidate many information technology operations. While well-intentioned, OEI has not formalized a long-term implementation strategy for providing the Agency with a multimedia approach to accomplish its various programmatic missions.

## DATA MANAGEMENT

Audits of EPA programmatic areas often cover areas relating to environmental data information systems, and we frequently find deficiencies within these systems. States have developed information systems based on the information they need to support their

environmental programs. EPA and the states often apply different data definitions within their respective information systems and sometimes collect and input different data. As a result states and EPA report inconsistent data and often have difficulty sharing comparable information. EPA has attempted to address data quality issues such as data gaps, but, to date, has not produced an approved action plan. Consequently EPA may not have the environmental data it needs to monitor environmental activities or compare progress across the nation.

For many years EPA has acknowledged data management as an internal Agency weakness. In particular it has recognized the need to implement (1) a data architecture, (2) data standards, and (3) data administration functions to share environmental data Agency-wide and with EPA's partners and stakeholders. Developing a data management program has been a complex effort and, consequently, corrective action dates have been extended several times since the problem was first reported in 1994. The Agency's estimated date to correct this Agency weakness is now FY 2002.

Several areas remain to be addressed. First EPA committed to publish a data architecture by December 1996. The Agency stated that it completed the corrective action in May 1999, but it has been unable to produce evidence of a publication for our review. Second EPA initiated action to promulgate six data standards by June 1996. Although the standards have been formally approved, they have not been implemented in the Agency's major environmental systems. Third EPA agreed to revise policies and procedures by March 1997, and although this action was reported complete in May 1999, the revised policies have not been approved or implemented. Using the data standards and revised procedures, EPA stated that a functioning management structure would be operational by September 1998. EPA's Environmental Data Registry and Facility Registry System (FRS) were to form the backbone of the management structure. However it will be FY 2001 before FRS is fully loaded and functioning.

In 1999 EPA formed OEI to increase the value of environmental information for all stakeholders by systematically improving interagency data sharing, as well as the accuracy, reliability, and scientific basis of environmental information. The Administrator also established an Information Integration Initiative (I-3)

focused on establishing a single integrated multimedia core of environmental data and tools. After 1 year the I-3 project still does not have an approved action plan to coordinate current and future efforts.

OEI recognizes that much needs to be done to realize EPA's vision of integrated, quality environmental information and expects to develop a long-term approach and implementation schedule for improving the quality and reliability of the Agency's environmental data. To that end OEI will continue to develop data management policies and procedures and work on promulgating existing data standards. Moreover, through the recently-established Environmental Data Standards Council, EPA will work with states and tribes to identify and develop the next set of data standards. OEI is also continuing to develop and expand implementation of its integrated error correction process to improve the reliability of collected environmental data. Finally, in FY 2000, EPA began to plan a comprehensive data exchange network which, through the use of current technology, will provide a wide range of shared information among EPA, states, tribes, localities, the regulated community, and other data partners.

Although the Agency is moving in the right direction, it has not developed an overall strategy to address the integration, quality, and management of its environmental data. To help the Agency achieve success in these endeavors, we shared thoughts with EPA's Chief Information Officer regarding the Agency's strategy and planned activities for I-3 and the proposed exchange network. At this point it is unlikely that EPA will have the foundation it needs to share comparable information, monitor environmental activities, or compare progress across the nation within the near future. Moreover EPA's ability to evaluate the outcomes of its programs in terms of environmental changes will continue to be limited by gaps and inconsistencies in the quality of its data.

## **MANAGERIAL ACCOUNTING**

During the audit of the FY 1999 financial statements we reported that the Office of the Chief Financial Officer (OCFO) needed to further improve its systems and processes to increase the accuracy, reliability, and usefulness of financial information used to prepare the financial statements and to manage EPA's

environmental programs and administrative activities. Because of Agency process problems, reliable FY 1999 financial statements were not prepared to enable an unqualified audit opinion by March 1, the date required by the Government Management Reform Act. Although EPA improved its financial preparation processes over prior years, the financial statements provided for FY 1999 were incomplete, contained significant errors, and were received late. The Agency has recently made some process improvements. OIG's assessment of the impact of the improvements on EPA's financial reporting capabilities will not be completed until late February 2001.

EPA has been recognized as a leader in developing a goals-based budget aligned with its programmatic and operational outputs and outcomes. EPA needs to follow through and improve its cost accounting systems and processes, so Agency managers have timely and reliable information on the cost of carrying out EPA's programs and administrative activities. The lack of cost information adversely impacts nearly every facet of EPA's operations, from budget formulation and planning, to program execution and evaluation, to the recovery of EPA's costs to provide services to others. During the FY 1999 financial statement audit we reported that EPA did not comply with the Managerial Cost Accounting Standard requirements to (1) determine the full cost of its activities, (2) accumulate and report the cost of activities on a regular basis for management information and other stakeholder purposes, and (3) always use appropriate costing methodologies to accumulate and assign cost to outputs. We also plan to report this noncompliance for FY 2000. OCFO disagrees that its cost accounting system is noncompliant with the required standard, but agrees that improvements should be made to the system over time.

A critical component of a good cost accounting system is the indirect cost rate. An Agency-wide indirect cost policy is needed to help ensure that direct and indirect costs are consistently identified for inclusion in determining the full cost of conducting Agency programs and activities, including cost per output. EPA's indirect cost policy should identify what costs should be included to recover full cost when determining user fees for programs that receive fees for services provided by EPA and when developing billing rates for work EPA performs for other government agencies.

Although progress has been made in developing and implementing cost accounting procedures, more needs to be done. Strong leadership from OCFO and a commitment by all Agency offices is needed for EPA to have systems and procedures in place to provide useful, consistent, timely, and reliable information about the cost of EPA's programs and outputs. Agency managers need cost data integrated with program information to make the best decisions about how to use available resources to maximize environmental results. For example, with information about the transactional cost of various approaches to achieving an environmental outcome, Agency managers could make comparisons and select the most cost-effective approach to achieving the desired environmental result. The development of sound cost accounting information will also promote greater accountability within the Agency.

## EMPLOYEE COMPETENCIES

The Agency recognizes one of its biggest challenges over the next several years is the development and implementation of a workforce planning strategy that focuses its attention and resources on employee development. Appropriate training for staff, including supervisors and managers, is critical to accomplishing EPA's environmental mission. The need for training is highlighted in a number of OIG audit reports.

In an audit of the Superfund program, we reported that the Headquarters program office and several EPA regions did not clearly identify the quality assurance training needs of program staff. Even in regions where training needs were identified, the training was not always provided. Also audits have repeatedly noted a need to better train managers in their oversight and administration of EPA's assistance agreements programs. As a third example we found that EPA employees in the hazardous waste program needed more rigorous training to calculate proposed penalties against violating facilities.

NEPPS is a major EPA-state program. We found that a lack of training for EPA employees has hindered the effective implementation of NEPPS. This training is important because the NEPPS program is fundamentally different from traditional EPA programs in that it allows the states greater flexibility in achieving environmental results. Therefore it is critical that EPA

and the states work closely together to agree on expectations and measurements.

EPA also recognizes the need for broader management and leadership skills. This need is clearly expressed in the *Workforce Assessment Project* that reported on the implications of future changes in EPA's mission and role in environmental protection. The study identified competency gaps that EPA must close to ensure its workforce can meet existing and new challenges. GAO also reported EPA's need to develop and implement a workforce planning strategy. EPA drafted a Human Capital Strategic Plan. EPA's workforce planning efforts call for identifying the skills needed in every program unit based on the Agency's assessment of future program needs, identifying skill gaps, and tying skill needs to future budget requests. The Agency needs to make a commitment to deploy the strategy by dedicating resources, developing performance measures, and implementing necessary systems.

## QUALITY OF LABORATORY DATA

High quality scientific analysis is critical to the accomplishment of EPA's mission. The quality of some scientific analyses generated by EPA and contract laboratories is questionable and should not be used to support environmental decisions. Our reviews disclosed weaknesses and fraud in laboratory management practices resulting in data quality and integrity problems that impact environmental and enforcement decisions.

EPA relies on the testing data provided by contract laboratories to assess threats to public health and the environment and to determine where and when remedial action is needed. In September 2000 employees at one EPA contract laboratory were indicted for falsifying data involving sample analyses for several EPA program areas including Superfund, RCRA, NPDES, air toxics, and pesticides. At another contract laboratory key employees were convicted for falsely certifying that gas chromatograph/mass spectrometer analyses on samples taken from hazardous waste sites nationwide complied with all EPA contract requirements. EPA is spending significant resources to determine the impact of fraudulent analyses on environmental and enforcement decisions.

OIG work at an EPA laboratory disclosed several problems with the quality of analytical results and chain

of custody procedures. An internal EPA review also identified numerous weaknesses in laboratory management practices. OIG recommended various actions for improving management, accountability, and oversight of the laboratory, including independent technical reviews. The Agency has responded to these recommendations and deployed technical review teams around the country. The Agency also plans to take long-term measures to ensure management controls are in place to assure that environmental data generated by both EPA and non-EPA laboratories meet the Agency's quality needs and requirements.

## **EPA'S INFORMATION SECURITY PROGRAM**

EPA relies on its information systems to collect, process, store, and disseminate vast amounts of information used to assist in making sound regulatory and program decisions. We believe EPA needs a centralized security program with strong oversight processes to adequately address risks and ensure that valuable IT resources and environmental data are secure. With a decentralized wide area network that links all of EPA's computer systems, even one regional location with an inadequate security program can make the entire Agency vulnerable. Similarly weaknesses surrounding EPA's key environmental and financial systems could jeopardize the integrity of vital data for decision making and public use.

We found significant and pervasive problems regarding the adequacy of security for EPA's financial systems and various regional operations. We recently reported that controls over entry to EPA's mainframe computer at RTP needed strengthening. Also in July 2000 GAO reported serious problems with EPA's security program and spotlighted unacceptable security risks by penetrating numerous systems. GAO also reported that Agency security plans were inadequate and added that existing practices were largely a paperwork exercise that did little to mitigate risks to Agency data and systems. In response to GAO's findings EPA initiated a number of aggressive steps to enhance and improve its information security program. For example, the Agency temporarily shut down much of EPA's IT communications with its partners and stakeholders until critical controls could be established.

Despite many notable actions OEI is only beginning to establish its security oversight role for EPA's vast information system network. Moreover OEI

is just starting to take needed steps to enhance and institutionalize an expanded information security program. In addition, although EPA has installed firewalls, no final network security policies exist regarding Agency Internet networking controls or dial-up access. EPA recently developed an Agency Information Security Action Plan which uses a phased approach to address GAO and prior OIG report recommendations. EPA expects it will take 2 years to implement the expanded Agency security program and to address the related action plan recommendations.

In the interim, we believe the Agency should continue to concentrate resources on this significant weakness, ensuring that all aspects of an Agency-wide information security program are addressed. This includes not only adequate security plans, but also the process used to develop those plans and the hardware tools and policies that EPA must implement to enforce security throughout the Agency. For example management needs formally to approve and implement final network security policies using appropriate firewall(s) technology. Moreover we recommend that EPA thoroughly verify the effectiveness of implemented controls before concluding work in this crucial area.

## **EPA'S USE OF ASSISTANCE AGREEMENTS TO ACCOMPLISH ITS MISSION**

Assistance agreements are the primary vehicles through which EPA delivers environmental and human health protection to the public. Therefore it is important that the Agency and the public receive what the Agency has paid for. For many years funding of assistance agreements has constituted approximately one-half of the Agency's budget.

Agency managers have been working to improve their management of assistance agreements. However our audit work continues to identify problems in the delivery of environmental protection activities through the award of assistance agreements. For example we reported in September 2001 that EPA Region 8 was not consistently awarding and monitoring tribal grants. Agency officials placed a higher priority on external relationships, generally with the tribes, and did not pay sufficient attention to grant management and internal organizational relationships. Some grants included

unallowable activities or EPA received inadequate or untimely work plans and progress reports from grantees.

Recent OIG audits of EPA's assistance recipients disclosed that some recipients did not have adequate financial and internal controls to ensure federal funds were managed properly. As a result EPA had limited assurance that assistance agreement funds were used in accordance with workplans and met negotiated environmental targets. For example an EPA Region 5 grantee could not adequately account for almost \$169,000 of the \$300,000 in EPA funds. As another example a Region 2 grantee had submitted multiple financial status reports with different ending balances, had excess federal funds on hand, and could not support that it had met the minimum cost-sharing requirement. Misuse of assistance agreement funds also resulted in an agreement with one city to settle a civil lawsuit charging that the city's air pollution control program improperly spent a total of \$429,158 in assistance agreement funds awarded by EPA.

The Agency has completed a number of actions to improve its management controls over assistance agreements. OIG will continue to conduct audits to determine if systemic problems exist in EPA's management of assistance agreements and to work with the Agency to identify solutions.

## **BACKLOG OF NATIONAL POLLUTANT DISCHARGE ELIMINATION SYSTEM PERMITS**

EPA has recognized that the backlog in issuing NPDES permits is a nationwide problem. In 1998 OIG conducted audits in three states to assess the extent of permit backlogs. EPA had not issued or renewed most of the required permits for municipal and industrial dischargers in Alaska and Idaho. Although Region 10 issued 33 permits in 2½ years, there were 1,000 applications waiting to be processed of which 70 percent were more than 4 years old at the time. As a result large numbers of dischargers were operating without permits or had their permits administratively extended without being subjected to more current and stringent discharge requirements. Also we found Kansas did not reissue expired wastewater facility permits in a timely manner and did not submit expired permits to Region 7 for review. As a result the permittees may have been allowed to discharge pollutants at levels that could adversely affect human health and aquatic life.

EPA reports that the backlog in EPA-issued major permits has tripled over the last 10 years and the backlog of state-issued permits has doubled over this time. EPA's Office of Water developed a corrective action plan to address this weakness. Originally EPA expected to complete corrective action by 2004; however, the completion date has since been delayed to 2005. The Agency's "Clean and Safe Water" goal for FY 2001 addresses the NPDES permit backlog.

While reducing the NPDES backlog is important, EPA needs to realize that its current permitting system will probably never allow for complete backlog elimination. Accordingly EPA needs to identify those areas where permitting will result in the greatest environmental payback and permit those areas first. We will continue to monitor the progress EPA makes in addressing this important issue.

## **EPA'S WORKING RELATIONSHIP WITH THE STATES**

During the last two decades environmental and human health protection programs have grown in size, scope, and complexity. Many environmental problems transcend media boundaries and solutions may require innovative, cross-media approaches. EPA and states came to recognize that existing arrangements for implementing environmental programs and addressing environmental problems were not as efficient and effective as they could be. NEPPS established a new framework to reinvent the EPA-state working relationship so that the focus is on trying to work as partners to accomplish very complex environmental issues with scarce resources. EPA began implementing PPGs in 1996 that allowed states and tribes to combine multiple EPA grants into one grant. PPGs are important tools for implementing NEPPS and share many of the same objectives as NEPPS.

A series of OIG audits on regional and state NEPPS and PPG program implementation found that NEPPS was not well-integrated into EPA because of the lack of (1) leadership to provide clear direction and set expectations, (2) training and guidance, (3) trust in NEPPS due to fear of change and losing control, and (4) goals and related performance measures to monitor and measure progress on achieving better environmental results. EPA can help increase NEPPS/PPG success by providing training and establishing a more collaborative, action-oriented process for

establishing goals, defining EPA and state roles and responsibilities, agreeing on measures to assess environmental progress, and obtaining commitments for results to be achieved.

EPA had not clearly established a central authority or responsibility for NEPPS, and senior EPA management had not clearly communicated its expectations about NEPPS and PPGs. EPA staff often did not know where to turn for specific information on direction, expectations, and clarification. NEPPS was perceived by EPA staff as a policy that was implemented only if a state and EPA wanted it and that, even then, allowed the state to choose the NEPPS components in which it wanted to participate.

The lack of clear goals, guidance, and training has resulted in many EPA managers and staff having little direction and lacking the skills needed to use NEPPS effectively to carry out their environmental programs. NEPPS created a great deal of concern among some EPA managers and staff who believed NEPPS could eliminate program and financial accountability. EPA and states have not yet agreed on how to provide flexibility to states along with accountability. EPA and state managers struggled with how to provide states flexibility to address their highest environmental priorities while continuing to implement and report on core program requirements such as permitting, inspections, and enforcement.

Many EPA and state staff still embodied their media-specific, activity-based cultures and lacked trust in the new system. They viewed their activity-based authorities under the media-specific statutes as having priority and had difficulty reconciling these media-specific activities with NEPPS' cross-media, priority-setting process that focuses on environmental results rather than on the number of permits and inspections.

Although NEPPS and PPGs have their own overall goals, EPA has not defined its performance measures and related milestones to measure how the Agency and its partners are progressing toward accomplishing those goals. EPA has not defined specific measurable goals for evaluating whether it is making progress toward obtaining environmental results and whether NEPPS and PPGs are contributing to those results.

The Agency agreed with many of the recommendations presented in OIG audits and is in the process of building the institutional capacity and infrastructure to accomplish NEPPS work. EPA prepared a corrective action plan with milestone dates that takes a comprehensive approach to addressing NEPPS implementation. We believe that the increased emphasis the Agency has recently placed on this very important area will result in more effective working relationships and thus be more effective and efficient. Because NEPPS is an integral part of all EPA programs, the Agency needs to continue this recent attention. We will continue to monitor Agency progress closely.

## **KEY MANAGEMENT CHALLENGES AND SIGNIFICANT AGENCY PROGRESS TOWARDS THEIR RESOLUTION**

**(Prepared by EPA's Office of Inspector General)**

### **SUPERFUND 5-YEAR REVIEWS**

The Superfund statute requires that remedial actions, where hazardous substances, pollutants, or contaminants remain onsite be reviewed every 5 years to assure that human health and the environment continue to be protected. Some 5-year reviews found that additional corrective actions were needed. This issue is of growing importance because containment remedies have been used more frequently since 1992.

In March 1995 we reported that a substantial number of 5-year reviews were not performed due largely to the low priority given them by Agency

management. We recommended several options for improving the program and reducing the backlog. At that time Agency management agreed to implement the recommendations or take other actions to address the issues. However during our 1999 followup audit we found that (1) the backlog of 5-year reviews was nearly three times larger than at the time of the previous audit, (2) approximately 30 percent of the reports did not contain a definitive statement on protectiveness or information in the report and seemed to conflict with the statement made, and (3) results of the reviews were not being reported to the Congress or the public.

We estimated that EPA might need to devote approximately \$1 million above the expected spending level each year for the next 3 years to eliminate the backlog. At the conclusion of our followup audit the Agency had not yet committed the funds necessary for accomplishing this work. The increasing use of containment remedies, a growing backlog of 5-year reviews, the repeat nature of many of our findings, and a need to devote additional resources warrant EPA's formal recognition of the importance of the 5-year program and the establishment of necessary corrective actions as priority action items.

EPA identified this as an FY 1999 management control weakness with an FY 2002 correction date. EPA reports completing 51 percent of the backlog of 5-year reviews during FY 2000. Since it had projected a 3-year schedule to eliminate the backlog, the Agency is progressing faster than expected. We will continue to monitor the Agency's progress in reducing the backlog.

## **THE GREAT LAKES PROGRAM**

The Great Lakes Water Quality Agreement between the United States and Canada was signed over 25 years ago. The purpose of the Agreement is to restore and maintain the chemical, physical, and biological integrity of the Great Lakes basin ecosystem. The basin area is home to more than one-tenth of the U.S. population and has some of the world's largest concentrations of industry. Environmental challenges include contaminated sediments, the effects on exotic species, and loss of habitat.

We previously reported that EPA needed to improve and complete its LaMPs and RAPs, which were established as systematic and comprehensive ecosystem approaches to address the Great Lakes. These plans were taking considerably longer than expected to complete. For example while a draft LaMP for Lake Michigan was first published in 1992, it had never been finalized. The statutory deadline for incorporating RAPs into state water quality plans was January 1, 1993. At the time of our review no U.S. RAPs had been fully implemented. Without these plans there was no assurance that EPA was doing the right, most cost-effective, and highest priority activities needed to protect the Great Lakes. We reported that EPA and its partners had been slow in restoring and maintaining the integrity of the Great Lakes basin. We found that states were frustrated over the slow progress made and, if

significant progress were not made in the near future, might withdraw their support, affecting EPA's ability to accomplish its mission.

The Agency has made progress in the last year. Through a major effort the Agency issued LaMPs for Lakes Michigan, Erie, and Superior and an action plan for Lake Huron in April 2000. The Lake Ontario LaMP was completed in 1998. These plans now serve as guides for future activities on the Great Lakes. In addition EPA programs are committed to LaMP implementation priorities and a reinstated Great Lakes U.S. Policy Committee to discuss RAP issues leading to increased attention to RAP issues and initiation of RAP delisting criteria. The Great Lakes National Program Office and EPA Region 5 staff and management also have given priority to resolving the recommendations in our 1999 report. They are keeping us informed about their progress and indicate that most of the action items have been resolved.