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OFFICE OF INSPECTOR GENERAL

Catalyst for Improving the Environment

Congressional Testimony

Cutting EPA Spending

Statement of Arthur A. Elkins, Jr.
Inspector General

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Good morning Chairman Stearns, Ranking Member DeGette, and Members of the Subcommittee. I am Arthur Elkins, Jr., Inspector General at the U.S. Environmental Protection Agency (EPA). I also serve as the Inspector General of the U.S. Chemical Safety and Hazard Investigation Board. I am accompanied by Melissa Heist, Assistant Inspector General for Audit. I am pleased to appear before you today for the first time since becoming Inspector General in June 2010 to discuss opportunities for cost savings and greater efficiencies within EPA. Sound funds management is critically important, particularly as budgetary pressures continue to increase.

Under the Inspector General Act, Inspectors General are tasked with promoting economy and efficiency, and identifying fraud, waste and abuse within their respective agencies. We have a significant body of work that identifies opportunities for cost savings and how EPA programs can be more efficient and effective. My testimony focuses on recent Office of Inspector General (OIG) work in these areas: management of EPA's workload and workforce; unliquidated obligations; and other opportunities for cost savings or improved program efficiencies.

EPA Workload and Workforce

Over the last five years, EPA has averaged a little over 18,000 positions in its organizational structure with annual payroll costs of approximately $2 billion. For an organization to operate efficiently and effectively, it must know what its workload is. While there is no one exact definition of workload, it is commonly thought to be the amount of work assigned to, or expected to be completed by, a worker in a specified time period. Workload that is set too high or too low can negatively affect overall performance. The main objectives of assessing and predicting workload are to achieve an evenly distributed, manageable workload and to accurately determine the resource levels needed to carry out the work. The OIG has issued three reports since 2010 examining how EPA manages its workload and workforce levels.

We found that EPA has not collected comprehensive workload data or conducted workload analyses across EPA in about 20 years. EPA does not require program offices to collect and maintain workload data, and the programs do not have databases or cost accounting systems in place to collect data on time spent on specific mission-related outputs. Office of Management and Budget (OMB) guidance states that agencies should identify their workloads to help determine the proper workforce size, and federal accounting standards require that agencies establish cost accounting systems to allow them to determine resources consumed for work performed. Without sufficient workload data, program offices are limited in their ability to analyze their workloads and accurately estimate resource needs, and EPA's Office of Budget must base budget decisions primarily on subjective justifications at a time when budgets continue to tighten and data-driven decisions are needed.

We also found that EPA's policies and procedures do not include a process for determining resource levels based on workload as prescribed by OMB. Further, EPA does not determine the number of positions needed per mission-critical occupation using

workforce analysis as required by the Office of Personnel Management. These conditions occurred because EPA has not developed a workload assessment methodology and has not developed policies and procedures that require workload analysis as part of the budget formulation process. As a result, EPA cannot demonstrate that it has the right number of resources to accomplish its mission.

Finally, we found that EPA does not have a coherent program for position management to assure the efficient and effective use of its workforce. Position management provides the operational link between human capital goals and the placement of qualified individuals into authorized positions. While some organizational components have independently established programs to control their resources, there is no Agency-wide effort to ensure that personnel are put to the best use. Without an Agency-wide position management program, EPA leadership lacks reasonable assurance that it is using personnel in an effective and efficient manner to achieve mission results.

We made several recommendations to address these findings including that EPA:

- conduct a pilot project requiring EPA offices to collect and analyze workload data on key project activities;
- amend guidance to require that EPA complete a workload analysis for all critical functions to support its budget request; and
- establish an Agency-wide workforce program that includes controls to ensure regular reviews of positions for efficiency, effectiveness, and mission accomplishment.

While EPA has taken action to study workforce issues and update their budget guidance, most of our recommendations remain unresolved with resolution efforts in progress.

Unliquidated Obligations

Prior OIG work dating back to 1996 has identified unliquidated obligations as an area where EPA can improve its ability to identify and deobligate unneeded grant funds. Unliquidated obligations refer to the unexpended balance remaining from the amount of funds EPA obligates for a grant that has not been "drawn down" by a recipient. We have seen some instances where funds were idle for 10 or more years. This reduces the purchasing power of those funds and potentially prevents them from being used on other environmental projects, which could reduce the amount needed in future appropriations for such projects.

EPA continues to make improvements in this area. However, during the past year, we identified over $14 million in several programs that could be deobligated. For example, we looked at grant funds EPA awarded to states, local governments and tribes under its water programs. We identified over $6.1 million of unneeded funds that should have been deobligated for three grants awarded by EPA to the District of Columbia. Since EPA deobligated the unneeded funds during the course of our audit, we made no recommendations. Had it done so earlier, however, these funds would have been

available sooner for the District of Columbia Water and Sewer Authority for other environmental projects. In a separate audit, we looked at expense reimbursement grants (ERGs) awarded to states that cover training and certification costs of persons operating water systems serving smaller communities. We identified $6.6 million of potentially unneeded funds that could have been deobligated for three ERGs awarded by EPA to Georgia, North Carolina, and Wisconsin. We recommended that EPA deobligate any unneeded funds for these three states. EPA deobligated $3.3 million to Georgia and $2.2 million to Wisconsin. It extended the project end date for North Carolina so the state could use the remaining funds. Finally, we have identified the failure to deobligate unneeded funds as a weakness in prior audits of EPA's consolidated financial statements. Last year we identified $1.4 million in inactive funds that are no longer needed within several programs that can be deobligated. EPA has since deobligated $846,000.

Other Opportunities for Cost Savings or Improved Efficiencies

OIG work has identified other areas where EPA could potentially realize cost savings or improve program efficiencies: EPA space and facilities; information technology (IT); administrative activities; and process improvements within EPA's water pollution control program.

EPA Space and Facilities

The federal government is the largest property owner and energy user in the nation. It manages more real estate than is needed, resulting in wasteful spending. Recognizing this waste, the President issued a memorandum in June 2010 to executive agencies directing them to identify and eliminate excess properties and to take steps to better utilize what remains. The goal was to produce $3 billion in cost savings by the end of fiscal year (FY) 2012. Some steps agencies could take to realize these savings include speeding up the cycle times for identifying excess properties and disposing of them; eliminating leases that are not cost effective; consolidating office space; and increasing occupancy rates in existing facilities.

In 2009, the OIG collected data on EPA's staffing levels and total costs for EPA facilities in response to a request from the House Interior Appropriations Subcommittee. Based on EPA data, we reported at the time that EPA had more than 18,000 employees in 140 locations across the country. These locations cost approximately $300 million annually, which included rent or leases, utilities, and security costs. EPA headquarters accounted for $100 million, the largest portion of those costs. We also reported that EPA had 86 locations with five or fewer employees at a cost of $2.25 million. Many of these offices were actually staffed by only one or two people. EPA said these smaller offices were used to house criminal investigators or to locate staff closer to specific areas or projects, such as Superfund sites.

We made no recommendations since we were only requested to collect data. However, EPA should examine its real estate portfolio for possible cost savings as mandated by the President. Facilities data like we collected would assist EPA in

determining whether it should shrink its footprint either through consolidating or eliminating facilities. We will begin a project in early FY 2012 that will assess EPA facility occupancy to determine whether EPA is maintaining optimal facility space in its locations and whether opportunities exist to reduce facility costs, which will also assist EPA in its decision making.

Information Technology

IT can streamline operations, improve productivity, and reduce costs. However, OMB noted that federal IT projects too often cost more than they should, take longer than necessary to deploy, and deliver solutions that do not meet business needs. Due to these issues, OMB called for an immediate review of IT projects in the federal government in 2010. Recent OIG audit work of EPA's oversight and implementation of IT systems have found gaps and weaknesses that have resulted in unnecessary spending.

After 9/11, EPA determined it needed to purchase more emergency response equipment, establish maintenance contracts, and create a national equipment tracking system. EPA developed the Emergency Management Portal (EMP) equipment module to manage emergency response equipment throughout the Agency. The primary objective of the module is to provide information on the availability and location of emergency response equipment. The module also includes information to assist warehouse managers in managing and recording calibrations, maintenance, and repairs of their equipment. As of October 2010, EPA had spent $2.8 million on the EMP emergency equipment tracking module, which has not been fully implemented. We found that the system is cumbersome and slow and may not be the most efficient and effective emergency equipment tracking alternative. In addition, regions and response teams that are also using the module continue to maintain their own tracking systems, resulting in wasted resources. Yet EPA plans to spend another $5.5 million over the next 15 years on maintenance. Among our recommendations was that EPA determine whether the EMP equipment module is the most cost-efficient and functional national equipment tracking alternative, and mandate that regions and emergency response teams employ the national tracking system that EPA decides to use for emergency response equipment. These recommendations remain open pending corrective actions.

In another recent audit, the OIG looked at EPA's contract oversight and controls over personal computers. We found that EPA was paying for computers it did not need. Over an 11-month period, EPA paid a contractor nearly $490,000 for 3,343 seats—a standard seat includes a leased computer with accessories and technical support—not ordered during the period. After the first 16 months of the contract's base period, the contract requires EPA to purchase a monthly minimum of 12,000 standard seats. However, EPA did not order the minimum number of seats for 11 of the 12 months reviewed. We reported that if EPA did not make changes to the contract, we estimated that EPA could pay as much as $1.4 million more through September 2012 for personal computer standard seats that it did not order, for a total potential payment of $1.9 million for seats not ordered. Among our recommendations was that EPA review and/or modify the contract to adjust the minimum standard seat requirement to eliminate monthly

payments for computers that EPA will not need. EPA did not renegotiate the contract. They told us they are currently using 12,000 seats and will apply what they learned on this contract when awarding a new contract.

Administrative Savings

EPA's Office of Research and Development (ORD) provides the science to support EPA's goals. ORD is organized into three national laboratories, four national centers, and six offices located in 14 facilities around the country and in Washington, D.C. It also operates 12 national research programs each headed by a National Program Director. ORD's budget for FY 2010 totaled $594.7 million and about 1,900 FTEs. Concerns have been raised by EPA's Science Advisory Board that rising personnel costs are diminishing the actual research that EPA can support.

ORD has been taking steps to find ways to reduce its administrative costs. For example, ORD began the Administrative Efficiencies Project (AEP) in 2005 and the Information Technology Improvement Project (ITIP) in 2006. While two separate initiatives, the goals of both initiatives include reducing costs by improving the efficiency and effectiveness of ORD's administrative and information technology/information management activities. For the AEP, ORD estimated that up to $13 million, or 24 percent, of overall administrative service staffing costs could be saved annually under its recommended realignment and consolidation of some of its programs once fully implemented in 2012. ORD also estimated cost savings from ITIP.

ORD's efforts to reduce its administrative costs are noteworthy. However, we reported this year that ORD needs to improve its measurement mechanism for assessing the effectiveness of its initiatives to reduce administrative costs. We found that ORD completed only two surveys in five years to determine the amount of time staff spent on administrative duties; did not obtain data directly from individual employees, including staff whose time was actually spent on administrative activities; and that the surveys only reported on a selected number of ORD staff rather than all ORD staff. Without sufficient data or a timely or accurate system for assessing the effectiveness of its initiatives, ORD will not have the information needed to provide reasonable assurance that it is managing its administrative personnel costs appropriately so as to maximize available funding for research and development activities. We recommended that ORD establish a more timely and accurate system to measure its effective use of resources and to allow ORD to better manage its initiatives to reduce administrative costs. ORD generally agreed with our recommendation and is taking action on its implementation.

Water Pollution Control Program Improvements and Efficiencies

The National Pollutant Discharge Elimination System (NPDES) program controls water pollution by regulating point sources that discharge pollutants into U.S. waters. Facilities must obtain permits if their discharges go directly to surface waters. EPA reported that from 1999 through 2009, the number of NPDES permittees increased over 200 percent, from 372,700 to more than 950,000, due to court decisions and new

regulations. Further, while expanding in number, permits have also become more complex. Due to the increased workload associated with these permits and the tightening of federal and state budgets, the states in Region 7 conducted a Kaizen, or rapid process improvement, event in 2008 to determine whether opportunities existed to improve NPDES program efficiency and effectiveness. Kaizen focuses on eliminating waste, improving productivity, and achieving sustained, continual improvement in targeted activities and processes of an organization.

We reviewed this Kaizen event to determine what program improvements EPA can apply on a wider scale, what barriers existed in the development and implementation of event results, and what lessons were learned. The Kaizen event identified three process improvements (resolution of technical issues and communication, permitting and enforcement oversight reviews of states, and annual strategic planning) and one implementation action (data collection and reporting) that can potentially be implemented in other regions. Agency-wide permitting process changes could result in better communication; time and cost savings in the states; and avoidance of duplicate inspections, reviews, and data reporting. Using lessons learned from the Kaizen event can increase the potential benefits achieved in future process improvement efforts. However, we found that while event participants continued to follow up on the commitments and action items identified, no single authority was responsible for tracking the process improvement outcomes. Also, EPA did not have a process to develop and track quantifiable results and outcomes from the event. Among our recommendations was that EPA identify Region 7 process improvements that can be applied elsewhere, considering their costs and benefits, and implement them; and develop a national policy on how to plan, design, and implement business process improvement events. EPA agreed with our recommendations and corrective actions are ongoing.

Cost Recoveries

EPA operates several programs where it assesses and collects fees and recovers its costs. These fees and recoveries are used to offset some of the costs EPA incurs for managing and overseeing the programs. OIG reviews of two programs indicate that EPA could improve how it recovers these costs.

EPA's Motor Vehicle and Engine Compliance Program (MVECP) ensures that vehicles and engines comply with emissions standards. EPA's Office of Transportation and Air Quality conducts the vehicle emission testing and certification. Manufacturers and independent commercial importers pay EPA a fee for the testing and other compliance activities as allowed by the Clean Air Act. This year we reviewed EPA's assessment and collection of fees for the program. During our audit we found that EPA is not recovering all reasonable costs of administering the program. Our analysis, using the EPA's cost estimate for FY 2010, showed a $6.5 million difference between estimated program costs of $24.9 million and fee collections of $18.4 million. EPA's rule limits fee increases. EPA has not conducted a formal cost study since 2004 to determine its actual MVECP costs, and has not updated the annual fee adjustment formula to recover more costs. By not recovering all reasonable costs, the federal government did not collect funds

that otherwise could have been available to offset the federal budget deficit. We recommended that EPA update the fees rule to increase the amount of MVECP costs it can recover, and conduct biennial reviews of the MVECP fee collections and the full cost of operating the program to determine whether EPA is recovering its costs. EPA agreed with these recommendations but did not provide planned completion dates. Therefore, we consider these recommendations unresolved with resolution efforts in progress.

Under the Superfund program, although potentially responsible parties (PRPs) pay for cleanup at some Superfund sites, EPA incurs oversight costs from monitoring the PRPs' cleanup work. EPA is authorized to recover from PRPs some Superfund cleanup costs. Recoverable costs include EPA's planning and implementing cleanup actions, investigation and monitoring, actions to limit access to the site, indirect costs needed to support the cleanup work and EPA's contractor costs. This year we looked at whether EPA's Superfund oversight bills reflect the correct nature and amount, and whether EPA timely bills and collects Superfund oversight expenditures. Based on our audit of oversight billings for nine sites, we found that EPA did not timely bill or did not bill approximately $8.6 million in oversight costs for two sites. The $8.6 million consisted of $2.5 million for costs incurred between 2000 and 2008 that were not timely billed, and $6.1 million that was not billed prior to the start of our audit. During our audit, EPA billed about $1 million of the $6.1 million. After our audit was completed, EPA billed an additional $3.1 million. Untimely billing of oversight costs results in delays in replenishing the Superfund Trust Fund and limits EPA's ability to timely clean up other priority sites to further protect human health and the environment. EPA also lost or postponed the opportunity to collect interest on oversight costs not billed and collected that would have accrued to the Trust Fund. We recommended that EPA develop a policy to require that oversight billings be issued no less than annually. While EPA stated that it plans to bill future oversight costs on an annual basis, we consider the recommendation unresolved pending receipt of a planned completion date.

Ongoing and Planned Work

The OIG has ongoing and planned work that will look at how EPA is achieving cost savings or improving its efficiency and effectiveness that may be of interest to the Subcommittee.

We are currently reviewing whether improvements are needed in how EPA determines or accounts for savings or cost avoidances. In 2009, EPA identified 72 efficiency projects totaling over $33 million in savings or cost avoidances. Our objectives are to determine whether: 1) EPA's efforts to identify and realize savings have been effective; and 2) savings reported to EPA's Office of Administration and Resources Management were accurate and complete. We expect to issue a final report by February 2012.

During FY 2012, we plan to assess the extent to which EPA incorporated administrative efficiency savings into its operations. The President's FY 2012 budget for EPA included $43 million in reductions under the Administrative Efficiency Initiative.

This initiative targets certain categories of spending for efficiencies and reductions, including advisory contracts, travel, general services, printing and supplies. We also plan to evaluate how EPA might streamline its functional responsibilities and organizational structure by identifying duplication of effort and cost savings, both generally and across regions. As was mentioned earlier, we will be assessing EPA facility occupancy to determine whether EPA is maintaining optimal facility space in its locations and whether opportunities exist to reduce facility costs. In addition, we will be reviewing EPA's implementation of a new financial management accounting system and whether cost savings could be obtained. Finally, we plan to evaluate the efficiency of EPA's rulemaking process. Our objective is to document the internal steps and procedures of the current rulemaking process to identify potential improvements in efficiency or effectiveness.

Conclusion

In a tight budget environment, EPA must find ways to better manage and utilize its resources and improve its operational efficiencies in order to meet its mission of protecting human health and the environment. I believe the OIG has been a positive agent of change by making significant contributions toward helping EPA in those areas. We have made numerous recommendations to EPA over the years, many of which it agreed to implement. Going forward, EPA will need to intensify its efforts to control costs and maximize the benefits from the resources entrusted to it. These efforts should involve points of accountability for identifying and realizing savings from more efficient operations, including the setting and achievement of reasonable milestones for planned actions. We will continue to work with EPA to identify additional areas needing attention.

Thank you for the opportunity to testify before you today. I would be pleased to answer any questions the Subcommittee may have.